Federal Update 2004-4

February 6, 2004

TO: NCTR Members

FROM: Cindie Moore

RE: Possible Action on H.R. 743, a Social Security Bill that Affects State and Local Governments and their Retirement Plans

The House leadership has scheduled floor consideration on Wednesday, February 11 or Thursday, February 12 action on H.R. 743. The bill addresses several Social Security issues including some that affect state and local governments (SLGs) and their retirement plans.

As I've previously reported, H.R. 743 affects SLG and their retirement plans in three ways. First, it requires a SLG employer hiring an individual for a non-Social Security covered position to provide him/her with a written notice. The notice explains the effect of non-Social Security covered work on any separate Social Security covered work by the individual. In other words, the benefit from the Social Security covered work might be reduced by the non-Social Security covered work. The individual must sign the notice before starting work. The employer must send the signed notice to the relevant retirement system. In an earlier version of H.R. 743, retirement systems were to have reported via the 1099R whether a pension was based on non-Social Security covered service. That provision was dropped in favor of the notice requirement.

Second, H.R. 743 allows Kentucky and Louisiana to have a divided retirement system. Under such a system, employees choose whether to be in Social Security or not, provided that new hires are covered by Social Security. Both states requested the change.

Third, H.R. 743 extends the "last day" rule that determines whether someone is subject to the Government Pension Offset (GPO). The GPO may reduce or eliminate an individual's spouse benefit from Social Security if the individual receives a pension from non-Social Security covered work. Under current law, if someone is in a position not covered by Social Security, but moves just prior to retirement to a Social Security covered position <u>and</u> the position is covered by the retirement system that will provide him/her a pension, he/she is exempt from the GPO. H.R. 743 extends the time to qualify for the exemption from one day to 60 months. A transition rule is included to mitigate the effect of the change.

The Senate passed H.R. 743 on December 9, 2003. If the House passes the bill without making any changes, it will go to the President for his signature. I'll keep you posted on developments.