CRS Report for Congress

Social Security: The Public Servant Retirement Protection Act (H.R. 2772/S. 1647)

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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 2006, approximately 971,300 beneficiaries (approximately 2% of the entire beneficiary population at that time) had their benefits reduced as a result of the current-law WEP.

On June 19, 2007, Representative Kevin Brady introduced H.R. 2772, 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 June 19, 2007, Senator Kay Bailey Hutchison introduced the sister bill, S. 1647. 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 Social Security 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 certain Social Security benefits of workers who also have pension benefits from employment not covered by Social Security. On June 19, 2007, Representative Kevin Brady introduced H.R. 2772, 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 June 19, 2007, Senator Kay Bailey Hutchison introduced the sister bill, S. 1647. 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.[1] 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 eight months in 2007). The PIA formula applies three progressive factors — 90%, 32%, and 15% — to three different levels, or brackets, of a worker's average indexed

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[1] The WEP is sometimes confused with the Government Pension Offset (GPO), which reduces the Social Security *spousal* benefits of individuals who receive a pension from employment not covered by Social Security. For more information on the GPO, please see CRS Report RL32453, "Social Security: The Government Pension Offset (GPO)" by Laura Haltzel.

monthly covered earnings (AIME).[2] In 2007, for those who reach age 62 or who become disabled, the PIA formula is

>   90% of the first $680 of the AIME, *PLUS*
>   32% of the AIME between $680 and $4,100, *PLUS*
>   15% of the AIME exceeding $4,100.

Under current-law, this regular PIA formula is modified for those receiving pensions from non-Social Security covered employment by adjusting the 90% factor 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).[3] 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

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[2] 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 for a retired worker, 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.

[3] 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 2007, the "old-law" taxable wage base is equal to $72,600 and, thus, to earn credit for one "year of coverage" under the WEP, a worker would have to earn at least $18,150 in Social Security-covered employment.

a worker with average earnings.[4] In no case can the reduction in benefits under the WEP exceed more than half of the pension based on non-covered work.

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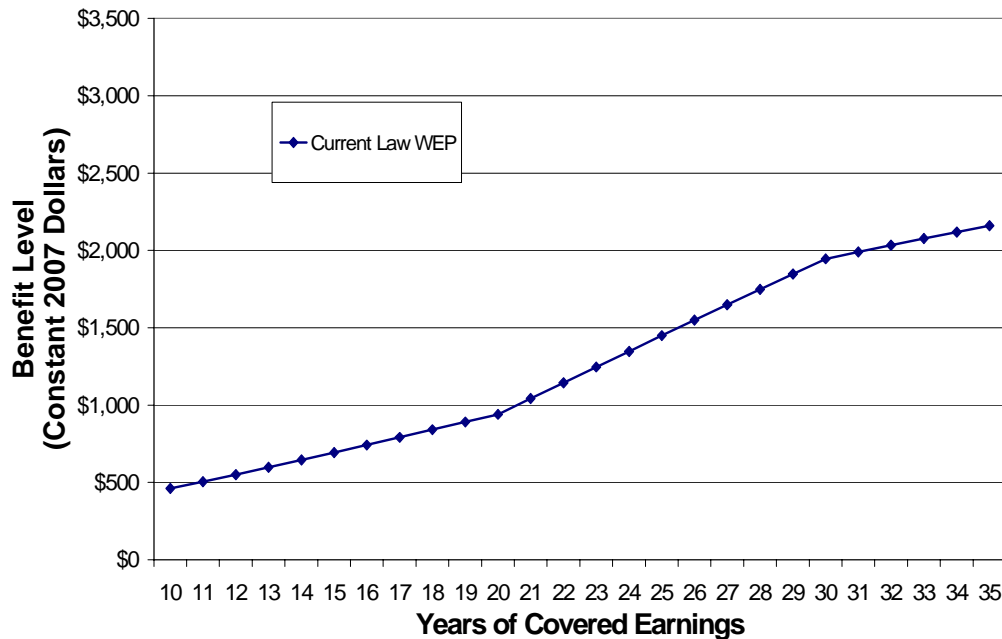
Rationale

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 spend their working years in low paying jobs relative to those who have high earnings. However, the regular formula cannot differentiate between those who work their whole lives in low-paying jobs and those who simply appear to be low paid because they work 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

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[4] A "year of coverage" should not be confused with a "year of covered earnings." In 2007, to earn credit for one "year of coverage" under the WEP, a worker would have to earn at least $18,150 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 2007, a minimum-wage worker in Social Security covered-employment would earn $10,712. Although 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 that requires a worker to earn at least $18,150 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."

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 29% of current state and local government employees. The latest available information on the Social Security coverage of state and local workers is for the year 2005. Nationwide, approximately 71% of state and local government employees are covered.[5] 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.[6] **Table 1** provides a breakdown of Social Security covered and non-covered employees by state.

Table 1. Estimated Social Security Coverage of Workers with State and Local Government Employment, 2005
(in thousands)

State	All Workers[a]	Covered Workers	Non-Covered Workers	Percent Non-Covered
Alabama	377	350	27	7%
Alaska	86	41	45	53%
Arizona	425	383	42	10%
Arkansas	194	172	22	11%
California	2,493	1,045	1,448	58%
Colorado	409	116	293	72%
Connecticut	287	193	94	33%
Delaware	66	62	4	6%
District of Columbia	58	40	18	32%
Florida	1,173	1,011	162	14%
Georgia	694	498	196	28%
Hawaii	129	77	52	40%
Idaho	140	129	11	8%
Illinois	1,021	527	494	48%
Indiana	493	441	52	11%
Iowa	286	254	32	11%
Kansas	286	256	30	10%

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[5] Social Security Administration, *Estimated Social Security Coverage of Workers with State and Local Government Employment, 2005*.

[6] Ibid.

State	All Workers[a]	Covered Workers	Non-Covered Workers	Percent Non-Covered
Kentucky	373	271	102	27%
Louisiana	359	99	260	72%
Maine	127	63	64	50%
Maryland	443	399	44	10%
Massachusetts	457	16	441	97%
Michigan	802	712	90	11%
Minnesota	445	408	37	8%
Mississippi	254	232	22	9%
Missouri	469	340	129	28%
Montana	96	84	12	12%
Nebraska	155	144	11	7%
Nevada	149	33	116	78%
New Hampshire	111	97	14	13%
New Jersey	685	635	50	7%
New Mexico	210	185	25	12%
New York	1,725	1,665	60	3%
North Carolina	698	643	55	8%
North Dakota	75	63	12	16%
Ohio	868	22	846	97%
Oklahoma	305	268	37	12%
Oregon	292	266	26	9%
Pennsylvania	815	742	73	9%
Puerto Rico	291	256	35	12%
Rhode Island	69	57	12	17%
South Carolina	358	338	20	6%
South Dakota	79	72	7	9%
Tennessee	488	440	48	10%
Texas	1,749	827	922	53%
Utah	220	199	21	10%
Vermont	60	59	1	3%
Virginia	650	611	39	6%
Washington	528	468	60	11%
West Virginia	156	140	16	10%
Wisconsin	478	421	57	12%
Wyoming	77	67	10	13%
Other [b]	8	3	5	67%
Total	**23,741**	**16,940**	**6,801**	**29%**

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, although 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.[7] 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.[8]

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 2006, approximately 971,300 beneficiaries (approximately 2% 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.

Table 2. Number of Beneficiaries in Current Payment Status with Benefits Affected by Windfall Elimination Provision (WEP), by State and Type of Benefit, December 2006

State	Total Number of WEP Beneficiaries	Retired Workers	Disabled Workers	Spouses and Children	Percent of All Beneficiaries in the State[a]
Alabama	13,477	11,912	261	1,304	1%
Alaska	4,600	4,270	80	250	7%
Arizona	17,579	15,978	296	1,305	2%
Arkansas	7,788	7,010	200	578	1%
California	120,458	109,715	1,588	9,155	3%
Colorado	27,957	25,669	316	1,972	5%
Connecticut	8,742	8,199	134	409	1%
Delaware	2,191	1,994	52	145	1%
District of Columbia	5,995	5,629	108	258	8%
Florida	56,471	51,346	712	4,413	2%
Georgia	27,497	25,361	380	1,756	2%
Hawaii	6,214	5,580	86	548	3%
Idaho	4,147	3,750	60	337	2%
Illinois	49,565	46,288	506	2,771	3%
Indiana	9,805	8,847	216	742	1%
Iowa	5,712	5,254	64	394	1%
Kansas	6,100	5,564	98	438	1%

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

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

State	Total Number of WEP Beneficiaries	Retired Workers	Disabled Workers	Spouses and Children	Percent of All Beneficiaries in the State[a]
Kentucky	12,283	11,109	268	906	2%
Louisiana	18,299	16,090	443	1,766	3%
Maine	8,644	7,908	143	593	3%
Maryland	30,674	28,247	428	1,999	4%
Massachusetts	32,140	30,165	471	1,504	3%
Michigan	12,139	10,930	221	988	1%
Minnesota	12,114	11,206	133	775	2%
Mississippi	6,624	5,906	146	572	1%
Missouri	20,342	18,832	330	1,180	2%
Montana	3,545	3,188	62	295	2%
Nebraska	3,664	3,376	41	247	1%
Nevada	12,230	11,401	181	648	3%
New Hampshire	4,326	3,959	91	276	2%
New Jersey	14,984	13,621	289	1,074	1%
New Mexico	8,428	7,362	162	904	3%
New York	21,889	19,854	363	1,672	1%
North Carolina	17,855	16,321	300	1,234	1%
North Dakota	1,810	1,641	14	155	2%
Ohio	70,599	64,752	876	4,971	4%
Oklahoma	12,397	11,068	259	1,070	2%
Oregon	9,643	8,788	137	718	2%
Pennsylvania	23,640	21,284	482	1,874	1%
Rhode Island	3,017	2,757	71	189	2%
South Carolina	11,114	10,075	169	870	1%
South Dakota	2,645	2,437	33	175	2%
Tennessee	12,642	11,371	176	1,095	1%
Texas	80,990	73,749	1,054	6,187	3%
Utah	8,556	7,607	124	825	3%
Vermont	1,715	1,559	22	134	1%
Virginia	32,442	29,325	412	2,705	3%
Washington	18,575	16,486	289	1,800	2%
West Virginia	4,305	3,762	105	438	1%
Wisconsin	8,028	7,418	99	511	1%
Wyoming	1,620	1,483	23	114	2%
Outlying areas and	53,094	40,696	484	11,914	7%
Total	**971,310**	**878,099**	**14,058**	**79,153**	**2%**

Source: Social Security Administration, Office of Research, Evaluation and Statistics, May 23, 2007.

a. CRS calculations based on Social Security Administration, Office of Research, Evaluation and Statistics, Congressional Statistics Factsheets, May 2007.

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 35% were women and 65% 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 2006

Gender	Total	Type of Benefit	
		Retired Workers	Disabled Workers
Women	312,955	308,099	4,856
Men	579,202	570,000	9,202
Total	892,157	878,099	14,058

Source: Social Security Administration, Office of Research, Evaluation and Statistics, May 23, 2007.

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 73% of all individuals currently affected by the WEP had 20 or fewer years of coverage and 19% had 21 or more years of coverage, while the information on years of coverage is not available for about 8% of those affected. Thus, for about 73% 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 2006

Years of Coverage	Women	Men	Total	Percent of Total by Years of Coverage
Information Not Available	36,534	36,251	72,785	8.2%
0	3,045	1,334	4,379	0.5%
1	4,525	3,309	7,834	0.9%
2	6,556	5,751	12,307	1.4%
3	8,719	8,389	17,108	1.9%
4	10,791	11,629	22,420	2.5%
5	12,747	15,282	28,029	3.1%
6	14,600	18,940	33,540	3.8%
7	16,191	22,380	38,571	4.3%

Years of Coverage	Women	Men	Total	Percent of Total by Years of Coverage
8	17,858	26,041	43,899	4.9%
9	18,547	29,150	47,697	5.3%
10	18,359	31,383	49,742	5.6%
11	17,290	31,758	49,048	5.5%
12	15,731	29,882	45,613	5.1%
13	13,930	27,550	41,480	4.6%
14	12,413	25,597	38,010	4.3%
15	10,915	23,998	34,913	3.9%
16	9,794	22,308	32,102	3.6%
17	8,891	20,828	29,719	3.3%
18	7,804	19,748	27,552	3.1%
19	6,813	18,616	25,429	2.9%
20	6,169	18,867	25,036	2.8%
21	5,701	19,885	25,586	2.9%
22	4,932	19,034	23,966	2.7%
23	4,548	17,433	21,981	2.5%
24	4,111	15,711	19,822	2.2%
25	3,684	13,834	17,518	2.0%
26	3,419	12,624	16,043	1.8%
27	2,956	11,313	14,269	1.6%
28	2,721	10,179	12,900	1.4%
29	2,625	10,138	12,763	1.4%
30+	36	60	96	0.0%
Total	**312,955**	**579,202**	**892,157**	**100.0%**

Source: Unpublished table, Social Security Administration, Office of Research, Evaluation and Statistics, May 23, 2007.

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 2007, the "old-law" taxable wage base was equal to $72,600 and, thus, to earn credit for one "year of coverage" under the WEP, a worker would have to earn at least $18,150 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:

New PIA = PIA using covered   X   (AIME using highest 35 years covered earnings)
              and non-covered earnings   (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**
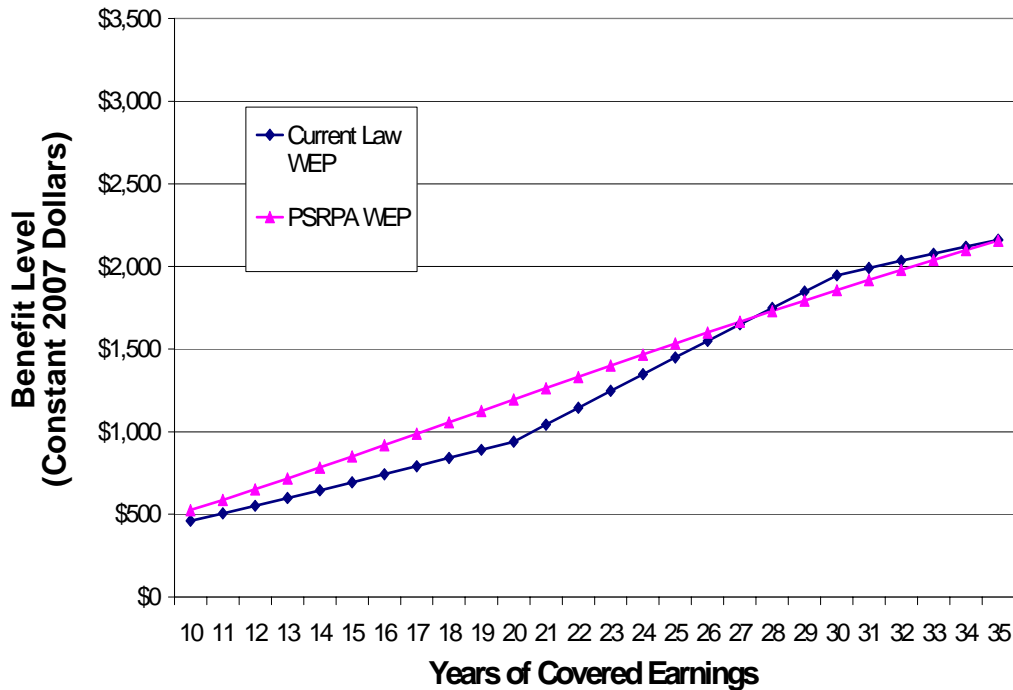
The straight line represents benefits under the PSRPA, while the line with bend points at 20 and 30 years of covered earnings and shifting slopes represents the current-law WEP. The area between these two lines represents the estimated change in benefits between current-law and the PSRPA. Most of the 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.

- On the basis of 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. For these examples, each worker's covered earnings are assumed to fall towards the end of his or her career. 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.[9] These figures illustrate features of the

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[9] 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

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, whereas the PSRPA WEP increases at a constant rate.[10] 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.

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%.

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[9] (...continued)
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.

[10] 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.

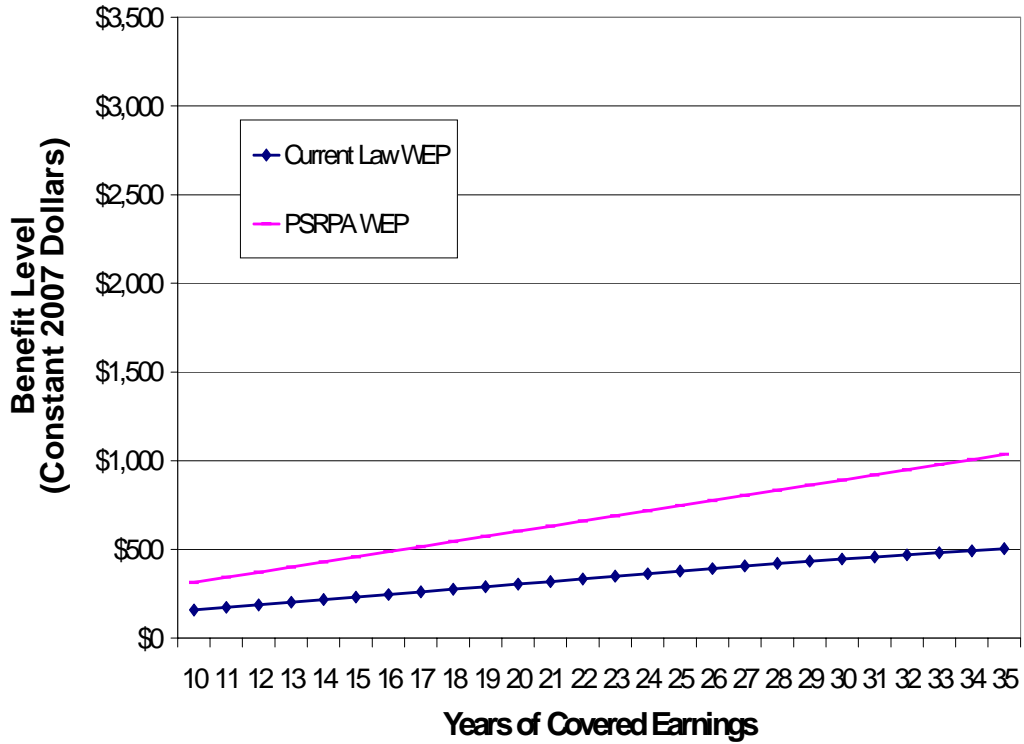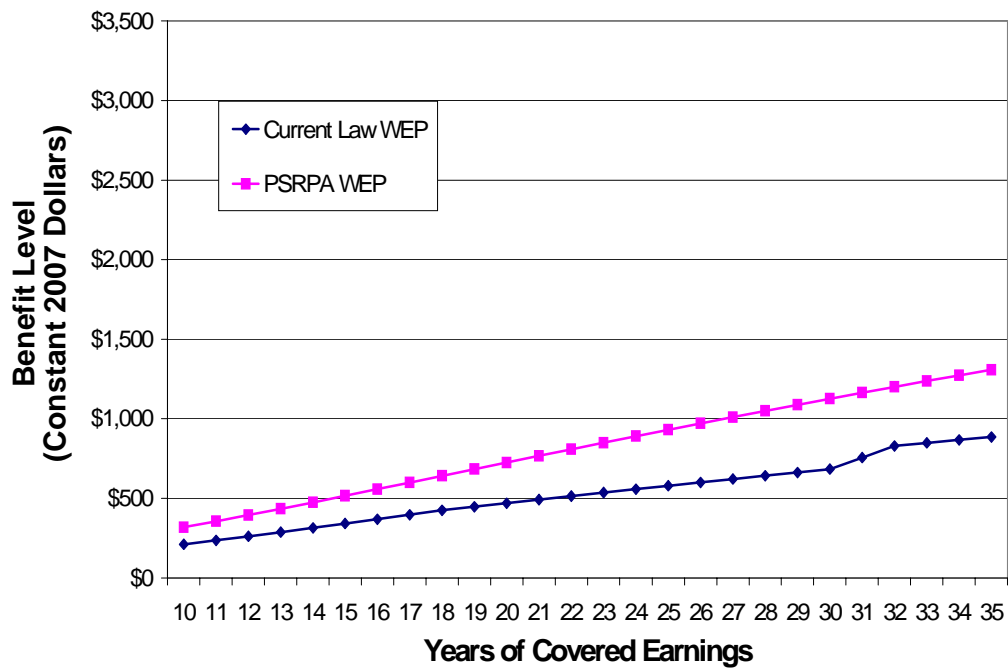**Figure 3. Current-Law WEP and PSRPA WEP,
Minimum Wage Earner**

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

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**.

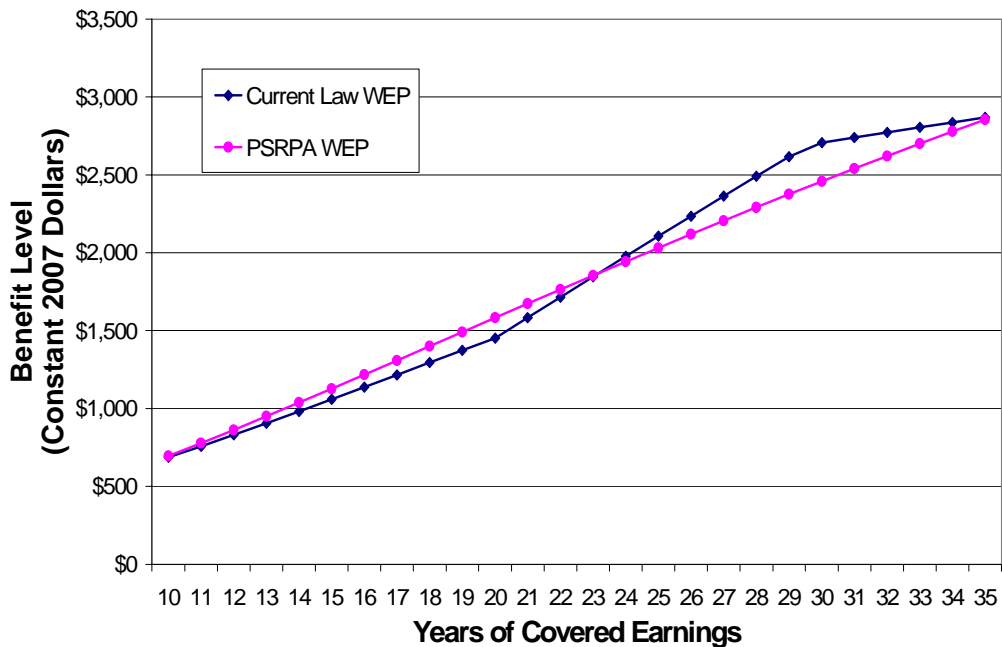**Figure 5. Current-Law WEP and PSRPA WEP, Scaled High-Wage Earner**

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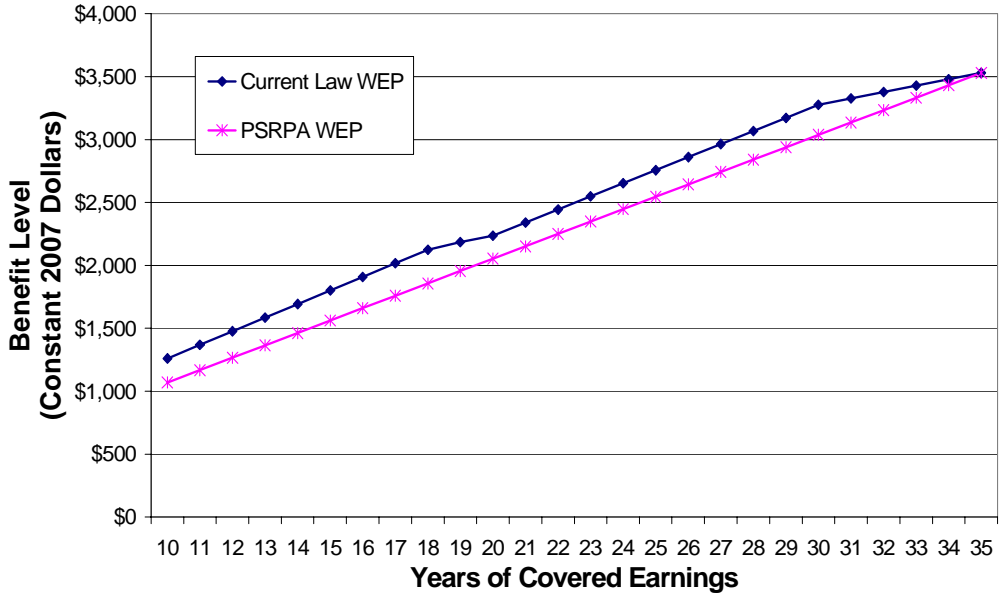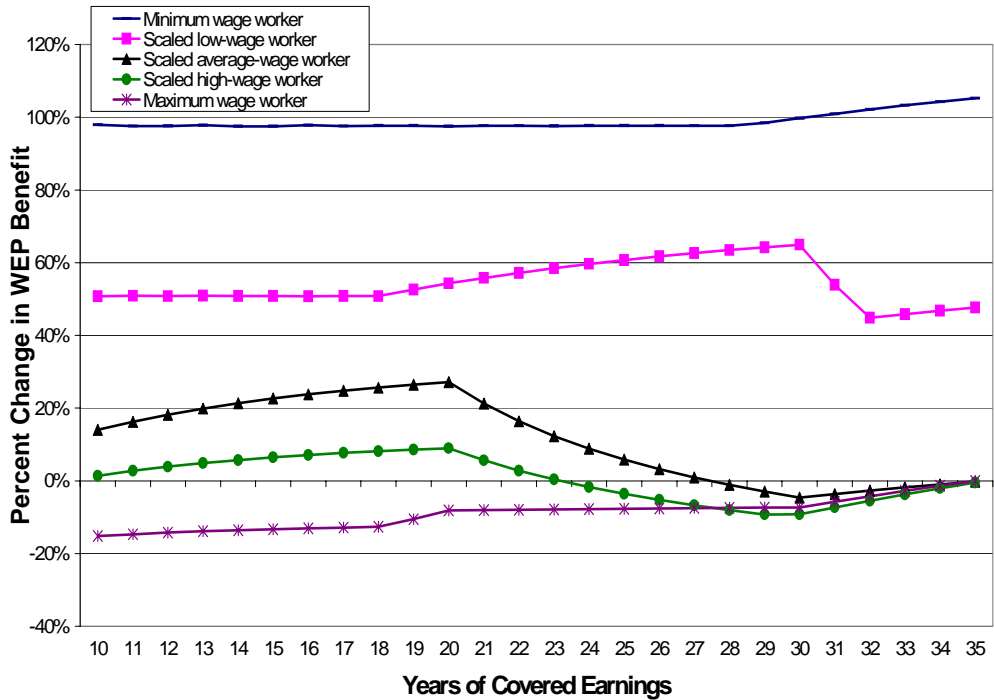

Figure 7. Percent Change in WEP Benefit Under PSRPA Compared to Current Law, by Earnings Level

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.[11]

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
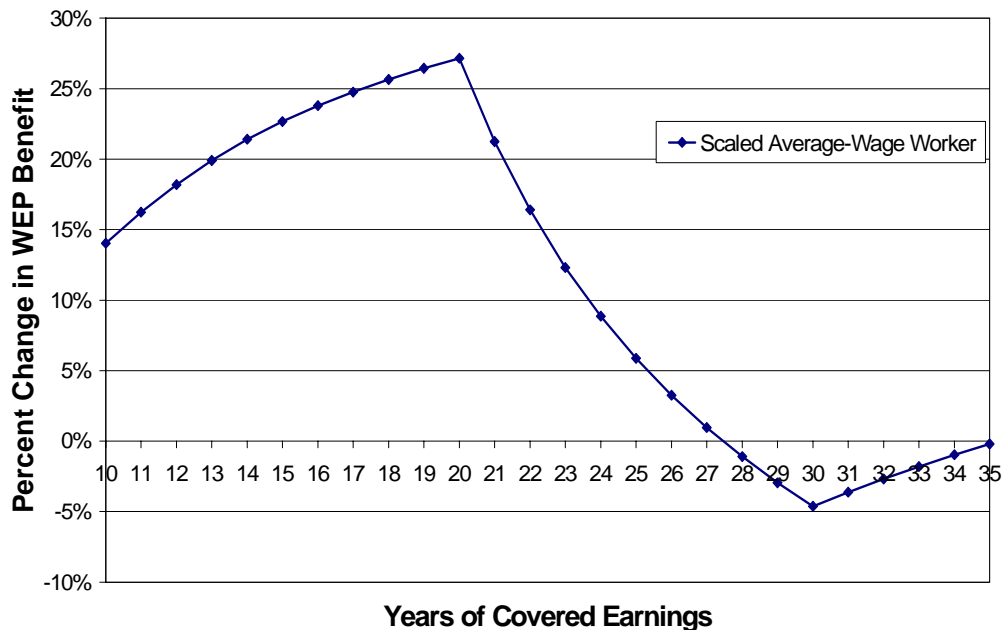
For those workers with 21 to 29 years of covered earnings, the percent increase in benefit under the PSRPA declines for each year of covered earnings gained. Again, this pattern is due to the current-law WEP formula. Under the current-law WEP, the first formula factor in the PIA increases by 5% for each additional "year of coverage" at the same time the current-law AIME increases as a result of

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

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 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 AIMEs 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 2007 Social Security Trustees Report. All dollar figures are in constant 2007 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, split between Social Security covered and non-covered work. 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.[12] It is assumed that these workers 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

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[12] 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.

Security. The scenarios provided show individuals with between 10 and 35 years of covered earnings, with the remaining earnings out of the 46-year career being uncovered. 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.

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 2007 dollars)

Years of Covered Earnings	PIA Based on All Earnings	Current-Law WEP-PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	1,039.43	158.47	313.65	98%
11	1,039.43	173.39	342.60	98%
12	1,039.43	188.01	371.55	98%
13	1,039.43	202.34	400.20	98%
14	1,039.43	217.26	429.14	98%
15	1,039.43	231.88	458.09	98%
16	1,039.43	246.21	487.04	98%
17	1,039.43	261.13	515.99	98%
18	1,039.43	275.45	544.64	98%
19	1,039.43	290.07	573.58	98%
20	1,039.43	305.00	602.53	98%
21	1,039.43	319.32	631.18	98%
22	1,039.43	333.94	660.13	98%
23	1,039.43	348.87	689.37	98%
24	1,039.43	363.19	718.02	98%
25	1,039.43	377.81	746.97	98%
26	1,039.43	392.44	775.92	98%
27	1,039.43	407.06	804.57	98%
28	1,039.43	421.68	833.52	98%
29	1,039.43	434.51	862.46	98%
30	1,039.43	446.15	891.11	100%
31	1,039.43	457.79	920.06	101%
32	1,039.43	469.43	949.01	102%
33	1,039.43	481.07	977.96	103%
34	1,039.43	492.71	1,006.61	104%
35	1,039.43	504.65	1,035.85	105%

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 2007 dollars)

Years of Covered Earnings	PIA Based on All Earnings	Current-Law WEP PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	1,317.87	211.59	319.02	51%
11	1,317.87	236.36	356.62	51%
12	1,317.87	262.02	395.12	51%
13	1,317.87	288.28	435.11	51%
14	1,317.87	315.14	475.40	51%
15	1,317.87	342.30	516.28	51%
16	1,317.87	369.76	557.47	51%
17	1,317.87	397.21	599.25	51%
18	1,317.87	425.26	641.33	51%
19	1,317.87	447.65	683.11	53%
20	1,317.87	469.73	724.89	54%
21	1,317.87	492.11	766.67	56%
22	1,317.87	514.20	808.15	57%
23	1,317.87	535.98	849.33	58%
24	1,317.87	557.47	890.22	60%
25	1,317.87	578.96	930.51	61%
26	1,317.87	600.14	970.79	62%
27	1,317.87	621.03	1,010.19	63%
28	1,317.87	641.92	1,049.28	63%
29	1,317.87	662.52	1,088.08	64%
30	1,317.87	682.81	1,126.28	65%
31	1,317.87	756.22	1,163.88	54%
32	1,317.87	829.04	1,200.88	45%
33	1,317.87	848.44	1,237.29	46%
34	1,317.87	867.24	1,273.10	47%
35	1,317.87	886.04	1,308.32	48%

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 2007 dollars)

Years of Covered Earnings	PIA Based on All Earnings	Current-Law WEP PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	2,171.68	461.37	526.13	14%
11	2,171.68	505.54	587.61	16%
12	2,171.68	551.20	651.47	18%
13	2,171.68	598.05	717.13	20%
14	2,171.68	645.51	783.68	21%
15	2,171.68	693.85	851.12	23%
16	2,171.68	742.49	919.17	24%
17	2,171.68	791.74	987.80	25%
18	2,171.68	841.28	1,057.04	26%
19	2,171.68	890.52	1,125.98	26%
20	2,171.68	939.76	1,194.92	27%
21	2,171.68	1,042.42	1,263.85	21%
22	2,171.68	1,144.48	1,332.19	16%
23	2,171.68	1,246.54	1,399.94	12%
24	2,171.68	1,347.71	1,467.08	9%
25	2,171.68	1,448.88	1,533.93	6%
26	2,171.68	1,549.45	1,599.89	3%
27	2,171.68	1,649.42	1,665.24	1%
28	2,171.68	1,748.80	1,729.70	-1%
29	2,171.68	1,847.88	1,793.27	-3%
30	2,171.68	1,946.06	1,856.24	-5%
31	2,171.68	1,990.53	1,918.31	-4%
32	2,171.68	2,034.10	1,979.49	-3%
33	2,171.68	2,077.08	2,039.47	-2%
34	2,171.68	2,119.15	2,098.56	-1%
35	2,171.68	2,160.64	2,156.16	-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 2007 dollars)

Years of Covered Earnings	PIA Based on All Earnings	Current-Law WEP PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	2,876.57	686.99	696.54	1%
11	2,876.57	757.42	778.31	3%
12	2,876.57	830.83	863.06	4%
13	2,876.57	905.74	949.90	5%
14	2,876.57	981.84	1,037.94	6%
15	2,876.57	1,058.83	1,127.47	6%
16	2,876.57	1,137.02	1,217.60	7%
17	2,876.57	1,215.51	1,308.62	8%
18	2,876.57	1,294.59	1,400.24	8%
19	2,876.57	1,373.38	1,491.56	9%
20	2,876.57	1,452.46	1,582.88	9%
21	2,876.57	1,584.37	1,673.90	6%
22	2,876.57	1,715.97	1,764.32	3%
23	2,876.57	1,846.99	1,854.45	0%
24	2,876.57	1,977.10	1,943.38	-2%
25	2,876.57	2,106.62	2,031.71	-4%
26	2,876.57	2,235.54	2,119.15	-5%
27	2,876.57	2,363.57	2,205.40	-7%
28	2,876.57	2,490.70	2,291.05	-8%
29	2,876.57	2,616.94	2,375.51	-9%
30	2,876.57	2,707.36	2,458.77	-9%
31	2,876.57	2,740.79	2,540.84	-7%
32	2,876.57	2,773.61	2,621.71	-5%
33	2,876.57	2,805.54	2,701.39	-4%
34	2,876.57	2,837.18	2,779.28	-2%
35	2,876.57	2,868.21	2,855.98	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 2007 dollars)

Years of Covered Earnings	PIA Based on All Earnings	Current-Law WEP PIA	PSRPA WEP PIA	Percent Change in WEP Benefit
10	3,529.84	1,260.57	1,069.87	-15%
11	3,529.84	1,368.90	1,168.06	-15%
12	3,529.84	1,476.93	1,266.54	-14%
13	3,529.84	1,584.96	1,365.02	-14%
14	3,529.84	1,693.00	1,463.20	-14%
15	3,529.84	1,801.03	1,561.69	-13%
16	3,529.84	1,909.06	1,659.87	-13%
17	3,529.84	2,017.39	1,758.65	-13%
18	3,529.84	2,125.42	1,856.83	-13%
19	3,529.84	2,185.41	1,955.32	-11%
20	3,529.84	2,236.14	2,053.50	-8%
21	3,529.84	2,340.29	2,151.98	-8%
22	3,529.84	2,444.15	2,250.46	-8%
23	3,529.84	2,548.30	2,348.65	-8%
24	3,529.84	2,652.15	2,447.13	-8%
25	3,529.84	2,756.30	2,545.61	-8%
26	3,529.84	2,860.16	2,643.80	-8%
27	3,529.84	2,964.31	2,742.28	-7%
28	3,529.84	3,068.16	2,840.46	-7%
29	3,529.84	3,172.32	2,938.94	-7%
30	3,529.84	3,276.17	3,037.42	-7%
31	3,529.84	3,326.90	3,135.91	-6%
32	3,529.84	3,377.64	3,234.09	-4%
33	3,529.84	3,428.37	3,332.57	-3%
34	3,529.84	3,479.10	3,431.05	-1%
35	3,529.84	3,529.84	3,529.54	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.