WEP and GPO

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–Elaine Floyd, CFP®

Two big areas of confusion surrounding Social Security benefits are the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO). Although they are often spoken in the same breath, they are really quite different.

The only thing they have in common is that they affect people who worked in jobs not covered by Social Security. The major difference is that the WEP affects the worker's own retirement benefit (as well as some auxiliary benefits based on that worker's WEP-adjusted primary insurance amount, or PIA), while the GPO affects spousal and survivor benefits paid to the person who worked in the non-Social Security-covered job.

Let's look at some examples.

William and Wanda

William and Wanda are married. William was a police officer for the county, which had its own retirement system and did not pay into Social Security. He retired in 2006 and receives a police pension of $3,000 per month. After retiring from the police job, he worked for ten years as a consultant for a private firm. He therefore qualifies for Social Security and has a pre-WEP adjusted PIA of $1,200. Wanda worked all her life in a regular, Social Security-covered job and has a PIA of $1,800. Here's what William and Wanda can expect out of Social Security under a variety of scenarios:

William files for his retirement benefit. William's PIA will be reduced under the WEP because of his police job. The WEP reduction is not related to the amount of his pension, but rather the number of years he worked in the consulting job. The more years he paid into Social Security, the smaller the WEP reduction will be. In calculating his PIA, the Social Security Administration (SSA) will multiply the first bend point by anywhere from .40 (less than 20 years in the covered job) to .90 (30 or more years in the covered job). Depending on the first bend point for his age cohort, this has the effect of reducing the PIA by $400 or more. You can use the SSA WEP Calculator to figure your own WEP. (Go to *https://www.ssa.gov/planners/retire/anyPiaWepjs04.html*.)

William files for his spousal benefit. William may wonder if he can receive a spousal benefit based on Wanda's record. Yes, but his spousal benefit will be subject to the GPO. This means any spousal benefit he may be entitled to will be reduced by two-thirds of the amount of his police pension. Since his maximum spousal benefit is $900 (50% of Wanda's $1,800 PIA), the GPO reduction of $2,000 (two-thirds of William's $3,000 pension) would wipe out the entire spousal benefit.

Wanda dies and William files for his survivor benefit. Likewise, William's survivor benefit based on Wanda's record will be subject to the GPO, reduced by two-thirds of the amount of his pension. If Wanda delays to age 70, her benefit could be as much as $2,376 ($1,800 x 1.32) when she dies. Subtracting the $2,000 GPO, William would end up with a survivor benefit of $376.

Wanda files for her retirement benefit. She will receive her Social Security benefit as usual because all of her earnings were from Social Security-covered jobs.

William dies and Wanda receives a police survivor pension. Because Wanda has always paid into Social Security, she may receive her survivor pension from William's police job without her own Social Security benefit being affected.

George and Gladys

Here's another example. George and Gladys are married. George was a high earner in a regular, Social Security-covered job and has a PIA of about $2,400. Gladys worked her entire career as a teacher for a school system that opted out of Social Security. She never worked in a Social Security-covered job and therefore does not qualify for Social Security based on her own work record. She retires and collects a teacher's pension of $2,100 per month. Let's look at their possibilities.

George files for his retirement benefit. George's retirement benefit is not affected by either the WEP or GPO because all of his earnings came from a job that paid into Social Security. His benefit will be based on his $2,400 PIA, adjusted for early or late claiming as usual.

Gladys files for her spousal benefit. When Gladys files for her spousal benefit (after George files for his benefit), SSA will ask her if she is entitled to a pension from a non-Social Security-covered job. She will say yes. Then they will subtract $1,400 from her spousal benefit (two-thirds of her $2,100 pension), which will wipe out the $1,200 spousal benefit.

George dies and Gladys files for her survivor benefit. Gladys' survivor benefit will be reduced by two-thirds of the amount of her pension, or $1,400. If George had delayed benefits to get maximum credits on top of his high PIA, Gladys' survivor benefit would be about $3,168, not counting COLAs. Subtracting the $1,400 for the GPO, Gladys would end up with a survivor benefit of $1,768.

Obviously, there would be no spousal or survivor benefits for George based on Gladys' record because she never qualified for Social Security on her own work record. So there would be no claim-now-claim-more-later strategy available to him, and no opportunity for survivor benefits from age 60-70 prior to claiming his own maximum benefit.

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