

Hearing on Social Security and Public Servants Ensuring Equal Treatment

HEARING
BEFORE THE
SUBCOMMITTEE ON SOCIAL SECURITY
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTEENTH CONGRESS
SECOND SESSION

March 22, 2016

SERIAL 114-SS03

Printed for the use of the Committee on Ways and Means

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SOCIAL SECURITY AND PUBLIC SERVANTS:

ENSURING EQUAL TREATMENT

Tuesday, March 22, 2016

House of Representatives,

Subcommittee on Social Security,

Committee on Ways and Means,

Washington, D.C.

The subcommittee met, pursuant to notice, at 10:00 a.m., in Room 1100, Longworth House Office Building, Hon. Sam Johnson, [chairman of the subcommittee] presiding.

*Chairman Johnson. Good morning, and welcome to today's hearing on ensuring equal treatment for all workers who receive Social Security benefits.

I would like to welcome to the subcommittee Mr. Smith of Nebraska, Mr. Buchanan of Florida, both join us again after working on the subcommittee previously, as well as Mr. Rice from South Carolina. We are glad to have you all onboard.

Without objection, I would like to at this time recognize the chairman of the Ways and Means Committee, Chairman Brady, to make a few remarks.

*Chairman Brady. Thank you, Mr. Chairman.

I am so grateful to have the opportunity to talk today about how we are working to help America's teachers, police and firefighters and other public servants.

As you know, Social Security benefits are based on the workers' earnings. The benefit formula is designed so that the lower lifetime earners receive a higher replacement rate than higher lifetime earners.

However, for some workers Social Security's formula does not work well. Some teachers, firefighters, police officers and others work in jobs where they do not pay Social Security taxes. They pay into a Social Security substitute, and so this causes their average lifetime earnings to appear lower to Social Security than they actually are because all of those years they did not pay Social Security tax but into a substitute count as zeros.

The Windfall Elimination Provision, or WEP, created in the 1980s addresses this problem, but unfortunately its one size fits all approach is just unfair. This is not just a Texas problem. It affects people in Massachusetts, California, Ohio, Illinois, Louisiana, frankly, all over the country.

We all hear often from constituents whose benefits are reduced substantially by the WEP, asking when Congress is going to address this problem.

Since 2004, I have worked to repeal the WEP and replace it with a formula that treats our firefighters, police officers, teachers and other affected workers fairly. One that looks at all earnings and bases Social Security benefits on proportions of earnings that were subject to Social Security taxes, in other words, providing equal treatment.

Most recently I have partnered with Representative Neal to introduce H.R. 711, "The Equal Treatment of Public Servants Act of 2015." We worked with many organizations representing teachers, firefighters, police officers and other retirees who have had their benefits unfairly reduced by the WEP.

Many of them are in the audience today, and specifically I would like to thank the Association of Texas Professional Educators, Texas Retired Teachers Association, Mass Retirees, and the Ohio Public Employees Retirement System for all of their work on this issue. Representative Neal and I have received overwhelming support from the non-covered worker community, including groups such as the Fraternal Order of Police, the California Public Employees Retirement System, National Active and Retired Federal Employees Association, and many others.

And I ask unanimous consent to place these letters into the record.

*Chairman Johnson. Without objection.

[The information follows: [The Honorable Kevin Brady Submission](#)]

*Chairman Brady. For new retirees, our bill repeals the WEP and replaces it with a formula that is fair. Our solution takes into account all earnings and reflects how much of a person's earnings were subject to Social Security payroll taxes. Under our approach,

two workers with the same lifetime earnings, one who has spent an entire career in Social Security covered employment and another who has worked in both covered and Social Security substitute work, will receive a Social Security benefit that is calculated the same way. No more unfair formula for teachers, firefighters and police officers. Instead we use the same benefit formula for everyone, looking at all earnings.

Now, some of those earnings are not from Social Security covered employment. We adjust benefits to reflect the proportion that are.

But it is not enough to fix the WEP for future beneficiaries. We have to provide relief to current seniors already affected by the WEP, and these individuals will have their monthly benefits increased using the savings from this bill.

Finally, this bill makes sure that everyone is treated equally by requiring Social Security make sure that those current retirees who should be subject to the WEP have their benefits adjusted correctly.

At this time I would like to yield, and I am pleased to yield, to the gentleman who has worked with me so hard on this, the gentleman from Massachusetts, Mr. Neal.

*Mr. Neal. Thank you, Mr. Chairman.

I am happy to be here this morning at this hearing of the Ways and Means Social Security Subcommittee. I no longer serve on this Subcommittee, but I have had a longstanding interest in the WEP issue and am an original cosponsor of this bill with Chairman Brady.

I am pleased that the subcommittee is holding this hearing today, and it is also nice to see representatives from the Mass Retirees who are with us as well.

Our bill, H.R. 711, permanently repeals the current Windfall Elimination Provision and replaces it with a fair formula that treats public servants like all other American workers. Public servants who earn both a Social Security benefit and a pension from Social Security's substitute will finally receive treatment equal to other workers.

This legislation was developed in close consultation with teacher and public servant organizations, particularly those in Massachusetts, Texas and Ohio. It provides relief to current retirees already affected by WEP, and it guarantees public servants receive the benefits they earned while they paid into Social Security.

In addition, H.R. 711 is budget neutral in the short run and improves Social Security solvency over the long run.

The Equal Treatment of Public Servants Act guarantees public servants will receive Social Security benefits that reflect their actual work history. Social Security benefits

will no longer be figured by the arbitrary WEP formula established in 1983, but will be based on each worker's Social Security contributions just like everybody else.

Under the Public Servant Fairness Formula, the worker's benefit amount will be calculated using total lifetime earnings and then adjusted for the proportion of earnings that came from the job that was covered by Social Security. Public servants who turn 62 on or after January 1st, 2017, will benefit from the new Public Servant Fairness Formula. Social Security benefits will increase for teachers, firefighters, police officers, and other public servants currently subject to WEP.

Retired public servants currently subject to the WEP and those who turn 62 before December 31st, 2016, will see a reduction in the WEP offset leading to an increase in Social Security benefits.

Repealing the WEP has been a priority of mine for many, many years, and I want to thank Chairman Brady for the attention he has paid to this issue, and I look forward to working with him and the others who are panelists today, as well as the expert testimony we are about to receive, in passing this legislation in this session of the Congress.

*Chairman Brady. Reclaiming my time, I thank my colleague from Massachusetts for his work on this important issue through the years and all of my committee colleagues as well as those who have interest in it.

It seems to me the police, teachers, firefighters I know never worked just one job. They have a second and a third. They have first careers. They have last careers, and creating equal treatment for them just seems like the right thing to do.

So today's hearing is critically important. As Speaker Paul Ryan has said, we are returning to regular order. So today is an important step in that process, having a hearing to talk about this problem and some good solutions to fix it.

I have had a chance to review the excellent testimony from our witnesses that they have submitted, and I look forward to advancing this bill in the weeks ahead.

And, again, Chairman Johnson, thank you for your leadership on this issue and, Ranking Member Larson, thank you for helping lead this hearing today.

I yield back.

*Chairman Johnson. Thank you, Mr. Chairman, for your leadership on this issue.

You know, hard-working Americans who have paid into Social Security ought to have their benefits calculated fairly, and they deserve to know how much they can expect to receive from Social Security.

Unfortunately for many of our teachers, firefighters, police officers and others, that is not the case. When Social Security was created in 1935, some State and local governments already had a retirement program in place, and the law allowed those governments and workers to keep their separate program and not participate in Social Security.

In fact, in Texas many firefighters, police officers and teachers do not participate in Social Security because they have an alternative retirement program. However, many of these good folks have had other jobs either in the summer when school is out or working for a different employer where they paid into Social Security.

So if there is an issue I regularly hear about when it comes to Social Security, it is the Windfall Elimination Provision, or WEP. Take, for example, Janice from Plano, who recently wrote to me. She has worked for 31 years as a teacher. In the summers she also worked in the private sector paying Social Security taxes on those earnings. Because Janice has some earnings that were not subject to payroll tax and others that were, she is subject to the Windfall Elimination Provisions, or WEP, and she very much wants us to address this.

So now what is WEP exactly? And when did it come about? And what can we do about it?

Simply put, WEP uses a slightly different benefit formula than the regular Social Security formula, but this slight difference can have a meaningful impact on benefits. WEP came about as part of the Social Security reform effort in 1983. The idea was to ensure that workers who pay into a separate retirement system are treated similarly to other workers with respect to Social Security benefits.

Both the House and Senate wanted to modify the benefit formula for those workers who spent part of their careers not paying Social Security taxes. I guess it should come as no surprise that the House and Senate did not agree on the numbers. The Senate took a more aggressive approach than the House. As tends to happen here, they ended up somewhere in the middle.

Ever since the WEP was put into place, those public servants have pointed out just how arbitrary it is, and they are right.

On top of that, right now the WEP and Government Pension Offset, or GPO, make it really hard for our firefighters, police officers and teachers to plan for retirement. As we will hear today, the Social Security statement, that is required by law, shows them the wrong number. Their statement gives them the amount of Social Security benefits they would receive if the WEP and GPO did not exist.

These workers, just like every other American, have a right to know what their Social Security benefit is going to be so they can prepare for their retirement.

Bottom line, it is time to replace the WEP and GPO with an approach that treats all workers fairly, and so that is what Chairman Brady and Representative Neal are trying to do. They have introduced a bill that does just that for the WEP. I am a proud cosponsor of their bill. The President included a similar proposal for WEP and GPO in his budget this year.

Some folks may call for a full repeal of the WEP and GPO. While these provisions are not fair, getting rid of them would not be fair either. Public employees who are eligible for Social Security should be treated just like everyone else, no better and no worse. And just as important, at a time when Social Security is already in trouble, doing so would only worsen the financial standing.

Today we are going to hear from one panel of witnesses. Our witnesses will provide background on the WEP and GPO, discuss the problems with the current approach, including their own frontline experiences, and talk about ways we can finally fix it.

I want to thank each of our witnesses for being here today and look forward to hearing your testimony.

*Chairman Johnson. I now recognize Mr. Larson for his opening statement if he wishes to make one.

*Mr. Larson. Well, thank you, Mr. Chairman.

And I want to thank our panelists as well for being here, but I especially want to give kudos to our chairman for his continued work and Chairman Brady and Representative Neal, and primarily something beyond this particular hearing today, but something this Committee has distinguished itself in doing, and that is working in a collaborative manner across the aisle to come to compromise and move the Nation forward.

This is just one of several examples of how this Committee has stepped forward to do it, and while there may be differences, et cetera, the end goal here, which is to move the country forward and in this case, as has already been well stated by Chairman Brady and by Mr. Neal and Chairman Johnson, is that so many people have been adversely affected who have worked other jobs.

As a former school teacher myself and having a daughter who is a school teacher in the State of Connecticut, as Mr. Johnson does in Plano, I hear back in my district from those individuals impacted all the time, and frankly, it is unfair.

In Connecticut, more than 75,000 people, mostly teachers, work in non-covered employment and face the prospect of having their future Social Security reduced by the WEP. And while it was the intent of the WEP to equalize the benefit formula for workers with similar earnings, the WEP takes a one size fits all approach that has the effect of unfairly penalizing public servants, as you have heard here today, as well.

I have long been a proponent of reducing and eliminating the WEP and the GOP [sic] altogether. This bill works towards that goal, although I think there are winners and losers in this provision.

*Chairman Brady. Would the gentleman yield?

*Mr. Larson. I would yield.

*Chairman Brady. Please do not eliminated the GOP.

[Laughter.]

*Chairman Brady. Please do not do that. We have just got to be around.

*Mr. Larson. I think Donald Trump is doing a pretty good job of that, Mr. Chairman.

*Mr. Neal. Would the gentleman yield?

That was the most important thing you said.

[Laughter.]

*Mr. Brady. So much for the bipartisanship.

I yield back.

*Mr. Larson. A Freudian slip there. I apologize, but Shakespeare would say more truth is said in jest than not, but thank you for correcting me.

But I would also point out that as someone who has long felt that these were unfair, and I concur with Mr. Johnson that we have to work on this to bring about the fairness, I am anxious to hear from our panelists because I do think this is a great compromise. This is a great step forward, but I do think it may have some uneven results.

And I want to submit for the record a letter from the NEA with the unanimous consent of the chair.

*Chairman Johnson. Without objection.

[The information follows: [The Honorable John Larson Submission](#)]

*Mr. Larson. And I look forward to the consideration. The long-term goal here is that we have to focus on Social Security, and I am so pleased that Stephen Goss is here today because I think the one thing that we ought to make sure with respect to Social Security is its actuarial soundness, and not only its actuarial soundness, but that it is sustainably solvent for its required 75 years.

I look forward to future hearings. We have legislation that we think will accomplish that goal that I hope we can approach bipartisanly. Certainly the discussion needs to be put on the table because increasingly as we saw after 2008 when people's 401(k)s became 101(k)s that they are more and more and more reliant on Social Security. That makes this legislation have an added sense of urgency for people already in the system who have been treated unfairly.

But the long-term goal that was neglected in 1983, or shall I say as we dealt with what is an insurance issue, that we did not look to adjust or index the concerns that would be created by a growing number of Baby Boomers into the future. This is a responsibility of this Committee. I know we have the talent on both sides of the issue to address this.

I look forward and welcome the hearing today and what we are going to hear from our value added witnesses and look forward as well to discussing Social Security 2100 in the future.

Thank you, Mr. Chairman, and I yield back my time.

*Chairman Johnson. Thank you, sir.

As is customary, any member is welcome to submit a statement for the hearing record.

Before we move on to our testimony today, I want to remind our witnesses to please limit their oral statement to five minutes. However, without objection, all of the written testimony will be made a part of the hearing record.

We have one witness panel today. Seated at the table are Samara Richardson, Acting Associate Commissioner, Office of Income Security Programs, Social Security Administration. That is a mouthful, is it not?

Stephen Goss, Chief Actuary, Office of the Chief Actuary, Social Security Administration.

Jason Fichtner, Senior Research Fellow, Mercatus Center, George Mason University.

Tim Lee, Executive Director, Texas Retired Teachers Association.

Jeannine English, President, AARP.

Welcome, and thanks for being here.

Ms. Richardson, you are recognized. Please go ahead.

**STATEMENT OF SAMARA RICHARDSON, ACTING ASSOCIATE
COMMISSIONER, OFFICE OF INCOME SECURITY PROGRAMS, SOCIAL
SECURITY ADMINISTRATION**

*Ms. Richardson. Thanks. Chairman Johnson, Representative Larson, and members of the subcommittee, thank you for inviting me to discuss Social Security coverage and treatment of individuals who receive pensions based on work not covered by Social Security.

My name is Sam Richardson, and I am the Acting Associate Commissioner in the Office of Income Security Programs at SSA.

Social Security is rooted in principles of equity. Workers earn benefits based on contributions to Social Security that accumulate throughout a worker's career. In jobs covered by Social Security, workers and employers each contribute 6.2 percent of earnings. Workers earn credits through covered work, which allows them to qualify for benefits.

In addition to the worker benefit, Social Security provides benefits for spouses of covered workers whether or not the spouse had earnings covered by Social Security.

My written testimony details how we calculate Social Security benefits. I want to highlight two key points about Social Security benefits and the WEP and GPO provisions that affect non-covered workers.

First, Social Security is progressive. Covered workers with low career earnings receive a benefit that replaces a greater portion of earnings than those with high career earnings.

My second point concerns spousal benefits. A spouse's benefit is generally reduced dollar for dollar by the amount of any Social Security benefit he or she earned as a worker in covered employment.

Although most jobs today are covered by Social Security, some exceptions remain. These non-covered jobs tend to be in State and local government. In non-covered jobs, neither the employee nor the employer pays any Social Security contribution. Instead these employees may have retirement arrangements other than Social Security, such as pensions.

When Social Security was enacted, the benefit formulas did not account for these scenarios, which resulted in two types of inequities. The first inequity affected individuals who had both covered and non-covered work. Because not all of their lifetime earnings were counted in the benefit formula, people with considerable non-covered earnings appeared to have spent their careers in low paying jobs. These beneficiaries received combined Social Security and pension benefits that exceeded those of individuals who worked solely in either covered or non-covered work.

Congress addressed this inequity with the enactment of the WEP in 1983. The WEP requires us to reduce a worker's Social Security benefit if he or she also receives a pension based on non-covered work.

Second, spousal benefits were originally intended to benefit a financially dependent spouse. As both spouses began entering the workforce and one member of a couple worked in employment covered by Social Security while the other worked in primarily non-covered work, a second inequity resulted. In this scenario, the spouse in non-covered work could receive both a retirement benefit from a pension and an unreduced Social Security spousal benefit.

Congress recognized this inequity and enacted the GPO in 1977. The GPO requires us to reduce a person's spousal benefit by two-thirds of the amount of his or her non-covered pension.

With both WEP and GPO, a non-covered pension is seen as a substitute for a person's non-covered earnings. Congress chose to use the pension for this purpose because at that time we did not have the non-covered earnings data in our records.

To preserve Social Security's fairness, benefits should continue to be adjusted if a person has covered and non-covered work, but the WEP and GPO can be improved. Both provisions are complicated. Often non-covered workers realize late in their retirement planning that their Social Security benefit will be offset. These provisions are also very challenging to administer because we rely on beneficiaries to report when they receive a non-covered pension.

The President's Budget for Fiscal Year 2017 includes a legislative proposal that would improve how we offset benefits for non-covered work. First, it would require State and local government pension payers to provide us with data concerning non-covered pensions. This would reduce our reliance on beneficiary's self-reporting to administer the WEP and GPO.

Second, it would modify the WEP and GPO for individuals who become eligible for benefits in 2027 and later. We would no longer reduce benefits based on an individual's receipt of a pension. We would simply use the information on non-covered earnings in our records to adjust benefits.

Until now we have not had sufficient information on non-covered earnings to consider a more equitable benefit formula. Now we do, and with each year our records become more complete.

Before concluding, I would like to acknowledge Chairman Brady's leadership on this issue. The chairman's bill has much in common with the Administration's proposal, and we look forward to working with the Congress on this issue.

I appreciate the opportunity to appear before you today and would be happy to answer any questions you may have.

*Chairman Johnson. Thank you, ma'am. We appreciate that.

Mr. Goss, welcome. Please go ahead.

STATEMENT OF STEPHEN C. GOSS, CHIEF ACTUARY, OFFICE OF THE CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

*Mr. Goss. Thank you very much, Chairman Johnson, Mr. Larson, and other members of the committee. It is really a pleasure to be here with you today to talk about this important subject.

I do want to say what an incredible pleasure it is working with people like Amy Shuart and the rest of your folks on this and other issues, and I much look forward to what Mr. Larson is talking about, talking about broader issues for Social Security maintaining its good actuarial status in the future.

What we are here to talk about today really is principally the Windfall Elimination Provision, and what I want to focus on in the very brief time we have is this proposed change to the way that it has been functioning.

As Samara and others have mentioned, we have the approach we have got now because that was put in the law back in 1983, and really there was no choice back then because of the nature of data that were available.

The current approach really, if we think about this philosophically what these two approaches do, the current approach is basically a matter of a benefit offset. For people we know are receiving a pension based on non-covered employment, there is an offset applied to their worker benefit, retired worker or disabled worker benefit, up to one-half of the amount of that non-covered pension.

But to apply this, it requires that we know and we have knowledge of this non-covered pension, and there are lots of complications in that.

The proposal would take a very different approach. The proposal would take the approach as has been mentioned a few different ways here in basically saying: what if we looked at all of the earnings that a person had, covered and non-covered, and looked at the level of benefit that they would be getting if all had been covered, but then importantly, look at the replacement rate that would be provided for that person, that is, the ratio of the amount of benefit they would get versus their average earnings when they had been working, with all of their earnings, covered and non-covered.

Now, because it is a progressive formula, people with higher overall career earnings get a lower replacement rate than people with lower career earnings.

In a little example that I provided on page 2 of the written testimony, you can see we show that for a person who in their lifetime career earnings had an average earnings of about \$48,000, which we call sort of our medium earner throughout their career of

covered and non-covered earnings, if it was covered earnings only, they would get a benefit replacement rate of about 40 percent of the level of earnings they had been getting. That would be their benefit, about 40 percent at age 65.

But if a little bit over half of those earnings were in non-covered employment, the way our formulas are working now, the person would get a benefit replacement rate of 53 percent, where 40 percent would seem to be more appropriate for a person with that kind of a lifetime career earnings level.

So what the proposals do basically is say for that portion of the earnings that were in covered employment, rather than providing the 53 percent replacement rate, provide the 40 percent replacement rate, which by our formula is deemed to be appropriate for that level of lifetime career earnings.

So it is in that sense that it would be argued, I think, that the proposed formula by both Chairman Brady, Mr. Neal, and the President would be a more appropriate approach.

And, by the way, they are really exactly the same formula for looking forward. The only difference is that the Brady-Neal proposal would start with people newly eligible for benefits in 2017, where the President's would wait until newly eligible in 2027.

Now, let me just share with you a couple of numbers related to this. Currently we have about 1.5 million retired worker and disabled worker beneficiaries subject to the Windfall Elimination Provision. About 84 percent, or one and a quarter million of those, if we were to be able to magically change to the new formula today, just to give you a sense of what the impact would be, 84 percent of them would have actually less reduction, that is, an increase in benefit, of about \$77 per month. That would be about a 19 percent increase in benefits for about 84 percent of the people currently subject to the WEP.

About one-quarter of a million of the people, or about 16 percent, would have about a \$13 per month reduction or about an eight percent reduction in benefits. These are people who are currently reduced, but they are not reduced by very much under the current formula.

Now, importantly, there is another group of folks. There are about 15 million people that we estimate in our retired worker and disabled worker population who are in receipt of benefits that are not being reduced by the Windfall Elimination Provision even though they do have some years of non-covered earnings.

If we were to apply the new formula to them, about one million, or seven percent of those folks, would not receive any reduction at all. Why? Because their earnings even including all of the covered and non-covered earnings, are still well enough below our first bend point, and they have a 90 percent replacement ratio with or without consideration of the provision.

The other 14 million, or 93 percent of this 15 million people, would receive a small reduction. It would average about \$27 per month, which is about two percent, on average, of the benefits that they are currently receiving. These folks are relatively high level beneficiaries under current law.

*Chairman Johnson. The gentleman's time has expired. Can you close it?

*Mr. Goss. The one further little item on this is that about one-half of these 15 million people who would be affected with a reduction, one-half of them would receive the least affected, only \$3 on average.

*Chairman Johnson. I do not think you are listening to me. Your time has expired, sir.

*Mr. Goss. Apologies, Chairman Johnson. Okay. I will stop at this point and look forward and hopefully you will have an opportunity for some questions.

*Chairman Johnson. Thank you.

Dr. Fichtner, you are recognized.

STATEMENT OF JASON FICHTNER, Ph.D., SENIOR RESEARCH FELLOW,
MERCATUS CENTER, GEORGE MASON UNIVERSITY

*Mr. Fichtner. Thank you, sir.

*Chairman Johnson. Thank you.

*Mr. Fichtner. Good morning, Chairman Johnson, Representative Larson, members of the committee. Thank you for inviting me to testify today. It is good to be back before you again.

From my testimony I hope to leave you with the following take-aways: first, a full repeal of the Windfall Elimination Provision, WEP, or Government Pension Offset, GPO, would violate the principles of fairness and equity. These provisions were originally intended to protect.

The original public policy intent of the WEP and GPO is to ensure fair treatment between workers with earnings covered by Social Security and workers with earnings that are not covered by Social Security. It is important that disparate treatment between covered and non-covered workers remain.

Two, the current WEP and GPO provisions create an overly complex structure. This can sometimes result in higher replacement rates for some people with high lifetime combined earnings and those with low lifetime earnings.

Further, the complexity and lack of transparency in the current WEP and GPO provisions can hinder people's ability to accurately plan for retirement and potentially cause undue hardship for retirees.

Third, a proportional or prorated formula would improve fairness of the WEP while maintaining fairness overall. This change would allow for the use of one benefit formula for all Social Security beneficiaries. It would be simple to understand and would be fairer than the current system, while still maintaining the original intent of fairness and equity of the WEP and GPO provisions.

Social Security retirement disability benefits are funded via payroll tax on covered earnings. The system is designed as a progressive benefit formula that provides a higher replacement rate for low income earners than for higher income earners.

The result is that monthly Social Security benefits represent a larger share of lifetime earnings for low income workers than high income workers. This does not mean that a low income worker's monthly benefit amount is higher in nominal dollars than a higher income worker, but rather that the replacement rate is higher.

For workers with entire careers in covered employment, lower lifetime wage earners receive a higher replacement rate than higher lifetime wage earners. But problems arise when workers have earnings from non-covered employment, such as earnings received through State and local governments and careers such as public school teachers, police officers or firefighters. If these workers have an entire career in State and local government that is not covered by Social Security, there is no problem with the WEP.

However, many of these State and local government employees still qualify for some Social Security benefits either because they have employment history in both covered and non-covered employment or because they work simultaneously in two or more jobs that include covered and non-covered employment.

While the WEP is intended to ensure that Social Security beneficiaries are treated fairly and that benefits are provided only for years in which people paid into the Social Security system, the result is that the replacement rate for some with high lifetime combined earnings is higher than those with low lifetime earnings.

The WEP mistakenly treats some high income earners as if they were low income earners. That is unfair. The WEP formula is complicated and hard to explain to beneficiaries.

Further, the current Social Security statement provides estimated monthly benefit amounts that are not adjusted for the WEP. For people relying on the Social Security statement as a retirement planning tool, the current non-WEP adjusted information in the statement could cause people to overestimate their financial readiness for retirement.

Completely eliminating the WEP will only return Social Security to its pre-WEP state and reinstate a windfall for those with both covered and non-covered employment. Hence, repeal is not advised.

However, a proportional or prorated form would improve fairness of the WEP while maintaining fairness and equal treatment.

As of January 2017, SSA will have 35 years of employment history, including both covered and non-covered employment. Thus, we now have both the information and tools necessary to reform the WEP and move to a prorated formula.

President Obama's budget contains such a proposal and so does a similar bill introduced by Chairman Brady and Representative Neal. They are very, very similar. For workers whose entire careers are in covered earnings, the resulting Social Security benefit amount is the same. However, for those with non-covered earnings but with similar combined average annual lifetime earnings, now their covered earnings are receiving the same replacement rate as those whose entire careers are spent in covered employment.

In other words, their replacement rate on covered earnings is now the same and treats both workers with identical lifetime earnings history equally, thus restoring some fairness to the system while still maintaining the original intent of WEP to avoid a, quote, unquote, windfall to those with non-covered earnings.

The simplicity and fairness of the proposed new formula is that it would apply to all workers, those with both covered earnings only and those with both covered and non-covered earnings, making it easy for Social Security to administer and for beneficiaries to better plan for retirement.

Additionally, the Social Security statement could provide accurate monthly benefit amounts to better enable people to plan their financial security in retirement.

It is not often that a Social Security reform proposal comes forward that has bipartisan support and support from both Congress and the President. The original intent of the WEP and GPO still applies today. However, we now have the opportunity to get the formula right for the improvement of the Social Security program and its beneficiaries.

Thank you again for your time and this opportunity to testify. I look forward to your questions.

*Chairman Johnson. Thank you, sir.

Before I recognize Mr. Lee, I would like to recognize Dr. Boustany so he can enter a statement for the record.

*Mr. Boustany. Thank you, Mr. Chairman. I appreciate it.

I ask unanimous consent to enter into the record a statement regarding this very important issue from my home State of Louisiana.

*Chairman Johnson. Without objection.

[The information follows: [The Honorable Charles Boustany Submission](#)]

*Mr. Boustany. Thank you.

*Chairman Johnson. Okay. Mr. Lee, I believe you are next in line. You are recognized for five minutes.

STATEMENT OF TIM LEE, EXECUTIVE DIRECTOR, TEXAS RETIRED TEACHERS ASSOCIATION

*Mr. Lee. Thank you, Chairman Johnson, Mr. Larson, Mr. Neal, members of the subcommittee.

I am Tim Lee. I am the Executive Director of the Texas Retired Teachers Association. I appreciate the opportunity to be here today to testify on behalf of TRTA's over 80,000 members on the Windfall Elimination Provision and the Government Pension Offset.

TRTA is the largest association for retired public school and higher education employees and now ranks number one in membership in the Nation. TRTA is part of a growing ad hoc coalition of public employee retiree associations, public employee organizations, and some of the nation's largest public employee retirement systems who are working together to support the passage of fair and equitable WEP reform legislation.

Some of TRTA's closest partners, such as the Retired State and County Municipal Employees Association of Massachusetts and the Association of Texas Professional Educators, are here today in support of your efforts to pass WEP reform this session.

I have spoken with many of the leaders of other organizations that could not be here today, and they also extend their appreciation to each of you for this hearing.

We have already listened to testimony today about the origins of the WEP and the GPO, and this is good background information, but it does not really capture the sense of hardship these two provisions create for both retired and active workers.

For private sector employee contemplating a career shift in public education, the impact is the future benefit loss felt after years in another field, and for those contemplating education as a career, from the beginning the provisions provide arguments against entering the profession at all.

As a parent with four children in public schools, this is very concerning to me as I want education and other vital public service roles to be highly sought and rewarding for the best and most talented job seekers.

And for our retirees, the consequences are very severe in that they lose dollars for their benefits every month.

Setting aside our views regarding underlying arguments for both the WEP and the GPO, TRTA has always believed the congressional response to these arguments have been arbitrary and based on incomplete data and faulty reasoning. Like many organizations with similarly affected membership, TRTA has long supported legislation to fully repeal the WEP and the GPO.

However, despite large numbers of bipartisan cosponsors, little has changed in almost 30 years these provisions have impacted public workers. We acknowledge that a full repeal is costly and denies any merit that may support the initial basis for their enactment.

Over the years congressman Brady has graciously worked with our organization and others to find a fair and reasonable solution to this growing problem. As early as 2004, Congressman Brady wrote, in part, "A teacher's Social Security should be based on the same thing every American's Social Security is based on: work history and contributions, not more and certainly nothing less."

Today H.R. 711, the Equal Treatment of Public Servants Act, is before you for your consideration. Replacing the current WEP calculation with a formula that takes into consideration the individual's entire working career is an important step towards greater fairness in the system. While the increased benefit that will become available to those impacted does not fully restore the Social Security earnings lost under the current formula, the additional income will be significant for the poorest retirees in our ranks.

In Texas, the vast majority of TRTA pensioners earn in very modest retirement benefits, and replacing and reforming the WEP is a need. Our retirees are in desperate need for fairness and for the maximum possible increase in Social Security benefits.

In October of last year, the Social Security Advisory Board published a position paper on the WEP, acknowledging that when Congress established the WEP formula and the Social Security Administration lacked data on earnings in jobs not covered by Social Security that are necessary to make an exact benefit adjustment.

Beginning in 2017, the Social Security Administration will have 35 years of data on earnings from both covered and non-covered employment. According to the SSAB's paper, the availability of this complete and complex data means that Congress can now apply the more accurate approach. This greater accuracy should implore Congress to repeal the arbitrary WEP formula and provide fairness to government workers by adopting H.R. 711.

Even more recently, it is important to note the President's fiscal year 2017 budget proposes to adjust Social Security benefits based on the extent to which workers have non-covered earnings. While we do appreciate the President's proposal, we do not see a need to delay this important transition for ten years as his proposal suggests.

It is critically important to note and acknowledge the need for the alternative approach based on actual earnings. I can assure members of this Committee that the thousands of retired public workers impacted by the current WEP formula would appreciate action now instead of waiting another decade in the future.

After years of failed attempts to find a solution and underlining the inadequacies associated with the WEP, TRTA appreciates the support which we now find from Members of Congress, the SSAB, and the Obama Administration. We believe it is time for Congress to enact H.R. 711, The Equal Treatment for Public Servants Act. H.R. 711 will permanently repeal the current WEP and it will provide public servants, teachers, firefighters, police officers and other State and local employees equal treatment under the law on the benefits they have provided and reduce the WEP for current retirees as much as 33 percent.

*Chairman Johnson. Thank you, sir.

*Mr. Lee. Thank you.

*Chairman Johnson. Ms. English, Please proceed.

STATEMENT OF JEANNINE ENGLISH, PRESIDENT, AARP

*Ms. English. Thank you. On behalf of our 38 million members throughout 50 States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, including our National Retired Teachers Association members, and all Americans 50 and over, AARP thanks Chairman Johnson, Ranking Member Becerra, and members of the Social Security Subcommittee for the opportunity to testify today in support of The Equal Treatment of Public Servants Act.

We are happy to join numerous other organizations representing retired educators, firefighters, law enforcement officers, Federal workers who support this bipartisan 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 employed by both the private sector and for employers who do not participate in Social Security.

The Windfall Elimination Provision, or WEP, was intended to recover an unfair advantage that Social Security benefit formula provided to workers in dual careers. Without the WEP, some public sector employees who do not pay Social Security taxes would receive a higher replacement rate of their earnings than workers who paid Social Security taxes on all of their equivalent earnings.

The one size fits all approach of the current system has several drawbacks. It cannot address the great diversity in the earnings of State and local workers.

In addition, research has shown that the WEP can be regressive and disproportionately affects lower earners. For decades, efforts to design a fair and accurate method to calculate Social Security benefits of these workers with dual careers was hampered because there was no effective method for Social Security to accurately track all earnings for State or local government employment.

Fortunately, more recent data records are making it possible to do more to easily track earnings from all employers. As a result, it is now possible to adopt and administer a fair solution.

Under The Equal Treatment for Public Servants Act, the current WEP will be replaced by the Public Servants Fairness Formula, PSFF. The PSFF will first calculate Social Security benefits of a worker with public and private sector earnings as if all of those earnings were subject to Social Security taxes, using the same formula that applies to all workers.

To ensure there is no windfall, the benefit will then be multiplied by the fraction of earnings on which the worker paid Social Security taxes. This new calculation will allow for benefits that accurately reflect the individual's lifetime earnings of dual career workers, while recognizing that not all of those earnings were subject to Social Security taxes.

President Obama has recently proposed a similar process to replace the WEP. We are encouraged by the President's support for an approach that is generally consistent with H.R. 711. Millions of retired State and local workers, including many teachers, have received a Social Security benefit that is excessively reduced because the current WEP formula fails to consider an individual's specific work history.

AARP's founder, Dr. Ethel Percy Andrus, established the National Retired Teachers Association to serve the needs of retired educators. Today the NRTA is an important part of AARP's history and our organization. We have listened to our members throughout the country and others affected by the WEP, and we believe that H.R. 711 is an opportunity to treat more fairly the 1.6 million workers affected by the WEP, including many teachers who belong to the NRTA.

We applaud the committee members for working to advance a bipartisan solution to this issue. We are pleased that this effort builds on Congress' work last year to achieve bipartisan solution to fund the Social Security Disability Insurance Program with reasonable anti-fraud protections.

We are encouraged that the committee and this Congress can likewise reach agreement with the Administration to address the WEP this year. AARP stands ready to

help on this and other proposals to strengthen and improve Social Security and protect the income security needs of America's families.

Thank you.

*Chairman Johnson. Thank you. I appreciate that testimony.

And as is customary for each round of questions, I will limit my time to five minutes and ask my colleagues to also limit their time to five minutes.

Dr. Fichtner, welcome again.

*Mr. Fichtner. Thank you, sir.

*Chairman Johnson. It is not every day the President and the chairman of the Ways and Means Committee agree on something.

*Mr. Fichtner. It sure is not.

*Chairman Johnson. And so when it comes to WEP, we are on the same page but with a few differences. So when does H.R. 711 take effect?

*Mr. Fichtner. H.R. 711 would take place starting in 2017, sir, where the President's proposal would start ten years later in 2027.

*Chairman Johnson. Does the bill help only new beneficiaries or does it help current seniors as well?

*Mr. Fichtner. The current bill offered by Mr. Brady and Mr. Neal helps current beneficiaries as well as future beneficiaries. It is equal treatment for equal beneficiaries.

*Chairman Johnson. You are saying both.

*Mr. Fichtner. Both, yes, sir.

*Chairman Johnson. And what about the President's proposal? When does the new benefit formula take effect?

*Mr. Fichtner. Not until 2027. So it would delay it for ten years, and as my old boss, Commissioner Astrue said, justice delayed is justice denied.

*Chairman Johnson. Does the President's proposal provide any relief for current retirees affected by the WEP?

*Mr. Fichtner. Not for current retirees, no; just for future ones, sir.

*Chairman Johnson. Mr. Lee, it is good to see you again.

In my opening statement I talked about Janice from Plano and her experience with the WEP. Her story is like that of so many Texans, and under Chairman Brady and Representative Neal's bill, Janice's benefits would increase.

Unfortunately, the President has proposed to take his time when addressing WEP. Can you tell us why you feel it is important to provide relief to those currently affected by the WEP and not just new retirees?

*Mr. Lee. Mr. Johnson, it is also good to see you again, sir, and thank you for the invitation to come and present today.

*Chairman Johnson. We are glad to have you.

*Mr. Lee. Thank you so much.

We have thousands of our retirees that are in desperate need for additional dollars in their monthly annuities and their Social Security benefits. I have so many retirees that have very modest retirement benefits, and so the work that can be done today to advance proposal that does not delay it for ten years and puts a little extra money in our retiree's pockets will go a long way to help make ends meet for those folks.

*Chairman Johnson. Is there any reason why using the same benefit formula for everyone is not the fairest way to go?

*Mr. Lee. Mr. Chairman, we believe in fairness. We think this has been the best proposal that has been brought forward in a number of years, and fairness is the right way to go.

*Chairman Johnson. Dr. Fichtner, some argue that since the WEP and GPO are unfair, the only fair thing to do is repeal them. What do you think?

*Mr. Fichtner. I think that would actually be the opposite method. Repealing them would actually make things more unfair, sir than making things fair.

*Chairman Johnson. And, Mr. Goss, can you tell us how you think about repeal? How would that affect Social Security's finances?

*Mr. Goss. Well, I would agree with Dr. Fichtner to the extent that repealing the WEP and the GPO would then not take into account whatever the non-covered earnings that people have had in the past. So some approach does certainly make sense.

*Chairman Johnson. You know, this is a popular subject, and we have had a number of non-subcommittee members, non-committee members join us today, and we welcome you.

Without objection we will follow our custom of allowing members of the Ways and Means Committee who are not members of the subcommittee to ask questions after the members of the subcommittee have completed their questioning.

Other members may make submissions for the record which will remain open for two weeks.

I recognize Mr. Larson.

*Mr. Larson. Well, thank you again, Mr. Chairman, and I want to thank our witnesses as well.

Mr. Goss, I would like to go back to your testimony, and I think it is important as well for the record, and I understand the philosophical notion and the fairness of making these adjustments with respect to both the WEP and the GPO, and I wonder though if you can explain to us as you were going through your diagrams who would be the losers in this.

What happens here? That seems to be some of the concern that is raised by the NEA and others, and I was just trying for the record to better understand this.

*Mr. Goss. Well, it is true, as several have mentioned, that there would be a lot of dare we say winners, that is, people who would be less strongly affected by the new proposal than what we have now.

But there would, as in almost any change, there would be some people who would be affected somewhat more. Of the roughly 1.5 million worker beneficiaries now affected if we were to be able to apply the new formula to them, about 16 percent or about a quarter million of those folks would be reduced by about \$13 per month.

That is not a strong change. This would be about an eight percent reduction in their benefit level. These are people who are currently affected, but because of the size of the pension that we know of, they are being affected relatively little. They would be affected only slightly more under the new formula approach.

The much larger group that would be affected you might say negatively would be out of the 15 million people who are worker beneficiaries today, if we were to apply the new formula to them, who have some non-covered earnings but are not reduced currently for the Windfall Elimination Provision, a large majority of them, 93 percent, would have some very small reduction under the new formula. We estimate that that reduction would be on the order of \$27 per month, on average, which is only a two percent reduction in the benefits for those individuals.

Breaking that down into the people most affected versus least affected by applying the new formula to those who currently are not being reduced by the WEP, the group that would be the least affected would be affected by only \$3 per month on average reduction,

and the percentage reduction would round to zero percent. It would be less than half a percent reduction.

The group of that 14 million that would be most affected would be affected by a reduction in their benefit of about \$46 per month, which is only a \$3 per month reduction for those individuals.

So there would be some individuals obviously who are not affected by the WEP at all now with this broader application of the under the new proposal would be affected to the smaller extent.

*Mr. Larson. But as Ms. Richardson pointed out, because of the progressivity within this that is why it is getting the favorable review from the panelists.

What does an average Social Security recipient receive today?

*Mr. Goss. On average Social Security recipients are getting on the order of \$1,300. This is retired worker beneficiaries, around \$1,300 per month.

*Mr. Larson. And as I said earlier, we have not made an adjustment really to Social Security since 1983 when it was, I think, unwisely not indexed at the time, which places us in this horrible actuarial situation that we find ourselves in wondering about the solvency of the program.

I think one of the mistakes that we make is to refer to this as a tax instead of an insurance premium. This is, after all, an insurance premium that is paid by both the employer and by the employee, but it is insurance nonetheless that the employee has paid for.

And I hear this everywhere I go in my district, that this is the insurance I paid for, and I do not know of any insurance premium that has not risen since 1983 in any major category. So that when we look at these things, if we look at it going out, looking at a premium perspective and to make sure as they do in all insurances that they are actuarially sound, your advice on this is going to be tantamount.

And I thank you for your testimony.

*Chairman Johnson. Thank you.

Mr. Dold, you are recognized.

*Mr. Dold. Thank you, Mr. Chairman.

And I certainly want to thank all of you for coming today and for your testimony.

And just to pick up where my good friend Mr. Larson was leaving off in terms of an insurance policy, one of the keys to an insurance policy is certainty. So, again, having that certainty is extremely important.

And we hear it each and every day. We hear it from businesses. We hear it from individuals. Planning and having certainty is absolutely critical.

And so individuals who are planning for retirement rely on the statements that they receive from Social Security to have a sense of what the benefit is that they can expect going forward. However, those statements do not take into account the Windfall Elimination Provision or the Government Pension Offset.

So people who are subject to the WEP or the GPO may not know how they will be affected until they actually come into retirement and they apply for their benefits, and it is not until then that they learn how much less they will receive on Social Security, whether it be that benefit that they were expecting.

Not only is this unfair; it interferes with the ability of retirees who have worked in public service jobs, including educating our children, from being able to enjoy the retirement that I believe they so richly deserve.

Now, some of the things that I have heard, and again, I am sure you can imagine we have heard a lot from constituents. One wrote in to me, Lucile, who is a teacher from Vernon Hills, and she taught in a Catholic school for many years and switched to the public school system after her husband passed away. She worked in the public school system for 17 years, and she wrote to let me know that she was trying to do her retirement planning when she learned that because of WEP, she will not receive any of her late husband's Social Security benefits and hers will be reduced by two-thirds.

In addition, because she has only worked for 17 years in the public school system, she will not qualify for a full pension benefit.

Robert, who is a former postal worker from Wheeling, learned that he would not receive his Social Security benefits for his covered employment because he received a pension from the Federal Government for his non-covered employment.

Nick, a retired educator from Deerfield, wrote in to express the unfairness of the Windfall Elimination Provision, and he notes that he has paid into Social Security and deserves the benefits that he has earned, and that only Illinois and about 15 other States reduce Social Security benefits along those same lines.

Each of these people, and again, there are thousands and thousands of others that have been negatively impacted, and I do believe that this is a bipartisan effort for us to be able to try to solve this problem.

So, Mr. Lee, let me just first direct this. When teachers receive their Social Security statements or their statements if it is not Social Security, are their estimated benefits accurate?

*Mr. Lee. Congressman, I think you are exactly right in saying that the amount of monthly benefit they may receive may be accurate, but it does not reflect the impact of the Government Pension Offset or the Windfall Elimination Provision.

In your first example, it sounded like that individual was going to be hit with a double whammy, both with Government Pension Offset and the Windfall Elimination Provision.

So to the extent that they are accurate, yes, but they do not provide good financial accounting for the fact that the WEP will affect them, and when they go to retire to collect the benefit, it is a very big surprise, and it does impact how they are able to make ends meet.

*Mr. Dold. Dr. Fichtner, Ms. English, how important is it that those statements, regardless of where they are, are accurate?

*Mr. Fichtner. Congressman, it is very important. For many people the Social Security statement that they get in the pension plan is the one time a year they sit down and try to figure out their adequacy for retirement planning. If those statements and the benefits estimate in those statements are wrong, we could be doing a lot of harm to people as they try to plan for a secure retirement.

*Mr. Dold. Mr. Goss.

I do not mean to cut you off, Ms. English, if you wanted to add in.

*Ms. English. The only thing I wanted to add is that is absolutely right. We talk to our members all the time, and if they cannot plan for their Social Security, their pension, and their savings, they cannot plan for their future, and so knowing what they are going to have in Social Security is crucial.

*Mr. Dold. Mr. Goss, let me just say, I understand you cannot be a clairvoyant, and I recognize that situations are happening you do not know that they may have had a different work time somewhere else. How can we try to avoid this?

*Mr. Goss. Well, you make an extremely good point. Due to the complexity of the current approach where one would have to know the size of the pension and when a person was going to receive a pension based on non-covered employment, we simply do not have that information available.

We do have more detail benefit calculators available on the WEP principally used by financial planners, not by citizens because of the complexity.

There is no question but that this new approach would afford us in the Social Security statements the ability to take into account those years of non-covered earnings and give a much better estimate for individuals, especially if they indicate during the remainder of their career where they think they will be working. We can give a very good assessment.

*Mr. Dold. And in my last one second, the legislation that we are proposing today would rectify this problem; is that correct?

A nod I am seeing, Dr. Fichtner.

*Mr. Fichtner. Yes, sir.

*Mr. Dold. Okay. Thank you so much.

Mr. Chairman, my time has expired.

*Chairman Johnson. Thank you.

Mr. Kelly, you are recognized.

*Mr. Kelly. Thank you, Chairman.

And thank you all for being here,

My wife is a teacher back home in Pennsylvania and my daughter is a teacher. My wife taught elementary; my daughter in secondary. So we have approximately 35,000 Social Security beneficiaries that are all adversely affected by the WEP Program.

Mr. Lee, you talked about this pretty clearly. The bulk of my life has been in the private sector, and one of the things is if you are going to attract the best people, you have got to have the best ways of attracting them. Most of that is through a compensation package that makes sense, that allows them to get through their everyday life, and then allows them to get ready for the time that they retire.

So looking at what we have today, and this is really one of those days where we all agree on the same thing, but to attract the best people, and I really do believe teachers are the key and education is the key for anybody getting from what level they are to the next level higher, and they can do it by themselves by preparing for a job that they want in the future that actually does allow them to sustain their lifestyle, family and children and take care of everybody.

So if you can just talk a little bit more about when it comes to what we have to do to attract more teachers, to attract more people to go into that profession to make it seem to them, and I would just share this. My daughter was at Notre Dame, and she was in pre-profession of science, and she was having trouble from the standpoint of it was not exactly what she wanted. She was a track girl. She ran cross-country in track.

And I said to her -- her name is Charlotte but I call her Charlie -- I said, "Charlie, you know what? You love kids. You love competing. Why do you not go into education?"

And she said, "I cannot make any money doing that, Dad. Why would I ever do that?"

And I said, "It is not always going to be about money. It is going to be at the end of your life not how much you have in the bank but how many people you have actually touched and how many people you have helped."

And she said, "well, that is easy for you to say, but it is not going to be that way for me."

So, by the way, she did become a teacher, and she is also coaching cross-country and track, and she started a program called Girls in the Run, which really helped a lot of little girls who did not feel really good about themselves for whatever reason and started them off by walking around the track and talking about what do you have to do to fit in and how you have to compensate for people who say things about you that are not real nice, but at that age that kind of goes with the territory.

But my point is to get people like my daughter Charlotte, to get Charlie to say, "Do you know what? I do not need to be -- but I do have to have something that is sustainable."

That is a huge problem right now, is it not? Attracting the really top people to work with our kids, the most valuable asset we have going forward where our future is secured?

How hard is it right now to bring those folks into the fold?

*Mr. Lee. Congressman, I appreciate that story and appreciate your wife's services as a teacher, and certainly I can tell you are a proud father.

I have a picture recently from one of my retirees who is 109 years old, and he is receiving a benefit from the Teacher Retirement System in Texas. So is his son and so is his son's son, and so it is a generational teaching family.

And I think that we have to support our educators. Obviously teaching is one of the most difficult positions that you can go into as a career. My own daughter also, who is going to be 13 next month, wants to be a teacher, and so I think immediately about the obstacles that she will face.

I think one of the major obstacles that we can remove from that situation is creating a greater sense of transparency and helping somebody understand the value of not only the dollars they are receiving in their payroll today, but also the dollars they are putting away for their future retirement benefits through the State Teacher Retirement System, as well as into the Social Security system. That transparency will help them understand that the

career of public education is not only helping the children today, but it will help those teachers when they retire in the future.

So I would say greater transparency, and of course everything that we can do to encourage our teachers, good teachers, to stay in the profession, and looking at the other professions where people are coming into schools. In Texas we have Troops to Teachers, obviously lots of military folks coming into teaching, and I know if they look at provisions like the Windfall Elimination Provision and say, "Look. If there is no reason, no benefit for me to go into teaching because I am going to be hurt because I do that financially in the future," I think that is the wrong message that we need to be sending.

So it is a big step forward today in looking at how can we treat people fairly and transparently in the future.

*Mr. Kelly. And, Chairman, thank you again for this hearing because it is about fairness, and I think that we champion these people. We want them to touch our children's lives and we want to be part of that whole process, but then they look at it and say, "But at the end of my time, when I retire, I am not being treated fairly. So you want me to come in and do all of that, you want me to give you my life, and you want me to give all of my talents and my passion, but I am not going to be treated fairly."

And I think that is the problem. You all touched on that, and I think that is the answer.

So, Chairman, thank you so much for having this hearing today.

*Chairman Johnson. Thank you.

Are you ready to question? You are recognized, Mr. McDermott.

*Mr. McDermott. Thank you, Mr. Chairman.

I have been on this Committee long enough to remember the Notch Babies. So I sort of look at these questions where you are making decisions here that are ten years out before they take effect, and I am asking myself: what are we setting up here?

If I understand, Mr. Goss, one and a half million people or one and a quarter million will get an increase of something like 77 bucks on average, and then there is the 15 million that are going to get cut. And it looks to me like this bill is one where nobody wanted to raise any money. They do not want to do anything about the money situation in Social Security. They just wanted to shift it from one bunch to another.

So we have got the public employees, and I think this is a benefit for them they should have, but we are doing it at the expense of 15 million people who do not know it is coming. They do not belong to an organization that lets them know; is that correct?

*Mr. Goss. The numbers that I was speaking about are really in reference to sort of what in the long run the implications would be. The 14 million people who are not currently receiving any reduction for WEP, if we were to be able to apply the new approach to them, there would be 14 million who would be affected somewhat by that, but to a very small extent.

*Mr. McDermott. What is the logic for that except for saving money, just cutting benefits from them?

*Mr. Goss. Well, the logic would be really just the basic logic of the notion of reflecting the replacement rate or the level of benefit people should get from their Social Security covered earnings to have that be commensurate with the level of their overall earnings on the basis of our progressive formula.

Really, I think the best way I could express the logic on that is for that portion of a person's career when they were working in State and local or Federal Government employment and not paying them or their employers the 12.4 percent combined payroll tax rate, that they would not, in effect, be getting credit towards Social Security benefits and having a higher replacement rate on the basis of not counting those earnings.

This new formula would look at those earnings in addition to their covered earnings and determine their overall level of earnings and their overall level of benefit replacement that would be deemed to be appropriate under our current formulas, and give them on their Social Security covered earnings no higher replacement than people would get who had had their whole career covered.

*Mr. McDermott. When the bill passed here in 1983 and they advanced the retirement age from 65 to 67, I am sure there were thousands, millions of people in this country who never thought that was going to ever affect them, and they did not even hear about it. They were not paying any attention to it.

What kind of educational effort is there going to be for people to understand what their future benefits are? How do they sit down and plan their future?

If they are 55 today, they are going to be 65 when this kicks in ten years from now or whatever. How are they going to know what is going to happen to them then?

I mean, how will the ordinary citizen find out about this?

*Mr. Goss. I would imagine that *Mr. Lee. Would be in really a very, very positive position under this new formula for future beneficiaries to indicate to them that you can simply look, and we have in your Social Security statement. We do identify not only your covered earnings, but also your earnings that are not covered through the Social Security statement.

Through a modification of that we could indicate to people on the basis of their covered and non-covered earnings what the implications of this new formula would be in a way that we really cannot with --

*Mr. McDermott. I do not remember that.

*Mr. Goss. That education would be very possible.

*Mr. McDermott. I do not remember the point at which I started getting announcements from Social Security about what my benefit was going to be. When does that start?

Does that start when you are 65? I got mine at 65. Does it start at 65 or 67 or whatever, or does it start ten years before where they tell you, "This is what your benefit is going to be"?

*Mr. Goss. The good news is even before that. We first start sending statements to people when they attain age 25, and I think our current practice now is to do it every five years thereafter until they reach something like 60, and then we do it even more often, perhaps every year at that point. So the notices are available for people either online or if they are not signed up, they receive those through the mail.

*Mr. McDermott. And it will tell them what their benefit cut would be from what they presently have or it will just tell them what the benefit is going to be?

*Mr. Goss. Well, if we enact H.R. 711 or the equivalent through the President's budget proposal, once that goes into effect for people who will be affected by the new formula, we will be in a position to modify the calculation shown in the Social Security statement and indicate to people what their benefit would be without and with, probably just with, the implications of this new formula change.

*Mr. McDermott. I will not be here in 2027. So I will not meet the next crop of Notch Babies, but I will bet you there is going to be somebody organizing these people and telling them.

Thank you. I yield back the balance of my time.

*Chairman Johnson. Thank you for your question.

Mr. Renacci, you are recognized.

*Mr. Renacci. Thank you, Mr. Chairman, for holding this hearing. I want to thank the members of the panel for their testimony.

I would also like to thank Chairman Brady and Mr. Neal for their hard work on this issue and for working towards really a common sense solution to address the outdated and arbitrary formula.

While WEP may impact every State, my State of Ohio has more than 120,000 people who will be subject to the Windfall Elimination Provision, trailing only behind the significantly larger States of California and Texas. This is due to the State having multiple pension funds that predate Social Security and whose members do not have income that contributes to Social Security.

Mr. Chairman, I ask unanimous consent that a letter from the Ohio Public Employees Retirement System in support of H.R. 711 be included in the record.

*Chairman Johnson. Without objection.

[The information follows: [The Honorable Jim Renacci Submission](#)]

*Mr. Renacci. In my five years representing Northeast Ohio I have heard from countless constituents who have spent part of their career serving their community as public school teachers and police officers, firefighters or State employees who have been impacted by the Windfall Elimination Provision. Like many of my colleagues, the stories I hear from constituents have real impact on their lives and their planned retirement.

While efforts have been made both by the State and Federal level to better educate individuals impacted by WEP, still many retirees do not realize that they will lose benefits due to WEP until their first benefit check.

This was the unfortunate case of a constituent of mine named Thomas, who is currently retired in Medina, Ohio. Thomas worked many years starting as a teenager in a variety of jobs that paid into Social Security prior to joining the City of Cleveland Police Force where he served the community for 27 years.

Throughout his time working in public law enforcement, he also worked as a private contractor paying into Social Security only to be told that he would receive reduced benefits due to WEP.

I have also heard from Tina who lives in Brunswick, Ohio, who spent more than 20 years working in the private sector before being hired by the Brunswick City School District in 2008. She is planning to retire in the next five to seven years and is already preparing for an impact that the current WEP formula will have on her retirement.

Under the President's proposal, we have heard the Windfall Elimination Provision will not be fixed for ten years. That is an awful long time when we have the data to fix it starting next year in order to provide a solution for individuals like Tina and Thomas.

Mr. Lee, can you give me any reason why we should wait ten years?

*Mr. Lee. No, sir. I think that you set that up very well. Those are problems that need to be addressed now. We have recognize the arbitrary nature of the current Windfall Elimination Provision formula.

We know how to fix it today. We have had excellent testimony and the work that you have done and many members of this Committee have done and have made it available to present a reasonable solution. I think now is the time to do it.

*Mr. Renacci. Thank you.

Mr. Fichtner, often one of the reasons to wait would be implement a change, is to give people, you know, time to plan. However, since we know the Social Security statements are not accurate for those affected by WEP and GPO, how does this delay really help them?

*Mr. Fichtner. The delay actually would not really help them. It is just giving them proper information to make the proper planning they need to do.

And the other point, to follow on Mr. lee's point and yours as well, is that if we delay making this change until 2027 instead of doing it in 2017, there are beneficiaries now who are being affected by the WEP that are getting a lower benefit than they would in a proportionate amount.

So we are basically delaying giving them the benefit that they deserve, and again, justice delayed is justice denied.

*Mr. Renacci. Thank you.

You know, this is a great opportunity where we can work together as a bipartisan group to get things accomplished. So I agree that we need to work together. As a cosponsor of H.R. 711, I again want to thank you, Mr. Chairman, for holding this hearing and for working towards this common sense solution.

I yield back.

*Chairman Johnson. Thank you, sir.

Mr. Smith, do you care to question?

*Mr. Smith. Yes, just briefly. Thank you, Mr. Chairman.

I am happy to be back on the Social Security Subcommittee. I know changes have been made along the way. We have got some work to do, and we have had young people filing in and out of the room. I hope that this might spark some interest in their financial futures, and as we work hopefully together to address the solvency of Social Security, this issue is one that I hope we can resolve here fairly quickly.

I believe it is appropriate that we work to improve Social Security so we can ensure benefits are paid out accurately and reflect the need of beneficiaries as well.

So I thank the Chairman for calling today's hearing.

One question, Ms. Richardson. Whether or not the WEP and GPO apply is based on if a person is also receiving a pension. What information does the Social Security Administration use to actually make the determination?

And are you relying on beneficiaries to provide this information when they claim the benefit?

*Ms. Richardson. Under the current law, yes, we are. We rely on self-reporting, and that is part of the challenge of administering the current law.

*Mr. Smith. Okay. By fixing the WEP and GPO in the way the President proposes, would you need pension information for new beneficiaries once the policy goes into effect?

*Ms. Richardson. We would need pension information for those current beneficiaries, but at the point in 2027, when the Administration's proposal would take effect, we would use just the non-covered earnings data for newly eligible beneficiaries.

So for any of those beneficiaries up to that point who will continue to receive benefits after that point in 2027, yes, we would continue to need their pension information. We need the details about when the pension starts, when it stops, and when the amount changes.

*Mr. Smith. Okay. Thank you.

Does anyone else wish to comment?

[No response.]

*Mr. Smith. If not, I yield back. Thank you.

*Chairman Johnson. Thank you.

Mr. Rice, do you care to question?

*Mr. Rice. I yield, Mr. Chairman.

*Chairman Johnson. Thank you.

Mr. Tiberi.

*Mr. Tiberi. Thank you, Mr. Chairman.

I appreciate you holding this hearing today, and I want to thank Mr. Brady and Mr. Neal for their leadership.

I am going to associate myself with Mr. Renacci's comments. Being from Ohio, I, too, know the perils that many of my constituents face and have heard from many of them over the years that I have been in Congress, including my mother-in-law who is impacted by this Windfall Elimination Provision.

Last fall I was contacted by a woman by the name of Liz Mackey. Ms. Mackey worked as a nurse for 18 years before an injury forced her out of that very noble profession, Mr. Chairman, and rather than retire on disability, she decided to pursue another career, put herself through school, became an employee in Franklin County Government in Columbus, and worked in a job that paid much lower than she did get paid as a nurse for 18 years.

So as a result of that decision, Mr. Chairman, that decision to keep working instead of giving up, she will see her Social Security benefit greatly reduced by this WEP provision unless we fix it.

And so she cannot wait another ten years. She needs this fixed now.

Dr. Fichtner, in your testimony you discussed how using the proportional formula devised in this bill instead of WEP allows that same benefit formula to be used for all workers. Can you explain how that would be impacting someone like Ms. Mackey who had a job in the private sector at a higher scale and then went to public service work working for government in a Public Employee Retirement System at a lower scale?

And now Ms. Mackey who may be choosing between taking a non-covered job in the future or retiring simply to keep a higher retirement benefit, the perverse incentive, if you will.

*Mr. Fichtner. So, Congressman, there is a perverse incentive sometimes to try to seek additional employment and just for the sole purpose of getting years of coverage under Social Security when you have also non-covered employment.

The benefit of going to a proportional formula is it is one formula that applies to everybody. So it is transparent. Under the current formula, the first bend point, as Chief Actuary Goss mentioned, changes. Instead of being 90 percent it could be lowered to as much as 40, but it scales down depending on years of coverage.

So it is very confusing. It is not very transparent, and people cannot plan accurately. Going under the plan by Congressman Brady and Congressman Neal, that would make it one formula that would apply to everybody, and it would be proportional for those years that are non-covered earnings, which means you could have one formula

for Social Security that could do a better job in the statement of telling people what their benefit would be, and it would no longer give a perverse incentive to game the system.

*Mr. Tiberi. Mr. Renacci brought this up with respect to police officers, but I know it was brought up that teachers and others face the same impact they have supplemental jobs, second jobs throughout their career paying into Social Security in their supplemental jobs that are paying into the Public Employee Retirement System in the primary job.

Mr. Lee, you brought up in your testimony how WEP can be particularly harmful to teachers in our State of Ohio. So does the approach taken in the new formula effectively stop that?

*Mr. Lee. Yes, sir. And, first of all, I want to say that many of my friends in Ohio speak very highly of the gentleman on this Committee and they appreciate your service. I know quite a few retired teachers from your State that are watching today and are very interested, and they have sent email expressing appreciation for your participation today.

We look at this situation as a very unfair formula, a very arbitrary formula and confusing and needs to end with the work done for the folks here today and Mr. Brady and others, this formula has become fair, and if you ask educators what they value more than maybe anything else, it is fairness. They just want to be treated fairly under the law.

In this current situation we do not believe it is fair. A person who is a high wage earner and perhaps administrator level position is going to be hit one way, and a person who is in a low wage position is going to be hit exactly the same, and so a person earning lower income needs to be treated differently based on their earnings than somebody who is maybe in a higher paid position.

And so that is what the current formula is trying to fix, get rid of the arbitrary nature of the existing WEP and replace it with something that is fair based on their earnings over their career.

*Mr. Tiberi. Thank you. My time has expired.

Mr. Chairman, I'm a proud sponsor of this legislation, and I want to thank you for your leadership.

*Chairman Johnson. God bless you. Thank you.

Mr. Larson, you are recognized.

*Mr. Larson. Thank you, Mr. Chairman.

And what a great hearing this has been, and I want to thank the members that have joined us as well.

And I want to go back to something that both you and Mr. Renacci said with respect of the ten-year gap and why this legislation that takes effect in 2017 comes under what Martin Luther King would call the fierce urgency of now.

And so I commend this Committee that has been in a nonpartisan way grappling with this issue, and I think this bodes well for the overhaul and the work that still needs to be done on Social Security.

Mr. Chairman, I commend you for always being fair and thoughtful and I hope that we in the not too distant future can have a hearing that focuses on the actuary soundness of this and bring our actuaries here and talk about in a nonpartisan way how we can come up with constructive solutions that make it, I think as Mr. Goss said, sustainably solvent for the whole program.

I think that is what we are all interested in as members here who understand how vital a program that Social Security is to all Americans.

Again, kudos to Mr. Brady and Mr. Neal, and thank you again, Mr. Chairman, for having this hearing.

*Chairman Johnson. Thank you.

And I want to thank all our witnesses for their testimonies today. Thank you also, the members that are still here. I appreciate your presence.

It is clear that current law is not working, and we need to fix the WEP and GPO so that all workers are treated fairly, and the time to act is now.

I look forward to working with all my colleagues on this important legislation. And with that, this Subcommittee stands adjourned.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

[Member Questions](#)

[Member Submissions For The Record](#)

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