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M E M O R A N D U M

DATE: June 10, 2005

TO: Jerry Klepner

FROM: Rosi Perea, Laura Mistretta

RE: **House Subcommittee on Social Security of the Committee on Ways and Means
Hearing Examining Social Security Provisions Affecting Public Employees**

On June 9, 2005 the Subcommittee on Social Security of the Committee on Ways and Means, held its fourth in a series of subcommittee hearings on protecting and strengthening Social Security. Representatives of several public employee unions gave oral testimony opposing the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) under current law as well as mandatory coverage of new hires. Those testifying were Barbara D. Bovbjerg, Director, Education, Workforce, and Income Security, U.S. Government Accountability Office (GAO); Frederick G. Streckewald, Assistant Deputy Commissioner, Disability and Income Security Programs, Social Security Administration; The Honorable Nan Grogan Orrock, State Representative, Georgia General Assembly, and Chair, Labor and Workforce Development Standing Committee, National Conference of State Legislatures; Teresa Biederman, Chair, Coalition to Preserve Retirement Security; Chuck Canterbury, President, Grand Fraternal Order of Police; Randall Iglehart, President, Association of Texas Professional Educators; Patricia Wolfe, President, Federally Employed Women; and Charles Loveless, Director of Legislation, American Federation of State, County, and Municipal Employees.

OPENING STATEMENTS

- **Subcommittee Chairman Jim McCrery (R-LA)** gave a brief description of the current situation with Social Security and the purpose of the GPO and WEP. He explained that the provisions were initially intended to balance benefit payments, but that due to opposition from several groups, an analysis of the issue was warranted.
- **Ranking Member Sander Levin** gave a brief description of the effect that mandatory enrollment could have on pension plans for public employees and state pension programs. He mentioned that President Bush's plans to cut Social Security benefits with "risky" private accounts were not popular among the public.

TESTIMONY: PANEL I

- **Barbara Bovbjerg** spoke about the current inconsistencies with the GPO and WEP provisions, and how the elimination of these provisions would worsen Social Security solvency. According to Bovbjerg it would cost approximately \$62 billion to eliminate the

provisions and would increase the deficit of the trust fund by 6 percent. Eliminating the GPO would cost Social Security approximately \$32 billion over 10 years, while the WEP would cost almost \$30 billion over the same period of time. She said that this could create fairness issues for workers who have contributed to Social Security throughout their life. Reductions in the GPO and WEP, she noted, would come at the expense of the taxpayers and of state and local governments. Bobvjerg said that the inconsistencies with the provisions come from a lack of information regarding state and local pension plans.

- **Frederick Streckewald** began by discussing the impact of mandatory coverage. He noted that though it would improve the finances of the Social Security system, it would adversely affect the funding of public employee pension plans. With respect to the potential repeal and/or reforms of the GPO and WEP provisions, Streckewald noted three bills that have been proposed (H.R.147, H.R. 887 and H.R. 1714), but did not endorse any of the proposals as he believed they were simply replacements with alternate complications.

QUESTIONS: PANEL I

- **Representative Jim McCrery** - In order to clarify the current situation with the GPO and WEP, Chairman McCrery gave examples of how the provisions work in similar situations where one person is covered by Social Security and the other is not, and the “unfairness” that could possibly arise. In response, Barbara Bobvjerg discussed the inconsistencies of the system and explained that although problems exist with the provisions, eliminating the GPO and the WEP would increase the Social Security long-term funding shortfall.
- **Representative Xavier Becerra (D-CA)** – Mentioned that the President has been talking about changing Social Security and asked Streckewald if he knew about any specific conversations about a proposal involving public employees or of changes to WEP and GPO. Streckewald responded that he was not aware of any, nor was he involved in any conversations.
- **Representative Sam Johnson (R-TX)** – showed some concern about the effects of the proposed bill by Representative Brady (H.R. 1714).
- **Representative Stephanie Tubb Jones (D-OH)** – Asked questions about the detrimental impact on government workers and their pensions plans due to the provisions. She also questioned Streckewald about the situation where people who go on disability and go back to work after years of being away. Streckewald responded by mentioning that the administration encourages people to come back to work from disability and that there is a way to calculate Social Security benefit for such individuals.
- **Representative Kevin Brady (R-TX)** – Pointed out that the system should be tailored to the work history of the employees and it should not be a random computation. He also mentioned that he didn’t believe in mandatory coverage because in many instances, state pension plans have stronger systems. He talked about the spousal dependency issue and how currently there is a very small number of spouses who depend completely on their husbands benefit, unlike in the past.

- **Representative Charles Rangel (D-NY)** – Made some brief comments about whether the administration takes advice from civil servants about Social Security reform and the solvency issue.

TESTIMONY: PANEL II

- **Nan Grogan** testified about her strong opposition to mandatory coverage of public employees. She specifically spoke about the situation in Georgia, where the cost of such coverage would be something that the state can't absorb.
- **Teresa Biederman** testified that mandatory coverage would create a huge burden for all state and local public workers, generating significant cost pressures while not adding a significant benefit to the program. She noted that the mandate would adversely impact all employees not just new-hires and that it would likely result in cutbacks to existing defined benefit plans, cuts in government services, and possibly increases in taxes or fees. She also mentioned that it is estimated that mandatory Social Security coverage would cost the affected states and localities \$44 billion over 5 years, a high price to pay for only adding two years of solvency to the program.
- **Chuck Canterbury** spoke about the unfairness of the WEP and GPO and how it negatively affects police officers, mainly due to the fact that many have second jobs or post-retirement employment that requires them to pay into the Social Security system. Explaining the impact of WEP, he pointed out that officers that served communities that are not included in the Social Security system may lose up to 60% of the Social Security benefits because of these second jobs. Canterbury also urged during his testimony for the subcommittee to consider H.R. 147 and H.R. 1714, bills that would help repeal both provisions.
- **Randal Iglehart** asked that Texas public school employees not to be forced into Social Security coverage due to the negative effect that it could have on the Teacher Retirement System (TRS). He urged passage of H.R. 1714 which would reduce the negative effects of the WEP on Texas public school employees. He also recommended the adoption of H.R. 147 that would repeal both the GPO and WEP. He said the passage of the legislations would encourage teachers to stay in the classroom and avoid early retirement.
- **Patricia Wolfe** talked about how GPO victims are mainly elder women and widows (about 73%). According to Wolfe, the GPO and WEP lower the retirement income of federal employees by altering the benefit formula for certain groups. The spousal benefit is reduced simply because these women have been federal employees. She also mentioned that women rely more on Social Security for retirement and are less likely to have personal savings than men outside the Social Security system.
- **Charles Loveless** opened his testimony by emphasizing that he is a strong supporter of the Social Security program. However, he said that he opposes mandatory coverage since it would cause adverse consequences to the retirement of public employees. He also said that he opposes the GPO and WEP because of the destabilizing effect these provisions have on pension plans. He recommended the repeal of these provisions and for moderate changes necessary to ensure Social Security solvency. He also made a strong case against mandatory coverage.

QUESTIONS: PANEL II

Representative McCrery asked the panel specific reasons for the opposition to mandatory coverage and how so many of them favored Social Security while not wanting to participate in the system. Biedereman said that the issue is that the public retirement system has worked a certain way for a long time and layering another system on top of it creates problems. She noted that if a completely different system were to be created maybe it would not cause so many inconsistencies. Loveless said that the problem is that mandatory coverage would be an enormous financial burden on states at a difficult time for them. Orrock said that that in her case, her state is going through a difficult fiscal crisis. She mentioned that education is underfunded because they had to make cuts in order to survive and that mandating Social Security would cause a devastating effect on public pension plans.

Representative McCrery asked Chuck Loveless about how many pension systems are underfunded. Loveless said that he would provide information about how well pension plans are funded, but that he believed that these plans were very well managed.

Representative Becerra read a letter from the American Federation of Teachers saying that it supports the elimination of the WEP and GPO, but that it would strongly oppose legislation diverting payroll taxes into individual accounts.

Representative Tubb Jones declared her opposition to mandatory coverage. She asked each panelist about his or her particular situation. Iglehart said that the education system in Texas is having some difficulties and requiring Social Security coverage would not help.

Representative McCrery asked if the GPO and the WEP were to be repealed, if the program's "dual entitlement" rule should be eliminated as well. He said he hoped people did not feel this way. He closed the hearing by describing the difficulties that Social Security would face if these provisions were to be eliminated since future cash flow would go down significantly for the program.