United States House of Representatives
Committee on Ways and Means
Subcommittee on Social Security

"Social Security Benefits for Economically Vulnerable Beneficiaries"

January 16, 2008

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Mr. Chairman and members of the Subcommittee, my name is Laura Haltzel and I am a Specialist in Income Security with the Congressional Research Service (CRS). Thank you for inviting me to speak to you today about Social Security benefits for economically vulnerable beneficiaries.

Social Security is an important part of our nation's safety net, protecting workers and their families in the event of a worker's retirement, disability, or death. Without Social Security, almost half of elderly Social Security beneficiaries would have been in poverty in 2006.[1] Though Social Security is an extremely effective program, some of its beneficiaries remain economically vulnerable. Today I am going to talk about several of these vulnerable groups--specifically, widows and widowers, long-term low earners, individuals with disabilities, and finally state and local government workers who are not covered by Social Security. For each of these groups, I will outline key provisions of current law, the rationale behind those provisions, and their impact on beneficiaries. I will also discuss proposed modifications to Social Security to address the concerns of these vulnerable populations. I will describe current legislation, if any, as well as the pros and cons of various options to enhance the Social Security benefits of these vulnerable groups.

Widow(er)'s Benefits

Under current law, while a worker is alive, his or her spouse is eligible to receive 50% of the worker's "primary insurance amount" (PIA). The PIA is the basic Social Security benefit amount before any reduction for early retirement or other adjustments. Upon the worker's death, an aged surviving spouse (a widow or widower) is eligible to receive a benefit equal to 100% of the worker's PIA. These amounts are the highest that a spouse may qualify for. However, if a spouse or aged surviving spouse receives a benefit based on his/her own work record, the spousal or widow(er)'s benefit is reduced dollar-for-dollar by the amount of that benefit, in some cases down to zero. Depending on the Social Security benefits payable to each member of a couple based on his/her own work record, an aged surviving spouse is ultimately eligible to receive from 50% to 67% of the combined Social Security benefit that would have been paid to the couple if the deceased spouse were still alive.

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[1] This statistic assumes no behavioral changes such as saving more or working longer. (Congressional Research Service, unpublished data using the March 2007 Current Population Survey).

Rationale

The death of a worker can be financially devastating to a family. Social Security helps by providing replacement income to the families of workers who die to help maintain their standard of living. Survivors benefits may be paid to the spouses, children, former spouses, and parents of deceased workers.

Impact of Widow(er) Benefits

Among Social Security beneficiaries, widow(er)s are considered a particularly vulnerable group. Among adult Social Security survivor beneficiaries, 99% are women.[2] On average, women have lower lifetime earnings than men and thus lower Social Security benefits. In addition, they have longer life expectancies than men making them more likely to outlive their spouses. Statistics show that widows have higher poverty rates than aged married beneficiaries and aged Social Security beneficiaries overall. For example, among elderly Social Security beneficiaries in 2004, the poverty rate for widows and widowers was 13% and 9%, respectively.[3] By comparison, the poverty rate was 3% for married beneficiaries and averaged 8% for all elderly beneficiaries. These statistics suggest that women could experience a significant drop in their standard of living after the death of their spouse.

Proposal to Increase Widow(er)'s Benefits

One option to increase widow(er) benefits is to provide aged surviving spouses a benefit equal to 75% of the combined Social Security benefit that would have been paid to the couple if the deceased spouse were still alive. The widow(er)'s benefit would be limited to an amount equal to the average PIA of all retired worker beneficiaries for December of the year before the individual becomes eligible for widow(er)'s benefits. For example, in December 2006, the average PIA of all retired worker beneficiaries was $1,244. The average monthly benefit for aged widow(er)s for the same month was $1,007.

The 75% widow option would improve the economic well-being of widow(er)s who are at risk for low income in old age, especially those who rely on Social Security as a primary source of retirement income as personal savings and other assets are depleted over time. Under current law, an aged surviving spouse is subject to a one-half to one-third reduction in benefits on a combined basis, though there is not necessarily a corresponding reduction in expenses previously shared by the couple. Some feel that 75% more closely approximates the percentage of a couple's combined income needed by the surviving spouse to maintain his or her standard of living.

There are questions about how to target the 75% widow option toward the poor elderly widows and widowers it is intended to help. Although some studies have found that the 75% widow option with no limit would increase benefits and alleviate poverty for widow(er)s, it would have a slightly more positive effect on higher-income beneficiaries compared to lower-income beneficiaries. However, if the enhanced benefit is capped at the average PIA for retired workers (as in the option

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[2] CRS calculations based on the Social Security Administration's *Annual Statistical Supplement*, 2006, Tables 5.A1.6 and 5.A1.7.

[3] Social Security Administration, *Income of the Population 55 or Older*, 2004 (May 2006).

described above), it would better target the most needy individuals. This modification would also dramatically reduce the cost of the option.

The 75% widow option would not address the needs of other groups of Social Security beneficiaries who are at an even greater risk of poverty in old age, such as beneficiaries who were never married or divorced. For example, among elderly Social Security beneficiaries in 2004, the poverty rate was 18.8% for never-married men and 16.0% for never-married women (compared to 9.2% for widowers and 13.3% for widows).[4]

In 2005, the Congressional Budget Office (CBO) estimated that the 75% widow(er) benefit option, with no limit, would cost $253.4 billion over 10 years (2006-2015).[5] CBO estimated that the projected cost would be reduced by almost 90% if a limit, such as the one described under this option, were placed on the widow(er)'s benefit. Estimates by the Social Security Administration have shown that the option would increase the projected 75-year actuarial deficit for the Old-Age, Survivors and Disability Insurance (OASDI) program by an amount equal to .08% of taxable payroll.[6]

Social Security Minimum Benefits

In 2006, Social Security benefits brought an estimated 40% of elderly beneficiaries (12.3 million) out of poverty.[7] However, 7% of elderly Social Security beneficiaries (2.3 million) remained in poverty. Many individuals receive Social Security benefits that are less than the poverty threshold for an elderly individual, including some who worked their entire careers in covered employment for low wages.

One provision of the Social Security benefit formula that was intended to benefit poor individuals is the special minimum primary insurance amount (PIA).[8] The special minimum PIA was enacted in 1972 to increase benefits for long-term low wage earners and their families. To qualify, a worker must have at least 11 years of earnings above a specified threshold.[9] The amount of the special minimum PIA rises each year with price inflation and varies depending on the number of years a person works. In 2008, the amounts range from $34.90 per month for workers with 11 years of covered earnings to $721.40 for workers with 30 years.

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[4] Ibid.

[5] Congressional Budget Office, "Budget Options," February 2005, p. 243.

[6] Social Security Administration, Memorandum from Stephen C. Goss, Chief Actuary, Alice H. Wade, Deputy Chief Actuary, and Chris Chaplain, Actuary, to Representative Jim Kolbe and Representative Allen Boyd, "Estimated OASDI Financial Effects of the 'Bipartisan Retirement Security Act of 2005'– INFORMATION,"November 4, 2005.

[7] This statistic assumes no behavioral changes such as saving more or working longer. (Congressional Research Service, unpublished data using the March 2007 Current Population Survey).

[8] 42 U.S.C. § 415 (a)(1)(C). The PIA is the basic benefit amount before reductions and credits are applied; this is what beneficiaries would receive if they retired at their full retirement ages.

[9] Earnings must be above 15% of the old-law contribution wage base to count toward special minimum PIA eligibility. In 2008, this level is $11,385, which is considerably higher than what is required to earn four credits (one year) toward insured status ($4,200 in 2008).

Rationale

The special minimum PIA was enacted in 1972 to increase benefits for long-term low wage earners and their families. It was seen as a way to reward individuals with full work histories without providing additional benefits to individuals with sporadic attachment to the labor force. At the time, the Social Security benefit formula also included a regular minimum benefit, which was not based on years of work. Policymakers did not want to raise the rate of this minimum in order to avoid giving benefits to individuals with very few years of work. The regular minimum benefit has since been repealed.

Impact of the Special Minimum

Initial Social Security benefits rise at the rate of wage growth, while the special minimum PIA rises at the generally slower rate of price growth. Thus, the amount of the special minimum PIA has gradually become smaller relative to the minimum PIA a person could receive under the ordinary Social Security rules. As a result, the special minimum is paid to a small and rapidly declining number of individuals. In 2005, approximately 100,000 Social Security beneficiaries (less than 0.25%) received a special minimum PIA[10]. Among these beneficiaries, the average Social Security benefit amount ($710 per month) was less than the poverty threshold for an elderly individual. SSA's actuaries project that it will be impossible for anyone who becomes eligible for benefits in 2013 or later to receive the special minimum PIA.[11]

Because so few beneficiaries are affected by the provision and the minimum does not necessarily bring these people out of poverty, the special minimum PIA is not a particularly effective poverty-reduction tool. Because of the way that Social Security benefits are calculated, some long-term low earners receive benefits that are less than the elderly poverty threshold. For example, a person born in 1943 who earns the minimum wage every year for 40 years then retires at the full retirement age would receive a Social Security benefit that is slightly less than the poverty threshold for an elderly individual.[12] At age 62 (the age at which most individuals take up retirement benefits), the benefit for such a worker would be about three-quarters of the elderly poverty threshold. Individuals with limited working histories (for example, women who take time out of the labor force) also frequently receive Social Security benefits that are lower than the poverty threshold.

Proposal to Establish an Alternative Minimum Benefit

Some policymakers are interested in creating an alternative minimum benefit targeted at long-term low earners. One option of this type is a provision in one of the reform proposals from the 2001 President's Commission to Strengthen Social Security.[13] This provision would create a sliding-scale

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[10] Social Security Administration, *Annual Statistical Supplement, 2006*, Table 5.A8, at [http://www.ssa.gov/policy/docs/statcomps/supplement/2006/].

[11] Social Security Administration, Office of the Chief Actuary, "Projected Demise of the Special Minimum PIA," Actuarial Note No. 143, Oct. 2000, by Craig A. Feinstein, at [http://www.ssa.gov/OACT/NOTES/pdf_notes/note143.pdf].

[12] The Urban Institute, *Minimum Benefits in Social Security*, by Melissa M. Favreault, et al., August 2006, available at [http://www.urban.org/UploadedPDF/411406_Minimum_Benefits.pdf]

[13] President's Commission to Strengthen Social Security, *Final Report of the President's Commission to*

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minimum benefit that varied depending on number of years of work.[14] Retired worker beneficiaries with at least 30 years of work at the minimum wage would be guaranteed a Social Security PIA equal to 120% of the single elderly poverty threshold. The alternative minimum PIA would gradually decline such that those with 20 or fewer years of work would receive no minimum benefit.

This proposal would reach more low wage earners than the current law special minimum PIA, and bring some of them out of poverty. However, since the poverty thresholds and thus the minimum benefit amounts are indexed to price inflation, it would reach a smaller proportion of beneficiaries each year, much like the current-law special minimum. Also, the option would not necessarily bring a poor elderly individual out of poverty. Some workers with fewer than 30 years of work would be guaranteed a minimum PIA of less than 100% of poverty under the option. Other workers may have a PIA that is higher than the poverty threshold but receive benefit reductions (such as early retirement reductions) that result in a below-poverty benefit. Also, poor elderly individuals with limited work histories would not qualify for an increased benefit under this option.

The proposal would reward work and reinforce Social Security's ties to earnings. The proposal would ensure that individuals who worked a full career at low wages would be guaranteed a PIA that is at least as high as the poverty threshold. However, to receive a final Social Security benefit that is above poverty, such individuals would have to retire at or near their full retirement ages. If policymakers are interested in targeting additional spending specifically toward individuals with substantial work histories, a proposal such as this could achieve this result. Additional spending would be targeted at long-term low earners, as opposed to those with limited work histories. However, many of the elderly poor have limited work histories, for a variety of reasons.

Finally, an increase in Social Security benefits could actually make some low-income beneficiaries worse off overall because they would lose eligibility for other programs as a result. Any change to Social Security benefits could affect SSI eligibility and benefit levels, with potentially negative effects on the income of the poor elderly. If an individual loses eligibility for SSI because of increased Social Security benefits under this option, he or she could also lose eligibility for a number of other low-income programs, including Medicaid, food stamps, and the Low-Income Home Energy Assistance Program (LIHEAP).

The Five-Month Waiting Period for Social Security Disability Insurance (SSDI) Benefits

Title II of the Social Security Act provides that certain individuals may be eligible to receive Social Security Disability Insurance (SSDI) benefits if they meet the statutory definition of disability,

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[13] (...continued)
Strengthen Social Security, December 21, 2001, at [http://www.csss.gov/reports/Final_report.pdf]. The analysis in this testimony focuses on Commission Model 2.

[14] For more details, see the Social Security Administration memorandum to Daniel Patrick Moynihan and Richard D. Parsons, from Stephen C. Goss, Chief Actuary and Alice H. Wade, Deputy Chief Actuary, "Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," Jan. 31, 2002, available at: [http://www.ssa.gov/OACT/solvency/index.html].

have applied for benefits, are insured for benefits, have not reached normal retirement age, and have satisfied a five-month waiting period.[15]

The SSDI waiting period consists of five consecutive calendar months beginning with the first month in which an individual is both insured for SSDI benefits and meets the statutory definition of disability. If an individual's disabling condition began before he or she became insured for SSDI benefits, the waiting period would not begin until the insurance requirements were met. The onset of disability and the waiting period can begin before an application for SSDI benefits is filed. However, since federal law limits retroactive SSDI eligibility to 12 months prior to application, the first month that can be counted as part of the waiting period can be no more than 17 months prior to the date of the SSDI application.

Exception to the Waiting Period. There is one exception to the five-month SSDI waiting period. A person who has a new onset of disability and who had either received SSDI benefits which have since stopped, or had a period of disability that met the Title II definition of disability and that has since ended, is entitled to receive SSDI benefits without a waiting period, provided that the SSDI benefits or period of disability ended within five years of the onset of the current disability.

Rationale for the SSDI Waiting Period

A waiting period from the onset of disability to the eligibility for benefits has always been part of the SSDI program. When the SSDI program began in 1956, the waiting period was six months and there was no exception. The current exception to the waiting period was added in 1960 and the waiting period was reduced from six months to its current length of five months in 1972.

Congress cited three reasons for a waiting period when it created the SSDI program.[16] First, the waiting period would prevent the program from paying benefits for less serious and short-term conditions. Second, a six-month waiting period was similar to the waiting periods commonly offered by private-sector disability insurance plans at the time. Third, the waiting period would act in a similar manner to a traditional insurance deductible by discouraging people who were not truly disabled from applying for benefits by reducing the overall level of benefit generosity.

Impact of the SSDI Waiting Period

The five-month SSDI waiting period may have a negative impact on the income and health of persons who meet the statutory definition of disability and insurance requirements but who do not yet qualify for benefits. During the waiting period, these people are prohibited from working above the Substantial Gainful Activity (SGA) level and may not be working at all. During this period they are not receiving SSDI benefits to replace wages lost because of their disability. While some persons

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[15] Section 223(a)(1) of the Social Security Act [42 U.S.C. § 423(a)(1)] provides the requirements for SSDI benefits. The statutory definition of disability is provided by subsection (d) of Section 223 of the act while insurance requirements for SSDI eligibility are provided by subsection (c)(1) of Section 223 of the act.

[16] A full discussion of the Congressional reasoning for the SSDI program and the waiting period can be found in the committee report accompanying the House version of the Social Security Amendments of 1956 [U.S. Congress, House Committee on Ways and Means, *The Social Security Amendments of 1955,* report to accompany H.R. 7225, 84th Cong. 1st sess., H.Rept. 1189 (Washington, DC: GPO 1955). The Senate Finance Committee did not include a provision for disability benefits in its version of this bill.

with disabilities with limited means may qualify for Supplemental Security Income (SSI) benefits, SSI benefit levels are usually lower than what a person would receive from SSDI.

The SSDI waiting period effectively adds an additional five months to the 24-month waiting period that SSDI recipients must satisfy before qualifying for Medicare, bringing the total wait for Medicare coverage to 29 months after the onset of a disability. Because many people are either not working or are working at low-wage or part-time jobs during the waiting period, they may not qualify for other forms of health coverage and may not be able to afford all of the medical care required by their specific disabling conditions. This lack of medical coverage may limit a person's chances for medical improvement or rehabilitation and may also lead to a further deterioration of that person's health or hasten his or her death.

Congress cited these negative impacts on the income and health of persons with disabilities when it added the exception to the five-month waiting period in 1960 and when it reduced the length of the SSDI waiting period from six months to five months in 1972.

The five-month SSDI waiting period may also have a negative impact on the decisions of some people to apply for SSDI benefits. The waiting period is similar to a traditional insurance deductible and serves to reduce the overall level of generosity of the SSDI program. While it is difficult to determine exactly how many people are discouraged from applying for SSDI benefits because of the waiting period and how many of these would actually qualify for benefits if they applied, one study estimates that eliminating the waiting period would result in approximately a 9% increase in the number of persons applying for SSDI.[17] This same study estimates that eliminating the five-month waiting period would have the same positive impact on the number of SSDI applications as would be expected from a 10% increase in the overall level of benefits.

Proposals to Change the SSDI Waiting Period

Recently, legislation has been introduced that would change the SSDI waiting period in two ways. One proposal (H.R. 69) would eliminate the waiting period entirely thus giving all persons eligibility for SSDI benefits from the onset of their disabling conditions if they meet the insurance requirements. Another set of proposals (H.R. 2713 and S. 2050) would allow the waiting period to be waived for persons with terminal illnesses.

The impacts of these proposals to eliminate the SSDI waiting period are not known. Increasing overall benefit generosity may be expected to result in increased benefit payouts in the short term. However, it is not known if providing cash and medical benefits earlier will result in a greater number of persons improving medically and returning to the workforce, thus resulting in a long-term savings in benefits. The Social Security Administration (SSA) had planned on studying the impact of providing "Early Intervention" cash and medical benefits to persons with disabilities before the end of their waiting periods as part of a larger national demonstration project, but those plans have been abandoned.

In addition, while it has been estimated that eliminating the waiting period would result in an increase in the number of SSDI applications, more research is needed to determine if that increase would result in an increase in the number of SSDI beneficiaries, or if these new applicants would

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[17] Brent Kreider, "Social Security Disability Insurance: Applications, Awards, and Lifetime Income Flows," *Journal of Labor Economics,* vol. 17, no. 4, (1999), pp. 784-827.

be persons who do not meet the definition of disability. In addition, the impact of this increase of applications on the determination and appeals system, which already has large case backlogs and long processing times, has also not been determined.

Proposals to eliminate the five-month waiting period in cases of terminal illnesses raise questions about how eligibility for these expedited benefits will be determined. The accuracy that can be obtained from a full-scale evidence-based disability determination to determine if a person has a terminal illness must be balanced with the fact that such a determination would likely take up much of the current five-month waiting period and could add to the backlog of cases waiting for disability determinations. In addition, simply relying on the word of a single doctor could prove problematic and is not consistent with the standards of evidence used in other areas of the SSDI program. These proposals also raise questions as to the treatment of cases deemed terminal in which the beneficiary does not die as well as cases deemed not terminal in which the beneficiary dies quickly.

The 24-Month Medicare Waiting Period for SSDI Beneficiaries

Federal law provides that Social Security Disability Insurance (SSDI) beneficiaries under the age of 65 are eligible for Medicare Hospital Insurance (Part A) and Medicare prescription drug coverage (Part D), and are also eligible to purchase Medicare supplemental insurance (Part B) or enroll in a Medicare Advantage plan.[18] However, most SSDI beneficiaries must satisfy a 24-month waiting period that begins with their eligibility for SSDI benefits before they are eligible for Medicare coverage. In most cases, Medicare coverage for SSDI beneficiaries begins in the 25th month after they have been determined to be eligible for SSDI benefits. Because of the five-month SSDI waiting period, there is a wait of at least 29 months after the onset of disability before most SSDI beneficiaries are eligible for Medicare.

Exceptions to the Medicare Waiting Period. For SSDI beneficiaries under 65 years of age, there are three exceptions to the 24-month Medicare waiting period. An SSDI beneficiary may qualify for Medicare without having to satisfy the 24-month waiting period:

- in the first month of receiving SSDI benefits if the beneficiary has amyotrophic lateral sclerosis (ALS or Lou Gehrig's disease); or
- after the third month of receiving SSDI benefits if the beneficiary has end-stage renal disease (ESRD) or kidney failure; or
- in the month in which the beneficiary receives a kidney transplant.

Rationale for the Medicare Waiting Period

Medicare coverage after a 24-month waiting period was established for SSDI beneficiaries with the passage of the Social Security Amendments of 1972. This same law also provided a reduced waiting period for persons with ESRD and kidney transplants. The ALS exception to the waiting period was added in 2001.

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[18] Section 1811 of the Social Security Act [42 U.S.C. § 1395c] provides the requirements for Medicare coverage.

Both the House Committee on Ways and Means and the Senate Committee on Finance cited three reasons for including the 24-month waiting period as part of the extension of Medicare coverage to SSDI beneficiaries.[19] First, the waiting period was intended to control Medicare costs. Second, the Committees felt that the waiting period would prevent problems that may occur if Medicare coverage overlapped with any private health insurance a beneficiary had. Third, it was hoped that limiting the scope and cost of the Medicare benefit provided to SSDI beneficiaries would help ensure that Medicare benefits were sustainable long into the future.

Impact of the Medicare Waiting Period

During the Medicare waiting period, some beneficiaries are covered by Medicaid or by health coverage offered by the Department of Veterans Affairs. Other beneficiaries may purchase COBRA health coverage from their previous employer or purchase individual health insurance from private providers. Others may be covered by a spouse's health insurance plan.[20]

Some research indicates that as many as one-third of all SSDI beneficiaries waiting for Medicare coverage do not have any other type of health insurance.[21] As an SSDI beneficiary nears the end of his or her Medicare waiting period, the opportunities for health insurance coverage may decrease as COBRA or employer-sponsored coverage expires. In addition, for all beneficiaries, eligibility for SSDI benefits is contingent upon either not working or working and earning below the SGA level. As a result, some beneficiaries may lack the financial means to afford COBRA coverage or private insurance.

While the current research yields no clear answer on exactly how many SSDI beneficiaries lose health coverage during the Medicare waiting period, there is anecdotal evidence that some beneficiaries forgo medical care during the waiting period for financial reasons and that these decisions can have a negative impact on their overall health and chances for recovery and rehabilitation.[22] In addition, recent research published in the *Journal of the American Medical*

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[19] A full discussion of the rationale for the 24-month waiting period can be found in the House report accompanying the Social Security Amendments of 1972 [U.S. Congress, House Committee on Ways and Means, *The Social Security Amendments of 1972,* report to accompany H.R. 1, H. Rept. 92-231, 92nd Cong., 1st Sess., (Washington: GPO 1971)]. The Senate Finance Committee's report includes similar language.

[20] Jonathan Gruber and Jeffrey Kubik, in a paper published by the National Bureau of Economic Research, demonstrate that the Medicare waiting period does not result in widespread uninsurance of SSDI beneficiaries. Rather, they find that many SSDI beneficiaries still have access to employer health coverage (either through COBRA or as retirees) during the waiting period or are able to access other public coverage such as Medicaid or coverage through a spouse. Jonathan Gruber and Jeffrey Kubik, *Health Insurance Coverage and the Disability Insurance Application Decision*, (Cambridge, MA: National Bureau of Economic Research 2002) (here after cited as Gruber and Kubik, *Health Insurance Coverage and the Disability Insurance Application Decision).*

[21] Stacy Berg Dale and James M. Verdier, *Elimination of Medicare's Waiting Period for Seriously Disabled Adults: Impact on Coverage and Costs*, (New York: The Commonwealth Fund 2003) (hereafter cited as Dale and Verdier, *Elimination of Medicare's Waiting Period for Seriously Disabled Adults*).

[22] For example, in 2004 the Commonwealth Fund and the Christopher Reeve Paralysis Foundation sponsored research that addressed these issues with SSDI beneficiaries through focus groups and interviews [Bob Williams, Adrianne Dulio, Henry Claypool, Michael J. Perry, and Barbara S. Cooper, *Waiting for Medicare: Experiences of Uninsured People with Disabilities in the Two-Year Waiting Period for Medicare,* (New

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Association shows that the onset of Medicare coverage is associated with improved health among certain previously uninsured persons.[23]

Some SSDI beneficiaries die and very few beneficiaries see medical improvement during the 24-month Medicare waiting period. Published research estimated that nearly 12% of all SSDI beneficiaries first entitled to SSDI benefits in 1995 died during the Medicare waiting period. Among the same cohort of beneficiaries, just over 2% recovered medically to the point where they could terminate from the SSDI program.[24] This finding may suggest that lower rates of recovery due to a lack of medical coverage during the Medicare waiting period could result in an increase in the length of time that beneficiaries stay on the SSDI rolls and could lower the probability that some beneficiaries will ever improve to the point where they can leave the SSDI program and return to work.

Much like the five-month SSDI waiting period, the 24-month Medicare waiting period may have a negative impact on the application decisions of persons with disabilities who may be discouraged from applying because of the lack of immediate medical coverage and the overall lower level of benefit generosity.

Proposals to Change the Medicare Waiting Period

In 1972 Medicare coverage was extended to SSDI beneficiaries who have satisfied a 24-month waiting period. In nearly every Congress since, legislation has been introduced to either eliminate this waiting period entirely or exempt individuals with certain medical conditions or terminal illnesses from the waiting period. The most recent change was in 2001 when Congress exempted persons with ALS from the Medicare waiting period. In the 110th Congress, the following three bills have been introduced that would change the Medicare waiting period:

- H.R. 154 and S. 2101 would phase out by 2017 the 24-month Medicare waiting period for all SSDI beneficiaries and immediately end the waiting period for persons with life threatening conditions.
- H.R. 685 would eliminate the 24-month Medicare waiting period for SSDI beneficiaries with disabling burn injuries.

In 2005 the National Council on Disability (NCD) publicly called for the elimination of the 24-month Medicare waiting period. Numerous other disability advocacy organizations, including the Consortium for Citizens with Disabilities (CCD) have also publicly raised the issue of the Medicare waiting period and its impact on persons with disabilities.

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[22] (...continued)
York: The Commonwealth Fund 2004)].

[23] This study only examined adults transitioning to Medicare at age 65 and did not examine SSDI beneficiaries transitioning to Medicare at the conclusion of the 24-month waiting period. J. Michael McWilliams, Ellen Meara, Alan M. Zaslavsky, and John Z. Ayanian, "Health of Previously Uninsured Adults After Acquiring Medicare Coverage," *Journal of the American Medical Association,* vol. 298, no. 24, (2007), pp.2886-2894.

[24] Gerald F. Riley, "The Cost of Eliminating the 24-Month Medicare Waiting Period for Social Security Disabled-Worker Beneficiaries," *Medical Care,* vol. 42, no. 4, (2004), pp. 387-394 (hereafter cited as Riley, "The Cost of Eliminating the 24-Month Waiting Period for Social Security Disabled-Worker Beneficiaries").

It is likely that eliminating the Medicare waiting period would result in increased costs to the Medicare program. Even if this increase in benefit generosity does not result in a higher number of SSDI applications or awards, every beneficiary would receive up to two additional years of Medicare coverage. In addition, some research suggests that beneficiaries who currently die before ever being covered by Medicare would incur Medicare costs that are more than three times higher than those incurred by beneficiaries that do not die during the waiting period.[25] Some studies estimated that annual Medicare costs would increase from $5.3 billion to $8.7 billion if the Medicare waiting period were eliminated.[26] These numbers do not account for the additional Medicare costs brought on by Part D coverage.

It is also likely that some of the costs to the Medicare program would be partially offset by savings to the Medicaid program. This would occur as SSDI beneficiaries covered by Medicare during their first 24 months in the program would no longer have to enroll in the Medicaid program in order to get some type of medical coverage. Some estimate that eliminating the Medicare waiting period would save the federal government $2.5 billion in Medicaid costs and save the states an additional $1.8 million in Medicaid costs.[27]

Eliminating the Medicare waiting period may also result in an increase in applications to the SSDI program.[28] It is not known if these additional applications would come from persons who meet the statutory definition of disability or from those not qualified for the SSDI program. Nor is it known the impact of this increase of applications on the SSDI determination and appeals system.

The Social Security Administration (SSA) is currently testing the impact of providing immediate medical coverage to SSDI beneficiaries as part of its Accelerated Benefits demonstration project. This demonstration project, scheduled to run through 2010, may yield useful information for Congress as it considers policy proposals to eliminate the 24-month Medicare waiting period.

The Social Security Disability Insurance (SSDI) "Cash Cliff"

Title II of the Social Security Act provides that a person is eligible to receive Social Security Disability Insurance (SSDI) benefits only if, among other conditions, he or she is unable to work and earn above the Substantial Gainful Activity (SGA) level because of a disabling impairment.[29] The SGA level is adjusted each year to reflect wage growth. In 2008, it is $904 per month for beneficiaries who are not blind and $1,570 per month for beneficiaries who are blind.

Generally, once a beneficiary earns above SGA, he or she is no longer eligible for SSDI benefits. This situation is commonly referred to as the "cash cliff" as it can result in a sudden loss

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[25] Riley, "The Cost of Eliminating the 24-Month Medicare Waiting Period for Disabled-Worker Beneficiaries" p. 391.

[26] Riley, "The Cost of Eliminating the 24-Month Medicare Waiting Period for Disabled-Worker Beneficiaries," p. 392 and Dale and Verdier, *Elimination of Medicare's Waiting Period for Seriously Disabled Adults*, p. 4.

[27] Dale and Verdier, *Elimination of Medicare's Waiting Period for Seriously Disabled Adults*, p. 5.

[28] Gruber and Kubik, *Health Insurance Coverage and the Disability Insurance Application Decision.*

[29] Section 223(d) of the Social Security Act [42 U.S.C. § 432(d)] provides the definition of disability used to determine eligibility for SSDI benefits.

of benefits for a person who has had only a minimal increase in his or her monthly earnings. Unlike private disability insurance plans, the Supplemental Security Income (SSI) program, or disability benefits provided by the Department of Veterans Affairs, the SSDI program has no provision for a gradual reduction in benefits to accompany increased earnings and no provision for partial benefits. There are, however, three sets of provisions that are designed to lessen the impact of the SSDI "cash cliff" and assist beneficiaries in their return to work efforts.

Trial Work Period (TWP). An SSDI beneficiary is entitled to a Trial Work Period (TWP) consisting of nine months of work above a special "services" level during any rolling 60-month period.[30] During the TWP, a beneficiary can earn any amount of money and still retain his or her SSDI benefits. However, once all TWP months have been exhausted, any earnings above the SGA level will result in the beneficiary losing his or her entire SSDI cash benefit after a two-month grace period.

Extended Period of Eligibility (EPE). During the Extended Period of Eligibility (EPE), an SSDI beneficiary who has lost his or her benefits because of work can have these benefits reinstated without having to file a new benefit application. The EPE begins with the month after the grace period that follows the end of the TWP and ends with the 37th month after the end of the TWP.

Medicare Provisions. An SSDI beneficiary who has satisfied the 24-month waiting period and who has had his or her benefits stop because of work is eligible for premium-free Medicare benefits while working for up to 93 months after the end of the TWP.[31] After the end of the 93 months of premium-free Medicare, an individual who has returned to work and is still disabled is eligible to purchase Medicare Part A and B coverage at the same premiums offered to uninsured people over the age of 65. This extended eligibility continues until the individual is no longer working, no longer disabled, or reaches the age of 65.

Rationale for the "Cash Cliff"

From the beginning of the SSDI program in 1956, eligibility for benefits has been tied to the near-total inability to work. Congress intended SSDI to be an insurance program that would replace the wages of those unable to work because of disabilities. In keeping with this rationale, no provision for partial benefits or a gradual benefit reduction has ever been part of the SSDI program.

In 1968 Congress gave the SSA the authority to set, by regulation, the SGA level to be used to determine if a person that is working is eligible for SSDI benefits. The SGA level for non-blind beneficiaries continues to be set by regulation while the higher SGA level for the blind, established by Congress in 1977, is set according to a formula passed into law by Congress in 1996.

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[30] Like SGA, the "services" level is adjusted annually based on wage growth. In 2008 the "services" level is $670 per month or 80 hours per month of self-employed work.

[31] If a beneficiary has not yet satisfied the Medicare waiting period he or she is eligible for Medicare benefits while working after the waiting period is completed and for the remainder of the 93 months after the end of the TWP.

Impact of the "Cash Cliff"

There is considerable agreement among researchers, disability advocates, and the SSA that the SSDI "cash cliff" has a negative impact on the return to work efforts of many beneficiaries.[32] Because of the "cash cliff" it is difficult for beneficiaries to begin working part-time and then gradually increase their work hours or responsibilities to the point at which they no longer need to rely on SSDI benefits as a component of their income. This transition from part-time to full-time work may be of particular importance to SSDI beneficiaries seeking to return to the workforce. Research published in the journal *Industrial Relations* has found that persons with disabilities are twice as likely as persons without disabilities to be employed in part-time or contingent jobs and that persons with disabilities tend to favor part-time work because of the flexibility it offers them when dealing with their disabilities and medical conditions.[33]

For persons currently working near the SGA level, even a slight increase in work hours, or a minor increase in pay, can result in a total loss of benefits. In addition, the lack of understanding of the TWP, EPE, and Medicare provisions designed to lessen the impact of the "cash cliff" may lead to a fear among some beneficiaries that any work attempts will result in their total removal from the SSDI program and a complete loss of their Medicare coverage.

In 2006, just over 33,000 SSDI beneficiaries had their benefits withheld because they earned above the SGA level. This represents 0.5% of all SSDI beneficiaries. In addition, another 0.5% of all beneficiaries were terminated from the SSDI program because of what the SSA deemed a successful return to work.[34]

While the number of SSDI beneficiaries who lost benefits because of crossing over the "cash cliff" is known, it is difficult to estimate the total number of SSDI beneficiaries affected by the "cash cliff" as there is no accurate way of knowing how many of them refuse to work additional hours or even refuse to work at all because of the fear of losing their benefits.

Proposals to Eliminate the "Cash Cliff"

The SSDI program and its "cash cliff" are unique among the major federal disability benefit programs. The SSI program has no such provision and instead reduces a person's SSI benefit by $1 for every $2 he or she earns in a given month. The Disability Compensation program administered by the Department of Veterans Affairs does not allow for a gradual reduction in benefits to accompany earnings, but does allow a person to receive partial benefits if they are only partially disabled and still able to work. In addition, gradual benefit reductions and partial benefits to

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[32] See for example: Government Accountability Office, *Social Security Disability Insurance, Multiple Factors Affect Return to Work,* (GAO/T-HEHS-99-82, Mar. 11, 1999); National Council on Disability, The Social Security Administration's Efforts to Promote Employment for People With Disabilities: New Solutions for Old Problems, (Washington: GPO 2005); Social Security Advisory Board, *A Disability System for the 21st Century,* (Washington: GPO 2006); Monroe Berkowitz and Bonnie O'Day, "Disability Benefit Programs: Can We Improve the Return-to-Work Record," in Gary L. Albrecht, Katherine D. Seelman, and Michael Bury (eds.), *Handbook of Disability Studies,* (Thousand Oaks, CA: Sage Publications 2001).

[33] Lisa A. Shur, "Barriers or Opportunities? The Causes of Contingent and Part-Time Work Among People with Disabilities," *Industrial Relations,* vol. 42, no. 4, (2003), pp. 589-622.

[34] Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2006,* (Washington: GPO 2007), Table 56.

accompany partial returns to work are often found in disability systems run by private insurance companies and workers' compensation providers.

In 1980, Congress mandated that the SSA test a gradual benefit offset system, similar to the one used by the SSI program, through the agency's demonstration process. The SSA did not conduct such a demonstration, and Congress again mandated that the agency test changes to the "cash cliff" through a graduated benefit offset demonstration in the Ticket to Work and Work Incentives Improvement Act of 1999. In mandating this demonstration in 1999, Congress also required the SSA to test if the provision of graduated benefits to accompany work induced persons to apply for SSDI benefits or discouraged SSDI beneficiaries from leaving the benefit rolls.

The SSA is currently in the process of conducting a small demonstration in the states of Connecticut, Utah, Vermont, and Wisconsin that is designed to assess the feasability and impact of reducing an SSDI beneficiary's monthly benefit by $1 for every $2 in earnings above the SGA level. The SSA is also in the process of designing a national demonstration project that will test a similar graduated offset system in conjunction with other employment supports.

The SSA has not yet issued public findings or reports on either of these demonstration projects.

Provisions Affecting Some Public Employees

The Social Security Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) both serve to reduce the Social Security benefits of those who also receive a pension based on federal, state or local government work not covered by Social Security. The WEP reduces the benefit for which one qualifies as a worker (based on his or her own Social Security-covered earnings) while the GPO reduces the benefit for which one qualifies as a spouse or widower (based on his or her spouse's Social Security-covered earnings). Although these provisions potentially affect the same pool of individuals, how they work and the rationales behind them are completely different.

The Windfall Elimination Provision

Social Security monthly benefits are computed by applying a formula to the average of a person's earnings from work subject to the Social Security tax. The formula applies three progressive factors — 90%, 32%, and 15% — to three different levels, or brackets, of average monthly covered earnings (these earnings brackets change each year to reflect changes in national wage levels). The formula is designed so that workers with low average career earnings receive a PIA that is a larger proportion of their earnings than do workers with high average career earnings. For persons who reach age 62, die or become disabled in 2008, the PIA is determined thus:

Factor	Average Career Monthly Earnings
90%	first $711, plus
32%	$711 through $4,288, plus
15%	over $4,288

A different Social Security benefit formula, referred to as the Windfall Elimination Provision (WEP), applies to many workers who also are entitled to a pension from work not covered by Social Security (e.g., work under the Federal Civil Service Retirement System). Under these rules, the 90% factor in the first band of the formula is replaced by a factor of 40%. The effect is to lower the proportion of earnings in the first bracket that is converted to benefits. The provision includes a guarantee (designed to help protect workers with low pensions) that the reduction in benefits caused by the WEP can never exceed more than one-half of the pension based on non-covered work. The provision also exempts workers who have 30 or more years of "substantial" employment covered under Social Security. Substantial employment in 2008 means having at least $18,975 in covered earnings per year. Also, lesser reductions apply to workers with 21 through 29 years of substantial covered employment. The maximum monthly benefit reduction in 2008 is $355.50 and a worker's Social Security benefit can never be completely eliminated due to the WEP.

Rationale. The WEP was enacted in 1983 as part of major amendments designed to shore up the financing of the Social Security program. Its purpose was to remove an unintended advantage that the regular Social Security benefit formula provided to persons who also had pensions from non-Social Security-covered employment. The regular formula was intended to help workers who spent their work careers in low paying jobs, by providing them with a benefit that replaces a higher proportion of their earnings than the benefit that is provided for workers with high earnings. However, before 1983, workers who were employed for only a portion of their careers in jobs covered by Social Security — even highly paid ones — also received the advantage of the "weighted" formula, because their few years of covered earnings were averaged over their entire working careers thereby making them appear as 'low' earners. These individuals would then benefit from the progressive formula even though they may have high earnings under non-covered employment.

Impact of the Windfall Elimination Provision. According to the Social Security Administration (SSA), as of December 2007, about 1 million beneficiaries, or 2% of the entire beneficiary population, had their benefits reduced by the current-law WEP.[35] Of these, approximately 65% were men.

Some proponents of repealing the WEP believe the provision is unfair because many affected by it are unprepared for a smaller Social Security benefit than they had assumed in making retirement plans. There are likely some individuals for whom this is the case. However, the WEP was enacted in 1983 and so has been in effect for nearly 25 years. Thus, some feel that this provision should no longer come as a surprise to retirees. The Social Security Administration, on its website and also in the Social Security Statement mailed automatically each year to workers and former workers aged 25 and older, advises individuals of the potential effect of pensions from non-covered employment on Social Security benefits. The Social Security Protection Act, P.L. 108-203, passed in 2004, included a provision that seeks to ensure that SSA and government employers notify potentially affected individuals about the effect non-covered employment and pension receipt on Social Security benefits. Thus, for recent entrants to non-covered public service, information on these provisions is now provided before employment begins.

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[35] Social Security Administration, "Table B - Number of Beneficiaries in Current Payment Status With Benefits Affected by Windfall Elimination Provision (WEP), by State and Type of Benefit, December 2007," Office of Research, Evaluation and Statistics, January 7, 2008.

Others criticize how the provision works. They say the arbitrary 40% factor in the windfall elimination formula is an inaccurate way to determine the actual windfall when applied to individual cases. For example, they say it over-penalizes lower paid workers with short careers, or with full careers that are fairly evenly split between covered and non-covered work. They also say it is regressive, because the reduction is confined to the first bracket of the benefit formula and causes a relatively larger reduction in benefits for low-paid workers. Opponents of repealing the WEP say that it is a reasonable means to prevent payment of overgenerous and unintended benefits to certain workers who otherwise would profit from the mechanics of the Social Security benefit formula. Furthermore, they maintain that the provision rarely causes hardship because by and large the people affected also receive pensions, unlike many private sector employees. Based on SSA estimates, in 2000, 3.5% of recipients affected by the WEP had incomes below the poverty line. For comparison purposes, at that time 8.5% of all Social Security beneficiaries age 65 and older had incomes below the poverty line.[36]

The Government Pension Offset

Generally, Social Security benefits are payable to the spouses of retired, disabled, or deceased workers covered by Social Security. Spousal benefits are intended for individuals who are financially dependent on spouses who work in Social Security-covered positions.[37] Individuals who qualify for both a Social Security retirement or disability benefit (i.e., a worker benefit) based on their own work history *and* a Social Security spousal benefit based on their spouse's work history are dually entitled. The Social Security dual-entitlement rule requires that 100% of a Social Security retirement or disability benefit earned as a worker be subtracted from any Social Security spousal benefit one is eligible to receive, and only the difference, if any, is paid as a spousal benefit.

Individuals who qualify for both a government pension based on non-Social Security-covered employment and a Social Security spousal benefit are subject to the Government Pension Offset (GPO) provision. The GPO reduces Social Security spouse benefits for individuals who have a federal, state or local government pension based on work that was not covered by Social Security. The GPO reduction in Social Security spousal benefits is equal to two-thirds of the government pension. In June 2007, approximately 464,500 beneficiaries, or 1% of all Social Security beneficiaries, had spousal benefits reduced by the GPO (not counting those who were eligible for spousal benefits but were deterred from filing for them because of the GPO).[38]

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[36] Poverty rates were calculated by David Weaver of the Social Security Administration's Office of Retirement Policy using the March 2001 Current Population Survey (CPS). Poverty status is taken directly from the CPS and is thus subject to errors in the reporting of income. The sample for the WEP poverty rate only includes persons for whom SSA administrative records could be matched. The sample size for the WEP poverty rate is relatively small (230 cases). The poverty rates for the Social Security beneficiary population age 65 and over and for the general population do not require matched data and are based completely on CPS data.

[37] For the purposes of the GPO, all references to "spousal" or "spouse" benefits refer both to the benefit one is entitled to while the spouse is living as well as the survivor benefit that one is entitled to once the spouse has died.

[38] Social Security Administration, Office of Research, Evaluation and Statistics, Table A, "Number of Beneficiaries Affected by the Government Pension Offset (GPO), by State, Type of Benefit, and Offset Status," June 2007.

Rationale. The intent of the dual-entitlement rule and the GPO is the same — to reduce the Social Security spousal benefits of individuals who are not financially dependent on their spouses because they receive their own benefits. The GPO attempts to replicate Social Security's dual-entitlement rule by removing an advantage these workers would otherwise receive. Before the GPO was enacted in 1977, workers who received pensions from government jobs not covered by Social Security could also receive full Social Security spousal benefits even though they were not financially dependent on their spouses. Because the Social Security Administration (SSA) does not have complete earnings records of those who work in non-Social Security-covered positions, SSA is forced to rely on the government pension as a measure of those uncovered earnings. Essentially, it is assumed that two-thirds of the government pension is basically equivalent to the Social Security retirement or disability benefit the spouse would have earned as a worker if his or her job had been covered by Social Security.

Impact of the Government Pension Offset. In 2005, approximately 6.8 million state and local workers (29% of all state and local workers) were in non-Social Security-covered positions and are potentially subject to the GPO. At the same time, approximately 16.9 million state and local workers (71%) were in covered employment and are subject to the dual-entitlement rule upon retirement.[39]

As of June 2007, approximately 464,500 Social Security beneficiaries, or less than 1% of all beneficiaries, had spousal benefits reduced by the GPO (not counting those who were eligible for spousal benefits but were deterred from filing for them because of the GPO). Because most workers are in Social Security-covered employment, application of the dual-entitlement rule is more common among two-earner couples than the application of the GPO. In 2005, approximately 6.3 million out of about 31 million Social Security retired worker beneficiaries, or about 20%, were dually-entitled (not including those whose spousal benefit was completely offset by their retired worker benefit).[40]

Critics of the GPO suggest the provision should be repealed because it is not well understood and that many affected by it are unprepared for a smaller Social Security benefit than they had assumed in making retirement plans. As with the WEP, there are likely individuals for whom this is the case. However, the GPO was enacted in 1977, was phased in over six years and now has been in the law for over 30 years; therefore, some say there has been ample time for people to adjust their retirement plans. As with the WEP, P.L. 108-203, passed in 2004, included a provision that seeks to ensure that SSA and government employers notify potentially affected individuals about the effect of the GPO. Thus, for recent and future entrants to non-covered public service, information on these provisions is now provided before employment begins.

Proponents of repeal argue that the provision especially hurts low-income workers, and is sufficient in some circumstances to throw these workers into poverty. The same concern applies to those affected by the dual-entitlement rule. SSA estimates that, in 2001, the poverty rate among those affected by the GPO was approximately 6.0%, whereas the poverty rate for those affected by

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[39] Social Security Administration, *Estimated Social Security Coverage of Workers with State and Local Government Employment*, 2005.

[40] Social Security Administration, Annual Statistical Supplement 2007, Tables 5.B4 and 5.G2.

the dual-entitlement rule was approximately 8.9%.[41] The poverty rate for all Social Security beneficiaries age 65 and older was about 8.5%.

Opponents of repealing the GPO maintain that it is an effective method to curtail what otherwise would be an unfair advantage for non-Social Security-covered government workers given the lack of actual earnings information on non-covered state and local employees. Even so, many agree that reducing everyone's spousal benefit by two-thirds of their government pension is an imprecise way to estimate what the spousal benefit would be had the government job been covered by Social Security. This procedure has uneven results and some believe it is especially disadvantageous for surviving spouses and low-paid workers. They maintain that, ideally, the way to compute the offset to replicate the dual-entitlement rule would be to apply the Social Security benefit formula to an individual's total earnings, including the non-covered portion, and reduce the resulting Social Security benefit by the proportion of total earnings attributable to non-covered earnings.

Last year, CRS completed an analysis of the benefit reductions under the GPO relative to those under the dual-entitlement rule to determine how well two-thirds of the government pension amounts serve as a proxy for the Social Security worker benefits that individuals would receive if they had worked in covered employment. If two-thirds of the government pension were in fact a good proxy for Social Security retirement benefits, the overall increase or decrease in the offset amount under the dual-entitlement rule based on the Social Security benefit formula would be zero. However, the estimates show that there is great variation in outcomes. Some individuals, including lower earners, would have a much larger offset amount under the dual-entitlement rule, while others, including higher earners, would have a somewhat smaller offset amount. This finding suggests that the common criticism that the GPO penalizes lower earners more than higher earners may not be accurate.

Those opposed to repeal of the GPO argue that it would be unfair to other workers, including the majority of government workers whose jobs are covered by Social Security and therefore are subject to Social Security's dual-entitlement rule. Repeal of the GPO alone would cost approximately $42 billion over 10 years.[42] Such a move could lead to demands of repeal of the dual-entitlement rule to ensure parallel treatment for those working in Social Security-covered employment. By comparison, eliminating the dual-entitlement rule would cost approximately $500 billion over a five-year period.[43]

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[41] Poverty rates were calculated by David Weaver of the Social Security Administration's Office of Retirement Policy using the March 2001 Current Population Survey (CPS). Poverty status is taken directly from the CPS and is thus subject to errors in the reporting of income. The sample for the GPO and dually-entitled poverty rates only includes persons for whom SSA administrative records could be matched. The sample size for the GPO poverty rate is relatively small (130 cases). The poverty rates for the Social Security beneficiary population age 65 and over and for the general population do not require matched data and are based completely on CPS data.

[42] Social Security Administration, Memorandum from Bert M. Kestenbaum and Tim Zayatz of the Office of the Chief Actuary, "Estimated Additional OASDI Benefit Payments Resulting From Several Proposals to Modify the Windfall Elimination Provision and the Government Pension Offset – INFORMATION," October 26, 2007. All 10-year cost estimates for proposed changes to the WEP and/or the GPO are taken from this source.

[43] Social Security Administration, Memorandum from Bert Kestenbaum of the Office of the Chief Actuary,

(continued...)

Proposals to Repeal or Alter the WEP or GPO

Eight bills have been introduced in the 110th Congress that would repeal or alter the WEP or GPO. Of these, two bills (H.R. 82 and S. 206) would eliminate both the WEP and GPO. H.R. 82 was introduced by Representative Howard Berman and S. 206, the companion bill, was introduced by Senator Dianne Feinstein. Under these bills, no Social Security benefits paid after December 2007 would be reduced by the WEP. The Social Security Administration (SSA) estimates that full repeal of the WEP would increase benefit payments by $40.1 billion between 2008 and 2017, or 0.05% of taxable payroll over 75 years (causing an increase in Social Security's long-range deficit of about 2.5%).[44] These bills would also eliminate the GPO for Social Security benefits payable after December 2007. According to estimates provided by SSA, elimination of the GPO would increase benefit payments by $41.7 billion between 2008 and 2017, and in the long run would cost 0.06% of taxable payroll, which would increase Social Security's long-range deficit by about 3%. The combined effect of eliminating both the WEP and the GPO would cost approximately $80 billion over a 10-year period, cost 0.11% of taxable payroll over 75 years and increase Social Security's long-range deficit by about 5.6%. These estimates and those that follow for each bill are based on the intermediate assumptions of the 2007 Social Security Trustees Report and assume each bill is effective for benefits after December 31, 2007.

WEP Only. In the 110th Congress, three bills have been introduced to repeal or alter only the WEP. H.R. 726, introduced by Representative Barney Frank, would eliminate the WEP for those whose combined monthly income from Social Security and the non-covered pension was less than $2,500 in 2007 and indexed annually to the national average wage. The bill would gradually phase in the provision for those who have a combined monthly income between $2,500 and $3,335. For those with combined monthly incomes exceeding $3,335, the WEP would remain fully applicable. SSA estimates that this bill would increase benefit payments by $19 billion between 2008 and 2017, or 0.02% of taxable payroll over 75 years (causing an increase in Social Security's long-range deficit of about 1%).

Representative Kevin Brady and Senator Kay Bailey Hutchison introduced H.R. 2772 and S. 1674, the Public Servant Retirement Protection Act of 2007 (PSRPA). These identical bills would alter the current-law WEP formula for those who first enter non-Social Security-covered employment one year after the bill's enactment. The PSRPA would maintain the current-law WEP for workers who have worked in non-covered employment prior to this date except in cases where the PSRPA WEP provides them with a higher benefit. The bills would replace the current-law WEP formula with a new WEP formula that provides a benefit in rough proportion to the percentage of earnings worked in Social Security-covered employment. SSA estimates that this bill would increase benefit payments by $4.6 billion between 2008 and 2017, or 0.01% of taxable payroll over 75 years (causing an increase in Social Security's long-range deficit of about 0.5%).

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[43] (...continued)
"Estimated Additional OASDI Benefit Payments from Proposals to Eliminate or Change the Dual-Entitlement Offset Provision – INFORMATION," April 17, 2003.

[44] Social Security Administration, Memorandum from Eugene Yang, Actuary and Chris Chaplain, Actuary, to Stephen C. Goss, Chief Actuary, "Estimated Long-Range OASDI Financial Effects From Several Proposals to Modify the Windfall Elimination Provision and the Government Pension Offset – INFORMATION," October 26, 2007. All long-range cost estimates for proposed changes to the WEP and/or the GPO are taken from this source.

GPO Only. In the 110th Congress, three bills have been introduced that would alter only the GPO. H.R. 1090, introduced by Representative Ron Lewis, would, among other things, reduce the offset to one-third of the government pension. SSA estimates that reducing the offset from two-thirds to one-third of the government pension would cost approximately $11 billion between 2008 and 2017, or 0.02% of taxable payroll over 75 years (causing an increase in Social Security's long-range deficit of about 1%).

Representative Albert Wynn and Senator Barbara Mikulski introduced H.R. 2988 and S.1254. These bills would limit the GPO reduction to the lesser of current law or two-thirds of the amount by which the combined non-covered pension and Social Security benefit exceeds $1,200, indexed for inflation after 2008. These bills would increase benefit payments by $6.1 billion between 2008 and 2017 and would have a negligible effect on the long-range actuarial balance.

As is evident from today's testimony, there are numerous Social Security beneficiaries that face circumstances that may warrant additional intervention. It is up to Congress to determine whether to provide additional assistance to these individuals, what level of assistance to provide, what policies and programs would be best suited to achieve these goals, and how to balance the increase in Social Security benefits against the costs given the Social Security system's long-term financing problem and the federal budget deficit. We at CRS remain at your disposal to assist you in addressing these policy issues.

This concludes my testimony. My colleagues and I would be happy to answer any questions that members of the subcommittee might have.