



Social Security and Public Employees: How WEP/GPO Impacts Your Benefits

Few things are more important to a successful retirement than Social Security, and few items are more confusing than both the windfall elimination provision (WEP) and government pension offset (GPO). So often, Americans in jobs where Social Security taxes were not withheld from their pay are told that they don't qualify for Social Security benefits. But many of them have actually worked some number of years in "covered" jobs where Social Security taxes were either withheld or paid on their behalf. The confusion around qualifying for retirement benefits too often leads to incorrect claiming strategies and the view that employees in jobs not covered by Social Security are never entitled to benefits. This view is often wrong and

can rob you of important retirement dollars you are owed.

HOW WEP AND GPO WORK

Each state chooses whether to participate in the Social Security program. If a state voluntarily elects not to participate, they do not withhold the employee's portion of Social Security taxes from salaries, and they do not pay the employer's portion of Social Security taxes. Instead of receiving Social Security benefits, these employees receive a pension from the state – a non-covered pension. (Some federal employees are also in non-covered jobs and receive a pension rather than Social Security benefits.) They're called non-

covered because they refer to pensions received from work “not covered” by Social Security. Because Social Security taxes were not paid on those earnings, you can’t collect Social Security benefits on those earnings.

It’s possible to have both a non-covered pension and years of service in jobs where your earnings were “covered” – meaning Social Security taxes were withheld from earnings. On those earnings, if you have at least 10 years of them, you can likely collect Social Security benefits. Many of us worked in high school and college. Granted, most of those jobs weren’t going to make us rich, but they may be a consideration when determining if you meet the work requirements to qualify for Social Security retirement benefits. Additionally, teachers, firefighters and police officers – those most often in jobs where Social Security taxes are not withheld from pay – often work in part-time or seasonal jobs that are covered by Social Security. When added up over the lifetime of a person, there may be enough time worked to qualify for benefits.

Two rules impact benefits when a non-covered pension is paid:

- **The Windfall Elimination Provision (WEP)** impacts the worker’s benefit when the worker is receiving the non-covered pension.

- **The Government Pension Offset (GPO)** impacts the spouse’s and survivor’s benefits if the spouse/survivor is receiving a non-covered pension for their own work.

THE WINDFALL ELIMINATION PROVISION

The Windfall Elimination Provision applies to *benefits based on the worker’s earnings record* when he or she also receives a pension from a job not covered by Social Security. If you have only worked in non-covered jobs, you will not have paid Social Security taxes on any earnings and will not have any benefits. If you have worked in other “covered” jobs, you may have enough credits to qualify for a reduced benefit. Think about jobs you worked in college, summers, seasonal, or “moonlighting” – you may have enough credits to qualify for benefits.

You need a minimum of 10 years of covered work to qualify for benefits. So if all of your employment in covered jobs adds up to 10 years or more, you will qualify for some amount of benefits. To calculate your benefits, the Social Security Administration averages your highest 35 years of covered earnings and applies an inflation factor to account for the growth of wages over time. Then a formula is applied to create your Average Indexed Monthly Earnings, or AIME. Your AIME is

Table 1.0 Bend Points for 2016

Bend point	Standard	WEP
1st: \$856	90%	40%
2nd: next \$5,157	32%	32%
3rd: > \$5,157	15%	15%

Table 2.0

Years of substantial covered earnings	Maximum reduction for 2016
20 or less	\$428/month
21 to 29 years	\$43 to \$385/month based on years
30 or more years	\$0

broken into three amounts called “bend points,” to which a factor is applied. Table 1.0 illustrates the bend points for 2016 earnings and the factors applied to each. As you can see, the WEP adjustment is made to the first bend point.

The amount of the WEP reduction is based on the years of substantial covered earnings you have. Table 2.0 illustrates the reduction amounts for 2016.

The reduction in your benefits is limited to the maximum of \$428 per month (in 2016) or ½ of your pension. The WEP reduction is applied to your benefit amount before cost-of-living adjustments or delayed retirement credits are added and before a reduction for claiming benefit before your full retirement age.

Here’s an example of the WEP calculation for Jim, who has an AIME of \$6,000.

“Standard” calculation

$$(90\% \times \$856) + [32\% \times (\$5,157 - \$856)] + [15\% \times (\$6,000 - \$5,157)] = \$2,173.17$$

“WEP” calculation

$$(40\% \times \$856) + [32\% \times (\$5,157 - \$856)] + [15\% \times (\$6,000 - \$5,157)] = \$1,845.17$$

The difference in the two amounts is the

reduction for WEP. In Jim’s case, the reduction is \$428.

Why a reduction at all? Well, Social Security is actuarially designed to replace a higher percent of earnings for low-wage earners. If you earn only \$800 each month, 90% will be replaced by Social Security benefits. For high earners, the replacement averages about 25%. Because Social Security taxes aren’t paid on earnings in non-covered jobs, when the AIME is calculated it appears as if people in these jobs are long-term, low-wage earners – when in actuality it’s just that their Social Security covered earnings are low.

THE GOVERNMENT PENSION OFFSET

The Government Pension Offset applies to spousal benefits and survivor’s benefits when the beneficiary receives a pension from a job not covered by Social Security. It reduces the benefit by 2/3 of the monthly pension amount. It gets confusing, but try to remember that the WEP applies to the worker’s own retirement benefit, and the GPO applies only to any spousal or survivor benefit the worker might receive.

Joyce was a teacher for 30 years and has a non-covered pension of \$2,000 per month. Her husband passed away recently and was receiving \$2,400 in Social Security retirement benefits. If

Joyce did not have the non-covered pension, she would be able to receive the entire \$2,400 each month. However, the GPO will reduce her benefit by 2/3 of her pension, or \$1,333. Her survivor benefit will be about \$1,067 each month. She will still collect the entire \$2,000 of her pension each month plus the Social Security benefit.

WHAT ELSE DO YOU NEED TO KNOW ABOUT WEP/GPO?

Here are a few additional details about WEP/GPO that will be helpful to you in your retirement planning.

- WEP does not apply until you start your non-covered pension. It's entirely possible for you to claim your Social Security benefits for a few years before the WEP adjustment is applied. Once you start your pension, however, the reduction will be factored into your benefits.
- You can't roll over your pension to escape WEP/GPO. Although many have tried, the reality is that the Social Security Administration contacts your pension administrator to determine the equivalent of a monthly payment that is used to apply a reduction to your Social Security benefits.
- WEP no longer applies after worker's death. The widow/widower of a worker who had a reduced benefit due to WEP will get a boost in benefits as long as the widow/widower does not also have a non-covered pension.
- If you were covered by both the government retirement system and Social Security throughout your last 60 months of federal, state, and local government service, you may be exempt from the GPO altogether.

- If inflation is out-pacing your pension growth, there is a possibility that you might qualify for a spousal or survivor benefit in the future. You'll have to keep up with this or use software that helps you because the Social Security Administration won't automatically start sending you checks. But wouldn't you hate to learn too late that you missed out on thousands of dollars owed to you?

HOW CAN I MAKE THE MOST OF SOCIAL SECURITY?

Our firm has worked with thousands of clients impacted by WEP and GPO. In many cases, these clients had been told they weren't eligible for benefits at all. Our software and expertise, though, proved otherwise and got them the benefits they were owed.

Consider the case of Roy and Mary: Roy has spent most of his career in a school district that will provide a nice pension when he retires. The school district he works in does not participate in Social Security, but Roy has worked at other jobs, too: summer sports camps, tutoring, a clerk in high school and college, and a few years in one school district in another state that did pay Social Security taxes on his earnings. Roy doesn't really consider those jobs as "substantial," and he's not planning on getting any Social Security benefits. Mary's full retirement benefit is only \$1,189.

In working with Social Security Solutions, Roy and Mary learned that Roy did indeed qualify for a Social Security benefit. While reduced because of WEP, it still provided a small payment each month for Roy and Mary's retirement. In addition, they learned about other rules of Social Security that will increase Mary's benefit if Roy passes away first.

The bottom line is that no matter how insignificant you believe a previous or post-career job to be—whether a job lifeguarding for consecutive summers while in college or bartending at the local watering hole to stay socially connected after 30 years of teaching—money could be available to add to your quality of life in retirement.

Why not find out? It's a click of the mouse or a simple phone call away.

Social Security Solutions is dedicated to getting workers the most in Social Security benefits. The proper Social Security claiming strategy can lead to tens-of-thousands, if not hundreds-of-thousands more income for retirement. Indeed, we've helped our clients receive over \$2 billion in benefits to which they otherwise would not have known was available.

For those wondering about Roy and Mary—the result was \$40,320 in additional lifetime income we were able to find for them!

ENHANCE YOUR FINANCIAL WELLNESS OR RETIREE READINESS WITH SOCIAL SECURITY SOLUTIONS.



www.SocialSecuritySolutions.com or 866-762-PLAN, ext. 20

This information is intended to be considered as education and guidance only and may not be suitable for all employees. This information may not be used, published or redistributed in any way without the prior written consent of Social Security Solutions, Inc. Social Security Solutions, Inc. is not affiliated with or endorsed by the Social Security Administration.