Social Security Highlights

Social Security and Government Employees

Part One: The Basics

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Government employees are a seriously underserved market, particularly when it comes to Social Security. And there's one interesting reason: Very few people truly understand how Social Security integrates with "non-covered" pensions. That is, pensions, often for state and local government employees, where the employee does not pay into the Social Security system.

Frankly, the two government provisions—the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO)—are some of the most difficult Social Security concepts to grasp. But if you are a government employee, chances are good that it's going to come up. So you need to understand at least the basics.

The Basics

Understanding the PIA

First let's take a look at the basic concept. To understand the problem Social Security is trying to address, you need to know something about how the benefit is calculated. The Primary Insurance Amount (PIA) is what's used to calculate the monthly benefit. This is the amount listed on the statement where it says, "if you continue working until your full retirement age, your payment would be about $________ a month."

> *". . . a low-income worker gets more money back per dollar of withholding tax."*

Now here is where it gets tricky. The PIA is calculated using a formula that is designed to be more favorable to low-income workers.

The **first tier** of the PIA is calculated at 90 percent of monthly average earnings. The **second tier** is 32 percent, and the **third tier** is 15 percent. So for low-income workers, a much larger percentage of their income is replaced at the 90 percent rate.

This essentially means that a low-income worker gets more money back per dollar of withholding tax.

The Windfall

Now consider that some government employees are not "covered" for Social Security benefits. That is, some federal, state or local government employers provide employer-sponsored retirement plans for their employees, where neither the employer nor the employee pays Social Security taxes. The non Social Security-covered retirement program is considered to be in lieu of Social Security.

So what happens when someone works, say, for 30 years in a job with a "non-covered" pension, followed by 10 years in another job? He or she would have a 10-year work history with Social Security and would be eligible for Social Security retirement benefits.

The highest 35 years of earnings is what is used to calculate the average. Zeroes are added for anything less than 35 years. So with such a short work history, the worker would end up being treated similarly to a low-income worker—with the resulting higher relative benefit—even though he or she may have a generous pension from a previous job.

So the government recognizes this and may adjust Mr. Smith's Social Security benefits to reflect this "windfall." There are two provisions that are used to reduce Social Security benefits in this scenario.

The Windfall Elimination Provision (WEP) can cause a reduction in a worker's personal benefit. The Government Pension Offset (GPO) can reduce or even eliminate Social Security spousal benefits to someone in the same scenario. We will cover both of these in detail in the next two articles.

The Social Security Statement

The Social Security statement provided by the Social Security Administration is a critical starting point in the planning process. The statement should give you a hint as to where the employee stands.

Take a look at the work history on page 2 of the statement. One clue might be seeing a significant number of years where the Social Security earnings are listed as $0, but there is higher number listed for the Medicare earnings. That's a tip-off that you may be looking at a WEP or GPO situation, even if the statement doesn't indicate it.

Now for Some Good News

Most federal government employees hired after 1983 don't have to worry about this. They have paid into Social Security all along, so they are not affected. But federal employees hired prior to 1983 are generally considered civil service employees and may in fact have to deal with WEP and GPO. Teachers may or may not be, depending on the state they work in.

But keep in mind that either way, the only people who have to worry are:

- Those who worked for a number of years with a non-covered pension, but still worked enough outside of that job to qualify for a Social Security benefit.
- Those who worked for a number of years with a non-covered pension, but have a spouse who is covered by Social Security.

Social Security **Evaluator**

To learn about your Social Security options, contact your Security Mutual Life insurance agent. Using the Security Mutual Life Social Security Evaluator, your agent can provide you with an easy-to-understand illustration showing your various options, and then help you evaluate those options based on your personal financial needs and goals.

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