

Social Security and Government Pensions

IPPFA – *PSfit* Public Safety Financial Independence Training



Introduction: the Three-legged Stool

Social Security is one “leg” of a three-legged stool of retirement income:

Pension

Social Security

Personal Savings

Social Security is a complex program that is not “sponsored” by a local government. But uniformed and civilian **employees can master simple information** on specific provisions that affect them. Details are best provided by the employer, unions or a related professional organization, such as **IPPFA**.

Social Security and Illinois Governments

Nationwide, many State and Local employees do not participate in Social Security (SSA). In Illinois, it is governed by an agreement from the 1950's setting forth who is in or out of SSA.

Out: teachers, university employees, Chicago, Cook County, *most downstate/suburban fire and police.*

In: most state employees, non-Chicago municipal and county (IMRF). Also, *some fire and police* in small towns or towns that were small in the 1950's.

What Social Security Benefits are Paid to Illinois Public Employees?

IN	Those “in” Social Security earn the same benefits as private-sector civilian employees. <i>The same!</i>
OUT	Those “out” still earn a benefit from qualifying civilian work. Their benefits are lower than most workers because of their long absence from Social Security. Also, benefits are calculated using modified formulas, but this does NOT result in a reduction compared to the civilian workforce (based on the percentage of lifetime wages paid out in monthly retirement benefits).

Social Security Basics

- a) Established in 1935. Provides retirement, disability and survivor benefits.
- b) A “**social insurance**” program, intended to keep people above the poverty level.
- c) Funded by contributions from employee wages, an employer match and a small amount of taxes on Social Security benefits.
- a) **Long-term projections for funding show a need for improvement** either in revenue (higher taxes), benefit reduction, or a combination. Private individual-accounts as a future for Social Security have been discussed but not received favorably.

Who Pays for Social Security?

Workers Pay:

6.2% of their earnings for Social Security (FICA) and 1.45% for Medicare.

Employers Pay:

Employers, including cities and villages, match the same payments.

Wages over \$132,900 (2019):

Not taxed for Social Security (and *not* included in benefit calculations).

All Workers hired after March 21, 1986 pay the 1.45% for Medicare, even if they don't participate in Social Security.

Earning Social Security Benefits

- Attained by earning 40 “credits” in Social Security covered employment.
- A credit is earned in 2019 by making \$1,360. Up to four credits may be earned each year.
- Generally, a benefit is earned if you work for 40 calendar quarters, or 10 years total.
 - Most Illinois sworn personnel will qualify for some Social Security benefit.
 - You will know if you qualify when you obtain a *Personal Earnings and Benefit Statement* or inquire to ssa.gov.

What Benefits are Earned?

Replacement Rates for age 65 - 2017

Category	Wages	Benefit	Rate
Low	\$22,215	\$11,517	52%
Medium	\$49,366	\$18,971	38%
High	\$78,985	\$25,150	32%
Maximum	\$120,418	\$30,560	25%

Source: National Academy of Social Insurance

The “return” on Social Security Contributions

As income grows, the “return” on Social Security contributions is reduced

For comparison, consider a simple investment plan.

- Tom puts \$2,000 in a stock index fund each year for 30 years.
- Sally puts in \$4,000.
- After 30 years, Sally will have twice as much money.
- **Sally *always* has twice as much as Tom.**

Another comparison:

- A study of a town’s police and fire pensioners retiring in 2016 with 30 years of service would show a 75% replacement rate among all income levels (*i.e.* among all ranks).
- Patrol officers/firefighters don’t get a higher pension rate than deputy chiefs.

The “Return” on Social Security Contributions (continued)

But in Social Security, we saw that the highest wage earner paid 5.6 times the contributions (taxes) than the lowest earner, but his benefit is *not* 5.6 times higher; it is only 2.6 times as high.

Why?

Social Security benefits are “**progressive**,” paying higher benefits to lower wage earners relative to their pay.

Social Security Benefits

Provisions that May Affect Public Employees

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

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

Use: www.ssa.gov

Government Pension Offset

(affecting benefits earned from a spouse's record)

Spouse Benefits Explained:

A retiree receives Social Security benefits either from his or her own work record or he receives **one-half of his spouse's benefit** if that will result in a higher payment.

Spouse Benefits – Example # 1

Al's Social Security Benefit:	\$ 2,000
Peggy's Benefit from her work record:	\$ 800
Peggy will receive a monthly check of:	<u>\$ 1,000</u>
The couple will receive in total:	\$ 3,000



Spouse Benefits – Example # 2

Ward's Social Security Benefit:	\$ 1,500
June's work record benefit:	\$ 0
June will receive:	<u>\$ 750</u>



**The couple will
receive in total: \$2,250**

But, the Government Pension Offset changes this for many public employees:

The GOVERNMENT PENSION OFFSET provides for a reduction in Social Security Benefits *from a spouse's record* of 66 cents for every dollar received in government pension from work *outside* the Social Security System.

Government Pension Offset (when applicable)

The sole example:

Molly's Social Security Benefit:	\$ 2,800
FF/PM Tom's Spouse Benefit?:	\$ 1,400
Tom's <i>Actual Spouse Benefit</i> :	\$ 0

Why?

A 66 cents reduction in Tom's \$ 1,400 Spouse Social Security benefit for every \$1 of a \$ 2,100 or higher public pension (from outside Social Security) will **eliminate all of Tom's Social Security benefit from Molly's earnings record.**

Spouse Benefits for Illinois Fire and Police Retirees

Simple Rule # 1

Most Illinois sworn personnel will not receive a Social Security benefit from a Spouse's record other than Medicare.

Actually, Most Illinois Public Employees will not receive a Spousal SSA Benefit

Because those who *did* participate in SSA while in public service earn too high of a Social Security benefit on their *own* record to qualify for any benefit from their spouse.

Because those who *did not* participate in SSA while in police/fire service are subject to the Government Pension Offset (GPO).

In fact, there are few Spousal Benefits paid to anyone nationwide now that most homes are 2-incomes.

Why a GPO Offset? (from Publication 05-10007)

- a) The Spouse benefit was created to compensate people who raised the family or were otherwise **financially dependent on the spouse**.
- b) Congress did not want full-time government employees **who did not pay FICA tax** to be treated in the same manner as low-income Americans.

A Social Security Benefit from *YOUR* Work Record

An understanding of how Social Security benefits are calculated is helpful.

For comparison, consider your government pension; calculated using your final salary and percentage based on your years of service.

Example: 75% of salary after 30 years
The “replacement rate” is 75 %

Social Security Benefits

Calculated by averaging a retiree's salary over his/her working life (with indexing of that average for inflation).

The average wages are then “replaced” using a formula with varying replacement rates.

The 2019 formula is:

First \$ 925 in monthly Wages	90%
Next \$ 4,658 in monthly Wages	32%
Over \$ 5,583 of Taxable Wages	15%

Examples of Civilian and Some Police/Fire Retirees' SSA Benefits

Monthly Wage	Calculation	Benefit	Percent
\$800	\$800 @ 90%	\$720	90%
\$1,500	\$925 @ 90% \$575 @ 32%	\$1,017	68%
\$6,700	\$925 @ 90% \$4,658 @ 32% \$1,117 @ 15%	\$2,491	37%

Windfall Elimination Provision

- ✓ Under the so-called “**Windfall Elimination Provision (WEP)**,” workers who receive a pension *from work outside of Social Security* have a different benefit formula.
- ✓ **Under this modified formula**, the first increment (called a “*bend point*”) of wages is replaced at a lower percentage than in the standard formula. All other factors stay the same.

Modified Formula for Public Employees not in Social Security

First \$ 925 in monthly Wages	40%*
Next \$ 4,658 in monthly Wages	32%
Remainder of Taxable Wages	15%

*As opposed to 90% - all other factors are unchanged

Examples of Police/Fire Retirees' SSA Benefits

Monthly Wage	Calculation	Benefit	Percent
\$800	\$800 @ 40%	\$320	40%
\$1,500	\$925 @ 40% \$575 @ 32%	\$554	37%

Simple Rule # 2 (not really simple)

*If attaining age 62 in 2019, WEP affected Public retirees (those not in SSA) would receive a Social Security Benefit from their work records that is **56% lower but not more than \$462 lower** than the benefit that would be calculated using the standard formula.*

Not so simple but good approaches to estimating Windfall Elimination Impact

The Social Security website at ssa.gov has a feature that calculates the impact of the Windfall provision on your benefit.

- Google “[Online Calculator \(WEP Version\)](#).”
- Then input your historical wages from your Social Security *Personal Earnings and Benefit Statement* for your own estimate.
- You can also go to ssa.gov and register for access directly to your private earnings history and other information. Then use this info to run estimates using the [Online Calculator \(WEP Version\)](#).

Tales of Three Retirees

- 1) Ted
 - A retiring private-sector accountant
 - Has average monthly earnings of \$6,700.
- 2) Bob
 - A police officer in Bartlett, covered under both Article 3 pension and SSA.
 - He also has average monthly earnings of \$6,700
- 3) Julie
 - A firefighter in Skokie (a town that is not in SSA for fire/police).
 - Has average monthly Social Security earnings of \$1,500 from various civilian jobs.

Tales of Three Retirees (cont.)

Ted
(CPA)

- \$6,700 in Social Security covered wages.
- \$2,491 Social Security benefit.
- **37% of wages replaced.**

Bob
(BPD)

- \$6,700 in Social Security covered wages.
- \$2,491 Social Security benefit.
- **37% of wages replaced.**

Julie
(SFD)

- \$1,500 in Social Security wages.
- \$6,000 in fire wages (outside of SSA)
- \$554 Social Security benefit.
- **37% of Social Security wages replaced.**

It's the same!

How Can It Be the Same?

Accountant Ted and Sgt. Bob at \$6,700 in wages:

First \$925 @ 90%	=	\$ 833
Next \$4,658 @ 32%	=	\$1,490
Final \$1,117 @ 15%	=	<u>\$ 558</u>
Total		\$2,491 <i>(37% of wages)</i>

FF Julie at \$1,500 in wages:

First \$925 @ 40%	=	\$ 370
Final \$575 @ 32%	=	<u>\$184</u>
Total		\$554 <i>(37% of wages)</i>

Lessening the Impact of the Windfall Elimination Provision

- 30 or more Years of “Substantial Earnings” under Social Security negates impact.
- 20 to 29 years of Substantial Earnings lessens the impact.
- A year of Substantial Earnings in 2018 was **\$23,850**. It was lower in the past; will be higher in the future.

Lessening the Impact: the WEP formula does not apply to survivor benefits

- Widow(er)s of Illinois fire/police are **not** impacted by the WEP. *Beware of rumors to the contrary. Continuing.....*
- Widow(er)s are entitled to SSA benefits from their own records without modification, even if they receive a police/fire survivor pension benefit.
- Also, they may receive SSA survivor benefits from the fire/police employee record using the standard (non-WEP) formula.

Why a Modified Formula?

- Social Security uses a **progressive formula**; lower income workers receive more.
- A police officer, firefighter or teacher or similar employee is not a low income worker.
- Use of the standard formula for people who are not in Social Security for their career work would result in a **“windfall”** benefit reserved for poorer citizens.
- The **“Windfall Elimination Provision”** corrects this.

What does this all mean to typical firefighter or police officer?

Hard to say, everyone's situation will be different.

- IMRF and Public Safety Employees “in” Social Security at work receive the same benefits as their civilian counterparts.
- Example of One FF/Officer who is “out” of SSA:
 - With annual civilian earnings of \$5,000 from age 18 to 21, \$30,000 until age 25, nothing until age 55, then \$50,000 to age 65 receives a Social Security benefit of **\$600 per month.**
 - Earn more and the amount will be higher, earn less and the amount will be lower.
- All earnings estimates in 2019 dollars.

Dealing with Rumors

M.I.T. Study: false information spreads further and faster than the truth.

Sir Winston Churchill: “A lie gets halfway around the world before the truth gets its pants on.”

Social Security Rumors: False information about Social Security for Illinois public employees seems to be everywhere.

These rumors mix up the GPO and WEP, announce that some workers will not get any Social Security, declare that covered-civilian workers are affected by WEP and state that widow and widowers benefits are reduced if they are receiving a fire/police survivor pension. **And more!**

Some rumors are right, but most not...

Good	Chicago and Evanston Fire feedback on benefits.
Real Bad	Illinois teachers get no Social Security, even from non-school work.
Bad	IMRF member subject to WEP.
Real Bad	When I die, my police survivor pension will reduce my wife's Social Security she earned on her own record.

... MOST are WRONG!

How to Deal with Bad Information

- *Gut check*, first and foremost. You are now an expert.
- **Always go back to the SSA Publications.** Police/Fire/Teacher benefits may be impacted by the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO).
If it's not in the publication, it's not true.
- Check the information, hold your ground, request the source of the other data. If the source is *some guy*, forget it !

Help Social Security Get it Right!

Question 14(a) of the Social Security Retirement Application:

*“are you entitled to, or do you expect to be entitled to, a pension... based on **your** work **not** covered by Social Security?”*

- ✓ IMRF members, police/fire who *do* participate in Social Security *and* surviving police/fire spouses will answer: **NO**.
- ✓ Sworn personnel who are not in Social Security during their police/fire careers will answer: **YES**.

Legislative Proposals H.R. 141

H.R. 141, multiple sponsors.

Would repeal both the WEP and the GPO.

Not likely to pass.

- Same old proposal that always fails.
- Attempts to address inequities that are not there.
- Same old incorrect, emotional arguments.

Legislative Proposal HR 6933 S3526

Bipartisan Proposal.

Leaves Government Pension Offset intact.

Modifies Windfall Elimination Provision. From Fedweek.com, 10/9/18:

Calculates Social Security benefits using each worker's total lifetime earnings, and then adjusts for the proportion of earnings that came from a job covered by Social Security, according to a summary by the bill's sponsors.

Legislative Proposal HR 6933 S3526

Some analysts say that it would increase fire-police-teacher-etc. Social Security benefits by a modest amount.

Hard to argue with on the issue of fairness.

In a way, this approach is made possible by the mandatory Medicare approach since March, 1986. *Social Security has a record of your wages, even if earned outside of Social Security*, because your employer reported your wages for Medicare tax purposes.

Social Security Claiming Strategy: An Overview

- **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. A wife could start her benefit (on her record) at age 66 but the husband might delay until age 70.
- **For married couples, certain sophisticated/complicated *Claiming Strategies* were terminated effective April 1, 2016.** These involved initial retirement under one person's record then switching to another record at a later date. Persons who were age 62 by that date may have some eligibility for these prior strategies.
 - *This, and all Claiming Strategy issues, may need research or professional consultation. **Dan is not an expert in Claiming!***
- **Selecting the proper strategy is always important**, but often less impacting for retirees who have very small SSA benefits.

SSA Full Retirement Ages

The SSA formulas estimate or determine benefits at the so-called Full Retirement Age (FRA). **Your FRA is:**

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 and later	67 years old

Social Security Benefits: 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 limitation in 2019 is \$17,640.**
- 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

Social Security Benefits: Delaying to a Later Age

If you claim your retirement benefits *after* your Full Retirement Age, the amount paid increases each month on a uniform increase of 8% per year.

Examples at an FRA of 66 years old:

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

Examples: Social Security Benefits of \$1,000 at FRA of Age 66

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

Social Security Claiming: What's the Best Age?

- There is no best age. The formulas are neutral, based on system-wide life expectancy. Joe draws at 62, Dan at 66, and Mary at 70. They all made a good decision if it fit their needs.
- Considerations for Delaying. Formulas are based on system-wide life expectancies. People with educations at high-school and above, middle class incomes and health insurance will usually live longer. Delaying makes sense if you are going to live longer than the average American.
- The formulas don't take gender into account, but since women live longer, women should consider delaying Social Security.
- Considerations for Not Delaying. I'm single and want to build up savings for an estate or charity.

Social Security Claiming: What's the Best Age ? – continued...

- One Approach: if you need it, take it. If you don't need it, delay claiming Social Security in order to increase your benefit and/or a spouse's benefit later in life.
- Bad Approaches:
 - (a) calculating a breakeven age, and
 - (b) being afraid that Social Security is going to run out of money.

Wrap Up – Summary

- ✓ Remember the “three-legged stool” of retirement income:
 - 1) Pension
 - 2) Social security
 - 3) Personal savings
- ✓ **For some in Illinois**, Social Security is a full, strong leg.
- ✓ **For most fire and police**, the Social Security leg will be lessened by their careers outside of SSA but they will still receive an equitable benefit.
- ✓ “Claiming Strategies” take some thought and research.
- ✓ **There is always a benefit to earning Social Security credit.**

Questions ?

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