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# Social Security: The Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO)

## Overview

The Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) are two separate provisions that reduce standard Social Security benefits for people who have pensions from employment that was not covered by Social Security, such as some employment in state, local, and federal government.

## The Windfall Elimination Provision (WEP)

### How does the WEP Work?

The WEP applies to most people who both receive a pension from uncovered work *and* receive Social Security benefits based on fewer than 30 years in covered employment. It reduces a worker's standard monthly Social Security benefit by up to 55%, with a maximum reduction of $408.

The Social Security benefit formula is designed to benefit workers with low average lifetime earnings in Social Security-covered employment. Those workers receive a benefit that is a larger proportion of their earnings than do workers with high average lifetime earnings. The benefit formula does not distinguish, however, between workers who worked for many years at low wages in Social Security-covered employment and those who worked briefly in Social Security-covered employment at higher wages. Under the benefit formula, workers who split their careers between Social Security-covered and non-covered employment would therefore receive higher total benefits—sometimes referred to as a "windfall"—than would exist in the absence of the WEP.

The standard Social Security benefit formula applies three progressive factors—90%, 32%, and 15%—to three different levels, or brackets, of a worker's average indexed monthly earnings (AIME), which is a measure of lifetime earnings. The result is the "primary insurance amount" (PIA), which is the base benefit amount. In 2014, the PIA is determined as follows:

**Table 1. 2014 Social Security Benefit Formula**

| Factor | Portion of Average Indexed Monthly Earnings |
|---|---|
| 90% | of the first $816 of AIME, plus |
| 32% | of AIME over $816 and through $4,917, plus |
| 15% | of AIME over $4,917 |

For people who worked in employment covered by Social Security for 20 or fewer years, the WEP reduces the first factor from 90% to 40%, resulting in a maximum reduction of $408 (90% of $816, compared with 40% of $816). For each year of work in covered employment in excess of 20, the first factor increases by 5%. For example, the first factor is 45% for those with 21 years in covered employment. The WEP factor reaches 90% for those with 30 (or more) years in covered employment and at that point is phased out.

### What is the Rationale for the WEP?

The Social Security benefit structure is progressive: It helps workers who spent their working lives in low paying jobs by providing them with a benefit that replaces a higher proportion of their earnings than the benefit that is provided to workers with high earnings. Without the WEP, people who spent *only part* of their careers in covered employment would be provided with the same benefit as those who had lower annual earnings but had a full career in covered employment. The WEP removes this advantage.

### How Many People Are Affected by the WEP?

As of December 2013, 1.5 million people, or 2.7% of all Social Security beneficiaries, were affected by the WEP. The vast majority of those—1.4 million people—were retired-worker beneficiaries, which was 3.8% of all retired-worker beneficiaries. The remainder were disabled-worker beneficiaries and family members of workers.

## The Government Pension Offset (GPO)

### How Does the GPO Work?

The GPO reduces spousal and widow(er)'s benefits received by people who receive a pension from employment not covered by Social Security. The Social Security benefit is reduced by an amount equal to two-thirds of the pension.

Social Security pays benefits to spouses of retired and disabled workers and to widow(er)s of deceased workers. In general, the spousal benefit equals 50% of the worker's PIA and the widow(er)'s benefit equals 100% of the worker's PIA. Those benefits are intended to help support financially dependent spouses.

Under its "dual entitlement" rule, Social Security does not provide both a full retired-worker and a full dependent benefit to the same individual. In general, beneficiaries receive either a benefit based on their own work or the dependent benefit, whichever is larger.

The actual benefit for a spouse or widow(er) is figured by reducing the dependent benefit by 100% of the amount of his or her own worker's benefit.

**Table 2** shows scenarios in which "Mary," who is eligible for a spousal benefit,

1) works in employment covered by Social Security,
2) works in noncovered employment, *if the GPO were repealed*, and
3) works in noncovered employment and is subject to the GPO, *as under current law*.

The benefit is lowest in the first scenario and highest in the second scenario.

**Table 2. "Mary's" Benefit in Three Hypothetical Scenarios**

| | "Mary" works in Social Security-Covered Position | "Mary" works in Non-Social Security-Covered Position | |
|---|---|---|---|
| | | **Without GPO** | **With GPO** |
| 1) Retired-worker benefit (based on Mary's earnings record) | **$900** | **$0** | **$0** |
| 2) Non-Social Security-covered pension | **$0** | **$900** | **$900** |
| 3) Maximum spousal benefit (50% of husband's benefit) | $1,000 | $1,000 | $1,000 |
| 4) Reduction in spousal benefit (from line 1) | $900 | n.a. | n.a. |
| 5) Reduction in spousal benefit due to GPO (2/3 of line 2) | n.a. | n.a. | $600 |
| 6) Net spousal benefit | **$100** | **$1,000** | **$400** |
| "Mary's" **total** benefit (lines 1+2+6) | **$1,000** | **$1,900** | **$1,300** |

**Source:** Illustrative example provided by CRS.

**Notes:** n.a.=not applicable.

### What is the Rationale for the GPO?

When a spouse or widow(er) receives a pension based on uncovered federal, state, or local government employment, the dual entitlement rule does not apply, so the GPO was adopted with a similar goal. Under the GPO, spousal and widow(er)'s benefits are reduced by two-thirds of the pension from non-covered government employment.

### How Many People are Affected by the GPO?

About 615,000 Social Security beneficiaries, or about 1% of all beneficiaries, had spousal or widow(er)'s benefits reduced by the GPO in December 2013. (Additional people were likely affected indirectly, because some people who were potentially eligible for spousal or widow(er)'s benefits were probably deterred from filing for them because of their expectation that the GPO would eliminate the spousal or widow(er)'s benefit). Of the people directly affected by the GPO, 56% were spouses and 44% were widows and widowers.

## Legislative History

The WEP was enacted as part of Social Security Amendments of 1983 (P.L. 98-21). The 40% WEP formula factor was the result of a compromise between a House bill that would have substituted a 61% factor for the regular 90% factor and a Senate proposal that would have substituted a 32% factor. Before that, the standard benefit formula applied to workers regardless of whether they received a pension from uncovered employment.

The GPO was originally established in 1977 (P.L. 95-216) and replaced a "dependency test" for spousal benefits that had been in law since 1950. Under the 1977 law, the Social Security spousal or widow(er)'s benefit was reduced by 100% of the non-covered government pension, in effect treating the entire pension as equivalent to a Social Security worker's benefit. The offset factor was reduced from 100% to two-thirds by the Social Security Amendments of 1983. One section of the House version of this law proposed that the amount used in calculating the offset be one-third of the government pension. The Senate version contained no such provision and would therefore have left standing the 100% offset that existed at the time. The conferees adopted the two-thirds offset that is now law.

Dozens of bills to repeal or amend the GPO and WEP have been introduced since 1983, but no other legislative action has been taken on the issue. For example, the Social Security Fairness Act, which would completely repeal both the GPO and the WEP, has been introduced in the House of Representatives and Senate in every Congress since 2001. No legislative action on the bill has been taken. (In the current Congress, the bill was introduced in the Senate as S.896 and in the House as H.R.1795.)

## Related CRS Reports

For more information, see CRS Report 98-35, *Social Security: The Windfall Elimination Provision (WEP)* and CRS Report RL32453, *Social Security: The Government Pension Offset (GPO)*, both by Gary Sidor.

For general background on Social Security, see CRS Report R42035, *Social Security Primer*, by Dawn Nuschler, and CRS Report R43542, *How Social Security Benefits Are Computed: In Brief*, by Noah P. Meyerson.

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