The Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)
3  THE WINDFALL ELIMINATION PROVISION (WEP) AND GOVERNMENT PENSION OFFSET (GPO)

4  The Windfall Elimination Provision
8  Policy Options
9  Proportional Formula
10  Active Legislation
12  The Government Pension Offset
The Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)

Approximately 6% of U.S. workers have employment that is not covered by Social Security, meaning that they neither pay Social Security taxes on their earnings nor receive credit for that work when the Social Security Administration (SSA) calculates their benefits. Instead, non-covered jobs provide a pension intended to replace Social Security old-age benefits. Most non-covered workers are state and local public employees, approximately 28% of whom (6.5 million) are not covered.¹

Social Security’s standard benefit structure was not designed for these workers, many of whom split their careers between covered and non-covered employment. Specifically, the program’s progressive benefit formula calculates a primary insurance amount (PIA) to replace approximately the first $490,000 (in 2024 dollars) of a beneficiary’s lifetime covered earnings (the equivalent of around $14,000 per year over a 35-year career) at a much higher rate than covered earnings above that level.² Thus, for workers who spend part of their careers in non-covered employment, the standard benefit structure would replace a greater proportion of their covered earnings at the higher rate—even if their total (covered and non-covered) career earnings are near the top of the earnings distribution.

In other words, although the standard benefit formula provides a higher replacement rate for low earners, it does not distinguish between workers whose lifetime covered earnings are low because they had periods of little or no earnings and those whose earnings are low because they had periods of non-covered employment. To make this distinction, SSA uses the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) to adjust the benefit formula for beneficiaries with significant non-covered employment.

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This issue brief describes the WEP and GPO, explaining both the purpose these provisions serve and the impetus for reform efforts. The brief then outlines and evaluates various reform options, giving particular attention to a proportional benefit formula, which would prorate Social Security benefits based on the fraction of one’s total lifetime earnings covered by Social Security.

THE WINDFALL ELIMINATION PROVISION

To prevent inequitably generous benefits from going towards workers who spent part or all of their career in non-covered employment—and were exempt from Social Security payroll taxes during that time—Congress enacted the WEP in 1983. Not everyone who has worked in non-covered employment is subject to WEP reductions; it applies only to Social Security beneficiaries who:

1. Receive a pension from their non-covered employment (which typically requires five to 10 years of employment to vest); and
2. Worked in covered employment for fewer than 30 years.

For beneficiaries who meet both conditions, the WEP reduces the 90% PIA factor (the replacement rate for the first $1,174, in 2024, of a beneficiary’s average indexed monthly earnings, or AIME) as outlined in Table 1. The total amount of the WEP reduction, however, cannot be more than half of the pension that a worker receives from their non-covered employer, ensuring that individuals with only a few years of non-covered employment (and thus little or no pension) do not receive a significant cut. Research from 2014 showed that this limitation has a substantial effect: average WEP reductions for the 1992 and 2004 cohorts of affected beneficiaries were approximately 60% smaller than they would have been in the absence of the limitation.

The WEP affects approximately 3% of Social Security beneficiaries (around 2 million people), most of whom receive a non-covered pension that is substantially larger than the average Social Security benefit, as shown in Figure 1.

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4 The WEP also reduces the auxiliary benefits paid from an affected retired or disabled worker’s record during the worker’s lifetime. It does not reduce the amount paid to the survivors of such workers. For more information on auxiliary benefits, see SSA, “Types of Beneficiaries,” n.d. Available at: https://www.ssa.gov/oact/progdata/types.html.

5 For the 1992 cohort of affected households, the average WEP adjustment reduced lifetime Social Security benefits (in 2024 dollars) by $9,400, but the average WEP adjustment would have been $22,600 if not limited to one-half of the value of the non-covered pension. For the 2004 cohort, the average WEP adjustment was $10,600 (in 2024 dollars), compared to $28,000 if not capped. Gustman, Steinmeier, and Tabatabai, “Health and Retirement Study.”

Table 1: The First PIA Factor After WEP Adjustment

<table>
<thead>
<tr>
<th>Years of Covered Employment</th>
<th>90% Replacement Rate Reduced to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 or more</td>
<td>90%</td>
</tr>
<tr>
<td>29</td>
<td>85%</td>
</tr>
<tr>
<td>28</td>
<td>80%</td>
</tr>
<tr>
<td>27</td>
<td>75%</td>
</tr>
<tr>
<td>26</td>
<td>70%</td>
</tr>
<tr>
<td>25</td>
<td>65%</td>
</tr>
<tr>
<td>24</td>
<td>60%</td>
</tr>
<tr>
<td>23</td>
<td>55%</td>
</tr>
<tr>
<td>22</td>
<td>50%</td>
</tr>
<tr>
<td>21</td>
<td>45%</td>
</tr>
<tr>
<td>20</td>
<td>40%</td>
</tr>
</tbody>
</table>


Figure 1: Distribution of Monthly Non-Covered Pension Amount for WEP-Affected Beneficiaries

Average Social Security retirement benefit: $1,917

When Congress enacted the WEP, comprehensive data on earnings from non-covered employment did not exist, necessitating an imprecise approach to adjusting Social Security benefits. Because of that limitation, the WEP often under- or over-adjusts benefits—most WEP-adjusted beneficiaries receive Social Security benefits that replace either a higher or lower share of their covered earnings than would be the case for a comparable earner who spent their entire career in covered employment.

Consider the three hypothetical workers in Table 2. Workers A and B have the same lifetime covered earnings amounts and thus the same PIA, but their total lifetime earnings differ. Worker C differs from Worker A only in that all of her lifetime earnings were covered. Worker A’s benefit provides a 61% replacement rate, but if all of his earnings had been in covered employment, his replacement rate would, like Worker C’s, be 48%. Thus, without accounting for Worker A’s non-covered employment, Social Security benefits replace a far greater share of Worker A’s covered earnings than those of Worker C; imposing the WEP causes the opposite problem. Figure 2 shows how this effect persists across years of covered employment.

Table 2: Social Security Earnings Replacement, With and Without WEP

<table>
<thead>
<tr>
<th>Years worked in:</th>
<th>Worker</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>Covered employment</td>
<td>20</td>
<td>20</td>
<td>35</td>
</tr>
<tr>
<td>Non-covered employment</td>
<td>15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Indexed earnings ($)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual average</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Lifetime</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In covered employment</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,750,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,750,000</td>
<td>1,000,000</td>
<td>1,750,000</td>
</tr>
<tr>
<td>AIME ($)</td>
<td>2,381</td>
<td>2,381</td>
<td>4,167</td>
</tr>
<tr>
<td>Unadjusted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PIA ($)</td>
<td>1,443</td>
<td>1,443</td>
<td>2,014</td>
</tr>
<tr>
<td>PIA-to-AIME replacement rate (%)</td>
<td>61</td>
<td>61</td>
<td>48</td>
</tr>
<tr>
<td>WEP-Adjusted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PIA ($)</td>
<td>856</td>
<td>1,443</td>
<td>2,014</td>
</tr>
<tr>
<td>PIA-to-AIME replacement rate (%)</td>
<td>36</td>
<td>61</td>
<td>48</td>
</tr>
</tbody>
</table>

Note: This table assumes Worker A’s WEP reduction of $587 ($1,443 minus $856) is no more than half the value of that worker’s pension from non-covered work.
The WEP has four major drawbacks:

1. **Beneficiaries subject to the WEP largely misunderstand the provision and believe it to be unfair (regardless of whether it is in practice).**

2. **It adjusts benefits in a way that corresponds imprecisely to a beneficiary’s work history and pension. In addition, the provision often is unfair and disproportionately affects beneficiaries with lower total lifetime earnings.**

3. **Affected workers can find it nearly impossible to accurately predict their Social Security benefits and, therefore, adequately prepare for retirement. This is because the Social Security Statement provides benefit estimates based only on covered employment. The hypothetical Worker A from Table 2, then, would receive a statement estimating a PIA of $1,443, but would only ultimately receive a PIA of $856.**

4. **Beneficiaries subject to the WEP must report their non-covered pension income to SSA to be subject to the reduction. Agency enforcement of the provisions is difficult if beneficiary reporting is inconsistent, which can result in benefit overpayments.**
But Figure 2 demonstrates why simply eliminating the WEP would not solve equity concerns—and would entail a significant cost. Without adjusting Social Security benefits for the 3% of beneficiaries who spent large portions of their careers in non-covered employment, those retirees would always receive a higher replacement rate on their covered earnings than equal earners among the 97% of those who worked entirely in covered employment.

Because of these increased outlays, **repealing the WEP without replacing it would cost $88 billion over the first 10 years alone.** This would speed up depletion of Social Security’s primary trust fund, resulting in a large, across-the-board benefit cut for all beneficiaries unless Congress acts.  

**POLICY OPTIONS**

Lawmakers and policy experts have proposed the following methods to reform the WEP.

**Full repeal.** As previously addressed, a clean repeal of the WEP exacerbates equity problems and the program’s funding shortfall.

**Mandate Social Security coverage for all newly hired state and local workers.** Mandating Social Security coverage for all employment would decisively address the problems associated with the WEP in the long run by eliminating non-covered earnings. Ultimately, this change would likely lead to state and local governments no longer offering non-covered pensions so that employees did not face both Social Security payroll tax withholdings and pension premiums. Universal coverage would likely face substantial political obstacles.

**Replace the WEP with a totalization model.** Currently, SSA uses a totalization model to prorate benefits for workers with earnings in both the U.S. and another country. A totalization model could address some of the problems with the WEP, but it would be just as misunderstood by workers (if not more so) and carries its own challenges for workers preparing for retirement.

**Replace the WEP with a proportional or prorated formula.** The remainder of this section analyzes the proportional formula in detail.

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9 Universal coverage would also eliminate the need, in the long run, for the GPO, which is covered in the following section.

Proportional Formula

BPC’s Commission on Retirement Security and Personal Savings and others have proposed replacing the WEP with a proportional benefit formula, which would prorate Social Security benefits based on the fraction of one’s total lifetime earnings covered by Social Security.¹¹

Under this proposal, to determine the monthly benefit of someone with substantial non-covered earnings, SSA would first calculate their PIA as though their entire career was in covered employment (i.e., it would combine earnings from covered and non-covered employment and calculate a PIA based on that combined total). Then, SSA would multiply that PIA by the fraction of total earnings that came from covered employment to generate the final, proportional PIA.

In practice, the proportional benefit method ensures that if two beneficiaries have the same total lifetime earnings but one has substantial non-covered earnings and the other does not, those two beneficiaries receive Social Security benefits that replace the same proportion of their covered earnings (i.e., the straight horizontal line in Figure 2).

SSA’s Office of the Chief Actuary estimates that enacting this provision alone would reduce Social Security’s long-range actuarial deficit by 2%.¹²

Using the proportional benefit formula would largely address the second drawback outlined in the prior section and could address the first and third to a significant extent, but it could pose problems of its own. Without any exemptions, the proportional formula would reduce benefits for beneficiaries who lack a pension from their non-covered work or have small pensions due to short tenure in non-covered jobs. In the most problematic scenario, someone with 30 or more years of covered earnings plus a few years of non-covered earnings would receive a reduced benefit—even though someone with the same amount of covered earnings and no non-covered earnings would receive their full benefit.

If applied to the proportional formula, these three limitations on the WEP—that an affected beneficiary must have fewer than 30 years of covered earnings and be receiving a non-covered pension and that the WEP reduction can amount to no more than half of the amount of that non-covered pension—could address these problems, but SSA would still rely on beneficiaries accurately reporting their non-covered pension income.

One potential solution would be to simply exempt from the proportional benefit calculation any beneficiary with 10 or fewer years of non-covered


employment—a threshold that would ensure that most affected beneficiaries had time to vest in their non-covered pension. This threshold could also include a phase in to prevent a benefit cliff. A more robust solution would be to provide the IRS or SSA with greater authority to obtain public pension data from employers or plan administrators, a change which would allow SSA to proactively adjust the benefits of workers with non-covered employment more accurately. President Obama’s Fiscal Year 2017 budget, for example, included such a provision, allocating $70 million over three years to establish data exchanges to facilitate this kind of information sharing. That budget estimated annual returns of more than $1 billion after implementation of the data exchanges. In addition, SSA has said that “establishing systems for reporting of pension payments based on non-covered earnings would require about three to six years to fully develop and would ultimately capture most but not all non-covered pension recipients.”

Active Legislation

Reps. Jodey Arrington (R-TX) and Richard Neal (D-MA) have each proposed legislation in the 118th Congress to replace the WEP with a proportional benefit formula. Both bills leave the WEP in place for workers who become eligible for Social Security before 2025, but they provide a monthly “rebate” or “relief” payment to those existing beneficiaries, as specified in Table 3. Both bills also phase in the change by providing new beneficiaries between 2025 and 2068 with the larger of the benefits calculated using the WEP and the proportional formula. The bills differ in three major ways:

1. Rep. Neal’s bill, the Public Servants Protection and Fairness (PSPF) Act, provides beneficiaries with the larger of the benefits calculated using the WEP and the proportional formula (PF) in perpetuity, while Rep. Arrington’s bill, the Equal Treatment of Public Servants (ETOPS) Act, fully eliminates the WEP in favor of the PF for beneficiaries who become eligible in 2068 and later.

2. The PSPF Act authorizes annual general fund transfers to the Social Security Trust Fund in the amount of the increased net cost to the program due to this legislation.

3. The PSPF Act would only apply the PF to beneficiaries who both receive a pension from their non-covered employment and worked in covered

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employment for under 30 years. The ETOPS Act does not include that exemption.

Over the first 10 years, the rebates would cost an estimated $22.4 billion (ETOPS Act) or $28.7 billion (PSPF Act). Over that same period, SSA estimates the greater outlays on newly eligible beneficiaries in both bills would cost an additional $1.5 billion. SSA projects the ETOPS Act would begin saving the program money in 2074 and would have essentially no net effect on the 75-year shortfall. SSA estimates the PSPF Act would cost around $1 billion per year in perpetuity.16

SSA’s Office of the Chief Actuary estimates that fully switching to the proportional formula (as the ETOPS Act does in 2068) would increase monthly benefits for approximately 70% of those affected by the WEP by an average of $74 (in 2018 dollars). The change would decrease monthly benefits for approximately 30% of those affected by the WEP by an average of $55 (in 2018 dollars).

Because the ETOPS Act does not exempt beneficiaries who do not have non-covered pensions or 30 or more years of covered earnings, approximately 13.5 million beneficiaries who are not currently affected by the WEP because of those exemptions would see lower monthly benefits, with an average reduction of $29 (in 2018 dollars).

Table 3: PIA Adjustments Under the ETOPS Act and PSPF Act

<table>
<thead>
<tr>
<th>Year Beneficiary Reaches Age 62</th>
<th>Equal Treatment of Public Servants Act</th>
<th>Public Servants Protection and Fairness Act</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before 2025</strong></td>
<td>• $100/month rebate for beneficiaries</td>
<td>• Up to $150/month rebate for beneficiaries (no higher than actual WEP reduction)</td>
</tr>
<tr>
<td></td>
<td>• $50/month rebate for auxiliary beneficiaries</td>
<td>• Rebate indexed to CPI</td>
</tr>
<tr>
<td></td>
<td>• Rebate indexed to CPI</td>
<td></td>
</tr>
<tr>
<td><strong>2025-2068</strong></td>
<td>Greater of WEP and PF</td>
<td>Greater of WEP and PF</td>
</tr>
<tr>
<td><strong>After 2068</strong></td>
<td>PF</td>
<td>Greater of WEP and PF</td>
</tr>
</tbody>
</table>

Source: PSPF Act and ETOPS Act.

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THE GOVERNMENT PENSION OFFSET

In general, a spouse receives up to 50% of a covered worker’s Social Security benefits, and a widow(er) receives up to 100%.\(^7\) The GPO is intended to serve a similar purpose to the WEP for spouses and widow(ers) receiving dependent Social Security benefits along with a non-covered pension, as the Congressional Research Service explains:

Under Social Security's dual entitlement rule, a person's spousal benefit is reduced, dollar-for-dollar, by the amount of his or her own Social Security retired- or disabled-worker benefit but not below zero (i.e., a 100% offset). The difference, if any, is paid as a spousal benefit and is added to the worker's Social Security benefit. In effect, the person receives the higher of the two Social Security benefit amounts, but not both. For example, if a person is entitled to a $600 retired-worker benefit (based on his or her own work history in covered employment) and an $800 spousal benefit (based on his or her spouse's work history in covered employment), then the person would receive the $600 worker benefit plus the $200 difference between the worker benefit and the spousal benefit ($800 - $600 = $200). The dual entitlement rule is an implicit test of a spouse's or widow(er)'s dependency on an insured worker for his or her financial support.

The GPO is intended to replicate the dual entitlement rule for spouses and widow(er)s who receive pensions based on noncovered employment. The Social Security spousal benefit is reduced by an amount equal to two-thirds of the noncovered government pension (i.e., a 67% offset). If a person receives a monthly noncovered pension of $900, two-thirds of that amount (or $600) is deducted from his or her Social Security spousal benefit. For example, if the same person were also entitled to a spousal benefit of $800, then he or she would receive $200 per month from Social Security ($800 - $600 = $200). The other one-third of the noncovered government pension is assumed to be equivalent to a supplementary private pension, which would not cause a reduction in the Social Security spousal benefit.\(^8\)

The GPO currently affects around 717,000 beneficiaries.\(^9\) In 2022, beneficiaries affected by the GPO had an average monthly non-covered pension of $2,690,\(^10\) which was $865 more than the average Social Security retired worker benefit.

\(^8\) Ibid.
\(^10\) Ibid.
Nearly 70% of beneficiaries affected by the GPO had their entire spousal or widow(er) benefit offset and had an average monthly non-covered pension of $3,502. Those with partially offset benefits had an average monthly non-covered pension of $999.

Because the GPO relates to dependent benefits, a proportional formula is infeasible (as the benefit does not depend on the beneficiary’s earnings). Moreover, because the GPO already treats all affected beneficiaries more generously than the standard benefit formula (by applying a 67% offset rather than a 100% offset against the spousal or widow(er) benefit), any reform to improve fairness would be politically challenging.

Despite the fact that the GPO only affects around one-third as many people as the WEP, repealing it would be far more expensive, costing an estimated $107 billion over the first 10 years alone.\(^{22}\)

Adding GPO repeal to WEP repeal without replacing the provisions is projected to cost $183 billion over 10 years,\(^{23}\) speed up trust fund depletion by one year, and increase the long-range Social Security trust fund deficit by 3%.\(^ {24}\)

Though they play an important role in advancing equity in the distribution of Social Security benefits, the WEP and GPO are imperfect and deeply unpopular provisions—in large part because they are so poorly understood. Fortunately, Congress has options to both make the benefit formula fairer and simpler and give SSA the tools it needs to make more precise benefit adjustments.

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\(^{22}\) CBO, H.R. 82.

\(^{23}\) Ibid.

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