WINDFALL ELIMINATION PROVISION (WEP) & GOVERNMENT PENSION OFFSET (GPO)

SOCIAL SECURITY:

Social Security provides insured workers and their eligible family members with a measure of protection against the loss of income due to the worker's retirement, disability, or death. Monthly benefit amounts are based on the worker's career-average earnings from jobs covered by Social Security. The Social Security benefit formula is weighted to replace a greater share of career-average earnings for low-paid workers than high-paid workers. Workers qualify for Social Security benefits if they worked and paid Social Security payroll taxes for at least 40 quarters (about 10 years).

Originally, the Social Security system excluded state and local government employees from coverage. In 1954, state and local employees were given the opportunity to elect to participate in the Social Security program. California public school educators chose not to join because they were paying for better disability and survivor benefits than what would have been provided by Social Security.

WINDFALL ELIMINATION PROVISION:

The WEP, enacted in 1983, reduces Social Security benefit payments to beneficiaries whose work histories include both Social Security-covered and non-covered employment, when the non-covered employment provides pension coverage. The rule can reduce a person's Social Security benefit, but not eliminate it. In 2018, nearly 1.9 million people (259,059 Californians) were affected by the WEP.

Rationale:

Social Security is intended to provide a greater level of income replacement for beneficiaries with lower career earnings. The formula could not differentiate between those who worked in low-paying jobs their entire career and those who appeared to have received low pay because they worked for many years in jobs not covered by Social Security. Consequently, workers who split their careers between covered and non-covered employment – even highly paid ones – received the advantage of the weighted formula. Congress believed that the non-Social Security pension benefit would be an adequate retirement if the earned Social Security benefit was cut.

How it works:

When Social Security determines a person's benefits, it separates average earnings into three amounts and multiplies the amounts using three different factors. The WEP reduces the income replacement ratio covered under the first component of the Social Security benefit formula, known as a bend point, from 90% to as low as 40%. In 2019, the first bend point was set at $926. Therefore the current maximum reduction ($926 x 0.40) in Social Security benefits under the WEP is $463. A guarantee in the WEP ensures that the reduction cannot exceed half of the non-covered pension.

Benefit reductions vary based on the number of years paid into Social Security.

- Up to 20 years – Reduces the 90% factor to 40%
- 21-29 years – The 40% factor increases by 5% for each additional year up to 85%
- 30 or more years – There is no reduction. Remains at 90%

Example:

Table 2. Hypothetical Scenario: PIA for a Worker with AIME of $1,500 Who Becomes Eligible in 2019 and Has 20 Years of Substantial Coverage

Regular Formula		WEP Formula	
90% of first $926	$833.40	40% of first $926	$370.40
32% of earnings over $926 and through $5,583	183.68	32% of earnings over $926 and through $5,583	183.68
15% over $5,583	0.00	15% over $5,583	0.00
Total before rounding	**$1,017.08**	**Total before rounding**	**$554.08**
Rounded down to the nearest 10¢	**$1,017.00**	Rounded down to the nearest 10¢	**$554.00**

Source: CRS.

Note: PIA = Primary Insurance Amount. AIME = Average Indexed Monthly Earnings.

GOVERNMENT PENSION OFFSET:

Social Security spousal and survivor benefits are paid to the spouses of retired, disabled, or deceased workers covered by Social Security. The spousal benefit equals 50% of a retired or disabled worker's benefit and the survivor benefit equals 100% of a deceased worker's benefit.

The GPO rule applies to Social Security spouses, widows, and widowers (widow(er)s) benefits and reduces those benefits if the beneficiary also receives money from a government pension (ie: CalSTRS). Unlike the WEP, which can apply to any non-covered employment, the GPO only applies to government workers. In 2017, nearly 683,000 people (98,937 Californians) were affected by the GPO.

Rationale:

The GPO, which passed in 1977, was imposed to stop highly-paid federal civil servants from double-dipping into Social Security and other pensions. The intent is to reduce the Social Security benefits of spouses or widow(er)s who are not financially dependent on their spouses because they receive retirement benefits based on their own work. Before the GPO was enacted, workers who received pensions from a government job not covered by Social Security could also receive full Social Security spousal or widow(er) benefits even if they were not financially dependent on their spouses.

How it works:

Under this rule, Social Security benefits are reduced by an amount equal to two-thirds of a spouse or survivors pension government retirement benefit. If two-thirds exceeds the amount of a person's spousal benefit from Social Security, then he or she will not receive a Social Security check. If the Social Security spousal benefit is higher than two-thirds of the government pension benefit, then the spouse or survivor will receive the difference.

Example:

Table 2. GPO Formula for Spouses

	John	Mary
Social Security **retired- or disabled-worker** monthly benefit (based on worker's earnings record)	$2,000	N/A
Non-Social Security-covered (government) monthly **pension**	N/A	$900
Maximum Social Security **spousal** monthly benefit eligible to receive (based on spouse's earnings record, equal to 50% of the spouse's Social Security retired worker benefit)	N/A	$1,000
Reduction in Social Security spousal monthly benefit due to **GPO** (equals 2/3 of the non-Social Security-covered pension: $900*2/3=$600)	N/A	$600
Actual Social Security **spousal** monthly benefit paid (subtract 2/3 of non-Social Security-covered worker's pension from Social Security spousal benefit: $1,000–$600=$400)	N/A	$400
Total monthly retirement benefits paid to John (Social Security only) and Mary (Social Security plus pension from non-covered employment)	$2,000	$1,300

Source: Illustrative example provided by CRS.

Note: N/A means not applicable.

Note: If Mary's government pension was $1,500 or more then it would completely eliminate her Social Security spousal benefit.

STATES AFFECTED BY THE WEP/GPO:

1) Alaska; 2) California; 3) Colorado; 4) Connecticut; 5) Georgia; 6) Illinois; 7) Kentucky; 8) Louisiana; 9) Maine; 10: Massachusetts; 11) Missouri; 12) Nevada; 13) Ohio; 14) Rhode Island; 15) Texas

WHY REPEAL?

Impacts Ability to Recruit Teachers

California is experiencing a significant teacher shortage, and the WEP hinders efforts to address the shortage. The WEP adversely affects California's ability to recruit teachers from other professions as well as teachers from other states. Although many enter the teaching profession at the beginning of their career, many choose to become teachers as a second career, often after lengthy work in the private sector covered by Social Security. Others move to California after beginning their careers as educators in a state in which their earnings are covered by Social Security. The GPO also discourages individuals and spouses who have earned Social Security benefits from entering into the teaching profession because of the spousal offset.

Disproportionately Impacts Low-Income Workers

Many teachers earn Social Security coverage because of part-time jobs they had during their high school or college years or by working in private employment during the summer months after they become teachers. Such jobs result in modest Social Security benefits, but these workers will be subject to the same WEP reduction as workers who receive much higher Social Security benefits. The reverse is also true. Workers who receive relatively modest public pensions see their Social Security benefits reduced under the WEP at the same rate as workers with more substantial benefits.

Because the WEP adjustment is confined to the first bracket of the benefit formula, it causes a proportionally larger reduction in benefits for workers with lower earnings and benefit amounts. Second, high earners are more likely to benefit from the provision that phases out the WEP for people with between 21 to 29 years of covered employment.