

Social Security and Government Pensions:

IGFOA – September 2021



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: public school 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

Established in 1935. Provides retirement, disability and survivor benefits.

Funded by contributions from employee wages, an employer match and a small amount of taxes on Social Security benefits. Current employee rate is 6.2% of wages. Wages over \$142,800 are not taxed (2021).

All public employees are in Medicare if hired after March, 1986.

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.

Earning Social Security Benefits

- Attained by earning 40 “credits” in Social Security covered employment.
- A credit is earned in 2021 by making \$1,470. 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.
 - IMRF participants and 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 - 2019

Category	Wages	Benefit	Rate
Low	\$23,308	\$12,451	53%
Medium	\$51,795	\$20,538	40%
High	\$82,872	\$27,208	33%
Maximum	\$127,061	\$33,134	26%

Source: National Academy of Social Insurance

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 66.6 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: \$ 3,000
FF/PM Tom's Spouse Benefit?: \$ 1,500
Tom's *Actual Spouse Benefit*: \$ 0

Why?

A 66¢ reduction in Tom's \$ 1,500 Spouse Social Security benefit for every \$1 of a \$ 2,250 or higher public pension (from outside Social Security) will eliminate all of Tom's Social Security benefit *from Molly's earnings record*.

Spouse Benefits and Illinois Public Safety

Simple Rule #1: You will *not* receive a Social Security benefit off of your spouse's work record.

In fact, few Americans receive a spouse benefit now that most homes are two income families.

Why Not? Because those who *did not* participate in Social Security while in police/fire/teaching service are subject to the Government Pension Offset (GPO).

Why Not? Because those who *did* participate in SSA while in public or private service earn too high of a Social Security benefit on their *own* record to qualify for a retirement benefit from their spouse.

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 2021 formula is:

First \$ 996 in monthly Wages	90%
Next \$ 5,006 in monthly Wages	32%
Over \$ 6,002 of Taxable Wages	15%

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

Monthly Wage	Calculation	Benefit	Percent
\$800	\$800 @ 90%	\$720	90%
\$1,350	\$996 @ 90% \$354 @ 32%	\$1,010	75%
\$7,000	\$996 @ 90% \$5,006 @ 32% \$ 998 @ 15%	\$2,648	38%

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 \$ 996 in monthly Wages	40%*
Next \$ 5,002 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%
\$1,350	\$996 @ 40% \$354 @ 32%	\$512	38%

Workers' Benefits and the Illinois Public Pension

Moderately Simple Rule: If attaining age 62 in 2020, WEP affected Public retirees (those not in SSA) would receive a Social Security Benefit from their work records that is 44% to 55% lower but not more than \$498 lower than the benefit that would be calculated using the standard formula.

Not So Simple (but a good idea): Go to ssa.gov and register an account in your name. Download your earnings history and plug it into the "Online Calculator (WEP Version).

Tales of Three Retirees

- 1) **Ted** 
 - A private-sector or IMRF eligible accountant
 - Has average monthly earnings of \$7,000.
- 2) **Bob** 
 - A police officer in Bartlett, covered under both Article 3 pension and SSA.
 - He also has average monthly earnings of \$7,000
- 3) **Julie** 
 - A firefighter in Skokie (a town that is not in SSA for fire/police).
 - Has average monthly Social Security earnings of \$1,350 from various civilian jobs.

Tales of Three Retirees (cont.)

Ted
(CPA)

- \$7,000 in Social Security covered wages.
- \$2,648 Social Security benefit.
- **38% of wages replaced.**

Bob
(BPD)

- \$7,000 in Social Security covered wages.
- \$2,648 Social Security benefit.
- **38% of wages replaced.**

Julie
(SFD)

- \$1,350 in Social Security wages.
- \$6,000 in fire wages (outside of SSA)
- \$512 Social Security benefit.
- **38% of Social Security wages replaced.**

It's the same!

How Can It Be the Same?

Accountant Ted and Sgt. Bob at \$7,000 in wages:

First \$996 @ 90%	=	\$ 897
Next \$5,002 @ 32%	=	\$1,601
Final \$998 @ 15%	=	<u>\$ 150</u>
Total		\$2,575 (38% of wages)

FF Julie at \$1,350 in wages:

First \$996 @ 40%	=	\$ 399
Final \$354 @ 32%	=	<u>\$113</u>
Total		\$512 (38% of wages)

Lessening the Impact of the Windfall Elimination Provision

- 30 or more Years of “Substantial Earnings” under Social Security negates impact.
- 21 to 29 years of Substantial Earnings lessens the impact.
- A year of Substantial Earnings in 2020 was \$25,575. 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 Illinois firefighter, police officer or teacher?

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 **\$567** per month.
 - Earn more and the amount will be higher, earn less and the amount will be lower.
- All earnings estimates in 2020 dollars.

Rumors

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

Social Security Rumors: False information about Social Security for 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 Social Security covered-civilian workers are affected by WEP and state that widows 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

- 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, 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**.

A Nice Little Administrative Burden !

- **Public Law 108-203** requires government employers to disclose the effect of the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) to employees hired after January 1, 2005.
- **Form SSA-1945, *Statement Concerning Your Employment in a Job Not Covered by Social Security***, is the document that should be used to meet this requirement. The SSA-1945 explains the potential effects of two provisions in the Social Security law for workers who also receive a pension based on their work in a job not covered by Social Security.

Legislative Initiatives

- There are two types of legislative initiatives being considered to “deal” with the impact of the WEP and GPO on public employees: (a) complete repeal and (b) modification of the WEP.
- The President, as a candidate, had a Social Security plan that calls for complete repeal.

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 3934: Equal Treatment of Public Servants Act

Bipartisan Proposal.

Leaves Government Pension Offset intact.

Modifies Windfall Elimination Provision.

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.

Legislative Proposal HR 3934: Equal Treatment of Public Servants Act

Social Security actuaries found that 69% of persons would see an average increase of about \$74 monthly. Conversely, 31% would see a reduction averaging \$55. However, there is an overall slight actuarial gain to the system.

This approach is made administratively possible by mandatory Medicare as of 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.

Questions ?

Questions so far on the impact on **Social Security** benefits by an Illinois public pension?

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 2021 is \$18,960.
- 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. Perhaps more equitable if newly introduced legislation passes.
- ✓ “Claiming Strategies” take some thought and research.
- ✓ There is always a benefit to earning Social Security credit.

Questions ?

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