Social Security

White paper

NATIONWIDE RETIREMENT INSTITUTE®

The Nationwide Retirement Institute provides practical thought leadership and comprehensive solutions to financial advisors and their clients. Through education and insights, client-ready tools and consultative support, complex retirement challenges are broken down and simplified to help advisors and clients plan for a more secure financial future.

Social Security for nonprofit and government employees

Pensions are a traditional source of retirement income *for many Americans, but some pensions can affect Social Security benefits. If you're an advisor who works with teachers, police officers, firefighters, government employees or the spouses of those workers, you need to be aware of these provisions and how they could affect your clients.*

While the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) differ in who they affect and how they impact benefits, both are aimed at reducing Social Security benefits for people who receive a pension from work in which they did not pay into the Social Security system.

Government Pension Offset (GPO)

The GPO reduces a government employee's Social Security spousal and survivor benefits by two-thirds of their government pension.

Normally, the Social Security spousal benefit is 50% or less of the retired or disabled worker's benefit and up to 100% of the deceased worker's benefit. GPO reduces the spousal and survivor benefit for spouses who also qualify for a government pension by two-thirds of the pension amount. If the pension from non-covered work is sufficiently large in comparison to the Social Security spousal or survivor benefit, GPO may eliminate the entire spousal or survivor benefit.

For example, Cindy worked in non-covered jobs her entire career and has a $3,000 a month pension. Her husband Bruce worked enough in Social Security-covered employment and is eligible for a $2,500 per month Social Security benefit if he elects at age 66. Therefore, Cindy is eligible for a spousal benefit of up to $1,250 under Bruce's work history. However, under GPO Cindy's spousal benefit is reduced to $0 because two-thirds of her pension ($2,000) is greater than her spousal benefit ($1,250).

Upon Bruce's death, she would still get a survivor's benefit, but it would only be $500, rather than the $2,500 (at her full retirement age) she would get if the GPO did not apply.

GPO example	Bruce	Cindy
Social Security worker benefit	$2,500	$0
Monthly pension amount	$0	$3,000
Maximum spousal benefit	$0	$1,250
GPO reduction ($3,000 x .66)	$0	$2,000
Actual spousal benefit ($2,000 > $1,250 = $0)	$0	$0
Survivor benefit (What Cindy receives if Bruce dies)	$0	$500

Windfall Elimination Provision (WEP)

The WEP reduces the Social Security benefits of people who qualify for both a Social Security benefit and a government pension based on their own earnings.

In order to understand how WEP affects benefits, you first need to understand the basics of how Security benefits are calculated. In general, a worker's monthly Social Security benefit is based on his or her 35 highest-paid years in Social Security-covered employment. The worker's earnings are indexed to wage growth to bring earlier years up to a current basis, then divided by 35 years, and divided again by 12 months per year to determine the Average Indexed Monthly Earnings (AIME). Once a worker's AIME is established, the Social Security benefit formula is applied to arrive at their Primary Insurance Amount (PIA).

Social Security benefit formula

Factor	Average Indexed Monthly Earnings (AIME)
90%	of the first $926
32%	of earnings from $926 to $5,583
15%	of earnings over $5,583

As you can see, the formula is progressive, which means workers with low average lifetime earnings will receive a larger proportion of their earnings as a Social Security benefit.

For someone who worked in the private sector for 10 years then changed careers to become a public employee who didn't pay Social Security taxes, their AIME would be relatively low because their 10 years of income would be averaged over 35 years.

Therefore, the benefit formula would replace more of their earnings at 90% than someone who spent his or her full 35-year career in covered employment. This is known as a windfall. Under the WEP, instead of 90% of their first $926, this worker would only get 40%. Let's look at an example of someone with an AIME of $4,000.

Regular benefit formula

90% of the first $926	$833.40
32% of earnings from $926 to $5,583	$983.68
15% of earnings over $5,583	$0
Total PIA	**$1,817.08**

Windfall elimination formula

40% of the first $926	$370.40
32% of earnings from $926 to $5,583	$983.68
15% of earnings over $5,583	$0
Total WEP PIA	**$1,354.08**

The WEP reduced this worker's earnings by $463 per month. A worker's WEP reduction cannot exceed more than half of his or her pension. And workers who have 30 or more years of substantial earnings in Social Security-covered employment are exempt from WEP. For each year over 20 of "Substantial Earnings", a worker receives a 5% addition to the percentage in the first bend point. For example, a worker with 22 years of Substantial Earnings would have a 50% factor, rather than 40% of the first $926.

How many are affected?

According to the Social Security Administration[1], GPO and WEP affect a relatively small portion of the population. In December 2011, SSA reported that 568,000 Social Security beneficiaries had spousal benefits reduced by the GPO, or about 1% of all retired worker beneficiaries. As of December 2012, about 1.5 million Social Security beneficiaries were affected by the WEP (about 3.3% of retired workers). Of those 1.5 million, under 10% were spouses and children of affected workers.

What's at stake?

The point of all this is to raise awareness of two issues: First, GPO and WEP affect a lot more people than even the government realizes. Second, there are ways to get more benefits for your clients by understanding these results and using our Social Security 360 Analyzer® to identify optimal claiming strategies.

Let's go back to the first example outlined in the explanation of the Government Pension Offset explanation. Cindy's entire spousal benefit was eliminated by GPO and after Bruce's death she would only have received about $300 as a survivor benefit. A simple analysis by their advisor would have revealed that if Bruce were to delay his benefit to 70, the survivor benefit to Cindy would be $1,300. That could easily make the difference between whether Bruce should elect at full retirement age or delay. In short, we are happy to now be able to provide a process that incorporates both the WEP and GPO.

As an advisor who works with government employees, you need to be aware of how these provisions work and who they affect, and also understand that your clients are beginning to expect this kind of advice when it comes to Social Security. According to research conducted in 2018,[2] only 13% of people aged 50+ have a financial advisor who provides them advice on Social Security. However, 72% of future retirees said they would actually look for a new advisor if their current one didn't offer this kind of advice. In other words, when it comes to Social Security planning, your clients aren't the only ones who have something at stake.

For more information, visit nationwidefinancial.com/360.

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[1] The Social Security Windfall Elimination and Government Pension Offset Provisions for Public Employees in the Health and Retirement Study, Social Security Bulletin, Vol. 74, No. 3, 2014, ssa.gov 2017

[2] Social Security consumer survey conducted by Harris Poll on behalf of the Nationwide Retirement Institute, 2018.

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