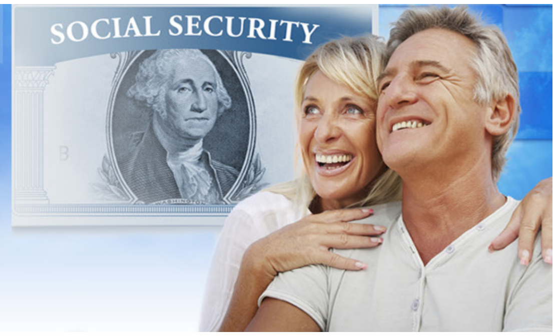
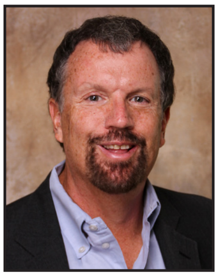
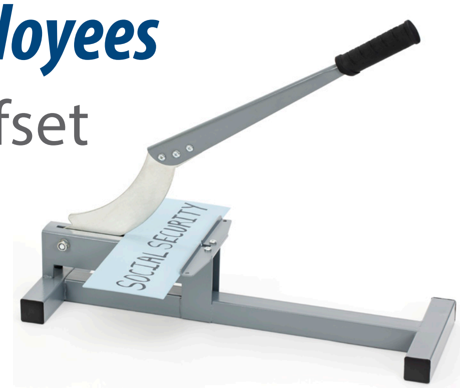


Social Security and Government Employees

Part Three: Government Pension Offset





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In Parts One and Two of this series, we looked at certain types of government employees who have worked previously with a "non-covered" pension. That is, they worked at a job where they didn't have to pay Social Security withholding taxes, but got a separate pension from the "non-covered" work they did.

A typical example would be certain state and municipal employees. The federal government has ways of adjusting Social Security (SS) benefits to reflect this. Today we look at the Government Pension Offset (GPO), which is used to reduce Social Security spousal or survivor benefits to offset the perceived "windfall."

Thankfully, GPO is much easier to understand than the previously covered Windfall Elimination Provision (WEP).

Why GPO?

Here's a good example of why GPO exists in the first place. Let's say you're age 67 and about to file for your personal benefit of $2,000 per month. Your spouse is the same age but never worked outside the home. When you file, your spouse would entitled to a 50% spousal benefit, which would amount to $1,000 per month.

Simple enough. But if we changed things just a little bit? Let's say it's not that the spouse never worked outside the home. The spouse never paid into Social Security, but he or she actually worked in a state government job. That job was exempt from Social Security withholding, but also had a generous state pension. So assume he or she is actually getting a state pension worth even more. Would it be fair that this spouse would get the same spousal benefit as someone who truly never worked outside the home? GPO is designed to address this type of situation.

GPO vs WEP: Discerning the Differences

As with the two previous articles, note that some government employees are not covered for Social Security benefits. Some federal, state or local government employers provide employer-sponsored retirement programs for their employees.

Federal government employees hired after 1983 generally pay Social Security withholding, so they don't have to worry about this. One big problem is that the Social Security statement mentions GPO in the fine print, but it is rarely factored in to the numbers on the statement. So your benefit may actually end up lower than what the statement says.

The GPO comes up where the employee has a non-covered pension, yet may otherwise qualify for a Social Security spousal benefit. The non-SS covered retirement program is essentially considered to be in lieu of Social Security.

GPO Is Applicable to Spousal Retirement Benefits

GPO reduces the spousal retirement benefit payable to a worker (Mr. Smith) who also receives a non-covered Social Security pension. The GPO benefit reduction is equal to two thirds of the pension from non-covered Social Security employment.

So note the basic difference between WEP and GPO:

- WEP is applicable when the non-covered (state or municipal) employee has his or her own Social Security benefit.
- GPO is applicable when the non-covered employee may qualify for Social Security spousal or survivor benefits.

Keep in mind that in most circumstances, an individual can collect a spousal benefit even if he or she never qualified for a Social Security benefit at all. This is one practical issue that distinguishes GPO from WEP.

Let's Look at an Example

Assume Mr. Smith, is age 67 and has never worked outside the home.

This means that his Social Security benefit will be based solely on Mrs. Smith's Social Security record.

If she has a Primary Insurance Amount (PIA) of $2,000, under normal circumstance he would qualify for a spousal benefit of up to $1,000 per month when he reaches Full Retirement Age (FRA).

In this case, let's assume he also receives a $900 per month pension benefit from his non-covered employment. The GPO provision will cause his projected $1,000 Social Security spousal benefit to be reduced.

GPO Reduction

The GPO formula is relatively simple. The spousal benefit will be reduced by 2/3 of the amount of the non-Social Security retirement benefit. So in his case, the $900 benefit will cause a reduction by two-thirds, or $600. So instead of getting a $1,000 spousal benefit, he will receive only $400.

One question that may jump out at you at this point: *Can the GPO completely eliminate the spousal benefit?* The answer is yes. This is one key difference between WEP and GPO. In this example, if Mr. Smith's non-covered pension were $1,500 or more, there would be no Social Security spousal benefit at all.

The GPO will affect survivor benefits as well. Remember that the PIA, which does ***not*** include Deferred Retirement Credits (DRCs), is used to calculate the 50 percent spousal retirement benefit. However, the actual retirement benefit (not the PIA), which does include DRCs, is used to calculate the 100 percent surviving spouse's benefit.

GPO Reduction of Surviving Spouse's Benefit

Now let's assume the other spouse—Mrs. Smith—began collecting at age 70, but died shortly thereafter. Her $2,000 benefit will already be enhanced by four years of 8 percent DRCs to $2,480.

Mr. S.'s widower's benefit would normally be 100 percent of Mrs. Smith's $2,480 retirement benefit. But the GPO is still in effect. Thus, the $600 GPO reduces his survivor benefit to $1,880.

Can someone be subject to both WEP and GPO at the same time? Certainly. So both a personal benefit and a potential spousal benefit can be reduced for someone with a non-covered pension.

GPO and WEP are some of the more 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.

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.

Retirement Benefit at FRA		Mr. Smith's GPO Spousal Benefit Reduction		Mr. S.'s Combined Spousal and Non-Social Security Retirement Benefits
Mrs. Smith's PIA = $2,000 Maximum Spousal X 50% Mr. S.'s Spousal = $1,000	Minus	$1,000 Spousal Benefit (600) GPO Reduction $ 400 Reduced Spousal Benefit	Equals	$ 400 Spousal Benefit 900 Non-Social Security Benefit $1,300 Total Benefit

All information provided from the Security Mutual Life Social Security Evaluator is intended to be accurate and timely; however, Security Mutual does not guarantee its accuracy. Clients' reliance on the information generated should be undertaken only after an independent review of its accuracy and, where applicable, in consultation with their tax, legal or other professional advisor.

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