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Social Security: The Public Servant Retirement Protection Act (H.R. 4391/S. 2455)

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Social Security: The Public Servant Retirement Protection Act (H.R. 4391/S. 2455)

Summary

A worker is “covered” by Social Security if he or she pays into Social Security through the Old-Age, Survivors, and Disability Insurance (OASDI) payroll tax. Currently 96% of all workers are covered by Social Security. The majority of non-covered positions are held by federal, state, and local government employees.

The current-law Windfall Elimination Provision (WEP) reduces the Social Security *retirement or disability* benefits of workers who also receive a pension from employment not covered by Social Security. The goal of the WEP was to remove an unintended advantage that the regular Social Security benefit formula provided to employees who divided their careers between covered and non-covered positions. As of December 2003, approximately 758,000 beneficiaries (approximately 1.6 % of the entire beneficiary population at that time) had their benefits reduced as a result of the current-law WEP.

On May 19, 2004, Representative Kevin Brady introduced H.R. 4391, the Public Servant Retirement Protection Act (PSRPA), which would alter the current-law WEP formula for those who first enter non-Social Security-covered employment one year after the bill’s enactment. The PSRPA would maintain the current-law WEP for workers who have worked in non-covered employment prior to this date *except* in cases where the PSRPA WEP provides them with a higher benefit. On May 20, 2004, Senator Kay Bailey Hutchison introduced the sister bill, S. 2455. Both bills would replace the current-law WEP formula with a new WEP formula that provides a benefit in rough proportion to the percentage of earnings worked in Social Security-covered employment.

When compared to current-law, the effect of the PSRPA WEP on a worker’s benefit levels varies both by earnings level and the number of years of Social Security covered-earnings. The current-law WEP generally provides a benefit that increases with additional years of Social Security coverage. By contrast, the key determinant of the new proportional benefit amount is the percentage of the highest 35 years of covered and non-covered earnings that can be attributed to covered work — the higher the value of these covered earnings compared to the highest 35 years of covered and non-covered earnings, the larger the benefit under the PSRPA. Thus, the PSRPA WEP provides a benefit that increases with a rise in the proportion of Social Security covered earnings relative to overall earnings, regardless of the number of years worked in Social Security covered employment.

This report will be updated as legislative activity warrants.

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Background

The Windfall Elimination Provision (WEP) reduces the Social Security benefits of workers who also have pension benefits from employment not covered by Social Security. On May 19, 2004, Representative Kevin Brady introduced H.R. 4391, the Public Servant Retirement Protection Act (PSRPA), which would alter the current-law WEP formula for those who first enter non-Social Security-covered employment one year after the bill's enactment. The PSRPA would maintain the current-law WEP for workers who have worked in non-covered employment prior to this date *except* in cases where the PSRPA WEP provides them with a higher benefit. On May 20, 2004, Senator Kay Bailey Hutchison introduced the sister bill, S. 2455. Both bills would replace the current-law WEP formula with a new WEP formula that provides a benefit in rough proportion to the percentage of earnings worked in Social Security-covered employment.

Current-Law Windfall Elimination Provision (WEP)

The current-law WEP reduces the Social Security *retirement or disability* benefits of workers who also receive a pension from employment not covered by Social Security. The base Social Security benefit, the Primary Insurance Amount (PIA), is the amount that a worker would receive as a Social Security retirement benefit if he or she retired exactly at the full retirement age (65 years and four months in 2004). The PIA formula applies three progressive factors — 90%, 32%, and 15% — to three different levels, or brackets, of a worker's average indexed monthly covered earnings (AIME).[1] In 2004, the PIA formula is

90% of the first $612 of the AIME, *PLUS*
32% of the AIME between $612 and $3,689, *PLUS*
15% of the AIME exceeding $3,689.

Under current-law, this regular PIA formula is modified for those receiving pensions from non-Social Security covered employment by adjusting the 90% factor

[1]The AIME is a dollar amount that represents the average monthly earnings from Social Security-covered employment over most of the worker's adult life indexed to the increase in average annual wages. To calculate the AIME, a worker's earnings prior to age 60 are first indexed to the year that the worker reaches age 60. The highest 35 years of indexed yearly earnings are used to compute the AIME. The sum of the indexed earnings in these 35 years is divided by the number of months in these 35 years to obtain the average indexed monthly earnings.

based on the number of years the worker had "substantial" employment covered by Social Security (i.e., having earned at least one quarter of the "old-law" Social Security maximum taxable wage base for each year).[2] The higher the number of years of substantial Social Security coverage, the higher the first formula factor used in the WEP PIA formula. The lowest formula factor is 40%, which applies to those with 20 or fewer years of substantial Social Security covered employment. For each additional year of substantial Social Security coverage over 20, the formula factor increases by five percentage points until it reaches 90% for those with 30 years of substantial Social Security covered employment — the same first formula factor as under the regular PIA formula. Thus, a worker who would otherwise be subject to the WEP would be exempt from any benefit reduction if he or she had at least 30 years in covered employment. The 32% and 15% PIA formula factors continue to apply as under the regular PIA formula. **Figure 1** demonstrates how the benefit level resulting from the current-law WEP formula varies by years of covered earnings for a worker with average earnings.[3] In no case can the reduction in benefits under the WEP exceed more than half of the pension based on non-covered work.

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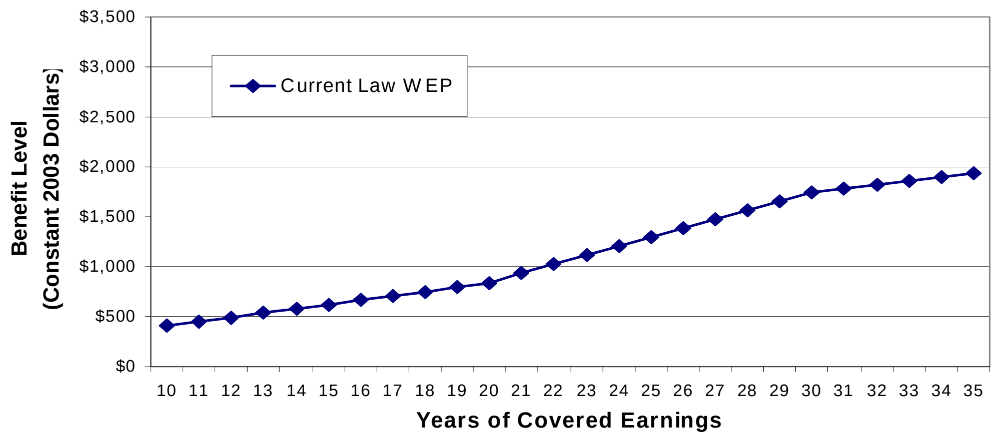
[2]For determining years of coverage after 1978 for individuals with pensions from non-covered employment, the amount is 25% of what the contribution and benefit base otherwise would have been if the 1977 Social Security Amendments had not been enacted. In 2003, the "old-law" taxable wage base was equal to $64,500 and, thus, to earn credit for one "year of coverage" under the WEP, a worker would have to earn at least $16,125 in Social Security-covered employment.

[3]A "year of coverage" should not be confused with a "year of covered earnings." In 2003, to earn credit for one "year of coverage" under the WEP, a worker would have to earn at least $16,125 in Social Security-covered employment. A "year of covered earnings" is any year in which the worker had earnings from Social Security-covered employment, regardless of the amount earned. Because the PSRPA does not rely on the current-law definition of "years of coverage"in calculating WEP benefits (as determined by measuring "substantial earnings"), the common denominator of "years of covered earnings" is used in all charts. For example, in 2003, a minimum-wage worker in Social Security covered-employment would have earned $10,712. While this minimum-wage worker has a year of Social Security-covered earnings, he or she would not have earned a "year of coverage" towards the current-law WEP formula which required a worker to earn at least $16,125 in Social Security covered-employment. Any attempt to graphically represent a minimum-wage worker's current-law benefit under the WEP by "years of coverage" would have been impossible as the minimum-wage worker never qualifies for a single "year of coverage."

Figure 1. Current-Law WEP, Scaled Average-Wage Earner



Rationale. The goal of the WEP was to remove an unintended advantage that the regular Social Security benefit formula provided to employees who divide their careers between covered and non-covered positions. The regular Social Security formula is intended to replace a higher proportion of earnings for those workers who spent their working years in low paying jobs relative to those who had high earnings. However, the regular formula cannot differentiate between those who worked their whole lives in low-paying jobs and those who simply appear to be low paid because they worked for many years in jobs not covered by Social Security. Because those who work in non-Social Security covered positions do not contribute to Social Security through the payroll tax, each year of non-covered employment is recorded as a year of zero earnings in the calculation of a worker's AIME. Thus, workers in non-covered Social Security positions received the advantage of the progressive Social Security formula because their few years of covered earnings were averaged over their entire working career to determine the average covered earnings on which their Social Security benefits were based. The WEP formula is intended to remove this advantage for these workers.

Social Security-Covered and Non-Covered Work. A worker is in a position "covered" by Social Security if he or she pays into Social Security through the Old-Age, Survivors, and Disability Insurance (OASDI) payroll tax. Approximately 96% of all workers are covered. The majority of non-covered positions are held by government employees: most federal employees hired before 1984 and some state and local government employees. The latest available information on the Social Security coverage of state and local workers is for the year 2001. Nationwide, approximately 72% of state and local government employees are covered.[4] However, coverage varies from state to state. For example, approximately 97% of state and local employees in Vermont are covered by Social Security, while only 3% of state and local employees in Ohio are covered.[5] **Table 1** below provides a breakdown of Social Security covered and non-covered employees by state.

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[4]Social Security Administration, *Estimated Social Security Coverage of Workers with State and Local Government Employment, 2001*.

[5]Ibid.

Table 1. Estimated Social Security Coverage of Workers with State and Local Government Employment, 2001

(in thousands)

State	All Workers[a]	Covered Workers	Non-Covered Workers	Percent Non-Covered
Alabama	369	343	26	7%
Alaska	85	41	44	52%
Arizona	407	366	41	10%
Arkansas	216	193	23	11%
California	2,582	1,114	1,468	57%
Colorado	385	122	263	68%
Connecticut	286	194	92	32%
D.C.	73	47	26	36%
Delaware	71	67	4	6%
Florida	1,124	951	173	15%
Georgia	648	467	181	28%
Hawaii	125	74	51	41%
Idaho	144	131	13	9%
Illinois	1,055	566	489	46%
Indiana	481	427	54	11%
Iowa	289	254	35	12%
Kansas	286	257	29	10%
Kentucky	363	274	89	25%
Louisiana	365	104	261	72%
Maine	129	62	67	52%
Maryland	443	403	40	9%
Massachusetts	468	26	442	94%
Michigan	823	729	94	11%
Minnesota	460	416	44	10%
Mississippi	251	225	26	10%
Missouri	484	356	128	26%
Montana	97	84	13	13%
Nebraska	173	156	17	10%
Nevada	142	42	100	70%
New Hampshire	109	96	13	12%
New Jersey	651	602	49	8%
New Mexico	187	165	22	12%
New York	1,747	1,679	68	4%
North Carolina	674	628	46	7%
North Dakota	75	65	10	13%
Ohio	846	26	820	97%
Oklahoma	303	271	32	11%
Oregon	289	262	27	9%
Pennsylvania	797	726	71	9%
Puerto Rico	254	225	29	11%
Rhode Island	71	57	14	20%
South Carolina	366	336	30	8%

State	All Workers[a]	Covered Workers	Non-Covered Workers	Percent Non-Covered
South Dakota	84	77	7	8%
Tennessee	476	429	47	10%
Texas	1,704	868	836	49%
Utah	226	203	23	10%
Vermont	60	58	2	3%
Virginia	627	584	43	7%
Washington	514	451	63	12%
West Virginia	151	136	15	10%
Wisconsin	506	444	62	12%
Wyoming	73	63	10	14%
Other [b]	7	1	6	86%
Total	**23,621**	**16,943**	**6,678**	**28%**

Source: Social Security Administration, Continuous Work History Sample, 1% sample.

Notes: Workers with more than one state and local employer during the year are counted for each employer.

a. Includes seasonal and part-time workers for whom state and local government employment was not the major job.
b. Includes persons employed in American Samoa, Guam and Virgin Islands, U.S. citizens employed abroad by American employers, and persons employed on oceanborne vessels.

This variation in coverage occurs because, while Social Security originally did not cover any state and local government workers, over time the law has changed. Most state and local government employees became covered by Social Security through voluntary agreements between the Social Security Administration and individual states.[6] Beginning in July 1991, state and local employees who were not members of a public retirement system were mandatorily covered by Social Security because they had no alternative retirement or disability protection.[7]

Who is Currently Affected by the WEP? Individuals who work or who have worked in positions where they did not pay into Social Security are potentially affected by the WEP. As of December 2003, approximately 758,000 beneficiaries (approximately 1.6% of the entire beneficiary population at that time) had their benefits reduced as a result of the current-law WEP. As Social Security coverage varies by state, so does the number of individuals affected by the WEP. **Table 2** below provides a detailed breakdown by state of the number of beneficiaries affected by the WEP.

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[6] These agreements are known as "Section 218 agreements" because they are authorized by Section 218 of the Social Security Act.

[7] P.L. 101-508, The Omnibus Budget Reconciliation Act of 1990, H.Rept. 101-881, p. 358.

Table 2. Number of Beneficiaries in Current Payment Status with Benefits Affected by Windfall Elimination Provision (WEP), by State and Type of Benefit, December 2003

State	Total Number of WEP Beneficiaries	Retired Workers	Disabled Workers	Spouses and Children	Percent of All Beneficiaries in the State[a]
Alabama	11,006	9,672	180	1,154	1%
Alaska	3,188	2,941	48	199	5%
Arizona	13,150	11,835	197	1,118	2%
Arkansas	6,338	5,659	131	548	1%
California	90,676	81,748	1,125	7,803	2%
Colorado	21,341	19,403	206	1,732	4%
Connecticut	6,527	6,105	102	320	1%
Delaware	1,648	1,491	28	129	1%
District of Columbia	5,231	4,909	71	251	7%
Florida	44,304	39,955	530	3,819	1%
Georgia	21,208	19,403	270	1,535	2%
Hawaii	4,953	4,367	65	521	3%
Idaho	2,957	2,633	48	276	1%
Illinois	37,734	34,994	359	2,381	2%
Indiana	7,719	6,967	142	610	1%
Iowa	4,818	4,384	50	384	1%
Kansas	5,088	4,605	86	397	1%
Kentucky	9,491	8,495	197	799	1%
Louisiana	14,732	12,780	331	1,621	2%
Maine	6,806	6,186	104	516	3%
Maryland	24,695	22,585	307	1,803	3%
Massachusetts	24,476	22,831	333	1,312	2%
Michigan	9,497	8,478	157	862	1%
Minnesota	10,309	9,486	99	724	1%
Mississippi	5,424	4,805	116	503	1%
Missouri	16,081	14,788	229	1,064	2%
Montana	2,661	2,359	50	252	2%
Nebraska	3,065	2,809	36	220	1%
Nevada	8,829	8,148	129	552	3%
New Hampshire	3,330	3,023	62	245	2%
New Jersey	12,408	11,238	224	946	1%
New Mexico	6,504	5,656	76	772	2%
New York	18,356	16,608	284	1,464	1%
North Carolina	13,675	12,379	214	1,082	1%
North Dakota	1,552	1,395	10	147	1%
Ohio	56,008	51,004	635	4,369	3%
Oklahoma	9,953	8,836	181	936	2%
Oregon	7,161	6,422	99	640	1%
Pennsylvania	19,527	17,525	323	1,679	1%
Rhode Island	2,411	2,187	42	182	1%
South Carolina	8,746	7,830	133	783	1%

State	Total Number of WEP Beneficiaries	Retired Workers	Disabled Workers	Spouses and Children	Percent of All Beneficiaries in the State[a]
South Dakota	2,116	1,912	26	178	2%
Tennessee	9,758	8,662	152	944	1%
Texas	60,429	54,611	668	5,150	2%
Utah	6,529	5,789	85	655	3%
Vermont	1,407	1,267	21	119	1%
Virginia	26,243	23,528	315	2,400	2%
Washington	13,990	12,292	203	1,495	2%
West Virginia	3,451	2,993	80	378	1%
Wisconsin	6,579	6,020	59	500	1%
Wyoming	1,277	1,172	12	93	2%
Outlying areas and foreign countries	42,568	32,560	433	9,575	4%
Total	**757,930**	**679,730**	**10,063**	**68,137**	**1.6%**

Source: Social Security Administration, Office of Research, Evaluation and Statistics, Mar. 1, 2004.

a. CRS calculations based on Social Security Administration, Office of Research, Evaluation and Statistics, Annual Statistical Supplement, 2004, Table 5.J2 (not yet published).

Of this group affected by the WEP, about 90% were receiving retired worker benefits, about 1% were receiving disabled worker benefits, and about 9% were receiving benefits as spouses or children of insured workers. Spouses and children may have their benefits indirectly reduced as a result of the WEP since their benefits are based on the reduced PIA of the worker. However, the WEP reduction is removed for the calculation of survivor benefits. Of those receiving retirement or disability benefits, approximately 34% were women and 66% were men (see **Table 3**).

Table 3. Number of Beneficiaries in Current Payment Status with Benefits Affected by the Windfall Elimination Provision (WEP), by Gender and Type of Benefit, December 2003

Gender	Total	Type of Benefit	
		Retired Workers	Disabled Workers
Women	233,939	230,523	3,416
Men	455,854	449,207	6,647
Total	689,793	679,730	10,063

Source: Social Security Administration, Office of Research, Evaluation and Statistics, Mar. 1, 2004.

The number of affected individuals also varies by years of coverage (years of substantial Social Security covered earnings) that count towards the WEP formula. **Table 4** demonstrates that approximately 70% of all individuals currently affected by the WEP had 20 or fewer years of coverage and 20% had 21 or more years of coverage, while the information on years of coverage is not available for 10% of those affected. Thus, for about 70% of all beneficiaries affected by the current-law WEP, the first formula factor used in the WEP PIA never exceeds 40%.

Table 4. Number of Individuals Affected by the Windfall Elimination Provision, by Gender and Number of Years of Coverage, December 2003

Years of Coverage	Women	Men	Total	Percent of Total by Years of Coverage
Information not available	32,680	35,502	68,182	9.9%
0	2,292	972	3,264	0.5%
1	3,260	2,482	5,742	0.8%
2	4,609	4,358	8,967	1.3%
3	6,055	6,213	12,268	1.8%
4	7,323	8,265	15,588	2.3%
5	8,825	10,778	19,603	2.8%
6	10,232	13,118	23,350	3.4%
7	11,709	15,762	27,471	4.0%
8	12,997	18,560	31,557	4.6%
9	13,787	21,528	35,315	5.1%
10	13,911	23,891	37,802	5.5%
11	13,131	24,368	37,499	5.4%
12	11,985	23,230	35,215	5.1%
13	10,614	21,548	32,162	4.7%
14	9,448	20,243	29,691	4.3%
15	8,142	18,917	27,059	3.9%
16	7,354	17,835	25,189	3.7%
17	6,583	16,711	23,294	3.4%
18	5,589	15,600	21,189	3.1%
19	4,774	14,741	19,515	2.8%
20	4,424	14,913	19,337	2.8%
21	3,977	15,944	19,921	2.9%
22	3,454	15,380	18,834	2.7%
23	3,193	14,299	17,492	2.5%
24	2,962	13,076	16,038	2.3%
25	2,545	11,529	14,074	2.0%
26	2,362	10,521	12,883	1.9%
27	2,001	9,292	11,293	1.6%
28	1,880	8,426	10,306	1.5%
29	1,794	7,772	9,566	1.4%
30+	47	80	127	0.0%
Total	**233,939**	**455,854**	**689,793**	**100.0%**

Source: Unpublished table, Social Security Administration, Office of Research, Evaluation and Statistics, May 18, 2004.

Notes: A "year of coverage" should not be confused with a "year of covered earnings." Under the current-law WEP, the number of years the worker had "substantial" employment covered by Social Security (i.e., having earned at least one quarter of the "old-law" Social Security maximum taxable wage base for each year) qualifies as a "year of coverage." In 2003, the "old-law" taxable wage base was equal to $64,500 and, thus, to earn credit for one "year of coverage" under the WEP, a worker would have to earn at least $16,125 in Social Security-covered employment. A "year of covered earnings" is any year in which the worker had earnings from Social Security-covered employment, regardless of the amount earned.

The "Public Servant Retirement Protection Act" (PSRPA)

The PSRPA would treat future non-covered workers differently from current or past non-covered workers when calculating Social Security retirement or disability benefits.

Future Non-Covered Workers

Applies a New, Proportional PIA Formula to Those Who First Begin Non-covered Employment One Year after the Bill's Enactment. The PSRPA legislation establishes a new PIA formula that takes into account the proportion of a worker's career earnings attributable to Social Security-covered employment. First, to represent the PIA that a worker would receive if he or she had worked a full career in Social Security-covered employment, a PIA is calculated using the worker's highest 35 years of earnings from both covered *and* non-covered employment. Second, this career-based PIA is multiplied by a ratio that reflects the portion of the worker's lifetime earnings attributable to covered employment. This ratio is equal to the current-law AIME, which is based on the worker's highest 35 years of Social Security-covered earnings, divided by an AIME based on the worker's highest 35 years of earnings from both covered *and* non-covered employment. The new PIA is therefore equal to the portion of the career PIA that the worker is eligible to receive based on his or her Social Security-covered earnings. Thus, the new PIA formula for future non-covered workers is as follows:

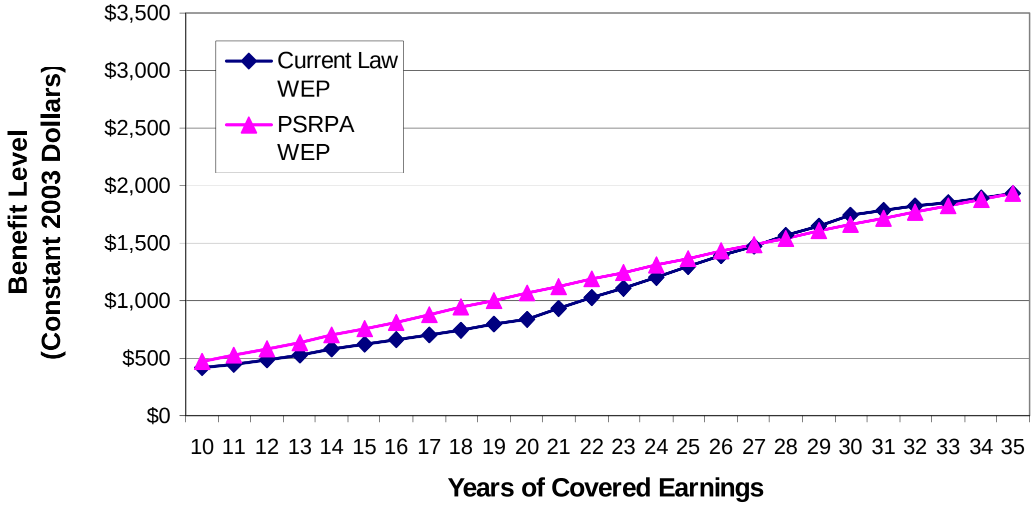
$$\text{New PIA} = \text{PIA using covered and non-covered earnings} \;\text{X}\; \frac{\text{(AIME using highest 35 years covered earnings)}}{\text{(AIME using highest 35 years covered and non-covered earnings)}}$$

Current and Past Non-Covered Workers

Holds Harmless Individuals Who Already Work or Have Worked in Non-covered Employment. Those individuals currently working in non-Social Security-covered employment, those who have worked in non-covered employment in the past, and those who begin work in non-covered employment within one-year of the bill's enactment would not experience any reduction in benefits and could potentially experience a benefit increase. The PSRPA legislation retains the current-law WEP formula for these individuals as well as the guarantee that the reduction in benefits caused by the current-law WEP cannot exceed more than half of the pension based on non-covered work. However, if the PIA calculated under the proportional WEP formula would be higher than that provided under current-law, the worker would receive the higher PIA.

Figure 2 demonstrates the basic relationship between the current-law WEP formula and the PSRPA proportional benefit formula for a scaled average-wage worker whose years of Social Security covered earnings occur at the end of his career.

Figure 2. Current-Law WEP and PSRPA WEP Scaled Average-Wage Earner



The straight line represents benefits under the PSRPA, while the line with bend points at 20 and 30 years of covered earnings and shifting slopes represents the current-law WEP. The area between these two lines represents the estimated change in benefits between current-law and the PSRPA. Most of the following analysis of the results deals with explaining the difference in the gaps for workers with varying levels of earnings and years of covered earnings.

How Will the PSRPA Affect Benefits?

- Under the current-law WEP, benefits are driven by the number of "years of coverage," while under the PSRPA benefits are driven by the value of covered earnings relative to overall earnings, regardless of the number of years spent accruing those covered earnings.

- While the current-law WEP formula provides no increase in the first PIA formula factor of 40% for those with between 10 and 20 years in covered employment, the PSRPA uses a 90% formula factor and thus would provide a higher percent increase in benefit levels for each year of covered earnings.

- Future non-covered workers who spend 30 years or more in Social Security covered employment would not be exempt from a reduced Social Security benefit as are workers under current-law.

- Based on estimates for future hypothetical workers using the PSPRA formula:

  — Minimum-wage workers and low-wage workers would receive the greatest percent increase in Social Security benefits under the PSRPA relative to current-law, regardless of the number of years of covered earnings.

— Average-wage workers with up to 27 years of covered earnings would receive benefits greater than what they would receive under current law.

— High-wage workers with up to 23 years of covered earnings would receive benefits greater than what they would receive under current law.

— Maximum-wage workers would experience a decrease in Social Security benefits under the PSRPA relative to current-law, regardless of the number of years of covered earnings.

The remainder of this report uses the Congressional Research Service (CRS) Social Security case-simulation model to analyze how the PSRPA would affect the Social Security benefits of hypothetical workers with various earnings levels who spend differing numbers of years working in Social Security-covered employment. In the case-simulation model, it is necessary to specify not only the number of years of covered employment, but also when those years occurred. Because we are relying on hypothetical earnings patterns for workers, in all of our examples higher earnings levels come towards the end of the worker's career. Therefore, individuals whose years of covered earnings occur later in their career experience slightly higher benefit levels under the PSRPA than those individuals who have covered earnings earlier in their career. While the relative importance of the timing of covered earnings holds true for individuals with earnings histories that start low and increase throughout the career, it would not necessarily hold true for other earnings patterns.

The appendix provides a series of tables with examples of how the PSRPA would affect future non-covered workers based on differences in earnings levels and years of Social Security covered earnings. The output for each scenario includes information on the PIA based on all earnings, the new PSRPA PIA, the current-law WEP PIA, and the percent increase or decrease under the PSRPA proposal compared to current-law. The main results based on these examples and a preliminary explanation of these results are summarized below.

Earnings Levels. **Figures 3**, **4, 5** and **6** demonstrate the relationship between current-law and the PSRPA for minimum-wage workers, scaled low-wage workers, scaled high-wage workers and maximum-wage workers, respectively, who have covered earnings at the end of their careers.[8] These figures illustrate features of the current-law and the PSRPA WEP formulas, with respect to years of covered earnings, by earnings levels. In all cases, the WEP benefit level, under both current-law and the PSRPA, increases with years of covered earnings. However, the current-law WEP generally increases at a varying rate with years of covered earnings,

[8] The projected earnings histories for these workers are those used by the Social Security Administration to produce the Annual Trustees Report. It is assumed that they follow typical lifetime earnings patterns that would produce a Social Security benefit equivalent to that of workers with career earnings of either: (1) a "low"wage (45% of a wage equal to Social Security's "average wage series);" (2) an "average wage"(a wage equal to Social Security's "average wage series);" (3) a "high" wage (160% of a wage equal to Social Security's "average wage series);" or (4) the maximum wage creditable under Social Security.

whereas the PSRPA WEP increases at a constant rate.[9] Also, the slope of both the current-law WEP and PSRPA WEP, with respect to years of coverage, increases as earnings increase (e.g., compare **Figure 3** with **Figure 4**). These formula features account for the differences in benefits illustrated in subsequent figures, with respect to years of covered earnings and earnings levels.

Figure 3. Current-Law WEP and PSRPA WEP Minimum-Wage Earner

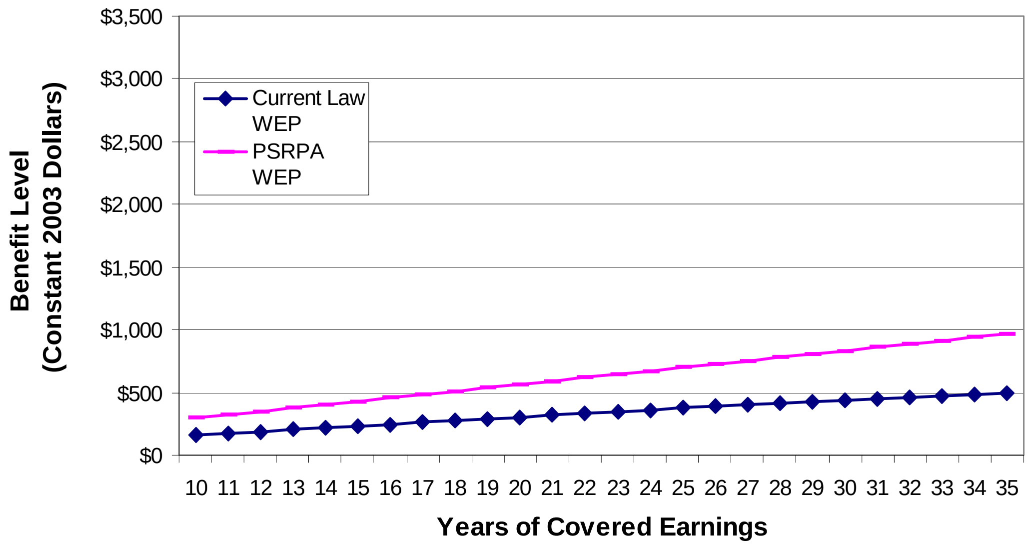
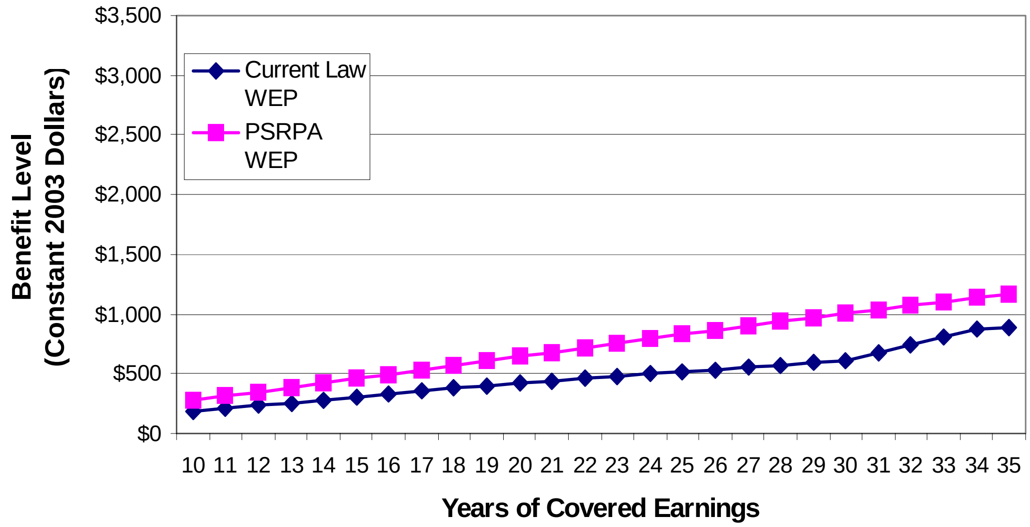


Figure 4. Current-Law WEP and PSRPA WEP Scaled Low-Wage Earner



9 This constant rate is primarily a function of the assumptions used to generate the hypothetical earners used in this analysis, particularly the long-term constant rate of growth in the national average wage.

Given our assumed earnings histories, the PSRPA provides a strictly proportional benefit. However, the current-law WEP formula replaces a higher proportion of the AIME of higher-wage workers than lower-wage workers. Higher-wage workers tend to have larger AIMEs, and a larger portion of their benefit is based on the 32% and 15% formula factors under the current-law WEP PIA. Lower-wage workers tend to have smaller AIMEs, and a larger portion of their benefit is based on the first PIA formula factor which can be as small as 40% under the current-law WEP. Furthermore, under the current-law WEP, minimum-wage earners do not have high enough earnings to qualify for a "year of coverage" under the WEP. Therefore, while their AIMEs increase with additional years of covered earnings, their WEP "years of coverage" do not and so the first PIA formula factor remains at 40%. The impact of this "year of coverage" requirement can be seen by comparing **Figure 3** (minimum-wage worker) with **Figure 2** (scaled average-wage worker). The pattern of current-law benefits by years of covered earnings for the minimum-wage worker does not exhibit the typical bend-points one expects from the WEP formula because the first PIA formula factor never rises with additional years of covered earnings. This same pattern holds true for scaled low-wage workers (**Figure 4**), but to a lesser degree. Scaled low-wage workers earn high enough wages in some years to qualify for a "year of coverage," but even then the first PIA formula factor only reaches 60%. Thus, when the new proportional PIA is used, and the regular PIA formula using the 90% first formula factor is put in place, minimum-wage and scaled low-wage workers experience the greatest percent increase in benefits. Scaled average-wage, scaled high-wage, and maximum-wage earners all have high enough earnings in each year of covered earnings to qualify for a 'year of coverage' under the WEP and thus their first PIA formula factors rise every year between 20 and 30 years of covered earnings (**Figure 2, Figure 5** and **Figure 6**). The difference in the percentage increase or decrease by earnings level is highlighted in **Figure 7**.

Figure 5. Current-Law WEP and PSRPA WEP Scaled High-Wage Earner

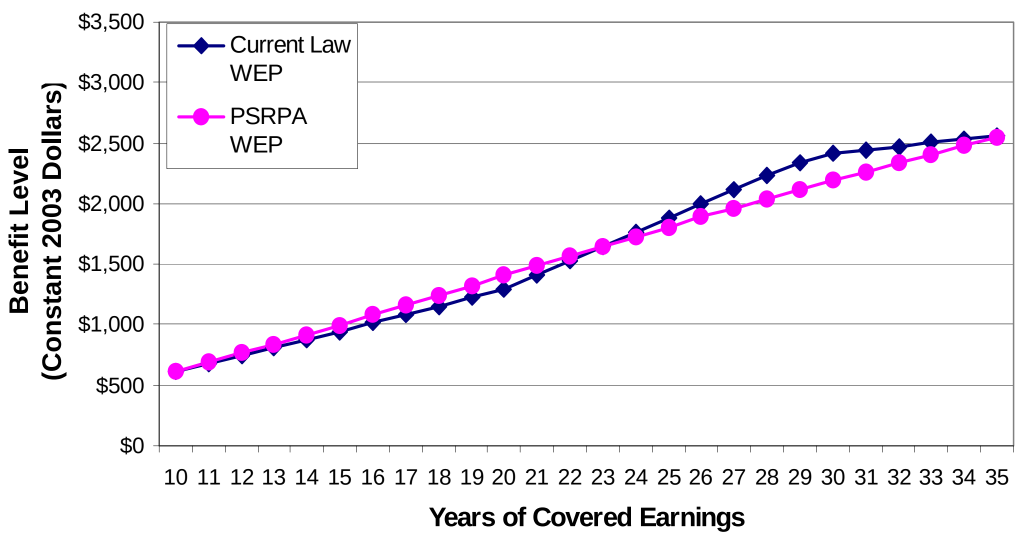


Figure 6. Current-Law WEP and PSRPA WEP Maximum-Wage Earner

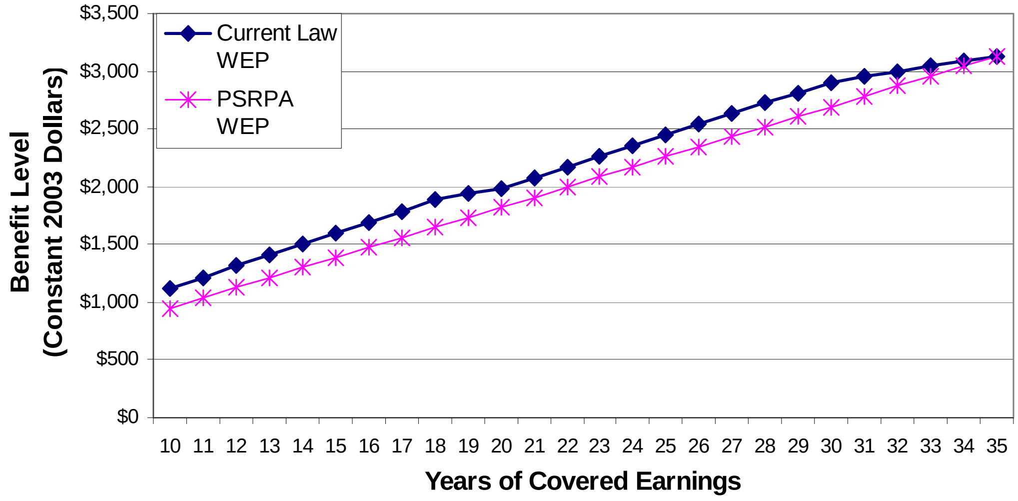
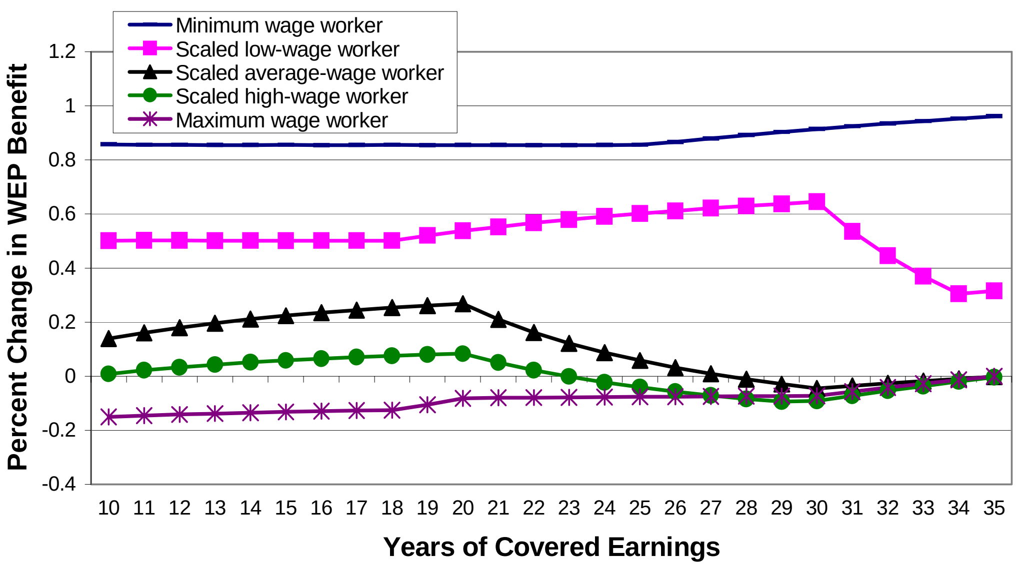


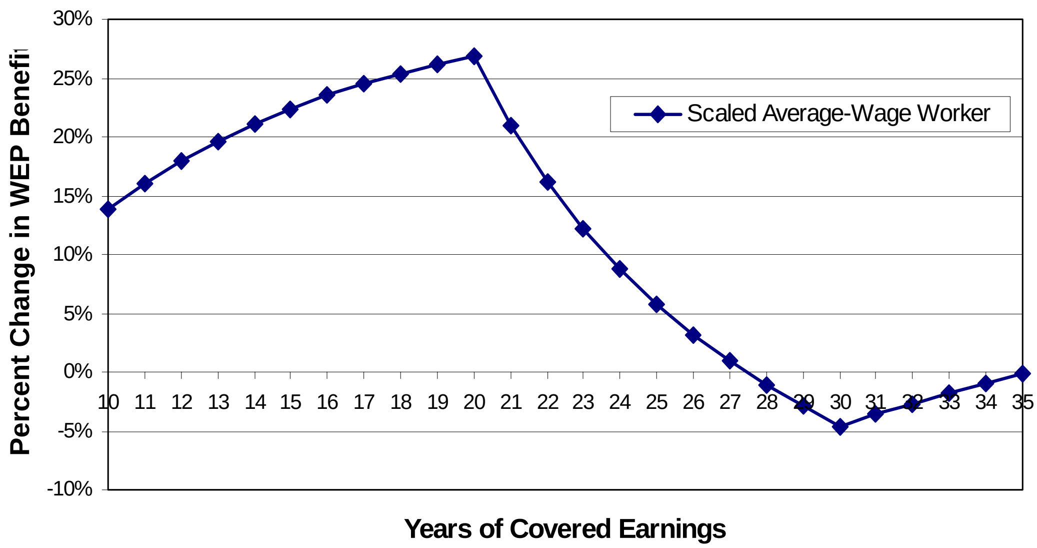
Figure 7. Percent Change in WEP Benefit Under PSRPA Compared to Current-Law, by Earnings Level



Number of Years of Covered Earnings. Under the PSRPA, the key determinant of the new proportional benefit amount is the percentage of the highest 35 years of covered and non-covered earnings that can be attributed to covered work — the higher the value of covered earnings to career earnings, the larger the benefit under the PSRPA. In order to separate out the effect of the number of years of covered earnings, we examined workers with identical earnings histories, but with different numbers of years of covered earnings. For example, **Figure 8** highlights how the percent change in benefit level for a scaled average-wage worker who has covered earnings at the end of his career varies by the number of years of coverage.[10]

As seen in **Figure 8**, the average-wage worker who has between 10 and 20 years of covered earnings experiences a large percent increase in Social Security benefit level compared to the current-law WEP. The current-law WEP formula limits the first PIA formula factor to 40% (instead of 90% for regular workers) no matter how many additional "years of coverage" a worker earns between 10 and 20. With the PSRPA PIA, workers would receive an increase in benefit proportional to the increase in their earnings for each year of additional covered earnings.

Figure 8. Percent Change in WEP Benefit Under PSRPA Compared to Current-Law, by Years of Covered Earnings



For those workers with 21 to 29 years of covered earnings, the percent increase in benefit under the PSRPA declines for each year of covered earnings gained. Again, this pattern is due to the current-law WEP formula. Under the current-law WEP, the first formula factor in the PIA increases by 5% for each additional "year of coverage" at the same time the current-law AIME increases as a result of additional covered earnings. For the average-wage worker, the percent increase in the covered AIME per year of coverage (the base of growth for the PSRPA) doesn't keep pace with the 5% increase in the first PIA formula factor (the base of growth for the current-law WEP). Thus, for the average-wage worker, the current-law WEP provides a higher benefit than the PSRPA would once covered earnings exceed 27.5 years.

Relative to current-law, individuals who work 30 to 34 years of covered earnings would experience the largest percent decrease in their Social Security benefits. Under current-law, individuals who work 30 or more years in covered

[10] For scaled average-wage workers, a year of covered earnings equals a "year of coverage" under the current-law WEP.

employment are exempt from any reduction in benefits under the WEP because their benefits are calculated using the regular PIA formula with the 90% formula factor. Under the new PSRPA, these individuals would now be affected by the proportional WEP PIA.

Individuals who work for 35 years in covered employment at the end of their careers would experience neither an increase nor a decrease in benefit levels. Under current-law these individuals would be exempt from the WEP PIA formula. Under the PSRPA PIA formula, these individuals are still exempt from the proportional WEP reduction because their AIME based on covered work is equal to the AIME based on all earnings. Because the AIME takes the highest 35 years of earnings, and in both cases the highest 35 years are covered earnings from the end of the career, the AIME's are equal and the 35 year covered worker receives a PIA identical to what he would have received under the current-law WEP PIA.

Assumptions and Methodology

The results presented in this report were calculated using the intermediate (Alternative II) assumptions of the 2003 Social Security Trustees Report. All dollar figures are in constant 2003 dollars. In each scenario, the worker is born in 1984, begins work at age 21 in 2005, and retires at the full retirement age of 67 in 2051. As a result, our example worker has a career of 46 years. We provide estimates for minimum-wage workers, scaled low-wage workers, scaled average-wage workers, scaled high-wage workers and maximum-wage workers, as defined by the Social Security Office of the Chief Actuary.[11] It is assumed that they follow typical lifetime earnings patterns that would produce a Social Security benefit equivalent to that of workers with career earnings of either: (1) a "low"wage (45% of a wage equal to Social Security's "average wage series);" (2) an "average wage"(a wage equal to Social Security's "average wage series);" (3) a "high" wage (160% of a wage equal to Social Security's "average wage series);" or (4) the maximum wage creditable under Social Security. The scenarios provided show individuals with between 10 and 35 years of covered earnings. These scenarios are for illustration only and are not meant to fully represent every possible scenario that actual workers may experience. For example, by relying on stylized workers, we have assumed no gaps in employment. Furthermore, the CRS case-simulation model does not contain information on the estimated level of non-covered pension each type of worker could be expected to receive upon retirement. Therefore, we are unable to model the provision of the current-law WEP that would limit the reduction in Social Security benefits to 50% of the non-covered pension amount. The output for each scenario includes information on the PIA based on all earnings, the PSRPA PIA, the current-law WEP PIA, and the percent increase or decrease under the PSRPA compared to current-law.

[11] Social Security Administration, Office of the Actuary, *Internal Rates of Return Under the OASDI Program for Hypothetical Workers*, Actuarial Note no. 144, June 2001. The pattern in these "scaled" earnings histories shows relatively low earnings at the beginning of the career, fairly rapid growth through the middle of the career, and a gradual tapering off of earnings at the end of the career.

Appendix: Benefit Amounts Under Current-Law and PSRPA by Earnings Level and Years of Social Security Covered Earnings

Table 5. Minimum-Wage Worker

(All benefit amounts in constant 2003 dollars)

Years of Covered Earnings	PIA Based on All Earnings	Current-Law WEP-PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	$966.17	$158.10	$293.71	86%
11	$966.17	$172.76	$320.59	86%
12	$966.17	$187.17	$347.47	86%
13	$966.17	$201.84	$374.35	85%
14	$966.17	$216.25	$401.23	86%
15	$966.17	$230.67	$428.11	86%
16	$966.17	$245.33	$454.99	85%
17	$966.17	$259.75	$481.87	86%
18	$966.17	$274.16	$508.74	86%
19	$966.17	$288.83	$535.62	85%
20	$966.17	$303.24	$526.50	85%
21	$966.17	$317.66	$589.38	86%
22	$966.17	$332.32	$616.26	85%
23	$966.17	$346.98	$643.38	85%
24	$966.17	$361.40	$670.51	86%
25	$966.17	$375.82	$697.38	86%
26	$966.17	$388.03	$724.26	87%
27	$966.17	$399.76	$751.14	88%
28	$966.17	$411.25	$778.02	89%
29	$966.17	$422.98	$804.90	90%
30	$966.17	$434.46	$831.78	91%
31	$966.17	$446.19	$858.66	92%
32	$966.17	$457.67	$885.54	93%
33	$966.17	$469.40	$912.42	94%
34	$966.17	$480.89	$939.29	95%
35	$966.17	$492.62	$966.17	96%

Source: Congressional Research Service (CRS) calculations.

Notes: Assumes a worker is born in 1984, begins work at age 21 in 2005, and retires at the full retirement age of 67 in 2051. This scenario is for illustration only and is not meant to fully represent every possible scenario that actual workers may experience. For example, by relying on stylized workers, we have assumed no gaps in employment. This scenario focuses on workers with between 10 and 35 years of covered earnings because a worker generally needs 40 quarters of coverage (10 years) to qualify for Social Security benefits and the highest 35 years of earnings are generally used in calculating Social Security benefits. These estimates do not include the current-law WEP provision that would limit the reduction in Social Security benefits to 50% of the non-covered pension amount.

Table 6. Scaled Low-Wage Worker

(All benefit amounts in constant 2003 dollars)

Years of Covered Earnings	PIA Based on All Earnings	Current-Law WEP PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	$1,176.32	$189.37	$284.18	50%
11	$1,176.32	$211.12	$317.17	50%
12	$1,176.32	$233.60	$350.89	50%
13	$1,176.32	$257.06	$385.83	50%
14	$1,176.32	$280.76	$421.51	50%
15	$1,176.32	$304.95	$457.67	50%
16	$1,176.32	$329.14	$494.33	50%
17	$1,176.32	$353.82	$531.47	50%
18	$1,176.32	$378.75	$568.61	50%
19	$1,176.32	$398.78	$606.24	52%
20	$1,176.32	$418.82	$643.87	54%
21	$1,176.32	$438.86	$681.26	55%
22	$1,176.32	$458.65	$718.64	57%
23	$1,176.32	$478.44	$755.54	58%
24	$1,176.32	$497.99	$792.44	59%
25	$1,176.32	$517.54	$829.09	60%
26	$1,176.32	$536.84	$865.26	61%
27	$1,176.32	$555.66	$900.93	62%
28	$1,176.32	$574.47	$935.87	63%
29	$1,176.32	$593.05	$970.82	64%
30	$1,176.32	$611.13	$1,005.03	64%
31	$1,176.32	$676.61	$1,038.75	54%
32	$1,176.32	$741.61	$1,071.98	45%
33	$1,176.32	$806.61	$1,104.72	37%
34	$1,176.32	$870.88	$1,136.49	30%
35	$1,176.32	$887.49	$1,167.77	32%

Source: Congressional Research Service (CRS) calculations.

Notes: Assumes a worker is born in 1984, begins work at age 21 in 2005, and retires at the full retirement age of 67 in 2051. It is assumed that the "low" wage worker follows a typical lifetime earnings pattern that would produce a Social Security benefit equivalent to that of workers with career earnings equal to 45% of Social Security's "average wage" series. This scenario is for illustration only and is not meant to fully represent every possible scenario that actual workers may experience. For example, by relying on stylized workers, we have assumed no gaps in employment. This scenario focuses on workers with between 10 and 35 years of covered earnings because a worker generally needs 40 quarters of coverage (10 years) to qualify for Social Security benefits and the highest 35 years of earnings are generally used in calculating Social Security benefits. These estimates do not include the current-law WEP provision that would limit the reduction in Social Security benefits to 50% of the non-covered pension amount.

Table 7. Scaled Average-Wage Worker

(All benefit amounts in constant 2003 dollars)

Years of Covered Earnings	PIA Dased on All Earnings	Current-Law WEP PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	$1,943.10	$412.47	$469.65	14%
11	$1,943.10	$451.57	$523.89	16%
12	$1,943.10	$491.88	$580.10	18%
13	$1,943.10	$533.18	$637.76	20%
14	$1,943.10	$575.21	$696.41	21%
15	$1,943.10	$618.21	$756.27	22%
16	$1,943.10	$661.46	$816.87	23%
17	$1,943.10	$705.45	$877.96	24%
18	$1,943.10	$749.68	$939.78	25%
19	$1,943.10	$794.15	$1,001.60	26%
20	$1,943.10	$838.62	$1,063.67	27%
21	$1,943.10	$930.50	$1,125.49	21%
22	$1,943.10	$1,021.89	$1,187.07	16%
23	$1,943.10	$1,113.27	$1,248.40	12%
24	$1,943.10	$1,204.42	$1,309.25	9%
25	$1,943.10	$1,294.83	$1,369.60	6%
26	$1,943.10	$1,385.24	$1,429.47	3%
27	$1,943.10	$1,474.67	$1,488.11	1%
28	$1,943.10	$1,563.62	$1,546.27	-1%
29	$1,943.10	$1,652.32	$1,603.69	-3%
30	$1,943.10	$1,740.29	$1,660.14	-5%
31	$1,943.10	$1,780.11	$1,715.85	-4%
32	$1,943.10	$1,819.46	$1,770.83	-3%
33	$1,943.10	$1,858.06	$1,824.59	-2%
34	$1,943.10	$1,896.18	$1,877.61	-1%
35	$1,943.10	$1,933.08	$1,929.17	-0%

Source: Congressional Research Service (CRS) calculations.

Notes: Assumes a worker is born in 1984, begins work at age 21 in 2005, and retires at the full retirement age of 67 in 2051. It is assumed that the "average" wage worker follows a typical lifetime earnings pattern that would produce a Social Security benefit equivalent to that of workers with career earnings equal to Social Security's "average wage" series. This scenario is for illustration only and is not meant to fully represent every possible scenario that actual workers may experience. For example, by relying on stylized workers, we have assumed no gaps in employment. This scenario focuses on workers with between 10 and 35 years of covered earnings because a worker generally needs 40 quarters of coverage (10 years) to qualify for Social Security benefits and the highest 35 years of earnings are generally used in calculating Social Security benefits. These estimates do not include the current-law WEP provision that would limit the reduction in Social Security benefits to 50% of the non-covered pension amount.

Table 8. Scaled High-Wage Worker

(All benefit amounts in constant 2003 dollars)

Years of Covered Earnings	PIA Based on All Earnings	Current-Law WEP PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	$2,565.71	$614.79	$620.17	1%
11	$2,565.71	$676.86	$691.76	2%
12	$2,565.71	$741.61	$765.80	3%
13	$2,565.71	$807.59	$842.04	4%
14	$2,565.71	$875.03	$919.75	5%
15	$2,565.71	$943.69	$998.43	6%
16	$2,565.71	$1,013.09	$1,078.58	6%
17	$2,565.71	$1,083.22	$1,159.21	7%
18	$2,565.71	$1,154.08	$1,240.58	7%
19	$2,565.71	$1,225.19	$1,322.44	8%
20	$2,565.71	$1,296.54	$1,404.30	8%
21	$2,565.71	$1,414.81	$1,486.16	5%
22	$2,565.71	$1,533.07	$1,567.53	2%
23	$2,565.71	$1,650.61	$1,648.41	-0%
24	$2,565.71	$1,767.90	$1,728.56	-2%
25	$2,565.71	$1,884.45	$1,808.22	-4%
26	$2,565.71	$2,000.52	$1,887.14	-6%
27	$2,565.71	$2,115.12	$1,964.85	-7%
28	$2,565.71	$2,229.24	$2,041.57	-8%
29	$2,565.71	$2,335.77	$2,117.32	-9%
30	$2,565.71	$2,413.48	$2,192.09	-9%
31	$2,565.71	$2,443.53	$2,265.65	-7%
32	$2,565.71	$2,473.10	$2,338.22	-5%
33	$2,565.71	$2,501.94	$2,409.33	-4%
34	$2,565.71	$2,530.52	$2,478.97	-2%
35	$2,565.71	$2,558.14	$2,547.14	-0%

Source: Congressional Research Service (CRS) calculations.

Notes: Assumes a worker is born in 1984, begins work at age 21 in 2005, and retires at the full retirement age of 67 in 2051. It is assumed that the “high” wage worker follows a typical lifetime earnings pattern that would produce a Social Security benefit equivalent to that of workers with career earnings equal to 160% of Social Security’s “average wage” series. This scenario is for illustration only and is not meant to fully represent every possible scenario that actual workers may experience. For example, by relying on stylized workers, we have assumed no gaps in employment. This scenario focuses on workers with between 10 and 35 years of covered earnings because a worker generally needs 40 quarters of coverage (10 years) to qualify for Social Security benefits and the highest 35 years of earnings are generally used in calculating Social Security benefits. These estimates do not include the current-law WEP provision that would limit the reduction in Social Security benefits to 50% of the non-covered pension amount.

Table 9. Maximum-Wage Worker

(All benefit amounts in constant 2003 dollars)

Years of Covered Earnings	PIAbased on All Earnings	Current-Law WEP PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	$3,131.15	$1,120.12	$951.51	-15%
11	$3,131.15	$1,215.90	$1,038.75	-15%
12	$3,131.15	$1,311.20	$1,125.74	-14%
13	$3,131.15	$1,406.99	$1,212.73	-14%
14	$3,131.15	$1,502.53	$1,299.96	-13%
15	$3,131.15	$1,597.83	$1,386.95	-13%
16	$3,131.15	$1,693.61	$1,474.18	-13%
17	$3,131.15	$1,789.16	$1,561.17	-13%
18	$3,131.15	$1,884.70	$1,648.16	-13%
19	$3,131.15	$1,939.43	$1,735.15	-11%
20	$3,131.15	$1,984.15	$1,822.39	-8%
21	$3,131.15	$2,076.52	$1,909.62	-8%
22	$3,131.15	$2,168.64	$1,996.86	-8%
23	$3,131.15	$2,260.76	$2,083.85	-8%
24	$3,131.15	$2,352.88	$2,171.08	-8%
25	$3,131.15	$2,445.25	$2,258.31	-8%
26	$3,131.15	$2,537.61	$2,345.55	-8%
27	$3,131.15	$2,629.73	$2,432.78	-7%
28	$3,131.15	$2,722.10	$2,520.02	-7%
29	$3,131.15	$2,814.22	$2,607.01	-7%
30	$3,131.15	$2,906.34	$2,694.24	-7%
31	$3,131.15	$2,951.30	$2,781.72	-6%
32	$3,131.15	$2,996.26	$2,868.95	-4%
33	$3,131.15	$3,041.22	$2,956.19	-3%
34	$3,131.15	$3,085.94	$3,043.42	-1%
35	$3,131.15	$3,130.90	$3,130.41	-0%

Source: Congressional Research Service (CRS) calculations.

Notes: Assumes a worker is born in 1984, begins work at age 21 in 2005, and retires at the full retirement age of 67 in 2051. It is assumed that the "maximum" wage worker follows a typical lifetime earnings pattern that would produce a Social Security benefit equivalent to that of workers with career earnings equal to the maximum wage creditable under Social Security. This scenario is for illustration only and is not meant to fully represent every possible scenario that actual workers may experience. For example, by relying on stylized workers, we have assumed no gaps in employment. This scenario focuses on workers with between 10 and 35 years of covered earnings because a worker generally needs 40 quarters of coverage (10 years) to qualify for Social Security benefits and the highest 35 years of earnings are generally used in calculating Social Security benefits. These estimates do not include the current-law WEP provision that would limit the reduction in Social Security benefits to 50% of the non-covered pension amount