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**HOUSE SUBCOMMITTEE ON SOCIAL SECURITY
HEARING ON THE SOCIAL SECURITY GOVERNMENT PENSION OFFSET (GPO)**

On June 27th, we attended the House Social Security Subcommittee's hearing on the GPO. The hearing focused on why the GPO was created, how it works, suggestions for modification, and how modifications to the provisions would affect the budget and the solvency of the Social Security Trust Funds.

The following members of the subcommittee were present: Rep. E. Clay Shaw, Jr., Chairman (R-FL); Rep. Jim McCrery (R-LA); Rep. Mac Collins (R-GA); Rep. Rob J. Portman (R-OH); Rep. J.D. Hayworth (R-AZ); Rep. Kenny C. Hulshof (R-MO); Rep. Robert T. Matsui, Ranking Member (D-CA); and Rep. Sander M. Levin (D-MI).

The following witnesses testified before the subcommittee:

- The Honorable William J. Jefferson, Member of Congress (D-LA)
- Jane L. Ross, Ph.D., Deputy Commissioner for Policy, Social Security Administration
- Paul R. Cullinan, Ph.D., Budget Analysis Division, Unit Chief for the Human Resources Cost Estimate Unit
- Vincent R. Sombrotto, President, National Association of Letter Carriers
- John Keane, Administrator, Jacksonville Police and Fire Pension Fund, Jacksonville, Florida
- David John, Senior Policy Analyst, Social Security, Heritage Foundation
- Frank G. Atwater, National President and Chief Executive Officer, National Association of Retired Federal Employees, Alexandria, Virginia, on behalf of Coalition to Assure Retirement Equity, Alexandria, Virginia
- Ruth Pickard, Member, National Association of Retired Federal Employees

• **BACKGROUND**

Rep. William J. Jefferson (D-LA) has proposed legislation (H.R. 1217) which would make it possible for annuitants to keep more of their spouses' Social Security benefits. Retirees could keep up to \$1,200 a month in combined benefits – spousal Social Security benefits would still be reduced after that amount. The measure currently has 245 co-sponsors – enough to ensure passage in the House. Sen. Barbara Mikulski (D-MD) has introduced a companion bill (S. 717) in the Senate. The Senate measure currently has 20 co-sponsors.

The GPO currently causes more than 300,000 workers to lose an average of \$350 a month in spousal benefits. The Congressional Budget Office (CBO) has said that Rep. Jefferson's bill would eliminate the offset for about 25 percent of those now affected. SSA has estimated that the bill would cost about \$5.9 billion over 10 years, and the long-term cost would amount to a tiny fraction of taxable payroll.

All witnesses presenting testimony agreed that there are inequities in the current system – but disagreed on the extent of the problem. Opponents of the law say that the GPO unfairly targets certain local, state and federal employees by reducing their spousal Social Security benefits. Supporters of the GPO (in particular SSA) say the law is the most effective way to keep government employees from receiving more retirement benefits than their private-sector counterparts.

During her testimony Deputy Commissioner Ross argued that the offset is fair because it mirrors the dual entitlement provision, which as you know is an offset applied to workers who receive both their own Social Security benefits and spousal benefits. It is feared that even though Rep. Jefferson's legislation is intended to benefit lower-income employees, 90 percent of those who would benefit from the bill have incomes above poverty level. Deputy Commissioner Ross testified that although there are legitimate issues regarding poverty among low-income elderly that must be resolved, this legislation is not well targeted to address those issues.

David John of the Heritage Foundation also spoke out against Rep. Jefferson's legislation. He stated that the offset is equivalent to the dual entitlement rule that prevents a husband and wife earning Social Security benefits from receiving the full amount. He also stated that without the GPO, government workers would have an unfair advantage over those who were part of the Social Security program for their entire working life.

Chairman Shaw recently stated that action on this legislation will probably be postponed until next year. This is due to the fact that because of the busy schedule anticipated for the rest of the year the Senate will not act on the measure. It is more likely that the subcommittee will deal with issue when Congress can address a comprehensive overhaul of the Social Security program.

The following questions were put forward by the members of the Subcommittee to Rep. Jefferson regarding his legislation:

Rep. Portman: How many people are affected by your \$1200.00 approach?

Rep. Jefferson: 305,000 people were affected by the GPO last year.

Rep. Portman: I have information from the CBO saying that your legislation will affect approximately 25% of those people.

Rep. Jefferson: I don't really know the numbers.

Rep. Portman: 92% of the state employees in Ohio are exempted from Social Security.

Rep. Jefferson: We shouldn't penalize people who choose to work in public service.

(Regarding my legislation), SSA might say that not enough people are affected, that we should means test, and that we shouldn't reform in this area.

Rep. Portman: SSA says that CBO has estimated that 50% of the people would have their benefits increased.

Rep. McCrery: I commend my colleague for this legislation. I am troubled by the current law, on face value it seems somewhat unfair. I think we need to work to discover modifications and make the system more fair.

The following questions were put forward by the members of the Subcommittee to Deputy Commissioner Ross (SSA) and Dr. Cullinan (CBO):

Rep. Matsui: If we eliminate or alter the GPO, then we will be asked to deal with the dual entitlement issue.

Deputy Commissioner Ross: I don't think about it like that. There was a sensible rationale for the GPO and it is for Congress to decide if that still exists.

Rep. Matsui: I asked you an unfair question – I was looking for a political answer and you are supplying factual information. We will hear from more people later on as to why they feel the GPO is unfair.

Deputy Commissioner Ross: There are legitimate concerns for specific groups, for example widows, but there are more effective ways (other than this legislation) to deal with these serious concerns regarding poverty and the elderly.

Rep. Matsui: We need to find revenues to shore up deficits.

Rep. McCrery: There is the projected long-term cost of Rep. Jefferson's bill and a negligible cost for the long-term. Do you have the long-term cost?

Deputy Commissioner Ross: \$6 billion over ten years. I don't have the progression beyond 5 and 10 years and long-term.

Rep. McCrery: What is the policy rationale for the different treatment of dual entitlement vs. GPO?

Deputy Commissioner Ross: The GPO is an approximate measure which acts like the dual entitlement measure. The GPO is a blunt instrument. Two studies have been done to make a comparison to Social Security wages – 2/3 is not a perfect figure, it is a rough approximation.

Rep. Cardin: We get into trouble with rough approximations. We don't want to create another "notch" type situation. We need to make sure we correct the situation without creating an ongoing problem.

Rep. Hulshof: Deputy Commissioner Ross, you've indicated that H.R. 1217 is not well targeted. Could you explain why?

Deputy Commissioner Ross: The bill looks at combined retirement income. It doesn't target the benefit very well – 90% would go to people who are above the poverty level.

Rep. Hulshof: The next panel will say that 2/3 is an arbitrary amount – what about eliminating the GPO for people that are below \$1200.00? What are your thoughts about that figure?

Dr. Cullinan: I don't know what the logic was for the \$1200.00. Eliminating the GPO for people that are below \$1200.00 would cost 1/4 of what it would cost to repeal the GPO, but the \$1200.00 is not appropriate in some cases. There are potential issues which would result.

Rep. Hulshof: What about lowering the size of the offset? Pros and cons?

Dr. Cullinan: Individual circumstances are so different. Ten years ago there was a CRS study, it revealed a wide range of situations. When there is only one instrument, it is difficult to construct it so that is fair in every case.

Rep. Hayworth: Many government workers are not aware of the GPO until they are ready to retire. What is SSA doing to educate workers?

Deputy Commissioner Ross: The information is included in the new benefits statements – people need to read this carefully. There are also brochures and our website. We are also working with OPM and the unions.

Rep. Hayworth: What about printing the text in bold, different fonts, etc.?

Deputy Commissioner Ross: SSA is willing to take your suggestions and work with you on this.

Rep. Levin: What is the basis for the 2/3 amount?

Deputy Commissioner Ross: The original legislation called for a dollar for dollar ratio. The House called for 1/3, and the Senate said nothing. The 2/3 was the compromise in conference. The amount is a relatively good rough approximation.

Rep. Levin: So you think the data you've looked at supports the figure?

Deputy Commissioner Ross: It is a relatively good figure. We have tried to figure out the benefit amount as if the person had been totally covered by Social Security.

Rep. Portman: Following up on Rep. Hayworth's question regarding notice – people are not aware of the GPO. In the upcoming testimony we will hear from Mr. Keane (Jacksonville Police and Fire Pension Fund) that the statements don't include the information regarding the GPO.

Deputy Commissioner Ross: General information is given, it is not calculated for individuals. We don't have all the information necessary to do this. We don't have earnings under non-covered employment.

Rep. Portman: It seems like at a minimum there needs to be a better job of providing notice. The general question here is – which way we should go? How can you come up with the 90% above poverty level figure? (this is in reference to the effects of H.R. 1217 if enacted)

Deputy Commissioner Ross: That data is from a national survey.

Rep. Portman: Who conducted the survey?

Deputy Commissioner Ross: It was a Census Bureau survey.

Rep. Portman: Can you suggest some changes to the legislation?

Dr. Cullinan: Federal employees are actually a minority population in those affected by the GPO.

Rep. Portman: An option might be to move the figure of \$1200.00 down. It would cost less and be more targeted. Maybe down to \$1000.00?

Dr. Cullinan: We (CBO) haven't looked at that. We can.

Rep. Portman: Thank you, that would be helpful.

Deputy Commissioner Ross: SSA is happy to work with you and Rep. Jefferson on this.

Rep. Matsui: Is SSA suggesting that rather than making differentiations on couples' situations it should be based on income levels?

Deputy Commissioner Ross: There are many ways to look at these issues.

Rep. Matsui: We have an obligation to treat all the groups the same way. Whatever we do needs to be comprehensive. The graphs and charts you have provided have really indicated what the problems are.

The following questions were put forward by the members of the Subcommittee to the final panel of witnesses:

- Vincent R. Sombrotto, President, National Association of Letter Carriers
- John Keane, Administrator, Jacksonville Police and Fire Pension Fund, Jacksonville, Florida
- David John, Senior Policy Analyst, Social Security, Heritage Foundation
- Frank G. Atwater, National President and Chief Executive Officer, National Association of Retired Federal Employees, Alexandria, Virginia, on behalf of Coalition to Assure Retirement Equity, Alexandria, Virginia
- Ruth Pickard, Member, National Association of Retired Federal Employees

Rep. Matsui: How long did you pay into Social Security?

Ruth Pickard: 22 years.

Rep. Matsui: Was that full- or part-time?

Ruth Pickard: Mostly full-time.

Rep. Matsui: Regarding dual income couples – there are distinctions and differences. How do you rationalize eliminating the GPO but not the dual entitlement provision?

Vincent R. Sombrotto: Most letter carriers are forced to work more than one job to support their families. Those people pay for CSRS and also for Social Security (their private sector employment). They are entitled to those benefits. They've paid for them and they are shocked to find out they won't receive them. (This response actually pertains to the WEP, but we've included it for completeness of the exchange.) It is the same for the GPO – people are expecting to get their spousal benefits and are surprised when they don't.

Rep. Matsui: I'm wondering if we should try to deal with overall benefits. The others that won't benefit from this legislation, don't they have a case?

Vincent R. Sombrotto: In terms of letter carriers – look at an private sector example: General Motors employees will receive Social Security and a pension and are not covered by the offset.

Rep. McCrery: I don't think anyone believes the system in place is fair to everyone. But there is a fundamental hurdle here: Why should we treat the GPO differently than other groups?

John Keane: It depends what pot you are getting the money out of. There shouldn't be an offset when our members have paid in. It is wrong to take the Social Security taxes out of their pay and then reduce the benefit amount when it comes time to pay it back to them.

Rep. McCrery: Others would say, "you didn't pay in."

John Keane: But they did.

Rep. McCrery: Mr. John, would you like to weigh in for the Heritage Foundation?

David John: Spousal benefits have been paid in.

Rep. McCrery: We are talking about spousal benefits here, aren't we?

David John: Yes we are.

Rep. McCrery: I don't understand why we should treat the GPO folks and the dual entitlement folks differently. It is a very expensive proposition to fix both.

John Keane: The people at SSA aren't really sure how many people are affected.

Rep. Levin: I'm glad we're having this hearing today. It is a complicated but urgent issue. We are talking about two different actuarial pools. What is the typical pension for a letter carrier?

Vincent R. Sombrotto: The average pension is approximately \$1300.00 per month and 10% of that goes to health benefits.

Rep. Shaw: I assume that the 10% is in lieu of Medicare?

Vincent R. Sombrotto: If they want Part B they pay for that also. The 10% includes some prescription benefits, it varies by plan.

Rep. Hulshof: This panel points out the dilemma we face. Mr. John, you are clearly outnumbered on this panel. I think we a good "back and forth" could be had between Mr. John and Mr. Keane.

Mr. Keane at this point told his own story regarding his experience with the GPO and Social Security spousal benefits. He explained this would have been different if he had worked for someone like General Motors.

Rep. McCrery: Mr. John, do you have a response for Mr. Keane?

David John: If Mr. Keane had worked for General Motors then he would have been affected by the dual entitlement provision.

(lengthy back and forth discussion between the two witnesses)

John Keane: We're not trying to get anything we didn't pay for.

Rep. Jefferson (he joined the subcommittee following his testimony): I have one observation – it is important to note that when the system was set up the dual entitlement provision was there, but the GPO didn't exist. Why the time difference between the two? The GPO was introduced because of a Supreme Court decision. My point is that we don't have to resolve both the GPO and the dual entitlement provision at the same time.

Copies of the witnesses' written statements are available. Please contact us if you have any questions or would like copies.

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