

Statement for Congress from the Committee for Social Security Fairness 4/15/14
Reasons for Immediate Repeal of the Punitive Government Pension Offset
and Windfall Elimination Provision

Social Security Background: Social Security benefits are earned by paying into the Social Security System the taxes required by the Federal Government, based on one's earnings. As such, the benefits generally correspond to each pensioner's contribution, regardless of other personal wealth. When first established, the Social Security System excluded state and local government employees from participating. However, in the 1960's regulations changed and state and local government agencies were allowed to enroll their employees if they chose to. Many government agencies remained separate and independent of the Social Security System as originally required. This has generally prevented employees of those agencies from contributing to Social Security during their public employment.

GPO/WEP cause Social Security benefits to be distributed inequitably: The Windfall Elimination Provision (WEP), and the Government Pension Offset (GPO), introduced thirty years ago, penalize two-million retired workers who have earned Social Security benefits through contributions paid as FICA taxes in their own employment or as dependant spouses of tax-paying employees. The benefits of those affected are calculated based on a system of distribution that differs from that of others. By reducing the final earnings from the mandatory FICA contributions, WEP and GPO substantially increase the tax cost per dollar earned by the employee for benefits in retirement. This is a violation of protection against unequal taxation.

Underlying tenet of GPO/WEP: The offsets were based on a decision to treat pensions from certain public positions as if they were the same as Social Security benefits, despite the fact that these non-covered state and local positions have nothing to do with Social Security.

- **Original Goal of GPO:** Social Security generally does not provide both a full retired worker and a full spousal benefit to the same individual. Therefore, the GPO is designed to reduce the Social Security spousal benefits of individuals who are not financially dependent on their spouses because they receive benefits based on their own work records.
- **Original Goal of WEP:** The windfall elimination provision (WEP) reduces the Social Security benefits of workers who also have pension benefits from employment not covered by Social Security. Its purpose is to remove an advantage or "windfall" these retirees would otherwise receive as a result of the interaction between the Social Security benefit formula and what appeared to be the workers' relatively short, low income, working careers.
- **Original Goal of Both Offsets:** These penalties were instituted with the goal of reducing Social Security benefit expenditures.

The GPO/WEP are based on erroneous underlying tenets

- **Social Security and public pensions are not interdependent or inter-related.** These public agency pensions were earned separately and contributed to at different rates from Social Security, yet they are used to reduce the amount of fully-earned Social Security benefits that a worker

receives during retirement. The public pensions are also subject to different rules of income taxation. Where participation is required by both Social Security and also a local public pension, the public pension is earned and distributed separately. Therefore, the public pension should not have an effect on Social Security benefits earned elsewhere.

- **GPO is based on false assumptions regarding financially dependent spouses.** GPO falsely assumes that spouses receiving benefits based on their own work records have not been financially dependent on the income of their spouse. In truth, many spouses who receive public agency retirement benefits based on their own records have been financially dependent on the income of their spouse for many years. It is often the woman who enters the work force later after caring for a family, and whose time in a career is not that of a full lifetime. Their pension, often based on the low-wage careers open to women in the past, will then be smaller than they need to survive. This makes the loss in earned Social Security benefits even more severe, often resulting in substantial lifestyle reductions and even poverty for formerly productive working citizens with middle and lower-incomes.
- **WEP fails to consider that some workers have earned only Social Security and no additional pension for part of their career.** Some employers provide no pension system and some pensions require a specific number of years before becoming vested. Therefore, because people change employers, lose their jobs before pensions are vested, or work for employers with no pension system, many people receive no separate pension contributions other than Social Security from their employers. Even though these workers may eventually qualify for a public pension in addition to Social Security, they will be deprived of some of the only retirement benefits they received for many of their working years, their Social Security, and their retirement income will be calculated on a partial lifetime of work, rather than their full lifetime of work, thereby substantially reducing their future standard of living.

The GPO/WEP Do Not Achieve Their Original Goals

The GPO/WEP cause inequitable distribution of Social Security benefits rather than ensuring their equitable distribution to all, the reason for which they were formulated. Despite the widespread harm they do, they result in less than a 2% savings of the Old Age and Survivors benefits paid out each year by the Social Security Administration.

- **GPO/WEP reduce or eliminate benefits only for some and not for others.** Benefits are reduced only for some who receive public sector pensions, not for those who receive private sector pensions. The independent and separate existence of non-Social Security participating public fund pensions to the Social Security is no different than that of the public pension funds. No private pensioner loses all their survivor benefits or finds their benefit reduced from the standard Social Security benefit formula. In addition, often the private pension retirement benefit is equal to or far higher than those of the public pension systems. This further demonstrates faulty reasoning in applying these provisions to some people and not to others.
- **WEP was not designed to affect the middle or low wage earners that it often deeply penalizes.** WEP cuts to earned benefits are substantial, commonly causing significant lifestyle reductions. Someone with a pension of only \$900 a month from a “non-covered” government job can have his/her earned monthly Social Security benefits cut from \$600 to \$300, leaving only \$1,200/month to live on.

- **The GPO has an unequal effect on women, and exacerbates the male/female wage gap.** Of the nearly 568,000 penalized, 80% are women and, of those, 74% lose their entire Social Security benefit. Of those affected, the average non-covered pension for men is substantially more per month than those paid to women. Of those affected by the GPO, the average non-covered government pension for men was \$961 more per month than the pension paid to women. The women affected often have lower pensions to start with, and then the Government Pension Offset reduces their Social Security benefits by even more--an average of \$7,308 reduction a year for women, as opposed to \$5,148 a year for men. (Congressional Research Service Report 1/8/2013)
- **The GPO/WEP formulas are arbitrary.** The WEP factor of 40%, as opposed to the normal 90% of the first reimbursement level, is widely known to be an imprecise way to determine the actual “windfall” when applied to individual cases. There is, in fact, no “windfall,” only the Social Security credits and the pensions earned independently of the Social Security System. The combined total of both the worker’s Social Security income and the earned income from pension systems is needed to provide the average retiree with a reasonable standard of living based on a full lifetime of work, not just a portion of their work history. The GPO is also inequitable because the two-thirds offset is an arbitrary and often inaccurate measure of comparability to “double entitlement” provisions. The pension paid to many short-term professional public servants causes a greater loss of spousal benefits than the double entitlement rule would for a comparable period of time under Social Security. (NCPSSM 1/11)
- **GPO/WEP discriminate against some workers** as they do not treat public pensions in the same manner as private pensions, thereby reducing or eliminating the Social Security benefits for “non-participatory” Social Security public pensioners. They are paid in at different rates and distributed differently. Therefore, public benefits should be treated in the same manner that private pensions are.

Moreover

- **The WEP curtails job choices** for today’s mobile society where it is no longer common to hold one job for an entire working career. Many people lose jobs, suffer furloughs, move or wish to change career focus and need to find new employment. Knowing that they will lose a large part of their earned Social Security retirement benefits, discourages good candidates, particularly second career people, from becoming teachers or working for the many non-contributing city and county governments.
- **Employees hired before 2005 were never informed about the GPO/WEP.** Large numbers of current public employees and retirees were never told when they accepted public service employment that this work would jeopardize their already-earned Social Security benefits. In fact, Social Security statements sent out to workers led them to believe they would receive their full benefits. This grossly misled workers into thinking they would receive a much higher retirement income and has severely impacted their financial planning. Since 2005, people hired in affected positions have been given a statement to sign at the time of hire, stating that they have been informed about the GPO/WEP. Choosing not to accept a job at this point, if they did not know about the offsets at the beginning of the hiring process, is an unrealistic option when a person needs employment. In addition, many public employers have not taken responsibility for informing the many employees hired before 2005 who have been placed at a financial disadvantage because they were unaware that they would be affected by the offsets.

- **Many do not fully understand the financial implications of the GPO/WEP**, even those hired after 2005 and those who have been informed that they are affected. The GPO/WEP are so lacking in logic and so complex that many employees still do not understand their long-term financial effects and fail to plan adequately. Many Social Security employees, themselves, have only a partial understanding of how the offsets work, themselves, and, as a result, affected workers have gotten inadequate or erroneous advice. Only with very careful study can one fully understand how to plan for the eventual financial impact of GPO/WEP.

Conclusion

- GPO/WEP fail to meet their original intent—to provide equitable pension allocations and achieve substantial savings for the Social Security system.
- The GPO/WEP reduce or eliminate Social Security only for some, while others are allowed to receive a second pension with no reduction or elimination of benefits. In addition, often those in the public sector with a second pension have higher incomes than those penalized by GPO/WEP. This reduction or elimination is based on flawed logic.
- The public workers who are not allowed to pay into the FICA system not only suffer from the loss of increased benefits that those years of additional Social Security earnings would give them, they also have the Social Security pension they have earned in other employment reduced or eliminated. This is done with no regard to their overall pension income.
- The decision of many public pensions not to participate in the Social Security System was made long before the existence of the GPO/WEP, making the GPO/WEP an ex post facto requirement. Persons eligible to retire in 1984, when the WEP went into effect, were exempted from it, but continuing workers who had already contributed to both Social Security and a non-contributing public pension had their prior contributions penalized. Since then very few persons in non-contributing public positions have been allowed to choose to contribute to the Social Security system. They are trapped!
- The WEP-GPO provisions have significantly lowered the retirement incomes of over two million retired public service workers. This has added to the income inequality problem that these retirees already face due to the other economic pressures caused by the national income inequality issues and by the lowering of state and local government pensions and benefits.

**These penalties are unfair, un-American, and unbelievable!
Repeal the GPO/WEP now!**