Order Code RS20148
Updated March 3, 2003

Social Security: The Government Pension Offset

Geoffrey Kollmann
Specialist in Social Legislation
Domestic Social Policy Division

Summary

The Government Pension Offset (GPO) provision reduces Social Security benefits that a person receives *as a spouse* if he or she also has a government pension based on work that was not covered by Social Security. Its purpose is to replicate Social Security's "dual entitlement" rule, which requires that a Social Security benefit earned as a worker be subtracted from any Social Security spousal benefit for which the worker is eligible. Its intent is to remove an advantage these workers would otherwise receive if they could receive both a government pension and full Social Security spousal benefits. Opponents contend that the provision is basically inaccurate and often unfair. Six bills have been introduced in the 108th Congress that would modify or repeal the provision. This report will be updated periodically.

Background

Generally, Social Security benefits are payable to the spouses of retired, disabled, or deceased workers covered by Social Security. However, the spousal benefit of a person who receives a pension from government employment (federal, state, or local) that was not covered by Social Security is reduced by a provision in the law known as the government pension offset (GPO). The GPO reduction in Social Security spousal benefits is equal to two-thirds of the government pension.

The GPO is intended to place annuitants 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 workers whose jobs were covered by Social Security. Social Security recipients are subject to an offset of spousal benefits under the program's "dual entitlement" rule. It requires that a Social Security benefit earned as a worker be subtracted from the Social Security spousal benefit, and only the difference, if any, is paid as a spousal benefit. The rationale is that a Social Security spousal benefit is based on the concept of "dependency," and someone who receives his or her own Social Security benefit as a retired worker is not financially dependent on his or her spouse.

RS20148

Before the GPO was enacted in 1977, workers who received pensions from a government job not covered by Social Security could also receive full Social Security spousal benefits. The GPO is an attempt to afford similar treatment to spouses regardless of whether they are eligible for Social Security benefits as a worker or for a government pension. To do this, it is assumed that two-thirds of the government pension is basically equivalent to a Social Security benefit the spouse would receive as a worker if his or her job had been covered by Social Security. Thus, the GPO attempts to replicate the Social Security dual entitlement rule by requiring that two-thirds of the government pension be subtracted from the Social Security spousal benefit. The Social Security Administration (SSA) provides the following examples to explain why the law was changed.

> Bill Smith collects a Social Security benefit of $600 per month. His wife, Mary, is potentially eligible for a wife's benefit of up to 50% of Bill's, or $300. However, Mary also worked and had paid into the Social Security, qualifying for her own retirement benefit of $400. She will not receive any wife's benefit because her $400 retirement benefit, in effect, offsets her $300 wife's benefit.
>
> Bill's neighbor, Tom, also gets a Social Security benefit of $600 a month. But his wife, Nancy, worked for the federal government, instead of a job where she paid Social Security taxes, and earned a civil service pension of $800 a month. Before the government annuity offset provisions were in place, Nancy would have been eligible for both her $800 civil service pension and a $300 wife's benefit on Tom's Social Security record. With the offset provision in place, Nancy does not qualify for a wife's benefit from Social Security, so now she is treated the same as Mary.

Using two-thirds of the government pension as the equivalent of a Social Security benefit was established by the Social Security Amendments of 1983 (P.L. 98-21). The original 1977 law provided that 100% of the government pension be subtracted from the Social Security spousal benefit. In considering the 1983 amendments, the House proposed that the amount used in calculating the offset be one-third of the government pension. The Senate version contained no such provision. The conferees adopted the House bill except that the offset would be two-thirds of the government pension.

Generally, employees of the federal government hired before 1984 are covered by the Civil Service Retirement System (CSRS) and are not covered by Social Security; therefore, they are subject to the GPO. Most federal workers first hired into federal service after 1983 are covered by the Federal Employees' Retirement System (FERS), which includes Social Security coverage; thus, although FERS retirees are not subject to the GPO[1], they are subject to the Social Security dual entitlement rule.

As of December 2001, 349,000 government annuitants had their Social Security spousal benefits affected by the GPO (not counting those who were eligible for spousal benefits but were deterred from filing for them because of the GPO). Of these 60% were spouses; 40% were widows and widowers. About 72% of everyone affected were women. In December 1999, the average offset caused by the GPO was $276 a month for

---

[1] Workers who switch from CSRS to FERS must work for 5 years under FERS in order to be exempt from the GPO.

men and $391 for women. The SSA estimates that in 1993 4.8 % of those affected by the GPO had incomes below the poverty line. For comparison purposes, at that time 15% of the general population had incomes below the poverty line. The Congressional Budget Office (CBO) has projected the savings produced by the GPO to be $21 billion over the next 10 years (hence, the 10-year cost of repealing the provision would be $21 billion).

Issues

Critics of the GPO say that it is not well understood and that many affected by it are unprepared for a smaller Social Security benefit than they had assumed in making retirement plans. They also argue that, whatever its rationale, 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. They say this procedure has uneven results and that it is especially disadvantageous for surviving spouses and low-paid workers. Ideally, the way to compute the offset to replicate 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.

Defenders of the GPO maintain that it is an effective method to curtail what otherwise would be an unfair advantage for government workers. The provision was phased in over six years and now has been in the law for 25 years; therefore, they say, there has been ample time for people to adjust their retirement plans. They point out that, if these workers had been covered by Social Security, in many cases Social Security's dual entitlement rule would produce a higher reduction of spousal benefits than does the GPO.[2] Because administrative considerations have 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.

A burgeoning controversy has arisen with the recent revelation that a growing number of state and local government workers are making use of a little-known provision of the law that allows them to escape the application of the GPO if they switch jobs at the end of their government careers. They can do this because the law grants an exception to the GPO if, on the last day of one's government service, he or she works in a position that is covered by Social Security. On August 15, 2002, the General Accounting Office (GAO) released a report that found that, as of June 2002, 4,819 individuals in Texas and Georgia – two of 21 states whose retirement systems have both covered and noncovered positions – have switched to Social Security-covered positions to avoid the application of the GPO to their Social Security spousal benefits. The GAO projected that the cost to the program for these cases could be about $450 million. The GAO stated that possible

---

[2] For an analysis of the accuracy of the GPO in replicating the equivalent of a Social Security benefit for government workers, see archived CRS report 90-324, *What Amount of a Civil Service Retirement System (CSRS) Benefit is Equivalent to a Social Security Benefit?* by Geoffrey Kollmann. Among its conclusions, the report found that "the GPO is basically imprecise, but in many cases this has little practical effect on considerations of equity. Those likely to be adversely affected by its inaccuracy are likely to be surviving spouses of high-paid workers, and those who may partially escape its intended effect are shorter-term, lower-paid workers."

remedies to these potential abuses of the last-day exception clause could be to lengthen the time period to qualify for the exemption or to prorate the reduction in benefits to the proportion of time spent in the noncovered job compared to the covered one.

Recent Legislation. Four bills were introduced in the 106th Congress that would have affected the GPO. H.R. 1217, H.R. 1590, S. 8, and S. 717 would have eliminated the application of the provision to those whose monthly combination of Social Security spousal benefits and non Social Security-covered pension is $1,200 or less. For those whose monthly combination of Social Security spousal benefits and other government benefits is more than $1,200, the reduction in their benefit would be the lesser of the excess over $1,200 or two-thirds of the government pension. The $1,200 threshold would rise in the future in proportion to the rate of inflation. The CBO and the SSA estimated that the cost of H.R. 1217 would be $4.9 billion, and $5.9 billion, respectively, over the next 10 years. They agreed that the long-range cost (over the next 75 years) would be negligible (less than 0.005% of taxable payroll).

On June 27, 2000, the Social Security Subcommittee of the House Committee on Ways and Means held a hearing on the GPO, in which Members and witnesses discussed H.R. 1217 and other approaches to modifying the provision. The SSA testified that under H.R. 1217: (1) 50% of recipients now affected by the GPO would have their benefits increased, including 29% for whom the offset would be removed completely; (2) Of women receiving benefit increases, 64% would be wives and 36% would be widows; and (3) 90% of those receiving increased benefits would have income above the poverty line and more than 80% would have family income above 150% of poverty.

The CBO testified that if one-half rather than two-thirds of the government pension were used to calculate the GPO, about 40% of those currently affected by the GPO would receive an increase in benefits, at a cost of at least $2 billion over the next 10 years.

In the 107th Congress, Rep. Jefferson introduced H.R. 664, which was essentially the same bill as H.R. 1217 in the 106th Congress. Similarly, Sen. Mikulski introduced S. 611 which was essentially the same as S. 717 from the 106th Congress. Rep. McKeon and Sen. Feinstein introduced H.R. 2638 and S. 1523, both of which would eliminate the provision entirely, effective in 2002. As part of a major reform bill (H.R. 3497) designed to restore Social Security's long-range solvency, Rep. Shaw proposed that the offset be reduced to one-third of the government pension.

In the 108th Congress, Sen. Mikulski has introduced S. 363, which is essentially the same as S. 611 from the 107th Congress. Similarly, Rep. McKeon and Sen. Feinstein have introduced H.R. 594 and S. 349, both of which would eliminate the provision entirely, effective in 2004. H.R. 887, by Rep. Jefferson and 104 co-sponsors, would eliminate the application of the provision to those whose monthly combination of Social Security spousal benefits and non Social Security-covered pension is $2,000 or less. Rep. Shaw has introduced H.R. 75, essentially the same bill as H.R. 3497 in the 107th Congress, which would reduce the offset to one-third of the government pension. In addition, Rep. Shaw has introduced H.R. 743, a bill to enhance protection of Social Security benefits, which includes a provision that would require government workers who switch from non-Social Security-covered jobs to covered ones must work for five years under the covered job in order to be exempt from the GPO (i.e., it would repeal the "last-day" rule).