

Focus On: Possible Social Security Pitfalls

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If you have ever worked for an employer that did not withhold Social Security taxes, or will receive a pension from a federal, state or local government based on work where you did not pay Social Security taxes, there are two Social Security provisions that might reduce your Social Security pension amount, or your Social Security spouse's or widow's or widower's benefit. These are the Government Pension Offset provision (GPO) and the Windfall Elimination Provision (WEP). This article will cover how these provisions might affect part-time instructors at AHC by summarizing the pertinent portions of each provision obtained at www.socialsecurity.gov.

Each of these provisions is fairly complex and has exceptions, so it's best that after reading this summary you read the entire article to determine how these provisions will affect you in particular (the Web address for each is given below).

Please note that the PFA is not taking a stance, one way or the other, on these provisions. There are lively debates in Congress and elsewhere on both, but the PFA only wants to make our members aware of these provisions so they can plan their retirement with all the facts at hand.

The PFA thanks George Torbert, a part-time ESL instructor, for bringing these two provisions to our attention.

Government Pension Offset provision

Part-time instructors at AHC are subject to this provision, because the pension received is based on work where no Social Security taxes were withheld. Under the GPO provision, your Social Security *dependent's benefits* will be reduced by two-thirds of your government pension. Note that this doesn't affect *your* benefits, but affects any spouse's, widow's or widower's benefits that you might receive.

For example, say you will receive a monthly pension of \$600 from AHC. Two-thirds of this, or \$400, must be deducted from your Social Security dependent's benefits. If you are eligible for a \$500 monthly spouse's widow's or widower's benefit, you would receive \$100 per month instead ($\$500 - \$400 = \100).

Government Rationale

These benefits were established in the 1930s to compensate spouses who stayed at home to raise a family and were therefore financially dependent on the working spouse, whereas today it is more common that both work and will earn his or her own benefit. The law always required that a person's benefit as a spouse, widow or widower be offset dollar for dollar by his or her own benefit. However, until 1977 when the GPO provision was enacted, for a government employee who did not pay into Social Security, there was no offset; the government employee would collect his or her full dependent's benefits in addition to a government pension. This provision ensures that government employees who do not pay Social Security taxes will be treated in a similar manner to those in the private sector who do pay Social Security taxes.

For further information on the GPO see: <https://www.ssa.gov/pubs/EN-05-10007.pdf>.

Windfall Elimination Provision

Part-time instructors at AHC are also subject to this provision, because Social Security taxes are not withheld from their salary. Under WEP, a modified formula is used to calculate your benefit amount, which could result in a reduced amount. While the amount of reduction is not hard to calculate, it is based on several

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factors and exceptions that will vary from person to person, so only a general example can be given here (see the Web address below for the Windfall Elimination provision article that contains the following example, along with a detailed discussion of how any reduction is calculated).

The reduction is based primarily on the number of years you had "substantial" earnings, which ranges from \$900 prior to 1955 to \$19,800 in 2009-2010. If you have less than 30 years of "substantial" earnings, what Social Security calls the "90 percent factor" is reduced; for 20 years or less this factor is reduced to 40



percent. Without going into the specifics, a person retiring at 62 in 2010 with 20 years or less of "substantial earnings" would have his or her total benefit reduced by \$380.50.

The important point here is that if you have less than 30 years of earnings that qualify, **you will be receiving less than you expect.**

Government Rationale

Social Security benefits are intended to replace a percentage of a worker's pre-retirement earnings, and, benefits are calculated so that lower-paid workers get a higher return than highly-paid workers (an average of 55% to 25%, respectively). Before WEP was passed in 1983, those with jobs not covered by Social Se-

curity had their benefits calculated as if they were long-term, low-wage workers, thereby receiving a Social Security benefit representing a higher percentage of their earnings on top of a pension from a job where they did not pay Social Security taxes. Congress passed WEP to remove that advantage.

For more information on WEP see <https://www.ssa.gov/pubs/EN-05-10045.pdf>.

More Information

Lastly, on the www.socialsecurity.gov site you can search on GPO and WEP to find general and detailed calculators for each, and a wealth of other information.