CBO STAFF MEMORANDUM

THE GOVERNMENT PENSION OFFSET IN THE SOCIAL SECURITY PROGRAM

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SECOND AND D STREETS, S.W.
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This Congressional Budget Office staff memorandum examines the economic well-being of people likely to be affected by Social Security's provision for a government pension offset and analyzes options for changing the provision. It was prepared in response to a request from the Chairman of the Social Security Subcommittee of the House Committee on Ways and Means.

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SUMMARY

The government pension offset (GPO) is a provision of Social Security that reduces spousal or survivors' benefits payable to certain government retirees. The offset applies when the benefits are based on a spouse's earnings record and not the retiree's own earnings, when the retiree's work was mainly in government employment not covered by Social Security, and when the retiree does not meet any of the criteria for exemption specified by law. The GPO effectively treats two-thirds of the amount of government pension as equivalent to Social Security and causes spousal benefits to be reduced by that amount.

This memorandum describes the GPO, its impact on Social Security beneficiaries, how the economic well-being of government retirees compares with that of other retirees, and the impact of changing or eliminating the GPO. The key findings are as follows:

- The number of retirees whose Social Security benefits are reduced or eliminated by the GPO has grown over the past several years, reaching about 145,000 in December 1991. The number affected will continue to increase, with women making up an ever larger share of those affected.

- The average reduction experienced by affected beneficiaries was about $215 in 1991; about five of every six of those affected had their spousal benefits completely withheld.

- When both Social Security benefits and pensions are counted, government and private pension recipients have similar retirement incomes. Government pensions--especially federal pensions--are much larger than private pensions.

- Government retirees are less likely to live in low-income families than other retirees, especially those without private pensions.

- Eliminating the GPO would cost $3 billion over the 1993-1997 period. Lowering the offset rate to one-third (from the current rate of two-thirds) would cost $690 million over the same period, and lowering it to one-half would cost $400 million. Modifying the offset--say, by applying it only to government pensions and Social Security benefits that exceed some specified amount--would be much less costly and would generally target the benefits to retirees who are less well-off. Such a modification would, however, increase the complexity of the GPO.

THE GOVERNMENT PENSION OFFSET

For certain government retirees, the government pension offset reduces Social Security benefits based on a spouse's earnings record.[1] Specifically, government pension recipients whose work was mainly in employment not covered by Social Security and who are not exempt from the offset (as discussed below) have any spousal, widows', or widowers' benefits reduced by $2 for every $3 of public pension received. The GPO does not affect benefits based on a former government worker's own covered earnings, nor does it affect Medicare eligibility.

Government employment is treated differently from other types of employment because many government workers were not covered by Social Security--and therefore did not pay the Social Security payroll tax--when they were employed. Most federal employees hired before January 1984 were covered under the Civil Service Retirement System and made compulsory payroll contributions to that program, but not to Social Security. Coverage of state and local government employees is elective by the employer. About three-fourths of state and local government employees are now covered by Social Security.

Mechanics of the GPO

The GPO is intended to replicate the "dual entitlement" provision that governs spousal benefits for retirees whose jobs were covered by Social Security. Dual entitlement means that Social Security benefits based on a spouse's earnings record are offset--on a one-for-one basis--by any Social Security benefits based on a retiree's own earnings. Thus, for example, a married woman entitled to $300 per month based on her own earnings and $400 per month based on her husband's earnings would receive $400, not $700. Her private pension income, if any, would not affect her benefit.

The GPO works similarly, except that Social Security benefits based on a spouse's earnings record are offset on a two-for-three basis: monthly Social Security benefits are reduced by $2 for every $3 in monthly government pension benefits.[2] This offset rate effectively treats two-thirds of the

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1. The discussion of the GPO draws heavily on Congressional Research Service, "Social Security: The Offset of Social Security Spousal Benefits for Government Pensions," CRS Report Number 86-43 EPW (February 1986).

2. For retirees who take their pension as a lump sum, the offset is calculated as if the pension had been paid monthly.

government pension as equivalent to Social Security and one-third as equivalent to a private pension. A married woman with a government pension (based on noncovered employment) of $300 per month and a monthly Social Security benefit of $400 based on her husband's earnings record would receive monthly Social Security benefits of $200 under current law, provided she was not exempted from the GPO as discussed below.

History

The GPO was enacted in response to a Supreme Court decision in 1977 that ruled the "dependency test" to be unconstitutional. The dependency test required men seeking spousal Social Security benefits to prove they relied on their wives for at least one-half of their support. No similar requirement was imposed on women seeking spousal benefits because they were presumed to be dependent.

The Court's decision had little impact on married men who had worked in covered employment for much of their career. Because men typically earn more than women, most men with covered employment could obtain higher benefits based on their own earnings records than on their spouse's earnings. In contrast, men who had worked mainly in noncovered employment, and were therefore eligible for limited or no Social Security benefits based on their own earnings record, were made newly eligible for spousal benefits by elimination of the dependency test. Women had been eligible all along.

Concerns over the costs of paying Social Security benefits to several hundred thousand newly eligible people as well as questions about the "windfall" nature of those benefits led Congress to enact the GPO in late 1977. As enacted, the GPO provided for a one-for-one offset; the 1983 Social Security Amendments reduced the offset rate to its current two-thirds.

Exemptions

The GPO was enacted with an "exception clause" that exempted most female government retirees from the offset during the first five years the act was in force. Subsequent legislation modified the exception clause and expanded the number of exempt retirees.

Retirees exempt from the GPO generally fall into the following groups:

- People whose state or local government pension is based on a job that was covered by Social Security on their last day of employment;

- Federal employees who switched to covered employment before December 31, 1987;

- People whose government pension is not based on their own earnings;

- People who applied for Social Security benefits before December 1977;

- People who were eligible to receive a government pension for any month from December 1, 1977, through November 30, 1982, and who met the dependency test in effect as of January 1977;[3]

- People who were eligible to receive a government pension from December 1, 1982, through June 30, 1983, and whose spouse provided one-half of their support.

Because the exemptions specify pension eligibility rather than receipt, the transition rules probably still affect some people retiring from government employment today. A person retiring from government service at age 65 in 1992, for example, may have been eligible to receive a pension at age 55 (in 1982) and could therefore be exempt from the GPO.

The Impact of the GPO on Beneficiaries

About 145,000 annuitants--of whom 52 percent were men--were affected by the government pension offset in December 1991, according to data from the Social Security Administration.[4] This figure does not include an unknown number of people who did not apply for spouses' or surviving spouses' benefits because they were aware that their government pensions would offset their benefits completely.

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3. The test applied only to men in January 1977.

4. Another type of public pension offset existed before the GPO and applies to people who might otherwise be eligible for special age-72 benefits. Such people are not included in the total.

Benefits were eliminated for 120,000 people--about 85 percent of the total--and partially withheld for the remaining 25,000. The average reduction was about $215 per month: $200 for men and $230 for women. The larger reduction for women reflects the fact that their spousal benefits are based on men's earnings, which are typically greater than women's. By comparison, the dual entitlement provision reduced benefits an average of $310 for 4.8 million people in December 1990.

The number of people affected by the GPO is projected to increase to about 160,000 by December 1992 and to about 220,000 by December 1996 (see Table 1). As the impact of the transition provisions described above lessens, the fraction of those affected who are women will rise, reaching nearly 60 percent in 1996.

TABLE 1. NUMBER OF PEOPLE AFFECTED BY THE GOVERNMENT PENSION OFFSET, DECEMBER 1992 TO DECEMBER 1996 (In thousands)

Sex	1992	1993	1994	1995	1996
Men	80	80	85	85	90
Women	80	95	105	115	125
Total	160	175	190	205	220
Women as a Percentage of Total[a]	51	54	56	57	58

SOURCE: Congressional Budget Office projections based on a 1 percent sample from the Social Security Master Beneficiary Record, December 1991.

NOTE: People affected by the government pension offset are those who have some or all of their Social Security benefits withheld.

a. Percentages based on unrounded data.

Policy Issues

Critics of the GPO have raised two issues. First, they argue that many retirees are unaware of the offset provision when planning their retirement and are unprepared to handle the unexpectedly low Social Security benefits they receive. Second, the GPO is seen by some critics as being particularly burdensome for surviving spouses, since the only source of income for many may be a government pension. Those concerns resulted in proposals to modify current law either to eliminate the GPO or to limit its impact on retirees. The analysis that follows examines how government retirees--the group who would benefit from changes to the GPO--now fare in comparison with other retirees; it concludes by discussing possible ways of modifying the GPO.

PENSIONS AND FAMILY INCOMES OF GOVERNMENT RETIREES

By several measures, government retirees--and former federal government employees in particular--are better-off financially than retirees in general. First, pension coverage has long been more prevalent in the public sector, which implies that former government workers are more likely to have pensions.[5] Second, the combined pension and Social Security benefits of government pension recipients are about 10 percent greater than the corresponding values for private pension recipients and almost three times the average Social Security benefit received by retirees without a pension. Finally, the family incomes of retired government workers are higher than those of private pension recipients, and government pension recipients are less likely to have family incomes below $15,000.

This section uses data from the March 1991 Current Population Survey (CPS) to look at these findings in greater detail. Although the CPS data do not permit people affected by the GPO to be distinguished from other retirees, the data are useful for characterizing the economic well-being of individuals similar to those who would most likely be affected in the future by modifying or eliminating the GPO.[6]

5. The rate of pension coverage among government workers was roughly double that of private workers in 1950.

6. Because of the transition provisions, the number of people affected to date is still relatively small compared with the number of people who receive government pensions.

Definitions

For this analysis, retirees are defined as people age 62 or older in March 1991 who were not living in institutions and who meet one of the following criteria:

- o Received Social Security or Railroad Retirement benefits in 1990; or
- o Received retirement income, disability benefits, or survivors' benefits in 1990 from a private or government pension plan; or
- o Did not work in 1990; or
- o Stopped working in 1990.

By this definition, there were 32.3 million retirees in 1990, 31 million of whom received Social Security or Railroad Retirement benefits. By comparison, Social Security administrative data show that 33.3 million people age 62 or older received Social Security benefits at the end of 1990. Elderly retirees living in institutions or abroad account for much of the difference.

Retirees who received pension income in 1990 are classified according to the source of that income:

- o Private pension recipients are people who received retirement income, disability benefits, or survivors' benefits from a private pension plan or military retirement.[7]
- o Federal government pension recipients are people who received retirement income, disability benefits, or survivors' benefits from a federal government pension plan.
- o State and local government pension recipients are people who received retirement income, disability benefits, or survivors' benefits from a state or local government pension plan. A person who received both a federal and a state or local government pension is counted as a federal pension recipient.

7. Military retirement is counted as private in this analysis because it is derived from employment covered by Social Security and is not subject to the GPO.

TABLE 2. RECEIPT OF PENSIONS AMONG ALL RETIREES AND SOCIAL SECURITY BENEFICIARIES, 1990 (In percent)

Characteristic	People (Thousands)	Received No Pension	Received Pension: Any	Private	Federal	State/ Local
All Retirees	32,290	62.7	37.3	25.5	4.1	6.6
Retirees Who Receive Social Security or Railroad Retirement Benefits	31,030	64.7	35.3	25.0	3.1	6.2

SOURCE: Congressional Budget Office tabulations of data from the March 1991 Current Population Survey.

NOTE: Data include people age 62 or older and not living in institutions who meet one of the following criteria: they received Social Security or Railroad Retirement benefits in 1990; they received retirement, disability, or survivors' benefits from a private or government pension in 1990; they did not work in 1990; or they stopped working in 1990.

A small number of retirees received both a private and a government pension; they are included in data for all pension recipients but not in the private or government subgroups.

Characteristics of Retirees

Almost 40 percent of retirees received pension income in 1990 (see Table 2).[8] About 25 percent had income from a private pension, 4 percent had income from a federal pension, and about 7 percent had income from a state or local government pension. About 1 percent of retirees had income from both a private and a government pension (not shown in the table).

8. Many also received income from assets and other sources.

Most retirees are Social Security recipients, and the distribution of pension receipt among the two groups is therefore very similar. The only difference of note is that retirees with federal pension income account for 3 percent of Social Security recipients, but 4 percent of all retirees. This seemingly small difference arises because federal employment was not covered by Social Security before 1984; as a result, a sharply lower percentage of federal pension recipients get Social Security benefits (see Figure 1).

The demographic composition of retirees varies by type of pension, if any. For example, women make up 58 percent of all retirees, but they account for 67 percent of retirees without pensions, primarily because of the much lower rate of private and federal pension receipt by married women (see Table 3). Widows, many of whom may receive a survivor's benefit from their late husband's pension, account for only a slightly higher share of people without pensions than they do of all retirees.

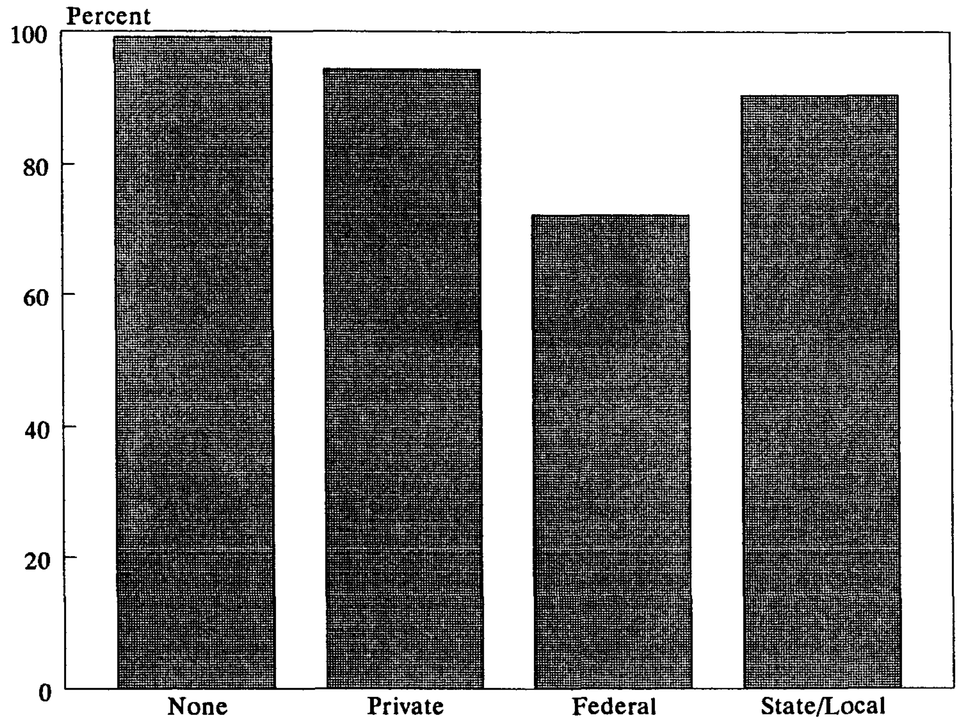
Pension Amounts Received by Retirees

When both Social Security benefits and pension income are counted, the average retirement income of government pension recipients is slightly higher than that of private pension recipients (see Figure 2). On average, total employment-based retirement income is almost triple the size of Social Security benefits received by people with no other employment-based retirement income.

Although their total employment-based retirement incomes are similar, on average, government retirees, especially federal retirees, have much larger pensions than private-sector retirees. In 1990, recipients of federal pension income received just under $14,000, compared with about $9,000 for state and local retirees and about $6,500 for private pension recipients. Part of the explanation for the disparity is that for many government retirees, government pensions substitute for, rather than supplement, Social Security benefits.

The same general pattern holds when sex and marital status are taken into account. Government pensions are much larger, on average, than private pensions, but Social Security benefits and pension income combined are similar regardless of the source of the pension. For each group examined, however, average total retirement income is higher for recipients of government pensions than recipients of private pensions (see Figure 3).

Figure 1.
Receipt of Social Security by Source of Pension Income, 1990



SOURCE: Congressional Budget Office tabulations based on data from the March 1991 Current Population Survey.

NOTE: Data include people age 62 or older and not living in institutions who meet one of the following criteria: they received Social Security or Railroad Retirement benefits in 1990; they received retirement, disability, or survivors' benefits from a private or government pension in 1990; they did not work in 1990; or they stopped working in 1990.

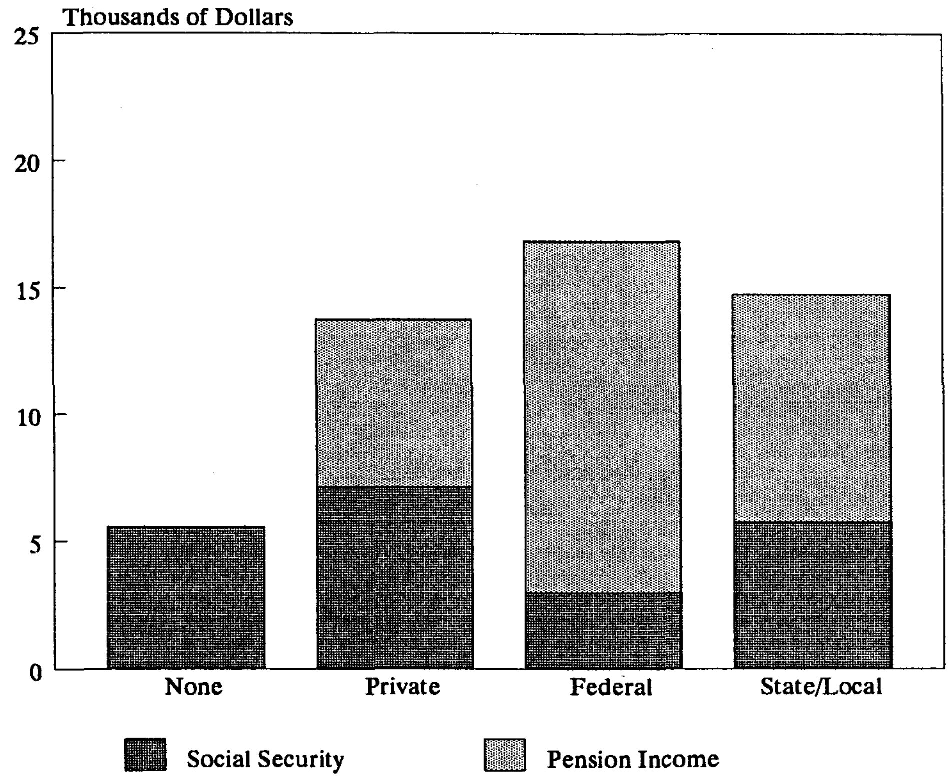
TABLE 3. CHARACTERISTICS OF RETIREES BY PENSION RECEIPT, 1990 (In percent)

Characteristic	Total	Received No Pension	Received Pension: Any	Private	Federal	State/ Local
			Number of Retirees (Thousands)			
Total	32,290	20,260	12,040	8,220	1,330	2,140
			As a Percentage of All Retirees in Category			
Men	42.2	32.9	57.8	62.5	57.0	41.5
Married	32.2	23.6	46.6	50.3	45.8	33.2
Widowed	5.8	5.3	6.7	7.5	5.8	4.6
Other	4.2	4.0	4.6	4.8	5.4	3.7
Women	57.8	67.1	42.2	37.5	43.0	58.5
Married	24.7	31.4	13.4	11.0	11.0	25.5
Widowed	26.6	29.4	21.9	20.2	23.3	24.4
Other	6.5	6.3	6.8	6.2	8.6	8.6

SOURCE: Congressional Budget Office tabulations of data from the March 1991 Current Population Survey.

NOTE: Data include people age 62 or older and not living in institutions who meet one of the following criteria: they received Social Security or Railroad Retirement benefits in 1990; they received retirement, disability, or survivors' benefits from a private or government pension in 1990; they did not work in 1990; or they stopped working in 1990.

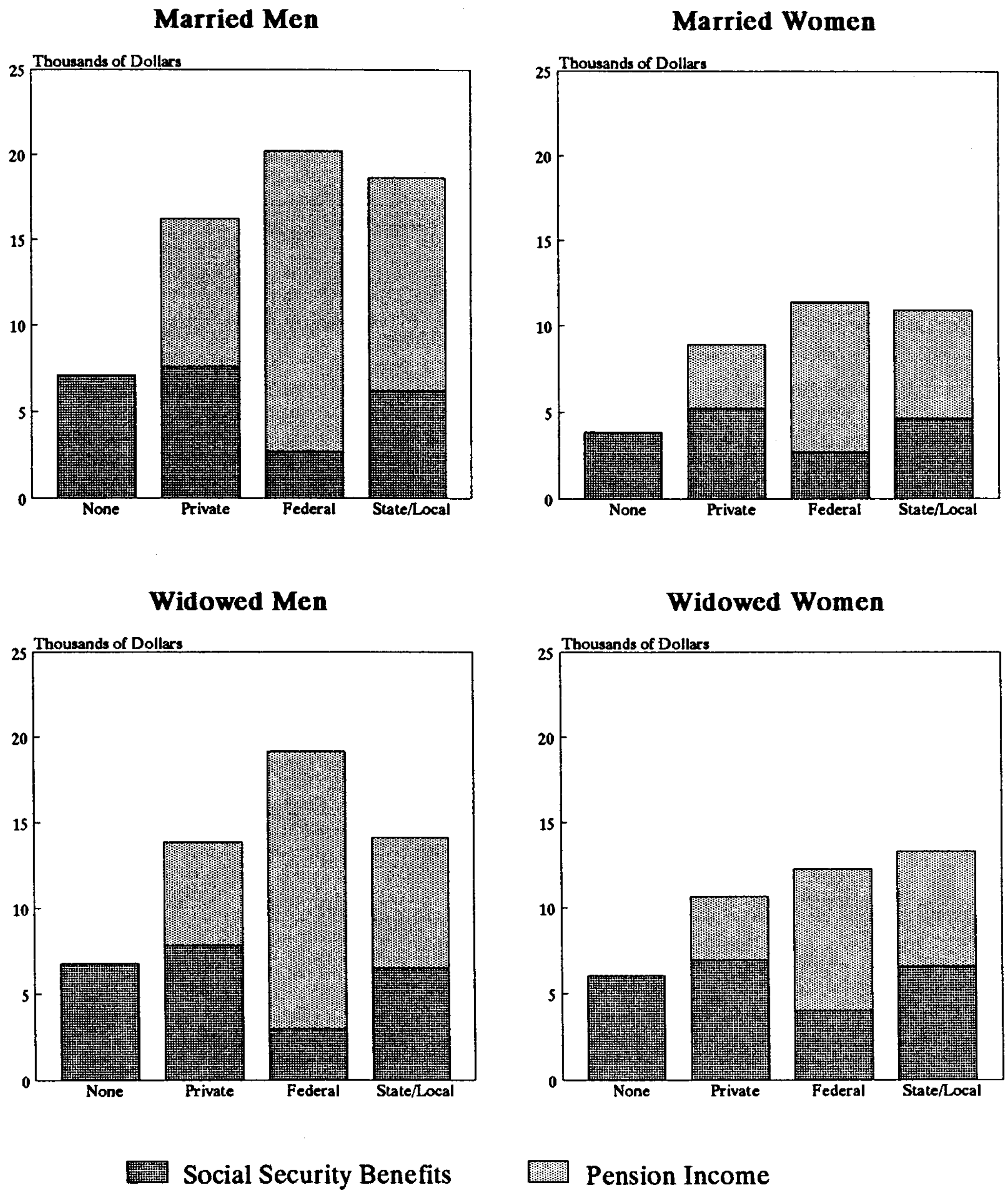
Figure 2.
Average Employment-Based Retirement Income by Source of Pension Income, 1990



SOURCE: Congressional Budget Office tabulations based on data from the March 1991 Current Population Survey.

NOTE: Data include people age 62 or older and not living in institutions who meet one of the following criteria: they received Social Security or Railroad Retirement benefits in 1990; they received retirement, disability, or survivors' benefits from a private or government pension in 1990; they did not work in 1990; or they stopped working in 1990. Data on the average Social Security benefits for pension recipients include people who received no benefits.

Figure 3.
Average Employment-Based Retirement Income by Source of Pension Income, Sex, and Marital Status, 1990



SOURCE: Congressional Budget Office tabulations based on data from the March 1991 Current Population Survey.

NOTE: Data include people age 62 or older and not living in institutions who meet one of the following criteria: they received Social Security or Railroad Retirement benefits in 1990; they received retirement, disability, or survivors' benefits from a private or government pension in 1990; they did not work in 1990; or they stopped working in 1990. Data on the average Social Security benefits for pension recipients include people who received no benefits.

Family Income of Retirees

Not all retirees' income comes from their own Social Security benefits and pensions, of course. Income from assets is important for many retirees, as is the income of other family members--especially a spouse who continues to work. Looking at retirees' family income--which includes pension income, Social Security benefits, earnings, and interest and dividend income of all family members--provides additional perspective on their economic well-being.

Analysis of family income yields the same general story: retirees with pensions are much better off than retirees without them, and recipients of government pensions fare better, on average, than recipients of private pensions. The average family income of retirees with any pension income in 1990 was $32,700, about one-third greater than retirees without such income (see Table 4 on page 16). The family income of federal pension recipients in 1990 averaged about 13 percent more than those of private pension recipients, but 46 percent more than the average family income of retirees without a pension.

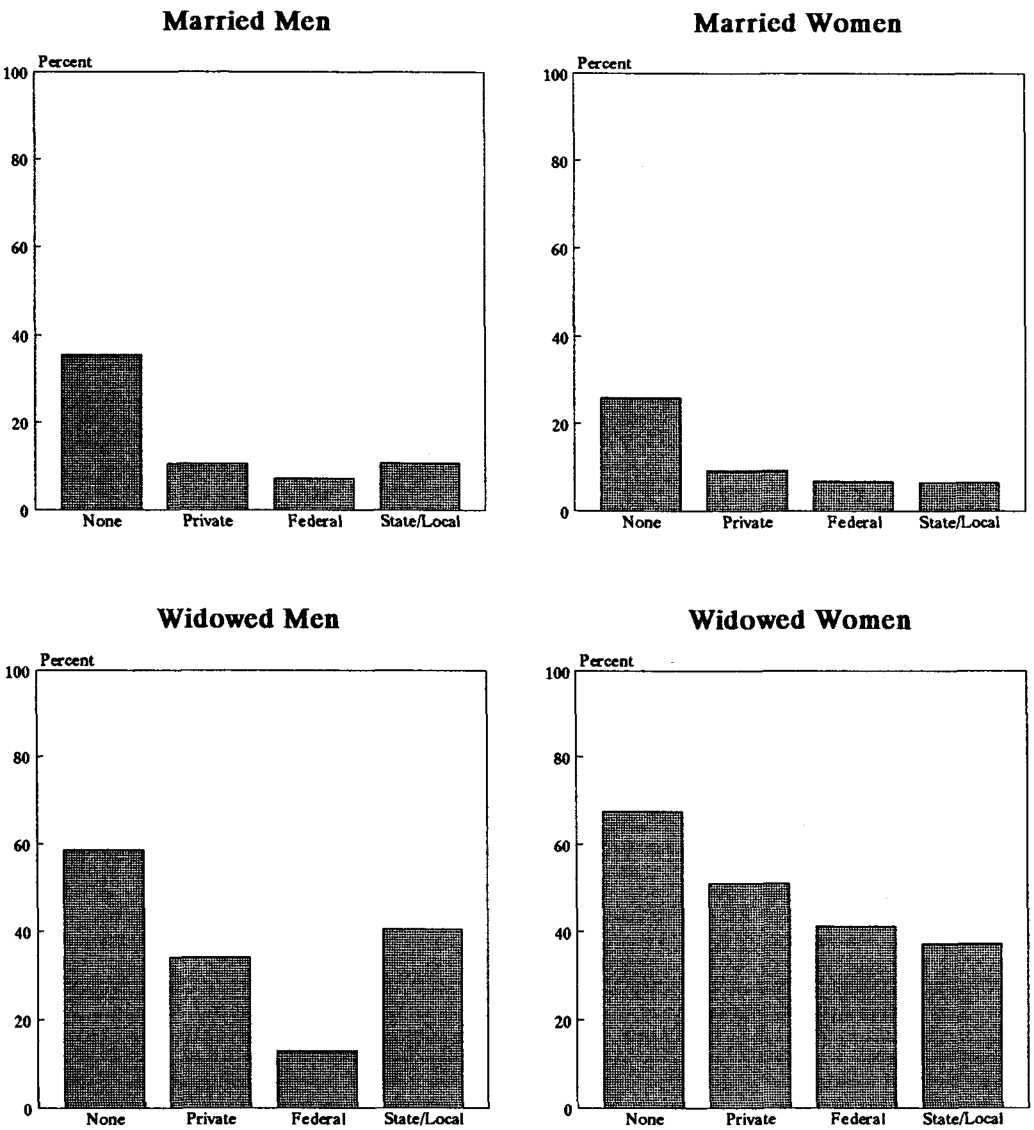
These results are not just the artifact of a small number of pension recipients with high income: only about one in five pension recipients had a family income below $15,000 in 1990, compared with almost one in two retirees without a pension. Private pension recipients were somewhat more likely than recipients of federal, state, or local government pensions to fall into this income category.

Married men account for a disproportionate number of pension recipients, raising the question of whether these results are driven by comparing family incomes of two-person families with pensions against one-person families without pensions. The answer is no: regardless of marital status, people with pensions are less likely to have family income below $15,000 than are those without pensions (see Figure 4).

OPTIONS FOR MODIFYING THE GPO

This section discusses four options that would reduce the impact of the GPO. These options vary widely in terms of the number of retirees who would be affected--that is, who would receive larger Social Security benefits--and in terms of costs. Over the five-year period 1993 through 1997, estimated costs of the four options range from $110 million to $3 billion (see Table 5).

Figure 4.
Percentage of Retired People with Family Income Below $15,000 by Their Source of Pension Income, Sex, and Marital Status, 1990



SOURCE: Congressional Budget Office tabulations based on data from the March 1991 Current Population Survey.

NOTE: Data include people age 62 or older and not living in institutions who meet one of the following criteria: they received Social Security or Railroad Retirement benefits in 1990; they received retirement, disability, or survivors' benefits from a private or government pension in 1990; they did not work in 1990; or they stopped working in 1990.

Eliminating the government pension offset would have the largest impact on government retirees' income and would not make a distinction between high- and low-income retirees. If made effective with December 1992 benefits, this option would increase federal outlays by $3 billion over the 1993-1997 period. The number of retirees who would receive higher benefits under this option would increase from 160,000 in 1993 to 220,000 in 1997. In addition, an unknown number of government retirees may not have applied for Social Security benefits because they understand the GPO would prevent them from receiving benefits. Benefits paid to these retirees would increase outlays beyond the estimate shown here.

TABLE 4. DISTRIBUTION OF RETIREES BY FAMILY INCOME AND SOURCE OF PENSION INCOME, 1990 (In percent)

Family Income	Total	Received No Pension	Received Pension: Any	Private	Federal	State/ Local
		Average Family Income (Dollars)				
Total	27,510	24,410	32,740	31,510	35,720	33,870
		As a Percentage of All Retirees in Category				
Less than $15,000	37.2	46.3	21.8	23.4	18.2	19.7
$15,000 to $24,999	23.7	21.5	27.4	28.9	25.2	24.0
$25,000 to $31,999	11.0	9.4	13.6	13.5	14.6	13.4
$32,000 to $49,999	15.5	12.3	20.9	19.4	22.3	24.2
$50,000 or more	12.6	10.5	16.3	14.7	19.6	18.7

SOURCE: Congressional Budget Office tabulations of data from the March 1991 Current Population Survey.

NOTE: Data include people age 62 or older and not living in institutions who meet one of the following criteria: they received Social Security or Railroad Retirement benefits in 1990; they received retirement, disability, or survivors' benefits from a private or government pension in 1990; they did not work in 1990; or they stopped working in 1990.

TABLE 5. ESTIMATED COSTS OF OPTIONS TO MODIFY THE GOVERNMENT PENSION OFFSET, 1993-1997 (In millions of dollars)

Option	1993	1994	1995	1996	1997	1993-1997
Repeal the GPO	320	550	630	710	790	3,000
Reduce Offset Rate to One-Half[a]	40	70	80	100	110	400
Reduce Offset Rate to One-Third[b]	70	130	140	160	190	690
Phase in Offset when Combined Monthly Government Pension and Social Security Benefit Exceed $300[c]	10	20	20	30	30	110

SOURCE: Congressional Budget Office.

a. This option would offset one dollar in Social Security benefits for every two dollars of government pension.

b. This option would offset one dollar in Social Security benefits for every three dollars of government pension.

c. This option would eliminate the offset for people whose combined Social Security benefit and government pension was below $300 per month, and would gradually increase the offset rate to the current two-thirds between $300 per month and $900 per month.

Reducing the offset rate to one-half from the current two-thirds would cost $40 million in 1993 and $400 million over the period 1993 through 1997. Many fewer people would gain from this option than from repeal of the GPO: 30,000 in 1993, rising to 40,000 in 1997. Reducing the offset to one-third would increase both the number of people affected and costs.

A fourth alternative would be to eliminate the offset for retirees whose combined monthly government pension and spousal Social Security benefits were below $300 and to increase the offset rate gradually to the current two-thirds for those with combined pensions and Social Security between $300 and $900.[9] This option would raise benefits for about one-seventh of the retirees currently affected by the GPO and would cost about $110 million over the 1993-1997 period. Limiting the offset in this way would target benefits toward relatively less well-off retirees, but would increase the complexity of the GPO.

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9. A retiree with a monthly federal pension of $300 would currently have the first $200 of any Social Security benefits offset. A government retiree whose spousal benefit was also $300 would thus receive a total of $400. The offset rate would be one-third at a combined income of $600 in this example, so that only $100 of Social Security benefits would be offset and realized monthly income would be $500.