The Social Security Windfall Elimination and Government Pension Offset Provisions for Public Employees in the Health and Retirement Study

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Introduction

The Social Security benefit formula is progressive. In 2013 it replaced 90 percent of an average of the highest 35 years of indexed earnings up to $9,492 (the first bend point), 32 percent of earnings from $9,492 up to $57,216 (the second bend point), and 15 percent of any additional earnings above the second bend point up to maximum covered earnings. In calculating average earnings, each year of working only in uncovered employment is counted as a year of zero earnings. As a result, holding total lifetime earnings constant, total Social Security benefits are lower the greater the amount of uncovered work. Because the benefit formula is progressive, however, the rate of return on the payroll taxes paid is higher for those who spend some time in uncovered work.

The Windfall Elimination Provision (WEP) is intended to avoid treating those who worked in uncovered employment as if they were low earners deserving of a high Social Security replacement rate. For workers who participated in Social Security for long enough to become entitled to Social Security benefits, and who also worked in employment not covered by Social Security, WEP reduces the replacement rate for earnings up to the first bend point from 90 percent to a minimum of 40 percent, affecting the benefits of the worker and the worker's spouse.

The Government Pension Offset (GPO) reduces spouse and survivor benefits for a person who was employed in a government job that was not covered by Social Security.

Importantly, both WEP and GPO adjustments are made only if the individual also earned a pension from participating in uncovered employment. These adjustments are limited to a maximum of half the value of the pension in the case of WEP, and by two thirds of the value of the pension in the case of GPO. Pensions from uncovered work are taken into account to foster equity within a system that also had a redistributive component. However, having to take account of pensions from uncovered employment introduces significant complications, both from the perspective of the researcher and from the perspective of enforcement.

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Aims and Methods

This paper uses data from the Health and Retirement Study (HRS) to estimate effects at the household level. Our study is based on data from the original cohort of the HRS and the most recent cohort for which a full set of required information is available. Our analysis uses respondent provided work histories and administrative earning records to estimate the covered and uncovered earnings histories of each spouse, evaluates pensions from any uncovered jobs, imputes missing data, and then uses the Social Security Administration's ANYPIA program to estimate benefits before and after the WEP and GPO provisions are applied.

A number of the innovations in this study turn out to be of central importance to having a full understanding of the effects of WEP and GPO adjustments. Unlike previous studies, we take explicit account of pensions earned on jobs not covered by Social Security, a key determinant of the size of WEP and GPO adjustments. Also unlike previous studies, we focus on the household. This allows us to incorporate the full effects of WEP and GPO on spouse and survivor benefits, and to evaluate the effects of WEP and GPO on the preretirement assets accumulated by affected families.

Findings

Among our specific findings are the following:

- Of 7,623 households in the original HRS cohort, 3.8 percent are subject to either WEP or to GPO. The comparable figure for the Early Boomer cohort is 3.5 percent.

- Among the HRS households affected by either WEP or GPO, the WEP adjustment is $17,050 and the GPO adjustment is another $14,101, reducing the present value of Social Security benefits by 24.1 percent among the affected households. For the Early Boomer cohort, WEP and GPO reduce the present value of Social Security benefits by 18.5 percent.

- For members of the original HRS cohort affected by WEP or GPO, benefits lost amount to ten percent of the value of pensions plus Social Security they in fact receive, which amounts to 6.1 percent of their total wealth. Comparable losses for members of the Early Boomer cohort amount to 8.7 percent of total Social Security plus pension wealth and 5.3 percent of total wealth.

- By far the largest effect is on households affected by both WEP and GPO. Those from the original HRS cohort lose $45,786 in present value of benefits, or 38.9 percent of their total Social Security benefits. Those subject to WEP and GPO from the Early Boomer cohort lose 28.7 percent of their benefit.

- We also decomposed the effects of the WEP adjustment into two parts, the part due to the use of a lower replacement rate up to the first bend point, and the mitigation of this adjustment by the pension. Limiting the Social Security benefit to half the size of the pension from uncovered employment reduces the penalty from WEP for members of the original HRS cohort by $5,924, or by 58 percent. For the Early Boomers, the change in the PIA benefit formula alone would reduce benefits by $12,476, so consideration of the pension from uncovered work reduces the WEP penalty by $7,676, or by 61.5 percent.

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