

Fact Sheet on the GPO Last-Day Exemption Loophole

On April 2, 2003, the House of Representatives passed H.R. 743, the Social Security Protection Act of 2003 (a Senate-amended version of the bill will be considered this week). A provision of this bill, included in Section 418, addresses a loophole in the Government Pension Offset (GPO). Questions have been raised regarding the reason behind and effect of this provision. This fact sheet attempts to clarify the issue.

What is the GPO?

The GPO reduces Social Security benefits that a person receives *as a spouse* if he or she also has a government pension and did not pay into Social Security. The intent of GPO is to equalize the treatment of workers covered by only by Social Security (Social Security recipients are subject to an offset of spousal benefits under the program's "dual entitlement" rule) and those with government pensions.

What is the last-day exemption?

Current Social Security law provides an exemption from the GPO if an individual's last day of state/local employment is in a position that is covered by both Social Security and the state/local government's pension system. **This has allowed individuals to claim Social Security benefits by working as little as one day in a job where they paid into the Social Security system.** The intent of the last-day exemption is unclear.

How has the last-day exemption been used?

In Texas, teachers typically worked a single day in a non-teaching position covered by Social Security, such as a clerical or janitorial position. Based on an hourly wage of about \$6, these individuals in Texas typically **paid a total of \$3 in Social Security taxes and will receive \$5,200 a year in Social Security benefits.** In 2002, one fourth (3,521) of all Texas public education retirees took advantage of this exemption, the use of which has been highly publicized.

For example, GAO found this information on a financial planning website:

"You may be eligible to receive both teacher retirement and social security benefits even if you have never worked a day under social security. As little as one day of work in a dual system (Teacher Retirement System *and* Social Security System) will give you half of your spouse's social security benefits when you reach retirement age. When you reach retirement, you will receive 1/2 of your spouse's benefit and/or the widow(er) benefit for the rest of your life. This could mean \$150,000 or more in benefits throughout your lifetime. Not too bad for as little as one day of work under a dual system!"

How much will this loophole cost the Social Security system?

GAO estimates that the individuals who have already used the GPO exception will get \$450 million in Social Security benefits. The cost will be much higher as word of the loophole spreads (in addition to Texas and Georgia, 26 other states have the potential to use the loophole).

Why does the loophole need to be fixed?

The GPO loophole is unfair to the millions of retirees who have paid into the Social Security system during their careers and have their spousal benefits reduced. Why should government workers with government pensions be allowed to pay a tiny amount into Social Security and receive full benefits while other hard-working Americans comply with the law?