Public Employee Retirement Strategy

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70TH ANNUAL EMPLOYEE BENEFITS CONFERENCE

International Foundation OF EMPLOYEE BENEFIT PLANS

National Conference on Public Employee Retirement Systems

- NCPERS is the largest nonprofit trade association representing approximately 500 public sector DB plans, plan sponsors, and stakeholders that have approximately $5 trillion in assets.
- Who we ARE:
  - Advocacy
  - Research
  - Education
- www.NCPERS.org

Presentation Overview

- Public Pension History and Overview
- Social Security Facts
- Social Security Offsets
- Wrap Up and Q&As

Public Pension History

- Public pensions have been around for more than 150 years
  - 1857 New York state established lump sum benefit for NYC police
  - 1866 FDNY gets lump sum LOD benefit
  - 1878 Proto pension for NYC police and fire
  - Many statewide public plans established soon after 1935

The Evolution of Public Pension Plans: Past, Present and Future, http://www.ncpers.org/files/Evolution_of_Public_Pensions_2d.pdf, NCPERS, 2008

American Retirement Landscape

Private Sector Plans

- $3.297 trillion in defined benefit plans
- $9.136 trillion in defined contribution plans

State/Local Plans

- $5.835 trillion in defined benefit plans
- $472 billion in defined contribution plans

Federal Plans

- $2.668 trillion in defined benefit plans
- $843 billion in defined contribution plan

Financial Accounts of the United States, https://www.federalreserve.gov/releases/z1/current/default.htm, U.S. Federal Reserve, September 2024 (2d Quarter 2024)

Total US Workforce 158.3 Million

Private Sector

- 135 million employed
- 85.3 percent of the workforce
- ~$12.4 trillion total saved for retirement

State / Local

- 20.2 million employed
- 12.8 percent of the workforce
- ~$6.3 trillion total saved for retirement

Federal

- 3.0 million employed
- 1.9 percent of the workforce
- ~$3.5 trillion total saved for retirement

The Employment Situation, https://www.bls.gov/bls/newsrels.htm#OEUS, U.S. Bureau of Labor Statistics, August 2024

Will Social Security Be There for Me?

- Yes! A better question is: How might Social Security change?
- Social Security reforms are needed to address the long-range deficit facing the program
- However, NCPERS opposes mandatory Social Security coverage for newly hired state and local government workers

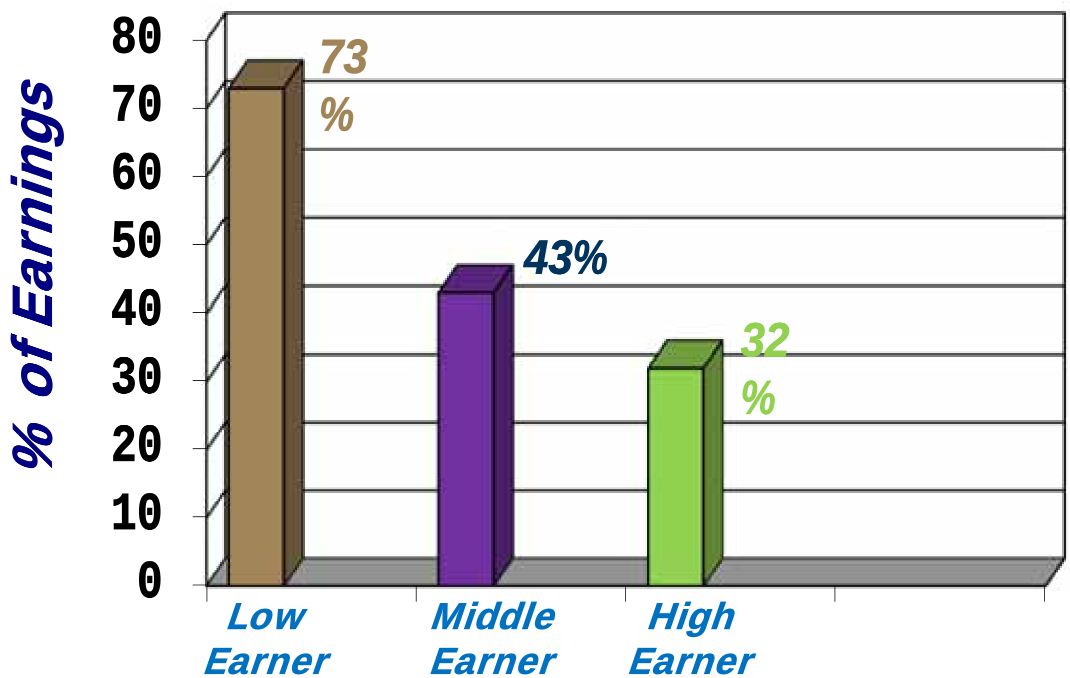
How Do I Qualify for Social Security Benefits?

- On your own work record.
  - Must have 40 credits—10 years of Social Security taxed work (not consecutive)
  - In 2024, earn 1 credit for each $1,730 earned, but no more than 4 credits/year ($6,920)
- Or qualify for dependent's benefits on spouse's record

Relationship Between Earnings and Benefits

- Benefits are earnings related—The higher the earnings, the higher the benefit
- The benefit formula is weighted in favor of low wage earners—The lower the earnings, the higher the replacement rate (initial benefits as a percent of pre-retirement earnings)

Social Security Benefit Replacement Rate



	Low	Middle	High
Average Lifetime Earnings =	$20,000	$75,000	$150,000
Monthly Benefits =	$ 1,214	$ 2,681	$ 3,959
Annual Benefits =	$14,568	$21,756	$ 30,912

Are Social Security Retirement Benefits

- Social Security benefits are based on earnings:
  - Adjust (index) wages for inflation
  - Sum the highest 35 years of indexed earnings
  - Divide this sum by the number of months in 35 years (420). Result is “average indexed monthly earnings” or AIME
  - Apply formula to the AIME to get benefit amount

67-Year-Old (1958 DOB) in 2025

Unadjusted Wages		Inflation Adjusted Wages	
1985-89:	$ 26,500	1985-89:	$ 75,000
1990-94:	$ 43,500	1990-94:	$100,000
1995-99:	$ 52,500	1995-99:	$ 100,000
2000-04:	$ 64,500	2000-04:	$ 100,000
2005-09:	$ 75,000	2005-09:	$ 100,000
2010-14:	$ 85,500	2010-14:	$ 100,000
2015-19:	$ 95,000	2015-19:	$ 100,000
2020-24:	$100,000	2020-24:	$ 100,000

AIME Calculation

1. Add the highest 35 years of indexed earnings
2. Divide total by the # of months in 35 years (420)
3. Result is “average indexed monthly earnings” or AIME

1. $100,000 x 35 years = $3,500,000
2. $3,500,000 / 420 =
3. $8,333 AIME

Benefit Formula at Normal Retirement Age

1. 90% of first $1,174 of average indexed monthly earnings
2. 32% of the next $7,078
3. 15% of the remainder up to FICA tax limit

Monthly Social Security Benefit

MONTHLY BENEFIT FORMULA:

AIME = $8,333

90%	x	$1,174	=	$1,056.60
32%	x	$7,078	=	$2,264.96
15%	x	$ 81	=	$ 12.00
Primary Insurance Amount				$**3,333.56**

Social Security Early Retirement

Year of Birth	Full (normal) Retirement Age	Months between age 62 and full retirement age	At Age 62			
			A $1000 retirement benefit would be reduced to	The retirement benefit is reduced by	A $500 spouse's benefit would be reduced to	The spouse's benefit is reduced by
1937 or earlier	65	36	$800	20.00%	$375	25.00%
1938	65 and 2 months	38	$791	20.83%	$370	25.83%
1939	65 and 4 months	40	$783	21.67%	$366	26.67%
1940	65 and 6 months	42	$775	22.50%	$362	27.50%
1941	65 and 8 months	44	$766	23.33%	$358	28.33%
1942	65 and 10 months	46	$758	24.17%	$354	29.17%
1943-1954	66	48	$750	25.00%	$350	30.00%
1955	66 and 2 months	50	$741	25.83%	$345	30.83%
1956	66 and 4 months	52	$733	26.67%	$341	31.67%
1957	66 and 6 months	54	$725	27.50%	$337	32.50%
1958	66 and 8 months	56	$716	28.33%	$333	33.33%
1959	66 and 10 months	58	$708	29.17%	$329	34.17%
1960 and later	67	60	$700	30.00%	$325	35.00%

Non-Covered Employees

- About 6.8 million state, county, and local government employees are not covered by Social Security
- These workers account for about 28% of all state, county, and local government employees

State, County, and Local Employees

- If you pay into Social Security, **no offset**
- If you DO NOT pay into Social Security and receive a pension from that work, there are offsets that could affect you:
  - Windfall Elimination Provision
  - Government Pension Offset

Offsets—WEP and GPO

- The Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) affect people with pensions from non-covered employment
- The WEP affects benefits on the record of retired or disabled worker
- The GPO affects benefits received as a spouse or widow(er)—Dependent's benefits

Windfall Elimination Provision (WEP)

- WEP Affects:
  - Retired and disabled workers with non-covered pensions who have enough covered earnings to receive a Social Security benefit based on their own work

WEP—Purpose

- Intended purpose of the WEP is to remove the heavy weighting (the 90% factor) in the regular Social Security benefit formula that is intended to boost benefits for life-long, low-paid earners

WEP—Different Formula

- Under the WEP, a different Social Security benefit formula applies to workers who:
  - Receive a pension based on non-covered employment; and
  - Have fewer than 30 years of substantial earnings under Social Security

WEP Benefit Formula

Regular Formula:

1. 90% of first $1,174 of AIME +
2. 32% of next $7,078 of AIME +
3. 15% of remainder up to FICA tax limit

WEP Formula:

1. 40% of first $1,174 of AIME +
2. 32% of next $7,078 of AIME +
3. 15% of remainder up to FICA tax limit

67-Year-Old (1958 DOB) in 2025 Non-Covered Employee

Unadjusted Wages		Inflation Adjusted Wages	
1985-89:	$20,000	1985-89:	$56,000
1990-94:	$25,000	1990-94:	$57,500
1995-99:	$ 0	1995-99:	$ 0
2000-04:	$ 0	2000-04:	$ 0
2005-09:	$ 0	2005-09:	$ 0
2010-14:	$64,000	2010-14:	$75,000
2015-19:	$71,500	2015-19:	$75,000
2020-24:	$75,000	2020-24:	$75,000

AIME Calculation

1. Add the highest 35 years of indexed earnings.
2. Divide total by the # of months in 35 years (420).
3. Result is “average indexed monthly earnings” or AIME.

1. $75,000 x 15 years

+	$57,500 x	5 yrs
+	$56,000 x	5 yrs
+	$ 0 x	10 yrs
=	$1,692,500	

2. $1,692,500 / 420 =

3. **$4,030 AIME**

Example

AIME = $4,030

	40%			$ 469.60
–	~~90%~~	X	$1,174	~~= $1,056.60~~
–	32%	X	$2,856	= $ 913.92
–	15%	X	$ 0	= + $ 0.00
–	Primary Insurance Amount			~~**$1,970.52**~~
				$1,383.52

Non-Covered Employees Look Like Low Earners

- The addition of all those "zero" years gives them an artificially low average wage (AIME)
- So, the computation makes it look like this non-covered employee is a historically low earner

Exception to the WEP

- Recognizes the more years of substantial earnings a person has paid Social Security taxes, the closer that person should be to the standard benefit formula

30 or more years	=	WEP doesn’t apply
21-29 years	=	Modified WEP
20 or fewer years	=	Full WEP

Substantial Earnings Amounts

Example of amounts:

1937-54	$ 900
1965	$ 1,200
1985	$ 7,425
1995	$11,325
2005	$16,725
2010	$19,800
2015	$22,050
2020	$25,575
2024	$31,275

WEP Arguments

For WEP	Against WEP
• Reasonable means to prevents payment of overgenerous benefits • Offset is limited; Benefit never fully eliminated • Good counter argument for mandatory Social Security	• Unfair as it reduces a benefit worker had included in retirement plans • 40% factor is arbitrary and inaccurate way to deal with individual benefits

Dual Entitlement

- All Social Security benefits are subject to the dual entitlement rules
- An individual who is eligible for both a benefit as a worker and a benefit as a dependent (spouse or widow(er)) cannot get both benefits in full
- Rather, the amount of a person's dependent's benefit will be offset, dollar for dollar, by the amount of any worker's benefit the person may have earned

Dual Entitlement: Example

- Consider a woman who gets a retirement benefit of $300 based on her own work. Let’s say she also qualifies for a widow’s benefit of $1,000
- Because of the dual entitlement provision, $300 would be subtracted from that widow’s benefit, so that she would be entitled to a widow’s benefit of $700
- So, she would get her own $300 retirement plus the residual $700 as a widow

Government Pension Offset

- The GPO affects government retirees who receive two benefits:
  1. A government pension not covered by Social Security, and
  2. A Social Security dependent spousal benefit

Government Pension Offset

- GPO requires that the Social Security dependent spousal benefits be offset by 2/3 of the non-covered government pension

Dual Entitlement vs. GPO: Example

Potential Benefit for Spouse = $500; Widow(er) = $1,000

House A—Ann
He—S.S. $1,000
She—S.S. $0

Payable as a:
Spouse: $500
(½ $1000=$500)
Widow: $1,000
(Full spousal amount)

House B—Bea
He—S.S. $1,000
She—S.S. $900

With $ for $ reduction

Payable as a:
Spouse: $0
($500-$900=$0)
Widow: $100
($1,000-$900=$100)

House C—Cleo
He—S.S. $1,000
She—State DB $900

GPO 2/3 X $900 = $600

Payable as a:
Spouse: $0
($500-$600=$0)
Widow: $400
($1,000-$600=$400)

GPO Ensures Fairness

- It treats Cleo, the non-covered teacher, in a similar way it treats Bea, who was covered under Social Security
- It says you can't get a dependent's benefit unless you truly are dependent

GPO Exceptions

- Anyone paying Social Security tax for the last 60 months of government employment

GPO Arguments

For GPO	Against GPO
• Effective method of preventing what would otherwise be an unfair advantage for Government workers	• Unfair because it reduces a benefit that the worker had included in retirement plans

Additional References

- Social Security website
  - http://www.socialsecurity.gov/
- Social Security website for WEP and GPO Calculator
  - https://www.ssa.gov/prepare/government-and-foreign-pensions

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Session Evaluation

Questions?