Social Security
and the Public Pension

ILLINOIS PUBLIC PENSION FUND ASSOCIATION
PUBLIC SAFETY FINANCIAL AND INVESTMENT TRAINING
(*IPPFA PS-FIT*)

NOTE: This Section is excerpted from *Retirement Income for Illinois Fire and Police: Pensions, Social Security and Deferred Compensation*, by Daniel W. Ryan. Used with permission by the IPPFA.

Chapter 1:
Social Security—Introduction

THERE ARE TWO TYPES OF FIRE AND POLICE professionals reading this section: those who are enrolled *in* Social Security during their public safety careers and those who are not. *Most of you in Illinois are not in Social Security*. For those working outside of Social Security, there are specific rules that apply to you. This is why this section is in the book. If you were all in Social Security just like the civilian population, I'd just refer you to ssa.gov and call it a day.

While the following chapters were written because most of you are not in Social Security, I hope that those who *do* participate in Social Security at the police station or firehouse will still give this material a try. In order to explain how it is different for workers who are outside the system, I need to give a pretty good explanation of how Social Security works for everyone (including me). And these Social Security covered workers need just as much help fighting off rumors. So, I hope that all readers will find this material helpful.

INFORMATION OVERLOAD?

There is a lot of information and analysis in this section. It may be more than you want or need. But I think it's important that these issues are understood, especially by pension trustees, public officials, and labor leaders. The amount of material and analysis may be overkill, but I'm frustrated from hearing half-truths used to support conclusions that fire and police personnel don't get a fair shake from Social Security. That's simply not true. So this section explains how and why there are issues with Social Security when there is a pension for work from outside that system. It is essentially a full course on the subject.

If you don't want or need to review Social Security at this depth, let me tell you in advance the conclusion that will be reached. Social Security provides a progressive level of benefits, meaning that lower income workers receive a higher rate of benefits. But, at the same *total* wage level:

- Social Security benefits are substantially equal, as a percentage of Social Security covered wages, whether or not a worker was *in* Social Security during his or her entire working life or was *outside* Social Security in fire or police work.
- Nobody is penalized because they were in police or fire service. And your fire or police work can never negatively impact your spouse's Social Security benefits.

WHAT'S UP WITH SOCIAL SECURITY IN ILLINOIS?

Most Illinois sworn personnel do not participate in Social Security for their public safety work. Chicago fire, Chicago police, most suburban and downstate police and fire, the State University police, Cook County, and state police all do not participate in Social Security. But most of these people will earn a Social Security check from their non-sworn work before, during (part-time), and after their police or fire careers. The monthly check that these workers will receive from Social Security will be lower than the benefits paid to me and other civilian employees. This is because these cops and firefighters spend roughly thirty years of their peak earning time outside of the Social Security system.

In addition to that major difference between uniformed and civilian, these public safety workers will have their benefits from their private sector jobs calculated using modified formulas that take into account their career outside of Social Security. The existence of these formulas and the way they operate are surrounded by great confusion and suspicion (and sometimes anger) on the part of Illinois sworn personnel. But it doesn't have to be that way. Be prepared to learn all you need to know about how this works. Be open-minded and patient as we work through this information, and in the end, you will be your own expert on this subject.

CHAPTERS TO FOLLOW

We start with a basic overview of Social Security, with some emphasis on how employees at varying wage levels are treated. Next we cover the two major provisions that affect Illinois fire and police who are outside the system (again, comparing this to how it works for those inside Social Security). We'll look at the Social Security benefits of a group of hypothetical retirees, covering those inside and outside of Social Security for their main career. The goal is to both explain the benefits and examine how fairly the Social Security system treats everyone.

We'll conclude with a summary and Q&A, along with some resources that the reader can use to explore this subject further.

During the discussion I'll alternatively use the shorthand "SSA" for Social Security, as in Social Security Act or Social Security Administration.

Chapter 2:
Social Security Basics for Illinois Public Safety

SOCIAL SECURITY WAS ESTABLISHED IN 1935 as part of the New Deal legislation following the Great Depression. By 2017 it was paying $920 billion in annual benefits; the largest program in the federal budget. The system provides base level retirement, disability, and survivor benefits to most American workers. It is sometimes referred to as a social insurance program, intended to keep people above the poverty level. Social Security is funded by employee contributions from the paycheck, an employer match of the same amount, and a small amount of taxation on Social Security benefits. The long-term projections for funding of the system show a need for improvement either in revenue (higher taxes), a larger contribution base, benefit modifications or some combination of the three. Private, individual-accounts as a future for Social Security have been discussed but not received favorably.

In the future, even if the Social Security trust fund balance drops to zero, worker and employer contributions and taxes would cover 75% of future benefits. Author's opinion: this is certainly a gap that America can manage. It's not productive for people to proclaim that *"Social Security is not going to be there for me."* It will be.

THE BASICS

Who Pays for Social Security?

Workers pay 6.2% of their covered earnings for Social Security benefits and 1.45% for Medicare. Their employer matches those same payments. Wages over a certain level ($128,700 in 2018) are not taxed but are also not included in any benefit calculation. All workers, including those not in SSA, pay the 1.45% Medicare tax if they were hired after March 21, 1986. The employer (including states, municipalities, and fire districts) matches the Medicare deduction. Virtually all Illinois fire and police are paying into Medicare and will get that retiree medical benefit when they turn 65.

You've seen the Social Security deduction taken out of your paycheck when you worked in SSA covered employment. It appears under the heading "FICA." You can win a bar bet (maybe) by knowing that FICA stands for Federal Income Contribution Act, the part of the Social Security legislation that sanctions the payroll deductions.

How Does Someone Earn a Benefit?

You are eligible for a Social Security benefit after you earn forty "credits" in the system. A credit is earned by receiving a certain amount of Social Security covered wages in a year. In 2018, the amount was $1,320 for one credit (it was lower in the past, will be higher in the future). Up to four credits can be earned in one year, so the requirement is sometimes called "forty quarters" as opposed to "forty credits." Forty quarters is almost 100% accurate, but it's true that a school teacher on a summer break could make a little over $5,200 and earn all four credits for that year during a single calendar quarter.

Two general truths result from this. First, it takes ten years of elapsed time in Social Security to earn a benefit. Second, it's not that hard to qualify for at least a small benefit. Even if you are out of SSA for thirty years in law enforcement or fire protection, there is still time before, during and after that to earn a small amount of SSA-covered wages and get your forty quarters/credits. Almost everyone I know in Illinois public safety is entitled to or is on track to be entitled to a Social Security benefit. You can tell if you have earned a benefit if you received a statement from Social Security telling you so. Note that after 2011 Social Security stopped sending out statements in an effort to reduce costs. However, there was enough backlash that as of 2015, statements are sent out at ages 25, 30, 35, 40, 45, 50, 55, and 60. As a supplement or an alternative (a really *good* alternative) you can register a personal account at ssa.gov.

What Benefits are Earned?

Using your pension as a comparison, we know that you get a certain portion of your wages replaced by your pension. This is referred to as the "replacement rate." But in Social Security, the replacement rate varies by income level. The system is **progressive—**it pays a higher rate of salary replacement to a lower income worker. Here is a snapshot of benefit levels from 2016:

INCOME CATEGORY	ANNUAL WAGES	ANNUAL SSA BENEFIT	REPLACEMENT RATE
Low	$ 21,479	$ 11,270	53%
Medium	$ 47,731	$ 18,579	39%
High	$ 76,369	$ 24,628	32%
Highest	$ 116,123	$ 29,897	26%

Source: National Academy of Social Insurance (NASI)

Another way of looking at the progressive nature of Social Security is to compare it to an individual savings and investment plan. Say Neil puts $2,000 into a mutual fund each year; his coworker Kathy invests $4,000 annually in the exact same investment fund. After thirty years Kathy will have twice as much money as Neil. No matter what happens—investment loss, investment gain, technology boom, Great Recession—whatever. If someone puts two (or three) times as much money into an exact same account for the exact same period as the next guy, he or she will always accumulate two (or three) times as much money.

But that doesn't happen in Social Security. Looking at the NASI table we see that the highest wage earner (and his employer) paid more than five times as much FICA tax as the lowest earner. But his benefit is not five times as high; it is less than three times the lowest payment.

Social Security pays a higher replacement rate to lower wage earners, a much higher replacement to the lowest earning workers, and a lower replacement rate to mid-level and high-income earners.

Why is this discussion of progressivity important? For two reasons: First, Social Security is in the public debate and citizens should understand it. Second, when we get into the discussion of the modified formulas for Illinois fire and police who are not in Social Security, the progressive nature of SSA benefits will come into play, big time.

WHY ARE MOST ILLINOIS FIRE AND POLICE OUTSIDE OF SOCIAL SECURITY?

Pretend that you could travel back to 1787 Philadelphia. You would observe thirteen guys sitting around a table at Independence Hall banging out a draft of what will become the US Constitution (and they didn't have Microsoft Word to assist them!). A big issue then was the relationship between the federal and state governments. Nobody wanted the federal level to be superior. This played out in some ugly ways (slavery) but also had considerable merit, philosophically and operationally. After the debate was over, the national government was given some express and strongly implied powers, and the rest were left to the states explicitly or generally under the 10th Amendment.

It seems kind of quaint and outdated now, given that the feds can dangle highway money in front of the states and get them to change speed limits. But this concept of federalism is still a guiding principle of our country; the national government and the states are both sovereign and draw their powers from a constitution. Affairs within a state are generally left to the state.

Does this have anything to do with the fact that Evanston firefighters don't pay into Social Security? Actually, yes. When SSA was established, state and local government employees were excluded from participating due to concerns about constitutionality. The employer-employee relationship was considered to be a purely a state affair (and thus beyond the role of the national government). Also, the employer "match" under FICA was seen as a tax on one level of government by another.

In time, constitutional concerns abated to some degree and amendments to SSA allowed the states to participate if the employee group was not covered by a stand-alone retirement system paying adequate benefits. Eventually each of the fifty states entered into agreements with the Social Security Administration that defined who would or would not be covered by Social Security.

In Illinois, Chicago fire and police were excluded from SSA participation, along with the so-called "downstate" police and fire systems (including suburban Chicago), the state university public safety workers, Cook County, and teachers. Departments in small towns under 5,000 in population who participated in the Illinois Municipal Retirement Fund (IMRF) were placed in Social Security. Quite a few of those small towns eventually became big towns, established their own police or fire fund, and left the IMRF. But they maintained their participation in Social Security as part of that deal. Other communities entered into something called a 218 agreement to participate in Social Security for all employees.

THREE COPS WALK INTO A BAR…

After a regional training program, three police officers stop for a cold one to let traffic clear. One officer is from Oak Park. He is covered by an Illinois Article 3 “downstate” police pension and is not in Social Security for his police work. One cop if from Algonquin. He also has Article 3 pension coverage but is *in* Social Security. The reason is that when the deal was cut with SSA, Algonquin was a small town protected by a few officers. They were too small to have established a police pension system so they were put in Social Security. But today it’s a full-blown city with a police pension fund. Because of the state/SSA deal, he and his coworkers are in Social Security forever. The third officer is from Bedford Park. She is in IMRF due to the small population of that community and is also in Social Security.

What’s the point of this bar story? History has created circumstances where the municipal police and fire responding to the same mutual aid disaster may have different pension plans or social security participation. A little odd, but true.

HOW ARE SOCIAL SECURITY BENEFITS AFFECTED BY A NON-SSA COVERED POLICE OR FIRE PENSION?

For Illinois public safety personnel who are not in Social Security, the benefits that they receive for their SSA covered work are affected by their time on the job at police or fire. In the chapters that follow, I’ll describe how it is different from the civilian workforce and then explain why.

The two provisions that we will be talking about specifically are the subjects of separate easy-to-understand SSA publications. Those provisions are:

The “Government Pension Offset” (GPO)
(SSA Publication 05-10007)

The “Windfall Elimination Provision” (WEP)
(SSA Publication 05-10045)

As part of your homework after this section, it is suggested that you go to ssa.gov publications, and download and print these documents for your personal files. Perhaps more easily, a Google search for these publications by name and number should take you right to the source.

Chapter 3:
Social Security: the Government Pension Offset (GPO)

SOCIAL SECURITY BENEFITS FROM YOUR SPOUSE'S RECORD

We start with subject of benefits from a spouse's record and the related **Government Pension Offset (GPO).** Overall, this is an easy subject and mastering it will help you incrementally build your confidence and knowledge on the subject of Social Security benefits.

The scope of the GPO is limited; it affects only the Social Security benefits that you might receive from your wife or husband's Social Security wages. Let me be sure that this key fact regarding the GPO is not under-emphasized:

> *The Government Pension Offset only impacts the Social Security benefits that most Illinois fire or police professionals might receive off of their spouses' records, not their own records in SSA covered employment.*

SPOUSE BENEFITS EXPLAINED

For the SSA covered population, a retiree receives Social Security benefits equal to (a) the benefits earned from his own work record or (b) one-half of his spouse's Social Security benefit, whichever is higher. Two examples follow:

Mark's SSA Benefit	$2,000
Sue's SSA Benefit from her own record	$800
Sue will receive the following:	
From her own record	$800
From Mark's Record	$200
Sue's Total Benefit	$1,000

Sue is entitled to her own SSA benefit plus a spouse's benefit so that her total Social Security payment is one-half of Mark's. Together, the couple will receive $3,000 (Sue's share does not come out of Mark's benefit). A second example:

Ward's Benefit	$1,800
June's SSA Benefit from her own record	$0
June will receive the following:	
From her own record	$0
From Ward's Record	$900
June's Total Benefit	$900

June was at home taking care of her two sons (Wally and Theodore) and never worked enough time in SSA covered employment to accumulate forty credits, so she has no benefit on her own record. But she is still entitled to a benefit from Ward's record of earnings. Together the couple will receive $2,700.

THE GOVERNMENT PENSION OFFSET (GPO)

The Government Pension Offset, however, provides for a reduction in Social Security benefits *from a spouse's record* of 66-cents for every dollar an Illinois sworn employee receives from a state or municipal pension if he or she was not in Social Security at the police or fire department. An example really isn't needed, because this can all be rephrased in a simple rule that we'll address shortly. But since I used examples to explain how spouse benefits work, let's look at an example of the impact of the GPO using the same approach.

Bruce is a Chicago firefighter. His wife, Ellen, is a partner in a big CPA firm and she paid the maximum FICA tax for her career of more than forty years. Ellen is entitled to the highest Social Security benefit available at that system's Full Retirement Age. Today that highest benefit is about $2,800 monthly (it can be higher if the retiree defers until age 70).

Let's do a quick refresher in the form of a quiz question: If the highest SSA benefit in the land is about $2,800, what is the highest spouse benefit available? Answer: $1,400.

So the highest potential SSA spouse benefit for Bruce is $1,400. However, he has a $4,000 monthly Chicago fire pension, which will reduce his Social Security *from Ellen's record* by 66-cents for every dollar of firefighter pension. Here's where it gets simple: a 66-cent reduction for every dollar of a $2,100 or higher fire or police pension reduces any SSA spouse benefit to zero dollars. Let's lay it out in the same table as the other examples:

Ellen's Benefit	$2,800
CFD Bruce's SSA Benefit from his own record	$650
Bruce will receive the following:	
From his own record	$650
From Ellen's record	$750
Sub-Total	$1,400
Less Offset	*(750)
Bruce's Total	$650

(*) Of course, Bruce's spouse benefit of $750 is not offset by 66-cents of *every* dollar of his $4,000 fire pension since that would result in an offset of $2,664, far more than his or anyone's spouse benefit. Bruce simply receives no SSA spouse benefit ($0) from Ellen's earnings record because of his Chicago fire pension and the impact of the Government Pension Offset.

SIMPLE RULE

Do you plan on getting a police or fire pension of at least $2,100 or more per month? I'll bet you do. As a result of your pension from work outside of SSA, any Social Security *spouse or survivor* benefit for you will be eliminated. I promised you a simple rule, so let's rephrase the whole 66-cent/dollar offset formula as follows:

An Illinois fire or police pensioner will not receive a Social Security monthly benefit from a spouse's record.

How's that for simplicity? You won't get a monthly benefit off of your spouse's record. Why doesn't Social Security just say that instead of taking us through the whole offset calculation? It's because there are some people who have very small public pensions – only a few hundred dollars—from part-time work over a short career. Offsetting those people's entire spouse benefit is not SSA's intention, so a formula is used to minimize the impact of these low value pensions (see the discussion on fairness below).

Can your spouse get a Social Security benefit off of *your* SSA record? Absolutely. The GPO doesn't affect the benefits that anyone else other than you will receive. Don't ever believe that there can be any negative impact on your wife or husband's Social Security benefit from your work in public safety.

The Government Pension Offset applies only to benefits <u>you</u> receive from your <u>spouse's</u> record.

Although this book does not cover the subject of health insurance in retirement, an important point is worth mentioning here. Access to Medicare benefits requires the same "forty credits" of employment in Medicare covered employment. Almost all Illinois police and fire personnel will qualify for Medicare because either (a) their first day at the department was on or after March 21, 1986, and they and their employer have been paying Medicare taxes, (b) they qualified for forty credits though other Medicare covered employment, or (c) they were married for 10 or more years to someone who is Medicare eligible. So, if category (c) is the only way you can qualify for Medicare, the good news is that the Government Pension Offset does *not* eliminate your Medicare eligibility through a spouse's record.

IS THE GPO FAIR?

The Government Pension Offset is the law of the land so it's really not my role to convince any reader that it is a fair provision. According to the SSA publication 05-10007, the spouse benefit was created to compensate people who raised a family or were otherwise financially dependent on the spouse. Congress did not want full-time government employees who did not pay Social Security taxes to be treated in the same manner as a stay-at-home spouse or other low-income Americans. For this reason, the Government Pension Offset was established in the mid-1980s. I think that's a pretty good explanation and I'm satisfied with it. But it's not up to me.

What about the two cops in my “three cops walk into a bar” story whose police work *is in* Social Security? Two things. First, the GPO does not apply to them. They do not have a pension from outside the SSA system; their police or IMRF pensions are from *inside* the Social Security system. Plus, look at the practical numbers: say each officer’s Social Security benefit is going to be at least $2,000 per month. For them to get a benefit from a spouse’s record, their wife or husband’s SSA benefit would have to be over $4,000. But that’s not possible—$4,000 is well above the highest benefit payable in the country now. So no spouse benefit is ever paid to *anyone* who earns an average or above Social Security benefit on his or her own record.

Some summary observations: A police officer or firefighter who is *not* in Social Security is never going to get a benefit off of a spouse’s record. The cop or firefighter who *is in* SSA is technically eligible for a spouse’s benefit, but will not receive one because his or her own benefit is too high to qualify for a spouse benefit. The author of this book *is not* going to get a benefit off of a spouse’s record for the same reason. And no part of the GPO affects the benefit that a spouse can get off of firefighter or police officer’s Social Security record.

Is the GPO fair? I retract my prior wishy-washiness. It’s fair.

Chapter 4:
Social Security: the Windfall Elimination Provision (WEP)

SOCIAL SECURITY BENEFITS FROM *YOUR OWN WORK RECORD* IN SOCIAL SECURITY COVERED EMPLOYMENT

Now that we are done discussing SSA benefits you may earn from your spouse's work record (none), it's time to discuss the Social Security benefits you will receive from *your* work record. For this chapter, I'll be concentrating on employees who are *not* in Social Security during their police and fire careers. When I refer to Illinois sworn personnel, I'll be talking about those who are *not* in Social Security at the police or fire department. But again, everyone should learn something from this review.

REPLACEMENT RATES, FINAL SALARY, AND SOCIAL SECURITY

Remember your police, fire or IMRF pension formula. Your benefit is calculated based on the salary at the end of your career, which is then multiplied by a percentage factor based on your years of work. This percentage is called the **replacement rate,** *i.e.*, the portion of your salary that is replaced by your pension. Rates of 75% of final pay for thirty years of service, 50% for twenty years of service, or 65% for line-of-duty disability reflect replacement rates of 75%, 50%, or 65% respectively multiplied by final pay.

Social Security uses the same concept with two fairly major deviations. The first difference is how the salary for the computation is determined. The second is that varying replacement rates are used on different portions of your salary. It's a bit complicated, but understandable with a little effort. And you will need to understand the details if you really want to master your understanding of Social Security and public pensions.

Salary Used for Social Security Calculation

In the Illinois Article 3 and 4 police/fire systems, the salary used for the Tier 1 pension calculation is the salary attached to the rank on the date of retirement. At IMRF (and many other Illinois pension plans) it is the highest consecutive 48 months. In Social Security, it is the highest 35 years; *almost the entire working life of a person*. But, because some of those wages were earned so long ago, the Social Security formula adjusts (*i.e.*, indexes) those wages to inflation. Thus if a person who retired in 2018 earned $10,000 back in 1982, Social Security indexes those wages forward to $37,000 when they calculate the person's average indexed earnings over his or her 35-year total.

A notable truth, especially for fire and police personnel: calendar years with no SSA earnings count when calculating the average earnings. Consequently, if a worker had inflation adjusted earnings of $15,000 yearly for five years, then no Social Security earnings during a public safety career, then $50,000 annually for ten years, his or her average indexed earnings over the highest 35 years would be as follows:

10 years at $50,000	$500,000
5 years at $15,000	$75,000
20 years at $0	$0
Total—Highest 35 Years	$575,000
Average over 35 Years	$16,430

Replacement Rates

After the average salary is calculated (called "average indexed monthly earnings" or AIME), the SSA system then uses different replacement rates for up to three separate levels of an individual retiree's indexed income. For persons attaining age 62 in 2018, those income levels and replacement rates are:

First $896 in monthly earnings	**90%**
Next $4,503 in monthly earnings	32%
Over $5,399 to taxable maximum	15%

Let's look at an example of how these rates work for three different Social Security recipients:

MONTHLY AVEAGE WAGE	BENEFIT CALCULATION	BENEFIT AMOUNT	REPLACEMENT RATE
Retiree #1—$800	$800 @ 90%	$720	90%
Retiree #2—$1,700	$896 @ 90% $805 @ 32%	$1,064	63%
Retiree #3—$6,700	$896 @ 90% $4,503 @ 32% $1,301 @ 15%	$2,443	36%

Remember the time I spent discussing the progressive nature of Social Security benefits (lower income earnings receive a higher percentage replacement). The structure and examples above show you how this comes to be. The very low paid worker ($800 monthly or $9,600 a year) gets 90% of pay in Social Security benefit. The highest paid worker shown gets some at 90%, most at 32%, and a portion at 15%. The highest wage earner's final replacement rate is 36%. That 36% doesn't appear anywhere in the published formulas—it's a weighted compilation of the three different published rates of 90, 32, and 15 percent.

Picture a bus of senior citizens heading out to an Indiana or Illinois casino. Virtually no two people on the bus will be receiving the same replacement rate from Social Security unless they happened to earn the exact same earnings over their lives.

THE WINDFALL ELIMINATION PROVISION (WEP)—
THE SECOND MAJOR PROVISION FOR ILLINOIS PUBLIC SAFETY

For Illinois sworn personnel who are not in Social Security at the fire or police department, there is a slightly different Social Security formula than the one described above. I'll explain it first, examine why this formula is used, and then review the fairness of such an approach.

Under the so-called **Windfall Elimination Provision**, workers who receive a pension from work outside of the Social Security system have a different benefit formula. Under this modified formula, the first increment of salary in the regular formula (called a bend point) is replaced at a lower percentage than in the standard formula. Specifically, the first increment is replaced at 40%, not 90%. For persons attaining age 62 in 2017, this is how it works:

First $896 in monthly earnings	**40%**
Next $4,503 in monthly earnings	32%
Over $5,399 to taxable maximum	15%

Thus the first $896 is replaced at 40% for Illinois sworn personnel who are outside of SSA, not 90%. All wage thresholds and other replacement rates are unchanged. Here's how the formula treats two hypothetical fire or police retirees:

MONTHLY AVEAGE WAGE	BENEFIT CALCULATION	BENEFIT AMOUNT	REPLACEMENT RATE
Retiree #1—$800	$800 @ 40%	$320	40%
Retiree #2—$1,700	$896 @ 40% $804 @ 32%	$616	36%

SIMPLE RULE—ALMOST

There is no simple rephrasing that captures the Windfall Elimination Provision as there is for the Government Pension Offset. But it's not overly complicated. We see that the first increment of the formula is different, reducing the amount paid by up to $448 per month. This is because the difference between 90% of the first $896, and 40% of $896, is always $448. If a particular police or fire retiree had a very small Social Security earnings record, say $500 per month in adjusted lifetime earnings, the difference would be $250. A way to summarize the difference in the formulas is to say that the WEP produces a Social Security benefit in 2018 that is 56% lower than the standard formula but never more than $448 lower.

A superior approach is for everyone to go to the ssa.gov website and register for an account for access to their own private information. I have done this and it's pretty slick. I think the online security is good, but in today's world of hackers everyone should make his or her own decision. The system will ask you questions that only you know the answer to and you will realize that only SSA or the IRS would know enough to ask the questions. Once you have registered, you can examine your own record and run projections based on your status as a police officer or firefighter outside of Social Security.

If you don't want to go this far, you can also access the "Online Calculator (WEP Version)" at ssa.gov, plug in your personal earnings information, and get an estimate.

IS THE WINDFALL ELIMINATION PROVISION FAIR? FIVE RETIREES WALK INTO A BAR…

The tavern that these five retirees walk into is across the street from a Social Security Administration office where each has just been told what his or her SSA benefit is going to be. They have a few drinks and then start comparing notes. Here's each person's story:

> **SABRINA** has had a tough life, financially and otherwise. She's worked a lot of low-paying and/or part-time jobs like waitress and hotel maid. She's divorced after being married a few times, never married long enough (ten years) to earn a Social Security benefit from an ex-husband's record. Her average indexed earnings over her working life are $20,400 annually. Her monthly Social Security benefit estimate at the Full Retirement Age is **$1,064** a replacement rate of 62% of her SSA earnings of $1,700 per month.
>
> **FRED, ANITA, AND BILL** are triplets. Fred was a Lake-in-the-Hills police officer who has a police pension plus was covered under SSA for his police work. Anita was a Gilman police officer, who has an IMRF pension plus she was in Social Security for her police career. Bill was an office manager for a large Chicago law firm. They each have the exact same earnings record in Social Security: average index earnings of $80,400, or $6,700 monthly. This is quite a coincidence—the same birthdate *and* the same earnings! It's almost like I made this up. Anyway, not surprisingly, they have the exact same Social Security benefit—**$2,443** monthly or 36% replaced.
>
> **BART** is a retired Decatur firefighter. He had some civilian work before taking the oath, did a little self-employed construction during the job, and then went to work full-time for ten years after the fire department. Because he had many years of low earnings or no earnings years in his 35-year Social Security computation period, his average monthly indexed earnings are only $1,700 monthly. He properly tells the SSA office that he has a fire pension from outside of Social Security, and they give him his estimate: **$616** per month or a 36% replacement rate.

Like I said, they compare notes. Sabrina is very pleased that her $1,064 benefit will replace so much of her low wages. Triplets Fred, Anita and Bill are at first concerned that Sabrina is getting a 62% salary replacement while they are only getting 36%. Then they remember the nice lady at SSA describing the progressive nature of Social Security benefits. They appreciate why Sabrina gets a higher replacement rate. They are satisfied with the fact that they each get almost $1,400 more each month than the lower paid worker even if the replacement rate of their salaries is lower.

Fred, Anita, and Bill also observe that even though their paths to Social Security were different, they were each in the SSA system for all of their wages and are treated exactly the same for calculation of their benefits. It doesn't matter that Fred has an Illinois police pension, Anita has an IMRF pension, and Bill has a 401(k) plan from his civilian job. Each was in Social Security for that work and the system treats each of them *exactly* the same.

Then there's DFD's Bart. Bart has a decision to make as to what his attitude will be towards Social Security. He has the same inflation adjusted wages as Sabrina—$20,400 per year—but he gets a different Social Security benefit, $615 to her $1,064. And yet he has virtually the same replacement rate, 36%, as Fred, Bill, and Anita. Is Bart getting cheated because he has a fire pension, or is he being treated the same as everyone else in his total wage category? Bart and you can be your own judge. Following is what some people who have studied the system have to say:

THE WINDFALL ELIMINATION PROVISION—SOME OPINIONS:

From "Turning 65, thinking about working," Stewart, JK, *Chicago Tribune*, January 30, 2011:

> Social Security uses a progressive formula to calculate benefits. Workers with relatively low lifetime earnings will have a higher wage-replacement rate than highly paid workers, meaning their monthly government benefits will account for a higher percentage of their former salaries. Without the windfall elimination provision, private-sector workers who appeared to earn low lifetime wages but then also worked in government jobs not covered by Social Security would qualify for those higher wage-replacement rates. The windfall provision aims to bring the calculation more in line with replacement rates that correspond to others with similar total earnings.

From Allison Shelton's WEP and GPO papers for the Congressional Research Service (as summarized in Alicia Munnell's book *State and Local Pensions: What Now*). This summary statement covers the Windfall Elimination Provision and additionally comments on the Government Pension Offset:

> Since a worker's monthly earnings for purposes of benefit calculation are averaged over a typical working lifetime rather than over the years actually spent in covered employment, a high earner with a short period of time in covered employment cannot be distinguished from an individual who worked a lifetime in covered employment at an exceptionally low wage. Thus a worker who was entitled to a state and local pension (from outside SSA) and to Social Security could qualify for the subsidized benefits associated with the progressive benefit formula. Similarly, a spouse who had a full career in uncovered employment—and worked in covered employment for only a short time or not at all—would be eligible for the spouse's and survivor's benefits. The WEP instituted a modified benefit formula for people who qualify for Social Security based on a brief work history and who have earned a pension in non-covered employment. The GPO reduces spouse's benefits for those who have a government pension in non-covered employment.

> Although these provisions may not produce perfect adjustments for each individual, in the aggregate they have substantially solved the problem.

The analysis from these two writers noted above says it better than I can. The WEP formula is not a punitive apparatus that unfairly reduces a police officer or firefighter's Social Security benefit. The WEP formula equalizes replacement rates among sworn and civilian workers who have the same total lifetime wage income.

THINGS THAT LESSEN THE IMPACT OF THE WEP

To be sure that the WEP is not unfair, the law provides a few appropriate provisions to lessen its impact.

If a person has thirty or more years of **Substantial Earnings** in Social Security, the WEP formula does not apply to him or her. Between twenty and twenty-nine years of substantial earnings, the impact of the modified WEP formula is lessened proportionality. For example, if you have twenty-five years of substantial earnings, the first salary increment is replaced at 65% (not 40% or 90%, but 65%).

What is a year of substantial earnings? In 2017, if you made $23,625 or more, it was considered to be substantial earnings for this purpose. Each year's requirement is spelled out in the publication 05-10045.

Why this modification to the WEP? It's because persons who work at an almost full-time outside job, even while they are in fire or police work, will have most of their SSA wages replaced in the standard formula at 32% or 15%. There is no "windfall" created if they get the first small increment at the poor man's 90%. So the standard Social Security benefit formula, *not the WEP*, applies to them.

Another concession given to persons outside the SSA system is that the Windfall Elimination Provision doesn't apply to Social Security Survivor's Benefits.

TIME TO KILL A MAJOR RUMOR

THIS NEEDS TO BE STATEED, more than once: The Windfall Elimination Provision formula does not apply to people who receive widow or widower benefits from an Illinois police or fire pension fund. If a Chicago fire retiree dies at age 84 and his wife commences receiving a benefit from Chicago FABF, her Social Security benefit is not impacted by the fire pension at all. Publication 05-10045, the Windfall Elimination Provision, makes it clear that the WEP formula applies only when a person is receiving a pension from *their* work outside of Social Security. A fire or police widow does not receive a public pension from her work, she receives it because of her late husband's work outside of Social Security.

The Social Security application for benefits further supports the widow in receiving her full calculated Social Security benefit from her own work. Question 14(a) of the application asks:

> *"are you entitled to, or do you expect to be entitled to, a pension… based on **your** work **not** covered by Social Security?"*

The fire or police widow(er) will simply respond: **no**. And the WEP never applies to them!

Again, this rumor that a fire or police widow's pension benefit impacts her Social Security is rampant in Illinois. The incorrect theme is that a husband or wife gets a reduced Social Security benefit from their own work record if they are receiving an Illinois public pension from outside of Social Security.

A thousand times over – not true!

Chapter 5:
Social Security Wrap-Up and Claiming Strategies

SECTION SUMMARY

There is a lot of information in the chapters you just read. Let's summarize where we have traveled:

Social Security benefits are based on a worker's wages over his or her working life, essentially 35 years. Forty credits (usually ten years) must be worked to obtain any benefit.

A large majority of Illinois fire and police personnel do not participate in Social Security at the police station or fire house. However, most of those people will earn Social Security benefits from work before, during, and after their public safety careers. They will generally earn a lower benefit than their civilian counterparts because of the many high-wage years they spend outside of Social Security.

Some police and fire professionals in Illinois are in Social Security for their career work; they are treated exactly like the civilian workforce.

Social Security benefits are progressively designed to pay higher benefits to low-income wage earners. Workers who are not in Social Security for their career jobs are not low-income workers, but the Social Security formula would at first see them as that. Because of this, the calculations of these workers' Social Security benefits are modified.

> **Benefits from their spouse's record** are offset, essentially eliminated, by their public pension.
>
> **Benefits from their own Social Security earnings** are calculated differently to prohibit a "windfall." If retiring today, they would receive a Social Security benefit that is 56% lower but not more than $448 lower than the benefit produced by the standard formula.

By any objective measurement, the *Government Pension Offset* and the *Windfall Elimination Provision* are not unfair to any segment of the uniformed work force.

The "three-legged stool" of retirement income includes pension, Social Security, and personal savings. For most Illinois fire and police, the Social Security leg will be lessened by a career outside of Social Security. Generally higher pension benefits than the civilian workforce are designed in part to make up for this lower Social Security benefit.

IS SOCIAL SECURITY PARTICIPATION VALUABLE?

To be polite, heck yes! There is always a benefit to earning Social Security covered wages. Why do I even raise the question? It's because I've actually heard from uniformed personnel who didn't want to take civilian jobs after retirement because "it will mess up my Social Security." This is not true. Since you can't get a benefit off of your spouse's record, the only SSA benefit that can be gained, lost, or modified is from your record. With your employer paying half of the cost, there is no reason not to pay the 6.2% payroll deduction and earn a monthly benefit, even under the WEP formula. You can't gain the equivalent of that benefit investing on your own. If anyone thinks otherwise, ask him to show you the math.

This applies across the board. For a new public safety professional who only has a few years in Social Security before taking the oath, it will pay in the long run for him or her to gain forty (40) credits/quarters and qualify. For someone who has already achieved Social Security eligibility and is retiring from the police or fire department, adding to their Social Security record prior to attaining age 62 or even later will add to their benefits.

Additionally, the earlier in your working life that you earn Social Security eligibility, the earlier you will attain eligibility for Social Security disability benefits. I haven't talked about SSA disability benefits other than in the general introduction. But if a police or fire employee becomes disabled from their public safety job, *and* the medical condition also qualifies for Social Security disability benefits, he or she can potentially collect both benefits. Granted the SSA benefit will be fairly small if the public safety work is outside of Social Security, but that small monthly disability check could still provide a person with critical income at a time when it is sorely needed.

A Word about Claiming Strategies

WHETHER OR NOT YOU ARE IN OR OUT OF SOCIAL SECURITY for your public safety job, all of us will be faced with decisions regarding when and how to receive our Social Security benefit. There is a fancy phrase for this now—a claiming strategy. Look it up.

At the simple end of the spectrum is the issue of what age to begin taking the benefit. A retiree can begin as early as age 62 (with some limits on allowable wage income) or may defer as late as age 70. With each month of delay, the benefit goes up. A retiree and spouse might make different decisions on the age at which to draw SSA benefits in order to start some income flow into the household but defer some benefit to a later age, with the money growing each year it is deferred.

A more complicated issue involves a retiree applying for his or her benefit but then suspending immediate receipt. This approach is no longer allowed unless a person was age 62 or older on January 2, 2016. When it was allowed, the approach permitted the spouse to begin collecting a spouse benefit off of the retiree's record. Later, that spouse could switch to benefits under his or her own SSA record, which would have grown each year the benefit was deferred up until age 70. This strategy was less of an issue for fire and police retirees who were not in Social Security, but it may have benefitted their spouse. For Illinois sworn personnel who are in Social Security, "file and suspend" could present some very nice alternatives. However, that opportunity expired except for persons already age 62 on January 2, 2016.

A thorough analysis of claiming strategies is beyond the scope of this book. But we still want to provide some basic information that the reader may use before delving into this subject. There is a lot written on this subject, available free online. You can also engage the services of an expert, in person or online, to run specific strategies based on your and your spouse's actual Social Security record. I think it is worth having a professional look at it if your own research on the subject isn't enough to make you feel comfortable in the decision. You could spend a few hundred dollars at most but be guided to a strategy worth more than $100,000 over your and your spouse's lives. One expert I've worked with, Doug Aller of New Concept Benefit Group, has custom software that can untangle most participant/spouse options for Social Security, including persons subject to the GPO and WEP.

Just like the IRS doesn't give you tax advice, the Social Security Administration does not advise on claiming strategies. It is up to you and your wife or husband to do the research, get some advice, and make the decision on when and how to claim your Social Security benefits.

Here are the basics.

CLAIMING AT DIFFERENT AGES

SOCIAL SECURITY CAN BE CLAIMED AT DIFFERENT AGES, from 62 to 70. The later the age, the higher the benefit.

For married couples, benefits can be claimed at different times. For example, a wife could start her benefit (on her record) at age 66 but the husband might delay until age 70. Selecting the proper strategy is always important, but to tell the truth, it is less important for retirees who have very small SSA benefits.

The benefit formulas and examples given in this section are based on a retiree commencing Social Security benefits at the so-called "Full Retirement Age" or FRA. A person's FRA is based on when they were born. Examples covering most of the active and recently retired police and fire community are listed below:

Year Born	**Full Retirement Age**
Thru 1954	66 years old, 0 months
1955	66 years old, 2 months
1956	66 years old, 4 months
1957	66 years old, 6 months
1958	66 years old, 8 months
1959	66 years old, 10 months
1960 or later	67 years old

Claiming Early. If you claim your benefit before your Full Retirement Age, the benefit is reduced for each month before the FRA and your benefits will be subject to annual wage limitations. The annual wage limitation in 2018 is $17,040. If you earn above that amount in a year, your next year's SSA is reduced by 50-cents per $1 you were over the limit.

If your FRA is 66 and you claim your benefits before that age, the reductions are as follows:

Claiming Age	Reduction
62	25%
63	20%
64	13%
65	7%
66	No reduction, full benefit paid

Delaying Claiming. If you claim your retirement benefits after your Full Retirement Age, the amount paid to you increases each month on a uniform 8% per year. Here are examples if your FRA is 66 years old.

Claiming Age	Increase
67	8% higher
68	16% higher
69	24% higher
70	32% higher
Above 70	No further increases.

Final Examples. Here are some examples of modifications to a Social Security benefit of $1,000 at a Full Retirement Age of 66, based on the age the retiree claimed the benefit

Claiming Age	Benefit
62	$ 750
63	$ 800
64	$ 870
65	$ 930
66	**$1,000**
67	$1,080
68	$1,160
69	$1,240
70	$1,320

WHAT'S THE BEST AGE?

THERE IS NO BEST AGE at which to collect your benefit. The Social Security formulas are neutral, based on system-wide life expectancy. Joe draws at 62, Dan at 66 and Mary waits until age 70. They all made a good decision if it fit their needs.

Considerations for Delaying. The formulas are based on life expectancies nationwide. People with educations at high-school and above, middle class incomes and health insurance will usually live longer. These characteristics are present in the police and fire professional group. Delaying your Social Security makes sense if you are going to live longer than the average American.

Also, the formulas don't take gender into account, but since women live longer, women should consider delaying Social Security benefits.

Considerations for not delaying. If a person reasonably expects to live a shorter time than average, that is a good consideration for beginning Social Security benefits at an earlier age. Single people who want to build their bank account up for an estate or charity deduction might also consider drawing early.

A good plan? If you need the money earlier than expected, draw your Social Security at an earlier age. If you don't need it, delaying claiming Social Security to increase your lifetime benefits.

A bad plan? It makes no sense to me to calculate a "breakeven age;" the age at which you need to die in order to make sense out of a decision to draw early. If you compute age 84, are you going to be mad if you live beyond that age?

Another bad consideration is the approach that "Social Security is going to run out of money, I should take what I can now." It is not going to run out of money with a result that promised benefits will not be paid.

Good luck in your claiming decision.

WHAT NEXT?

DEFINITELY OBTAIN FROM SSA the two publications mentioned in this section. The "Government Pension Offset" (SSA Publication 05-10007) and the "Windfall Elimination Provision" (SSA Publication 05-10045). They are an easy read and will reinforce everything you read in this chapter.

Anything online from writer Thomas Margenau on this subject will be worthwhile. If you really want to dig deep, go there.

A new white paper, "The Windfall Elimination Provision – It's Time to Correct the Math," from the Social Security Advisory Board (ssab.gov) discusses some possible improvements to the WEP formula to ensure that the replacement rate is virtually identical for both SSA covered and non-covered workers. I don't know if the type of tweaking they recommend is really needed, but the paper is an excellent resource for understanding WEP, including its history.

You should consider opening up an account with Social Security to at least view a statement of earnings and benefits estimates, or go further to see your entire record and run your own estimates. Remember that statements are only sent out by the SSA every five years. To get good information on where you are now and what the future will look like, you may want to set up online access.

When you get to retirement, become your own expert on the issue of claiming strategies or find a professional online or in person to assist you.

A series of Questions and Answers appear in an Appendix to this section, which may assist the reader in summarizing what he or she has learned.

COPYRIGHT

DISCLAIMER: Please remember that pensions, Social Security, deferred compensation and similar programs are created and governed by laws. Such laws are subject to change and interpretation. The material presented by IPPFA is solely for educational purposes. IPPFA is not offering legal or tax advice or any other professional service. Please do not make any decision that effects your retirement benefits without consulting a pension board, the Social Security Administration, a deferred compensation company's credentialed agent, an attorney, a certified public accountant or similarly qualified professional.

Section Appendix:

Social Security Questions and Answers

Since this section includes a lot of information, this Q&A Appendix is intended both as an additional summary and a look at the specific situations in which a lot of fire and police professionals find themselves.

Q. *I worked as a firefighter in a department that didn't participate in Social Security. What is the effect of that on the Social Security that I qualified for from other jobs?*

A. If you are or were married, you will generally not be able to obtain any benefit from your spouse's record. This is due to a provision called the *Government Pension Offset* or GPO. As far as your own record of Social Security wages, you will receive a monthly benefit but it will be calculated using a modified formula under the *Windfall Elimination Provision* or WEP. This is done because low wage earners from the civilian workforce are paid a disproportionately higher Social Security benefit. SSA doesn't want to pay that poor-man's higher SSA benefit to you because you are not a low wage earner. The WEP accomplishes the modification in a way that results in the amount you receive from Social Security being about the same wage replacement as civilian workers who had the same wages as you did at the fire department.

Q. *I was told that I wouldn't get any Social Security benefit from my civilian work because of my time as a firefighter outside of Social Security. Is that true?*

A. No, it is not true. Every worker who attains forty quarters (or "credits") in Social Security will receive a benefit regardless of their work in fire, police or teaching services. Statements by anyone that you will not receive a benefit are the worst extreme of the rumors surrounding this subject

Q. *I work in a police agency that is <u>in</u> Social Security. I called the Social Security 800-number and was told that my Social Security would be reduced because of my police work. Is that true? Also, is there anything I might do that would hurt my Social Security benefit after I leave my current police job?*

A. No, it is not true that your Social Security benefit would be reduced as a result of your current police employment. Social Security historically has had a great customer service capability but it has been cut back due to budget restrictions. You most likely told the overworked call-taker that *"I have a government pension"* or *"I have a police pension"* and the SSA employee went right to the script about the GPO and WEP. But those provisions DO NOT apply to persons who were in Social Security during their public safety careers.

As to whether or not you can diminish your benefits after your current employment, it is true that you might retire and go to work at another police department that is not in Social Security. If you eventually earn a pension from that second job, the GPO and the WEP *would* apply to you. But the impact would most likely $0 or a small amount. You won't need a Social Security benefit from your spouse since you earned a high benefit on your own. So applicable or not, the GPO is irrelevant to you. And the WEP will most likely shut-off because you have so many years of substantial earnings in Social Security. In summary, don't worry about any of this.

Q. *Is my wife's Social Security benefit affected in any way by my work as a firefighter who did not participate in Social Security during my fire career?*

A. Absolutely not. She is entitled to all of the SSA benefit she earned on her own. She is also entitled to a spouse benefit from your civilian work record if that would pay her more than the benefit she earned on her own. Nothing in the GPO or WEP affects a husband or wife of an Illinois police or fire professional.

Q. *I am a Skokie firefighter and my wife is a District 219 school teacher. Neither of us participates in Social Security. However, we both have enough credit from work prior to city employment to qualify for Social Security. How much can we expect to receive in Social Security benefits?*

A. Not much. You are both working in careers outside of Social Security, so your actual time in Social Security is limited. And the wages that you earned when you participated in SSA were most likely fairly low compared to your professional earnings. So you have a minimum amount of time in the Social Security system and did not earn a lot of money during that time.

You can estimate a benefit using the WEP formula in the preceding chapter or sign on to ssa.gov for a personal account and use your own information to simulate different scenarios.

I want to be cautious about coming up with any type of estimate for you, since everyone's situation is different. If you'll remember that—everyone's situation is different—I'll give an example using the earnings of a possibly typical worker who was discussed earlier in this section. That person is a hypothetical police officer or firefighter discussed earlier in this section who inflation had adjusted earnings as follows: $15,000 yearly for five years, then no Social Security earnings during a public safety career, then $50,000 annually for ten years.

Using today’s formula’s, that person’s Social Security benefit at the Full Retirement Age would be $507 per month, calculated using the WEP formula. More earnings than those surmised would produce a higher benefit, lower earnings would create a lower benefit.