SOCIAL SECURITY

Coverage of Public Employees and Implications for Reform

What GAO Found

Social Security’s provisions regarding public employees are rooted in the fact that about one-fourth of them do not pay Social Security taxes on the earnings from their government jobs, for various historical reasons. Even though noncovered employees may have many years of earnings on which they do not pay Social Security taxes, they can still be eligible for Social Security benefits based on their spouses’ or their own earnings in covered employment.

To address the issues that arise with noncovered public employees, Social Security has two provisions—the Government Pension Offset (GPO), which affects spouse and survivor benefits, and the Windfall Elimination Provision (WEP), which affects retired worker benefits. Both provisions reduce Social Security benefits for those who receive noncovered pension benefits. Both provisions also depend on having complete and accurate information on receipt of such noncovered pension benefits. However, such information is not available for many state and local pension plans, even though it is for federal pension benefits. As a result, the GPO and the WEP are not applied consistently for all noncovered pension recipients. In addition to the administrative challenges, these provisions are viewed by some as confusing and unfair.

In recent years, various Social Security reform proposals that would affect public employees have been offered. Some proposals specifically address the GPO and the WEP and would either revise or eliminate them. Such actions, while they may reduce confusion among affected workers, would increase the long-range Social Security trust fund deficit and could create fairness issues for workers who have contributed to Social Security throughout their working lifetimes. Other proposals would make coverage mandatory for all state and local government employees. According to Social Security actuaries, mandatory coverage would reduce the 75-year actuarial deficit by 11 percent. It could also enhance inflation protection, pension portability, and dependent benefits for the affected beneficiaries, in many cases. However, to maintain the same level of spending for retirement, mandating coverage would increase costs for the state and local governments that sponsor the plans, and would likely reduce some pension benefits. Moreover, the GPO and the WEP would still be needed for many years to come even though they would become obsolete in the long run.


To view the full product, including the scope and methodology, click on the link above.
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