SOCIAL SECURITY GOVERNMENT PENSION OFFSET

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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SOCIAL SECURITY GOVERNMENT PENSION OFFSET

TUESDAY, JUNE 27, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:00 p.m., in room B–318, Rayburn House Office Building, Hon. E. Clay Shaw, Jr. (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE
June 20, 2000
No. SS–19

Shaw Announces Hearing on the Social Security Government Pension Offset

Congressman E. Clay Shaw, Jr., (R–FL), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the Social Security Government Pension Offset (GPO). The hearing will take place on Tuesday, June 27, 2000, in room B–318 Rayburn House Office Building, beginning at 10:00 a.m.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses are expected to include representatives from the Social Security Administration, the Congressional Budget Office, and Federal and State government employee associations. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

Many Federal, State, and local government employees are affected by a provision commonly known as the GPO which reduces their Social Security spouse benefit. The GPO was created in 1977 to address a perceived inequity in the law between the treatment of government workers and those covered by Social Security.

Social Security pays retirement benefits to workers who pay into the system throughout their careers. It also pays spouse benefits to their husbands and wives. As a result, some married workers may qualify for two Social Security benefits: (1) a retirement benefit based on their own work, and (2) a spouse benefit based on the other spouse's work. However, Social Security will not pay both benefits in full. Instead, the spouse benefit is offset by the full amount of the retirement benefit. The rationale behind this "dual entitlement rule" is that spouse benefits are intended to provide a safety net to those who are financially dependent on their husbands or wives.

Prior to 1977, government workers who paid nothing (or little) into Social Security could receive a full government pension plus a full spouse benefit from Social Security. In contrast, private-sector workers who paid into Social Security had their spouse benefits reduced or eliminated because of the dual entitlement rule. The GPO was created in 1977 to help address this situation. Under the GPO, a worker's Social Security spouse benefit is reduced by two-thirds of the value of his or her government pension. This attempts to equalize the treatment between government workers and private-sector workers. However, many government employees believe the provision is unfair and arbitrary. Legislative proposals have been introduced which would modify the way benefits are calculated for those affected by the GPO.

In announcing the hearing, Chairman Shaw stated: "Workers who pay into Social Security are entitled to benefits for their spouses. However, spouse benefits are designed for husbands and wives who are financially dependent on the other spouse because they don't have pensions of their own. The government pension offset was initially created to address these somewhat conflicting principles. We now need to determine whether it should be changed to improve the fairness of the Social Security program.”

FOCUS OF THE HEARING:

The hearing will focus on why the government pension offset was created, how it works, and suggestions for modification. The hearing will also discuss how modifications to the provision would affect the budget and the solvency of the Social Security Trust Funds.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, with their name, address, and hearing date noted on a label, by the *close of business*, Tuesday, July 11, 2000, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Social Security office, room B–316 Rayburn House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at “http://waysandmeanshouse.gov”.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman SHAW. Good morning and welcome to today's hearing about Government pension offset in the Social Security program. Many Government workers do not pay into the Social Security system. However, they may be entitled to spousal benefits from Social Security if their husband or wife has paid into the system.

When planning for retirement, many of these workers count on their Government pensions and their full Social Security spousal benefits. Some are shocked when they apply for Social Security benefits only to learn that their checks may be reduced or even eliminated because of a provision in the Social Security Program referred to as the Government pension offset or GPO.

Many people wonder how such a provision ever made it into the law. The reason is because Social Security spousal benefits were created in 1939 to help homemakers who did not have pensions of their own. In essence, spousal benefits are designed to help people who are financially dependent on their husbands or their wives. As a result, married people who work in social security jobs do not receive under present law the full spousal benefits. Instead, their spousal benefits are offset dollar for dollar by the amount of their Social Security retirement benefit.

In contrast, before the GPO, Government workers would receive the full spousal benefits even though they also received Government pensions from their jobs. The GPO was created in 1977 to try to level the playing field. Although the goal of the GPO is to equalize the way different workers are treated under Social Security, many people believe that the provision is unfair and is arbitrary. Moreover many people don't even know about the GPO until they retire and apply for benefits—I've had some people in my office telling me that—then they suddenly realize that they must retire on less income than they were expecting.

In response to these concerns several proposals to modify the GPO have been put forward. Today we will take an in-depth look at the GPO and the various proposals to modify the way benefits are determined. We are constantly looking for ways to improve the fairness of the Social Security system and I hope we can take another step in that direction today.

Bob.

Mr. MATSUI. Thank you, Mr. Chairman. I have no comment to make. I would like to submit my statement for the record, in the interest of time. I welcome Mr. Jefferson, who is the lead sponsor of a bill that I think has over 200 cosponsors at this time, of which I am one. Obviously, this is an issue that many people have been very concerned about over the years. On the other hand, with a major overhaul of Social Security in the works, the issue is do we do it now or do it at that time when we really deal with this issue comprehensively. I think this is something that we as a subcommittee and full committee will have to take a look at. Again, I welcome this hearing.

[The opening statement follows:]

Opening Statement of Hon. Robert T. Matsui, a Representative in Congress from the State of California

I want to thank Chairman Shaw for holding this hearing this morning. As this Subcommittee has debated the future of Social Security over the past several years, one of the central issues in that debate has been the retirement security of women. As I'm sure everyone in this room knows, women -due to a variety of economic, demographic, and cultural factors, ranging from longer life expectancies to greater amounts of time spent out of the workforce -rely quite heavily on Social Security in retirement.

Consequently, I think it is important that the Subcommittee spend the time today to examine the Government Pension Offset (GPO) because, while it is gender-neutral, it primarily affects women.

Of the roughly 305,000 people who had their Social Security benefits either reduced or completely offset by the GPO in December 1999, more than 209,000 -or over 68 percent -were women. What's more, almost 65 percent of all women affected by the GPO had their Social Security benefits completely offset by that rule.

Since the Congress repealed the retirement earnings test for Social Security beneficiaries aged 65 and older earlier this year, the Government Pension Offset is now one of the least popular and least understood provision in the entire Social Security Act. When the GPO was adopted in 1977, it was intended to put spouses who worked in government jobs not covered by Social Security on the same footing as spouses who worked in jobs that were covered by Social Security. Technically speaking, the GPO was meant to replicate the "dual entitlement" provisions that reduce spouses' benefits for people who receive some Social Security benefits on their own earnings record.

However, despite its unpopularity, we should proceed with caution in considering modifications to the GPO. Given the role that the GPO is intended to play in replicating the dual entitlement rules that apply to beneficiaries who worked in Social Security covered employment, modifying that provision of the law may treat spouses who worked in non-covered employment more favorably than those who worked in covered employment. This could potentially create a new class of beneficiaries who feel that they too are entitled to higher benefits.

Consequently, it may be necessary to consider modifications to the GPO in the context of comprehensive Social Security reform, rather than as an independent issue. What's more, if the principal goal of proposals to modify the GPO is to assist low-income beneficiaries, then it may also be worthwhile to consider changes in the Social Security program that deal with this issue directly, rather than differentiate among beneficiaries on the basis of the type of employment in which they engaged during their careers.

I want to thank all of our witnesses for being here today. In particular, I want to thank Congressman Jefferson for all the work he has done on this issue. Thank you, Mr. Chairmen.

Chairman SHAW. Thank you, Bob.

I would like to introduce our first witness, who certainly needs no introduction to this committee, William J. Jefferson. I would say about Jeff before he starts to testify, many people up here—and you find it happening all the time—will file a bill to get somebody out of their office and then not worry about it. Jeff has been working on this bill, and he has talked to me about it many, many times and I know he has talked to Mr. Matsui about it. It has been something he has been working very diligently with, and the amount of cosponsorship that has been on here is not only a signal of the amount of work that he has been doing, but it also shows the respect that Members of Congress have for Mr. Jefferson.

You may proceed as you see fit. Your full statement will be put into the record, without objection.

STATEMENT OF HON. WILLIAM J. JEFFERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. JEFFERSON. Thank you, Mr. Chairman. I appreciate your kind remarks and generous remarks and I thank you for giving me a chance to speak to this committee, and to Mr. Matsui, Ranking Member, I thank you also for your help with this bill and for your support in so many other ways, and to the other members of the committee. Rob is here, good to see you this morning.

Mr. Chairman, this discussion has been a long time coming in this forum. I of course would like, as would you, to see a comprehensive reform of social security, and Mr. Matsui mentioned it a minute ago, and God only knows when that might happen or if it will. We do know, however, that we have an outstanding problem here that many Members of Congress are now turning their attention to and we have taken up one issue, as you know, in the system that was an egregious problem this year that was far more expensive than this one. I think that it is time to turn our attention to this in earnest.

I introduced the Government Pension Offset Reform legislation in the last Congress and in this one. We now have in this one 244 cosponsors, more than enough to pass the bill, we are up for passage, and we are adding cosponsors every day. I think the pension offset reform is needed because the existing offset law continues to destroy the retirement security of many retired Federal workers, and workers who are not Federal workers who are working for State and local Governments, in many cases wiping out their spousal and survivor benefits. Ending this injustice is a top priority for many of us.

I think, Mr. Chairman, the time to reform the harsh and unfair pension offset law is now. The pension offset law was originally enacted in 1977. It's important to note that it was not part of the original Social Security system. On the other hand, the dual entitlement rule has been in the law since 1939, almost as long as the system has been around, and was a part of the original confection of it early in the 1930s. But this pension offset is an outgrowth of a Supreme Court decision, the Goldfarb decision, as you know, which eliminated the unequal treatment of men and women with respect to Social Security payment benefits, and required that either spouse, without regard to dependency, be able to receive the benefits of the of the other.

Now after Goldfarb there became a regular concern on the part of lawmakers here that because men were making well working on household jobs there would be a huge impact on the Social Security system. So there was a need in the minds of many to do something about it. It is curious if you look at this thing historically, what happened here, the first deal was to have a one for one offset, as you know. There was so much public outcry about it until it was adjusted downward. The House actually passed a one-third offset bill and the Senate passed nothing, so when they started talking about it in conference they just compromised at two-thirds. It was completely arbitrary and imprecise and had no rationale other than let's get it done and get out of town, I suppose. But nonetheless, I wanted you to understand and note that the House passed a one-third offset back in 1983 and ended up with a compromise of two-thirds.

The major concern that I have here and that others have is that many workers, low income workers, lower salary workers, like teachers, secretaries, school cafeteria workers, library workers, cafeteria workers, and many others receive lower pension benefits because they receive lower salaries on their jobs. They are unable to survive solely on their lower salaries and they have no retirement security. To illustrate the harsh impact of the pension offset, consider a widow who retired from the Federal Government and received an a civil service annuity of $600 monthly and is otherwise entitled to full widow survival benefits of $400. The current pension offset law reduces the window's survival benefit to zero. Two-thirds of the $600 civil service annuity is $400 which is then subtracted from the $400 widows survivor benefit, leaving zero. The widow receives $600 instead of $1,000. The pension offset law, therefore, decimates this widow's retirement security and forces her to live out her remaining years in poverty.

This is a result which none of us are proud of. My office has received numerous calls, mostly all of them from widows, who are just getting by and who desperately need some relief from the pension offset. The legislation does not completely repeal the pension offset, I should note, but provides a modification to complete repeal. It will allow pensioners and widows affected by pension offset provision to received a minimum $1,200 per month indexed to inflation before offset provisions could be imposed.

Mr. Chairman, the pension offset legislation is good economic, social, and public policy. Limiting the exclusion to $1,200 of combined benefits allows us to protect our teachers and other low-wage Government workers from poverty while still allowing us to prevent the abuses by higher pensioned workers targeted by the Government pension offset. Best of all, it provides the needed security without threatening the long-term viability and solvency of the Social Security system. Proponents of the pension offset claim that the offset is justified because it treats widows who worked in employment not covered with Social Security in the same way as those who worked in covered employment. However, this fairness argument is dubious and I think misses the mark.

First, it presumes that there is some fairness in the dual entitlement rule. That's questionable but it leaves poor seniors in any case in a terrible position. And so no benefit rule that forces already poor seniors further into poverty can be deemed fair and justified on the basis of that it is happening in some other instance. Our legislation simply allows these poor women, in most cases women, to keep $1,200 a month in combined benefits before and offset is applied.

Second, it is unfair to reduce the survivor benefits of noncovered workers because unlike covered workers under Social Security noncovered workers are not double dipping. Pension benefits are paid out of the State retirement funds not out of the Social Security trust fund. Thus, the perceived threats of Social Security solvency is less, especially for lower income individuals.

Third, despite proponents claim to the contrary, widows is affected by the pension offset have not had sufficient notice to make alternative plans for retirement. As you have noted, people are surprised by this provision all the time.

Fourthly, extending the pension offset to Government employees creates an in equity between public and private pension recipients. While Social Security benefits of surviving spouses earning a Government pensions are reduced by the pension offset, Social Security benefits of surviving spouses earning private pensions are not subject to offset at all. So if a teacher is in a private school setting, that teacher's the survivor benefit is not offset by the pension that the to teacher receives. So we are only penalizing people who are in the public sector and not those who are in private work such as teachers or clerks or what ever. Mr. Chairman, I ask you if retirees on private pensions do not have Social Security benefits subject to offset, why should retirees who work in public service have their pensions offset.

The pension offset has created a problem that cries out for reform. The inequity in the pension offset was not fixed in 1983 when the offset was reduced from one to one to two-thirds. In fact, most of the benefits in treating one-third of the Government pension as a private pension went to higher pensioned workers. The Government pension offset that is applied to low income pension recipients will cause tens of thousands of retired Government employees, including many teachers, custodians, or lunchroom workers, to live their retirement years at or near the poverty level.

I urge this committee to support this vital piece of legislation and assist me and so many others now who have joined in this effort in moving it through the legislative process. The time to reform the pension offset is now, Mr. chairman. We owe it to our teachers, we owe it to our other workers, we owe it to our seniors, we owe it to the American people. Thank you, Mr. chairman.

[The prepared statement follows:]

Statement of Hon. William J. Jefferson, a Representative in Congress from the State of Louisiana

Mr. Chairman, I am pleased to have the opportunity to urge this Committee to support the Government Pension Offset Reform legislation, H.R. 1217, I introduced at the beginning of this session and which now has 244 cosponsors(Pension Offset Reform).

Pension Offset Reform is needed because the existing Offset law continues to gut the retirement security of many retired federal workers by wiping out their spousal and survivor benefits. Ending this injustice is a top priority for me. It is a top priority for many of my constituents in Louisiana. It is a top priority for many seniors groups and state and local government employees across the nation. And, it is also a top priority for the 244 cosponsors of the Pension Offset Reform legislation. In short Mr. Chairman, the time to reform the harsh and unfair Pension offset law is now.

The Pension Offset was originally enacted in 1977 in response to the perceived abuses to the Social Security System that would result from the *Goldfarb* decision.

Prior to *Goldfarb*, the Social Security System provided that if a spouse who worked and paid into Social Security died, the benefits were to be paid to the surviving spouse as a survivor benefit. However, men were required to prove dependency on their spouses before they became eligible for Social Security survivor benefits. There was no such requirement for women.

The *Goldfarb* decision eliminated the unequal treatment of men and women and required Social Security to pay benefits to either spouse without regard to dependency.

Concern arose because many of the men who would benefit from the *Goldfarb* decision were also receiving large government pensions. Many officials believed that paying these benefits would bankrupt the Social Security system.

To combat this perceived problem, Pension Offset legislation was enacted. The legislation reduced the Social Security benefits that aged or surviving spouses received by one dollar for every dollar they received in earned pension benefits from a federal, state, or local government employer not covered by Social Security.

Widespread opposition to the Pension Offset erupted in the federal retirement community, forcing Congress to moderate its stance on the Pension Offset. In 1983, as a compromise, the Pension Offset was reduced to two-thirds of the public employer survivor benefits. The purported rationale was that two-thirds of the government pension was equivalent to Social Security benefits and one-third of the pension was equivalent to the pension available in the private sector.

Mr. Chairman, the compromise reached in 1983 has not relieved the harsh impact of the Pension Offset, especially on women. While the Pension Offset successfully curtailed the windfall to high paid government employees, it continues to have very devastating and unintended consequences to low income public service employees. The Pension Offset as applied to this group is punitive, unfairly harsh and bad policy.

Unlike upper level government workers, whose government pensions are more likely to be sufficient to ensure their retirement security, lower salaried government workers such as teachers, secretaries, school cafeteria workers and others will be unable to survive solely on their lower pension benefits. Additional government assistance, such as Temporary Assistance to Needy Families, will be needed.

To illustrate the harsh impact of the Pension Offset, consider a widow who retired from the federal government and receives a civil service annuity of $600 monthly and is otherwise entitled to full widow's survivor benefit of $400. The current Pension Offset law reduces the widow's survivor benefit to $0 a month (2/3 of the $600 civil service annuity is $400, which is then subtracted from the $400 widow's survivor benefit, leaving $0). The widow receives $600 ($600 + $0) per month, instead of $1000. The Pension Offset destroys this widows retirement security and forces her to live out her remaining years in poverty. A harsh and unfair result that must be changed. . .must be changed now.

My office has received numerous calls, all from widows who are just getting by and desperately need some relief from the Pension Offset. Enacting the Pension Offset Reform legislation would bring them this needed relief.

The legislation, does not completely repeal the Pension Offset, but provides a modification to a complete repeal. It will allow pensioners and widows affected by Pension Offset provisions to receive a minimum $1200 per month, indexed to inflation, before offset provisions could be imposed. The legislation also contains a hold harmless provision to ensure that no recipient's benefits are reduced by this legislation. A corresponding Senate bill, S717 was introduced in the Senate by Senator Barbara A. Mikulski (D–MD) and now has 20 cosponsors.

Mr, Chairman, the Pension Offset Reform legislation is good economic, social and public policy. Limiting the exclusion to $1200 of combined benefits allows us to protect our teachers and other low waged government workers from poverty, while still allowing us to prevent the abuses by high pensioned workers targeted by the government pension offset. Best of all, it provides this needed security without threatening the long term viability of the Social Security system.

Proponents of the Pension Offset claim that the offset is justified because it treats widows who worked in employment not covered with Social Security in the same manner as those who worked in covered employment. However, this fairness argument is dubious and disingenuous at best.

First, unfairness to low income seniors by applying the Pension Offset cannot be justified by unfairness to low income seniors by applying the dual entitlement rule. No benefit rule that forces already poor seniors further into poverty can be deemed fair. Our legislation simply allows these poor women to keep $1200 a month in combined benefits before any offset is applied.

Second, it is unfair to reduce survivors benefits of non covered workers because unlike covered workers under Social Security non covered workers are not double dipping from the Social Security pot. Pension benefits are paid out of the state retirement fund and not out of the Social Security trust fund. Thus, the perceived threat to Social Security solvency is less, especially for low income individuals.

Third, despite proponents' claim to the contrary, widows affected by the Pension offset have not had sufficient notice to make alternative plans for retirement. Covered workers have always been subject to the dual entitlement rule. However, non covered workers were not subject to the Pension Offset until phasing began in 1977.

Fourth, extending the Pension Offset to government employees creates an inequity between public and private pension recipients. While Social Security benefits of surviving spouses earning government pensions are reduced by the Pension Offset, Social Security benefits of surviving spouses earning private pensions are not subject to offset at all.

Mr. Chairman I ask you, If retirees on private pensions do not have Social Security benefits subject to offset, why should retirees who worked in public service?

The Pension Offset has created a problem that cries out for reform. The inequity in the Pension Offset was not fixed in 1983 when the offset was reduced from $1 for $1 to the two-thirds offset. Infact, most of the benefits in treating one-third of the government pension as a private pension went to high pensioned workers. The current Pension Offset, as applied to low income pension recipients, will cause tens of thousands of retired government employees, including many teachers, custodians or lunch room workers, to live their retirement years at or near the poverty level.

I urge this Committee to support this vital piece of legislation and assist me in moving it through the legislative process. The time to reform the Pension Offset is now. We owe it to our teachers, we owe it to our seniors,. . . we owe it to the American people.

Thank you Mr. Chairman.

PROBLEMS WITH PROPOSAL

A. Cost is $300 million a year and rising. $1.7 billion over 5 years and $4.4 billion over 10 years. However, the earning limit repeal was more costly. This legislation has greater impact on poor widows, especially women.

B. Government wants to tighten Social Security and protect its solvency. Thus, it may be subject to a point of order in the House. However, SSA letter states that H.R. 1217 will have a negligible impact on Social Security long term solvency.

C. If the spouse had paid Social Security instead of for a pension, the spouse could not collect both personal and spousal social security. The spouse could only collect the higher. However, see above distinction between Pension Offset and dual entitlement rule.

D. Will provide for 100% offset for amounts of combined benefits over $1200. Thus, the bill may reduce benefits for higher wage earning widows or widowers. However, we included an hold harmless provision.

Chairman SHAW. Thank you.

Mr. Matsui.

Mr. MATSUI. I don't have any questions. I would like to thank Jeff for his testimony.

Chairman SHAW. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman. I also want to thank Mr. Jefferson for his testimony this morning and for his diligence in this effort. He is my neighbor down the hall and maybe because of that, we've had an opportunity to talk about this a whole lot and he is a real advocate for making change. Plus, I think that this is a very responsible approach, and I think that ought to be noted that when I am back home in my town meetings and this issue comes up, often it is a lot easier just to say forget any limitations in this, we should just open it up. And you know, frankly the people who care the most about this, the folks who are directly affected, are often widows who are in a very difficult situation and deserve our attention. You have come up with something that I think is reasonable and practical that doesn't bankrupt the system.

My question to you I guess would be how many people are affected by your approach? You use $1,200 index to inflation as your threshold.

Mr. JEFFERSON. There are about 305,000 or so people who last year were affected by the Government pension offset provisions. I would expect that it would be some number like that.

Mr. PORTMAN. What percentage of those folks would be assisted by your legislation in the sense of seeing a boost in their benefits.

Do you have any sense of that? CBO has a 25 per cent number out there, I guess a 20 percent number for a boost in benefits. Is that roughly where you come out? Do you know?

Mr. JEFFERSON. That may be right. Essentially anyone who would be affected—

Mr. PORTMAN. Less than $1,200.

Mr. JEFFERSON. That's right. Would be subjected to help here. I don't know exactly what the number is, Rob. But there is an estimate that is made in order to get to a number as to what the bill would cost.

Mr. PORTMAN. Right.

Mr. JEFFERSON. And so it is something like what you're saying.

Mr. PORTMAN. Okay. In Ohio, as you know, I think we have an exemption, 92 percent of our public employees are exempted from Social Security. We are one of the States, I guess there are eight that have significant numbers of non-Social Security covered employees and so this is clearly a big issue back in Ohio. Not just Federal employees but State and local employees, so I appreciate your leadership on this issue and look forward to working with you on it going forward.

Mr. JEFFERSON. Thank you. There is no way to get past the fact that we haven't a system and allowances for States like yours and like mine and others where employees can opt out of the system. When they do then we say maybe they shouldn't have and we want to treat them in a different way. I do not think that is fair or right. When people spend their lives working in public service, they ought not to be penalized because they did not make the decision to work in the private sector. I think we ought to actually support them more, for the reason that they are involved in public service. Usually public service jobs, particularly in the case of women, pay less. So we have the dual problem cropping up in this thing.

You will hear today talk from the Social Security people who I guess will be measured in their comments, but nevertheless they will be critical of this approach and any reform in this area, and who will say that we do not help enough low income people. We help some other folks that are not as bad off as some of the people that we want to emphasize here. But the fact of it is, how you deal with this whole issue of dependency. Is $1,200 a lot of money today or not? And our provision, they will say, is not well targeted. It needs to be better targeted. On the other hand, they will say we ought to means test, which we don't try to do here. So it will be a little confusing as it goes along but it can be expected not to be supported.

I think over all, the system as we have it set up here, we can't have rules that allow people to work and not be in the Social Security System and then penalize them for not having gotten into it down the line.

Chairman SHAW. Bill, just one comment quickly. I was just handed some testimony that's going to come up later. Just to clarify the record, the numbers I have for the CBO are different from the numbers that we are going to get from SSA, and you should know that. SSA will testify that, based on the written testimony, 50 percent of the beneficiaries now affected by GPO would have their benefits increased under the bill, including 29 percent who would come out of offset. We may have a difference between CBO and SSA. Maybe we will get into that later. We intend to hear from other witnesses.

Mr. JEFFERSON. I have the testimony here. There are many people who are supporting this who want all of the people who are affected to have their benefits increased. The bill, as you pointed out, has a $1,200 limitation on it doesn't go that far. It only reaches half the people that are involved. They will admit that of the women with increased benefits 64 per cent would be wives, and 36 percent would the widows, and 90 per cent of those who would receive that benefit have income above the poverty level. Well it is not our design here to relegate workers to poverty level pension receipts. I hope will do better than that. I hardly see it as a criticism. But in any event, thank you for your comments and questions.

Chairman SHAW. Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman. I want to congratulate my colleague from Louisiana on his work in this matter. This is a very complicated matter that not many people understand and I commend him for digging into it and trying to come up with a proposal that makes a lot of sense. I am certainly willing to work with the other members of this subcommittee in trying to determine whether there is something workable that is fair and does not add too much of the burden to the system.

But I am troubled by the current law. I do hear this complaint from a number of folks back in my district. On the face of it, it does seem to be somewhat unfair. And so again I want to commend the gentleman and pledge to work with him and other members of the subcommittee to try to discover maybe some modification that will make the system a little bit more fair on the face of it at least. So thank you, Mr. Jefferson.

I just want to ask one question, and I am sorry that I got here a few minutes into your testimony, you may have covered this. But on the mechanics of your bill, how do you determine the $1,200? Evidently, based on the statement that Rob Portman just made, from Social Security, where only 50 percent of those in the category that you mentioned would be affected, evidently, you don't give everybody a $1,200 exemption from the application of this rule. But how does it work? How do you determine that $1,200?

Mr. JEFFERSON. You actually do give it to everyone, except that some people have pensions which are larger than that one. I will tell you how it works, and it just ends up falling out that way, depending upon how much that person's pension is and how much the survivor benefit is, is going to determine what the level is. Assume a widow has a $600 pension that she has earned in some employment and would therefore have a right to receive it. Her husband has left a $900 survivor benefit which otherwise she would have a right to, so add $900 and $600 is $1,500. What would happen is we would take two-thirds of her $600, which would be $400, and subtract it from his $900, leaving $500 she could apply to her benefit. Then we would go back and add $500 to her $600 and she would have a $1,100 of benefit. Thus she would therefore be under the cap.

Mr. MCCRERY. So what would happen to her under your bill? Would she get another hundred dollars?

Mr. JEFFERSON. Under our bill she could get another hundred dollars, up to $1,200. In other words, she would get the difference between how those numbers added up. In this case $1,100 to $1,200 and if she would get the $1,200 benefit she would be cut off.

Mr. MCCRERY. So when you apply the offset, if the total of her benefit was over 1200, she would not be affected by your legislation.

Mr. JEFFERSON. No. That's right.

Mr. MCCRERY. Okay. Thank you.

Mr. JEFFERSON. And if she had only $500 in her own pension and her husband had a $800 coming in survivor benefit, the makeup would be larger to get to $1,200. But the idea would be to get the widow to $1,200 at a minimum.

Mr. MCCRERY. Okay. Thank you.

Mr. JEFFERSON. Thank you, and I thank you for your attention to it.

Chairman SHAW. Thank you very much, Mr. Jefferson. We appreciate your good work on bringing this before the committee and your testimony this morning.

Our next witness from the Social Security Administration, Dr. Jane Ross, who is the Deputy Commissioner for Policy. Miss Ross, welcome. We are in a little bit of a time constraint. We have been told that we must be out of this room by 12:30. Dr. Ross, would you have any objection having Dr. Cullinan from the Budget Analysis Division of Human Resources Cost Estimate Unit to join you as a panel on this?

Ms. ROSS. That would be fine.

Chairman SHAW. Appreciate it. That will expedite our hearing somewhat. Dr. Ross, thank you very much.

STATEMENT OF JANE L. ROSS, DEPUTY COMMISSIONER FOR POLICY, SOCIAL SECURITY ADMINISTRATION

Ms. ROSS. Mr. Chairman and members of the subcommittee, thank you for this opportunity to discuss the Government pension offset provision, which is commonly known as the GPO. I want to briefly describe how this provision works, why the Congress enacted it, and also comment on proposed changes.

The purpose of the GPO provision is to remove an unfair advantage available to Government workers who are not covered under the Social Security program. It is designed to treat Government workers similarly to the way that workers who are covered by Social Security are treated. The GPO affects only currently married couples or widows and widowers where one member of the couple worked in Government employment not covered by Social Security. Frankly, the GPO can be one of the more difficult Social Security provisions to explain succinctly so I brought along several charts to show you how it works. Let me begin. I think you have these charts in front of you as well.

Let me start by first talking about the dual entitlement provision of Social Security. This provision provides that Social Security benefits payable to a person as a spouse or a surviving spouse be reduced by the amount of that person's own Social Security workers benefit.

In this first chart, Mary is a retired worker who is entitled to a monthly Social Security benefit of $600, as shown in the left-hand column. Because her husband also worked under Social Security and is himself entitled to a retirement benefit of $1,400, Mary would be entitled to a Social Security spouses benefit of $700 if Social Security did not have a dual entitlement provision. The dual entitlement provision means that Mary cannot receive both benefits in full. She gets the $600 of her own retirement benefit plus the difference of her spouses benefit which is $100, giving her a total monthly benefit of $700 which you can see on the right. In dollar terms, she receives the larger of the two benefits.

Now going to the second chart, in the second chart is Mary's sister Nancy who worked in a Government job not covered by Social security. Nancy gets a monthly Government pension of $600, the same amount as Mary's Social Security worker's benefits. Nancy's husband, like Mary's, receives a monthly Social Security benefit of $1,400 making Nancy eligible for a Social Security spouses benefit of $700. The dual entitlement provision does not apply to Nancy because she did not work under Social Security. If the GPO provision did not exist, Nancy would receive her monthly spouses benefit of $700 plus her Government pension of $600 for a total of $1,300. That's what were showing in this second chart.

The third chart shows how the current GPO provision affects Nancy's Social Security benefits. Under the GPO, Nancy's $700 spouse benefit is reduced by two thirds of the amount of her Government pension or $400. Nancy therefore, receives her monthly pension of $600 plus a monthly spouse's benefit of $300 for a total of $900. As a result of the GPO Nancy, who worked in a non-covered job is treated similarly to Mary.

The 4th chart shows a comparison of the three examples. I believe that this chart demonstrates how the GPO approximates the affects of the dual entitlement provision and removes the more favorable treatment under Social Security for Government workers who are not covered by Social Security. You will note that, although the GPO provision is intended to accomplish the same purpose as the dual entitlement provision, the amount of the reduction under the GPO is different.

Social Security and Government pensions have different benefit structures and serve different purposes. Congress recognized that a Government pension includes both a private pension component and a Social Security component. Congress settled, as Mr. Jefferson said, on two-thirds of the Government pension as an approximate equivalent to a Social Security workers benefit. As of December 1999, 305,000 beneficiaries had their benefits fully or partially offset due to the GPO.

Now let me turn to Mr. Jefferson's proposal, H.R. 1217. This proposal would eliminate the GPO for individuals with combined monthly Social Security spouse or surviving spouse benefits and noncovered Government pensions of $1,200 or less. If the combined amount exceeds $1,200 there would be a dollar for dollar offset for the excess above $1,200.

We have two final charts which showed the effects of H.R. 1217. In the first, we look again at Nancy our retired Government employee. We find that she would receive a total monthly pension of

$1,200 under H.R. 1217 now compared with $900 under current law. The final chart shows a comparison of all four examples. And as you can see H.R. 1217 represents a significant change from current law. I'd like to point out that under the current GPO provision Nancy receives more than Mary receives under the dual entitlement provision and under this bill she would receive additional benefits.

Our analysis of H.R. 1217 shows that if it were applied to current beneficiaries affected by the GPO, 50 percent of them would have their benefits increased. Of that number, 90 percent have family incomes above the poverty threshold and 80 percent have family incomes over 150 percent of the threshold. That is 90 percent of the beneficiaries helped by this bill are not poor. There are legitimate issues regarding the need to alleviate poverty among low income elderly but H.R. 1217 is not well targeted to address those issues. We estimate that H.R. 1217 would cost approximately $2.3 billion over the first five years and that the long-range cost would be negligible.

In conclusion, let me say that Congress had a good reason to enact the GPO. It was established to prevent workers whose government employment is not covered by Social Security from receiving more favorable treatment compared to workers who spent a lifetime in Social Security covered employment. Finally, I think that any change in the GPO should be considered in the broader context of long-range financial reforms for the Social Security program because a change in the GPO involves changing the relative level of benefits for one group of beneficiaries over another.

I want to thank you for this opportunity to testify and I will be glad to answer any questions you have.

[The prepared statement follows:]

Statement of Jane L. Ross, Deputy Commissioner for Policy, Social Security Administration

Thank you for giving me the opportunity to appear before you today to discuss the government pension offset provision, commonly referred to as the GPO. Today I will describe for you how this provision works and the reasons Congress enacted it. I will then discuss H.R. 1217, a bill that is before this Subcommittee that would change the way this provision is applied.

The GPO affects Social Security beneficiaries who receive pensions based on work not covered under Social Security. These beneficiaries are retired workers who were employed by Federal, State, and local government entities. The GPO reduces or eliminates the Social Security benefit payable to a person as the spouse or surviving spouse of a worker.

In enacting the GPO, Congress intended to remove an unfair advantage available to government workers whose employment was not covered under the Social Security program. The goal of the GPO is to assure that Social Security dependent's benefits will not be paid to persons not dependent on the worker.

Description of GPO

The GPO affects government retirees who are eligible for two retirement benefits:

- A pension based on their own work in a Federal, State, or local government job that was not covered by Social Security, and
- A Social Security dependent's benefit based on their husband's or wife's work in covered employment.

For such a retiree, the GPO requires that the Social Security spouse's benefit be reduced—or "offset"—by two-thirds of the amount of the noncovered government pension.

To simplify the discussion I will generally talk about how the GPO affects Social Security benefits paid to wives. Actually, the provision also similarly affects benefits for other dependents—husbands, widows, and widowers. Also, when I speak of government employment, unless I note otherwise, I am referring to employment that was not covered by Social Security on the last day of the worker's employment. This is the test used under the current law offset provision.

Rationale for the GPO

Let me now turn to a discussion of the rationale for the GPO. The GPO provision, enacted by Congress in 1977, is designed to replicate the dual-entitlement provision of the Social Security program for workers receiving a pension from noncovered government employment. The dual-entitlement provision, which has applied since 1940, requires that Social Security benefits payable to a person as a spouse or surviving spouse be reduced by the amount of that person's own Social Security worker's benefit. Thus, a person who works in a job that is covered under Social Security and receives a Social Security worker's benefit cannot also receive a full Social Security spouse's benefit. The dual-entitlement provision was intended to restrict the payment of benefits to those family members who were actually dependent on the worker.

Under the dual entitlement provision, if a person is entitled to a larger Social Security benefit as a worker than as a spouse, no spouse's benefit is payable because the person is not considered dependent on the other spouse. Similarly, if the benefit payable as a spouse exceeds the worker's benefit for that person on their own record, then the spouse's benefit is offset by the amount of the worker's benefit. As a result of the dual entitlement provision, nearly 6 million beneficiaries receive reduced benefits as spouse—which is to say that they receive the equivalent of the worker's benefit or the spouse's benefit, whichever is higher.

The GPO acts as a surrogate for the dual entitlement provision for workers receiving a government pension based on work not covered under Social Security because if the work had been covered, any spouse's or surviving spouse's benefit would have been reduced by the person's own Social Security worker's benefit. Government pensions are, to a large extent, a substitute for Social Security benefits. The result of enactment of the GPO is that spouses and surviving spouses are treated similarly, regardless of whether their jobs are covered under Social Security or not. Thus, the GPO helps ensure that those who receive Social security benefits as dependents were, in fact, dependent to some extent on the worker for financial support.

Visual Presentation

To better illustrate the dual entitlement provision and how the GPO helps replicate dual-entitlement, I've brought along several illustrative charts.

The first chart shows Mary, a woman worker whose monthly Social Security retirement benefit is $600. Mary's husband has a Social Security worker's benefit of $1,400, entitling Mary to a Social Security spouse's benefit of $700. However, because of the dual-entitlement provision, Mary cannot receive both benefits in full. Her $700 benefit as a spouse is offset dollar for dollar by her $600 worker's benefit. Consequently, she receives her worker's benefit of $600 plus the remaining spouse's benefit of $100 for a total monthly benefit of $700.

The second chart shows Mary's sister Nancy. Nancy worked in a government job not covered by Social Security. While Nancy does not receive a Social Security worker's benefit, she does receive a monthly government pension of $600. Like Mary's husband, Nancy's husband also receives a monthly Social Security benefit of $1,400 so Nancy is eligible for a Social Security spouse's benefit of $700. Since Nancy does not receive a Social Security worker's benefit, the dual entitlement provision does not apply. If the GPO provision did not exist, Nancy would receive her monthly spouse's benefit of $700 plus her government pension of $600 for a total of $1,300 in monthly benefits.

The third chart reflects present law and shows how the GPO provision affects Nancy's Social Security benefits. Under the GPO, Nancy's $700 spouse's benefit is reduced by $400, two-thirds of the amount of her monthly government pension. Thus, under GPO, Nancy receives her monthly pension of $600 plus a monthly spouse's benefit of $300 for a total of $900. As a result of the GPO, Nancy, who worked in a noncovered job, is treated like Mary, who is affected by the dual entitlement provision.

The fourth chart shows a comparison of the three examples. I believe that this chart demonstrates how the GPO was designed to replicate the dual entitlement provision and remove the favorable treatment under Social Security that previously existed for government workers who were not covered under Social Security.

Why the Offset is Less Than 100 Percent

Although the GPO provision is intended to accomplish the same purpose as the dual entitlement provision, the amount of the reduction under the GPO is different:

Under the dual entitlement provision, there is a dollar-for-dollar reduction: if a woman gets a monthly Social Security benefit of $300 based on her own work, then $300 is subtracted from any Social Security benefit she would get as a wife.

Under GPO, there is a two-thirds reduction. If a woman gets a monthly pension of $300 based on her own work in government, then two-thirds of it ($200) is subtracted from any Social Security benefit she would get as a wife.

The GPO replicates the Social Security dual-entitlement rule by assuming that two-thirds of the government pension is approximately equivalent to a Social Security retirement benefit the worker would receive if his/her job had been covered by Social Security. Therefore, only two-thirds of the government pension is used to offset Social Security benefits.

The other third of the government pension is considered as the equivalent of a private pension and is not used to offset Social Security benefits. Here again, the GPO affects government workers in the way that dual entitlement affects non-government workers: both groups of workers can receive a private pension without having it offset against their Social Security spouse's benefit.

While Congress settled on two-thirds of the government pension as the amount to be considered equivalent to a Social Security worker's benefit, actually there is no single offset rate that would be a precise match in every case. This is because Social Security and government pensions have different benefit structures and serve different purposes.

A 1990 Congressional Research Service study of the effects of the GPO on employees under the federal Civil Service Retirement System concluded, in part, that the net effect of these differences between Social Security and government pensions is that low earners probably have less of a reduction in their spouse's benefits under the GPO than they would under dual entitlement. Thus, low earners subject to the GPO generally do somewhat better than similarly-situated low earners subject to the dual entitlement provision and high earners do somewhat worse under the GPO than similarly-situated high-earners subject to dual entitlement.

Impact of GPO

As of December 1999, 305,000 beneficiaries had their benefits fully or partially offset due to the GPO. The following table shows some important distinctions in its effects on men and women:

	Men	Women
Affected by the GPO	96,000	209,000
Benefits Fully Offset	98%	65%
Average Monthly Offset	$276	$391

The difference in the average pension received by those affected by the GPO varies significantly by gender. For women, the average monthly pension amount is currently about $1,150; for men it is $1,950. As expected, the pension amount is larger for those who are fully offset. For women whose benefits are fully offset, the average pension is $1,400, but only $540 for women whose benefits are partially offset under the GPO provision.

Arguments for Eliminating the GPO

Critics of the GPO say that:

- The provision is not well understood and many people are unprepared for a smaller Social Security benefit than they had assumed in making retirement plans.
- Reducing everyone's spousal benefit by two-thirds of their government pension is an imprecise way to estimate what the spousal benefit would be had the government job been covered by Social Security. Ideally, the way to compute the dual entitlement rule would be to apply the Social Security benefit formula to an individual's total earnings, including the noncovered portion, and reduce the resulting Social Security benefit by the proportion of total earnings attributable to noncovered earnings. However, this is not possible from an administrative standpoint because SSA does not have information on a person's noncovered earnings history.
- The GPO unfairly singles-out workers with government pensions, compared to those with private pensions.

Arguments for Retaining the GPO

Defenders of the GPO maintain that:

- It is an effective method to cut back what otherwise would be an unfair advantage for government workers.

• It is appropriate to provide different treatment for workers with government pensions if they did not pay Social Security tax on the employment that generated the pension.

• There has been ample time for people to adjust their retirement plans since the provision has been in the law for nearly 23 years.

• Had these workers been covered by Social Security, in many cases Social Security's dual entitlement rule would actually produce a greater reduction of spouse's benefits than does the GPO.

While not always perfect, because administrative considerations precluded applying the Social Security benefit computation rules to government employment, the GPO is defended as a practical way to prevent undue Social Security benefits from going to government annuitants.

H.R.1217

Now I'd like to discuss H.R. 1217, the bill introduced by Representative Jefferson to modify the GPO. Under H.R. 1217, the GPO would be eliminated for individuals with combined *monthly* Social Security spouse's/surviving spouse's benefits and noncovered government pensions of $1,200 or less. If the combined amount exceeds $1,200, there would be a dollar-for-dollar offset for the excess above $1,200. The bill would also guarantee that the offset could not exceed two-thirds of the pension, as guaranteed under present law. The $1,200 amount would be indexed by annual cost-of-living adjustments (COLAs).

Effects of H.R. 1217

We've prepared another chart to show the effects of H.R. 1217. You'll recall, Nancy, our government worker, receives a monthly pension of $600 based on her noncovered government employment. In addition, her monthly spouse's benefit of $700 is reduced to $300 because of the current law GPO provision. The total that she would receive would be reduced from $1,300 to $900. Under H.R. 1217, no reduction would apply to the first $1,200 in combined monthly benefits. The combined amount of her government pension and Social Security benefits—$1,300—would exceed the $1,200 threshold by $100. Consequently, Nancy's Social Security spouse's benefit would be reduced under the bill by this $100 excess. Nancy would then receive her full pension of $600 and $600 per month in spouse's benefits (after the offset).

The final chart shows a comparison of all four examples. It shows how H.R. 1217 compares to present law and how it compares to the law that was in effect prior to enactment of the GPO. It also shows the effect H.R. 1217 would have on noncovered government workers compared to similarly-situated persons who worked in covered employment.

By linking the application of the GPO to a dollar threshold for the combined amount of the monthly government pension and the Social Security benefit, H.R. 1217 would be a significant departure from the earned-right nature of the program. The strong public support that Social Security has enjoyed since its inception is based on the concept that the Social Security taxes workers pay establishes a right to benefits that is not dependent on a showing of presumed financial need. In this regard, H.R. 1217 does nothing for the millions of similarly-situated spouses with low benefits who have worked and paid contributions into the system but whose benefits are affected by the dual-entitlement provision.

SSA's Office of Policy prepared an analysis of the effects of H.R. 1217. Based on this study our analysis shows that:

• 50 percent of the beneficiaries now affected by the GPO would have their benefits increased under the bill, including 29 percent who would come out of offset.

• Of the women with increased benefits, 64 percent would be wives and 36 percent would be widows. (This parallels the distribution of women now in offset.)

• 90 percent of those who would benefit from H.R. 1217 have income above the poverty level and over 80 percent have family income over 150 percent of poverty.

I would like to highlight this last point in particular. It demonstrates that H.R. 1217 is not well targeted at low-income elderly beneficiaries, especially widows. There are legitimate issues regarding the need to alleviate poverty among low-income elderly, including those impacted by the GPO. H.R. 1217, however, is not well targeted to address those issues.

Cost of H.R. 1217

SSA's Office of the Actuary estimates that H.R. 1217 would cost approximately $2.3 billion over the first five years and $5.9 billion over the first ten years. The long-range cost is estimated to be negligible (i.e., less than 0.005 percent of taxable payroll.)

Informing the Public

While the GPO has been part of the Social Security law for many years, SSA continues to actively work to inform government employees about it so that they can properly plan their retirement. The annual Social Security Statement advises workers that Social Security benefits may be affected by a pension based on noncovered work and provides the title of the SSA publication, Government Pension Offset, that explains the GPO. This publication, as well as information about the GPO, is also available on SSA's website.

For Federal government employees, SSA works closely with the Office of Personnel Management to provide background materials on the provision including fact sheets and pamphlets. These materials are made available at OPM seminars open to all Federal employees who are within 5 years of eligibility for retirement. SSA also provides the same background materials to State and local government agencies and to unions, such as the American Federation of State, County, and Municipal Employees, for use in informing State and local employees.

Conclusion

Congress had good reason to enact the GPO. It was established to prevent workers who spent a portion of their careers in employment not covered by Social Security from receiving more favorable treatment under Social Security than comparable workers who had worked a lifetime in covered employment.

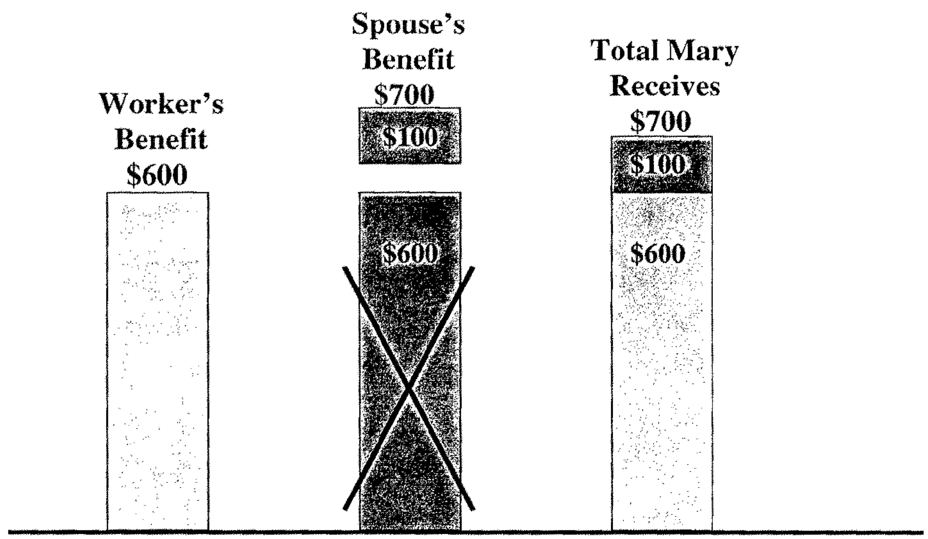
H.R. 1217 would provide higher Social Security benefits for many career government workers whose pensions from noncovered employment, in combination with their Social Security benefits, are below certain levels. Thus, this bill focuses on providing higher Social Security benefits to public sector retirees, who were not covered by Social Security during their years in government work, simply because their combined public pension and Social Security benefits are deemed to be "too low." But as previously indicated, 90 percent are not poor and 80 percent have family income that is at least 150 percent of poverty.

Finally, I think that at this time, any change in the GPO should only be considered as part of the broader context of long-term reform and extending the solvency of the Social Security program. This is because a change in the GPO would inherently involve changing the relative level of benefits for one group of beneficiaries over another.

I want to again thank the Chairman and the Subcommittee for giving me this opportunity to discuss the GPO and to share SSA's analysis on the legislation before this Subcommittee. As always, I am more than happy to provide assistance to the Members and will be glad to work with you to provide any additional information you request. I would be glad to answer any questions you might have concerning the GPO provision.

Dual-Entitlement Provision

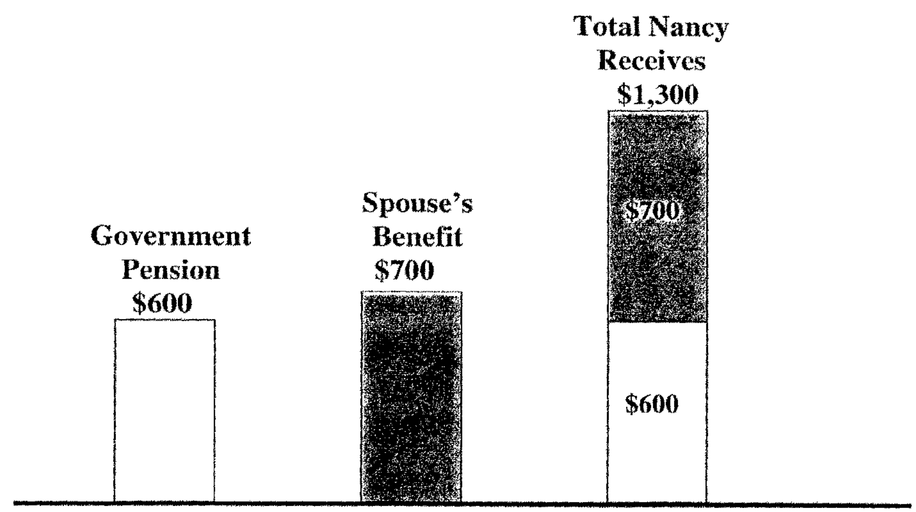
Mary Works in a Social Security-Covered Job



$100 Spouse's Benefit Paid. $700 Spouse's Benefit Offset by $600 Worker's Benefit.

Without GPO

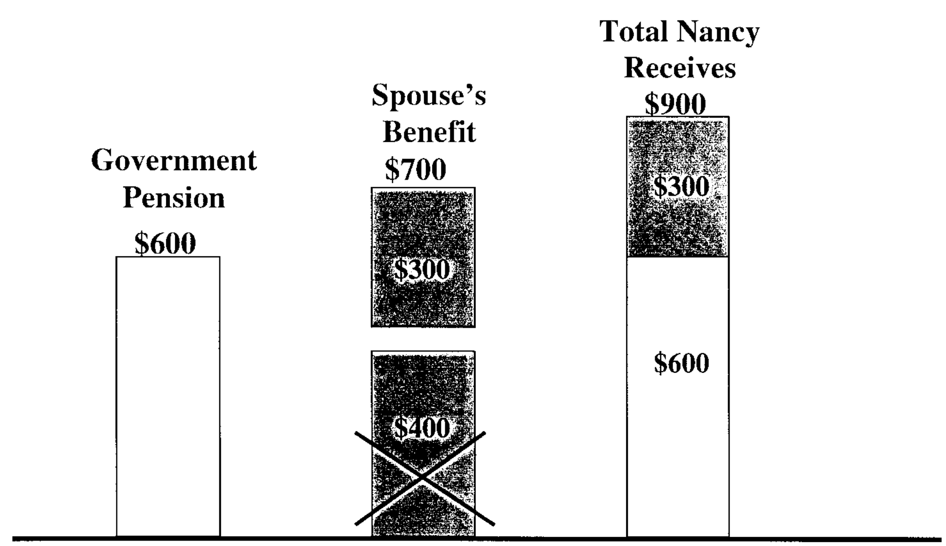
Nancy Works in a Noncovered Job



Full Spouse's Benefit Payable. Gets Both Spouse's Benefit Plus Noncovered Government Pension.

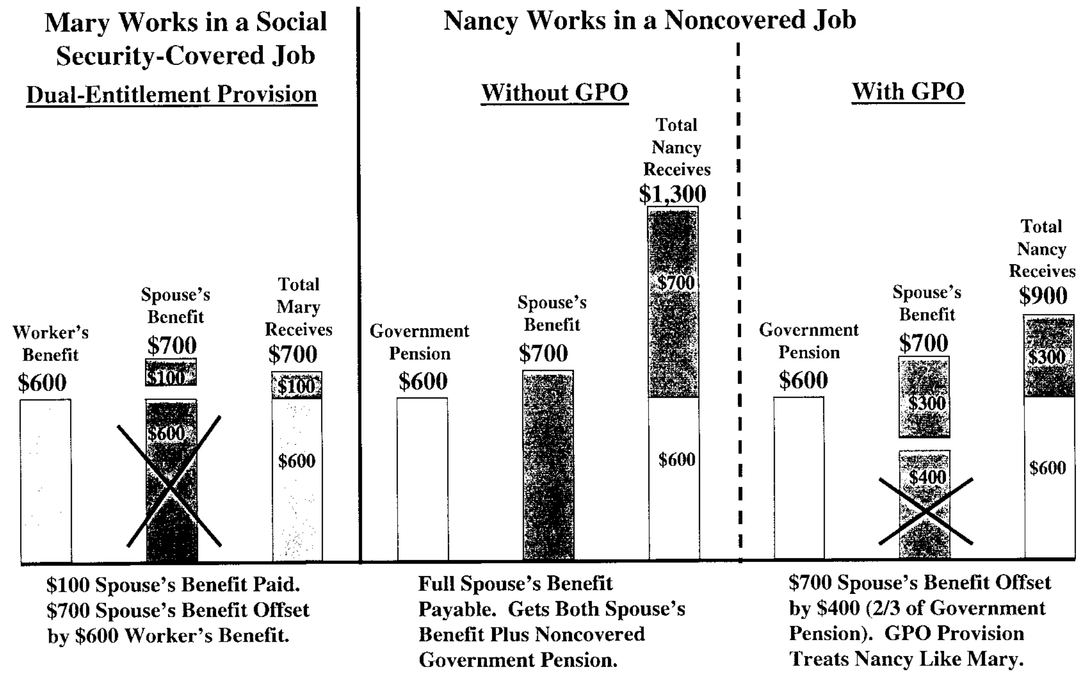
With GPO

Nancy Works in a Noncovered Job

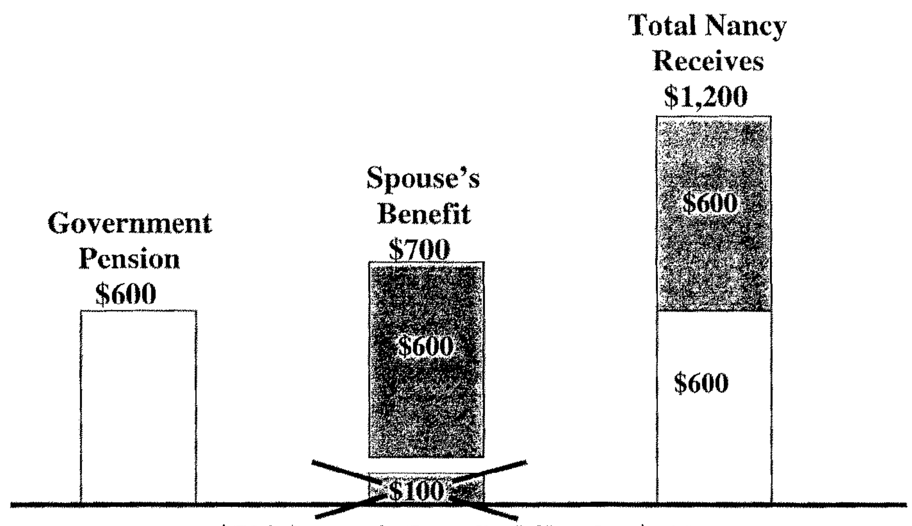


$700 Spouse's Benefit Offset by $400 (2/3 of Government Pension).
GPO Provision Treats Nancy Like Mary.

Effect of Dual-Entitlement Provision & GPO on Mary and Nancy
(Each Have Potential Spouse Benefit of $700)

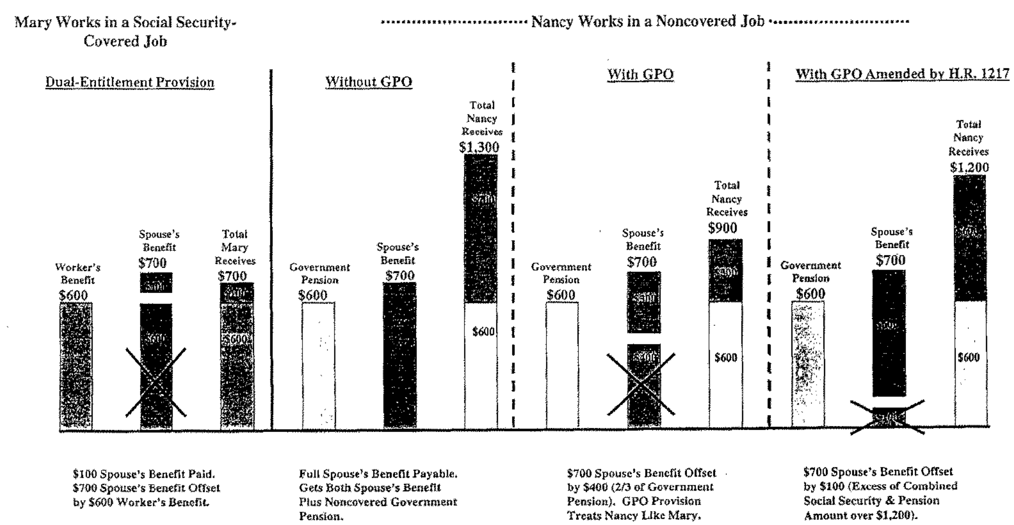


With GPO Amended by H.R. 1217



$700 Spouse's Benefit Offset by $100
(Excess of Combined Social Security & Pension Amount over $1,200).

Effect of Dual-Entitlement Provision & GPO on Mary and Nancy
(Each Have Potential Spouse Benefit of $700)



Chairman SHAW. Thank you, Dr. Ross.

We will go ahead with Dr. Cullinan's testimony and then take questions. Dr. Cullinan.

STATEMENT OF PAUL R. CULLINAN, PH.D., CHIEF, HUMAN RESOURCES COST ESTIMATE UNIT, CONGRESSIONAL BUDGET OFFICE

Mr. CULLINAN. Thank you. I am pleased to be here, Mr. Chairman, Representative Matsui, and Members of the Subcommittee. I ask that my full statement become part of the record, and I will summarize it now because much of what is in my testimony has already been brought up.

One thing that we have to remember is the context in which the government pension offset, or GPO, was established. Back in 1977, the Supreme Court's decision in *Califano* v. *Goldfarb* overturned the dependency test for men. There had been no dependency test for women, and there had to be a mechanism set up to try to deal with what was perceived to be an inequity. Unfortunately, what that did in some ways was to extend a dependency test for a group of beneficiaries—women who had service in noncovered Government employment—who had not previously been subject to a test.

When the original statutes were set up for wives and widows, this test would not have been much of a problem. Married women were not participating very much in the workforce at that time, and government employment had not expanded to the degree that we have seen in the past 60 years. It is those two things that, in essence, have created the need for the government pension offset.

The Congress enacted a gender-neutral provision. Nevertheless, that caused a great deal of difficulty for some people who had been anticipating much more in retirement than they amount for which they subsequently became eligible. So, since 1977, the GPO has been in place, but it has had many detractors and many affected beneficiaries have sought some relief from it.

One point I want to make is that the government pension offset is not the only provision that affects people with noncovered pensions. The windfall elimination provision also affects some Social Security beneficiaries. That provision was enacted as part of the 1983 amendments to the Social Security Act. And there are many people who are confused about which provision is actually reducing their benefits. According to data from the Social Security Administration, at the moment the GPO directly affects about 305,000 recipients or potential recipients and the windfall elimination provision affects about half a million. So a great deal needs to be done to educate people who have some noncovered government service about what those offset provisions are and how their benefits might be affected.

Let me go on to look at some of the potential options for changing the GPO. One of those is, of course, that we get rid of it. That would be a relatively expensive proposition. The Congressional Budget Office (CBO) estimates that it would cost more than $21 billion over the next 10 years. However, that is a very low estimate for the repeal option. The reason is that many people do not in fact apply for spousal benefits from Social Security because they know that under the GPO, they will not get a benefit from their spouse's service. So one must to be very cautious about any estimates of the cost of repealing the GPO because those are low.

Another option is, of course, Mr. Jefferson's bill, which has been discussed here today. CBO's numbers for the cost of that bill are not that different from the Administration's. Although our estimate, is based on a 1 percent sample rather than on the entire population, as is the Social Security Administration's estimates, basically our estimate shows that H.R. 1217 would increase benefits for about 45 percent of the people who are affected by the GPO. CBO distinguishes in its estimates between those who would be completely out from under the offset and those who would still be partially affected. The figure of 25 percent of this affected by the GPO, which was referred to earlier, was only one of those components.

A further option that has been mentioned is that the Congress could reduce the maximum reduction amount to one-half rather than two-thirds of the noncovered pension. That would be a much less inexpensive proposition than either of the other two alternatives. CBO estimates that reducing the maximum reduction amount would cost about $2 billion over the next 10 years.

Let me summarize my remarks with the following. The government pension offset is a blunt instrument designed to mitigate some of the effects of having a social security program without universal coverage. Some people with government pensions believe that they are being treated unfairly under the current system. Options to change the GPO, ranging from complete repeal to more limited modifications such as reducing the maximum percentage of the offset, are available. Each alternative entails new inequities or additional costs to the Social Security program, which already faces a substantial future shortfall in its finances. Any reform of the government pension offset thus requires careful consideration of the trade-offs. Thank you.

[The prepared statement follows:]

Statement of Paul R. Cullinan, Ph.D., Chief, Human Resources Cost Estimates Unit, Congressional Budget Office

Mr. Chairman and Members of the Subcommittee, I am pleased to be here today to discuss an aspect of the current benefit structure of the Social Security program: the government pension offset, or GPO. The provision applies to people with pensions from government employment that was not covered by Social Security, and it curtails the benefits from certain features of the program that those people would otherwise enjoy.

My testimony today focuses on three major questions:

- What is the offset, and how does it work?
- Who is affected by the offset?
- What are the alternatives to current law and their costs?

WHAT IS THE GPO, AND HOW DOES IT WORK?

The GPO was enacted in 1977 and modified somewhat in the Social Security Amendments of 1983. The provision affects benefits for people who meet both of the following criteria:

- They receive pensions based on employment that was not covered by Social Security (termed noncovered employment)—for example, federal workers who participate in the Civil Service Retirement System (CSRS) and a significant number of state and local government workers; and
- They are entitled to Social Security benefits because they are the spouse or survivor of an individual entitled to such benefits.

In general, in the absence of any offset provision, the spouse of a retired or disabled worker may receive up to 50 percent of that worker's Social Security benefit, and a surviving spouse may receive up to 100 percent. However, if the spouse has an earnings record and receives his or her own worker's benefit, then that benefit reduces spousal benefits dollar for dollar. This offset, known as the dual-entitlement provision, prevents the higher earner in a couple from receiving any auxiliary benefits and limits the spousal benefits paid to the lower earner.

These benefits for wives and widows—often referred to as dependents' benefits—were enacted in the 1939 amendments to the Social Security Act, and they essentially presumed that a married woman would have little or no employment history of her own and would rely heavily on her husband's earnings. (More limited coverage for husbands and widowers was enacted in 1950.) Even in 1939, the assumption about a wife's financial reliance on her husband was not always correct, but the exceptions probably were not glaring.

Developments since 1939 have undermined that assumption. For example, over many decades, women's participation in the labor force has grown, and government employment that was not covered by Social Security expanded significantly during World War II and the postwar period. Thus, a gap in a woman's wage history under Social Security might no longer signal that her husband was the couple's only earner. Moreover, a man who earned a civil service pension was now more likely to be married to a woman who worked enough to become eligible for Social Security benefits in her own right. Still, the Congress did not address those facts until the Supreme Court held—in the 1977 Califano v. Goldfarb case—that the Social Security Act discriminated against men as beneficiaries and women as taxpayers. Women who qualified as wives or widows could get benefits automatically, but men who sought benefits as husbands or widowers had to show that they were previously dependent on their wives for at least one-half of their support. The Goldfarb case opened the door to a flood of claims by men who had civil service pensions or pensions from other noncovered employment and who could not have met the previous dependency test.

The Congress addressed that problem in a gender-neutral fashion by enacting the government pension offset provision. Because the provision was gender neutral, women with pensions from noncovered employment who previously would have encountered no reduction in spousal benefits paid under Social Security now faced an offset to their benefits. The provision reduces (offsets) the spouse's or surviving spouse's Social Security benefit by an amount that is not permitted to exceed two-thirds of his or her noncovered pension. The one-third of the pension excluded from the offset acknowledges that part of the pension is akin to the private pension that many employers provide as a supplement to Social Security and that is not subject to an offset. Effectively, the GPO serves as an alternative to the dual-entitlement provision in cases in which one spouse has a significant period of noncovered employment on which a pension is based. (Table 1 shows examples of couples' benefits under the dual-entitlement provision and the GPO.)

The Windfall Elimination Provision

The GPO is not the only provision in the Social Security Act that reduces benefits because someone receives a pension from noncovered employment. The other provision—the windfall elimination provision, or WEP—applies to a retired or disabled worker's own benefit rather than to his or her benefit as a spouse or survivor. Only a few pension annuitants are affected by both provisions, but many annuitants find them confusing.

The WEP was enacted because many government workers have blended careers that qualify them for both a government pension and Social Security in their own right. Today, a 62-year-old needs just 40 quarters, or 10 years, of covered earnings of about $3,000 a year to qualify for a small retired-worker benefit under Social Security. The first step in computing a Social Security benefit is to index the worker's past earnings to today's dollars, pick the top 35 years of earnings, and average them. That step cannot distinguish, however, between a person who toiled for 35 years at low wages and someone who spent 25 years in the federal civil service and 10 years in a second career covered under Social Security.

Table 1. Hypothetical Examples of Social Security Benefits with and without the Government Pension Offset

[In dollars]

	Spouse 1	Spouse 2
Case 1: Couple with One Earner in Covered Employment Social Security benefit based on own earnings	1,000	0
Social Security benefit based on spouse's earnings	0	500
Pension based on covered employment	500	0

Table 1. Hypothetical Examples of Social Security Benefits with and without the Government Pension Offset—Continued

[In dollars]

	Spouse 1	Spouse 2
Pension based on noncovered employment	0	0
Total Social Security/pension income	1,500	500
Case 2: Couple with Two Earners in Covered Employment.		
Social Security benefit based on own earnings	1,000	500
Social Security benefit based on spouse's earnings [a]	0	0
Pension based on covered employment	500	200
Pension based on noncovered employment	0	0
Total Social Security/pension income	1,500	700
Case 3: Two-Earner Couple with Higher Earner in Noncovered Employment (No GPO in effect).		
Social Security benefit based on own earnings	0	0
Social Security benefit based on spouse's earnings	250	0
Pension based on covered employment	0	200
Pension based on noncovered employment	1,500	0
Total Social Security/pension income	1,750	700
Case 4: Two-Earner Couple with Higher Earner in Noncovered Employment (GPO in effect).		
Social Security benefit based on own earnings	0	500
Social Security benefit based on spouse's earnings	0	0
Pension based on covered employment	0	200
Pension based on noncovered employment	1,500	0
Total Social Security/pension income	1,500	700

Source: Congressional Budget Office.

[a] No spousal benefits are payable to either spouse because the dual-entitlement provision totally offsets the benefit.

Specifically, for a worker who turns 62 in 2000, the primary insurance amount (PIA), on which all Social Security benefits are based, is computed using a three-bracket formula:

- 90 percent of the first $531 of average indexed monthly earnings; plus
- 32 percent of such earnings between $531 and $3,202; plus
- 15 percent of earnings above $3,202.

If our hypothetical retiree spent 30 years in the federal civil service and 10 years in covered employment at an average indexed salary of $42,000, his or her covered earnings—averaged over 35 years—would be $12,000 a year, or $1,000 a month. Under the formula, his PIA would be $628. And that would be on top of what could be a substantial civil service pension.

The windfall elimination provision scales back the 90 percent factor in the first bracket of the benefit formula for workers who have pensions based on noncovered employment. If a worker spent 20 years or less in covered work, the 90 percent factor is cut to 40 percent. For 21 through 29 years of covered work, that percentage (40 percent) rises by 5 points per year. Finally, the recipient of a noncovered pension who nevertheless spent 30 or more years in covered work is entitled to the regular 90 percent factor and is thus exempt from the WEP. For the purposes of the provision, a year of covered work in 2000 requires earnings of at least $14,000. In the case of our hypothetical retiree, the WEP would reduce his or her PIA by $265. Roughly one-half million Social Security recipients are currently affected by the WEP, and that number is growing by about 60,000 annually.

Features of the Social Security Program That Give Rise to the GPO and the WEP

The perceived need for provisions such as the GPO and the WEP arises from three characteristics of the Social Security program:

- Not all workers are covered under Social Security, and the majority of noncovered workers are employees of federal, state, or local governments.
- Social Security provides benefits to spouses and survivors of retired and disabled workers without reducing those workers' own benefits.
- The benefit formula is weighted to replace a greater percentage of earnings for beneficiaries with low lifetime earnings.

Coverage. According to the Social Security Administration (SSA), about 96 percent of the workforce is employed in jobs covered by Social Security. The other 4 percent is mostly employed by state and local governments (which account for about one-half of those remaining workers, or over 3 million employees) or by the federal government (which employs about 15 percent, or roughly 1 million people). Those figures represent a single year, and they understate the percentage of workers who move between covered and noncovered employment during their lifetime. Therefore, many workers who receive pensions from noncovered employment also work long enough in covered employment to gain insured status under Social Security. Indeed, a 1997 study published in the Social Security Bulletin indicated that over two-thirds of federal civil service retirees ages 65 to 69 were also entitled to Social Security benefits on the basis of their work history.

Auxiliary Benefits. Social Security, unlike most private and public pensions, pays additional amounts to the families of insured workers without reducing the workers' own benefits. As noted earlier, the spouse of a retired or disabled worker is eligible to receive a benefit equal to one-half of the basic Social Security benefit paid to that worker, and a survivor can receive the entire benefit. But with a typical private or public pension, a worker must elect a "joint and survivor" annuity to ensure benefits for a widow or widower and must accept, in turn, a smaller benefit over his or her own lifetime.

Weighting of the Benefit Formula. As described earlier, Social Security benefits are calculated by using a three-bracket formula that translates average indexed monthly earnings over a 35-year period into a basic benefit amount, or PIA. That formula is progressive, and the weighting is designed to help low-wage workers. However, the formula also provides an advantage to the annuitant who moves into covered employment and qualifies for retirement benefits under Social Security on the basis of a fraction of his or her working life.

Each of the above features of the Social Security system contributes to the argument that noncovered government pensions should be factored into the calculation of Social Security benefits. For example, if Social Security coverage were universal, the existing dual-entitlement provision would serve the same purpose as the GPO. If there were no benefits for spouses or surviving spouses, the marital status of the person with the pension from noncovered employment would be irrelevant in figuring Social Security benefits. And because the benefit formula is weighted rather than strictly proportional to earnings, workers with low average earnings have an advantage, regardless of whether the average reflects a lifetime of low-wage employment or a short period of covered work.

WHO IS AFFECTED BY THE GPO?

Because Social Security coverage is so extensive, the government pension offset does not affect a significant proportion of the program's roughly 45 million recipients. But for those who are affected, the provision makes a huge difference. The Congressional Budget Office's (CBO's) tabulations of data supplied by SSA indicate that at the end of 1999, the GPO was reducing Social Security benefits for about 305,000 people (see Table 2). In about 225,000 cases, or three-quarters of that total, the GPO caused potential benefits to be completely

Table 2. Social Security Cases Affected by the Government Pension Offset, December 1999

	Total Cases *Affected by the GPO*		Cases with *Partially Offset Benefits*		Cases with *Fully Offset Benefits*	
By Marital Status	*Number*	Average *Offset*	*Number*	Average *Offset*	*Number*	Average *Offset*
Wives	124,300	$314	30,600	$233	93,700	$341
Husbands	61,300	$218	900	$206	60,400	$218
Widows	89,300	$477	47,300	$403	42,000	$557
Widowers	329,800	$379	1,300	$411	328,500	$380
Total	304,700	$348	80,100	$336	224,600	$353
By Sex						
Women	213,600	$382	77,900	$336	135,700	$408
Men	91,100	$270	2,200	$339	88,900	$268

Source: Congressional Budget Office based on the One-Percent Monthly Old-Age, Survivors, and Disability Insurance Sample file, December 1999.

withheld; the average loss was $353 per month. The remaining 80,000 recipients continued to be paid some benefits even after the GPO was applied, with the reduction averaging $336 per month.

What the data do not reveal are those annuitants with pensions from public-sector jobs who do not apply for Social Security because they are aware that the GPO would wipe out any spousal benefits to which they would otherwise have been entitled. Therefore, any counts of people affected by the GPO and any estimates of the costs of altering it are likely to understate the potential effects of such changes. Moreover, that understatement could be substantial for major changes such as a complete repeal of the GPO.

CBO's analysis of the SSA data revealed some differences in how the GPO affected men and women. Seventy percent of the affected beneficiaries reflected in the data were women, and women were more likely than men to experience a reduction (rather than a complete withholding) of their benefit. Benefits were totally withheld for almost two-thirds of the women affected by the GPO; the comparable figure for men was 98 percent. Partial offsets were much more likely to occur for widows or widowers (41 percent) than for spouses (17 percent), simply because Social Security provides larger benefits to survivors.

The SSA data do not reveal the source of the government pension paid to people who are subject to the offset. But by matching records with the Office of Personnel Management for June 1996, SSA researchers found that the GPO reduced Social Security benefits for 116,000 former federal employees who received civil service pensions. That figure appeared to represent a little less than half of the people who were affected by the GPO in 1996.

The number of people subject to the GPO has climbed by about 15,000 (or about 6 percent) per year. Over time, that growth will fade since all federal civil servants hired after 1983 (and some who were hired earlier and opted to switch) are covered by Social Security in combination with the Federal Employees' Retirement System. But the slackening of growth in the number of affected people will take many decades to play out.

WHAT ARE THE ALTERNATIVES TO CURRENT LAW AND THEIR COSTS?

The government pension offset is a relatively simple way to trim spousal benefits paid to some two-career couples, but it has many detractors. Some critics believe that it reneges on the implied promise of Social Security, under which benefits accrue from working and paying taxes and those benefits are an "earned right." Others contend that it is unfair to treat pensions from noncovered employment differently from other pensions or even from dividends, interest, and royalties. Still others argue that although it might be desirable to limit spousal benefits for people with relatively large government pensions, the GPO distinguishes the percentage reduction neither by the size of the pension nor by the total income of the annuitant.

Approaches other than the GPO may be feasible for addressing the underlying problems it was meant to solve, but such approaches cost money and often introduce new complexities or inequities. One obvious alternative is to eliminate the GPO altogether. The drawbacks to that option are its cost and, to many analysts, the inappropriateness of paying full benefits to people who worked only a fraction of their careers in covered employment (see Table 3). Eliminating the GPO would cost at least $21 billion (probably substantially more) over the next 10 years, CBO estimates, and would increase the 75-year shortfall in the Social Security trust funds by 0.03 percent of taxable payroll. Although that increment is small in comparison with the overall imbalance in the program (1.89 percent of taxable payroll), repealing the GPO would make it more difficult for the country to address the looming fiscal burden posed by the aging of the baby boomers.

Another approach might seek to shield lower-income beneficiaries from the full brunt of the offset. H.R. 1217, as introduced by Representative William J. Jefferson, is an example of that strategy. The bill would base the reduction in benefits on the combined amount of Social Security and the noncovered pension; because SSA now collects that same information to calculate the offsets, no new data collection system would have to be developed. Other income, such as interest and dividends, would be irrelevant in calculating benefits—just as it is in such calculations for other beneficiaries.

Table 3.—Estimated Costs of Various Alternatives to the Current Government Pension Offset

[By fiscal year, in billions of dollars]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001–2010
Repeal the GPO	1.1	1.5	1.7	1.8	2.0	2.2	2.4	2.6	2.8	3.1	21.3

Table 3.—Estimated Costs of Various Alternatives to the Current Government Pension Offset—Continued

[By fiscal year, in billions of dollars]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001–2010
Limit Reductions to Beneficiaries Whose Combined Monthly Benefits and Pension Exceed $1,200 (H.R. 1217)	0.2	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.7	4.9
Reduce the Maximum Offset to One-Half of the Government Pension	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	2.0

Source: Congressional Budget Office.

NOTES: The proposals would take effect in January 2001.

These estimates all understate the true costs of the options since the estimates do not take into account the options' effects on people who do not apply for benefits because of the GPO. That understatement is likely to be substantial for the repeal option.

H.R. 1217 would limit reductions under the GPO to beneficiaries whose total unreduced Social Security benefit and government pension exceeded $1,200 a month. Under that provision, about 25 percent of those affected under current law would be exempt from the GPO, and another 20 percent would see a boost in their benefits. CBO estimates that H.R. 1217 would increase Social Security outlays by at least $4.9 billion over the 2001–2010 period; the Social Security actuaries estimate that, over the next 75 years, the costs would be negligible (less than 0.005 percent of taxable payroll).

Lowering the maximum offset to one-half rather than two-thirds of the noncovered pension is another alternative. That change would increase benefits for about two-fifths of those affected under current law and add at least $2 billion in costs to the program over the next decade. The long-term impact would be insignificant.

A further option, but one that is rarely put forward, would restore an explicit dependency test for spousal benefits. If the test was similar to the one used before 1977, but covered all spousal benefits, it would require spouses to demonstrate that at least one-half of their support came from their marital partner. Because that requirement would apply to both men and women, it would probably pass the test of constitutionality, but implementing it would be both administratively burdensome and expensive.

CONCLUSION

The government pension offset is a blunt instrument designed to mitigate some of the effects of having a social security program without universal coverage. Some people with government pensions believe that they are being treated unfairly under the current system. Options to change the GPO range from complete repeal to more limited modifications such as reducing the maximum percentage of the offset. Each alternative entails other inequities or additional costs to the Social Security program, which already faces a significant funding shortfall. Any reform of the government pension offset thus requires careful consideration of those trade-offs.

Chairman SHAW. Thank you, Dr. Cullinan.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Mr. MATSUI. Dr. Ross, if we eliminate or make a major alteration to the GPO, would you expect, and I guess I am asking you a political question, that then we would be asked to deal with the dual entitlement provision situation in order to try to equalize both spouses receiving Social Security benefits? Is that the fear the Social Security Administration has?

Ms. ROSS. I do not think that we have tended to think about it like that. We think, starting with the dual entitlement benefit, there were certainly at the beginning of the system reasons to have dependence benefits, but there was also a very sensible rationale for not having a one person have a full worker's benefit and a full dependence benefit, because clearly they were not entitled. I think it is for the Congress to decide if they think that rationale still holds. I certainly do. We certainly support the GPO as a way to apply that same kind of rationale.

So I assume that as people think about this carefully, they will decide that they want to be able to measure people's dependency in some way and treat both of these groups fairly. So I do not anticipate either one would go down, and certainly not that the dual entitlement is under threat.

Mr. MATSUI. I think I asked you an unfair question because you are supposed to give us the factual information. I appreciate it. It was really a political question I asked you.

I share your concerns, and that is why I think your comment at the end that we need to deal with this issue comprehensively, or should deal with this issue comprehensively perhaps makes sense. Because the next thing we will do is we will hear from where you have one of the spouse's receiving social security benefits and then the spouse's benefits have been cut back and that person then will say my neighbor across the street worked for the State Government, State of California, which is not in Social Security, gets everything and I do not. And so we will hear from more people perhaps. And I am concerned about that because we are singling out one group over another. I know that the GPO was originally, I was not aware of this a month ago, but now I understand it, it was originally set up to try to equalize benefits where you do not have both parties in the Social Security system. So I share your concerns. But it is very difficult to explain that.

Ms. ROSS. It is difficult. Let me just say that I think there is a very legitimate concern about certain groups within the retiree population who have low incomes. For example, widows overall have a poverty rate of 20 percent or more. That is something we are worried about. But restricting our concern to the subgroup that is in the Government Pension Offset does not seem like a very target-efficient way to work on this poverty reduction. I think there are more effective ways to deal with the really serious concerns about poverty in the elderly population.

Mr. MATSUI. One other problem I see is that those States in which the State or local entities do not have Social Security but their own private Government pension systems, there will be pressure to put them within Social Security if we give them this additional benefit. And so it puts more pressure on it to some extent to go into the system in terms of how we are going to find revenues in order to shore up this deficit. And I know you cannot comment on that either, that is just a comment made by me because I can see a political discussion about that in the future if that should happen.

Mr. MATSUI. I appreciate both of your testimonies.

Mr. PORTMAN [presiding]. Mr. McCrery.

Mr. MCCRERY. Ms. Ross, maybe I heard you wrong, but I thought you said that the five year cost of the Jefferson bill would be $2-something billion.

Ms. ROSS. Yes, $2.3 billion.

Mr. MCCRERY. $2.3 billion. But the long-term costs were negligible?

Ms. ROSS. That is right. Negligible does not mean that costs are zero, it means that they are less than .005 percent of payroll over a 75-year period.

Mr. MCCRERY. Okay. The ten year costs I noticed that are estimated by CBO are more than double the $2.3 five year costs the Social Security Administration estimates. Can you give us some idea of the long-term nominal costs. Is it arithmetic or does it just double every five years?

Ms. ROSS. Our own ten year estimates are that it moves to almost $6 billion over ten years. So as there are more people receiving benefits and becoming eligible for this, the number goes up. But I do not have a progression beyond the five year, then the ten year, and then the long-term.

Mr. MCCRERY. Do you have any estimates of what the cost would be if we were to treat the dual entitlement status the same as the GPO under Jefferson's bill?

Ms. ROSS. It would be $100 billion over five years. The thing to keep in mind is that right now, 5.7 million beneficiaries are dually entitled, that is receiving both a worker's and a spouse's benefit. So the numbers of people you are talking about are extraordinarily large.

Mr. MCCRERY. Okay. Would either of you, or both, like to comment on the policy rationale for treating the GPO recipients different from the dual entitlement recipients. Is there a policy rationale? Or in your opinion is there a sound rationale for keeping them t redhead as they are today, keeping them treated equally?

Ms. ROSS. Social Security's opinion on this is that we think the GPO works pretty well as an approximate measure to do the same thing that dual entitlement does. It is not a fine tuned measure. If you could do it exactly, you would have every single worker's total wage history from covered and noncovered employment and you could make a perfect calculation of what they would receive if they were dually entitled and offset it that way. We do not have those kinds of records. We cannot do it this way. As Paul Cullinan said, the GPO is somewhat of a blunt instrument. But there have been two studies that have been conducted, one on Federal workers, and one using same State and local teachers where a wage level is assigned for people's whole lifetimes. We calculated what Social Security benefits would have been if they had instead worked in covered employment, and received Social Security worker's benefits. We have concluded that the two-thirds is not a perfect figure, but it is a rough approximation for what people would get if they had worked an average wage level and had a typical earnings history in noncovered employment. So we are certainly not telling you that it is perfect. But we are saying we think it is a good approximation.

Mr. MCCRERY. Anything you would like to add, Dr. Cullinan?

Mr. CULLINAN. No, thank you.

Mr. MCCRERY. Thank you, Mr. Chairman.

Mr. PORTMAN. Mr. Cardin.

Mr. CARDIN. Thank you, Mr. Chairman. Whenever we do rough approximations we get ourselves into trouble because two of my constituents will come up to me in similar circumstances and are treated differently and they do not quite understand why. So I really do appreciate what Mr. Jefferson is trying to do because I have heard it from a lot of my constituents.

On the other hand, I am concerned that we do not create another notch-type of an issue for us that never seems to go away. I would hope that as we go through the panels today we will hear more of how we can correct this issue without creating a continuing problem for us with our constituents. I think the issue that you raise, Dr. Ross, in your response to Mr. McCrery, that we do not have the wage records that we can make a perfect match, I appreciate that. It would be too complicated and too expensive to do that. Those that are in the GPO are a much smaller number than those that would be dual entitlement.

But it seems to me that we are going to have to be able to address the issues of all of our constituents to make sure they are being treated fairly. And I would hope that we would try to come up with a solution that will be respected by our constituents and not create the wherewithal that we are going to have a lot of new groups formed sending letters to our seniors requesting donations in order to fight Congress to change the law. That really worries me because I do not think our seniors have been well-served on the notch issue over the years and I do not want to see that happen with this issue as we move forward.

I think this is an extremely important hearing. I appreciate both of your testimonies. I hope that we can come up with a solution. We are dealing with very low income people who are very vulnerable and we should do what we can to correct the situation.

Mr. PORTMAN. Mr. Hulshof.

Mr. HULSHOF. Thank you, Mr. Chairman. Let me just say in Missouri that I have a very active chapter of Federal retirees, and look forward to the next panel. And Mr. Jefferson, you are very well thought of in my district. I am kind of glad you do not live there.

[Laughter.]

Mr. HULSHOF. What I want to ask you, Dr. Ross, is that in your testimony on Mr. Jefferson's bill you indicated it is not well-targeted at low income elderly beneficiaries, especially widows. This is pretty important because I know Mr. Jefferson designed this bill specifically to shield low income workers from the GPO. So can you explain to me why you believe that Mr. Jefferson's bill does not achieve that goal.

Ms. ROSS. Basically, what Mr. Jefferson's bill does is look at combined retirement income that people would be receiving from Social Security and the noncovered pension. We had an opportunity to look at people who were covered by the Government Pension Offset and look at their entire income so we had a better measure of their need and of whether they were in poverty or what their income was. And by having a more complete look at the family income, it suggests that looking at those two sources of income does not target the benefit very well. As I said before, 90 percent of the people who are helped by H.R. 1217 have incomes above poverty level. I certainly agree with Mr. Jefferson that poverty level is not necessarily the goal, but it is an indication of how target effective you are being.

Mr. HULSHOF. Dr. Cullinan, let me ask you, I think, anticipating our next panel, our witnesses on the next panel will say that the two-thirds offset in the GPO calculation is somewhat arbitrary. I know Mr. McCrery asked Dr. Ross a little bit about the rationale. And then again, going back to Mr. Jefferson's bill, which has attracted a lot of attention back home, eliminating the GPO for retirees whose combined Government pension and spousal benefit is less than $1,200, what is your thought about having that threshold, that $1,200 income threshold?

Mr. CULLINAN. I do not know the exact logic that was used to derive the $1,200 threshold. It certainly pares down the GPO-affected population who would get some relief from Mr. Jefferson's bill. About half of the people now affected would get some benefit from an income threshold life that, and that option might cost only a quarter of what it would cost to repeal the GPO. So it is a way of targeting the benefit.

I am not sure though, whether a $1,200 threshold is as appropriate in some cases as it is in others. You might want to have different thresholds for purposes of spouse's benefits than for surviving spouse's benefits. If you think about the example that Dr. Ross presented earlier, we had a woman who as a spouse was going to get $1,200 from of her combined noncovered pension and Social Security benefits, but she had a spouse who was alive and who had a $1,400 Social Security benefit. You might view that a little differently from than a surviving spouse who had only $1,200 in benefits. So I think that there are some issues there that need to be looked at.

Mr. HULSHOF. On that point, a couple of different approaches to modifying the Government Pension Offset, either reducing or eliminating the GPO for people whose combined pension income falls below a certain threshold income amount, which we have talked about, but another alternative is actually to lower the size of the offset from two-thirds to some other lower percentage. Pros and cons to that approach, Dr. Cullinan?

Mr. CULLINAN. I would go back a little bit to what Dr. Ross said—that in their study, a reduction of roughly two-thirds seemed like an appropriate number. But individual circumstances can be so different when people have mixed careers. Almost 10 years ago, the Congressional Research Service looked at a set of typical civil service annuitants and what the appropriate reduction would be. The proportion of the civil service benefit that might approximate what the Social Security benefit would be ranged from 127 percent of the civil service benefit to as low as 17 percent.

The problem is that offsets like the GPO are blunt instruments. It is very difficult in a nearly universal program to construct such instruments so that their application in every case is considered to be—roughly—fair.

Mr. HULSHOF. Thank you, Mr. Chairman.

Mr. PORTMAN. Mr. Hayworth, would you like to inquire of this panel?

Mr. HAYWORTH. Yes, sir, I would. I am running a little bit late.

Thank you for coming. I apologize for being late. I guess cloning would work on Capitol Hill; we could all be in several different places at once. Some folks, especially my political opponents, I think actually advocate vivisection for me. But that is beside the point.

As I understand it, your testimony highlights some of SSA's efforts to educate Government workers about the GPO. But despite these efforts, many Government workers are not aware of the GPO until they retire and apply for benefits. Is SSA taking any steps to help improve the education process?

Ms. ROSS. The Social Security Administration is doing several things. One, in the new Social Security benefit statement, which started to be mailed to workers in October of last year, every single statement alerts people, if they read it carefully, that they may have this offset if they have had work in noncovered employment. We have a couple of really good pamphlets which are now on our Web site. That should help. We also work very closely with people from the Office of Personnel Management with regard to Federal retirees so the information is conveyed. We work with the unions at the State and local level, especially AFSCME.

So we are trying to inform the public of this provision of law that has been out there for 23 years, we are trying very hard. But I also understand that people are caught by surprise. So we have not done as well as we could have.

Mr. HAYWORTH. In terms of the pamphlets and written communication, Dr. Ross, is there anything that sets that off? Is the terminology emboldened or in capital letters to make people aware of this? Would that type of script and font change perhaps highlight this?

Ms. ROSS. If you have suggestions, we are willing to look at them because we really want people to be alerted to this.

Mr. HAYWORTH. Great. If it is okay, if your folks could send over the communications that exist on this, maybe there is just something that we could t weak a little bit to give it the prominence it needs to make sure it is out there and highlight it. I would be very happy to work with you on that. Thank you.

Ms. ROSS. Absolutely. Okay. Perfect.

Mr. HAYWORTH. Thank you, Mr. Chairman.

[The information is being retained in the Committee files.]

Mr. PORTMAN. Mr. Levin, would you like to inquire of this panel?

Mr. LEVIN. Just catching up here. Thanks.

As we have looked this over, I just wanted to ask you one question that often comes up. What is the basis for the two-thirds in the first place? Do you want to comment on that?

Ms. ROSS. I would be glad to. In the original legislation in 1977, the offset was dollar for dollar, so it was 100 percent. The issue was rediscussed in the Congress and, as I understand it, the House said one-third, the Senate said nothing, and the compromise was two-thirds, which would suggest that it possibly was not exactly the perfect measure.

But we do have two pieces of information since that time. The Congressional Research Service did a study of Federal workers, we have done a study of State workers, and while, as Dr. Cullinan said, the appropriate measure is very different for each individual, two-thirds is a relatively good rough approximation if you have to have one proportion by which you are offsetting benefits. So while the two-thirds level was determined in a legislative context, subsequent analytical work suggests that it seems appropriate.

Mr. LEVIN. So while there may not have been an analytical basis for it-there isn't always when we strike compromises here-you think that the data you have looked at would indicate that if one has to use a figure that applies to everybody, that this is a somewhat appropriate figure?

Ms. ROSS. Since you have to pick one figure, we think it is an appropriate figure. Maybe I did not do your question justice before. When you are trying to think about what two-thirds represents, I should just say that what you are trying to measure there is what proportion of a Government pension is an approximation of the Social Security benefit as contrasted with the private pension. So what we were trying to do was figure out what people's Social Security benefits would be if they had earned all this money under covered employment. So what we tried to figure out was what proportion would be the Social Security benefit. We believe that the two-thirds measure that Congress came up with roughly approximate based on an average wage for a typical 20-year-career government employee.

Mr. LEVIN. Thank you.

Mr. PORTMAN. Dr. Ross, if I could follow up on a couple of these questions. First is following up on Mr. Hayworth's question about notice. I think one of the things that this panel would agree on, and I think all of our panelists will today, is that there is a problem with regard to notifying people as to what their retirement security situation is going to be based on this offset. People are not aware of it. And you indicate that your statements have the information, you said in response to Mr. Hayworth, if they read it carefully, and Mr. Hayworth talked about maybe putting in bold print and so on. We have got testimony coming up from Mr. Keane, who is the administrator of the Jacksonville, Florida, Police and Fire Pension Fund, where he says that the Social Security estimates sent to individuals often does not include the GPO.

First of all, my question is, is that accurate? Do statements sometimes go out without the GPO information included.

Ms. ROSS. There is language in the Social Security statement that tells people that they may have this offset. We do not for any individual calculate their benefit with the offset because we do not have in our possession the information that would allow us to know if people are going to be subject to the Government Pension Offset. Again in an ideal world, if we had all the information, we could do that. But we do not have the information to provide an individual with that calculation.

Mr. PORTMAN. Because you do not have the spousal benefit?

Ms. ROSS. Because we do not have their earnings under non-covered employment.

Mr. PORTMAN. It just seems to me this is one area where, this is a very complex, difficult issue to deal with and we came up with a solution of two-thirds back in 1977 and modified in 1983 to tried to make this more equal between those who were covered by the Social Security dual entitlement provision and those who were not. But at the very least, we have got to do a better job of providing notice. Any recommendations you have in that regard to this subcommittee would be much appreciated in terms of legislation. At a minimum, we ought to do a better job in that category so people can plan for their retirement.

The other question I have would just be a general one as to which way we ought to go on this. Dr. Cullinan talked about the possibility of going to one-half rather than two-thirds, which would again be relatively arbitrary but some sense of justice maybe for people who are particularly hard hit by this. You indicated it would be about a $2 billion cost, Dr. Cullinan, over did you say a five year period?

Mr. CULLINAN. No, that figure covered a 10-year period.

Mr. PORTMAN. Ten year, $2 billion. Is it more targeted?

Mr. CULLINAN. I am not sure exactly what you mean by targeted. Compared with Mr. Jefferson's bill with its income threshold, changing the maximum reduction would not be as direct. Whether that kind of change would be fairer than Mr. Jefferson's is not clear.

Mr. PORTMAN. I heard what you said earlier to indicate that you thought maybe that would be more targeted than the $1,200 threshold.

Mr. CULLINAN. I think what I meant is that it would be more targeted in the sense of costs rather than targeted in the sense of providing relief to more direct people to whom you might want to direct additional benefits.

Mr. PORTMAN. What is the equivalent Jefferson number for that $2 billion figure?

Mr. CULLINAN. It is almost $5 billion.

Mr. PORTMAN. Okay. Although Jefferson is 25 percent of total repeal.

Mr. CULLINAN. That is correct.

Mr. PORTMAN. The total repeal would be much more than that. But you think that the $1,200 perhaps targets those folks who need it the most, which would be low income.

Mr. CULLINAN. Unfortunately, the $1,200 threshold does not apply to family income but to income from two sources relevant to the individual. So the threshold is imprecise in terms of targeting relief toward low income people because it does not have all the information you would want to be able to do that.

Mr. PORTMAN. The information that you have, Dr. Ross, it says that the Jefferson bill is not that targeted in the sense that you say 90 percent of those who would benefit are above the poverty line?

Ms. ROSS. Yes.

Mr. PORTMAN. How can you come up with that information, that data without knowing all of the various sources of income? And just as we come up with a more targeted way to determine total income, how can you come up with that 90 percent figure?

Ms. ROSS. Well, we used a national survey. So we do not have this data for the entire population, but we have it from a nationally representative survey for which we could gather all these pieces of information, and because it is nationally representative, we can tell you what it would be for the population at large.

Mr. PORTMAN. These were survey results that the Social Security Administration used from a private firm, or did you do it yourselves?

Ms. ROSS. It is a Census Bureau survey to which we have linked all of our own administrative data.

Mr. PORTMAN. Small margin of error because you have such a large sample?

Ms. ROSS. There is certainly some margin of error.

Mr. PORTMAN. Okay. I was just interested in that. I did not see it in your testimony and wondered. Because that is our great difficulty I think is how to target this. To the extent we can come up with a way to figure out total income, I guess it could be more targeted, more fair, and in the end would have less of an impact on the Social Security Trust Fund and on our budget generally. But it is impossible to do I guess, correct? In other words, to come up with total family income administratively, would that be too difficult to do?

Mr. CULLINAN. We would definitely need to have some changes in law to get all of the information needed for that type of comprehensive approach.

If I might, I would like to point out one other thing about the GPO. Here in Washington, we frequently become focused on Federal employees, but they are a minority of those currently affected by the GPO. Since we have changed the retirement system for Federal employees, in the long run the GPO it will not be a civil service issue but a state and local issue. In addition the pension plans that are out there are very diverse; what we are looking at now might not be the situation we should be thinking about if we are going to be changing the GPO for future beneficiaries.

Mr. PORTMAN. I appreciate that. Again, as someone representing a State that has a lot of noncovered State and local employees, most of my input actually does not come from the Federal workers, it comes more from our State and local government workers. And it comes from low income workers, mostly widows who have a spousal benefit that is reduced significantly. One case I know, this woman has a $300 pension and because of the two-thirds offset, she ends up with about $34 in Social Security from the spouse. That is not enough to live on. So that is the situation I think a lot of us from California, Ohio, and other places are hearing about, and that will continue from what you have said despite some changes in civil service at the Federal level.

But I do appreciate your testimony. One other option to throw out there, is there a way to move the $1,200 down to reduce the cost and make it more targeted, knowing again the arbitrary aspect to this because we do not know what the family income is. But what if you moved it from $1,200 to $1,000?

Mr. CULLINAN. We have not looked at that, but if you would like, we could do some work, and get back to you on it.

[The information follows:]

Dr. Cullinan: If the threshold was lowered to $1,000 per month, CBO estimates that the bill would increase Social Security outlays by $2.8 billion over the next 10 years, compared with $4.9 billion for H.R. 1271 as introduced. The lower threshold would benefit an estimated 30 percent of the people affected by the offset under current law, rather than 45 percent, CBO's estimate under the original bill.

Mr. PORTMAN. I think it might be helpful to have that in the potential solutions to this problem because it seems like all the other ones create the same kind of problems that Mr. Cardin mentioned earlier that we are dealing with now on other Social Security changes that have been made over the years because they are relatively arbitrary and at some point there is a cliff, the nosh babies is the example he used. But we ought to look at that option as well I think.

Ms. ROSS. We would certainly also be happy to work with you or with Mr. Jefferson on other ways to do this. But I would say again that another way to frame this is to look at the particular groups of people, whether it is low-earner women or whether it is widows, and you would get a way from some of the problems of your GPO dual entitlement conflict if you look at a particular target group that itself has low income. And we would be glad to help you look at that as well.

Mr. PORTMAN. We appreciate it.

Mr. Matsui?

Mr. MATSUI. Thank you. Dr. Ross, I want to just follow up on that last comment that you made. You are suggesting that rather than make the differentiation between a couple that are both under Social Security and a couple in which one has Social Security and the other has a non-Social Security pension, you are suggesting we not make that differentiation, but instead make a differentiation based upon income levels. Is that what you are saying?

Ms. ROSS. Yes. What I am saying is that there are people about whom I know you are concerned, who are subject to the Government Pension Offset provision, but there are equally poor individuals and actually quite a few more of them in the dually entitled category. So if you are trying to address the poverty issue or a low income issue, there are ways to do it so that we do not treat one of those two groups differently from the other.

Mr. MATSUI. If I may, Mr. Chairman, one of my concerns, not with your testimony, but one of my concerns with this issue is that if we treat those that fall within the GPO in a certain way, then I think we have an obligation to treat those that receive two Social Security benefits the same way. It is all the same in terms of income levels. We have a lot of widows right now that are really at the threshold. To put money in one area and not the other seems to me somewhat—we need to look at this. I just think we need to look at it in a comprehensive way. And it is somewhat troubling to me that we would handle one but not the other.

I appreciate your testimony because, through this graph you really vividly raise the problem here. It is, I think as Mr. Cardin suggested, perhaps a notch baby situation where one party feels that he or she has been treated inequitably, but then if you deal with that issue you create another inequity in another area.

Ms. ROSS. Right.

Mr. MATSUI. I think we really need to look at this in a comprehensive way. And I am a cosponsor of Mr. Jefferson's legislation and I think he has a legitimate issue that he has raised here. But on the other hand, I think others do as well. So I appreciate this.

Ms. ROSS. Thank you.

Chairman SHAW. It is indeed a difficult issue. I thank you both very much, and Dr. Ross. Again, thank you for helping us out with our time limitations.

[Questions submitted by Chairman Shaw, and Mr. Cullinan's and Ms. Ross's answers, follow:]

Paul R. Cullinan, Congressional Budget Office

1. The Social Security program is a redistributional program. In other words, it redistributes money between different groups of workers, such as from younger generations to older generations, from dual-income couples to one-earner couples, and from higher-earners to lower-earners. How does the GPO redistribute income in the Social Security program? How would the elimination or reduction of the GPO affect this redistribution?

Answer: The government pension offset (GPO) was enacted in 1977 in response to the Supreme Court's decision in *Goldfarb* v. *Califano,* in which Mr. Goldfarb contended that the Social Security Act discriminated against men when providing benefits to spouses and surviving spouses. The law at that time required men, but not women, to demonstrate that they depended on their spouse's income for more than one-half of their support in order to be eligible for benefits as a spouse or surviving spouse. One of the main reasons men were not able to meet the dependency test was that many received pensions from government employment that was not covered by Social Security.

The GPO was the Congress's response to the Goldfarb decision and was modeled after the dual-entitlement rules that already existed under Social Security. Under those rules, a worker's own Social Security benefit offsets dollar for dollar any potential benefits he or she may receive as a spouse. Today, the GPO (following the Social Security amendments of 1983) is a dollar-for-dollar offset of Social Security spousal benefits for as much as two-thirds of the spouse's government pension from noncovered employment.

The GPO reduces benefits for certain two-earner couples in the same way that the dual-entitlement provisions reduce spousal benefits for others. Curtailing the GPO would boost benefits for those two-earner couples—as well as for the surviving spouses of two-earner couples—in cases in which one spouse receives a pension from noncovered government employment. Other two-earner couples, many of whom are less affluent than the couples who receive government pensions, would be unaffected.

2. A 1992 Congressional Budget Office memorandum on the government pension offset reported that government retirees were better off financially than retirees in general and their average retirement income was slightly higher than that of private pension recipients. This memo also indicated that, regardless of marital status, government retirees were less likely to live in low-income families than other retirees, especially those without private pensions. Do you have more recent information as to how the retirement income of government retirees compares with other retirees?

Answer: The information about the incomes of retired workers presented in the 1992 Congressional Budget Office memorandum was based on data from the March 1991 Current Population Survey (CPS) conducted by the Census Bureau. Comparable tabulations from the March 1999 CPS indicate that government retirees generally are still better off financially than many other retirees and have higher retirement incomes. The average income for families with at least one member age 62 or older was $36,800 in 1998. In contrast, the average family income in 1998 of federal pension recipients age 62 or older was about $51,000; that of state and local government pension recipients was about $52,000; and that of private pensioners was about $46,000. The data, however, do not permit us to differentiate between government pensions from noncovered employment and those from covered employment.

Regardless of marital status, recipients of public pensions are less likely than private pension recipients to live in low-income families. For example, about 3 percent of federal pension recipients and 9 percent of state and local pensioners in 1998 were members of families whose annual income was below $15,000; those numbers compare with 11 percent of recipients of private pensions. Roughly 10 percent of widows with federal pensions and 20 percent of widows with state and local pensions had annual incomes below $15,000, compared with about 30 percent of widows who received private pension benefits.

3. Does the GPO calculation include any protections for low-income workers? How many people are pushed into poverty because of the GPO?

Answer: The GPO reduces Social Security spousal benefits by as much as two-thirds of the government pension from noncovered employment. The offset rate is the same for low-income pensioners as for those with high incomes and does not differentiate between those with small pensions and those with substantial ones.

CBO has no estimate of the number of people who might have become poor as a result of the GPO. However, as indicated in the preceding answer, only 3 percent of federal pension recipients and 9 percent of state and local pension recipients were in families with incomes below $15,000 in 1998. In that year, the poverty threshold for people age 65 or older was $7,818, and the threshold for elderly couples was $9,862.

4. One of the arguments we often hear about the GPO is that private-sector workers don't receive comparable treatment. Private-sector workers may receive employer pensions, 401(k)s, and other retirement benefits that do not affect their Social Security spousal benefits. Can you tell us why government pensions cause a reduction in spousal benefits, but private employer pensions do not?

Answer: A worker who earns a pension from private-sector employment also earns a Social Security benefit based on that employment. That benefit causes a dollar-for-dollar reduction in any benefit the person is entitled to as a spouse or surviving spouse (the dual-entitlement rule noted earlier).

A person who earns a pension from government employment that is not covered by Social Security does not earn a Social Security benefit based on that employment. The GPO treats two-thirds of that worker's government pension as equivalent to the Social Security benefit of a private-sector worker. That portion of the benefit offsets dollar for dollar any spousal or survivor's benefit. The other one-third of the worker's government pension is treated as equivalent to a private pension.

Pensions for people working in jobs that are covered by Social Security are designed to supplement the worker's retirement income, which includes Social Security. The private pension plan and its benefit levels are developed around the premise that the worker will receive Social Security. Government pension plans for employees not covered by Social Security presume that the worker will not earn Social Security benefits and thus will rely more heavily on his or her pension for retirement income.

Jane Ross, Social Security Administration

1. The government pension offset is applicable only to pensions resulting from government employment that was not covered by Social Security on the last day of the worker's employment. Some Members have received complaints about government workers being able to manipulate their employment so that they end their government employment in a job covered by Social Security, thereby avoiding the GPO. How prevalent is this problem? Does this rule need to be changed?

For purposes of the GPO, a worker is generally not subject to the offset if his or her pension from State or local government employment is based in part on employment covered by Social Security on the last day of the worker's employment. This provision is known as the "last-day" test and has always been part of the GPO provision. In some situations, a State or local government employer will allow a worker to switch jobs from a noncovered position to a position covered by Social Security specifically to meet the "last day" test associated with the GPO.

SSA does not track the instances in which government workers have been able to avoid the GPO by switching into covered government employment on the last day of their government career. A check with our offices nationwide indicated that this practice does occur sometimes in a few States.

While we expect that incidences of employees switching jobs so that their last day of employment is covered under Social Security are relatively infrequent, we recognize the potential for more workers to use this exception to avoid the GPO and share your concerns regarding the "last-day" test rule. However, alternatives to the "last day" test need to be evaluated carefully and may have unexpected results.

For example, action could be given to consider a proposal to replace the "last-day" test with a different rule under which at least 85 percent of employment had to be noncovered to trigger the GPO. Surprisingly, this proposal would have the effect of decreasing the number of people affected by the GPO and would result in an estimated 5-year cost of $5 million.

Another option for replacing the "last day" rule would be to treat State and local government employees like Federal employees who must have 60 months of covered employment under the same pension plan on or after January 1, 1988 in order to avoid the GPO. However, this option would raise issues such as whether a phase-in of this requirement would be appropriate or whether the requirement should be less than 60 months if the covered work still constituted a majority of the government service (e.g., pension based on 4 years of covered work and 3 years noncovered).

We would be happy to work with the Subcommittee regarding any proposals to address this issue.

2. How many and what percentage of retirees are affected by the dual entitlement rule? How many and what percentage of affected retirees have their benefits eliminated because of the dual entitlement rule?

About 5.8 million retirees, roughly 21% of all retirees, were affected by the dual entitlement rule in December 1999. Nearly all of these retirees were women: only about 112,000 were men. This number does not include widow(er)s that are potentially dually entitled but never filed for their worker's benefit.

About 7.8 million women aged 62 and older received only a worker benefit in 1998, compared with the 5.7 million who received both a worker benefit and a spousal benefit that year. Among those 7.8 million women who received a worker benefit is the subset that had their spousal benefit eliminated due to dual entitlement, along with never married women, divorced women not eligible for a spousal benefit and others. Currently we do not have a breakout of these various subsets of women who receive a worker benefit only.

It should also be remembered that all the men married to these dually entitled women, and potentially dually entitled women, are also potentially dually entitled. In addition, there also would be widowers who are potentially dually entitled. These men are not separately estimated because their own worker benefit completely offsets the potential spouse/widower benefit under current law.

3. How much would it cost to eliminate the dual entitlement rule? How much would it cost to provide an exemption from the dual entitlement rule for retirees whose combined Social Security retirement and spouse benefit is less than $1,200?

SSA's Office of the Actuary estimates the cost of eliminating the dual entitlement provision as follows:

- Total elimination of dual entitlement would cost $439 billion over the first five years. The long range (75-year) cost would be 3.2 percent of taxable payroll (i.e., the current long range OASDI deficit would be increased from 1.89 to 5.09 percent of taxable payroll.)
- Eliminating the dual entitlement provision for entitled workers whose combined worker and auxiliary benefit is less than $1,200 (indexed for COLAs) would cost $290 billion over the first five years. The long range (75-year) cost would be 1.3 percent of taxable payroll (i.e., the current long range OASDI deficit would be increased from 1.89 to 3.19 percent of taxable payroll.)

We also developed cost information on a variation of this latter change under which the aged poverty level would be substituted for the $1,200 threshold:

- The estimated cost of eliminating the dual entitlement provision for entitled workers whose combined worker and auxiliary benefit is less than the poverty level (for an individual aged 65 or older) is $68 billion over the first five years. The long range (75-year) cost of this option would be 0.2 percent of taxable payroll (i.e., the current long range OASDI deficit would be increased from 1.89 to 2.09 percent of taxable payroll.)

These proposals would affect not only workers who are dually entitled under current law (that is, those whose auxiliary benefit exceeds their worker's benefit), but also workers who are "potentially" dually entitled—whose worker's benefit exceeds their auxiliary benefit.

In addition, since the government pension offset (GPO) provision is intended to replicate the dual entitlement provision, each of the proposals above could also be modified so that the GPO provision is treated in the same manner as the dual entitlement provision. If the approaches above were to apply to the GPO provision (and not the dual entitlement provision), the costs would be as follows:

• *Eliminate GPO:* Cost over 2001–2005 of $9.0 billion and a long-range cost of 0.03 percent of taxable payroll.

• *Full GPO offset only on combined pension and Social Security benefit amounts of $1,200:* Cost over 2001–2005 of $2.3 billion and a negligible long-range cost (less than 0.005 percent of taxable payroll).

• *Full GPO offset only on combined pension and Social Security benefit amounts above the poverty level:* Cost over 2001–2005 of $500 million and a negligible long-range cost (less than 0.005 percent of taxable payroll).

However, from an equity standpoint, if changes such as these were made to the GPO provision, similar changes should be made to the dual entitlement provision because each provision is intended to achieve the same goal—to prevent dependent benefits from be paid to spouses who are not primarily dependent on the worker.

Attachments:
Memorandums from the Office of the Chief Actuary

SOCIAL SECURITY
REFER TO: TCC
July 26, 2000

To: Harry C. Ballantyne, Chief Actuary
From: Stephen C. Goss, Deputy Chief Actuary, and Alice H. Wade, Actuary

Subject: Estimated Long-Range OASDI Financial Effects of Modifying or Repealing the Dual Entitlement Provision—INFORMATION

Under present law, an individual who is eligible for both a worker benefit and an auxiliary benefit receives the worker benefit and the excess, if any, of the auxiliary benefit over the worker benefit.

If a proposal were enacted, effective January 1, 2001, that allowed an individual to receive the sum of their worker benefit and the highest auxiliary benefit to which they are entitled, then the estimated OASDI long-range actuarial deficit would increase by about 3.2 percent of taxable payroll. If the total amount an individual can receive under this proposal is limited to the larger of (a) the total benefit under present law and (b) $1,200 (indexed in future years by COLAs), then the estimated OASDI long-range actuarial deficit would increase by about 1.3 percent of taxable payroll. However, if the limit is reduced to be the larger of (a) the total benefit under present law and (b) the aged poverty level ($665 in 1999), then the estimated OASDI long-range actuarial deficit would increase by about 0.2 percent of taxable payroll.

All estimates are based on the intermediate assumptions of the 2000 Trustees Report, with adjustment for the recent enactment of the elimination of the retirement earnings test for workers who have reached their normal retirement age.

ALICE H. WADE
STEPHEN C. GOSS

SOCIAL SECURITY
REFER TO: TCB
July 26, 2000

From: Bert Kestenbaum, and Chris Chaplain, Office of the Chief Actuary
Subject: Estimated Additional Benefit Payments Under a Proposal to Change the Dual Entitlement Provision—INFORMATION

Under the current-law dual entitlement provision, an individual eligible for both a worker's benefit and a secondary benefit receives the primary benefit and the excess, if any, of the secondary benefit over the primary benefit—not the sum of the various benefits. The subject proposal would allow receipt of the sum of the two benefits. The proposal has three alternatives. Under one alternative, the full secondary benefit would be payable in addition to the primary benefit. The other two alternatives would allow additional benefits to be paid only to the extent that the total benefit does not exceed either $1,200 (indexed by COLAs), or the Census poverty threshold ($665 per month in 1999) for an individual aged 65 or older, respectively.

The proposal affects not only workers dually entitled under current law, that is, those whose secondary benefits exceed their worker's benefits, but also workers "potentially" dually entitled—whose worker benefits exceed their secondary benefits.

The proposal does not change how dual entitlement applies in cases of multiple secondary entitlement (e.g., an individual entitled as both a widow(er) and a spouse).

The attached table presents estimated additional benefit payments that would result under the three alternatives of the proposal. We assume that the proposal will be effective for benefits paid for months after December 2000. The estimates use the intermediate assumptions of the 2000 OASDI Trustees Report.

BERT KESTENBAUM, A.S.A.
Actuary

CHRIS CHAPLAIN, A.S.A.
Actuary

Attachment

Estimated additional benefit payments from a proposal to change the dual entitlement provision for individuals eligible for a worker benefit and a secondary benefit

[In billions]

Proposal Alternatives	Calendar Year					Total
	2001	2002	2003	2004	2005	2001–2005
Make the secondary benefit fully payable:						
Beneficiaries currently dually entitled	$31	$33	$34	$36	$38	$173
Beneficiaries potentially dually entitled [1]	48	50	53	56	59	266
Total	79	83	87	92	98	439
Make the secondary benefit payable to the extent that the total benefit does not exceed $1,200 (indexed by COLAs):						
Beneficiaries currently dually entitled	20	21	22	23	25	111
Beneficiaries potentially dually entitled [1]	32	34	36	38	40	179
Total	52	55	58	61	65	290
Make the secondary benefit payable to the extent that the total benefit does not exceed the poverty level: [2]						
Beneficiaries currently dually entitled	6	7	7	8	8	37
Beneficiaries potentially dually entitled [1]	6	6	6	7	7	32
Total	12	13	14	14	15	68

[1] Beneficiaries who are eligible for a secondary benefit smaller than their worker's benefit.
[2] The Census poverty threshold for an individual aged 65 or older (estimated to be $702 per month in 2001).

Notes:

1. All alternatives are effective for months after December 2000.
2. Estimates incorporate the intermediate assumptions of the 2000 OASDI Trustees Report.
3. Totals may not equal the sums of the individual components because of rounding.

4. Your written testimony indicates that most low-income workers are better off under the GPO than they would be if they were affected by the dual entitlement rule in Social Security. Can you explain why? Is there any data illustrating this point?

A 1990 Congressional Research Service report examined what amount of a Civil Service Retirement System (CSRS) benefit is equivalent to a Social Security benefit as a way of evaluating how accurate the GPO is in offsetting those pensions. The report found that the two-thirds offset is not accurate for all workers; more than two-thirds of the CSRS pension tends to be equivalent to Social Security for lower-paid workers with shorter-term careers. The report indicates that making the GPO more accurate would require counting more than two-thirds of the CSRS pension for these workers, as shown in Table 1. In many cases, the current law two-thirds offset is too large for high-wage workers.

Table 1. An accurate offset of spouses' CSRS pension (portion that is equivalent to Social Security) is higher than two-thirds for lower-paid workers with shorter careers

CSRS career	GS–3 step 7	GS–10 step 3	GS–16 step 6
10 years	127%	92%	45%
20	79%	61%	29%
30	64%	51%	22%
40	52%	42%	17%

Source: Table 1, CRS Report, 1990

The Social Security benefit formula is strongly weighted in favor of career low-wage workers while most pensions are weighted in favor of workers with many years of service and this difference yields a higher replacement rate for these workers than many pensions do. As a result, it is likely that the equivalent Social Security benefit for a given earnings history of a low earner is likely to be greater than the government pension for that same earnings history (as shown in Table 1). Since the dual entitlement provision is a dollar-for-dollar reduction while the GPO is two-thirds, it would seem that the combination of the weighted benefit formula with the dollar-for-dollar reduction makes the dual entitlement rule harsher than the GPO for comparable low-wage workers.

5. During the hearing, Rep. J.D. Hayworth (R–AZ) requested a copy of the educational material SSA publishes to inform workers about the GPO. In addition, Rep. Rob Portman (R–OH) asked for recommendations regarding how these notifications and educational material can be improved. Please provide this information as separate documents for inclusion in the record.

Educational Material that SSA Publishes to Inform Workers about the GPO (also attached as a separate document)

SSA has undertaken many efforts to alert workers to the possible effect that a pension based on work not covered by Social Security may have on a person's Social Security benefit. We will review that language in the Social Security Statement when we make the end-of-year updates later this year. At that time we also will consider any suggestions we may have received from the public throughout the year.

The Social Security Statement advises workers that the amount of their Social Security benefit may be affected by a pension from work not covered by Social Security. However, because we are not able to identify a worker's spouse and do not have access to pension data for the spouse, it is not possible for SSA to provide an accurate future benefit estimate reflecting the GPO.

Changes in the Statement's language are generally limited to making changes and additions as part of the regularly scheduled end-of-year updates. This limit reduces cost overruns and drains on resources, and limits the potential for confusion by providing for a consistent Statement throughout the year.

In addition to the Social Security Statement, SSA provides factsheets and pamphlets advising the public about the possible affect that a pension from work not covered by Social Security may have on a person's Social Security benefit. As requested, we are providing the Subcommittee with copies of these publications. All of these publications are also available to the public through SSA's internet website.

Attachments:

Your Social Security Statement
Government Pension Offset
A Pension From Work Not Covered By Social Security
Social Security Retirement Benefits
Social Security Survivor Benefits
Social Security Disability Benefits

6. During your testimony, you indicated that instead of distinguishing between workers affected by the GPO and those affected by the dual entitlement rule, it may be more useful to identify groups of retirees who tend to experience high poverty rates (such as widows), and modify the application of the GPO and dual entitlement rule for these targeted groups. You indicated that such modifications would address the GPO/dual entitlement rule and would also help alleviate poverty among vulnerable groups. Rep. Portman requested that you provide more details regarding this approach and recommendations you would have to modify the GPO and dual entitlement rule for target groups, such as women and widows. Please provide this information as a separate document for inclusion in the record.

Recommendations for addressing high poverty rates of those affected by GPO and the dual entitlement rule. (Also attached as a separate document.)

As was mentioned in the hearing, we would be happy to work with Members on specific proposals or ideas they might have for improving benefits for elderly widows and low earners by changing the Government Pension Offset or the dual entitlement rule.

However, as was stated during the hearing, we are worried about restricting our concern to the subgroup that is in the government pension offset because it does not seem like a very target-efficient way to work on poverty reduction. Equally poor individuals can be found in the dually-entitled category as well as those that are not affected by either. Other options for addressing the poverty issue or low-income issue do not treat one of those three groups differently than the other.

While the Administration has not endorsed any specific proposal designed to improve the economic condition of elderly women, we are examining a variety of proposals that have been developed by numerous groups. These recommendations focus on increasing benefits for widow(er)s and low earners, the two groups that legislation to change the GPO is targeted at helping.

1. Make the widow(er)'s benefit a larger percentage of the couple's benefit.

• Increase widow(er)'s benefits to 67 percent of the couple's benefit, limited either to the benefit paid to steady maximum earners or the average retired worker benefit. This could be made effective for all widow(er)s immediately or gradually phased in.

• Increase widow(er)'s benefits to 75 percent of the couple's benefit, limited either to the benefit paid to steady maximum earners or the average retired worker benefit. This could be made effective for all widow(er)s immediately or gradually phased in.

• Abolish the widow(er)'s limit ceiling and permit widow(er)s, whose spouse retired before the normal retirement age, to receive up to 100 percent of their spouse's PIA, depending on when the widow(er) filed for benefits.

2. Increase the special minimum benefit for low earners. The special minimum benefit provides a guaranteed benefit level for people who worked for at least 11 years in covered employment. As of December 1999, the minimum benefit pays a worker with 30 years a monthly benefit of $580.60, while the all-ages monthly poverty threshold was $722.20 that year.

• Index the special minimum benefit to wage growth rather than inflation.

• Increase the benefit payment to workers with many years of low earnings by changing the existing special minimum benefit so that 30 years of covered earnings result in a benefit at 100 percent of the poverty threshold; 40+ years would result in a benefit at 130 percent of the poverty threshold, scaled between 30 and 40 and scaled down to 10 years.

1. Making changes to the SSI program. Under current law, the dollar amount of monthly Social Security benefits excluded in computing SSI benefits, the general income exclusion, has remained constant at $20 since 1974. If it had been indexed for inflation in January 2000 it would be $80.

• Raise the general income exclusion in any increment above the current $20. For example, it could increase from $20 to $80 and possibly could be annually adjusted for inflation.

• Raise the SSI payment standard to the poverty level. The annual SSI benefit was $6,000 for an individual and $9,012 for a couple in 1998. The Census poverty threshold in 1998 was $7,818 for individuals and $9,862 for a couple with an aged individual.

7. One of the major complaints about the GPO is that the calculation used is arbitrary. However, SSA does not have the information it would need to perform an individual calculation for each government retiree to determine the exact offset on a case-by-case basis. If it were possible to do an individual calculation, would all government retirees benefit from the individual calculation or would some retirees be better off under the 2⁄3 offset that currently exists? Is it possible to estimate what percentage of retirees are better off under the 2⁄3 offset compared to an individual calculation?

Some retired government workers may fare better than others under the two-thirds offset if that offset underestimates how much of their noncovered pension is equivalent to a Social Security benefit. A 1990 CRS study of prototypical CSRS retirees found that the two-thirds offset is too high for higher-paid workers that are eligible for a spousal benefit and too low for lower-paid workers with shorter careers that are eligible for a spousal benefit. It is not possible to tell for a real individual worker which method is better without having that person's complete earnings history, including noncovered employment.

It is not possible to determine what percentage of retirees are better off under the two-thirds offset compared to an individual calculation without data on the entire earnings histories of all workers, or at least the workers in a nationally representative sample, who have worked in noncovered employment.

8. During your testimony, you referred to two studies conducted by the CRS and SSA which focused on state/local government workers and federal workers, respectively. These studies contained data regarding total income for government workers based on Census Bureau data. Could you please provide us with a copy of the SSA study?

EFFECTS OF LIBERALIZING THE GOVERNMENT PENSION OFFSET IN H.R. 1217

(Also attached as a separate document)

The work that SSA has done is the following:

H.R. 1217 would liberalize the Government Pension Offset

The bill would reduce the offset to the lesser of:

- the unreduced combination of monthly Social Security benefits and noncovered pension benefits that exceeds a $1,200 threshold (indexed to federal pension COLAs), or;
- ⅔ of any such monthly noncovered pension benefit.

Most of those who would benefit from H.R. 1217 would not be poor

- Half of those affected by the GPO would receive benefit increases under H.R. 1217 and about 30 percent would no longer be offset, according to analysis of recent MBR records.
- Over 90 percent of those who would benefit from H.R. 1217 were not poor and over 80 percent had family incomes above 150 percent of poverty, according to the March 1994 CPS data[1] in Table 1.
- Those who would benefit from H.R. 1217 had a lower poverty rate than the general population, but they had a higher poverty rate than those affected by the GPO.

Table 1. The poverty rate is lower for those who would benefit from H.R. 1217 than for the general population in 1993

	In poverty	Family income below 150% of poverty	Welfare ratio[1] is below the US median welfare ratio
General population	15%	25%	50%
Affected by GPO	5%	10%	35%
Affected by H.R. 1217	9%	17%	50%

Source: Matched March 1994 CPS file

- Those who would benefit from H.R. 1217 would include a significantly larger share of women and slightly greater proportions of widowed, and divorced/separated beneficiaries than the larger group affected by the GPO.
- There is no difference in racial makeup between the two groups, as shown in Table 2.

Table 2. Those who would benefit from H.R. 1217 differed from those affected by GPO by gender and marital status

	Female	White	Black	Other	Married	Widowed	Divorced/Separated
Affected by GPO	58%	93%	5%	2%	64%	31%	5%
Affected by H.R. 1217	80%	92%	6%	2%	57%	35%	9%

Source: Matched March 1994 CPS file

[1] The CPS sample size was small, 88 cases for the GPO group and only 44 for the HR 1217 group, but its results for gender and marital status closely parallel those of the MBR analysis which is based on almost 266,000 cases.

SOCIAL SECURITY
REFER TO : TCC
July 26, 2000

To: Harry C. Ballantyne, Chief Actuary
From: Stephen C. Goss, Deputy Chief Actuary and Alice H. Wade, Actuary

Subject: Estimated Long-Range OASDI Financial Effects of Modifying or Repealing the Dual Entitlement Provision -INFORMATION

Under present law, an individual who is eligible for both a worker benefit and an auxiliary benefit receives the worker benefit and the excess, if any, of the auxiliary benefit over the worker benefit.

If a proposal were enacted, effective January 1, 2001, that allowed an individual to receive the sum of their worker benefit and the highest auxiliary benefit to which they are entitled, then the estimated OASDI long-range actuarial deficit would increase by about 3.2 percent of taxable payroll. If the total amount an individual can receive under this proposal is limited to the larger of (a) the total benefit under present law and (b) $1,200 (indexed in future years by COLAs), then the estimated OASDI long-range actuarial deficit would increase by about 1.3 percent of taxable payroll. However, if the limit is reduced to be the larger of (a) the total benefit under present law and (b) the aged poverty level ($665 in 1999), then the estimated OASDI long-range actuarial deficit would increase by about 0.2 percent of taxable payroll.

All estimates are based on the intermediate assumptions of the 2000 Trustees Report, with adjustment for the recent enactment of the elimination of the retirement earnings test for workers who have reached their normal retirement age.

ALICE H. WADE
STEPHEN C. GOSS

Recommendations for addressing high poverty rates of those affected by GPO and the dual entitlement rule.

As was mentioned in the hearing, we would be happy to work with Members on specific proposals or ideas they might have for improving benefits for elderly widows and low earners by changing the Government Pension Offset or the dual entitlement rule.

However, as was stated during the hearing, we are worried about restricting our concern to the subgroup that is in the government pension offset because it does not seem like a very target-efficient way to work on poverty reduction. Equally poor individuals can be found in the dually-entitled category as well as those that are not affected by either. Other options for addressing the poverty issue or low-income issue do not treat one of those three groups differently than the other.

While the Administration has not endorsed any specific proposal designed to improve the economic condition of elderly women, we are examining a variety of proposals that have been developed by numerous groups. These recommendations focus on increasing benefits for widow(er)s and low earners, the two groups that legislation to change the GPO is targeted at helping.

1. Make the widow(er)'s benefit a larger percentage of the couple's benefit.

- Increase widow(er)'s benefits to 67 percent of the couple's benefit, limited either to the benefit paid to steady maximum earners or the average retired worker benefit. This could be made effective for all widow(er)s immediately or gradually phased in.
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- Abolish the widow(er)'s limit ceiling and permit widow(er)s, whose spouse retired before the normal retirement age, to receive up to 100 percent of their spouse's PIA, depending on when the widow(er) filed for benefits.

2. Increase the special minimum benefit for low earners. The special minimum benefit provides a guaranteed benefit level for people who worked for at least 11 years in covered employment. As of December 1999, the minimum benefit pays a worker with 30 years a monthly benefit of $580.60, while the all-ages monthly poverty threshold was $722.20 that year.

- Index the special minimum benefit to wage growth rather than inflation.

• Increase the benefit payment to workers with many years of low earnings by changing the existing special minimum benefit so that 30 years of covered earnings result in a benefit at 100 percent of the poverty threshold; 40+ years would result in a benefit at 130 percent of the poverty threshold, scaled between 30 and 40 and scaled down to 10 years.

3. Making changes to the SSI program. Under current law, the dollar amount of monthly Social Security benefits excluded in computing SSI benefits, the general income exclusion, has remained constant at $20 since 1974. If it had been indexed for inflation in January 2000 it would be $80.

• Raise the general income exclusion in any increment above the current $20. For example, it could increase from $20 to $80 and possibly could be annually adjusted for inflation.
• Raise the SSI payment standard to the poverty level. The annual SSI benefit was $6,000 for an individual and $9,012 for a couple in 1998. The Census poverty threshold in 1998 was $7,818 for individuals and $9,862 for a couple with an aged individual.

Effects of Liberalizing the Government Pension Offset in H.R. 1217

The work that SSA has done is the following:
H.R. 1217 would liberalize the Government Pension Offset
The bill would reduce the offset to the lesser of:
• the unreduced combination of monthly Social Security benefits and noncovered pension benefits that exceeds a $1,200 threshold (indexed to federal pension COLAs), or;
• ⅔ of any such monthly noncovered pension benefit.

Most of those who would benefit from H.R. 1217 would not be poor
• Half of those affected by the GPO would receive benefit increases under H.R. 1217 and about 30 percent would no longer be offset, according to analysis of recent MBR records.
• Over 90 percent of those who would benefit from H.R. 1217 were not poor and over 80 percent had family incomes above 150 percent of poverty, according to the March 1994 CPS data[2] in Table 1.
• Those who would benefit from H.R. 1217 had a lower poverty rate than the general population, but they had a higher poverty rate than those affected by the GPO.

Table 1. The poverty rate is lower for those who would benefit from H.R. 1217 than for the general population in 1993

	In poverty	Family income below 150% of poverty	Welfare ratio[2] is below the US median welfare ratio
General population	15%	25%	50%
Affected by GPO	5%	10%	35%
Affected by H.R. 1217	9%	17%	50%

Source: Matched March 1994 CPS file

• Those who would benefit from H.R. 1217 would include a significantly larger share of women and slightly greater proportions of widowed, and divorced/separated beneficiaries than the larger group affected by the GPO.
• There is no difference in racial makeup between the two groups, as shown in Table 2.

Table 2. Those who would benefit from H.R. 1217 differed from those affected by GPO by gender and marital status

	Female	White	Black	Other	Married	Widowed	Divorced/Separated
Affected by GPO	58%	93%	5%	2%	64%	31%	5%

[2] The CPS sample size was small, 88 cases for the GPO group and only 44 for the HR 1217 group, but its results for gender and martial status closely parallel those of the MBR analysis which is based on almost 266,000 cases.

Table 2. Those who would benefit from H.R. 1217 differed from those affected by GPO by gender and marital status—Continued

	Female	White	Black	Other	Married	Widowed	Divorced/ Separated
Affected by H.R. 1217	80%	92%	6%	2%	57%	35%	9%

Source: Matched March 1994 CPS file

Chairman SHAW [presiding]. The next panel, and the final panel, Vincent Sombrotto, President of the National Association of Letter Carriers; John Keane, who is the Administrator from the Jacksonville Police and Fire Pension Fund, from Jacksonville, Florida; David John, who is the Senior Policy Analyst for Social Security, the Heritage Foundation; Frank Atwater, National President and Chief Executive Officer of the National Association of Retired Federal Employees, on behalf of the Coalition to Assure Retirement Equity; and Ruth Pickard, who is a member of the National Association of Retired Federal Employees.

Thank you all for being here. We have got your full testimony which will be made a part of the record. You may proceed as you see fit.

Mr. Sombrotto.

STATEMENT OF VINCENT R. SOMBROTTO, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. SOMBROTTO. Thank you, Mr. Chairman, for the opportunity to appear before you today. If I may, I would like to submit my full statement for the re cord.

Chairman SHAW. Without objection, all statements will be made a part of the record.

Mr. SOMBROTTO. Thank you. My name is Vincent Sombrotto and I am president of the National Association of Letter Carriers. I represent a union of 320,000 members of which 90,000 are retirees. I am also here in my capacity as the chairman of the Fund for Assuring an Independent Retirement (FAIR). FAIR is a coalition of more than 20 organizations representing more than 9 million Federal and postal employees both active and retired. Needless to say, the Government pension offset is a major issue to the people that I represent.

I would like to thank you, Chairman Shaw, for recognizing the challenge that the Government pension offset presents to members of the Federal community. There are no issues that generate more passion among my members than those associated with the reduced Social Security benefits, either through the GPO or the windfall elimination provision. We thank Congressman Barney Frank from Massachusetts for his bill addressing the windfall elimination provision. I also want to thank Congressman Jefferson for his extraordinary efforts on the Government pension offset.

The FAIR coalition has endorsed Congressman Jefferson's bill. It is the latest in the long line of bills that have been both bipartisan and bicameral. However, we also recognize, Mr. Chairman, that you have some concern about this bill, and we look forward to working with you to craft a solution to a serious problem of the Government pension offset.

I often speak to retired members of my union. They are people who spent decades on the street delivering mail who should be enjoying the fruits of their labor in their retirement years. Instead, they must go to work each day because they receive little or no Social Security spousal benefit due to Government pension offset. These stories are only going to become more common as more and more retirees will be from dual income families.

At the core of the issue is the question of what portion of the civil service retirement system annuity is comparable to Social Security benefits for the purpose of applying the dual entitlement rule. In some ways a CSRS benefit is more like a private sector pension than a Social Security benefit. Yet, the public sector annuity is also designed to incorporate the equivalent of Social Security benefits. These questions become even more difficult because of the differences in the way Social Security and CSRS benefits are calculated. The key is to determine which comparison to apply for purposes of providing Federal retirees with the benefits that they have earned, and deserve.

Even if we were able to accurately make this calculation, we must take a second look at the formula used to calculate the Government pension offset. The current two-third offset is an arbitrary figure arising out of the 1983 compromise. The idea is that one-third of the CSRS annuity that is not subject to the offset calculation is analogous to a pension in the private sector. However, I would contend that one-third greatly under-estimates the value of such a pension. For example, the United States Postal Service is the single largest public civilian employer with more than 800,000, and I might add it is now 900,000, employees. If we were a private company, it would rank in the top ten of the Fortune 500. It would be inaccurate to equate the size of the pensions offered by these Fortune 500 companies with the one-third of a civil service annuity.

Another concern that arises out of the debate over the Government pension offset is that it highlights some of the other benefit reductions that only public sector retirees are forced to live with. One example is a situation where a person is subject to both the Government pension offset and the windfall elimination provision, which reduces an annuitant's own Social Security benefits. Another area is public pensions that are treated differently from Social Security benefits for tax purposes. A person whose Social Security benefits are reduced under the dual entitlement rule do not have to suffer the adverse tax consequences as well, only CSRS annuitants do.

I have no doubt that we can come up with a solution to this problem. We would like to eliminate the GPO altogether. However, we are willing to talk about other avenues to diminish its impact on our retirees. I heard one of the other witnesses say this was a blunt instrument. I associate myself with that remark. Our retirees keep getting hit with that blunt instrument. For example, we may want to consider changing the formula either on a percentage basis or by looking at the actual dollar amounts. Also, attempts to mitigate the impact of those affected by both the windfall elimination provision and the Government pension offset may help alleviate some of the financial burden placed on our retirees.

There are no easy answers to this situation. But the National Association of Letter Carriers and the FAIR Coalition look forward to working with you. Your involvement in this process is crucial if we are to make changes to the current system.

[The prepared statement follows:]

Statement of Vincent R. Sombrotto, President, National Association of Letter Carriers, American Federation of Labor and Congress of Industrial Organizations

Thank you Mr. Chairman for the opportunity to appear before you today. My name is Vincent Sombrotto, and I am president of the National Association of Letter Carriers. I represent a union of 320,000 members, of which 90,000 are retirees. I am also here in my capacity as the chairman of the Fund for Assuring an Independent Retirement, or "FAIR." FAIR is a coalition of more than 20 organizations representing more than 9 million federal and postal employees and retirees. Needless to say, the "government pension offset" (GPO) is a major issue to the people I represent.

I would like to thank you Chairman Shaw for recognizing the challenge that the government pension offset presents to members of the federal community. I travel all over this country speaking with letter carriers, and there are no issues that engender more passion than those associated with reduced Social Security benefits, either through the GPO or the windfall elimination provision. Congressman Frank from Massachusetts has our gratitude for his bill addressing the windfall elimination provision. I also want to thank Congressman Jefferson for his extraordinary efforts on the government pension offset. In obtaining more than 240 cosponsors for HR 1217, he has managed to educate many Members of Congress and the public at large about the GPO and how it touches the lives of so many retirees. The FAIR coalition has endorsed Congressman Jefferson's bill. The Social Security Administration has calculated that the bill's cost is negligible at less then .005% of payroll. However, we also recognize, Mr. Chairman, that you have some concerns about this bill, and look forward to working with you to craft a solution to the serious problem of the government pension offset.

Over the years there have been a number of efforts to reduce or eliminate the effects of the GPO. Its original enactment in 1977 called for 100% of a government pension to be subtracted from Social Security spousal benefits. In 1983, the House passed a measure calling for the offset to be ⅓ of the government pension, while the Senate made no change to the 1977 100% offset. The legislative department at the National Association of Letter Carriers was involved in the negotiations leading to the compromise creating the current 2/3 offset. Since then there have been numerous attempts to make changes or even eliminate the government pension offset. Congressman Jefferson's effort is the latest in a long line of bills that have seen varying levels of success. These efforts have been bipartisan and bicameral with Members from both sides of the aisle not only cosponsoring legislation, but actively pushing for its passage. At one point, a modification of the government pension offset made it to President Bush, but it was part of a larger package that was vetoed by the president.

As of June 1999, there were about 284,000 government annuitants subject to the government pension offset according to the Congressional Research Service. This number does not reflect workers who, while eligible for spousal benefits, may have decided not to file for them because of the offset. There are also a significant number of people eligible for retirement who have been forced back into the workforce to make up for the effects of the government pension offset. I often speak to retired member of my union, people who spent decades on the street delivering mail, and who should be enjoying the fruits of their labors in their retirement years. Instead, they must go to work each day because they receive little or no Social Security spousal benefit due to the government pension offset. These stories are only going become more common as more and more retirees will be from dual-income households. This will add to the need to do something about this situation and will call into further question the current, simple and arbitrary formula being used to calculate the GPO.

We have several concerns over the government pension offset. The first is that the dual entitlement rule under Social Security is not wholly analogous to situations where a person is entitled to both a government pension and a Social Security spousal benefit. The second concern is that the GPO, which attempts to apply the dual entitlement rule to the government pension context, is arbitrary. Finally, the GPO has created problems that were never envisioned or intended with its original enactment. I would like to touch upon each of these areas in greater detail.

At the core of the issue is the question of what portion of an annuity through the Civil Service Retirement System (CSRS) is comparable to Social Security benefits for purposes of applying the "dual entitlement" rule. In some ways a CSRS benefit is more like a private sector pension than a Social Security benefit. Yet, the public sector annuity is also designed to incorporate the equivalent of Social Security benefits. These questions become even more difficult because of the differences in the way Social Security and CSRS benefits are calculated. The key is to determine which comparison to apply for purposes of providing federal retirees with the benefits they have earned, and they deserve.

Even if we were able to accurately make this calculation, we must take a second look at the formula used to calculate the government pension offset. Currently, Social Security spousal benefits are reduced by ⅔ of the annuity received under CSRS. As I mentioned earlier, this percentage represented a compromise between a House bill which called for a ⅓ reduction and a Senate bill which retained the original 100% offset. The result is an arbitrary figure. The idea is that the ⅓ of a CSRS annuity that is not subject to the offset calculation is analogous to a pension in the private sector. However, I would contend that ⅓ greatly underestimates the value of such a pension. Using the example I am most familiar with, the United States Postal Service is the largest public sector civilian employer with more than 800,000 employees. If it were a private company, it would rank in the top 10 of the Fortune 500. It would be inaccurate to equate the size of the pensions offered by these Fortune 500 companies with ⅓ of a Civil Service annuity. In addition, the current formula also results in a reduction that often is no different than if there were a 100% offset because even the ⅔ offset totally wipes out their spousal benefit. At the very least, this calls for a modification of the formula with the application of a percentage more in keeping with comparable size employers and pension plans and that doesn't totally wipe out the spousal benefit.

Another concern that arises out of the debate over the government pension offset is that it highlights some of the other benefit reductions that only public sector retirees are forced to live with. One example is a situation where a person is subject to both the government pension offset and the windfall elimination provision, which reduces an annuitant's own Social Security benefits. Many letter carriers need a second job to make ends meet. These people lose out not only on spousal benefits, but also on the Social Security benefits they earned either through a career prior to or while working in the public sector. This serves as something of a "double hit" on the annuitant's benefits.

Public pensions are also treated differently from Social Security benefits for tax purposes. This is yet another area where the "dual entitlement" rule is different for Social Security than it is for a CSRS annuity. A "double hit" occurs here because the annuitant, in addition to suffering the effects of the government pension offset, also must pay taxes on their annuity. A person whose Social Security benefits are reduced under the "dual entitlement" rule does not have to suffer adverse tax consequences as well—only the CSRS annuitant must.

I have no doubt that we can come up with a solution to this problem. We would like to eliminate the GPO altogether. However, we are willing to talk about other avenues to diminish its impact on our retirees. For example, we may want to consider changing the formula either on a percentage basis or by looking at actual dollar amounts. Also, attempts to mitigate the impact on those affected by both the windfall elimination provision and the government pension offset may help alleviate some of the financial burden placed on our retirees. There are no easy answers to this situation, but the National Association of Letter Carriers and the FAIR Coalition look forward to working with you. Your involvement in this process is crucial if we are to make changes to the current system.

Thank you.

Chairman SHAW. Thank you.
Mr. Keane.

STATEMENT OF JOHN KEANE, ADMINISTRATOR, JACKSONVILLE POLICE AND FIRE PENSION FUND, JACKSONVILLE, FLORIDA

Mr. KEANE. Thank you Chairman Shaw and members of the subcommittee. My name is John Keane and I am the Administrator of the Jacksonville, Florida Police and Fire Pension Fund. I have come here today to address a question of fundamental fairness. The Government pension offset is punitive and hurts most public servants who work not only as police officers and firefighters, but as secretaries, school cafeteria workers, teachers aides, and others who generally receive lower pension benefits.

Since you are going to put the testimony in the record, I am not going to be repetitious, and also in the interest of time, I would like to speed along and just point out that we believe that the remittance of Social Security contributions represents Trust Fund dollars, not general tax revenues. As such, they take on a special character of assets that are intended to be held in trust for the stewardship responsibility of making future distribution of benefits to individual retirees—not redistribution to others.

The penalties imposed on our members are wrong. The whole mindset of offsets, penalties, and eliminations in this area needs to be abandoned. Various ideas have been presented to you that would attempt to minimize or mitigate some of these wrongs. However, no matter how many attempts are made to provide partial relief, there is no right way to do the wrong thing. The fundamental shortcomings of bad public policy endures no matter how much garnish or s easing is applied to it.

I thank you for affording me the opportunity to share our thoughts with you today and look forward to working with you as this debate continues. Thank you, Mr. Chairman and members of the committee.

[The prepared statement follows:]

Statement of John Keane, Administrator, Jacksonville Police and Fire Pension Fund, Jacksonville, Florida

THERE'S NO RIGHT WAY TO DO THE WRONG THING

Chairman Shaw and Members of the Subcommittee, thank you for this opportunity to testify on the subject of the Social Security Government Pension Offset.

I am John Keane, the Administrator of the Jacksonville, Florida Police and Fire Pension Fund. While I am a member of the Executive Committee of the National Conference on Public Employees Retirement Systems and a committee member of the International Foundation of Employee Benefit Plans, I am testifying here today on behalf of our membership and beneficiaries which include police officers, firefighters, retirees, and spouses that either retired from or currently work for the Jacksonville Sheriff's Office or the Fire Rescue Department. We represent approximately 4,500 citizens.

I have come here today to address a question of fundamental fairness. The Government Pension Offset is punitive and hurts most public servants who worked not only as police officers and firefighters, but as secretaries, school cafeteria workers, teachers' aides, and others who generally receive lower pension benefits. Moderate and low-income retirees were never the intended targets of the Government Pension Offset. The rule is unjust and inequitable and places an unconscionable financial burden on certain individuals solely because they happen to have been in public service. This inflicts suffering on some of the country's most valuable citizens based solely on the fact they chose public service careers. Although members of the Police and Fire Pension Fund do not pay into Social Security, many of our members have done so through other employment before, during, and after their service with the City of Jacksonville. Many of their spouses have also paid into the Social Security system. The Government Pension Offset has unintentionally harmed a large number of moderate to low income state and local government retirees, mainly women. Approximately 300,000 retired federal, state, and local government employees have already been affected by the Government Pension Offset. For many, the Government Pension Offset totally eliminates the Social Security spouse/widow benefit. The rest experience a dramatic benefit reduction. Thousands more will be affected in the future.

Under the Government Pension Offset, these retirees have their Social Security spousal benefits reduced by two-thirds of the amount of their public pension check. Social Security benefits of spouses or surviving spouses receiving government pensions are essentially reduced by $2 for every $3 earned. In 1993, the Congressional Budget Office estimated that the offset reduces the benefits of 180,000 former public employees by an average of $214 a month. They also estimated that about 90 percent of these retirees lose all their spousal benefits. Not only does it reduce the spousal benefit, it also reduces the widow or widower social security benefits.

The private sector is allowed to earn pensions, secure matching 401–K contributions, enjoy the benefits of stock options and an array of unimaginable forms of entrepreneurial compensation that is unheard of in the public sector. In addition, private sector employers frequently match the voluntary 401–K savings programs of their employees, who enjoy the full value of Social Security entitlements which are largely received on a tax-free basis to the recipient. At the same time, such private sector employees and employers make Social Security contributions without fear of "windfall eliminations" and "offsets." Such concerns are reserved solely for a relatively small number of government employees as in the case of our members.

The current law also fails to consider that the average employee pays an average of 8% into their pension plan plus the average 13% the employer pays. This is a combined contribution rate of 21%-much higher than the combined employee/employer contribution of 12.4% under Social Security. In the private sector, most pension plans require no employee contribution. The employer generally underwrites the full cost of the plan. As a result, workers covered by Social Security and a private pension can claim both benefits, with no offset, at a lower contribution than public employees, who must, because they receive a government pension, suffer the Government Pension Offset.

The Government Pension Offset law is unfair to many women, especially widows, who often lose all of the Social Security protection their husbands had provided for them. The Coalition to Assure Retirement Equity estimates that 54 percent of those affected by the current Government Pension Offset rules are women, because women tend to have the lowest pensions and also the longest life expectancy. Under current law, a Social Security widow's benefit is reduced or eliminated if the widow is eligible for a pension based on a local, state, or federal job that was not covered by Social Security. The end result has been that many thousands of women are unfairly punished by the Government Pension Offset, dropping substantial numbers below the poverty line in their retirement years.

The remittance of Social Security contributions represent Trust Fund dollars, not general tax revenues. As such, they take on a special character of assets that are intended to be held in trust for the stewardship responsibility of making future distribution for the benefit of the individual making the remittance. . . .not for re-distribution to others. Such re-distribution mechanisms may be appropriate for the application of fiscal policy for income tax revenues, but not for trust fund revenues held for the benefit of the retirement needs of individuals.

Our 4,500 members feel that the "Government Pension Offset" should be issued an honorable discharge. These provisions violate fundamental standards of fairness and communicate a message to governmental employees that their dedicated call to public service will require severe financial sacrifices not only during their working careers, but also in retirement.

I support a reform bill that would repeal the Government Pension Offset for public pension retirees whose combined public pension and Social Security payment is less than $1,200 per month. This is a targeted reform, designed to help the most serious victims of the Government Pension Offset-those with the lowest public pensions, primarily women. I trust that bi-partisan support can be found to advance these legislative attempts for the long overdue benefit of our members.

This is a matter of fairness and the Government Pension Offset currently in place penalizes those least able to afford it. Not only that, we find that people are often unaware of the Government Pension Offset until they look into retirement at which time they are shocked and not prepared financially for these cuts. The Social Security estimates that are sent to individuals often do not include the Government Pension Offset. The worst time to learn how the Government Pension Offset can undercut plans for financial stability is immediately following the death of a life companion. The Government Pension Offset most drastically affects low-income widows.

Those who have worked diligently their entire lives should be entitled to reap the fruits of their labor after retirement. This bill would help restore fairness and security to the most vulnerable public pensioners at a relatively modest cost. The Government Pension Offset has just the opposite effect. It punishes widows and widowers-who are usually counting on their Social Security spousal pension to help them in their retirement years-merely because they worked in the public sector. Individuals whose working years included federal, state, or local service deserve the same consideration for the value of their work as the private sector retirees. The people that Government Pension Offset is harming are your teachers, police officers, firefighters, and civil servants. People who often chose to accept less reward in order to serve or educate the public. Is it fair to ask them to retire on even less? Please, stop the Government Pension Offset from sending more retirees into poverty.

The penalties imposed upon our members are wrong. The whole mindset of offsets, penalties and eliminations in this area needs to be abandoned. Various ideas have been presented to you that would attempt to minimize or mitigate some of these wrongs. However, no matter how many attempts are made to provide partial relief, “there is no right way to do the wrong thing”

The fundamental shortcomings of bad public policy endures no matter how much garnish and seasoning is applied to it.

I thank you for affording me the opportunity to share our thoughts and concerns with you today and I look forward to following your debate on this issue of great importance in the coming months.

Chairman SHAW. Thank you, Mr. Keane, for your brevity. We do have your full testimony which will be included in the re cord.

Mr. John.

STATEMENT OF DAVID JOHN, SENIOR POLICY ANALYST, SOCIAL SECURITY, HERITAGE FOUNDATION

Mr. JOHN. Thank you, Mr. Chairman, for inviting me to testify on this issue. It is my pleasure to be part of this panel.

Social Security is one of this Government’s most popular programs, yet few Americans know very much a bout how it operates or why certain policies were implemented. GPO is an excellent example of this confusion. To the 4 percent of the workforce whose benefits could be altered by GPO, it is patently unfair, and reduces the benefits they or their spouses have paid for with hard-earned money. To them, the seemingly arbitrary cut in their spousal benefits is made even worse by the fact that many only learn of the provision after they do not receive retirement benefits they had counted on.

Those who support eliminating GPO make an emotional case, but there is also another side to this issue. While GOP’s formula is arbitrary, it is also on the average fair. For Government workers who a re not covered by Social Security, GPO is the equivalent of the dual entitlement rule that affects the other 96 percent of American workers. Without it, Government workers would have an unfair advantage over those who were part of Social Security for their entire working life.

Proponents of changing or eliminating GPO correctly state that private pensions have no affect on the amount of survival or spousal benefits that an individual can receive under Social Security. However, the comparison between private pensions and nonSocial Security Government pension misses the point. Those who receive private pensions are also part of Social Security and, therefore, subject to the dual entitlement rule. This is also true for those who have no retirement income other than Social Security, and those Government workers who also participate in Social Security.

It is simply not fair to the remaining 96 percent of the workforce to give some Government workers special treatment. Most Government workers, and especially teachers, perform valuable service to society—I am the son of a teacher. However, this alone should not justify eliminating the GPO for them while still retaining the dual entitlement rule that affects everyone else.

If this subcommittee decides to eliminate or limit GPO, it should also give the same treatment to those who are affected by the dual entitlement rule. Doing both would be fair, but it would also be quite expensive. For that reason, I am not advocating such a step.

This is not to minimize the shock that an individual, and especially a recently bereaved spouse, faces when they receive a much smaller retirement check than they anticipated. However, GPO has been part of the Social Security program since 1977. While I would not blame any individual for not understanding the provision, I would also not excuse any non-Social Security Government retirement program that does not vigorously work to inform workers that they could be subject to it. Today's retirees may have been caught unaware, but there is no reason for those who are still working to face such an unpleasant surprise.

I am also not making any case that $1,200 a month, much less a lower figure, is sufficient for a comfortable retirement. Clearly, it is not. As the son of a teacher, it is truly shocking to me that all anyone has to show for a lifetime of public service is memories and a very tiny check.

However, GPO is not the main reason that those pensions are so low. It may be a contributing factor that further lowers an extremely low pension, but it is no more than that. For that reason, altering GPO does little more than making a bad situation slightly better. The real reason why individuals have such low pensions is the subject of another debate—reforming Social Security and increasing opportunities for individuals to save for retirement. This subcommittee and its members have taken a leading role in that debate, and I look forward to continuing to work with you in the future to truly increase the retirement income of American workers.

For today, it is true that the elimination of GPO would increase the retirement incomes for nearly 300,000 Government retirees by an average of about $340 a month. However, those millions of other Social Security recipients who are subjected to the dual entitlement rule, and who will not be getting any relief, have a valid reason to ask why their plight has been ignored. Thank you.

[The prepared statement follows:]

Statement of David John, Senior Policy Analyst, Social Security, Heritage Foundation

I appreciate the opportunity to appear before you today to discuss Social Security's Government Pension Offset (GPO). This is an extremely important subject, and I would like to thank the Chairman for scheduling this hearing. Let me begin by noting that while I am the Senior Policy Analyst for Social Security at the Heritage Foundation, the views that I express in this testimony are my own, and should not be construed as representing any official position of the Heritage Foundation. In addition, the Heritage Foundation does not endorse or oppose any legislation.

HOW GOVERNMENT PENSION OFFSET OPERATES

GPO affects the spouses of workers who held jobs that were not covered by Social Security. Most of these workers were either state and local government employees or joined the federal government prior to 1984. Spouses of Social Security recipients also qualify for a benefit equal to 50 percent of the worker's benefit. However, the dual entitlement rule (see below) reduces that benefit dollar for dollar by any Social Security benefits that the spouse qualifies for under his or her own earnings record.

Since government workers who were not covered by Social Security do not have any of their own Social Security benefits, theoretically, they would qualify to receive the full spousal benefit. Thus, a person who joined the federal government prior to 1984 would be able to receive both his full Civil Service Retirement System (CSRS) pension and a Social Security spousal benefit equal. In order to eliminate this dual benefit, Congress created the GPO in 1977.

Under this rule, ⅔rds of the CSRS pension would be treated as though it were a Social Security benefit, and the spousal benefit that worker could receive is reduced dollar for dollar by that amount. Thus, if the CSRS worker had a $1200 a month pension, $800 of his or her CSRS pension (⅔) would be treated as coming from Social Security. If that worker's spouse also received $1200 a month from Social Security, that worker would also be eligible for a Social Security spousal benefit of $600 (½ the spouses basic retirement benefit). However, it would be eliminated because the portion of the CSRS pension that is treated as coming from Social Security under GPO is larger ($800) than the potential spousal benefit ($600).

As a result of the GPO, the CSRS worker and his or her spouse have received the same treatment as if both of them were covered by Social Security. GPO affects about 300,000 retirees, and reduces Social Security's aggregate benefits by approximately $1 billion annually. While a major proportion are retired federal workers, most of the rest were employed by state and local governments which chose not to participate in the Social Security program. The vast majority of these workers come from eight states: Alaska, California, Colorado, Louisiana, Maine, Massachusetts, Nevada and Ohio.

THE DUAL ENTITLEMENT RULE

It has long been a principle of Social Security that a worker cannot qualify for full benefits under both his or her earnings record and that of a spouse. Accordingly, although married worker theoretically qualifies for both retirement benefits from his or her own earnings record and a spousal benefit equal to 50 percent of the spouse's retirement benefit, comes under the dual entitlement rule.

The dual entitlement rule reduces the spousal benefit dollar for dollar by the amount of the retirement benefits the worker qualifies for under his or her own earnings record. Thus, if two spouses each qualify for $1200 a month from their own earnings record, and a spousal benefit of $600 a month (1/2 the basic retirement benefit), they would still only receive a total benefit of $1200. The $600 spousal benefit is eliminated because it is less than their earned retirement benefit.

On the other hand, if one spouse received $1200 a month and the other $400 a month from Social Security, the lower earning spouse would also qualify for a $200 spousal benefit. In that case, the $600 spousal benefit from the higher earning spouse would be reduced by the lower earning spouse's benefit ($600–$400), leaving a $200 spousal benefit. The dual entitlement rule potentially affects 96 percent of the work force.

RECOMMENDATIONS

Social Security is the government's most popular program, yet few Americans know very much about how it operates or why certain policies were implemented. Although the average American strongly supports Social Security, only a very, very few have any conception of how benefits are calculated, what a 'bend point" is, or how the trust fund relates to the payment of benefits.

GPO is an excellent example of this confusion. To the 4 percent of the work force, whose benefits could be altered by GPO, it is patently unfair, and reduces the benefits they or their spouses paid for with hard-earned money. In addition to federal workers hired before 1984, most of those people will be located in 8 states. To them, the seemingly arbitrary cut in their spousal benefits is made even worse by the fact that many only learn of the provision after they don't receive retirement benefits they had counted upon.

Those who support eliminating GPO make an emotional case, but there is also another side to the issue. While GPO's formula is arbitrary, it is also on the average fair. For government workers who are not covered by Social Security, GPO is the equivalent of the dual entitlement rule that affects the other 96 percent of American workers. Without it, government workers would have an unfair advantage over those who were part of Social Security for their entire working life.

Proponents of eliminating GPO or limiting it to cases where the individuals' retirement income is under $1200 a month state correctly state that private pensions have no effect on the amount of spousal or survivors benefits that an individual can receive. However, the comparison between private pensions and non-Social Security government pensions misses the point. Those who receive private pensions are part of Social Security, and are therefore subject to the dual entitlement rule. This is also true for those who have either no retirement income other than Social Security or those government workers who also participate in Social Security.

It is simply not fair to the remaining 96 percent of the workforce to give some government workers special treatment. Most government workers -and especially teachers—perform a valuable service to society. However, this alone should not justify eliminating GPO for them, while still retaining the dual entitlement rule that affects everyone else. If this subcommittee decides to eliminate or limit GPO, it should also give the same treatment to those affected by the dual entitlement rule. Doing both would be fair, but it would also be quite expensive. For that reason, I am not advocating such a step.

This is not to minimize the shock that an individual, and especially a recently bereaved spouse, faces when they receive a much smaller retirement check than they anticipated. However, GPO has been part of the Social Security program since 1977. It is neither complex nor complicated. While I would not blame any individual for not understanding the provision, I would also not excuse any non-Social Security government retirement program that does not vigorously work to inform workers that they could be subject to it. Today's retirees may be stuck in a bad situation, but there is no reason for those who are still working to face such an unpleasant surprise.

I am also not making any case that $1200 a month, much less a lower figure, is sufficient for a comfortable retirement. Clearly, it is not. As the son of a teacher, it is truly shocking to me that all anyone has to show for a lifetime of public service is memories and such a tiny check.

However, GPO is not the major reason that those pensions are so low. It may be a contributing factor that further lowers an extremely low pension, but it is no more than that. For that reason, altering GPO does little more than making a bad situation slightly better. The real reason why individuals have such low pensions is the subject of another debate—reforming Social Security and increasing opportunities for individuals to save for retirement. This subcommittee and its members have taken a leading role in that debate and I look forward to continuing to work with you in the future to truly increase both the security and the retirement income of American workers.

For today, it is true that the elimination of GPO would increase the retirement incomes of nearly 300,000 government retirees by an average of $340 a month. However, those millions of other Social Security recipients who are subjected to the dual entitlement rule, and who will not be getting any relief have a valid reason to ask why their plight has been ignored.

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Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own, and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

Chairman SHAW. Thank you, Mr. John.

Mr. Atwater.

STATEMENT OF FRANK G. ATWATER, NATIONAL PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES, ALEXANDRIA, VIRGINIA; AND MEMBER, COALITION TO ASSURE RETIREMENT EQUITY

Mr. ATWATER. Good morning, Mr. Chairman and members of the subcommittee, I am Frank G. Atwater, the National President and CEO of the National Association of Retired Federal Employees, better known as NARFE. I thank you for scheduling this hearing, Mr. Chairman, on the Social Security Government Pension Offset. I am grateful that you have afforded me the opportunity to testify on an issue of great importance to our members.

I am wearing two hats today. I am testifying on behalf of my own organization, NARFE, which has some 420,000 members of Federal retirees, employees, spouses, and their survivors across the United States.

I am also speaking on behalf of the Coalition to Assure Retirement Equity, or CARE, a coalition of 43 organizations representing millions of Federal, State, and local Government retirees and employees. In 1991, CARE was formed specifically to address the Social Security Government pension offset which, as you are aware, was enacted as part of the Social Security Amendments in 1977.

The GPO Social Security Act amendment, originally enacted in 1977, went into effect in 1983, and since then has affected over almost 285,000 Federal, State, and local retirees, and I heard different numbers this morning and I think those numbers change periodically every day, rising. It reduces or eliminates the Social Security spousal benefit—wife, husband, widow, or widower—to which an affected retiree may be eligible. Two-thirds of the amount of the monthly Government annuity that the retiree has earned is used to offset whatever Social Security spousal or survivor benefit might be payable.

According to the Congressional Budget Office, about 145,000 retirees from Federal, State, and local Governments had their Social Security auxiliary benefits reduced or eliminated as a result of the GPO in December 1991. Since then, that figure has almost doubled.

The Social Security Administration states that the number of Social Security beneficiaries affected by GPO as of December 1997 was 270,000-plus. That number increased by December 1999 to nearly 285,000. Of the 285,000 affected beneficiaries, some 230,000, or 80 percent, are fully offset—which translates into no benefit. It is crucial, sir, for you to note that 104,137, or 38 percent of the total number of affected beneficiaries are widows or widowers, and 71,000, or 68 percent of them are fully offset.

As noted in the table below, ten States in this country represented 169,000 or 63 percent of the total number of affected individuals—California, Ohio, and Texas had significantly higher numbers than the others, but Illinois and Florida follow close behind. I will not read that table to you because it is in the record.

Mr. Chairman, I understand from our members, through correspondence with their congressional representatives, that there are members of this committee who have concerns regarding "means testing." I am led to believe that these concerns specifically relate to H.R. 1217 and the provisions of a $1,200 per month threshold before GPO would be applied.

When Congress enacted the GPO in 1983, it set a means test precedent by introducing a means test provision into the Social Security program by denying the full application of spousal benefits to persons receiving Government pensions. This application of denial is not applied to those persons who are recipients of annuities or other retirement benefits from the private sector.

We, as Federal annuitants, share your concern over the impropriety of means testing in Social Security and believe that Congressman Jefferson's bill, H.R. 1217, is the most pragmatic approach to the modification of the GPO, in lieu of repealing it.

The preliminary projections of H.R. 1217 are based on a threshold of $1,200, and indexed by the Social Security COLA over ten years, retroactive to December 31, 1999. Social Security Administration actuaries have determined that, just as with the earnings test repeal, enactment of H.R. 1217 would increase the OASDI long-range actuarial deficit by an amount that is estimated to be negligible; that is, less than .005 percent of the taxable payroll.

Members of the committee, you were able to expeditiously change the Social Security Act to benefit older workers through Public Law 106–182. We are now asking you to expend that same effort to effect change through H.R. 1217 for Government retirees.

In fact, since repeal of the earnings limit, Government workers 65 and older can receive full Social Security benefits based on their own work or as spouses or survivors. However, as soon as they retire, sir, their Social Security is cut or ceases altogether. Therefore, a benefit counted on for retirement is paid while one is working, only to disappear when needed most—at retirement.

We urge you to support Congressman Jefferson's legislation, H.R. 1217, a proposal to modify the Social Security GPO, as supported by millions of Federal, State, and local Government employees and retirees across the United States, represented by CARE.

[The prepared statement follows:]

Statement of Frank G. Atwater, National President and Chief Executive Officer, National Association of Retired Federal Employees, Alexandria, Virginia, and Member, Coalition to Assure Retirement Equity

Mr. Chairman and members of the Subcommittee, I am Frank G. Atwater, the National President and CEO of the National Association of Retired Federal Employees (NARFE). I thank you for scheduling this hearing on the Social Security Government Pension Offset (GPO). I am grateful that you have afforded me the opportunity to testify on an issue of such great importance to our members.

I am wearing two hats today. I am testifying on behalf of my own organization, NARFE, which represents over 400,000 federal retirees, employees, spouses, and their survivors across the United States.

I am also speaking on behalf of the Coalition to Assure Retirement Equity (CARE), a coalition of 43 organizations representing millions of federal, state, and local government retirees and employees. In 1991, CARE was formed specifically to address the Social Security Government Pension Offset (GPO) which, as you are aware, was enacted as part of the Social Security Amendments of 1977.

In 1935, when the Social Security Act was originally enacted, it provided the same benefits to workers, with and without spouses, and no survivors' benefits. The amendments, of the Social Security Act, enacted in 1939, added spousal and survivor benefits to provide extra protection to workers with families.

The GPO Social Security Act amendment, originally enacted in 1977, went into effect in 1983, and since then, has affected over almost 285,000 federal, state, and local retirees. It reduces or eliminates the Social Security spousal benefit (wife, husband, widow, or widower) to which an affected retiree may be eligible. Two-thirds of the amount of the monthly government annuity that the retiree has earned, is used to offset whatever Social Security spousal or survivor benefit might be payable.

According to the Congressional Budget Office, "about 145,000 retirees from federal, state, and local governments had their Social Security auxiliary benefits reduced or eliminated as a result of the GPO in December 1991."[1] Since then, that figure has almost doubled.

The Social Security Administration states that the number of social security beneficiaries affected by GPO as of December 1997 was 270,975[2] . That number increased by December 1999 to 284,383[3] .

Of the 284,383 affected beneficiaries, 229,941 or 80 percent are fully offset, which translates into no benefit. It is crucial for you to note that 104,137 or 38 percent of the total number of affected beneficiaries are widows or widowers and 71,175 or 68 percent of them are fully offset.

As noted below, in December 1997, ten states in this country represented 169,358 or 63 percent of the total number of affected individuals. California, Ohio and Texas had significantly higher numbers than the others, but Illinois and Florida follow close behind.

Top Ten States (in descending order) of beneficiaries affected by GPO as of December 1997

1. California 36,973
2. Ohio 34,591
3. Texas 24,484
4. Illinois 14,827
5. Florida 14,301
6. Louisiana 10,722
7. Massachusetts 10,480
8. Colorado 8,243
9. New York 7,701
10. Georgia 37,036

Total 169,358

Mr. Chairman, I understand from our members, through correspondence with their congressional representatives, there are members of this committee who have concerns regarding "means testing." I am led to believe that these concerns specifically relate to H.R. 1217 and the provision of a $1200 per month threshold before GPO would be applied.

When Congress enacted GPO in 1983, it set a 'means test' precedent by introducing a means test provision into the Social Security program by denying the full application of spousal benefits to persons receiving government pensions. This application of denial is not applied to those persons who are the recipients of annuities or other retirement benefits from the private sector.

We, as federal annuitants, share you and your colleagues' concerns over the impropriety of "means testing" in Social Security and believe that Congressman Jeffer-

[1] CBO Testimony -Statement of Nancy M. Gordon, Asst. Dir. for Human Resources and Community Development, Congressional Budget Office before the Subcommittee on Social Security, Committee on Ways and Means, US House of Representatives—April 8, 1992

[2] see attachment A—Beneficiaries affected by the GOP as of December 1997

[3] see attachment B—TABLE G103 -Number of beneficiaries affected by the GOP by gender and type of benefit, fully and partially offset, December, 1999

son's bill H.R. 1217 is the most pragmatic approach to the modification of the GPO, in lieu of repealing it.

Public Law 106–182, introduced as H.R.5 by Congressman Sam Johnson, was passed in both houses of Congress and signed into law by the President on April 7, 2000. This law "eliminates the earnings test for individuals who have attained retirement age." The estimated cost of the earnings repeal is projected to be $8 billion in the first year and $22.7 billion over the next ten years. The projected estimate for H.R. 1217 is about $300 million in the first year and $4.4 billion over the next ten years.

These preliminary projections for H.R. 1217 are based on a threshold of $1200, and indexed by the Social Security COLA over ten years, retroactive to December 31, 1999.[4] Social Security Administration actuaries have determined that, just as with the earnings test repeal, enactment of H.R.1217 would "increase the OASDI long-range actuarial deficit by an amount that is estimated to be *negligible* (i.e., less than 0.005 percent of taxable payroll)."[5]

Members of the committee, you were able to expeditiously change the Social Security Act to benefit older workers through Public Law 106–182. We are now asking you to expend that same effort to effect change through H.R. 1217 for government retirees.

In fact, since repeal of the earnings limit, government workers 65 and older can receive full social security benefits based on their own work or as spouses or survivors. However, as soon as they retire, their social security is cut or ceases altogether. Therefore, a benefit counted on for retirement is paid while one is working, only to disappear when needed most—at retirement.

We urge you to support Congressman Jefferson's legislation, H.R.1217, a proposal to modify the Social Security Government Pension Offset, as supported by the millions of federal, state and local government employees and retirees across the United States, represented by CARE.

I would now like to introduce Mrs. Ruth Pickard, a member of NARFE and a constituent of the Chairman, Congressman Shaw.

[The Attachments are being retained in the Committee files.]

Mr. ATWATER. Mr. Chairman, I would like now to introduce Mrs. Ruth Pickard, a member of NARFE and a constituent of yours, sir. I believe you have met her. This is her first trip to Washington, D.C., and she is understandably pretty nervous this morning. I told her not to be, but that doesn't mean a darn thing, and you know that.

Chairman SHAW. Mr. Atwater, she was not at all nervous in my office. I think she has got a story that I know that my colleagues on the committee will be interested in hearing.

Mr. ATWATER. Sir, we appreciate you taking the time to hear her.

Chairman SHAW. Welcome.

STATEMENT OF RUTH PICKARD, MEMBER, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES, ALEXANDRIA, VIRGINIA

Ms. PICKARD. Thank you, Mr. Chairman and members of the committee, I am Ruth Pickard, a 73 year old working woman from Palm Beach Gardens Florida. I greatly appreciate the opportunity to personally ask you to give early and serious consideration to the ways and means of alleviating the dire financial consequences of the Government pension offset provision.

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[4] see attachment C—est. costs of Cong. Jefferson's proposal (preliminary and unofficial SSA figures)

[5] see attachment D—Social Security Administration actuarial memorandum (February 23, 2000)

The GPO has drastically curtailed my retirement income and that of thousands of others. We are being denied Social Security benefits not because we have never worked, but because we spent some or all of our working years in public service. Now we find that our Government work has eroded the retirement income we had counted on from years of Social Security taxes we and our spouses paid over a lifetime.

I went to work in 1943 at the age of 16, and left the workforce in 1957 to stay home with two young children for seven years. All my early years of employment were in the private sector.

In 1963 I went back to work, this time for the U.S. Postal Service, where I paid into Social Security until 1967, when I became covered by the Civil Service Retirement System. In the late 1960s I developed high blood pressure, and then in 1986 I suffered a brain aneurysm. Fortunately, I had more than enough sick and annual leave to cover five months of recuperation. Despite my health problems, I returned to work for the Post Office until I retired in 1990 at the age of 63.

When I applied for Social Security based on my own work, I found my benefits reduced considerably, to $112, because of the windfall elimination provision of Social Security Act. And although I was then divorced after more than 20 years of marriage, I was still entitled to additional $248 in wife's benefits, I was informed by Social Security that we cannot pay you because two-thirds of my Federal annuity was more than the wife's benefits I might otherwise have had. That was the Government Pension Offset. That was the second time my Government service reduced my Social Security.

I soon realized I could not make ends meet on my Federal annuity and my small Social Security check. So six and a half years ago I went back to work part-time. I am still working, and I still have Social Security taxes deducted from my paycheck.

Today, after 46 years of work, 22 years under Social Security, 24 years under Civil Service, and an additional six and a half years part time, I have a total monthly retirement of $1,245—$1,071 comes from the Federal annuity, and $171 from Social Security. And I am still paying about $50 a month into Social Security payroll taxes, with little hope of my benefits increasing the future unless the Government Pension Offset is radically reformed or repealed.

Mr. Chairman, as one of your own constituents, I greatly appreciate your scheduling this hearing to consider the purpose and impact of the GPO along with ways to modify it. I hope you will give serious consideration to Congressman Jefferson's bill, which has been found worthy of support by more than half of your colleagues in the House of Representatives. And I particularly hope that you and all your colleagues will remember that GPO is not just another confusing concept of the Social Security Act, nor is it simply a safeguard against individuals getting more than their fair share from Social Security.

The GPO is a provision of the Social Security Act which has denied benefits to hundreds of hard working elderly constituents in each of your States and districts. Unless you and your fellow members of Congress change this law, retirement security will be difficult, if not impossible for many women like me. I commend you all for voting to repeal the Social security earnings test so that seniors can afford to work. I ask you now to give equal consideration to the GPO so that others can afford to retire. Thank you for the opportunity to talk.

[The prepared statement follows:]

Statement of Ruth Pickard, Member, National Association of Retired Federal Employees, Alexandria, Virginia

Mr. Chairman and members of the Committee, I am Ruth Pickard, a 73 year old working woman from Palm Beach Gardens, Florida. I greatly appreciate the opportunity to personally ask you to give early and serious consideration to ways and means of alleviating the dire financial consequences of the Government Pension Offset provision (GPO) of the Social Security Act.

The GPO has drastically curtailed my retirement income and that of thousands of others. We are being denied social security benefits not because we have never worked, but because we spent all or some of our working years in public service. Now we find that our government work has eroded the retirement income we had counted on from years of Social Security taxes we and our spouses paid over a lifetime.

I went to work in 1943 at age 16 and left the workforce in 1957 to stay home with two young children for 7 years. All of my early years of employment were in the private sector.

In 1963 I went back to work, this time for the U. S. Postal Service where I paid into Social Security until 1967, when I became covered by the Civil Service Retirement System. In the late 1960's, I developed high blood pressure, and then in 1986 I suffered a brain aneurysm. Fortunately, I had more than enough sick and annual leave to cover about 5 months of recuperation. Despite health problems, I returned to work for the Post Office until I retired in November 1990 at age 63.

When I applied for Social Security based on my own work, I found my benefits reduced considerably, to $112, because of the Windfall Elimination Provision of the Social Security Act. And although I was then divorced after more than 20 years of marriage, and was entitled to an additional $248 in wife's benefits, I was informed by Social Security that "we cannot pay you" because two-thirds of my federal annuity was more than the wife's benefits I might otherwise have had. That was the Government Pension Offset. That was the second time my government service reduced my social security. I soon realized that I could not make ends meet on my federal annuity and my small social security check, so six and a half years ago I went back to work part time. I am still working, and I still have social security taxes withheld from each paycheck.

Today, after 46 years of work—22 years under Social Security and 24 years of Civil Service—I have a monthly retirement income of $1245–$1071 of government annuity and $171 of social security. And, I am paying about $50 a month in social security payroll taxes, with little hope of my benefits increasing in the future unless the Government Pension Offset is radically reformed or repealed.

Mr. Chairman, as one of your own constituents, I greatly appreciate you scheduling this hearing to consider the purpose and impact of the GPO, along with ways to modify it.

I hope you will give serious consideration to Congressman Jefferson's bill, which has been found worthy of support by more than half your colleagues in the House of Representatives. But I particularly hope that you and all of your colleagues will remember that the GPO is not just another confusing concept of the Social Security Act. Nor is it simply a safeguard against individuals getting more than "their fair share" from social security.

The GPO is a provision of the Social Security law, which has denied benefits to hundreds of hard-working elderly constituents in each of your states and districts. Unless you and your fellow members of Congress change this law, retirement security will be difficult, if not impossible for many women like me. I commend you all for voting to repeal the Social Security earnings test so that seniors can afford to work. I ask you now to give equal consideration to the GPO, so that others of us can afford to retire.

Thank you again for the opportunity to appear before you today.

Chairman SHAW. Thank you, Ms. Pickard.

Mr. Matsui?

Mr. MATSUI. Thank you, Mr. Chairman.

Ms. Pickard, how many months or years did you work and pay into the Social Security system?

Ms. PICKARD. Twenty-two years.

Mr. MATSUI. Twenty-two years?

Ms. PICKARD. I paid into it, yes, sir.

Mr. MATSUI. Was it full-time?

Ms. PICKARD. Some of it was, some of it was not. Most of it was.

Mr. MATSUI. I was just talking to staff and that does not seem right.

Ms. PICKARD. I worked a long time.

Mr. MATSUI. Sure is a long time. I think it is stunning that you only received—what?

Ms. PICKARD. Well it has been raised to $171. It started out at $112, which was a terrible shock.

Mr. MATSUI. That is just terrible.

Ms. PICKARD. It is, I'm sorry. I agree.

Chairman SHAW. Thank you very much for your testimony. We really appreciate that.

Ms. PICKARD. It was not easy.

Chairman SHAW. It was very helpful, obviously, and insightful. Vince, can I ask you a question. I really understand the concerns that all of you raise here. What I am trying to understand and figure out in my own mind is how we deal with the fact that where you have the dual entitlement couple we have that offset, and if we do make changes on the GPO, it gives those that might have non-Social Security pensions a higher benefit than those that have two Social Security benefits. I know there is a distinction between the two, one is a pension and it is probably fully funded and you pay taxes on it. And so there are differences. But at the same time, it is just by happenstance that one happened to work for an agency or an employer that has Social Security and the other one does not. So how does one rationalize that?

Mr. SOMBROTTO. Well I rationalize it through the eyes of a letter carrier that—

Chairman SHAW. No, no. I understand that.

Mr. SOMBROTTO. He has worked 30 or 40 years in the Postal Service, has attained the criteria to be eligible to retire, and then does retire. However, during those 30 or 40 years of employment, he found it difficult to support a family without getting a second job, and most letter carriers of my ilk have had the opportunity or been forced to work more than one job to support a family because the wages were so low in the Postal Service for many, many years.

And so consequently, you have a letter carrier that pays for their Civil Service Retirement, pays a percentage, 7 percent of his earnings into Civil Service Retirement, and at the same time when they worked in the private sector paid Social Security. And so I always came to the conclusion that you are entitled to those benefits that you paid for.

And so now the shock comes when after you retire and you believed that you were going to get a Social Security benefit and then it is offset, that is the windfall. But if your spouse was working, in many cases they were, then there is a spousal benefit that sometimes is denied a retiree, particularly if either of them predeceases the other. For instance, one of the interesting things that I was thinking about listening to the testimony here, if you have two people, a husband and wife that both work in the private sector and are both covered by Social Security, they both get Social Security benefits, don't they? And whatever that amount is, that is what they live on when they retire. If one dies and the other does not, if you offset it, then they are living on half as much money as they were when both of them were alive. Does that seem fair? I am trying to figure out if that is fair.

Chairman SHAW. I understand what you are saying. I am not disputing what you are saying, but a surviving spouse in which both earners received Social Security benefits could make the same case that you are making now, and legitimately so. That is why I am wondering if we should handle it on the basis of dealing with the GPO, in the form of Mr. Jefferson's legislation, or should you try to deal with it in terms of the overall benefits and the overall survivor's benefits that one receives in terms of a threshold. That is the only question, because I think what you are saying is correct, the problem is that there are others that would not benefit from this legislation that could make that same case.

Mr. SOMBROTTO. And they very well may. And if they do, then you have the responsibility to listen to them as you are listening to us.

Chairman SHAW. That is right. And that is why perhaps we should try to deal with both problems in a way that tries to deal with it comprehensively. That is my concern. Because I certainly appreciate the problems that you raise. On the other hand, two years from now you can have the same situation from those that receive Social Security benefits.

Mr. SOMBROTTO. There are two things that I would like to say, if I may. One, in terms of looking at it from a letter carrier's eyes, if you have someone that is in the private sector that works for General Motors, they get a pension from General Motors. They are also covered by Social Security. Are they covered by an offset?

Chairman SHAW. No.

Mr. SOMBROTTO. No. I understand they are not. The point is why is somebody that is in the Federal sector that gets a retirement—

Chairman SHAW. My staff just said under dual—

Mr. SOMBROTTO. Under the dual benefit, yes.

Chairman SHAW. Why don't you finish. I know the time is running short.

Mr. SOMBROTTO. In order to facilitate the hearing, I will delay.

Chairman SHAW. Mr. McCrery.

Mr. MCCRERY. Mr. Chairman, first I want to thank you for inviting us to the Palm Beach Gardens Town Meeting. It is nice to join you. Ms. Pickard, thank you for coming up and sharing with us your story.

Chairman SHAW. Next time I will do it in February.

[Laughter.]

Mr. McCRERY. I do not think any of us thinks that the system in place is absolutely fair to anyone. However, there does seem to be kind of a fundamental hurdle to get over here, and that is, why should we treat the GPO different from the dual entitlement provision? Why is it not fair for Government pensions to be offset and yet fair for dual entitlement recipients to be offset? Can anybody answer that question?

Mr. KEANE. I would like to take a shot at that. I think it is what pot you are getting the money out of. In our case, when our member retires and we pay him a pension benefit, when he dies the spouse's benefit is reduced and paid on to the spouse. That comes out of the Police and Fire Pension Fund. Folks that are getting two benefits out of the Social Security system, when one member of the wedded union dies, there is that reduction and it applies. In our case, the benefit we are paying our members does not come out of the Social Security Fund, it is not costing the Social Security Fund any money, and we do not think there should be an offset. It is just that simple. We just do not think there should be an offset when our members paid to Social Security, many of our police officers and firefighters are in their second employment pay vast amounts into the Social Security. But then that gets on to the other side of the issue that is not here before us.

But it is just wrong to take money from people to say I am going to take this money, we are requiring you to pay it, we are requiring your employer to match it, and when it comes time for you to get in line and go to the pay window and get your benefit, they say sorry. It is just not right. The Social Security dual entitlement benefit, both of those benefits are coming out of the Social Security Trust Fund and that is the difference, in answer to your question. The Government pension offset issue is that the primary benefit is coming out of another source of income that the members paid for. We paid for that pension that we receive.

Mr. McCRERY. I follow you, but the dual entitlement recipients would say we paid into the Social Security system whereas you did not, you paid into the Government pension and while you were doing that you were not paying into the Social Security system.

Mr. KEANE. In the case of most of the people, sir, they are paying. And it is at all levels of the Government—college professors are out working at other places in the summer doing other things, lots and lots of people in Government service pay into the Social Security.

Mr. McCRERY. Mr. John, can you comment on that?

Mr. JOHN. Yes. With respect to the gentleman to my right, the fact is that the benefits that are coming and that are offset by GPO were actually paid for by the spouse, the spouse that has presumably died by the time you get into survivor benefits or something along that line. So that spouse has paid for benefits, has received benefits, and now there is the question essentially of what is left over here. So there actually has been a payment to Social Security, there has been a benefit that has been received from Social Security. The fact that the basic benefit that the surviving spouse receives from this gentleman's pension fund is paid for and funded really does not come into the equation here with the payment of the spousal benefit because all of that is coming out of a different account, a different earner's account, and it is coming out of a different trust fund.

Mr. MCCRERY. Yes. We are talking about spousal benefit here. We are not talking about the worker's benefit. Is that right?

Mr. JOHN. That is correct.

Mr. MCCRERY. On the one hand you have got the Government pensioner who paid, yes, into a defined benefit plan but he was not paying into the Social Security system, and you have got a spouse I guess who was not paying into the Social security system so she is offset. I still do not understand how the dual entitlement folks are different from the GPO folks.

Anybody else want to take a shot at why you should treat them differently? You understand the problem we have as policy-makers, we feel some sympathy for your plight, but we also feel sympathy for the plight of the dual entitlement folks, and then when you try to fix it for everybody it is a very expensive proposition.

Mr. KEANE. In some of the cases I was speaking about, we have a woman who is entitled to Social Security benefits because she worked. She is married to a man who belonged to a public pension fund and who also paid into the Social Security system. And when he dies she is getting whacked twice. That is what we are here opposing. We think that this whole question of these offsets, if you pay the money in, you ought to be able to get it back out. The Social Security folks here testified a while ago they are really not sure how many people are offset. But when someone asked them for a very precise number, and magically it came right up.

We just think that if the Congress has enacted a law that requires our people to pay into the Social Security system, when it comes time to get in the pay line, our people ought to be there and they should not have their spouse's benefits after they expire offset because of the fact they also spent a lifetime working a main career in public service.

Mr. MCCRERY. Thank you, Mr. Chairman.

Chairman SHAW. Mr. Levin?

Mr. LEVIN. Well, Mr. Chairman, I'm really glad we're having this hearing. It's a bit complicated, but I think it is a pretty urgent issue.

I think, Mr. Keane, what you're saying is that in Social Security it is different, because in terms of determining benefits, when you have two different actuarial pools, it's really different than when you have one in terms of setting the level of benefits. I think, Mr. McCrery, that's what's being said. And clearly we need to wrestle with this.

Could I just ask a question, because the testimony about the benefit that you're receiving—the typical letter carrier, say, who works full-time for 30 years, do you know more or less what the pension would be, created by Social Security?

Mr. SOMBROTTO. Not from Social Security—

Mr. LEVIN. Right.

Mr. SOMBROTTO. I'm talking about Civil Service Retirement. The average would be about $1,300 a month.

Mr. LEVIN. Well, I think everybody better digest that. That's $16,000 a year.

Mr. SOMBROTTO. We ought to know that out of that, at least 10 percent goes toward payment towards health benefits.

Mr. LEVIN. Right. And I think, without getting into another issue, part of the dynamite in the prescription medicine issue is the retiree who has worked 30 years and is receiving that kind of a pension. The 10 percent may be low in terms of their overall health care costs.

Mr. SOMBROTTO. That's just the premium. In terms of their premium in the FEHBA program, they pay about 10 percent, is the average, of their annuity towards their benefits. That doesn't account for the copays, the monies that they pay for prescription drugs, and so on and so forth.

Mr. LEVIN. Thank you.

Chairman SHAW. Let me just follow that up with a question.

I assume that the 10 percent that they pay is in lieu of Medicare?

Mr. SOMBROTTO. Well, they pay for Medicare as well. If they want Part B, they have to pay for Medicare.

Chairman SHAW. What are the drug benefits?

Mr. SOMBROTTO. Well, that's individual plans. We'll have different plans for drug benefits. But Medicare, there are no drug benefits under that.

Chairman SHAW. What is the 10 percent?

Mr. SOMBROTTO. The 10 percent is the premium that they pay to have one of the programs in the FEHBA program.

Chairman SHAW. Would that include drug benefits?

Mr. SOMBROTTO. In most of them, it will. There will be different types of drug benefits. Some will have copays, some will have other payment that the individuals, if they go to their own pharmacist, they have to pay. They have mail order prescriptions, they pay less. There are different types of plans. There are some 400 plans in the FEHBA program, and any Civil Service retiree can select any one. In the terms of a letter carrier, they have the same option.

Chairman SHAW. Based on 10 percent of the pension?

Mr. SOMBROTTO. Yes. They pay an average of about $100-some-odd a month toward the health plan.

Chairman SHAW. I guess that's a Government-guaranteed plan where the Government picks up the balance of that? That doesn't pay for the whole program, does it?

Mr. SOMBROTTO. The Government doesn't pay for the retiree. It pays a portion, yes. But the individual retiree pays a little more than 60 percent of the entire cost of the program.

Chairman SHAW. And the Post Office picks up the balance?

Mr. SOMBROTTO. Yes.

Chairman SHAW. Okay.

Mr. Hulshof?

Mr. HULSHOF. Thanks, Mr. Chairman. I appreciate your having this hearing, and I think this panel has pointed out the dilemma that we face, because we hear very gut-wrenching stories.

Ms. Pickard, as you have indicated to us—and then I think it was Dr. Cullinan in the previous panel—one of you associated his remarks with yours, saying that the GPO in trying to address it is a blunt instrument. On this side of the dais, when we pass a law, of course, it is the law of the land; and Ms. Pickard, unfortunately, those types of situations that you have described, if we had scalpel-like precision we would address those specific cases.

Also, Mr. John, it is interesting—not that I tune into the prolific talk shows that have these panels—but it seems that sometimes, and you clearly on this panel are outnumbered—but I want to ask you, and actually, Mr. Keane, I think the two of you could provide a good back-and-forth.

Mr. John, you say that eliminating the GPO would give Government workers an unfair advantage over other workers that are covered by Social Security. Is that a fair assessment?

Mr. JOHN. Yes.

Mr. HULSHOF. Okay.

Mr. Keane, why do you disagree with that?

Mr. KEANE. I disagree with that for the following reason, and I'll use myself as an example.

I belong to the retirement system. I draw benefits from the retirement system, and I work for the retirement system, and pay into Social Security. When I die, my wife's benefit from the retirement system will be reduced, as it should be. When she goes to apply for Social Security, which she's supposed to be entitled to, they're going to say, "We're going to reduce your Social Security benefit because your husband not only paid into Social Security, but also belonged to that Police and Fire Pension Fund." And that's what I call wrong. That Social Security, I paid for. If I had worked—as in the example that was used here earlier—for General Motors, they're not going to tell my wife, "Well, he was working for General Motors, and because you're getting that General Motors pension, we're going to reduce your Social Security." They just don't do it that way.

Mr. HULSHOF. And I think you point up the—again, making the distinction that Mr. McCrery made, I hope that you have a good, long, healthy life—

Mr. KEANE. Me, too. I agree with that.

[Laughter.]

Mr. HULSHOF.—and you will be getting your pension, and as you qualified for, Social Security. We're talking, of course, about surviving spouses and our vexing problem.

Mr. John, any quick comment back to Mr. Keane because of his situation?

Mr. JOHN. Well, the one thing is that if Mr. Keane was getting a pension from General Motors, he would also have Social Security, and he would also be—in the time that a survivor's benefit comes into play here, or a spousal benefit—there would be an individual entitlement rule that would kick in at that point. So if he doesn't have the dual entitlement rule, then essentially he is getting, as Dr. Ross' charts showed, a fairly significant additional benefit.

Mr. HULSHOF. All right. Now, before you go back to Mr. Keane, let me ask you this, because this is what I hear again from my NARFE members back home. I am simplifying it greatly in the interest of time, but, "We pay more. We pay more into the system." In fact, Mr. Keane, we appreciate your brevity in your oral testimony, but I went to your written statement and you mention on page 2, "Current law fails to consider that the average employee pays an average of 8 percent of their pension plan plus the average

13 percent that their employer pays, therefore a combined contribution rate of 21 percent, much higher than other employees under Social Security." So therefore we pay more, we're entitled to more. What's your answer to that, Mr. John?

Mr. JOHN. Well, if you included the total amount that I paid to Social Security, the 12.6 percent, if you include the employer and the employee share—and we're not talking about any of the health care portions at that point—in order to have a valid comparison, you would also have to compare the amount that I put into my pension plan, and/or that my employer matches my contributions to my pension plan.

So essentially, to look at both—if you look, for instance, at my personal thing, you would find that roughly 21 percent would be about the same.

Mr. HULSHOF. Mr. Keane, did you want to get the last word? I see that my time is about up.

Mr. KEANE. Thank you, yes, sir. I do want to respond to that.

My wife, although she worked for the Government for many years and she draws a very small pension from the Government, she also worked for a number of years, but not enough to qualify for a Social Security benefit. So her Social Security that she would get had I not worked for the Government, she would draw the surviving spouse's share off of the thousands of dollars that I'm paying into the Social Security System. But because I also worked for a governmental agency, Social Security wants to peel some of that money off and not give it to her.

We're not trying to get anything that we didn't pay for. That's what I'm trying to do.

Mr. HULSHOF. Thank you, gentlemen. I thank all of you.

Mr. Chairman, I appreciate it.

Chairman SHAW. Thank you, Mr. Hulshof.

Mr. Jefferson, you're not a member of this committee, but I'd be willing to make you a "member for a day" if you would like to ask some questions.

[Laughter.]

Mr. JEFFERSON. Thank you, Mr. Chairman. I accept your invitation. I don't have a question so much as I have an observation that I think is maybe worthy of being made. It's really a reiteration of what I said earlier, with maybe a little more of a point to it, based on the testimony.

When this system was set up, way back in the 1930s, the dual entitlement provision was a part of the system, way back then. And there wasn't anything like a GPO; it didn't exist, so this notion about comparing these two things, you have the one and you have the other, it is incongruent to do it that way. It turns out now to be an argument that seems to be apparent, but back then it wasn't.

So you ask yourself then, why the gulf between 1936 or 1935 or whenever it went into effect, and 1983? Why only then did we introduce this present provision? I don't know if it was 1977 when we had the one-for-one, and it was because of a Supreme Court decision that came into play which said that a man no longer had to prove dependency to get his wife's benefit. That's the only thing that happened between 1934 and now.

So there is no rationale that we're dealing with here, that we're wrestling with today, based on the dual entitlement, and now the GPO, and if we don't have the one, how do we do the other? We're wrestling with a demon here that really doesn't exist.

What really happened was, there were some folks who became afraid that it was going to be very expensive to the Social Security System if we didn't have a GPO rule. But that's the rationale. It wasn't that we were going to treat a set of employees unfairly and another set of employees ought to have the same treatment; that never was the discussion. Had it not been for that decision, we would have the same system today. You have a woman presumed to be a dependent, and a man would have to establish dependency. The Supreme Court said that's unfair; you have to treat everybody the same way; enter the GPO.

So I just want to get the committee to start—not to think about these two things, that we have to resolve in our own minds—before we can get to the GPO, we have to resolve this so-called inequity between the GPO and dual entitlement. That is not how it developed historically. So I hope we will kind of look at it in a different way.

Chairman SHAW. Well, I thank this panel, particularly my constituent from Palm Beach, Florida. I appreciate your being here; it means a lot to us. You've certainly given us a lot of things to think about. Next year, I am confident that we will be going forward with some type of reform to save Social Security. This will certainly be on our plate and on our minds next year, and whereas this year with the shrinking legislative agenda left with us, and the appropriations before us, I don't know if we'll be able to get to it this year as far as actually passing the legislation, but we will be looking at it. Fairness is vitally important. I do want to be sure that, at least under my chairmanship, another notch is not created for future generations to have as a headache. But there is an inequity in the system that I think we recognize and that you've certainly pointed out to us very vividly.

Again, I want to thank Mr. Jefferson for his input and his good work on this particular issue.

Thank you very much, and we stand adjourned.

[Whereupon at 12:07 p.m., the hearing was adjourned.]

[Questions submitted by Chairman Shaw, and Mr. Atwater's and Mr. Sombrotto's answers, follow:]

July 26, 2000

The Honorable E. Clay Shaw, Jr., Chairman
Subcommittee on Social Security of the
Committee on Ways and Means
B–316 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Shaw:

Thank you again for allowing me to testify on behalf of the National Association of Retired Federal Employees (NARFE) and the Coalition to Assure Retirement Equity (CARE).

1. You note that about 285,000 government retirees have their spousal benefits reduced or eliminated because of the GPO. How would this number change if government workers were affected by the dual entitlement rule instead of the GPO (i.e., if they were directly covered by Social Security instead of a government pension).

• There is no way for us to know the number of government workers who would be impacted differently. Some government retirees do not claim their social security because of the “hit” they would take because of the GPO. Consequently, we have no way of tracking that group of affected individuals. In addition, we do not have access to the total income figures of affected individuals.

2. Would your members support a modification of the GPO that reduced the size of the offset from ⅔ to a lower percentage?

• The members of NARFE support full repeal of the offset but we would be willing to discuss a one-quarter (¼) offset, in order to achieve some relief for those most adversely affected by a GPO modification. The current two-thirds (⅔) offset is impacting too heavily on the affected retirees, and we question that two-thirds (⅔) of the annuity is comparable to social security and in this regard believe the one-quarter (¼) offset is a more reasonable equivalency.

NARFE’s membership is comprised of over 420,000 government workers, retirees, and spouses or survivors of both. We continue to educate our members, and other affected coalition groups, through our annual conferences, state conventions, detailed information on our website (including our weekly hotline), all of our monthly and weekly publications (Retirement Life, Washington Letter, etc.), mailings, telephone calls, etc. Our members are organized, educated and well informed on the GPO issue. We are constantly taking steps to broaden and improve the education of the vast numbers of affected individuals. The problem is that too many individuals do not know about GPO until it is too late to make necessary changes.

Social Security spousal benefits were created at a time when women were more dependent than they are today on their spouses for survival. The notion that someone with their own pension is less dependent is overlooking the fact that the women retiring today still fall under a category of women who were in much lower paying jobs than their spouses and had depended on their spouses for a certain standard of living. That spouse’s death should not relegate them to a life of poverty, after they worked so hard to avoid that,—albeit in public service. The concept of GPO should not exist in any form. A restructuring of the entire Social Security system needs to be researched and modified to fit the changing times.

The number of Social Security recipients affected by the Windfall Elimination Provision (WEP) is over one-half million. The number of social security recipients affected by GPO is approximately 305,000. There are significant numbers that are affected by both and there are those unaccounted for because they are not claiming their benefits due to the financial penalties imposed by both WEP and GPO. Elimination of the WEP and the GPO would eliminate this “financial hit.” Notwithstanding, at least the elimination of the GPO would eliminate the “double hit” which is being incurred by so many affected people like your constituent, Mrs. Ruth Pickard.

As we seek a solution to the adversity of the GPO within the “dual entitlement” rule, we should give equal consideration to this “dual denial” of social security benefits, which make “dual entitlement” moot.

Thank you for the opportunity to elaborate on our testimony and to respond to your questions. If you have any further questions, please feel free to contact my legislative representative, Reesa Motley-McMurtry.

Sincerely,

FRANK G. ATWATER
National President/CEO

July 6, 2000

Mr. Vincent R. Sombrotto
National Association of Letter Carriers
100 Indiana Avenue, N.W.
Washington, DC 20001

Dear Mr. Sombrotto:

Thank you for testifying before our Subcommittee regarding the government pension offset. In order to complete our hearing record, I would appreciate your answering the following questions:

1. We have heard many times that government workers are shocked to learn at retirement that their Social Security spousal benefits will be reduced or wiped out because of the GPO. What does your industry do to educate workers about the GPO? Are your members well-informed on this issue? Can you take steps to improve GPO education so that your members can better take it into account when planning for retirement?

2. Social Security spousal benefits were created to help people who are financially dependent on their husbands or wives. Theoretically, someone who has their own retirement pension is less dependent on their spouse and, therefore, should not receive a full spousal benefit. Thus, the concept of the GPO is consistent with the idea that full spousal benefits are based on financial dependency. From this perspective, do you agree that the GPO should exist in some form or do you believe that full spousal benefits should be paid regardless of whether someone is financially dependent on his or her spouse?

3. Your testimony indicates that one problem with the GPO calculation is that the ⅔ offset is arbitrary. You recommend that the percentage should reflect the size of the employer and the pension plan. For your industry, what would be an appropriate percentage?

4. You indicate that some of your members take a "double hit" because they are affected by both the GPO and the windfall elimination provision. Do you have any recommendations for reducing this double hit?

5. You also indicate that government workers receive less favorable tax treatment than workers covered by Social Security. Can you explain the difference? What are your recommendations for dealing with this problem?

I thank you for taking the time to answer these questions for the record and would appreciate your response by no later than July 27, 2000. In addition to a hard copy of your response, please submit your response on an IBM compatible 3.5-inch diskette in WordPerfect or Microsoft Word format. If you have any questions concerning this request, please feel free to contact Kim Hildred, Staff Director, Subcommittee on Social Security at (202) 225–9263.

Sincerely,

E. CLAY SHAW, JR.
Chairman

Response of Vincent R. Sombrotto

1. We make extensive efforts to educate our membership about the Government Pension Offset. Upon retirement, our members receive a packet of material including literature produced by the NALC as well as the Social Security Administration with full details about their benefits, including the GPO. We also have a monthly magazine that goes to our entire membership and includes a column by our Director of Retired Members which often discusses the GPO.

In many ways it is easier to educate our members about the GPO than it is the Windfall Elimination Provision. This is because our members are usually retired for some time before the GPO takes effect. The Windfall Elimination Provision hits our membership immediately upon retirement, and often comes as a big shock.

We are constantly working on ways to improve our outreach to our membership about the GPO (as well as the WEP). It is a difficult job because our members are justifiably upset about these provisions and focus their attention on the injustice of them as opposed to preparing for the consequences of them.

2. Although we would like to see a full repeal of the GPO, it is reasonable to suggest that some portion of a civil service annuity is contemplated to be the equivalent of Social Security benefits. Operating on that assumption, some form of GPO could be appropriate.

3. The United States Postal Service has nearly 900,000 employees. This would rank it among the very top employers in the country. If you were to look at large private sector companies (like AT&T, GM or UPS) it would not be unusual to see pension plans that pay annuities of $2500 a month or more, excluding any Social Security benefits they would be entitled to (and that would be subject to the dual-entitlement rule). In contrast, a similarly placed letter carrier, could expect an annuity of around $1800, and in all likelihood would receive little to no Social Security spousal benefit due to the GPO. This does not even take into account the Windfall Elimination Provision. It is safe to say that taking into account these general numbers, an offset of ¼, for instance, would be far more accurate than the current 2/3 offset.

4. Perhaps efforts could be made to exempt a person from one of these provisions if they are subject to both of them.

5. Government annuities, unlike Social Security, are fully taxable. Representative Bruce Vento has introduced HR 372 to address this problem, and we endorse his approach. His bill would allow public-sector retirees to deduct a portion of their governmental pension in the same fashion as Social Security recipients. Income limita-

tions would be the same and provisions would also be made to prevent overly generous exemptions for those individuals receiving both private and public annuities.

[Submissions for the record follow:]

June 22, 2000

The Honorable E. Clay Shaw, Jr., Chairman
Ways and Means Subcommittee on Social Security
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On behalf of 1.3 million members of the American Federation of State, County and Municipal Employees (AFSCME), I write in support of the Government Pension Reform bill (H.R. 1217), bipartisan legislation which was introduced by Rep. William Jefferson. I understand there will be hearings on H.R. 1217 in the House Ways and Means Social Security Subcommittee, and I request that this letter and attachments be submitted for the record.

The Government Pension Offset (GPO) has unintentionally harmed a disproportionate number of women and moderate and lower income state and local government retirees. Under the GPO, these retirees have their Social Security spousal benefits reduced by two-thirds the amount of their public pension check. The end result has been that thousands of women are unfairly punished by the GPO, dropping many of them below the poverty line in their retirement years.

This legislation would repeal the GPO for public pension recipients whose combined public pension and Social Security payment is less than $1200 per month. For more facts on H.R. 1217 and the effect of the GPO on public retirees, we have attached a more detailed fact sheet.

This legislation, which already has 230 cosponsors in the House, will help to bring a measure of security to thousands of retired women who have been unfairly treated by the Government Pension Offset.

Sincerely,

CHARLES M. LOVELESS
Director of Legislation

[The attachments are being retained in the Committee files.]

Statement of Brock Gregg, Governmental Relations Manager, Association of Texas Professional Educators

The Association of Texas Professional Educators (ATPE) represents over 100,000 educators in Texas. We have been advocating for educators for twenty years and are currently the largest professional educator's association in Texas and the largest non-union educator association in the nation. ATPE is committed to advocating for better benefits for all educators, promoting a collaborative work environment, the right for each individual to choose the association that they feel represents educators' interests, and a desire to provide the best education possible for the children of Texas. We encourage the committee to consider the following issues as you determine the future of the Government Pension Offset (GPO) as it has a disproportionate affect on Texas educators the majority of who do not participate in social security.

ATPE supports amending the federal law/rules to eliminate spousal offset and windfall provisions that reduce retirement benefits to educators whom participate in the Texas Teacher Retirement System and Social Security.

Texas public school employees are mandatory members of the state Teacher Retirement System (TRS) and contribute 6.4% of pay to the system. They are entitled to an annuity after they vest their benefits with 5 years of service. This annuity is calculated by the following formula: 2.2% x # of years of service x final average salary.

Currently there are 45 public school districts that participate in Social Security in the state of Texas. Therefore the large majority of Texas educators do not work at a job that pays into both systems on the last paycheck they receive before retirement and are not eligible for spousal benefits due to the GPO. About 20,000 Texans are affected by the offset.

Teacher Retirement System Facts	1999
Total Current Members (Active & Retired)	748,884
Active Member Profile	
Average Annual Salary	$26,533
Average Age	43
Average Years of Service	9
Annuitant & Beneficiary Profile	
Average Monthly Annuities— a. life b. disability	 a. $1,560 b. $1,096
Average Age of Current Retirees	71.1
Average Years of Service	24.9

The average Teacher Retirement System annuity for a Texas public school employee is $1,560 per month. That means a person who dedicated an average of 25 years to public education is forced to live on $18,720 per year. Two-thirds of that monthly pension is $1,029.

Since about 80% of Texas educators are females, we will use the male example. The average social security pension amount for a male is $1,950; half of that is $975. $975–$1,029=−54, which means that very few if any will receive spousal benefits and will be forced to live on an amount that is roughly 50–55% of their final average salary when their spouse passes away. ATPE does not believe public education employees should be penalized in this manner, especially considering the fact that in Texas alone, we will have a shortage of sixty thousand teachers in the 2000–01 school year.

Texas is one of 13 states where social security eligibility is not extended to all public school employees. In general, the 13 states where school employees are not covered by social security, contribution rates, retirement formula multipliers, and cost of living adjustments (COLA's) are higher than social security states. These higher rates are established by state legislatures to make up for the lack of this important federal retirement benefit. Unfortunately, in Texas this is not the case and Texas tends to rank near the bottom nationwide in all major benefit categories.

The GPO affects nearly 300,000 Americans, according to the Social Security Administration as of December 1999, who participate in Social Security and though this amount is a small percentage of the roughly 45 million participants of Social Security, it still should be taken into consideration. The legislation, Government Pension Offset Reform (HR 1217), introduced by Rep. William J. Jefferson (D–LA) is one that ATPE supports. As an organization that represents many Texas public servants, we feel that offering a minimum benefit of $1200, before the offset is put in place, is a good beginning to help replace the income that these public servants lose when their spouses pass away. This legislation currently has 246 sponsors crossing party lines. Though it is not exactly what ATPE would ultimately like to see in this area, Congressman Jefferson's legislation is leading us in the right direction to help those affected by the offset.

The impact HR 1217 could have within the teaching profession is phenomenal. This legislation will address the concerns of not only many of our members, but future educators in Texas and around the country. As educators, they provide individuals such as you and I with the tools necessary to become successful and self-dependent. Please support HR 1217 so that we may show the nation's educators that we really appreciate what they have given us.

Thank you for the opportunity to provide this input.

Statement of Hon. John Elias Baldacci, a Representative in Congress from the State of Maine

I would like to thank Chairman Shaw and ranking member Matsui for the opportunity to present testimony today on the Government Pension Offset (GPO). I recently joined a number of my colleagues in sending a letter to Chairman Shaw urging him to conduct a hearing on the GPO as soon as possible. I thank him for his responsiveness.

One of the most difficult problems for government to deal with is the coordination of pension benefits for those individuals who qualify for two retirement systems. The Social Security benefit formula was designed to provide an exceptional return on what was paid in for those who worked under the program at a low earnings level, and who have no other retirement protection. The intent of the GPO was to ensure that an individual's benefit more accurately reflected the period of time they worked under the Social Security system and their financial status.

Having said that, I understand the frustration of state and federal employees who have worked hard to qualify for two seemingly independent retirement systems, only to be told that their pension from non-Social Security covered employment will affect their Social Security benefits. This, despite the fact that they paid into the system just like anyone else, and acquired the requisite quarters necessary for full retirement benefits. It's not hard to understand why people are upset to find that they have much less money on which to retire when they contact the Social Security office shortly before their retirement date. The GPO is often an unwelcome surprise for retirees had not planned financially or emotionally. For many, it means the difference between an affordable retirement that allows them to remain independent, and one in which they are just barely getting by.

The State of Maine is one of a number of states which has an independent retirement system for state and local employees, as well as teachers. However, many of those who retire under this system have also worked at different jobs in which they have paid into Social Security and earned the quarters necessary for retirement under that system. They've played by the rules, yet they are told—in essence—that they've worked too hard and will lose a portion of their benefits.

Clearly, we are dealing with an issue of fairness here. I think many will agree that the GPO has had some unintended consequences, particularly for retirees with fairly low earnings from separate retirement systems. In order to rectify this situation, I have joined many of my colleagues in trying to mitigate or eliminate this problem. I'm a proud cosponsor of Mr. Jefferson's bill, HR 1217, which would repeal the offset for recipients whose combined public pension and Social Security payment is less than $1,200 per month. In addition, I've cosponsored HR 742, which would completely eliminate the GPO, and HR 860, legislation that would restrict the windfall elimination provisions to those who have over $2,000 in monthly benefits.

Again, I view this issue as one of fairness to those who have worked hard all their lives and who simply want a reasonable sense of security in their retirement. That's not really asking for a lot given their contributions. I'm hopeful we can get some action on this matter later this year.

Statement of James D. Mosman, Chief Executive Officer, California State Teachers' Retirement System, Sacramento, California

On behalf of the more than 600,000 active and retired members of the California State Teachers' Retirement System (CalSTRS), I appreciate the opportunity to provide information in support of Government Pension Offset (GPO) reform and to describe the effects federal offset provisions have on many California public school employees at retirement.

CalSTRS is the third largest defined benefit pension plan in the United States. The System has grown steadily to become the largest teachers' pension plan in the world. At the time CalSTRS was created, the Social Security Administration did not exist. That is why in 1913 California elected to establish, design, administer and finance its own retirement plan (CalSTRS) that would best meet the needs of California's educators in public schools. The Teachers' Retirement Board (Board) administers our retirement program, and the benefits provided for career teachers are superior to the retirement, disability and survivor's benefits provided by Social Security.

There are two federal offset provisions that may affect CalSTRS retired members. The first is the subject of this hearing, the Government Pension Offset (GPO). The second offset that also may affect our retired members is the Windfall Elimination Provision (WEP). Both of these Social Security offsets and the impact to our retired members are part of the detailed discussion to follow.

Some relief is needed from the GPO and WEP. Both federal offset provisions were enacted using the false assumption that government pensions are the result of substantial careers in public service. CalSTRS, along with many other retirement systems, provides a retirement benefit with a minimum of five years of service once the member reaches retirement age. However, a significant number of teachers have decided to turn to teaching late in life after years in private sector employment. Many women work part time in the teaching profession while also spending more time at home to raise their children. These teachers have relatively limited service and their chosen career path provides a modest CalSTRS pension. Because of the way a government pension can penalize the Social Security benefit, it only seems fair that those individuals who held jobs in Social Security covered employment, or who are eligible for Social Security based on their spouses covered employment, be able to count on a more equitable share of that income to sustain them through their retirement years. We must remember the diversity of circumstances that brings individuals to teach in California, and the sporadic work careers of women in particular.

Government Pension Offset (GPO)

The Social Security spousal benefit provides income to wives and husbands who have little or no Social Security benefits of their own. From the beginning of the Social Security program, spousal benefits were intended for women and men who were financially dependent on their husband or wife who worked at jobs covered by Social Security. The same would apply to widows and widowers.

The original GPO legislation, enacted in 1977, required a dollar-for-dollar reduction in Social Security benefits for spouses or surviving spouses who received a pension from a federal, state or local retirement system not coordinated with Social Security, such as CalSTRS. In 1983, the formula was modified to allow for a reduction of two-thirds of the government pension. The following table illustrates how the GPO formula applies to a CalSTRS member whose benefit is based on their final average salary at retirement, and is also eligible to receive a Social Security spousal benefit based on the husband or wife's monthly Social Security benefit of $1,000 for years worked in the private sector (numbers are rounded to the nearest hundredth):

	Years of CalSTRS Credited Service		
	5 Years	10 Years	15 Years
Social Security Spousal Benefit	$500	$500	$500
CalSTRS Benefit	$381	$762	$1,144
GPO (minus ⅔ of CalSTRS Benefit)	−$254	−$508	−$763
Rremaining Social Security Spousal Benefit	$119	None	None
Combined Retirement Benefits	$500	$762	$1,144
Monthly Combined Benefits (if GOP is not applied)	$881	$1,262	$1,644

Without application of the GPO, the Social Security covered spouse at age 65 who receives a monthly benefit of $1,000 for years worked in the private sector provides his non-working spouse who is also age 65 a Social Security benefit of $500 on his account (50% of his $1,000).

Information provided by Social Security states that "before the offset provisions were enacted, many government employees qualified for a pension from their agency and for a spouse's benefit from Social Security, even though they were not dependent on their husband or wife." Based on the above illustration, it appears that the application of the GPO rule should be reconsidered for the lower income level benefit recipients of government pensions.

Social Security used the logic that a person who worked in a government job long enough to become entitled to a government pension was not completely dependent on the worker. This assumption is problematic because in many state and local systems, a worker is vested and eligible to receive a pension after completing only five years of service. As demonstrated in the above scenario, the CalSTRS retired member (a government employee receiving a government pension) working between five and ten years not only receives a modest pension for the years of service in the public education system, but he or she is adversely affected by the Social Security spousal reduction as a result of the GPO.

The application of the GPO for CalSTRS retired members results in the spousal benefit being entirely eliminated in the majority of cases, even though the Social Security covered spouse paid taxes for his or her entire working career. The current GPO provisions create an inequity in the distribution of Social Security benefits for short-term government employees. The standard for this narrow class of individuals (retired public employees who are the spouses or surviving spouses of retirees who were covered by Social Security) is inconsistent with the overall provisions of the Social Security Act, which is to compensate lower paid workers.

Current legislation, H.R. 1217 introduced by Representative Jefferson, would provide that the reductions in Social Security benefits that are required in the case of spouses and surviving spouses who are also receiving certain government pensions (such as CalSTRS) would be equal to the amount by which the total amount of the combined monthly benefit (before reduction) and monthly pension exceeds $1,200. If the combined amount exceeds $1,200, there would be a dollar-for-dollar offset for the excess above $1,200. The bill would also guarantee that the offset could not exceed two-thirds of the pension, as guaranteed under present law. The $1,200 amount would be indexed by annual cost-of-living adjustments. This proposal represents a promising start for many of our lower income CalSTRS benefit recipients.

Windfall Elimination Provision (WEP)

This Social Security provision is intended to provide a benefit that replaces a percentage of a worker's pre-retirement earnings. The formula used to compute benefits includes factors that ensure lower-paid workers get a higher return than highly paid workers do. For example, lower-paid workers could get a Social Security benefit that equals up to 60 percent of their pre-retirement earnings. The average replacement rate for highly paid workers is about 25 percent.

Published information from Social Security states that prior to the enactment of this provision in 1983, benefits for people who spent time in jobs not covered by Social Security were computed as if they were long-term, low-wage workers. "They received the advantage of a higher percentage of benefits in addition to their other pension." The following table illustrates how application of the WEP can reduce average monthly earnings used to figure benefits for a person born in 1932 and who had actual assumed monthly earnings of $712:

Social Security Covered Employment (No WEP Applied)		Social Security Covered Employment (WEP Applied)	
90% of first $531 in wages	$478	40% of first $531 in wages	$212
32% of next $2,671 in wages	$58	32% of next $2,671 in wages	$58
15% of remaining wages over $671	+0	15% of remaining over $671	0
Average monthly earnings	$536	Average monthly earnings	$270

As you can see from the above illustration, the individual whose employment was not covered by Social Security is penalized $266 per month, or $3,192 annually.

The logic used to enact the WEP assumed that government workers in noncovered employment had spent the majority of their careers in their government jobs. However, the employment histories of individuals subject to this provision are as unique as their DNA. Many came to their government jobs after a considerable number of years working and paying Social Security taxes in the private sector.

Many individuals who paid into Social Security prior to the enactment of WEP were not aware of the reduction created by WEP. When they request an estimate from Social Security, they are provided with standardized estimates that do not take the WEP into consideration. They also do not know their Social Security benefits will be reduced when they enter the teaching profession. Since each work history is different, WEP creates an inequity not only between those subject to WEP, but also an inequity between Americans. Neighbors, both having paid into Social Security for 15 years on precisely the same earnings will not be treated equally if one of them is receiving even a minimal pension based on work not covered by Social Security.

Current legislation, H.R. 860 introduced by Representative Barney Frank (D–MA), would restrict the application of the WEP to individuals whose income from combined benefits and other monthly periodic payments exceeds $2,000. The bill would also provide for a graduated implementation of such provision on amounts above the $2,000 level.

Combined Effect of Government Pension Offset & Windfall Elimination Provision

Some individuals can be affected by both the GPO and WEP. Consider the following case of a widow entitled to a government pension, such as a CalSTRS benefit, and Social Security on both her own earnings and her deceased husband's earnings. Her case is the antithesis of double dipping; this widow suffers from "double deducting":

Widow's Social Security benefits = $991
Widow's CalSTRS pension = $656
Widow's own Social Security = $134
$991—Widow's benefit (based on spouse's employment)
$134—Reduced by own Social Security
$857—Total widow's benefit
−438—Reduced by 2/3 of government pension
$419—Total widow's benefit

The application of these provisions can have a severe impact on the financial security of retirees who have spent some portion of their working careers serving the public (e.g., teachers, police officers, fire fighters, and many other federal, state and local government workers).

CalSTRS believes some relief is needed from the Social Security offset provisions for those most adversely affected by the GPO and WEP. Most of them are women and are typically not career teachers, but rather educators who have a minimum of five years of service, sometimes more. This limited service makes them eligible for a CalSTRS retirement allowance once they reach retirement age. However, their limited service results in a limited retirement allowance. The reason for limited service is that many individuals change careers after having worked in the private sector long enough to qualify for Social Security benefits at retirement. Consider those individuals, particularly women, who work part time as a teacher and also stay home to raise their children. These are the individuals who may be affected by the GOP and WEP. Their limited public service provides for a limited public pension from CalSTRS when they retire. They should not be penalized because they held jobs in Social Security covered employment, or are eligible for benefits from Social Security based on their spouse's covered employment.

Many women were forced to accept entry-level government jobs when they were divorced or widowed. Also, there are more women educators then men. In fact, the CalSTRS membership is made up of 65 percent women and 35 percent men. The GPO harshly affects women more than men because their work histories are often briefer or more sporadic. Traditionally, many women stayed home to raise children in lieu of advancing their career instead of building up their retirement assets. They have a relatively short career in public service such as teaching and rely on their husband's income. Additionally, women's entry-level jobs resulted in lower pay and smaller pensions, which affects the final average salary used for calculating a CalSTRS retirement allowance.

CalSTRS anticipates that more and more teachers will return to the classroom as a result of legislation enacted in 1999 that encourages recruitment and retention of teachers for the purpose of satisfying the Class Size Reduction Program. Many of these individuals made mid-career changes from the private sector and qualify to work as instructors for public schools, reinstating from retirement, relocating from other states, etc. and now teach in California's schools. These individuals could be adversely affected by Social Security offsets if their years of teaching service are limited because they have chosen a teaching career later in life.

Many CalSTRS members affected by the GPO and WEP don't realize that their Social Security benefits will be offset until it is too late to remedy the situation. They are not actually aware of the reductions and offsets until they apply for Social Security. Education on these topics has been sparse, confusing or nonexistent. When Social Security estimates are sent to individuals, often the offset provisions are not mentioned. Therefore, the estimates received give a false sense of security for those whose benefits will be offset.

Both the GPO and WEP have the harshest impact on those with low income, particularly for those individuals who have little time to make alternative plans for retirement. Some of these individuals must return to work in order to sustain an adequate income. If they return to the private sector, they would continue to pay Social Security taxes on their covered employment. However, this does not necessarily change the effects of the offsets.

Most importantly is our commitment to pursue viable solutions for providing relief for those individuals most adversely affected by these federal provisions. We believe that policy should give way to practical solutions by considering various alternative designs that would provide for a more phased in approach for applying the offsets to Social Security benefits. This could include increasing the threshold, phasing in the offset based either on the dollar benefit or the years in the Social Security system, and examples of how these approaches would work. A more equitable distribution of Social Security benefits designed for individuals who work both in the private and public sector is apparently necessary.

This is an extremely important issue for many of California's public school educators, and I sincerely thank the members of the Ways and Means Subcommittee on Social Security for the opportunity to express our concerns about the GOP and WEP. Our focus is to provide some form of relief for those CalSTRS retired members with very modest incomes, which are typically those who have had a shorter teaching career. Additionally, we are learning more and more that these individuals are not aware of the impact to them personally until it is too late. The effects of the GPO and WEP have devastated many of our members and their sense of individual retirement security. We will continue to gather information on this very important issue and offer to share our findings and suggestions on this issue as Congress pursues efforts to provide relief for those individuals most severely affected by these federal provisions.

June 26, 2000

The Honorable E. Clay Shaw, Jr.
Chairman, Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Shaw:

This is in regard to the testimonies scheduled for June 27, 2000, and the proposed amendments to Title II of the Social Security Act. The amendments would eliminate the reductions in Social Security (SS) benefits which are presently required in the case of spouses and surviving spouses who are also receiving certain Government pensions.

Anyone who was eligible to receive a Government pension before December 1982 and who met the requirements for SS spouses' benefits in effect in January 1977 before July 1, 1983, was able to keep the benefits from his or her Government job. That person also received half of the spouse's SS in addition to his or her Government pension provided he or she was married for at least 20 years and reached age 62 before July 1, 1983.

Anyone who did not reach 62 before July 1, 1983, and not eligible to receive a Government pension before December 1982, is subject to the current Offset Law which is unfair to Government employees, particularly women. I was 52 at the time—not exactly a "spring chicken." I believe that anyone who was married for 20 years or longer as of January 1, 1977, should be eligible to receive half of the spouse's SS in addition to a Government pension.

During World War II (WWII), while the men went to war, 18 million women joined the work force. (About 350,000 American women joined the Armed Forces.) Before WWII, few women worked outside the home-after WWII, these women left the factories and defense plants, etc., so that veterans could get work. Parents in the postwar period did not send their daughters to college because the women of that generation were encouraged to be homemakers. Most girls were married by age 20 and starting families. Men were described as the "bread winners" and they were rapidly advanced in their chosen professions.

I was married in March 1951—it was not quite 5‡ years after WWII ended in August 1945 and about a year after the United States became involved in the undeclared Korea war. I left my job to raise a family and I was financially dependent on my husband for 20 years. I went back to work in 1971, at the age 40, as a GS–4 secretary with the Government.

At the time I was divorced in April 1973 I had 22 years invested in my marriage. Social Security spouses' benefits were guaranteed to spouses married for 20 years or longer and the rules did not change until 1977—4 years later. When I was 46 years old and just beginning to build a pension, the 1977 Governmental decree pulled the rug out from under my feet. I earned the right to receive half of my former husband's Social Security benefits regardless of where I went to work.

Meanwhile, the Congress passed another law to protect divorced women married for at least 20 years to men working in the private sector. Congress demanded that one-half of any pension provided to a husband working for a private corporation should be paid to his former wife. Somehow, I also was excluded from that law.

When I retired from the U.S. Department of Agriculture in November 1996 at age 65+, I had a little more than 29 years of service. However, without my husband's SS benefits I must survive on a modest pension. As a cancer survivor, I used my savings to pay for chemotherapy treatments (that was before I was eligible for Medicare and my provider paid 80 percent of the fees and I paid 20 percent—a sizeable sum at more than $1,200 a shot for chemo plus medical charges). I encountered devastating medical expenses. It was that unexpected illness that everyone saves for in the event they are stricken. I not only used my savings but I also went into considerable debt while I was being treated.

Congress is presently considering Government Pension Offset Bills that would provide SS benefits for surviving spouses. Government pensioners would collect SS benefits provided the total amount of their Government pension combined with their SS benefit would not exceed $1,200 a month. Such an offset formula is discriminatory—it is as if Congress eliminated SS benefits to retired persons who receive more than $200,000 per year income.

Although the Congress should explore costs-saving methods to protect the SS system, they should not discriminate against a relatively small group of elderly single women. Most women who were married for 20 years before January 1, 1977, are probably already dead or they will be dead in 10 to 15 years.

Please change the law so that anyone who was married for 20 years or longer before 1977 will receive his or her Government pension plus one-half of their former spouse's SS benefit.

Thank you for addressing this problem.

Respectfully,

ISABEL M. CEK
College Park, Maryland 20740

Statement of Donna Cord, Las Vegas, Nevada

RE: Loss of Social Security Benefits for those receiving Government Pensions (related to the GPO)

Please give me a couple of years of peace when I am too old or too ill to work any more. Restore the Social Security benefits that will be taken away from me simply because I now work for a local government entity and may have a small pension some day. Closely related to the government pension offset for spouses, I just found out that the Social Security benefits I worked for my entire life will be reduced by about 60% if I ever collect a pension from my current county government clerical position.

I have worked my entire life and never expected anything from my government. But if my health holds out and I can stay 15 years in my current clerical job, I would only get a pension of around $14,000 (with no medical benefits of any kind). This would be my only income. Without the Social Security benefits I had counted on (either my own, or my share of my ex-husband's), I will not even be able to keep a roof over my head.

Surely this cannot be what Congress intended when it passed this law. Did the Congressmen who passed this rule consider how this would destroy the futures of the (mostly female) clerical workers with low incomes and low pensions? Members of Congress with big salaries and big pensions won't miss the Social Security. But without being able to collect the full Social Security that I had earned before my current job, I have no future, and I do not understand how my own government can do this to me.

I am one of the forgotten women in this country—who by reason of widowhood, divorce or other life circumstances are alone and trying to earn a living as best we can. I have taken care of my 85-year-old mother for 10 years with no help from anyone —or any government agency. There is help in our country for everything from drug addicts to endangered species; it is incomprehensible that my own government has imposed this punitive measure on those who will most need the help from Social Security. I have never asked anyone for help. But I am asking for fairness.

Please give me some hope for a brief future when I am too old or too infirm to work.

Please change the law and restore full Social Security benefits to those receiving a government pension of under $20,000.

Thank you, and God bless.

Statement of Hon. William D. Delahunt, a Representative in Congress from the State of Massachusetts

Dear Mr. Chairman:

I am writing to commend you for convening today's hearing on the Social Security Government Pension Offset, and to share with you the depth of concern about this problem in southeastern Massachusetts.

During the course of your hearing today, I understand you will hear from officials of the Social Security Administration and the Congressional Budget Office. I wanted to attempt to supplement the hearing record with testimony from some of those directly affected by this inequity.

As I am sure you know, Massachusetts is one of a handful of states where public employees do not participate in the Social Security system. During their working years, these nurses, teachers, librarians, and school bus drivers were compensated only modestly. In retirement, they are hit particularly hard by the offset. They receive meager pensions, and the Government Pension Offset reduces their low income even further.

The voices of these retired public employees speak compellingly for themselves. From a widow in the town of Duxbury:

"I am 60 years old and a widow. My husband died of cancer in 1981 at age 45, our four children were in middle school and high school at the time. My husband's life insurance was used to raise and educate through college all of them. I have been a school nurse for 15 years. I though that with my school retirement approximately $700 a month and my husband's Social Security approximately $700 a month that I would be able to manage. Upon going to the Social Security Office and inquiring, I was told that because I worked in a school I would be penalized—that two-thirds of my retirement must be subtracted from the Social Security. That is two-thirds of $900 ($600) would be taken from my husbands $700 leaving $100 for me. The Social Security office said this is grossly unfair to widows. My husband worked for 30 years and never got to collect a penny. If there is anything you could possibly do to change this, I and many other widows working in the public sector would be so very grateful."

And a retired teacher from Harwich wrote:

I am writing to you to ask for your help in repealing the 1977 Government Pension Offset legislation. I feel that it is discriminatory in nature and at a time when our surplus is bulging, it would help countless people who contributed in good faith, but, were met with this unfair legislation in 1977. As a retired teacher, who I feel was part of the success of our prosperity by educating those youths who went on to great successes, it seems only fitting that we should be given our full Social Security benefits."

These are sensible and powerful testaments to the fundamental unfairness of current law—and its disproportionate impact on the least fortunate. While I support outright repeal of the existing statute, I strongly support HR 1217 which, as you know, would apply only to the portion of a surviving spouse's monthly pension and Social Security income exceeding $1200. HR 1217 would at least address the most serious disparities created by the current rules.

Over a period of year, I have heard from hundreds of constituents about he financial and emotional hardship resulting from the Government Pension Offset. To help amplify on the testimony at today's hearings, I have taken the liberty of enclosing selected examples of these testimonials, in hopes that these personal accounts will help the Subcommittee tackle this problem. I have also enclosed a statement from the Retired State, County and Municipal Employees Association of Massachusetts for your review.

Again, I appreciate your commitment to a sense of fairness in this area, and would be pleased to asssit the Subcommittee's work in any way possible.

Enclosures

[Attachments are being retained in the Committee files.]

Statement of Gilbert G. Gallegos, National President, Grand Lodge, Fraternal Order of Police

Good morning, Mr. Chairman and distinguished Members of the House Subcommittee on Social Security. My name is Gilbert G. Gallegos, National President of the Fraternal Order of Police. I am the elected spokesperson of more than 290,000 rank-and-file police officers—the largest law enforcement labor organization in the United States. I am here this morning to talk about the "Government Pension Offset" and to urge this Subcommittee to adopt H.R. 1217, the "Government Pension Offset Reform Act."

Social Security was established in 1935 and originally excluded all State and local employees. In the 1960s, these employees were given the option to participate in the Social Security system, prompting public sector employees in thirty-seven (37) States to enroll. The remaining thirteen (13) States and a number of local governments in two others chose instead to maintain and enhance their existing retirement systems.

While the "Government Pension Offset" (GPO) affects public employees across the country, the impact is most acute in fifteen (15) States: Alaska, California, Colorado, Connecticut, Georgia (certain local governments), Illinois, Louisiana, Kentucky (certain local governments), Maine, Massachusetts, Missouri, Nevada, Ohio, Rhode Island, and Texas. It is estimated that over 284,000 local, State and Federal employees have unfairly been affected by the Government Pension Offset. In the public safety community, seventy-five percent (75%) of all law enforcement officers do not pay into Social Security—meaning they are likely to be affected by the GPO in the future.

In 1977, Federal legislation was enacted that required a dollar-for-dollar reduction of Social Security spousal benefits to public employees and retired public employees who received earned benefits from a Federal, state, or local retirement system. Following a major campaign to repeal the provisions in 1983, Congress adopted the "Government Pension Offset," which limits the spousal benefits reduction to two-thirds of a public employee's retirement system benefits. This remedial step falls far short of addressing the inequity of Social Security benefits between public and private employees.

It is estimated that the spousal benefit is eliminated entirely in nine out of ten cases, even though the covered spouse paid Social Security taxes for many years, thereby earning the right to these benefits. Moreover, these estimates do not capture those public employees or retirees who never applied for spousal benefits because they wrongly believed themselves ineligible.

According to the Congressional Budget Office, the government pension offset reduces benefits for some 200,000 individuals by more than $3,600 a year. Ironically, the loss of these benefits may cause these men and women to become eligible for more costly assistance, such as food stamps.

The present system creates a tremendous inequity in the distribution of Social Security benefits. The standard for this narrow class of individuals—retired public employees who are surviving spouses of retirees covered by Social Security—is inconsistent with the overall provisions of the Social Security Act and does not apply to persons receiving private pension benefits. This imbalance exists even though Congress, through ERISA standards and tax code provisions, has more direct influence over private employers than public employers.

For example, the wife of a retired law enforcement officer who collects a government pension of $1,200 would be ineligible to collect her widow's benefit of $600. Two-thirds of $1,200 is $800, which is greater than the spouse's benefit of $600 and thus making her unable to collect it. If the spouse's benefit was $900, she would collect only $100, because $800 would be "offset" by her government pension.

The F.O.P. believes this is an issue of fairness and that the offset scheme currently in place penalizes those employees least able to afford it. Law enforcement officers, many of whom do not participate in the Social Security system, are especially affected.

The Fraternal Order of Police is working to pass H.R. 1217, the "Government Pension Offset Reform Act," introduced by Congressman William Jefferson. This legislation would amend the Old Age, Survivors and Disability Insurance (OASDI) of the Social Security Act to modify the formula for determining the amount of reduced monthly OASDI benefits payable to a spouse, surviving spouse, or parent receiving monthly payments from a Federal or State pension plan. This new formula would decrease the benefit reduction to the lesser of either the amount by which the total amount of the combined monthly benefit (before reduction) and monthly pension exceeds $1,200, adjusted for inflation; or an amount equal to two-thirds of the amount of any such monthly pension plan payment.

We believe this issue cannot be completely separated from another "offset" which we view as equally punitive on law enforcement officers and other government workers—the "Windfall Elimination Provision" (WEP). This provision was also enacted in 1983 as part of the reform package designed to shore up the financing of the Social Security system. Its purpose was to remove a so-called "windfall" for persons who spent some time in jobs not covered by Social Security (like public employees) and also worked other jobs where they paid Social Security taxes long enough to qualify for retirement benefits. The practical effect on low-paid public employees outside the Social Security system, like law enforcement officers, is that they lose up to sixty percent (60%) of the Social Security benefits to which they are entitled—a loss, not an adjustment for a "windfall."

The WEP went into effect in 1985 and applies a modified formula to any individuals who collect a government pension designed to reduce the amount of their Social Security benefit. This provision has created a very real inequity for many public employees, particularly police officers who retire earlier than other government employees to begin second careers which require them to pay into the Social Security system. These individuals are penalized under current law.

Again, we regard this as an issue of fairness. The WEP substantially reduces a benefit that workers had included and counted on when planning their retirement. The arbitrary formula, when applied, does not eliminate "windfalls" because of its regressive nature—the reduction is only applied to the first bracket of the benefit formula and causes a relatively larger reduction in benefits to low-paid workers. It also overpenalizes lower paid workers with short careers or, like many retired law enforcement officers, those whose careers are evenly split inside and outside the Social Security system.

To correct this inequity, the Fraternal Order of Police is also working to pass H.R. 742, the "Social Security Benefits Restoration Act," introduced by Congressman Max Sandlin. The bill would repeal the "Windfall Elimination Provision" entirely. I urge this Subcommittee to consider and pass legislation addressing both the "Government Pension Offset" and the "Windfall Elimination Provision."

I want to thank you, Mr. Chairman, for the chance to appear before you today.

Statement of Hon. David L. Hobson, a Representative in Congress from the State of Ohio

MR. CHAIRMAN, thank you for holding a hearing on this issue and for the opportunity to voice my support for the Subcommittee's attention to the Government Pension Offset (GPO). By working together, I believe we can find a reasonable, bipartisan solution to this situation.

Ohio's 7th Congressional District is home to many of our civil service retirees and GPO reform is an issue of great interest to my area. I commend the Chairman for assembling this informative and diverse panel. By hearing testimony from the Social Security Administration, the Congressional Budget Office, and individuals who receive government pension benefits, the Subcommittee will be better prepared and informed as we look for a way to improve Social Security. When we review such issues as the GPO, I believe we should do so with our overall goal in sight: improving Social Security for present and future retirees.

I am encouraged that the Subcommittee has chosen to have this informational and bipartisan hearing on Rep. Jefferson's legislation, H.R. 1217. I look forward to working with my colleagues towards an agreement which both protects Social Security and the benefits of those who receive government pensions.

Statement of Kenneth T. Lyons, National President, National Association of Government Employees, Alexandria, Virginia

Chairman Shaw, Members of the Subcommittee, my name is Kenneth T. Lyons. I am the National President of the National Association of Government Employees (NAGE). NAGE is an affiliate of the Service Employees International Union, the second largest union in the AFL–CIO. NAGE is proud to represent over 150,000 employees in federal, state and local government.

Thank you for the opportunity to discuss with you the Government Pension Offset. This provision enacted in 1977, reduces Social Security spousal benefits, i.e., benefits payable as a dependent of a Social Security-Covered Worker, to persons who receive a pension from Government Employment that was not covered by Social Security. The GPO is intended to place retirees whose Government Employment was not covered by Social Security and who are eligible for a Social Security spousal benefit in approximately the same position as other retirees whose jobs were covered by Social Security.

The GPO law assumes that the public-plan contributions that exceed Social Security rates are equivalent of contributions to a private pension plan. This reasoning precipitated the 1983 Offset Revision, which reduces the original 100 percent offset to the current two-thirds.

The Pension Offset aimed at high paid Government Employees also applies to public service employees who generally receive lower pension benefits. It is estimated that GPO has affected some 271,000 federal, state and local retirees.

Proponents of the Pension Offset claim that the offset is justified because survivor benefits were intended to be in lieu of pensions. However, were this logic followed across the board, then people with private pensions would be subject to the offset as well. But this is not the case.

While Social Security benefits of spouses or surviving spouses earning government pensions are reduced by $2 for every $3 earned. Social Security benefits of spouses or surviving spouses earning private pensions are not subject to offset at all.

To address the problems of the GPO, the National Association of Government Employees has endorsed H.R. 1217, the GPO reform bill, introduced by Representative Jefferson of Louisiana. The Jefferson Bill would permit public pensioners who are not covered by Social Security to keep as much as $1200 a month in combined pension and Social Security Spouse or Widows' Benefits before the two-thirds offset is imposed. This is a targeted approach to GPO Reform.

The Jefferson Bill has over 235 cosponsors, which indicates a great deal of support. It is our hope Mr. Chairman, that your subcommittee will look favorably on H.R. 1217. NAGE believes that the thousands of people hurt by the GPO deserve to live their retirement years with some form of financial security. H.R. 1217 will begin the move to restore equity between public and private employees in the distribution of Social Security benefits.

Statement of Robert T. Scully, Executive Director, National Association of Police Organizations

I. Introduction

I am Robert Scully, the Executive Director of the National Association of Police Organizations, otherwise known as NAPO. I am a retired police officer who served for 25 years with the Detroit Police Department. I also served as a full-time elected officer of the Detroit Police Officers Association and was a collective bargaining team member from 1973—1992. In addition, I was NAPO's elected president from 1983 to 1993.

NAPO is a national non-profit organization representing state and local law enforcement officers throughout the United States. NAPO is a coalition of police associations and unions serving to advance the interest of law enforcement officers through advocacy, education and legislation. NAPO represents 4,000 organizations, with 220,000 sworn law enforcement officers and 11,000 retired officers, who put their lives on the line daily to protect the American public.

I would like to take this opportunity to thank Chairman E. Clay Shaw, Jr., and members of the Subcommittee on Social Security of the Committee on Ways and Means, for holding this hearing on the Government Pension Offset (GPO). The GPO, instituted in 1977 and later amended in 1983, calls for a two-thirds offset for Social Security benefits of spouses or surviving spouses earning government pensions that did not pay into Social Security. The federal Government Pension Offset law unduly penalizes federal, state and local public employees from receiving spouses or surviving spouses' Social Security benefits. NAPO strongly supports a remedy to alleviate the impact and severity of the GPO and its effect on public employees. NAPO urges members of the House of Representatives to pass H.R. 1217, legislation, which if enacted, would alleviate the offset for some public employees.

II. Brief History of the Government Pension Offset

Social Security provides spouse's benefits to wives or husbands who receive partial Social Security benefits or none at all. However, within the Social Security system, an individual cannot receive both his/her own Social Security benefit, as well as a full spousal benefit from Social Security. This is prohibited under Social Security and is commonly known as 'dual entitlement.' For example, an individual's own Social Security offsets dollar for dollar the amount the individual may receive from a spouse's Social Security benefit. The intention of the spousal benefit was for those spouses who depended on their husbands or wives for financial needs.

Before the GPO was instituted, it was possible for an employee to receive a pension that didn't pay into Social Security and a spouse's benefit from Social Security. Congress felt that this was 'dual entitlement' and enacted the GPO law as part of the 1977 Social Security Amendments. The law treated government pensions and annuities as though they were Social Security benefits. This law provided a dollar for dollar offset of a spouse's Social Security benefit if that individual also received a government annuity that did not pay into Social Security. If the individual was eligible to receive a government pension before December of 1982, they were exempted from the GPO.

The dollar for dollar offset was an excessive penalty for local, state and federal employees. An individual in the private sector who received a pension and Social Security was exempt from the 'dual entitlement' rule. In 1983 Congress changed the dollar for dollar amount to a two-thirds offset. Therefore, a public employee who earned a government pension and was eligible for a spouse or widow's benefit was subject to the two-thirds offset of their pension under the 'dual entitlement' rule.

III. The Effect of GPO on Public Employees

NAPO strongly feels that the two-thirds offset of a government pension on a widow or spouse's benefit is excessive, unfair and an imprecise calculation. It is estimated that over 284,000 local, state and federal employees have unfairly been affected by the Government Pension Offset. In the public safety community 75% of all law enforcement officers do not pay into Social Security and have the potential to be stricken by the excessive affects of the GPO. The two-thirds offset of a widow or spouses' benefit can have a serious affect on a retiree living off a monthly income.

For example: If a widow received $600 from a government pension and was eligible for a $400 widow's benefit from Social Security, the two-thirds offset would diminish the Social Security benefit to $0. Therefore, the retiree would receive a combined monthly benefit of $600 from the government pension and Social Security benefit.

The GPO is a complicated and often confusing rule that affects hundreds of thousands of local, state and federal employees. Public employees have little knowledge of the offset and the affect it has on their Social Security benefit. For many employees, the GPO will come as a complete surprise, devastating retirees' future financial planning.

NAPO recognizes the genesis of the 'dual entitlement' provision that prevents retirees from receiving both their own Social Security benefit and a full spousal benefit. However, the 'dual entitlement' provision, which led to the advent of the GPO, is an excessive reduction of Social Security benefits for public employees. The public sector employer-employee ratio of contributions is far greater than that of Social Security. Originally the GPO provision assumed that public pensions exceeding the Social Security contributions were equivalent to a private pension, thus instituting the dollar-for-dollar offset. After further examination by Congress, the offset was changed to its current level of two-thirds which we still find to be excessive, especially for low to middle income retirees.

Furthermore, many employees in the private sector contribute a minimal amount to their pension plan. Most of the contributions, if not all, come from the employer. However, private sector employees receive both their private pension and a full Social Security benefit without any offset for their Social Security benefit.

IV. Legislation to Correct the Inequity of GPO

There have been a number of legislative proposals to rectify the inequity and unintended consequences of the GPO on low and middle income retirees. One proposal included the complete repeal of the GPO. However, NAPO recognizes the cost associated with such a proposal. Another proposal offered to lessen the financial impact of the GPO would be to change the offset to one-half instead of the two-thirds offset for Social Security benefits. This proposal would partially alleviate the fiscal burden on retirees. A third proposal, which NAPO has endorsed, would put a cap on the combined monthly income of a public pension and a widow or surviving spouse Social Security benefit that would be affected by the offset.

In the 102nd Congress, legislation was introduced that would eliminate the offset of public employees whose combined income did not exceed a certain amount. Congressman William Jefferson (D–LA) introduced a bill in the 104th Congress that would remove the offset for anyone whose combined public pension and widow or spousal Social Security benefit was less than $1,200 a month. This legislation would have the greatest impact on those who have been affected the most by Social Security-low to middle income retirees.

Since the beginning of the 105th Congress, NAPO has been an active member of the CARE coalition (Coalition to Assure Retirement Equity) whose objectives are to ensure equal retirement benefits for public employees. NAPO, along with the 43 members of the CARE coalition have actively lobbied and endorsed H.R. 1217, the 'Limitation on Reductions in Benefits for Spouses and Surviving Spouses Receiving Government Pensions,' in the 106th Congress. Congressman William Jefferson has re-introduced this legislation, which would eliminate the offset for anyone whose combined monthly benefit from a government pension and a spouse's Social Security benefit is $1,200 or less. This legislation has received bipartisan support and currently has 243 cosponsors.

I urge the members of the Social Security Subcommittee to consider strongly the financial impact of the GPO on retirees and support this meaningful legislation. H.R. 1217 would alleviate the unfair financial burdens of the GPO on hundreds of thousands of low to middle income public employees. We have experienced an unprecedented robust economy that has generated a large federal surplus. We need to help those who need it the most, including law enforcement officers who put their lives on the line everyday.

V. Conclusion

The GPO has a profound effect on the economic security of retirees, who receive a government pension and rely on the full payment of their widow or spouse's Social Security benefit. The law unfairly offsets benefits of recipients whose pensions were not covered by Social Security and exempts individuals who earned their pension in the private sector. The excessive GPO offset will continue to impact adversely the law enforcement community, especially given the fact that 75% of law enforcement officers do not pay into Social Security. Furthermore, public pensions are taxed, while Social Security is not if the income falls below a certain amount, adding to the host of inequities facing many public sector workers. With the state of our economy, NAPO urges the Congress to act now on this important legislation.

Thank you for the opportunity to submit a statement for the record.

June 26, 2000

The Honorable E. Clay Shaw, Jr., Chairman
Social Security Subcommittee
U.S. House Ways and Means Committee
B–316 Rayburn House Office Building
Washington, DC 20515

Re: Support for HR 1217

Dear Chairman Shaw:

I write on behalf of the National Conference of State Legislatures in support of HR 1217 and other efforts by Congress to address the inequities and unintended consequences to state and local government retirees caused by the Government Pension Offset (GPO). NCSL is appreciative of your efforts to draw attention to the fundamental unfairness faced by government retirees as a result of the Government Pension Offset. I urge the Ways and Means Committee to expeditiously forward legislation to the House floor that will reduce the detrimental impact of the GPO on government retirees.

Several proposals before Congress, including HR 1217, sponsored by Representative William Jefferson of Louisiana, would exempt a portion of uncovered government pension benefits from application of the GPO and would adjust this amount annually for inflation. HR 1217 in effect creates a combined monthly minimum benefit of government pension and Social Security benefits, $1,200 in 2000. HR 1217 would insure that government retirees have adequate financial support in retirement and would restore the safety net for thousands of retirees who qualify for both an uncovered public pension benefit and Social Security spousal (widow's) benefits.

The GPO, as currently imposed, imprecisely and unfairly reduces the spousal benefit received by those who have earned an uncovered government pension benefit. These reductions have unintentionally harmed moderate and lower-wage earners, and have disproportionately harmed women who have earned uncovered government pensions. Further, the offset provides a disincentive to work and may contribute to elderly poverty.

Proponents of the GPO argue that the offset reinforces the "dual entitlement rule." Under the dual entitlement rule Social Security beneficiaries who qualify for both an earned benefit and a spousal benefit receive the greater of the two benefits. The assumption underlying the dual entitlement rule is that spousal benefits are intended to provide a safety net to those who are financially dependent upon their spouse.

The GPO as currently imposed makes no determination as to the financial dependency of a government retiree on his or her spouse, who may have also earned an uncovered government pension. As imposed, the Government Pension Offset (GPO), reduces the Social Security spouse's (widow's) benefit by two-thirds (⅔) of the amount of the public retirement benefit received by the beneficiary. In some cases, the offset eliminates the Social Security benefit entirely. The GPO makes no accommodation as to the value of the uncovered pension benefit received, nor does the Social Security Administration make any determination as to the level of support provided to the household as a result of uncovered government work or from the uncovered government pension benefit.

In many states and localities, a worker is vested and eligible to receive a pension after completing only a few years of service. Retired government workers who receive a full pension benefit from uncovered work and those who received only a partial benefit have their Social Security spousal benefit reduced by the same two-thirds. Similarly, retirees whose work may have been interrupted by illness, childbearing, child rearing or other familial responsibilities have their spousal benefits reduced by two-thirds. Again, the offset as imposed does not take these reduced benefits under consideration in determining the level of spousal benefit received.

The National Conference of State Legislatures believes that H.R. 1217 provides the best opportunity to address the inequities and unintended consequences that result from the unilateral imposition of the GPO on government retirees. We urge passage of this legislation during the 106th Congress. H.R. 1217 has broad bipartisan support and is co-sponsored by 243 members of the House. Further, the Social Security actuaries have determined that the cost of "enactment of this proposal would increase the OASDI long range actuarial deficit by an amount that is estimated to be negligible." Given these circumstances we believe that action on HR 1217 would benefit a large number of retirees with very little burden, both administratively and financially, to the federal government.

We appreciate your consideration of the views of the National Conference of State Legislatures on this issue. If NCSL or I can provide additional information or support, please contact our committee staff, Gerri Madrid at (202) 624–8670.

Sincerely,

REPRESENTATIVE ROBERT JUNELL
Texas House of Representatives
Chair, AFI Federal Budget and Taxation Committee,
National Conference of State Legislatures

Statement of the National Education Association

Mr. Chairman and Members of the Subcommittee:

On behalf of the National Education Association's (NEA) 2.5 million members, we would like to thank you for the opportunity to submit our comments on the issue of the Social Security government pension offset.

NEA members strongly support elimination of the government pension offset. This discriminatory offset unfairly reduces the spousal survivor Social Security benefits of retired public employees who receive pension benefits from another retirement system but are not themselves covered by Social Security. While retired public employees have an amount equal to two-thirds of their pension benefits deducted from any Social Security survivor benefits, non-public employees with private pensions get to keep their entire pension and receive their full Social Security survivor benefits. The offset thus severely and unfairly limits the retirement benefits of public employees.

Background

The original Social Security system, established in 1935, excluded state and local government employees from coverage. In the 1960s, however, state and local employees were given the opportunity to elect to participate in the Social Security system. As a result, public sector employees in 36 states opted to enroll in Social Security in the 1960s and 1970s. The remaining 13 states and a number of local governments in two others chose instead to maintain and enhance their existing retirement systems.

In 1977, Congress enacted legislation requiring a dollar-for-dollar reduction of Social Security spousal benefits to public employees and retired public employees receiving earned benefits from a federal, state, or local retirement system. In response to significant calls for repeal of this dollar-for-dollar reduction, Congress and the President agreed in 1983 to limit the spousal benefits reduction to two-thirds of a public employee's retirement system benefits. This remedial step, however, falls well short of addressing the continuing inequity between public and private employees.

Impact of the Offset

The government pension offset affects government employees and retirees in virtually every state, but its impact is most acute in 15 states: Alaska, California, Colorado, Connecticut, Georgia (certain local governments), Illinois, Louisiana, Kentucky (certain local governments), Maine, Massachusetts, Missouri, Nevada, Ohio, Rhode Island, and Texas. Nationwide, more than one-third of teachers and education employees, and more than one-fifth of other public employees, are not covered by Social Security. Approximately 243,000 retired federal, state, and local government employees have already been affected by the Social Security Government Pension Offset (GPO). Thousands more stand to be affected in the future.

Estimates indicate that 9 out of 10 public employees affected by the offset lose their entire spousal benefit, even though their deceased spouse paid Social Security taxes for many years. Moreover, these estimates do not include those public employees or retirees who never applied for spousal benefits because they were informed they were ineligible.

The offset has the harshest impact on those who can least afford the loss: lower-income women. According to the Congressional Budget Office, the government pension offset reduces benefits for some 200,000 individuals by more than $3,600 a year. Ironically, the loss of these benefits may make these women and men eligible for more costly assistance, such as food stamps.

Because the offset applies only to persons receiving public pensions, not those receiving private pensions, it creates a tremendous inequity in the distribution of Social Security benefits. The standard for this narrow class of individuals-retired public employees who are surviving spouses of retirees covered by Social Security-is inconsistent with the overall Social Security Act. This imbalance seems particularly unfair given that Congress, through ERISA standards and tax code provisions, has more direct influence over private employers than public employers.

Examples of the Impact of the Offset

The government pension offset has a significant impact on the benefits of retired public employees. For example:

- A disabled former school employee and widow who retired in 1986 receives $403 a month from her school pension. That income totally offsets a $216 per month Social Security survivor's benefit. Her total income is about 70 percent of the federal poverty level.
- A retired widow who worked as a school cook receives $233 a month from her school pension. Her Social Security widow's benefit is reduced by $155 because of the automatic offset. Her combined total income is about 76 percent of the federal poverty level.

Conclusions and Recommendations

NEA policy calls for the complete repeal of the government pension offset. In the short-term, however, NEA does support legislation (H.R. 1217) sponsored by Representative William Jefferson (D–LA) that would limit the government pension offset and provide a guaranteed minimum benefit. A bipartisan majority of Representatives have already cosponsored the Jefferson bill.

NEA believes it is unconscionable that those who survive their spouses should see their retirement incomes reduced by thousands of dollars just because they are public employees. Teachers and other public employees who have devoted their working life to children and public service should not have to worry about the security of their retirement plans. We call on Congress to stop punishing people whose only transgression is a life spent serving the public and to take action this year to address the pension offset.

nea
NATIONAL EDUCATION ASSOCIATION

January 1999

PUBLIC SCHOOL EMPLOYEES AND SOCIAL SECURITY REFORM

Overview

One of the most far-reaching challenges facing the 106th Congress is the need to reform our Social Security system and bring it into long-term fiscal balance. Generally, Social Security payments to beneficiaries are financed on a "pay-as-you-go" basis, as each generation of workers contributes to the retirement income of the previous generation. For the near-term, large trust fund reserves are guaranteed by a favorable demographic trend: a large baby boom generation in the workforce and a comparatively small generation of Depression-era retirees. Within a few decades, however, shifting demographic patterns will make it impossible for the smaller, post-baby boom generation to sustain the Social Security system as it currently exists. According to the Board of Trustees' 1998 Report, the trust funds' reserves would be depleted by 2032, when annual tax revenues will only meet about 75 of the program's total obligations.

The National Education Association (NEA) recognizes that it will be impossible to revitalize the Social Security system without either fundamental reforms, significant adjustments to the current structure of taxes and benefit levels, or both. NEA support for any significant reform proposals will depend on how Congress addresses the NEA's three fundamental criteria for reform: promoting economic security for families, producing an equitable result, and encouraging sound employment policies. It will also depend on Congress' approach to two issues of particular concern to public school employees: the government pension offset provision and the issue of mandating Social Security coverage for state and local public employees in uncovered states.

Background

Social Security, the Old-Age, Survivors, and Disability Insurance (OASDI) Programs were created in the 1930s to provide safeguards against abrupt wage loss to families due to retirement, death, or disability of the primary wage earner. Access to Social Security protection is an earned benefit for workers and their families, once individuals have worked long enough in covered employment (occupations that are subject to payroll taxes that finance the underlying benefits).

The 1998 payroll tax rate is 12.4 percent assessed on annual wages up to $68,400. Additionally, other revenues accrue to the Social Security Trust Funds, primarily through the taxation of benefits paid, as well as interest income from government securities. The original Social Security Act of 1935 only applied to retired workers. At that time, state and local government employees were excluded from coverage. Additional benefits for dependents and survivors were adopted in 1939; benefits for disabled workers were enacted in 1956; and Medicare, a parallel Hospital Insurance Trust (Title XVIII of the Social Security Act) was enacted in 1965.

Public Employees in Uncovered States. In the 1960s, employees of state and local governments were given the opportunity to participate in the Social Security system. During the 1960s and 1970s, many public education employees in 37 state-wide retirement systems opted to enroll in the Social Security system, but those in the remaining 13 statewide systems — and those in a number of local government plans — chose to maintain and enhance their own retirement systems. As a result, almost one-third of teachers and education employees and more than one-fifth of other public employees are not covered by Social Security.

NEA believes a federal mandate for participation will not solve the Social Security systems' financial difficulties, since the amount of money gained would be relatively small. Additionally, it would weaken state and local plans whose benefits are superior to those provided by Social Security.

Mandatory participation would also create unnecessary financial burdens for the state and city governments involved, as well as hurt active and retired employees. If these governments are required to pay the full cost of the FICA tax, this could result in diluted benefits to retirees and fewer funds available for investment, a large source of income for the affected state pension plans. Instead, if all private sector employers provided similar retirement plans, the retirement outlook for private sector employees would be much brighter.

The Government Pension Offset. In 1977, federal legislation was enacted that required a dollar-for-dollar reduction of Social Security spousal benefits to public employees and retired public employees who received earned benefits from another federal, state, or local retirement system. Following a major campaign to repeal the provisions, Congress and the President agreed in 1983 to limit the spousal benefits reduction to two-thirds of a public employee's retirement system benefits. This remedial step falls well short of addressing the inequity of Social Security benefits between public and private employees.

The government pension offset affects government employees and retirees in virtually every state, but its impact is most acute in 15 states. They are Alaska, California, Colorado, Connecticut, Georgia (certain local governments), Illinois, Louisiana, Kentucky (certain local governments), Maine, Massachusetts, Missouri, Nevada, Ohio, Rhode Island (certain local governments), and Texas. According to the Congressional Budget Office, the government pension offset reduces benefits for some 200,000 individuals by more than $3,600 a year.

NEA has supported biparitsan legislation that would amend Title II of the Social Security Act to protect low- and middle-income public retirees by limiting the government pension offset. This proposal would provide a significant step to restore equity between public and private employees in the distribution of Social Security benefits.

Recommendations

We urge the 106th Congress to support legislative proposals that aim to restore eligibility for mostly lower-income survivors of spouses who paid into the Social Security system, and to reject mandatory Social Security participation. Teachers and other public employees who have devoted their working life to children and public service should not have to worry about the security of their retirement plans.

Social Security reform must reflect a core truth of economic and employment policy: federal investment in a better-educated workforce supports the ongoing capacity of Americans to contribute to the system. Regarding Social Security reform, NEA's support is contingent on reform measures that meet the following criteria:

- *Maintain or enhance the economic security of current and future generations who contribute to the financing of the Social Security system;*
- *Guarantee a foundation of retirement income that permits older Americans to live in dignity;*
- *Provide the crucial insurance protections to families faced with extremely unfavorable wage loss due to old age, disability, or the death of the family wage earner;*
- *Ensure that Social Security is available, but not mandated, to eligible education employees where desired;*
- *Are equitable, non-discriminatory, and ensure as a minimum standard that individuals covered by Social Security receive at least the same level of benefit provided by the existing system;*
- *Eliminate discriminatory offset provisions, and discrimination based on sex, marital status, or time of retirement;*
- *Maintain or enhance the economic security of current and future beneficiaries; and*
- *Minimize Social Security funds' investment risks.*

Statement of Colleen M. Kelley, National President, National Treasury Employees Union

Chairman Shaw, Ranking Member Matsui, Members of the Subcommittee:

My name is Colleen Kelley and I am the National President of the National Treasury Employees Union (NTEU). Thank you very much for holding this important hearing today on H.R.1217, legislation to modify the Government Pension Offset (GPO).

As you may know, NTEU represents over 155,000 federal employees across the federal government. Many of our members have already felt the effects of the Government Pension Offset. Others are not yet aware of the potential impact it may have on their retirement security. Sadly, federal retirees often first become aware of the existence of the GPO at the time they apply for Social Security benefits.

The GPO reduces or even eliminates the Social Security benefit many federal retirees are otherwise eligible for on their spouse's earnings record. Under current law, Social Security benefits that would normally be due an individual as the spouse or widow of a Social Security recipient, are reduced by two-thirds of the amount of the government pension.

More often than not, this offset disproportionately affects those who can least afford to forgo this retirement income. The effects are particularly devastating to female federal employees who are often eligible for only tiny federal pensions resulting from interruptions in their careers while raising their families or working in lower paid or entry level positions for most of their careers. Had these same individuals worked in the private sector and collected private pensions, stock options or 401k accounts, they would remain fully eligible to collect their spousal Social Security benefits.

The GPO unfairly penalizes individuals who spend their careers in service to their country. It doesn't have to be this way. In fact, according to the Social Security Administration, enactment of H.R.1217 and subsequent relaxation of the GPO, would "increase the long-range actuarial deficit by an amount that is estimated to be negligible." The increase in the actuarial deficit is estimated to be less than one-half of one-hundredth of one percent (0.005%).

NTEU has presented testimony to this Committee on the need to modify the GPO several times over the past few years, most recently in May of 1998. At that time, the subject of the hearing was H.R.2273, legislation Congressman William Jefferson introduced similar to the bill under consideration today. In the 105th Congress, that legislation gathered 183 cosponsors.

Two hundred and forty two (242) members of the House of Representatives have cosponsored the bill under consideration today, H.R.1217. A clear majority has spoken and following today's hearing, I urge the Chairman to push for full Committee consideration of this legislation as soon as possible.

H.R.1217 is a modest proposal that would not entirely eliminate the Government Pension Offset. It seeks to apply the GPO only to combined annuity and Social Security spousal benefits that exceed $1,200 per month –$14,400 each year. For an elderly widow, that $1,200 each month will make a considerable difference. However, I am sure the Chairman would agree—even with this slight relaxation in the GPO, $14,400 in annual income is hardly a princely sum.

To put these calculations in perspective, if an elderly widow is eligible for a monthly pension of $600 as a result of her federal government service, two-thirds of that amount, or $400, must be used to offset the Social Security spouse or widow's benefits she may also be eligible for. If, for example, she is eligible for a monthly spousal Social Security benefit of $500 based on her husband's earnings record, the GPO results in her receiving only $100 in Social Security each month, or a total monthly income of $700 instead of the $1,100 she would otherwise be eligible to receive. This is hardly an isolated example.

I urge this Subcommittee to look carefully at the impact the GPO has on real people. While our files are overflowing with correspondence from individuals severely harmed by the GPO, I want to bring the hardships visited upon one NTEU member in particular to the Subcommittee's attention. Her case presents a particularly cruel application of the GPO.

This individual has been a seasonal employee at the Internal Revenue Service Cincinnati, Ohio Service Center for more than 36 years. As a seasonal employee, she works for the IRS only during tax season and can, therefore, expect a small federal pension at the end of her career. Although she is fully eligible to retire, she cannot afford to do so. Her husband, six years her senior, is retired and collecting

Social Security benefits. As long as she continues to work, she is eligible to collect her spousal Social Security benefit! Yet, when she retires, she will lose that benefit.

She can expect a federal pension at retirement of between $700 and $800 each month based on 36 years of federal service. Her spousal Social Security benefit right now is approximately $550 each month. When and if she retires, that Social Security benefit will be reduced by ⅔ of her federal pension, or approximately $530 of an $800 pension. She will be left with a spousal Social Security benefit of about $20 each month. She is not entitled to Social Security benefits in her own right.

Surely, the GPO was never intended to thrust individuals such as this one into poverty, however, that is the unintended effect of the law. Blindly applying a law such as the Government Pension Offset without regard to the economic hardship it causes is difficult to justify.

Thank you again Mr. Chairman for holding this important hearing today. I hope that my testimony helps to shed some light on the importance of passing H.R.l2l7—a modest amendment to the Government Pension Offset. I look forward to working with you toward this end.

Statement of Susan Nolan, Newburgh, New York

Impact of Social Security Pension Offset

1. Housewife and mother of 5 children from Feb., 1954 until employed by the Federal Government in Nov., 1977 at 44 years old.
2. Spouse disabled war veteran from the Korean war was unable to work after Nov., 1979.
3. The 23 years I was taking care of my husband and raising a family I thought I was covered by my husbands Social Security.
4. Now at 66, widowed for 10 years, I cannot retire as my spousal benefit has been eliminated.

In my opinion the Social Security Pension Offset should be eliminated in that I only have 22 years covered under CSRS and 23 years coverage under my husbands Social Security. After working 45 years, I am only entitled to 22 years pension coverage. Perhaps another way to correct this is to add the years I was dependent on my spouse to my CSRS pension.

Statement of Irene Piper, Bedford, Indiana

I am a retired federal employee. I retired in March 1989 following approximately 29-years of employment under the Civil Service Retirement System (CSRS). I had previously worked 16-years in private employment under the Social Security Retirement System (SS).

I am receiving approximately $845 per month in my earned Civil Service Annuity. However, I receive only $234 per month (after Medicare deduction) of my earned SS benefit. This is about 50% of the amount that I purchased under the SS system.

I was not eligible to retire until August 1988 when I was 60-years of age. If I had been eligible to retire just a few years earlier, I would have received my fully earned amount to SS as well as my fully earned amount of Civil Service Annuity.

I understand that my reduced SS benefit is the result of the ex post facto Windfall Elimination Provision (WEP) Acts of 1977 and 1983.

I became a widow in October of 1990 and, since I am a retired federal employee, I was not able to receive my husband's SS benefits. I understand that this is the result of the equally ex post facto Government Pension Offset (GPO) Act of 1983.

I personally know women who have never worked a day in their lives who started receiving 50% of their husband's benefits upon reaching age 65 and then 100% of his benefits upon the death of their spouse.

Are we not encouraged to work therefore becoming eligible for our retirement benefits? I feel that I am penalized for working. I would much rather have enjoyed being at home had I but known of the penalty that would befall me for working.

I recently read about a lady who only worked 6-months outside the home. She doesn't qualify for SS benefits on her own but is eligible for spousal benefit at age 65. She will get 50% of her husband's benefit and, upon his death, will receive his full SS benefit and his Civil Service Survivor benefit with no offset or other penalty.

It certainly seems unfair to me that I cannot receive my fully earned benefits. These most unfair ex post facto Acts must be repealed.

A very big question is: What happened to the Social Security tax my husband and I paid? Do I get a refund —or is it lost? Does it go to someone who did not work at all? No one will give me the answers to these burning questions.

Statement of Thomas R. Anderson, Executive Director, School Employees Retirement System of Ohio

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to present comments for the record on the effect of the Government Pension Offset (GPO).

My comments reflect the opinion of the School Employees Retirement System of Ohio (SERS), which is the statewide retirement system for Ohio's non—teaching public school employees. SERS members include bus drivers, cafeteria workers, custodians, teacher's aides, secretaries, administrative support staff, business managers, treasurers, and school board members. All SERS members are exempt from Social Security. Currently, SERS serves over 110,000 active members and 57,000 retirees.

Demographically, seventy-five percent of SERS retirees and members are women, many of whom are widows. They enter the workforce later in life, commonly to support their families, and often after the loss of the family breadwinner. The average age at entry into the retirement system is 41. The average SERS retirement benefit is $551 per month, which is due to the low salaries paid to non-teaching school employees during their careers.

According to testimony provided by Frank Atwater before this Subcommittee, Ohio has the second largest number of citizens affected by the GPO. According to the Social Security Administration, the GPO impacted 36,049 Ohioans as of December 1999. That figure includes 23,262 spouses and 12,787 widows or widowers. Judging by the volume of letters and phone calls SERS receives on a daily basis asking for help in changing this harmful law, the impact of the GPO on individuals who earn such a modest pension can be devastating.

The following examples demonstrate the negative impact of the GPO upon actual SERS retirees:

Retiree #1

A disabled widow retired on SERS disability retirement in 1986. She receives $403.41 in monthly disability benefits. She was originally entitled to $216.30 per month in Social Security as a disabled widow. Due to the GPO, she receives no Social Security, as two-thirds of her SERS pension is larger than the widow's benefit. Her total pension income remains $403.41 per month from SERS.

Retiree #2

A widow who retired from SERS as a school cleaner in 1989 with 15 years of service and a final average salary of $6,983 receives a $214.91 monthly pension from SERS. Her Social Security widow's pension was $361 a month, which would have provided a combined income of nearly $576. However, due to the GPO, her Social Security was reduced by $143, which means her total income is just $432 per month.

Retiree #3

A school employee retired in 1989 with nearly 15 years of service and a final average salary of $6,389. She receives a gross SERS pension of $241.88, and due to the offset, only $87 from her husband's Social Security. Her combined monthly income is just $328.88. Every year she receives a very modest cost-of-living raise from SERS, which is then offset from her widow's benefit. The retiree writes, "I don't know what they think people live on."

Retiree #4

A school secretary retired in 1996 with 15 years of service and a final average salary of $27,600. Because she draws $734.39 a month from SERS, two-thirds of her pension completely offsets her spousal Social Security benefit. "I think this law is terrible," she writes. "I have a hard time living on $700 a month. Try it. It's hard."

For the first three retirees, an unreduced Social Security spousal benefit would have provided each with a combined monthly income of less than $700, an amount that is still below the federal poverty guidelines for an individual.

The impact of the offset on lower-income retirees is exacerbated by two additional factors: the Social Security windfall elimination provision (WEP) and the taxation of public pensions. As members of the Subcommittee know, the WEP greatly reduces the Social Security benefit of a retired public employee who also is eligible for a Social Security benefit based on his or her own earnings. The following example illustrates the unintended consequences of the combined application of the GPO and the WEP.

Retiree #5

This woman retiree lost $80 in her own Social Security benefit due to the WEP and $127 due to the GPO against her spousal benefit. The combined loss was $207. Her total SERS pension was only $196. Thus, her Social Security benefit was reduced more than the value of her SERS pension. The retiree writes, "Is it possible for a person to receive less in benefits as a result of being a member of a public retirement system? I find it hard to believe that this is possible." The retiree also correctly notes that the impact of the GPO and the WEP on public retirees is magnified by the fact that Social Security benefits to retirees at this income level are exempt from federal income taxation, whereas public pension benefits are taxable, for the most part.

As the five examples illustrate, the GPO results in an inequitable distribution of Social Security benefits, and is inconsistent with the overall provisions and intent of the Social Security Act. The GPO most harshly impacts those lower-income women whose combined public pensions and unreduced Social Security benefits would still fall below the federal poverty guidelines. Application of the GPO pushes these retirees deeper into poverty, and ironically, renders them eligible for federal- and state-sponsored assistance programs, merely shifting the liability from Social Security to other taxpayer-financed budgets.

On behalf of SERS' 167,000 members and retirees, and the hundreds of thousands of other public pension system members and retirees nationally, I urge the members of this Subcommittee to review the GPO and recommend that it be repealed or modified to mitigate its harsh effects.

We support any reform that would benefit retirees, but specifically, H.R. 1217, introduced by Congressman William J. Jefferson. This proposal would eliminate the GPO where combined monthly benefits are less than $1200. H.R. 1217 would alleviate the most egregious results of the GPO, and would be consistent with the goal of improving the economic condition of older Americans.

I would be pleased to provide any further information or testimony as members consider reform in this area. Thank you for the opportunity to be a voice for so many hard-working public school employees in Ohio who have lost, or will lose, critical purchasing power in retirement through application of the GPO.

Statement of Anabel Wagner, Bedford, Indiana

In 1949, I started working under Social Security (SS). I was told I would be paying the SS tax for disability and/or retirement benefits. I did not like having this forced on me but I was assured it would guarantee a retirement supplement to me. I continued under SS for 17½ years.

In 1966, I entered the U.S. Civil Service System. During the next 26½ years, I invested 7% of my gross income into the Civil Service Retirement System. That investment was fully taxed before deposit and my Civil Service Retirement Annuity is now also fully taxed.

I trusted I would receive a small SS check for my 17½ years under that employment which would serve as a supplement to my Civil Service annuity. Then the Windfall Elimination Provision (WEP) came into being with the Acts of 1977 and 1983. I was then informed that in order to collect full SS, I must retire from Civil Service by 1985. I was not eligible to retire until 1991. Therefore, my SS was cut by two thirds. If I had been eligible to retire by 1985, my full SS was quoted to be approximately $397. Since June 1, 1996 Medicare has been withheld leaving me a SS check of $138 per month.

I am now 68-years of age. My Civil Service Annuity is now $707 per month. According to all statistics, that income is below the poverty level.

To sum it up, I worked 44-years and the sum of my SS benefit and my Civil Service Annuity amounts to only $845 per month after Medicare is withheld.

I have recently had major surgery for cancer. Then I had a reoccurrence which required both radiation and chemotherapy. I felt I was either being forced into selling my home or seeking employment which I have done on a part time basis and for a minimum wage. *I am again paying the full SS tax on this minimum wage, yet I draw only about one third of my SS.*

This pension offset reduction of SS benefits does not apply to those receiving a pension from a private company. Regardless of how high their pension might be. It only applies to those of us who have invested in the Civil Service Annuity. That is most unfair.

I personally know of several widows who are drawing more Social Security than my combined SS and Civil Service Annuity and yet have never worked a day in their lives!

I am sure anyone can see these things as an injustice. I feel that anyone retired from Civil Service and their total retirement being below the poverty level should be entitled to their full Social Security. *It was quite unfair when the rules were changed and a person fell into a situation they could not help and were too old to turn their life around and start over.*

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