SOCIAL SECURITY
Office of the Chief Actuary

March 17, 2016

The Honorable Kevin Brady
House of Representatives
Washington, D.C. 20515

Dear Chairman Brady:

I am writing in response to your request for our estimate of the financial effects on the Social Security Trust Funds of H.R. 711, the "*Equal Treatment of Public Servants Act of 2015*," which you introduced on February 4, 2015 with Representative Neal. This proposal would replace the windfall elimination provision (WEP) with a new formula that you have referred to as the "Public Servant Fairness Formula" (PSF).

The proposal reflects your prior bills in concept, replacing the current complex WEP with a more straightforward approach designed to provide retired-worker and disabled-worker beneficiaries (and their dependents) with a benefit computed with all past earnings included (including earnings in employment that was not covered under the OASDI program in our records starting with 1978), then multiplied by the ratio of the average indexed monthly earnings (AIME) computed without non-covered earnings to a modified average indexed monthly earnings (AIME′) that includes both covered and non-covered earnings in our records. Another way to describe the new approach is that beneficiaries will receive a benefit that reflects the replacement rate applicable for a worker with the same career earnings, where all earnings had been covered. Effectively, the PSF formula would compute the worker's PIA as the ratio of PIA based on all earnings (covered and non-covered) to the average indexed monthly earnings (AIME) computed based on all earnings, multiplied by the AIME based on covered earnings only. These two ways of describing the new approach are mathematically equivalent.

Importantly, for workers becoming eligible for OASDI benefits after 2016, the proposal would eliminate the requirement for receipt of a pension based on earnings not covered by the OASDI program in order to apply the new PSF reduction. We have enjoyed working with Aindriu Colgan and Amy Shuart of your staff in the development of this proposal. Estimates provided for this proposal reflect the efforts of many in the Office of the Chief Actuary, but particularly Jacqueline Walsh, Chris Chaplain, and Karen Glenn.

The new PSF would be applied for all retired-worker and disabled-worker beneficiaries who are newly eligible for benefits after December 2016. For workers who (1) were eligible for a Social Security retired-worker or disabled-worker benefit as of December 2016, (2) have at least one year with non-covered earnings in SSA records, (3) have no old WEP reduction under current law for December 2016, and (4) have less than 30 "years of coverage" (YOCs), certification would be required before the end of calendar year 2016 from each employer who paid the worker any non-covered wages since 1978. This certification would specify whether the worker is entitled to a periodic payment based on his or her non-covered earnings. In the absence of this certification from such employers, the WEP would be applied to all OASDI benefits paid on the worker's account starting in 2017, and would also be assessed on all past benefits paid on the worker's account, with any "overpayment" withheld from future benefits. Reductions to benefits paid in 2017 and later on the basis of these overpayments would be subject to the SSA's use of waiver authority/payment plans where appropriate.

For the purpose of this estimate, we are assuming that the employer certification would indicate: (1) whether the worker is eligible to receive (vested for) a benefit based on the non-covered earnings; (2) whether the worker is currently receiving a periodic payment based on the non-covered earnings and, if so, when payments started; (3) whether future payments are expected in the absence of a current payment; and (4) the amount of any current and past periodic payments based on non-covered earnings. If the worker is certified to have no pension eligibility based on any past non-covered earnings, then no WEP will be applied. If certification indicates current payments and the duration of past payments, then the WEP will be applied to current, future, and past benefits after the periodic payments started, with due consideration of the limit based on pension amount. If current payment is certified without indication of when payments started, then the current WEP will be applied to all current, past, and future benefits on the worker's account. If certification indicates eligibility for a pension based on non-covered earnings with no current payment, then SSA will develop procedures for determining when such payments will commence in the future, at which time the WEP would apply.

Finally, a rebate, in the form of a percentage reduction in the amount of the WEP offset, will be provided for all WEP offsets applicable to benefits paid for 2017 and later. The size of the rebate percentage will be promulgated by the Commissioner of Social Security based on a calculation made by the Social Security Administration's Chief Actuary in November 2016. The Chief Actuary will use the best available data at the time to determine the rebate percentage to be as high as possible, but not in excess of 50 percent of the WEP reduction, and limited to assure that the net effect of the Bill on Social Security program cost through 2025 would be neutral or positive. At this time, we estimate that the maximum permissible rebate percentage of 50 percent would be applicable, resulting in a roughly $3.5 billion net reduction in cost through calendar year 2025.

The proposal will result in added program cost for workers newly eligible for an OASDI benefit after 2016 whose benefit amount would be reduced less by the PSF than by the WEP. However, because this proposal does not require receipt of a pension based on non-covered earnings, and eliminates most exemptions from adjustments based on non-covered earnings for workers becoming newly eligible for OASDI benefits after December 2016, our estimate reflects small benefit reductions from the PSF for a relatively large number of workers who would not be reduced by the WEP. The net OASDI program benefit savings are estimated at $13.6 billion total for years 2017 through 2025 for those newly eligible for OASDI benefits after 2016.

We estimate additional savings from benefit reductions for application of the WEP under this proposal to worker beneficiaries eligible for OASDI benefits in December 2016 who do not have a reduction for the WEP but are not certified to be exempt. The combination of the expected savings for the workers becoming newly eligible both before and after the end of 2016 are estimated to be sufficient to allow for a 50-percent reduction (rebate) for all workers eligible as of December 2016, in the amount of the WEP reduction applied for their benefits for entitlement in January 2017 and later. Over the long-range period, the net effect on the 75-year actuarial balance would be an increase (improvement) of 0.05 percent of payroll. All estimates are based on the intermediate assumptions of the 2015 Trustees Report.

Our estimates for the proposal reflect extensive innovative analysis of data for individuals born in 1950 with experience through June of 2013, including SSA records of earnings not covered by OASDI back to 1978. This analysis has allowed us to model the potential effect of the proposal for 2013 as if it were fully in effect for all retired and disabled workers at that time. Based on these results, we were able to model the expected effects of the proposal for benefit payments starting in 2017. Initially, the proposal would affect substantial numbers of current and former Federal, state, and local government employees, plus certain other individuals receiving payments counted as wages that are not covered. Over the long-range period, the implications of the proposal would progress because the closed group of Federal government employees who are not covered by OASDI were all hired before 1984. Eventually, the group affected by the proposal will be limited principally to the roughly 25 percent of all state and local government employees who are not covered by OASDI.

Sincerely,

Stephen C. Goss

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Chief Actuary