



**STATEMENT FOR THE RECORD
SUBMITTED TO THE
HOUSE WAYS AND MEANS
SOCIAL SECURITY SUBCOMMITTEE**

**Social Security and Public Servants:
Ensuring Equal Treatment**

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On behalf of our 38 million members, including our National Retired Teachers Association members, and all Americans age 50 and over, AARP thanks Chairman Johnson, Ranking Member Becerra and members of the Social Security Subcommittee for the opportunity to testify today on the Equal Treatment of Public Servants Act of 2015 (H.R. 711). AARP has members in all 50 States and the District of Columbia, Puerto Rico, and U.S. Virgin Islands, and is a nonpartisan, nonprofit, nationwide organization that helps people turn their goals and dreams into real possibilities, strengthens communities and fights for the issues that matter most to families such as healthcare, employment and income security, retirement planning, affordable utilities and protection from financial abuse.

AARP is pleased to support the Equal Treatment for Public Servants Act, sponsored by Chairman Brady and Select Revenues Subcommittee Ranking Member Neal. We are happy to join numerous other organizations representing retired educators, firefighters, law enforcement officers and federal workers who support this bi-partisan effort. Both H.R. 711, and a similar proposal included in President Obama's Fiscal Year 2017 budget request, offer a resolution to the longstanding issue of calculating a fair Social Security benefit for workers with employment in both the private sector and certain state or local governments, or who started work with the federal government before 1984.

The Windfall Elimination Provision (or WEP) was intended to remove an unfair advantage that the Social Security benefit formula provided to workers who had earnings from work not covered by Social Security. This is because the Social Security benefit formula begins with a worker's average Social Security-covered earnings over a full career of 35 years. Zeros are entered for years in which a worker did not work in a Social Security-covered position and did not pay Social Security taxes on his or her earnings. When the Social Security Administration (SSA) averages a split-career worker's earnings over the full 35 years, a worker who has split time between covered and uncovered employment often appears to have been a lifetime "low earner." As such, this worker would gain from the progressive elements of the benefit formula by receiving a higher replacement rate of his or her earnings than the worker would receive if all the earnings had been subject to the Social Security payroll tax.

In 1983, Congress noted the unfairness in permitting split career workers a higher replacement rate than workers who had identical earnings, but who had never worked for an employer who did not participate in Social Security. Congress labelled this outcome a "windfall" for workers who split their careers between government and Social Security-covered work, and created the WEP to eliminate it. Congress reached a compromise on a one-size-fits-all fix. Normally, Social Security's benefit formula applies three progressive wage factors to calculate a worker's benefit -- 90, 32 and 15 percent. The 1983 law lowered the first factor (90 percent) to 40 percent. In addition, a worker's WEP reduction cannot exceed more than one half of the pension from the non-covered government work. Moreover, the WEP phases out for workers with 21-30 years of "substantial" Social Security-covered work.

The one-size-fits all approach of the current WEP formula has several drawbacks. It cannot address the great diversity in the earnings of state and local workers. Research has shown that the WEP can be regressive, disproportionately affecting lower earners. This is because the WEP reduction is limited to the first bracket of the benefit formula, which is the bracket involved in calculating most of the benefits payable to a low earner. In addition, low earners may be less likely than high earners to benefit from the provision that phases out the WEP after 30 years of “substantial” work, which means earnings of at least \$22,050 in 2016.

For decades, the challenge has been to design a fair and accurate method to calculate the Social Security benefit of these split career workers. Until recently, efforts to design a fairer system were hampered by the fact that there was no effective method for Social Security to accurately track all earnings from state or local government employment. Fortunately, more recent data records are making it possible to more easily track earnings from all employers, including state or local governments. As a result, it is now possible for Congress to adopt and the Social Security Administration to administer a fair solution.

Under the Equal Treatment for Public Servants Act, the current WEP will be repealed and in its place the Public Servant Fairness Formula (PSF) will apply prospectively to those turning 62 after 2016. Utilizing data matching now available to the Social Security Administration, the PSF will first calculate the Social Security benefits of a split career earner as if all of his or her earnings were subject to FICA taxes, using the same formula that applies to all other workers. To adjust this benefit so that a split career earner does not receive a windfall, the benefit calculated in this manner would then be multiplied by the proportion of the worker’s earnings that were in fact subject to Social Security taxes. This new calculation will allow for benefits that accurately reflect the individual lifetime earnings of split career workers while recognizing that those earnings are not universally subject to Social Security taxes.

Similarly, in the Fiscal Year 2017 Budget Request, President Obama proposed a comparable process to more fairly calculate Social Security benefits for individuals who are subject to the WEP. We are encouraged by the President’s support for an approach that is consistent with H.R. 711. Both proposals provide a workable starting point for a bipartisan solution.

Millions of retired state and local workers, including many teachers, have received a Social Security benefit that is excessively reduced because of a WEP formula that fails to consider an individual’s specific work history. AARP’s founder, Dr. Ethel Percy Andrus, established the National Retired Teachers Association (NRTA) to serve the needs of retired educators. Today, the NRTA is part of AARP’s history and our organization. We have endeavored to listen to our members and others affected by WEP policy and to be sensitive to their call for fair receipt of both Social Security and government pensions. The Equal Treatment for Public Servants Act is an opportunity to more fairly treat the public servants affected by WEP, including the many teachers who belong to the NRTA. We believe the Brady-Neal compromise is a fair solution that will benefit the 1.6 million workers affected by the current WEP policy.

We applaud the members of the Committee for working to advance a bipartisan solution to this issue. We are pleased that this effort builds on Congress' work last year to achieve a mutually agreeable solution to fund the Social Security Disability Insurance program with reasonable anti-fraud protections. We are also encouraged that the Committee and this Congress can likewise reach agreement with the Administration to address the WEP this year. AARP stands ready to serve as a resource and partner in finding fair solutions on this and other proposals to strengthen and improve Social Security and protect the income security needs of American families.