

# Committee on Ways and Means

## *Subcommittee on Social Security*

### ***Public Servant Retirement Protection Act (H.R. 4391) – Background Summary***

#### **WHO IS AFFECTED BY THE *PUBLIC SERVANT RETIREMENT PROTECTION ACT*?**

About 2 percent of retired American workers earned both a Social Security benefit and a benefit from a Social Security substitute, like a state or local employee government pension. These workers are firefighters, police officers, teachers, and other individuals who spend part of their work years in a retirement system that doesn't contribute to Social Security.

#### **HOW ARE BENEFITS CALCULATED UNDER CURRENT LAW?**

- Social Security is designed to help keep people out of poverty. To accomplish this, benefits replace more average earnings for lower-wage workers. For example, Social Security replaces about 56 percent of average earnings for low wage workers, compared with 42 percent and 35 percent for average and high wage workers respectively.
- If a worker contributes to a Social Security substitute, the benefit formula records “zero” earnings for that job, since he or she did not pay Social Security taxes on those earnings.
- If a person has multiple years of “zero” earnings included in the benefit formula, he or she may appear to have had low wages when that was not the case.
- To prevent more generous benefits than intended from being awarded, current law modifies the benefit formula for workers who paid into a Social Security substitute for part of their career. This modified benefit formula is known as the Windfall Elimination Provision or WEP.

#### **HOW WOULD H.R. 4391 HELP WORKERS?**

- The current WEP formula is arbitrary. This one-size-fits-all approach does not adjust benefits fairly for all workers.
- H.R. 4391 repeals the WEP and replaces it with a new and more fair calculation.

#### **HOW WOULD BENEFITS BE CALCULATED UNDER H.R. 4391?**

Benefits would be calculated based on individual's entire work history and earnings subject to Social Security taxes, and would utilize the same basic formula applied to all workers.

- Step One:** Calculate workers' average monthly earnings, including work when he or she contributed to a Social Security substitute.
- Step Two:** Apply the standard Social Security benefit formula to everyone (no more arbitrary formula).
- Step Three:** To ensure Social Security benefits are based only on Social Security wages, multiply the benefit by the percent of average earnings subject to Social Security taxes.

#### **WHEN WOULD THIS TAKE EFFECT?**

- The new benefit would start about 12 months after President Bush signs the bill into law.