<u>The Social Security Windfall Elimination and Government Pension Offset Provisions for Public Employees in the Health and Retirement Study</u>

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This article uses Health and Retirement Study data to investigate the effects of the Social Security's Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) on Social Security benefits received by households. The provisions reduce benefits for individuals or the dependents of individuals whose work histories include jobs for which they were entitled to a pension and were not subject to Social Security payroll taxes ("noncovered employment"). We find that about 3.5 percent of households are subject to either the WEP or the GPO, and that the provisions reduce the present value of their Social Security benefits by roughly one-fifth. Households affected by both provisions experience benefit reductions of about one-third. Under the WEP, the Social Security benefit reduction is capped at one-half of the amount of the pension from non-covered employment, which substantially reduces the WEP penalty and prevents the WEP adjustment from falling disproportionately on households in the lowest earnings category.

The following key points are excerpts from the original article and have been edited for the purpose of this document.

- The Windfall Elimination Provision (WEP), enacted in 1983, reduces Social Security benefit payments to beneficiaries whose work histories include both Social Security–covered and noncovered employment, with the noncovered employment also providing pension coverage.
- To be affected by the WEP, an individual must have worked in covered employment long enough to qualify for Social Security benefits; must have also worked in noncovered employment, meaning that Federal Insurance Contributions Act (FICA) Social Security payroll taxes were not paid; and, importantly, must have earned a pension in that noncovered job.
- For roughly the first $10,000 in average annual earnings, the WEP reduces the replacement rate from 90 percent to as low as 40 percent, depending on years of coverage under Social Security; however, the reduction cannot exceed 50 percent of the amount of the pension received from noncovered employment.
- A related provision, the Government Pension Offset (GPO), reduces Social Security benefits paid to spouses or survivors when the spouse or survivor earned a pension from a government job that was not covered by Social Security.
- The WEP and the GPO affect about 3.5 percent of households and the provisions can have a substantial effect on benefits in those households.
- Congress enacted the WEP to eliminate a perceived unintended windfall for certain beneficiaries. Years worked in noncovered employment are treated as years of zero earnings for purposes of calculating Social Security benefits. Before the WEP was enacted, some individuals who received relatively high earnings throughout their lifetime—some from covered employment and some from noncovered employment—were treated in SSA's earnings history calculations as if they were low earners, which entitled them to a higher replacement rate under the progressive Social Security benefit formula.

- Although most noncovered employment consists of government jobs, most government employees are covered by Social Security. According to the SSA, as of December 2012, about 1.5 million Social Security beneficiaries were affected by the WEP.
- Unlike the WEP, which can apply to any noncovered employment, the GPO applies specifically to government workers. "In December 2011, about 568,000 Social Security beneficiaries (about 1% of all Social Security beneficiaries) had spousal benefits reduced by the GPO".
- There are eleven possible combinations of paired earnings histories. Each scenario involves a different adjustment to own-work, spouse, or survivor benefits that may or may not be affected by the WEP or the GPO.
- For the WEP, Congress recognized that the progressivity of the benefit formula enabled persons who spend part of their career in non-covered work to receive a proportionately better deal from Social Security. Nevertheless, Congress was unwilling to mechanically reduce basic Social Security benefits just because a person had also worked in non-covered employment.
- Social Security benefits are not reduced simply because a person who worked in non-covered employment consequently enjoys a higher ratio of Social Security benefits to Social Security taxes paid. Such an individual must also have earned a pension from noncovered work for benefits to be reduced under the WEP.
- Congress also would not augment the GPO adjustment to reduce spouse or survivor benefits simply because the spouse of an entitled worker had spent significant time in a non-covered job. As with the WEP, the adjustment applies only if the individual also earned a pension from work in noncovered employment.
- In sum, Congress enacted the provisions to prevent what was perceived as "double dipping." If, in addition to working long enough on a covered job to become eligible for Social Security benefits, a person worked and was provided a pension in noncovered employment, that individual's Social Security benefits (and those due to the individual's spouse or survivor) were adjusted downward.
- Under the GPO, the reduction may equal up to two-thirds of the value of the pension in noncovered work and may wipe out the spouse or survivor benefit entirely.
- If no pension was earned on the non-covered job, there is no WEP adjustment. If a pension was earned, the AnyPIA program calculates the WEP adjustment, which is limited to one-half of the value of the noncovered pension. The benefits paid to the spouse of a person who is subject to the WEP are reduced to one-half of the WEP-adjusted benefit of the primary earner, with further adjustment possible depending on age at retirement. Survivor benefits are not adjusted for the WEP. The GPO adjustment is calculated by subtracting two-thirds of the value of the noncovered-work pension from the pensioner's spouse or survivor benefit.
- Pension plans are central to the WEP and GPO calculations.
- Although pensions mitigate the effect of the WEP adjustment to Social Security benefits, pensions from non-covered employment trigger the GPO adjustment, which mechanically reduces the spouse and survivor benefits of those with a public pension by two-thirds of the value of that pension.
- On one hand, consideration of public pensions significantly reduces the WEP's downward adjustment to Social Security benefits for those who worked in noncovered employment; on the other hand, consideration of pensions from noncovered employment is the sole determinant of the GPO downward adjustment in spouse and survivor benefits.

❖ WEP adjustment into two components: (1) the reduction that is due to the use of a lower replacement rate up to the first bend point in the PIA formula and (2) the mitigation of that adjustment by the pension. Limiting the reduction in the Social Security benefit to one-half of the size of the pension from noncovered employment reduces the WEP penalty for members of the original HRS cohort by $5,924 (58.5 percent).

❖ This system is most advantageous for individuals who benefit from the progressive Social Security benefit formula, have worked in both covered and noncovered employment, and have become entitled to a Social Security benefit—but who have little or no pension from noncovered work. Those individuals experience only modest WEP and GPO adjustments. Consequently, they enjoy a higher rate of return on the Social Security taxes they paid than do those who worked continuously in covered jobs because the years worked in noncovered employment count as zero-earnings years.

❖ At the heart of this problem is the disparate treatment that favors one-earner over two-earner households, regardless of whether the lesser earner in the two-earner household worked in non-covered or only in covered employment.

❖ Quoting Brown and Weisbenner, "approximately one fourth of all public employees in the U.S. do not pay Social Security taxes on the earnings from their government job ([Government Accountability Office] 2007). This includes approximately 5.25 million state and local workers, as well as approximately 1 million federal employees hired before 1984 ([General Accounting Office] 2003)."

❖ Although the GPO addresses one type of inequity, it creates another. Consider two households. Household 1 reflects the traditional model of a family typical of the era when Social Security was established, in that all work is undertaken by a primary earner in covered private-sector employment. By design (with some minor adjustments), a spouse who never worked is entitled to a benefit equal to one-half of the primary earner's benefit, or equal to the full benefit should the primary earner die. In household 2, one spouse works in noncovered employment and earns a pension, while the other works in covered employment. The worker with a pension from noncovered employment may lose spouse and survivor benefits because of the GPO. In both households, the spouse who was not the primary earner paid no FICA payroll taxes, but the spouse in household 2 who worked in noncovered government employment and earned a pension will receive a much smaller spouse or survivor benefit (if any) than the spouse in household 1, who did not work at all.