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Highlights

Highlights of GAO-08-248T, testimony before the Subcommittee on Social Security, Pensions, and Family Policy, Committee on Finance, U.S. Senate

Why GAO Did This Study

Social Security covers about 96 percent of all U.S. workers; the vast majority of the remaining 4 percent are public employees. Although these noncovered workers do not pay Social Security taxes on their government earnings, they may still be eligible for Social Security benefits through their spouses' or their own earnings from other covered employment. Social Security has provisions—the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP)—that attempt to take noncovered employment into account when calculating the Social Security benefits for public employees. However, these provisions have been difficult to administer and critics contend that the provisions themselves are often unfair.

The Committee asked GAO to discuss the issues regarding the coverage of public employees under Social Security, the provisions to take noncovered employment into account, and the proposals to modify those provisions.

What GAO Recommends

GAO has previously recommended that the Congress consider giving the Internal Revenue Service the authority to collect the information that the Social Security Administration needs on government pension income to administer the GPO and WEP provisions accurately and fairly. GAO continues to believe that this important issue warrants further consideration by the Congress.

To view the full product, including the scope and methodology, click on GAO-08-248T. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

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SOCIAL SECURITY

Issues Regarding the Coverage of Public Employees

What GAO Found

There are no easy answers to the difficulties of equalizing Social Security's treatment of covered workers and noncovered public employees. About one-fourth of public employees—primarily state and local government workers—are not covered by Social Security and do not pay Social Security taxes on their government earnings. Nevertheless, these workers may still be eligible for Social Security benefits through their spouses' or their own earnings from other covered employment. To address concerns with how noncovered workers are treated compared with covered workers, Social Security has provisions in place to take noncovered employment into account and reduce Social Security benefits for public employees, as described in the table below.

Provisions Affecting the Calculation of Social Security Benefits for Public Employees

	When benefits are affected	How benefits are affected
The Government Pension Offset (GPO)	When a public employee's entitlement to Social Security is based on another person's (usually a spouse's) coverage.	Benefits are reduced by two-thirds of the amount of the government pension.
The Windfall Elimination Provision (WEP)	When a public employee's entitlement to Social Security is based on other covered employment, but the employee has had a lengthy career in noncovered employment.	Benefits are calculated using a modified formula to reduce the amount of benefits received.

Source: GAO analysis.

To be administered fairly and accurately, both these provisions require complete and accurate reporting of government pension income, which is not currently available. The resulting disparity in the application of the provisions is a continuing source of confusion and frustration for affected workers. Thus, various changes that would affect the GPO and WEP provisions have been proposed, such as:

- **Eliminate the GPO and WEP provisions.** This would simplify administration and avoid concerns about unfair treatment among public employees. However, any reductions in the GPO or the WEP would widen Social Security's financial gap and would raise concerns about unfair treatment of public employees compared with other workers.

- **Extend mandatory coverage.** If all newly hired state and local government employees who are not currently covered were to become covered, the need for the GPO and WEP could be phased out over time. In 2005, Social Security actuaries estimated that mandating coverage for these employees would reduce the 75-year actuarial deficit by about 11 percent. While mandatory coverage could enhance retirement benefits for the affected workers, it could also result in significant costs to the affected state and local governments.

As long as the GPO and the WEP remain in effect, it will be important to administer the provisions effectively and equitably based on accurate and complete information on both covered and noncovered employment.