

**Testimony of Jo Anne B. Barnhart
Commissioner of Social Security
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Senate Committee on Governmental Affairs
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Chairman, Members of the Committee:

Thank you for inviting me to discuss the Government Pension Offset provision, or GPO, and the Windfall Elimination Provision, also known as WEP. These provisions are not well understood, so today, I would like to take some time to describe the purpose of these provisions, how they work, and issues that should be evaluated when considering legislative changes to them.

GPO Background

I would first like to describe the GPO provision and discuss how it works and why it was enacted in 1977. For ease of discussion, when referring to government employment, I am referring to employment at all levels of Federal or State government that is not covered by Social Security. Government workers whose employment has always been covered by Social Security are not impacted by the WEP or GPO provisions.

The GPO affects government retirees who are eligible for two benefits:

- ✓ A pension based on their own work in a Federal, State, or local government job that was not covered by Social Security, and
- ✓ A Social Security spouse's or surviving spouse's benefit based on their husband's or wife's work in covered employment.

If the GPO applies, the person's Social Security spouse's or surviving spouse's benefit is reduced by an amount equal to two-thirds of the amount of the person's government pension based on work not covered by Social Security. As of December 2002, about 367,000 beneficiaries had their benefits fully or partially offset due to the GPO. Of those, 27 percent were men and 73 percent were women. The following table shows important distinctions on the provision's impact on men and women:

	<u>Men</u>	<u>Women</u>
Benefits Fully Offset:	98%	66%
Average Monthly Offset (12/01):	\$296	\$424

In enacting the GPO, Congress intended to assure that when determining the amount of a spousal benefit (e.g., wife's, husband's, widow's, widower's), individuals working in non-covered employment would be treated in the same manner as those who work in covered employment. The GPO provision removed an advantage that some government workers had before the GPO was enacted. Before GPO, a person who worked in a government job that was not covered under Social Security could receive, in addition to a government pension based on his or her own earnings, a full Social Security spouse's or surviving spouse's benefit.

However, a person who works in a job that is covered under Social Security is subject to an offset under the dual entitlement provision. This provision, which has applied since 1940 when benefits were first payable to a worker's family members, requires that Social Security benefits payable to a person as a spouse or surviving spouse be offset by the amount of that person's own Social Security benefit. Thus, dually entitled beneficiaries receive the equivalent of their own worker's benefit or the spouse's/surviving spouse's benefit, whichever is higher.

The GPO acts as a surrogate for the dual entitlement offset for workers receiving a government pension based on work not covered under Social Security because, if that work had been covered, any spouse's or surviving spouse's benefit would have been reduced by the person's own Social Security worker's benefit. The result of the GPO is that spouses and surviving spouses are treated similarly, regardless of whether their jobs are covered under Social Security or not.

The impetus for enactment of the GPO provision was a March 1977 ruling by the U.S. Supreme Court in *Califano v. Goldfarb*. That ruling eliminated the dependency test that then applied to men, but not women, in order to qualify for Social Security spousal benefits.

With this Court decision, men who worked in covered employment still did not typically receive spouse/widow(er) benefits because of the dual entitlement provision. But those who worked in non-covered employment could now receive those benefits. In order to prevent many non-covered government workers from receiving dependent's benefits --while similarly-situated people in covered employment had those benefits offset by the dual-entitlement provision -- Congress enacted the GPO in December 1977.

Two-Thirds GPO Reduction

As noted previously, although the GPO provision is intended to accomplish the same purpose as the offset under the dual entitlement provision, the amount of the reduction under the GPO is different:

- ✓ Under the dual entitlement provision, there is a **dollar-for-dollar** reduction -- if a person gets a Social Security retirement benefit of \$600 based on his or her own work, then \$600 is subtracted from any Social Security benefit the person would get as a spouse.

- ✓ Under the GPO, there is a **two-thirds** reduction. If a person gets a pension of \$600 based on her own work in government, then two-thirds of it (\$400) is subtracted from any Social Security benefit he or she would get as a spouse.

I would like to use a hypothetical example that may help to clarify how the dual-entitlement offset applies to a widow compared to a similarly situated widow who is also entitled to a government pension. Ms. Jones is receiving a Social Security retirement benefit of \$900 per month based on her own work. The amount she is potentially eligible for as a widow is also \$900. The amount of her Social Security retirement benefit is subtracted from her widow's benefit, resulting in her widow's benefit being fully offset under the dual entitlement provision; she receives only her own Social Security retirement benefit of \$900.

The other widow, Ms. Brown, is in a comparable situation, but Ms. Brown worked for the government, and her pension is \$900. Potentially, she too, is eligible for a Social Security widow's benefit of \$900. However, the GPO provision reduces the \$900 widow's benefit by two-thirds of the \$900 pension (i.e., \$600). After subtracting the \$600 offset, the \$300 result is the amount of the Social Security widow's benefit payable in addition to her \$900 government pension.

In this case, Ms. Jones, who worked only in covered employment, receives a total of \$900, and Ms. Brown, who worked in government employment, receives a total of \$1,200.

Dual Entitlement—Ms. Jones

Social Security Worker's Benefit = \$900
Social Security Widow's Benefit = \$900
Total Widow's Benefit Payable = \$0

Total Social Security Payable = \$900

GPO—Ms. Brown

Worker's Government pension = \$900
Social Security Widow's benefit = \$900
(before offset)
GPO formula 2/3 of \$900 = \$600

Worker's Government pension = \$900
Widow's Benefit (\$900 - \$600) = \$300
Total Pension & Social Security = \$1200
(after offset)

Purpose of the WEP

I would now like to discuss the WEP provision. The Social Security Amendments of 1983 (P.L. 98-21) included the WEP provision as a means to eliminate "windfall" Social Security benefits for retired and disabled workers receiving pensions from employment not covered by Social Security. (This provision was among those recommended by the National Commission on Social Security Reform — the "Greenspan Commission, which issued its report in January 1983.) Generally, while the WEP applies to any pension based on noncovered employment, it primarily affects government workers. (The WEP does not affect the Social Security benefits payable to survivors of workers who received pensions based on non-covered employment.)

The purpose of the WEP was to remove an unintended advantage that the weighting in the regular Social Security benefit formula would otherwise provide for persons who have substantial pensions from non-covered employment. This weighting is intended to help workers who spent their whole lives in low-paying jobs by providing them with a benefit that is relatively higher in relation to their prior earnings than the benefit that is provided for higher-paid workers.

However, because benefits are based on average earnings in employment covered by Social Security over a working lifetime (35 years for retired workers), a worker who has spent part of his or her career in employment not covered by Social Security appears to have lower average lifetime earnings than he or she actually had. (Years with no covered earnings are counted as years of zero earnings for purposes of determining average earnings for Social Security benefit purposes.) Without the WEP, such a worker would be treated as a low-lifetime earner for Social Security benefit purposes and inappropriately receive the advantage of the weighted benefit formula. The WEP provision eliminates the potential "windfall" by providing for a different, less heavily weighted benefit formula to compute benefits for such persons.

Computation of the WEP Reduction

Let me explain how the reduction under the WEP is computed. To do this, I first need to explain how the regular (non-WEP) benefit formula works. Under the regular benefit computation rules, a three-step weighted benefit formula is applied to a worker's average indexed monthly earnings (AIME) to determine his or her primary insurance amount (PIA). The PIA is the monthly benefit amount payable to a retired worker first entitled at the full retirement age or a disabled worker. The PIA formula applicable to workers who reach age 62 or become disabled in 2003 is:

90 percent of the first \$606 of AIME, plus
32 percent of the next \$3,047 of AIME, plus
15 percent of AIME above \$3,653.

Under the WEP computation, the 90-percent factor applied to a worker's average earnings in the first band of the Social Security benefit formula generally is replaced by a factor of 40 percent for workers who are receiving a pension from non-covered employment.

- ✓ Under the regular Social Security benefit formula, a worker would receive 90 percent, or \$545, of the first \$606 of his or her average indexed monthly earnings.
- ✓ Under the WEP formula, that worker would generally receive 40 percent--\$242--of the first \$606 of AIME.
- ✓ Under both scenarios, the 32 and 15 percent factors are the same.

For a worker first eligible in 2003, the maximum WEP reduction is \$303 per month. Unlike the GPO, the WEP can never eliminate a person's Social Security benefit.

For workers who have 30 or more years of substantial earnings, the WEP does not apply at all. The reduction under the WEP is phased out gradually for workers who have 21-29 years of substantial covered earnings under Social Security.

However, the WEP provision includes a guarantee designed to help protect workers with relatively low pensions based on non-covered employment. This guarantee provides that the reduction in Social Security benefits can never exceed one-half the amount of the pension based on non-covered work.

As of December 2002, the WEP reduced the Social Security benefits of about 635,000 retired and disabled workers. Of those workers affected, 66 percent are men and 34 percent are women.

Proposal to Improve Administration of the WEP and GPO

The President's FY 2004 Budget includes a proposal that would improve the administration of the WEP and GPO by improving the coordination of reports of pension payments based on employment not covered by Social Security. This change would give SSA the ability to independently verify whether beneficiaries have pension income from employment not covered by Social Security. When a

person applies for Social Security benefits, he/she is required to tell SSA if they are receiving a pension based upon non-covered employment. SSA then obtains verification of the pension and applies the WEP and/or GPO accordingly. SSA largely relies on the applicant to correctly inform us that he/she is entitled to a non-covered pension.

SSA has an ongoing computer-matching program with the Office of Personnel Management (OPM) that matches persons receiving Social Security benefits with persons receiving a pension from OPM based on non-covered employment. However, SSA does not have any similar program to identify Social Security beneficiaries who are also receiving pensions based on non-covered work for a State or local government.

A past study of SSA's administration of the WEP and GPO provisions by the General Accounting Office (GAO) found that there are many beneficiaries who are not subjected to the WEP and GPO because SSA does not know they are receiving pensions based on non-covered employment.

With this change, SSA would be able to obtain data on pensions based on non-covered work in a more timely and consistent manner. The proposal would thereby improve SSA's stewardship over the program and the Social Security trust funds.

Proposals to Change WEP and GPO

A number of proposals have been advanced to change the WEP and GPO provisions. Some proposals would eliminate the provisions entirely. Eliminating these provisions would be costly and restore the more favorable treatment afforded many workers in non-covered employment over those in covered employment prior to the enactment of the GPO and WEP.

Eliminating the WEP would cost \$29.7 billion over the first 10 years and would increase the long-range cost of the program by 0.06 percent of taxable payroll. Eliminating GPO would cost \$32.2 billion over the first 10 years and the long-range cost would also be 0.06 percent of taxable payroll. The 10-year cost of eliminating both provisions would be \$61.9 billion and would increase the long-range actuarial deficit by 0.12 percent of taxable payroll. Further, if both WEP and GPO were eliminated, the trust fund exhaustion date would advance by one year, from 2042 to 2041, as would the year of cash flow deficit -- from 2018 to 2017.

Most other proposals that would modify the effects of the WEP or GPO provide higher Social Security benefits for government workers whose pensions from non-covered employment, in combination with their Social Security benefits, are below certain levels. In effect, these proposals focus on providing higher Social Security benefits to public sector retirees, who were not covered by Social Security (and did not pay OASDI taxes) during their years in government work, simply because their combined public pension and Social Security benefits are deemed to be “too low.”

It is important to point out that these proposals do not address the dual entitlement offset that applies to the millions of comparable beneficiaries who worked only in covered employment.

Public Education

As my testimony has indicated, the GPO and WEP are two very technically complicated provisions of the law. Although the GPO and WEP were enacted many years ago, neither provision is well understood by the public. In this regard, SSA has greatly increased its efforts to inform the public about these provisions. SSA representatives are frequently meeting with government pension administrators and groups of government employees to explain the GPO and WEP, and SSA provides numerous informational factsheets about these provisions.

Recently we have completed an update of SSA's website (www.socialsecurity.gov) to include a special section on the GPO and WEP. This section includes factsheets, information about pending legislation, and answers to frequently asked questions. The detailed calculator that can be downloaded from our website now allows a benefit estimate reflecting the WEP reduction. We are in the process of making changes to the other more "user friendly" online calculators to provide benefit estimates under both the WEP and GPO provisions. I believe that this improved website will be especially helpful to individuals who are or will be subject to the WEP or GPO.

Conclusion

In conclusion, let me note that Congress established the WEP and GPO provisions to prevent workers who spent a portion of their careers in employment not covered by Social Security from receiving more favorable treatment under Social Security than comparable workers who had worked a lifetime in covered employment. Congress' intention was to provide fair and equitable benefits under Social Security for workers in both covered and non-covered employment.

As previously noted, proposals to modify the effects of the GPO and WEP, or to eliminate them entirely, would treat government workers more favorably than comparable workers in the private sector—to whom the dual entitlement offset and the weighted benefit formula apply. Further, all of these proposals would significantly increase the cost of the OASDI program. Given that the program is not in actuarial balance, it seems appropriate that significant changes should be evaluated when considering other elements in a comprehensive plan to strengthen and protect Social Security.

I want to again thank the Chairman and the Committee for giving me this opportunity to discuss the GPO and WEP and to share SSA's analysis on legislation before the Congress. As always, I would be more than happy to provide assistance to the Members and more than willing to work with you to provide any additional information you request. I would be glad to answer any questions you might have concerning the WEP and GPO provisions.