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**HEARING ON
SOCIAL SECURITY AND PUBLIC SERVANTS:
ENSURING EQUAL TREATMENT**

**BEFORE
THE SUBCOMMITTEE ON SOCIAL SECURITY OF
THE COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES**

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SUBMITTED FOR THE HEARING RECORD

Introduction

Thank you for providing this opportunity to express the views of the California State Teachers' Retirement System regarding the assurance of equal treatment of public servants as it relates to Social Security. Because CalSTRS members do not participate in Social Security for their public education service, but often have earned Social Security benefits from other employment, existing federal policies have a significant impact on the educators of California's children.

CalSTRS provides retirement, disability and survivor benefits to almost 900,000 active and retired public school teachers and their beneficiaries. California public school teachers are the largest single group of state and local government employees in the country who do not participate in the Social Security system.

Established by state law in 1913, CalSTRS began operation 22 years before Social Security was created. At the time Social Security was established, California's teachers and all other state and local government workers were barred by Federal law from participating in Social Security. Through sound management over more than a century, CalSTRS has developed into the largest educator-only pension fund in the world, and second largest public pension system in the United States with over \$184 billion in assets. CalSTRS pays more than \$12 billion a year in benefits to more than 280,000 retired and disabled public school teachers and their beneficiaries. The State of California has prefunded its future retirement liabilities.

Harsh Impact of Current Federal Law on Retired Teachers with Modest Incomes

CalSTRS members do not pay the Social Security payroll tax on their earnings from CalSTRS-covered service, and therefore are not entitled to Social Security benefits for such service. Nonetheless, many CalSTRS members have earned and become eligible for Social Security benefits from other employment. When they receive their CalSTRS pensions, these teachers' Social Security benefits are reduced by the Windfall Elimination Provision (WEP) formula.

The Teachers' Retirement Board, which governs CalSTRS, has previously expressed its strong concerns about the significant adverse impact the WEP has on public education in California. Many California educators have complained that the WEP unfairly reduces the Social Security benefits that they have earned from other employment. In addition, the WEP adversely affects California's ability to recruit teachers into second careers from other professions as well as teachers from other states. Accordingly, the board has consistently supported California legislative resolutions requesting the President and U.S. Congress enact legislation that removes the burdensome effects of the WEP, and submitted statements to the U.S. Senate and the U.S. House of Representatives in 2007 and 2008, respectively, with our analysis of the issue and alternatives to the current offset.

Absent full repeal of the WEP, the board supports efforts to eliminate the inequities, arbitrary effects, and particularly the harsh impact on lower and moderate income retirees that result from its application. The WEP formula is arbitrary because there is little or no correlation between the offset formula and the public pension that triggers application of the offset.

WEP Hinders Efforts to Attract Qualified Teachers

The WEP creates an impediment to people who might otherwise want to become public school teachers in California, and hinder efforts by school districts to attract new talent to the California classroom. California is experiencing a significant teacher shortage, and the existence of the WEP hinders efforts to address that shortage. Although many enter the teaching profession at the beginning of their career, many others choose to become teachers as a second career, often after lengthy work in the private sector covered by Social Security. Still others may move to California after beginning their careers as educators in a state in which their earnings are covered by Social Security. In fact, 25 percent of those teachers receiving their initial California teacher credential in 2013–14 completed their teacher preparation program in another state. CalSTRS is very concerned that the WEP may cause people to decide not to become public school teachers in California because their Social Security benefits will be substantially adversely affected by their public school service. California would be better able to recruit and retain educators if these professionals did not face reductions in their future Social Security benefits.

Impact of WEP in Detail

While the intent of the WEP was to eliminate “windfall” benefits, often the actual effect is to reduce even modest Social Security benefits, which threatens the financial security of many state and local retirees. For example, many teachers earn Social Security coverage because of part-time jobs they had during their high school and college years or by working in private employment during the summer months after they became teachers. Such jobs will result in modest Social Security benefits, but these workers will be subject to the same WEP reduction as workers who receive much higher Social Security benefits. The reverse is also true. Workers who receive relatively modest public pensions see their Social Security benefits reduced under the WEP at the same rate as workers who receive more substantial public pensions.

Following are examples showing the benefits that are payable under two scenarios, including before and after the application of the WEP. The two workers’ benefits change based on the years they worked in covered and non-covered employment, rather than their total number of years worked or their salaries. To ensure that it is the impact of the covered and non-covered employment pattern that is being gauged, not years of service or salary, we assume each of the two individuals retires at age 62 with a total of 30 years of employment, some in the private sector and some in the public sector, and annual wage increases equal to Social Security’s national Average Wage Index over the course of their careers.

Impact of WEP Depending on Employment Pattern

	John	Diane
Years of Employment Covered Under Public System	20	10
Monthly Public Pension	\$ 1,942	\$ 971
Years of Employment Covered Under Social Security	10	20
Monthly Social Security Benefit Prior to WEP	\$ 718	\$ 1,053
Monthly Social Security Benefit after WEP Applied	\$ 387	\$ 722
Monthly Combined Benefits	\$ 2,329	\$ 1,693
WEP Impact	\$ 331	\$ 331

When the WEP is applied, the worker’s Social Security benefit is reduced by the same maximum dollar amount regardless of the number of years of covered employment unless the worker has 21 or more years that were covered. (With covered years between 21 and 29, benefits are reduced on a sliding scale when the WEP is applied.) Each educator’s monthly Social Security benefits are reduced by \$331 (adjusted from the full retirement age offset of \$428) with the application of the WEP.

Even though John and Diane have the same combined years of service and the same earnings patterns, Diane’s combined benefits are \$636 lower than John’s combined benefits. This occurs because under the WEP, no allowance is made for additional years of covered employment until the worker has 21 or more years that are covered under Social Security.

In the example, both educators had the same earnings patterns throughout their careers. However, the same maximum WEP offset would apply to any individual of the same retirement age, including one with relatively low lifetime earnings who earns a much smaller combined benefit.

H.R. 711

Absent full repeal of the WEP, the board supports efforts to eliminate the inequities, arbitrary effects, and particularly harsh impact on lower income retirees. Accordingly, the board appreciates the bipartisan efforts of Ways and Means Chairman Brady and Rep. Richard Neal (D-MA) to address the inequitable impacts of the WEP.

H.R. 711, the Equal Treatment of Public Servants Act of 2015, provides an alternative calculation of the WEP with a formula based on actual work history for individuals turning age 62 after 2016. Under this bill, Social Security benefits would be calculated as if all the worker’s earnings were subject to Social Security taxes (using the standard benefit formula). This amount would then be multiplied by the percent of earnings covered by Social Security. This ensures Social Security benefits are based only on Social Security wages. As a result, a person with 10 years of Social Security-covered employment would be less affected by the offset than would a person with 20 years of covered employment, and the Social Security benefit of a person with lower average monthly earnings would be reduced less than a similarly situated individual with higher lifetime earnings. Each of these measures is a positive step toward addressing the inequities of the current formula. In the earlier example, John’s combined benefit under the H.R.

711 calculation would be \$2,404, a reduction of \$256, and Diane's combined benefit would be \$1,895, a reduction of \$129. The lower reduction in Diane's benefit reflects the fact that she had a shorter career not covered by Social Security than did John.

H.R. 711 is a significant improvement over the current WEP, and calculates the Social Security benefits for those who receive a CalSTRS benefit on a more equitable basis. There is one aspect of the proposal that concerns the Teachers' Retirement Board. Currently, the WEP applies only to those people who are eligible to receive a pension from noncovered employment, such as from CalSTRS. Under H.R. 711, a person's Social Security benefit would be reduced if the person had noncovered employment, even if the person never received a pension from noncovered employment. This could occur if the person worked a few years as a California public school teacher, and then left the profession. If the person worked for less than the five full years necessary for vesting, that former educator would never be eligible for a CalSTRS benefit, but her Social Security benefit would be reduced. As of June 30, 2015, there were almost 150,000 CalSTRS members no longer working in CalSTRS-covered service who did not work long enough to qualify for a future CalSTRS retirement benefit and their Social Security benefit would be reduced by some amount. (This compares to the 250,000 members currently receiving benefits from CalSTRS.) We recognize that applying this formula to individuals who will never receive a pension helps offset the cost of increased Social Security benefits that would be paid concurrently to those subject to the current WEP, but wanted to alert the Committee to the impact on this population.

Conclusion

If full repeal of the WEP offset proves too costly, CalSTRS believes that modifications would be appropriate steps to ameliorate the harsh adverse effects on retirees with relatively modest benefits that arise from the current arbitrary formula. Accordingly, CalSTRS appreciates the leadership that Chairman Brady, Rep. Neal, Rep. Becerra, and members of California's delegation have provided to address the issues associated with the WEP. CalSTRS looks forward to working with the Ways and Means Committee as the Committee continues its important work to address the current inequities of the WEP.