

FY 2007 Budget Proposal
**Improve the Administration of the Windfall Elimination Provision
and Government Pension Offset Provision**

Summary

- This proposal would improve the administration of the windfall elimination provision (WEP) and the government pension offset provision (GPO) by establishing a mandatory system for collecting data on pension income from non-covered State and local employment.

Background/Present Law

- The WEP and GPO were enacted in order to provide more equal treatment of workers in jobs not covered by Social Security and workers in jobs covered by Social Security—i.e. to reduce the advantage that workers eligible for a pension on the basis of noncovered earnings may have relative to other workers.
 - Under the WEP provision, a person's own Social Security retirement or disability benefit may be reduced, but not eliminated, if he/she receives a pension from employment not covered by Social Security. The amount of the reduction, if any, depends on the number of years in jobs with substantial Social Security-covered earnings and the year in which the person attains age 62.
 - Under the GPO provision, a person's Social Security benefit as a spouse or surviving spouse is reduced by two-thirds of any pension that person receives based on his/her own work in Federal, State or local government employment that is not covered by Social Security.
- The WEP generally applies to a worker who receives a pension based on **any work** not covered by Social Security while the GPO reduces the Social Security spousal and/or survivor benefit payable to someone receiving a pension based on **government employment** not covered under Social Security.

- Individuals who apply for Social Security benefits, are asked if they are receiving a pension based upon noncovered employment. The Social Security Administration (SSA) then obtains verification of the pension and applies the WEP and/or GPO accordingly. SSA largely relies on the person to correctly inform SSA of his/her pension receipt.

FY 2007 Proposal

- To permit SSA to better administer the WEP and the GPO provision, this proposal would require State and local governments to provide data, in an electronic format, directly to SSA regarding the receipt of government pensions based on employment not covered by Social Security. SSA could then compare the reports with the beneficiary payment records and examine cases that indicate the possibility that WEP or GPO applies.
- If a State or local government fails to comply with SSA's request for this information, a penalty may be imposed on the State by denying the State access to IRS tax information the State may need to administer State tax provisions.

Rationale/Discussion

- Access to noncovered pension data from State and local governments would improve SSA's ability to determine, in a timely manner, whether a beneficiary should be subject to the WEP or GPO. This would reduce overpayments that currently occur when SSA determines that a beneficiary should have been subject to WEP or GPO but was not. The proposal would thereby improve SSA's stewardship over the program and the Social Security trust funds.
- SSA currently has a matching agreement with the Office of Personnel Management to obtain information on Federal government retirees who receive a pension from work not covered by Social Security. However, SSA generally lacks similar information from State and local governments and many of these pensions go unreported.

- This change would improve the equity in the application of these provisions because it would improve SSA's ability to identify State and local government retirees receiving pensions based on noncovered work in a manner similar to SSA's present ability to identify persons receiving Federal pensions based on noncovered work.
- Presently, State and local governments already provide annual reports of pensions to IRS on Form 1099R so much of the information SSA needs is available to the State and local governments. Therefore, the proposal should not pose a severe administrative problem to the pension administrators that will have to report.

OASDI Savings/Number Affected¹

- Estimated OASDI program savings are shown below, in millions:

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Savings	-	-	-	\$133	\$294	\$396	\$430	\$405	\$395	\$378	\$2,431

- Estimates of the number of individuals whose Social Security benefits would change as a result of information obtained through these reports are shown below, in thousands:

CY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number	0	0	0	25	55	70	75	70	65	60

¹ These estimates assume that the provision would be effective after December 2006, but that full implementation would take several years.