Statement of Charles P. Blahous[1]

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Thank you, Chairman Ferguson, Ranking Member Larson, and all the members of the subcommittee, for this opportunity to discuss potential reforms to Social Security's Windfall Elimination Provision (WEP) and Government Pension Offset (GPO).

Why the WEP and GPO Exist

Social Security's WEP and GPO adjust the benefits received by individuals who have pensions based on employment earnings not covered or taxed by Social Security. Typical examples involve certain state and local government pension systems whose workers don't pay into Social Security. Before describing how the WEP and GPO work and why they foster concerns, let me first explain the features of Social Security that render such mechanisms necessary.

An important aspect of Social Security that gives rise to both the WEP and the GPO is that Social Security does not consider employment earnings outside of the Social Security system when computing benefits. Your Social Security benefits, as well as those of your survivors or a nonworking spouse, are a mathematical function of the earnings on which you have paid Social Security taxes.

Another relevant feature of Social Security is that it provides ancillary benefits such as survivor benefits and nonworking spouse benefits and observes "dual entitlement" rules in determining the amounts of these benefits. Imagine, for example, a couple consisting of spouses A and B, who spend their entire careers contributing to Social Security and who have each accrued Social Security old-age benefits. For the sake of illustration, imagine that Spouse A had the higher earnings, and thus made larger contributions and accrued larger benefits than Spouse B. Simplifying for the sake of illustration, if Spouse A were to pass away first, Spouse B wouldn't be left only with the benefits he or she had individually earned. Instead, Spouse B would thereafter receive the higher of the two benefits, in this case Spouse A's old-age benefit amount, paid as a survivor benefit exceeding what Spouse B would have received as a single earner.

Social Security also provides so-called "nonworking (NW) spouse" benefits, which are intended to recognize the value of work performed inside the home without employment earnings, as well as to address the income security needs of one-earner married couples. The NW spouse's benefit is generally 50% of the primary worker's benefit. If a spouse has earned their own worker benefit but it is exceeded by the amount of a NW spouse benefit for which they are also eligible, they are considered "dually entitled" and receive the higher (NW spouse) benefit amount.

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[1] Charles P. Blahous holds the J. Fish and Lillian F. Smith Chair at the Mercatus Center at George Mason University, where he is also Senior Research Strategist. He is also a Visiting Fellow with the Hoover Institution at Stanford University.

While these features operate straightforwardly for married couples who only have earnings covered by Social Security, obvious problems with their designs arise when at least one spouse of a couple participates in a state or local retirement plan where they accrue benefits without contributing to Social Security. For example, without the GPO, Social Security would misinterpret a state/local employee married to a Social Security-covered worker as a "nonworking spouse" and pay this couple an unintended bonus equal to 50% of the Social Security-covered worker's benefit. Similar unintended windfalls would arise in survivor benefits. Social Security's survivor benefit is intended to protect a survivor if they inhabit a household that suffers the passing away of a higher-earning worker. Without the GPO, however, Social Security would provide this same additional benefit to a higher-earning surviving spouse who already had a more generous state/local pension plan, purely on the basis of Social Security's having only considered the smaller or nonexistent benefit that worker had accrued from Social Security itself.

The glitches and inequities that would arise in Social Security in the absence of the WEP/GPO are not victimless phenomena. They would result in Social Security participants being treated very unequally as a function of whether a spouse participates in an non-covered state/local plan. Because Social Security is a self-financing system, in the absence of a WEP or GPO some participants would forfeit substantial income so that others could receive unintended windfalls. Many of these transfers would be regressive, benefiting high-income seniors at the expense of lower-income participants. While it is reasonable to debate the optimal structure of the mechanisms, Social Security in its current design clearly needs some such mechanisms to ensure parity between participants who simply happen to have different employers.

Other important aspects of current Social Security law that necessitate a WEP are that: 1) benefits are a function of one's lifetime indexed taxable earnings, and 2) the Social Security benefit formula is progressive by design. Specifically, Social Security old-age benefits are based on one's highest 35 earnings years, averaged over those 35 years.[2] Social Security boils down one's entire earnings history into a single number and then applies a progressive benefit formula to that number. Thus, Social Security's benefit formula does not distinguish between, for example, someone who earns $40,000 a year over 30 years of Social Security-covered employment, vs. $120,000 a year over 10 years of Social Security-covered employment. This is true regardless of whether the $120,000-annual-income worker has also spent decades in a high-paying job uncovered by Social Security. Because the Social Security benefit formula does not consider this high-income worker's uncovered earnings, it mistakes that person for a low-income worker and, were it not for the WEP, would provide them with the much higher returns the progressive benefit formula intends to deliver to such low-income workers. Something like the WEP is necessary to prevent unfair treatment and unintended windfalls that would otherwise drain financial resources from the program's trust funds.

It is notable that if the Social Security benefit formula operated more like that of a private pension plan – specifically, accruing benefits with each individual year of earnings rather than as a function of lifetime average earnings – these aspects of Social Security necessitating the WEP would not

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[2] These are "indexed" earnings, meaning that earnings received in past years are translated into their current equivalents by indexing for subsequent growth in the national Average Wage Index (AWI). Accordingly, one's highest earnings years are not deemed to be one's highest in current-dollar terms, but the highest after indexing for AWI growth. Throughout this testimony, I will simplify by glossing over the details of indexing.

exist. In such a benefit formulation, individuals would receive more generous returns from Social Security if their annual earnings were less, but not simply by virtue of having a smaller number of taxable earnings years visible to the system. Several retirement experts, including myself, have called for such Social Security benefit formula reform to improve system finances, target benefits more progressively, and render the WEP unnecessary.[3] However, absent such fundamental Social Security reform, the need for a mechanism along the lines of the WEP will remain.

Operation and Problems of the WEP/GPO

The GPO reduces the Social Security spousal or survivor benefits of those with non-covered pensions, by an amount equal to two-thirds of their non-covered pension benefit. To see how this works in practice, consider a simplified example of a married couple where Spouse A has earned a $2,000 monthly retirement benefit based on their own earnings, whereas Spouse B has earned a monthly benefit of $1,200. The couple's combined benefits will differ as a function of whether Spouse B's retirement benefits were accrued inside or outside of Social Security. Consider first the case in which both Spouse A and B worked exclusively in Social Security-covered employment.

	Social Security primary worker benefit	Social Security NW spouse benefit	Non-covered pension benefit	Total benefits
Spouse A	$2,000	$0	$0	$2,000
Spouse B	$1,200	$0	$0	$1,200
Total	$3,200	$0	$0	$3,200

In the above illustration, neither spouse would qualify for a NW spouse benefit, because each had accrued an old-age benefit via their own earnings that exceeds 50% of the other's benefit. Now imagine instead that Spouse B's $1,200 retirement benefit was accrued in a non-covered pension, outside of Social Security.

	Social Security primary worker benefit	Social Security NW spouse benefit (as reduced by GPO)	Non-covered pension benefit	Total benefits
Spouse A	$2,000	$0	$0	$2,000
Spouse B	$0	$200	$1,200	$1,400
Total	$2,000	$200	$1,200	$3,400

In this example, Social Security finds that Spouse B is entitled to a NW spouse benefit because Spouse B has no Social Security-covered earnings and is married to Spouse A. Without the GPO,

[3] Charles Blahous, "An Analytical Framework for Strengthening Social Security," Mercatus Research Paper, September, 2020, https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3728972_code2715209.pdf?abstractid=3728972&mirid=1&type=2
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that NW spouse benefit would be 50% of Spouse A's benefit, or $1,000. However, the GPO reduces the NW spouse benefit by 2/3 the amount of Spouse B's non-covered pension ($2/3 x $1200 = $800, and $1000 - $800 = $200). Between Spouse A's $2,000 Social Security benefit, Spouse B's $1,200 non-covered pension benefit and Spouse B's $200 Social Security NW spouse benefit, the couple receives $3,400 in total benefits, somewhat more than they would have if both spouses had participated exclusively in Social Security.

These two illustrations depict a situation that slightly favors the couple with a non-covered pension. However, were it not for the GPO, the relative treatment would be much further skewed in favor of the couple with a non-covered pension, as the following table shows:

	Social Security primary worker benefit	Social Security NW spouse benefit (no GPO)	Non-covered pension benefit	Total benefits
Spouse A	$2,000	$0	$0	$2,000
Spouse B	$0	$1,000	$1,200	$2,200
Total	$2,000	$1,000	$1,200	$4,200

In the absence of a GPO, Social Security would treat Spouse B as the equivalent of a NW spouse with no employment earnings. In general, in the absence of a GPO, couples with pension benefits accrued outside of Social Security would be treated far more generously (in this case, over 30% more generously) than if they had worked entirely under Social Security coverage.

This same earnings pattern can be used to illustrated the interaction of Social Security's survivor benefit with the GPO. First, consider a situation in which both Spouse A and Spouse B worked exclusively in Social Security-covered employment, after which Spouse A passed away and was survived by Spouse B.

	Social Security primary worker benefit while both are alive	Non-covered pension benefit while both are alive	Social Security survivor benefit while Spouse B survives Spouse A	Total benefits while Spouse B survives Spouse A
Spouse A	$2,000	$0	$0	$0
Spouse B	$1,200	$0	$2,000	$2,000
Total	$3,200	$0	$2,000	$2,000

If both Spouses A and B were covered only by Social Security, then after Spouse A passes, their $2,000 benefit would become Spouse B's benefit as a surviving spouse, replacing Spouse B's own accrued benefit of $1,200. Now imagine instead that Spouse B's retirement benefits were accrued in a non-covered pension outside of Social Security:

	Social Security primary worker benefit while both are alive	Non-covered pension benefit while both are alive	Social Security survivor benefit while Spouse B survives Spouse A (with GPO)	Total benefits while Spouse B survives Spouse A
Spouse A	$2,000	$0	$0	$0

Spouse B	$0	$1,200	$1,200	$2,400
Total	$2,000	$1,200	$1,200	$2,400

In the above scenario, the Social Security benefit that surviving Spouse B would receive in the absence of a GPO would be $2,000. The GPO reduces this by 2/3 of Spouse B's non-covered pension benefit (2/3 x $1,200 = $800; $2,000 -$800 = $1,200). The combination of Spouse B's non-covered pension benefit and survivor benefit still results in more favorable treatment of Spouse B than would be the case if Spouse B had participated in Social Security. If the GPO did not exist, the situation would be as follows:

	Social Security primary worker benefit while both are alive	Non-covered pension benefit while both are alive	Social Security survivor benefit while Spouse B survives Spouse A (no GPO)	Total benefits while Spouse B survives Spouse A
Spouse A	$2,000	$0	$0	$0
Spouse B	$0	$1,200	$2,000	$3,200
Total	$2,000	$1,200	$2,000	$3,200

Without the GPO, Spouse B's total benefit would be 60% higher if their pension benefit was earned outside of Social Security than if it were earned in Social Security. In this example, the GPO reduces the inequality from 60% to 20%.

The WEP addresses situations where a worker splits their career between Social Security coverage and non-covered employment. Such an earnings pattern reduces the amount of a worker's total earnings covered by Social Security, thereby causing the Social Security benefit formula to mistake them for having less earnings than they actually do. Imagine for example a higher-income worker who earns $100,00 a year on average over 35 years, all of which are covered by Social Security. Imagine as well that the worker turns 62 in 2024 and plans to retire at the full retirement age. Unlike the previous examples, the following tables will refer to annual rather than monthly benefits, to help explain how benefits relate to annual earnings.

	Average Social Security covered earnings	Annual Social Security Old-Age benefit at FRA
Worker C	$100,000	$37,610

Now imagine that the worker earns that same $100,000 on average over their career, but that 15 of these years were under Social Security while 20 were in a non-covered retirement plan. To keep things simple, let's also assume the worker averaged exactly $100,000 a year during their 15 years of Social Security coverage, as well as during their 20 years of non-covered employment. Because Social Security averages only covered earnings over 35 years and doesn't see the earnings in non-covered employment, it would regard this worker as having average covered earnings of $42,857.

First let's consider what would happen in the absence of a WEP. Let's assume for the sake of simplicity that the uncovered pension is equally generous to Social Security, so that in 20 years of earnings, it provides a benefit equal to 20/35 of what Social Security would provide in 35 years of

earnings ($37,610 x 20/35 = $21,491). To provide equal treatment between workers in these situations, Social Security would need to pay a benefit equal to the remaining $16,119, so that the worker's total benefit remains unchanged at $37,610. However, under current law, Social Security's benefit formula only sees 15/35 of the worker's career earnings, and thus assigns that worker an "average earnings" of $42,857. Whereas Social Security would normally provide a 37% replacement rate to a $100,000 worker, its progressive benefit formula provides a more generous 51% replacement rate to a $42,857 a year worker. Thus, because the formula wrongly sees this $100,000 worker as a $42,857 worker, it would give them a far more generous return in the absence of the WEP. In this illustration, the worker would receive an annual windfall of $5,766, or more than a 15% increase over what their benefit would be if earned entirely within Social Security.

	Average Social Security covered earnings ($100,000 x 15/35)	Annual Social Security benefit w/o WEP	Uncovered pension benefit if accrual rate equals Social Security's ($37,610 x 20/35)	Total annual benefit in absence of WEP
Worker C	$42,857	$21,885	$21,491	$43,376

The WEP adjusts the numbers in the Social Security benefit formula in recognition of the fact that this worker only worked for 15 years under Social Security and has a non-covered pension. This results in the following benefits:

	Average Social Security covered earnings ($100,000 x 15/35)	Annual Social Security benefit after WEP	Uncovered pension benefit if accrual rate equals Social Security's ($37,610 x 20/35)	Total annual benefit after applying WEP
Worker C	$42,857	$14,841	$21,491	$36,332

It is worth noting that the WEP overadjusts in the case of hypothetical worker C. A perfectly proportional Social Security benefit would be $16,119, but the WEP changes worker C's benefit to $14,841, or $1,278 less, so their total benefits are less than they would be if all earned under Social Security. We can see that while something like the WEP is necessary, its current form does not operate accurately in every case, but disadvantages some workers in state/local retirement plans.

Several studies have examined how the current WEP and GPO compare to an ideal formulation that would achieve parity between workers with covered and non-covered earnings. Economists Jeffrey Brown and Scott Weisbenner found that the current WEP disproportionately reduces the Social Security benefits of low-income earners and frequently negates the intended progressivity of the

Social Security benefit formula.[4] Economist Steve Robinson found that the current GPO, by contrast, favors lower-income workers.[5]

Robinson also neatly summarized the general situation, "The GPO and WEP were enacted to address the legitimate need to prevent workers with non-covered pensions from receiving more generous benefits than everyone else who receives Social Security. Unfortunately, neither provision consistently achieves that goal." While some such mechanisms are needed to ensure comparable treatment of different workers, their current forms may either overadjust or underadjust as a function of each worker's unique earnings profile.

The current WEP and GPO exist in the forms that they do, not because they represent ideal policy, but because of the data limitations of an earlier time. Such situations also arise elsewhere in Social Security. It is for similar reasons that Social Security uses the CPI-W to calculate annual cost-of-living adjustments (COLAs) -- not because it is the most accurate way to do so (CPI-W captures price inflation for only 29% of the U.S. population), but because CPI-W happened to be the only inflation measure available when Social Security COLAs were established in 1972.[6]

Similarly, when the WEP and GPO were legislated, Social Security lacked the information needed to accurately reflect the shares of workers' lifetime earnings received in covered and non-covered employment. The WEP was enacted in 1983 in response to the Greenspan Commission's recommendation that the benefit computation method be revised to eliminate "windfall" benefits for "individuals who spend most of their working careers in non-covered employment from which they derive pension rights, but who also become eligible for OASDI benefits."[7] Specifically, the Commission noted:

> *"There are various methods of eliminating the "windfall" portion of benefits (while still providing equitable, proportional benefits). One method would be to modify the benefit formula for determining the Primary Insurance Amount by making the second percentage factor (32%) be applicable to the lowest band of Average Indexed Monthly Earnings (instead of the 90% factor), but the reduction in benefits would not be larger than the pension from non-covered employment. Another method would be to apply the present benefit formula to an earnings record which combines both covered earnings and also non-covered earnings in the future. . . "*

At the time, the Social Security Administration lacked the necessary information to implement the second method, so a variation on the first method was adopted in the Social Security Amendments of 1983. SSA generally only had access to non-covered earnings records beginning in 1978, and

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[4] Jeffrey Brown and Scott Weisbenner, "The Distributional Effects of the Social Security Windfall Elimination Provision," NBER Working Paper 18342, http://www.nber.org/papers/w18342.

[5] Steve Robinson, "The Social Security Unfairness Act?," https://www.concordcoalition.org/issue-brief/the-social-security-un-fairness-act/

[6] U.S. Bureau of Labor Statistics, "Consumer Price Index: History," https://www.bls.gov/opub/hom/cpi/history.htm.

[7] Report of the Greenspan Commission on Social Security Reform, Appendix C, Chapter 2, Findings and Recommendations, https://www.ssa.gov/history/reports/gspan5.html.

"does not consider the noncovered-earnings data from 1978 to 1981 reliable."[8] As of 2019, however, Social Security had sufficient information "in theory" to track non-covered earnings after age 20 for all future claimants, and the quality of these records continues to improve with time.

Another problem surrounding the current WEP and GPO is that they are poorly understood by participants, which can result in inadequate retirement preparedness and thus income insecurity. Descriptions in government publications may also have the effect of fostering unwarranted resentment. For example, the Social Security Administration's online WEP explainer begins with the statement, "Your Social Security retirement or disability benefits might be reduced," and provides a column and a half of details of how the reduction works, before proceeding to the explanation that the purpose of the adjustment is to address unintended advantages that would otherwise favor those with non-covered pensions.[9] Public understanding might be improved if the information sheet explained up front that the purpose is to achieve parity between participants with identical earnings rather than to reduce benefits outright. State and local governments are also required to disclose that the WEP and GPO will reduce their employees' benefits, but the standard form used for that purpose does little to explain the reasons for the adjustments.[10] Even worse, as the Bipartisan Policy Center notes, although SSA's benefit statements alert participants to the existence of the WEP/GPO, the benefit estimates they provide "fail to take the adjustments into account," leading participants to overestimate their eventual retirement income and to misperceive the WEP and GPO as taking away benefits they were promised and had earned.[11]

Principles for Reform

When considering reforms to the WEP and GPO, the following principles may provide useful guidelines.

First, clearly separate policy problems from communications challenges. Don't attempt to solve a communication problem with a policy change, or vice versa. Where a policy results in unfair or unintended outcomes, change it. Where the problem is instead that an appropriate policy is poorly understood, that is best addressed with changes in communication and information. With respect to communication challenges, consider the observations from the Bipartisan Policy Center and from economists Brown and Weisbenner, that SSA materials would sow less confusion if they showed

[8] Glenn Springstead, "The Social Security Windfall Elimination Provision: Issues and Replacement Alternatives," https://www.ssa.gov/policy/docs/ssb/v79n3/v79n3p1.html#:~:text=SSA%20's%20records%20would%2C%20in%20theory%2C%20now,noncovered%2Dearnings%20data%20from%201978%20to%201981%20reliable.

[9] Social Security Administration, Windfall Elimination Provision, https://www.ssa.gov/pubs/EN-05-10045.pdf

[10] Social Security Administration, "How State Administrators Should Share Important Information with Employers," https://www.ssa.gov/section218training/basic_course_7.htm

[11] Social Security Administration, "Your Social Security Statement," https://www.ssa.gov/myaccount/assets/materials/statement-redesign-online.pdf, Bipartisan Policy Center, "The Windfall Elimination Provision and Government Pension Offset," https://bipartisanpolicy.org/explainer/wep-gpo/

the benefits participants are projected to actually receive, and if they stated clearly up front that the purpose of these adjustments is achieve parity between beneficiaries with different employers.[12]

Second, bear in mind the fundamental policy ethic underlying Social Security, namely that individuals with the same earnings histories should be treated equally, and that the system as a whole should provide relatively more generous returns for those with lower incomes. To this end, it is worth considering fundamental reforms to the underlying Social Security benefit formula so that benefits accrue with annual earnings rather than being based on a lifetime average of covered earnings. This would not only serve the same purpose as the WEP, but would also better handle other interruptions in covered work history, such as immigrating partway through one's working career, or temporarily departing paid employment to engage in household work.

Absent such fundamental redesign of Social Security's benefit formula, the basic ideal is worth bearing in mind: that Social Security benefits should accurately reflect the proportion of one's career earnings covered by Social Security as distinct from non-covered employment. While SSA could not perform such calculations in 1983 when the WEP was established, it can now, and legislation has been proposed that would accomplish this.[13] Economist Kathleen Romig of the Center on Budget and Policy Priorities has pointed out that a similar correction could be made to the GPO.[14] Legislators may discover reasons not to immediately apply a correctly proportional calculation in every individual case, but this underlying policy ideal is worth bearing in mind, and pursuing to the extent possible.

Third, remember that Social Security is a zero-sum game in the sense that it is a self-financing income transfer program. To remain solvent, the present value of all participants' contributions to Social Security must equal or exceed the present value of any benefits it pays. Thus, any net income that Social Security provides to one participant, it must extract from other participants. Therefore, Social Security does not add to participants' incomes in the aggregate simply by sending out larger benefit payments, because those payments are taken from other participants' incomes. Legislators must accordingly think carefully about any benefit increases that would occur as a result of legislation, and ensure that the corresponding income losses that would occur for other participants are an appropriate price to pay.

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[12] This points to another advantage of reforming the Social Security benefit formula so that benefits accrue with annual earnings rather than as an average of one's highest 35 years of earnings; under such a formula, SSA would not need access to non-covered earnings or pension information to provide a projection of benefits. Under reforms in which Social Security benefits are calculated by using the ratio of covered earnings to total (covered plus non-covered) earnings, SSA would need to draw upon an individual's non-covered earnings history to provide an accurate projection of benefits in statements sent to participants.

[13] Office of the Social Security Chief Actuary, Letter to the Honorable Kevin Brady, https://www.ssa.gov/OACT/solvency/KBrady_20211103.pdf

[14] Romig indicates this could be done by simply having SSA "calculate the amount of a non-covered worker's Social Security retirement benefit based on all of their earnings — covered and uncovered — and subtract that amount from the maximum spouse or survivors benefit the person would qualify for." Kathleen Romig, Center on Budget and Policy Priorities, "Repealing Social Security's WEP and GPO Rules Would Be Misguided," https://www.cbpp.org/research/social-security/repealing-social-securitys-wep-and-gpo-rules-would-be-misguided

Finally, do no harm, on the systemic level or at the individual level. On the systemic level, this means doing nothing to worsen Social Security's substantial financing shortfall, which already equals 21% of all scheduled benefits over the next 75 years and is growing. Preventing further financial damage means that any benefit increases some individuals receive as a result of legislation should be fully offset with savings arising from eliminating unintended windfalls for other participants.[15] One possible use of any net savings is to allow those already receiving benefits to receive the higher of their current benefit or the corrected one, to prevent any current retirees from experiencing an income diminution, while also increasing the benefits of those for whom the current WEP and GPO represent a larger-than-fair adjustment. Going forward, it would make most policy sense for future claimants to receive reformed, accurate adjustments without any reference to a previous, less accurate system. However, if legislators chose to reform the underlying benefit formula in a way that produces cost savings over the 75-year valuation window, some of those savings could be spent on allowing lower-income individuals to receive the greater of the old and new formulations, to the extent that can be afforded without worsening system finances.

Conclusion

In sum, Social Security's WEP and GPO are adjustments that are necessary to achieve parity for Social Security participants with non-covered pensions, in a context where the underlying benefit formula fails to properly account for these participants' non-covered earnings and pension benefits. The current imperfect designs of these mechanisms reflect earlier informational limitations and result in inaccurate adjustments, while at the same time flawed communications result in these features being poorly understood and often resented. All of this suggests that the WEP and GPO should be reformed and replaced, but not eliminated.

The operations of the WEP and GPO should be more clearly communicated to participants, and the provisions themselves should be reformed to more accurately achieve their intent of rendering the treatment of different Social Security participants more equal and equitable. Earnings data improvements since the WEP and GPO were first established should enable reforms to be enacted that brings them closer to the ideal of parity, all without worsening system finances, and while bolstering income for some low-income seniors and current beneficiaries.

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[15] This would be readily accomplished with reforms that would change Social Security's benefit formula from one based on average wages to one based on annual covered earnings, which would produce net savings over 75 years that could be partially spent on targeted benefit increases. For the reform alternative that would base Social Security benefits on the ratio of covered earnings to total (covered plus non-covered earnings), the situation is more ambiguous. SSA's actuarial score of the Brady legislation indicates that there would be more benefit increases than decreases under a reformed WEP, but at the same time shows a reformed WEP as producing net cost savings when fully phased in. However, it is likely that if both WEP and GPO were replaced by a more accurate proportional share formula, there would be net savings that could be spent on targeted benefit increases for some low-income and current beneficiaries.