SOCIAL SECURITY
Office of the Chief Actuary

October 4, 2018

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. 6933, the "Equal Treatment of Public Servants Act of 2018," which you introduced on September 27, 2018 with Ranking Member Neal. This Bill would generally replace the windfall elimination provision (WEP) with a new formula that you have referred to as the "Public Servant Fairness Formula" (PSF) for individuals becoming eligible for OASDI benefits in 2025 or later. The proposal would also provide for a rebate payment starting in 2020 for individuals affected by the current WEP. Our analysis and 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 balance of this letter provides our understanding of the intent of the sections of the Bill with direct effects on Social Security program cost, followed by estimates of the OASDI program cost effects assuming enactment of the Bill. Over the period 2019 through 2028, we estimate the net program cost for the OASDI program would be increased by about $25.0 billion. Over the long-range 75-year period, we estimate that enactment of the Bill would increase (improve) the OASDI actuarial balance by 0.04 percent of taxable payroll. All estimates reflect the intermediate assumptions of the 2018 Trustees Report.

Bill Specifications

The proposal reflects your prior bills in concept, replacing the current complex WEP with a more straightforward approach. The PSF provides retired-worker and disabled-worker beneficiaries (and their dependents) with a modified benefit computed reflecting all past earnings (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. As with OASDI covered earnings, potential beneficiaries would be asked to review the non-covered earnings we have in our records so that they would have the opportunity to make corrections. Another way to describe the new PSF 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 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 in 2025 or later, 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. However, because SSA does not have foreign earnings in workers' records, the PSF would not apply for disabled-worker and retired-worker beneficiaries who are entitled to receive periodic payments based on foreign employment not covered under a totalization agreement. Instead, the current WEP would be utilized for such beneficiaries, with regard to any periodic payments received based on the foreign and/or any domestic non-covered earnings.

For retired or disabled workers and their auxiliary beneficiaries who receive a Social Security benefit after December 2019 that is reduced by the current-law WEP, a monthly rebate will be paid starting in January 2020. The amount of the rebate will be $100 for each month of benefit entitlement affected by the WEP in 2020 for retired-worker and disabled-worker beneficiaries, and will be $50 for each month of benefit entitlement affected by the WEP in 2020 for spouse and child auxiliary beneficiaries. The level of rebate amounts for months of entitlement affected by the WEP in years after 2020 will be increased by the annual cost of living adjustments.

The rebate amount would not be subject to benefit adjustments, such as for the GPO, RET, early/late claiming, and dual entitlement. Further specifications relating to the rebate include: (1) individuals whose benefits are offset (to zero) due to the government pension offset (GPO), retirement earnings test (RET), workers' compensation (WC) offset, family maximum, etc. still receive a rebate; (2) if a worker's benefit is suspended, then a spouse or child in receipt of an auxiliary benefit on the worker's account would still receive the rebate; (3) individuals whose benefits are suspended due to incarceration or return to work would not receive the rebate; and (4) individuals with an outstanding overpayment would be eligible for the rebate but would have it withheld to help repay the overpayment

OASDI Program Cost Effects

The proposal will result in added program cost for workers newly eligible for an OASDI benefit after 2024 whose benefit amount would be reduced less by the PSF than by the WEP. However, because the PSF 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 2024, 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 $1.4 billion total for calendar years 2019 through 2028 for those newly eligible for OASDI benefits after 2024 who are affected by the PSF. The cost for the rebate applied for beneficiaries affected by the WEP in 2019 through 2028 is estimated to be $26.4 billion. Over the long-range period, the net effect of the proposal on the 75-year actuarial balance would be an increase (improvement) of 0.04 percent of payroll. Table 1, attached, indicates that the net effect of the changes in the Bill would reduce (worsen) annual balances for the OASDI program through 2032 and increase (improve) annual balances in all years thereafter.

The implications of the proposal would change over the long-range period. Eventually, the group affected by the proposal will be limited principally to the roughly 25 percent of all state and local government employees with earnings that are not covered by OASDI, because the closed group of Federal government employees whose earnings are not covered by OASDI were all hired before 1984.

Our estimates for the proposal reflect extensive innovative analysis of data for individuals born in 1950 with experience through May of 2018, including SSA records of earnings not covered by OASDI back to 1978, with adjustments for over-recording of non-covered earnings for years 1978 through 1981. This analysis has allowed us to model the potential effect of the proposal for 2018 as if it were fully in effect for all retired and disabled workers at that time. Based on these results, we are able to model the expected effects of the PSF for benefit payments starting in 2025.

Effects of the Proposal on Beneficiaries Becoming Newly Eligible after 2024

In order to meaningfully illustrate the effects of the new PSF on workers who will become eligible starting in 2025 under this proposal, we provide here estimates of the effects of the PSF for all current beneficiaries in 2018, assuming the new approach were fully phased in and had applied for them since their initial benefit eligibility.

If applied to them, the PSF formula would affect the benefits of roughly 1.6 million retired-worker and disabled-worker beneficiaries in 2018 whose primary benefit is reduced under the current WEP. About 1.1 million (about 69 percent) of these beneficiaries would receive a ***higher*** average benefit (on average, $74 higher) with application of the PSF. Under the PSF, this group would receive an average benefit of $548, while under the current WEP their average benefit is $474. The remaining 0.5 million (about 31 percent) of these beneficiaries would receive a ***lower*** average benefit (on average, $55 lower) with application of the PSF. For these beneficiaries, the PSF would provide an average benefit of $588, while under the current WEP their average benefit is $643.

For 2018, we estimate that there are roughly 18 million retired-worker and disabled-worker beneficiaries with some non-covered earnings who are not reduced under the current WEP (assuming adjustments for erroneous recording of non-covered earnings for some workers in years 1978 through 1981). Again, we illustrate how this group would be affected if the new PSF had been in effect for them since their initial benefit eligibility. We estimate that for about 4.5 million (about 25 percent) of these beneficiaries in 2018, the new PSF would not change their primary benefit. For the other 13.5 million beneficiaries, the average benefit under the PSF would be $1,453 per month (about $29 less than would be payable under current law). For the half of this 18 million that would be least affected by the PSF, the average primary benefit under the PSF would be $1,487, less than $1 per month below the level payable under current law. For the half that would be most affected by the PSF, the average benefit under the PSF would be $1,402 (about $43 lower than their average benefit payable under current law). About 52 percent of the 18 million, or roughly 9 million beneficiaries, qualify now for exemption from the current WEP because they have 30 or more years of substantial OASDI covered earnings. Because these 9 million retired-worker or disabled-worker beneficiaries have relatively few years of non-covered earnings, their reduction under the new approach would be relatively small if the PSF were applicable for them. In addition, more than 75 percent of these 18 million workers have fewer than 5 years with any non-covered earnings.

We hope these estimates will be helpful. Please let us know if we may provide further assistance.

Sincerely,

Stephen C. Goss

Stephen C. Goss, ASA, MAAA
Chief Actuary

Enclosure

Table 1 - OASDI Cost Rate, Income Rate, Annual Balance, and Trust Fund Ratio
H.R.6933, the "Equal Treatment of Public Servants Act of 2018"

	Proposal (Expressed as a percentage of present-law taxable payroll)				Change from Present Law (Expressed as a percentage of present-law taxable payroll)		
Year	**Cost Rate**	**Income Rate**	**Annual Balance**	**Trust Fund Ratio 1-1-year**	**Cost Rate**	**Income Rate**	**Annual Balance**
2018	13.81	12.64	-1.17	288	0.00	0.00	0.00
2019	13.95	12.87	-1.08	272	0.00	0.00	0.00
2020	14.16	12.89	-1.26	255	0.03	0.00	-0.03
2021	14.30	12.92	-1.38	239	0.03	0.00	-0.03
2022	14.47	12.95	-1.52	222	0.03	0.00	-0.03
2023	14.65	12.97	-1.68	205	0.03	0.00	-0.03
2024	14.83	13.00	-1.84	187	0.03	0.00	-0.03
2025	15.01	13.01	-2.00	170	0.03	0.00	-0.03
2026	15.19	13.13	-2.05	153	0.03	0.00	-0.03
2027	15.39	13.15	-2.23	136	0.03	0.00	-0.02
2028	15.61	13.17	-2.43	119	0.02	0.00	-0.02
2029	15.81	13.19	-2.62	102	0.02	0.00	-0.02
2030	16.00	13.20	-2.80	85	0.02	0.00	-0.01
2031	16.17	13.22	-2.95	67	0.01	0.00	-0.01
2032	16.32	13.23	-3.10	50	0.01	0.00	-0.01
2033	16.45	13.24	-3.22	31	0.00	0.00	-0.00
2034	16.56	13.25	-3.32	12	-0.00	-0.00	0.00
2035	16.64	13.25	-3.39	----	-0.01	-0.00	0.01
2036	16.71	13.26	-3.45	----	-0.01	-0.00	0.01
2037	16.77	13.27	-3.50	----	-0.02	-0.00	0.02
2038	16.80	13.27	-3.53	----	-0.02	-0.00	0.02
2039	16.81	13.27	-3.54	----	-0.02	-0.00	0.02
2040	16.80	13.27	-3.53	----	-0.03	-0.00	0.03
2041	16.78	13.27	-3.51	----	-0.03	-0.00	0.03
2042	16.74	13.27	-3.47	----	-0.04	-0.00	0.03
2043	16.70	13.27	-3.43	----	-0.04	-0.00	0.04
2044	16.65	13.27	-3.38	----	-0.04	-0.00	0.04
2045	16.61	13.27	-3.35	----	-0.05	-0.00	0.04
2046	16.58	13.27	-3.31	----	-0.05	-0.00	0.05
2047	16.55	13.27	-3.28	----	-0.05	-0.00	0.05
2048	16.52	13.26	-3.26	----	-0.06	-0.00	0.05
2049	16.50	13.26	-3.23	----	-0.06	-0.00	0.06
2050	16.48	13.26	-3.22	----	-0.06	-0.00	0.06
2051	16.47	13.26	-3.20	----	-0.06	-0.00	0.06
2052	16.47	13.27	-3.20	----	-0.07	-0.00	0.06
2053	16.47	13.27	-3.21	----	-0.07	-0.00	0.07
2054	16.49	13.27	-3.22	----	-0.07	-0.00	0.07
2055	16.52	13.27	-3.24	----	-0.07	-0.00	0.07
2056	16.55	13.27	-3.27	----	-0.08	-0.00	0.07
2057	16.59	13.28	-3.31	----	-0.08	-0.00	0.07
2058	16.63	13.28	-3.35	----	-0.08	-0.00	0.07
2059	16.68	13.29	-3.39	----	-0.08	-0.00	0.08
2060	16.73	13.29	-3.44	----	-0.08	-0.00	0.08
2061	16.78	13.29	-3.48	----	-0.08	-0.00	0.08
2062	16.83	13.30	-3.53	----	-0.08	-0.00	0.08
2063	16.88	13.30	-3.58	----	-0.09	-0.00	0.08
2064	16.93	13.31	-3.62	----	-0.09	-0.00	0.08
2065	16.98	13.31	-3.67	----	-0.09	-0.00	0.08
2066	17.04	13.31	-3.72	----	-0.09	-0.00	0.08
2067	17.10	13.32	-3.78	----	-0.09	-0.00	0.08
2068	17.15	13.32	-3.83	----	-0.09	-0.00	0.08
2069	17.22	13.33	-3.89	----	-0.09	-0.00	0.08
2070	17.28	13.33	-3.95	----	-0.09	-0.01	0.08
2071	17.33	13.33	-4.00	----	-0.09	-0.01	0.08
2072	17.38	13.34	-4.04	----	-0.09	-0.01	0.08
2073	17.42	13.34	-4.08	----	-0.09	-0.01	0.08
2074	17.46	13.34	-4.12	----	-0.09	-0.01	0.09
2075	17.50	13.35	-4.15	----	-0.09	-0.01	0.09
2076	17.52	13.35	-4.17	----	-0.09	-0.01	0.09
2077	17.53	13.35	-4.18	----	-0.09	-0.01	0.09
2078	17.54	13.35	-4.18	----	-0.09	-0.01	0.09
2079	17.53	13.35	-4.18	----	-0.09	-0.01	0.09
2080	17.51	13.35	-4.16	----	-0.09	-0.01	0.09
2081	17.50	13.35	-4.15	----	-0.09	-0.01	0.09
2082	17.48	13.35	-4.13	----	-0.09	-0.01	0.09
2083	17.46	13.35	-4.12	----	-0.09	-0.01	0.09
2084	17.45	13.35	-4.10	----	-0.09	-0.01	0.09
2085	17.44	13.35	-4.09	----	-0.09	-0.01	0.09
2086	17.44	13.35	-4.09	----	-0.09	-0.01	0.09
2087	17.44	13.35	-4.10	----	-0.09	-0.01	0.09
2088	17.45	13.35	-4.11	----	-0.09	-0.01	0.09
2089	17.48	13.35	-4.13	----	-0.09	-0.01	0.09
2090	17.51	13.35	-4.16	----	-0.09	-0.01	0.09
2091	17.54	13.35	-4.19	----	-0.09	-0.01	0.09
2092	17.59	13.36	-4.23	----	-0.09	-0.01	0.09
2093	17.63	13.36	-4.27	----	-0.09	-0.01	0.09

Summarized Rates: OASDI

	Cost Rate	Income Rate	Actuarial Balance	Year of reserve depletion[1]
2018 - 2092	16.64%	13.84%	-2.80%	2034

Summarized Rates: OASDI

Change in Cost rate	Change in Income Rate	Change in Actuarial Balance
-0.04%	-0.00%	0.04%

Office of the Chief Actuary
Social Security Administration
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Based on Intermediate Assumptions of the 2018 Trustees Report.

[1] Under present law the year of combined Trust Fund reserve depletion is 2034.