Episode #217: What You Need to Know About These 2 Social Security Reductions

Video Transcription

Hello, and welcome to another edition of "Money Script Monday." My name is Sean Brady, and today's topic is "What You Need to Know About These 2 Social Security Reductions."

Generally speaking, social security is pretty straightforward. You get your primary insurance amount, your full retirement age. If you decide to take social security early, it'll be reduced. If you decide to take it after your full retirement age, it's going to be increased.

When it comes to spousal, widow/widower benefits, it's a little more complicated, but it's pretty similar to what I just described. The only time it really gets much more complicated is two situations, and the end result could be a reduction in the amount of social security benefit that's paid to you or your spouse. Those two situations are the Government Pension Offsets, GPO for short, or Windfall Elimination Provision, WEP for short.

The GPO really only applies to social security benefits as a spouse, widow, or widower. The WEP only applies to social security benefits that are your own social security benefits.

Let's start with GPO. According to the Social Security Administration, what they've published, is if you or someone that has worked with the federal, state, or local government and are not covered by social security over your last 60 months of employment, then their social security benefit as a spouse, widow, or widower may be reduced. That spouse, widow, or widower would only receive a social security benefit that exceeds two-thirds of their pension income. Let's just get into a hypothetical so you could see visually what I'm talking about.

We have Phil here, he's a teacher. At his full retirement age, he's going to receive a teacher's pension income of $900. Phil is not covered by social security throughout his last 60 months of employment. His wife, Anna, is not a government employee. At her full retirement age, her primary insurance amount is $1,000 a month.

Under your typical social security rules, Phil would be eligible for a spousal benefit of 50% of her benefit; 50% of her $1,000 a month would be $500 a month. If there was no Government Pension Offset, Phil would get $1,400 total; he gets his $900 pension plus that $500 a month spousal benefit. But with the Government Pension Offset, Phil would get a social security spousal benefit by how much it exceeds two-thirds of his pension. Two-thirds of his pension, that $900 a month, is $600 a month. Since that $600 is greater than that $500 spousal benefit, his spousal benefit's actually $0.

Another thing to consider is what would happen if Anna were to pass away. Under your typical social security rules, a spouse would move up to the higher social security amount. In this case, he'd be entitled to Anna's $1,0000 a month; but again, Government Pension Offset is going to apply here and you're going to take two-thirds of his $900 a month pension, which will be $600.

You're going to subtract that from Anna's benefit. He's going to get a social security benefit of $400 a month., so a total of $1,300 a month; that $900 pension plus the spousal benefit or social security benefit that he'd receive if Anna were to pass away.

It's really important to note that if Phil had the option to opt for a lump sum payout of his government pension instead of taking that $900 a month, the Social Security Administration is still going to calculate a reduction as if he had taken that $900 a month. There's just no way around that Government Pension Offset.

With regards to the Windfall Elimination Provision, that's only going to affect your own social security benefits. The WEP is going to affect individuals that have worked for an employer that did not withhold social security taxes. This is primarily going to affect individuals that have worked in other jobs long enough to qualify for social security retirement benefits.

For example, if you're a person that had worked in the private sector for many, many years, was at an employer that was withholding social security tax, and then you decided to switch to a different career; maybe you chose a government agency position, or maybe an employer that's in a different country. In that type of situation, the WEP may apply, you know? If the WEP applies, then they're going to have a modified formula to calculate your social security benefits. The result may be a reduction in benefits.

If you worked for 21 years or more of substantial earnings that were at an employer that was withholding social security taxes, then that reduction's likely to be rather small. If you have over 30 years of employment at an employer that was withholding social security taxes, then that reduction would be completely eliminated. You get a full social security benefit, as well as that government pension income if you're eligible for that income at that government agency.

That's pretty much the Windfall Elimination Provision in a nutshell. If you anticipate a reduction, or if you foresee a shortfall in your future in terms of your essential expenses minus your fixed income, then an annuity might be a great addition to your overall retirement portfolio.

An annuity can provide that guaranteed income that can help fill that shortfall gap to relieve your retirement portfolio and give you that stress-free retirement that we're all in search of, that we all desire.

If you have any more questions about Government Pension Offset, or Windfall Elimination Provision, annuities in general, or anything financial, please contact your financial professional today.

That concludes today's presentation. I hope you found it of value, and we'll see you again next time on "Money Script Monday."