

Why are my social security **BENEFITS REDUCED** if I was a **teacher or police/fireman?**

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(4 of 6-part series)

In the 4th part of our social security series we are going to answer the questions as to why and how someone's benefits are reduced because they worked for an employer that did not pay in to social security, but they still earned enough credits to get Social Security benefits from prior employment. These reductions in our opinion are unfair to those, especially in Illinois, who have earned enough credit to get social security benefits, but will not receive the full amount of those benefits because they worked in a public sector job such as teaching, police or fire and funded a pension that was not covered by Social Security.

I think it is important to give some history on where these rules came from to understand how we got to this point. Back in the 1960's states were given the opportunity to participate in the social security system with all of their state and local public employees. At that time, 36 states chose to include their state and local employees in Social Security and the others states (including Illinois) opted to not participate and instead enhance their current state employee's retirement benefits.

According to massretirees.com, currently, there are now 26 states that have public employees who are affected by this, with **Illinois being the state that has the 3rd most retirees in this grouping!**

There are two separate laws that were put into place in the late 70's and early 80's to govern public employees/retirees who were not putting into the social security systems which are the Governmental Pension Offset (GPO) and the Windfall Elimination Provision (WEP). Below I will provide a further explanation of each and a corresponding example to help explain each of them.

Governmental Pension Offset (GPO): The GPO was a provision in a 1977 Social Security amendment. This offset reduces the "*spousal*" social security benefits that the public employee would have been eligible. The spousal social security benefit is reduced by 2/3rd of their public pension amount. Fortunately, this use to be a 100% dollar-for-dollar reduction when enacted in 1982, but was strongly criticized and quickly changed to 2/3rd in 1983. Here is an example of what this reduction looks like:



Example: When someone reaches their full retirement age for social security they are eligible for up to 50% of their spouse's full retirement age benefit. So in this example a teacher is receiving their pension of \$1,500 per month, and their social security spousal benefit would have normally been \$1,200. However, being they are receiving a pension from non-social security work, their spousal benefit must be reduced by 2/3rd of the pension amount. So 2/3rd of the pension is \$990 (\$1,500 x 0.66), which means they would only receive \$210 per month (\$1,200 - 990) as a spousal benefit from social security, instead of \$1,200.

Windfall Elimination Provision (WEP): The WEP was enacted as part of the 1983 Social Security Refinancing Act to help shore up the financing of the social security trust fund. This provision affects the retirees "*own*" social security benefits that they would have otherwise been fully eligible for but being they have a non-covered pension there will be a reduction in their social security benefit. The amount of the reduction depends on the years that the retiree worked at a job covered by social security. As of 2016, the maximum reduction is \$428 per month from your social security benefit if you had 20 years or less of social security employment. This reduction is reduced each year by the amount of years over 20. Once you reach 30 years of social security employment there is no reduction. Here is an example of what this reduction looks like:

Example: A police officer is currently receiving his police pension from non-social security employment in the amount of \$1,500 per month. Prior to being a police officer he had worked at an employer for 22 years where he was paying into Social Security. His Social Security benefits, at full retirement age, were going to be \$1,200 per month. However, being he "only worked 22 years" in social security employment, he will receive a monthly benefit reduction of \$342.40 (see link to chart at end). This means that his social security benefit will only be \$857.60 per month even though he paid into the system for 22 years and would have normally received \$1,200 per month!*

You will notice how I highlighted "only 22 years" because I was trying to show my sarcasm about the unfair nature of this ruling. Many people work and pay their fair share of Social Security benefits only to get an unfair share in return because they went to work as a teacher, police officer, fireman or other public servant. Ensuring that we are able to attract the most highly qualified in these fields is critical, and this law directly and negatively impacts that because of the adverse effects of future retirement income.

Fortunately, there is hope, as there is currently legislation to retract and repeal GPO and WEP. Most recently there was a hearing on March 22nd with the Ways and Means committee to ensure that there is fair treatment for anyone who falls under

these rules and is negatively impacted by it. As I mentioned, Illinois is the state with the 3rd most retirees directly affected by this, and it would be very significant for those people who put their fair time in to get their fair benefit.

Another important note that I will make on this subject is that you should carefully examine the information in your Social Security

Statement. The statement does not factor these calculations in for someone who is subject to these rules, and because of it shows an inaccurate benefit number. The difference in what you *should* receive and what you will *actually* be receiving can be the difference between planning for a successful retirement and one that falls short because of an overestimated Social Security Benefit. Please make sure that you have someone fully knowledgeable in the social security rules and strategies run the numbers accurately and ensure that you know what you are basing this information off of for future planning needs.

*For the full chart of WEP reductions visit www.ssa.gov and type in "WEP Chart" in the search box.

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Carefully Examine the Information in Your Social Security Statement!