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Social Security/Medicare

Social Security: The Perils of WEP and GPO

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By Bill Harris

For years, Misha had received an annual six-page form in the mail. It was called "Your Social Security Statement" and, year after year, she watched as her projected monthly payout at retirement -- at age 62, 66 or 70 -- would grow.

It had a finality about it, an authority, a reassurance. And those numbers became an integral part of her mental and physical retirement picture. Between her Social Security, her teacher's pension and her husband's Social Security survivor benefits, she'd be fine.

Except that the numbers on that form were a myth. And she wouldn't find out until she went to file for her Social Security benefits at 66.

The culprit is something called the Windfall Elimination Provision, or WEP, and too many people have never heard of it.

Another little-known retirement game-changer is the Government Pension Offset, or GPO. Together these two can wreak havoc with our best-laid plans. Let's look at each separately to be sure we know if we are among the vulnerable.

Who Could Be at Risk?

Whenever you have the Social Security system (a covered pension) interacting with a pension from a job that did not participate in the Social Security system (a non-covered pension), whether in your own work history or between yours and that of your spouse, greater planning and scrutiny are called for. You may be susceptible to WEP or GPO.

Non-covered employment typically includes public workers such as teachers, police and firefighters. Also, many (but not all) other state, county and local employees in those states with state-run pension plans, plus nonprofit organizations and foreign governments.

As life expectancy increases, our work lives are growing longer. Many of us are enjoying multiple careers, some of which could be in such non-covered jobs. If that is your case, be sure to read on or consult your financial adviser. And if it is not your case, be sure to share this with anyone you know who might be at risk. Yes, it is that important.

Windfall Elimination Provision (WEP)

In 1983, Congress decided to level what it considered an unfair playing field for those who were going to receive, in effect, two retirement benefits. Here is why: Social Security places a greater weight on each dollar earned by low-wage earners, in order to provide more robust support for those who will likely be most dependent on their Social Security benefits in retirement.

If you have a non-covered pension, you may have dedicated fewer years to a Social Security covered job and will have relatively few earned Social Security dollars. However, you will have other retirement income that is not being factored in, so you will benefit unjustly from the way Social Security skews its calculations. Hence the Windfall Elimination Provision.

No crossover reporting exists between Social Security and non-covered pension systems, so Social Security only knows to apply WEP once you file for benefits and state that you will be receiving a non-covered pension.

Who Is Not Affected?

To start, WEP does not apply to private pensions. It also does not affect military pensions because members of the military have paid into Social Security. Federal government workers need to look a little more closely. Those who started after 1984 will not be affected, as they will have paid into Social Security. However, anyone with a federal government work history before 1984 needs to check if part or all of their contributions were made in the earlier, non-covered Civil Service system.

How WEP Works

If you have paid into the Social Security system sufficiently to qualify for a Social Security retirement benefit, but have less than 30 years of Social Security covered work; and have also qualified for a pension from a job where Social Security taxes were not paid (non-covered employment), WEP triggers a recalculation of your Social Security benefits. Your base benefit number will be lower, along with any benefit that derives from it, such as spousal and ex-spousal, but not survivor.

For example, for someone reaching age 62 in 2019, instead of the first $926 of inflation-adjusted monthly earnings being multiplied by 90% to calculate that portion of the Social Security benefit at Full Retirement Age (FRA), it is multiplied by only 40%. That will result in a $463 reduction in your FRA monthly benefit, also known as your primary insurance amount, or PIA. Calculations on the remainder of one's earnings, those above $926, are not affected by WEP.

Read more about how Social Security calculates your PIA.

Your maximum monthly reduction from WEP is also affected by how many years of participation you have in Social Security-covered employment. The $463 reduction cited above can apply through up to 20 years of participation. Above that, the amount of reduction lessens by $46.30 per year, until it reaches $0 reduction in year 30.

One last factor: the WEP reduction is capped at one-half of the pension you receive from non-covered employment.

When WEP Kicks In

WEP starts affecting your Social Security payments only when the pension from non-covered employment begins. That means that you could receive your full non-WEP-adjusted Social Security payments for a time, until your non-covered pension is activated by retirement or some other plan-defined trigger. Once that happens, your Social Security payments going forward would be reduced to reflect WEP.

How WEP Can Be Minimized

Because the maximum monthly WEP reduction declines with the number of years you have of Social Security covered employment, if you can continue contributing until you reach 30 years, even on a part-time basis, you will have avoided the WEP reduction altogether.

This becomes a valuable planning tool. For example, neutralizing the $463-per-month maximum reduction means more than $5,500 per year in added benefits. Over a 20-year retirement period, that represents $110,000, plus any cost of living adjustments. Even if you are unable to reach 30 years, each year you get closer to 30 increases your benefits. This offers an amazing planning opportunity if you have worked at a job where you paid Social Security taxes.

For example, if you worked in the private sector for 20 years before you began public sector career, you may be able to do enough part time work between now and when you retire to completely eliminate the monthly WEP reduction.

What Else Is Affected by WEP?

Besides your own Social Security retirement payments, WEP will affect any payments made to spouses and dependents. However, it does not affect survivor benefits.

When WEP Ends

WEP will no longer be applied if you cease being entitled to your non-covered pension; if you become eligible for WEP exemption because you reached 30 years of Social Security covered employment; or when you die. (Subsequently, the benefit of your survivor will be recalculated without the WEP.)

Government Pension Offset (GPO)

Like WEP, the Government Pension Offset was created for fairness reasons. Social Security initially set up spousal and survivor benefits for women who were dependent on their wage-earning husbands. But as women started qualifying for their own retirement benefits, especially pensions from non-covered employment like teachers and state employees, Congress felt the result was double-dipping. With the GPO, it sought to limit any duplication.

GPO is an issue if you have a pension from non-covered employment and are (or have been) married to someone with Social Security benefits. As a widow, for example, you could find your survivor benefits greatly reduced when you claim benefits based on your spouse's Social Security work record.

GPO is now said to affect close to 10% of Social Security spousal and survivor beneficiaries, or 6.5 million individuals. The great majority of those affected will have their Social Security benefits wiped out entirely by GPO.

Who Is Not Affected

GPO will not reduce your Social Security benefits as a spouse, ex-spouse or survivor if the non-covered pension you receive is not for your own earnings, or if you yourself qualify to collect both a non-covered pension and Social Security benefits linked to your own work history. GPO also does not apply if your pension is from a private company.

How GPO Works

GPO comes into play when your non-covered pension interacts with spousal, ex-spousal or survivor Social Security benefits linked to your spouse's work history. It reduces those benefits by the equivalent of two-thirds of the amount of your non-covered pension. Social Security will pay out only the remainder, which could be $0.

Say your non-covered pension pays you $3,300 per month and you and your husband calculated his survivor benefits should pay you $1,800 per month. When you file, you will discover that the GPO reduction (based on two-thirds of your pension, or $2,200) is more than $1,800 so you will receive nothing.

When GPO Kicks In

As with WEP, the GPO reduction is triggered when the non-covered pension begins. That means you could receive spousal, ex-spousal or survivor Social Security benefits in full before your non-covered pension starts to pay out. Once the pension is activated, the payments going forward would be reduced by two-thirds of the value of your pension.

How GPO Can Be Minimized

A very complex workaround exists, called the "Last 60 Month Rule", in which you would have to work your last 60 months of employment in a job that contributes to Social Security, but that also has the same retirement plan as your non-covered retirement plan. Here's an example of how the Last 60-Month Rule works:

Chuck worked for a municipality teaching for 30 years. This municipality only participates in its own teacher's retirement system, and not Social Security. Therefore, Chuck would be subject to the Government Pension Offset when he retires. However, he resigns and spends the last 60 months working in a different municipal school district that participates in both Social Security and the same teacher's retirement system. By doing so, he is exempt from the GPO. Although the increase in lifetime retirement earnings could be considerable, the odds of finding this combination is very low.

Where to Find Help

WEP and GPO have made retirement planning and calculating much more treacherous. If not carefully considered, they can have a significant impact on the amounts you collect for different aspects of your Social Security benefits.

If you choose to navigate these waters on your own, the Social Security Administration website is an excellent resource. In fact, many use SSA's WEP and GPO calculators for more accurate estimates of their future retirement benefits.

On the other hand, if you want to avoid unpleasant surprises altogether, let a qualified adviser, such as a certified financial planner, review your Social Security circumstances with you. Ultimately, your adviser's job is to help you maximize your benefits and minimize your risks. If you are dealing with WEP or GPO, find an adviser who's a specialist in this area.

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