



# **Social Security: Benefits and Offsets**



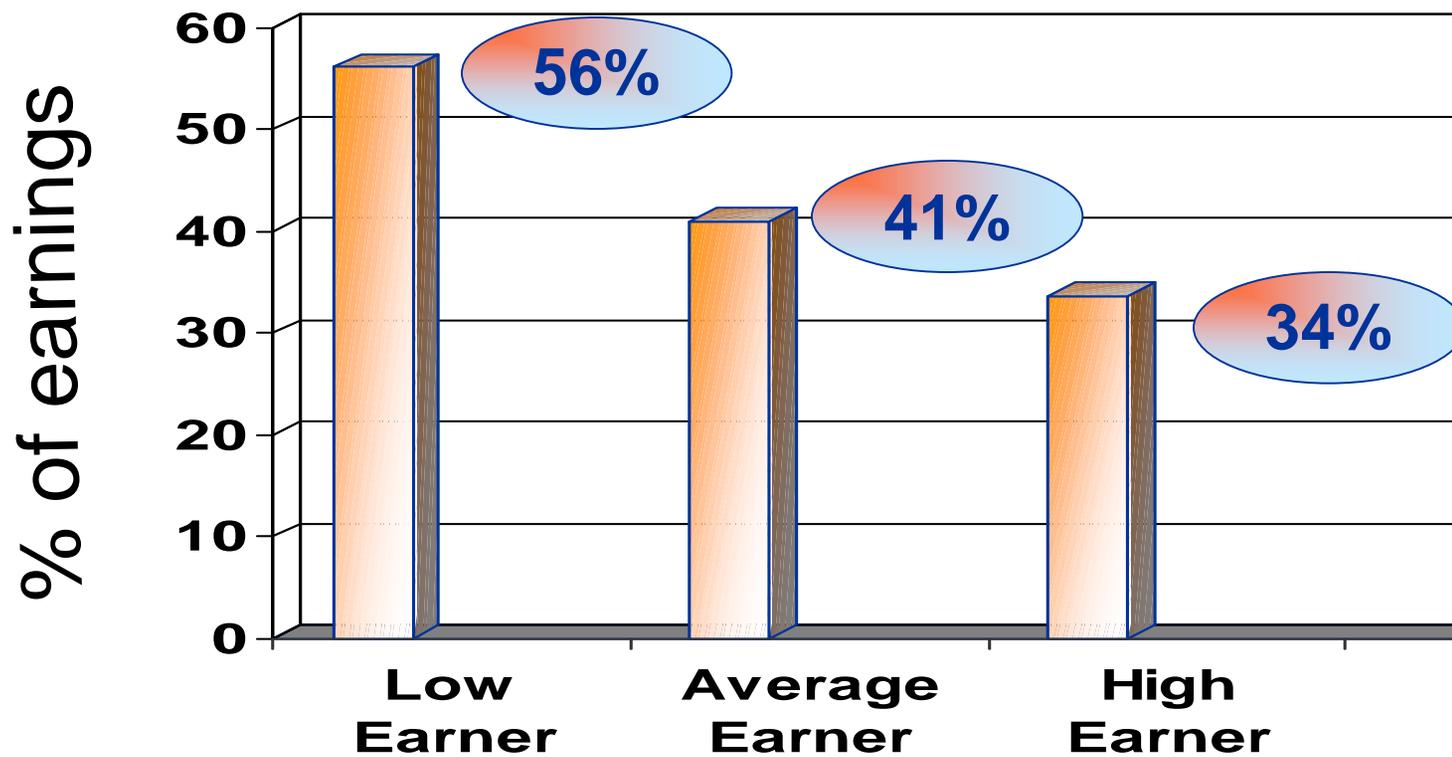


## Relationship Between Earnings & Benefits



- Benefits are earnings related -- the higher the earnings, the higher the benefit.
- The benefit formula is weighted in favor of low wage earners -- the lower the earnings, the higher the replacement rate (initial benefits as a percent of pre-retirement earnings).

# Benefit Replacement Rates for Workers Retiring at Full Retirement Age-2003



Benefits = \$709

\$1,171

\$1,467

Earnings= \$15,629

\$34,730

\$55,569

# How Social Security Retirement Benefits are Figured

Social Security benefits are based on earnings:

**Step 1 - Adjust wages for inflation**

**Step 2 - Average over most of your working lifetime--(Your highest 35 years)**

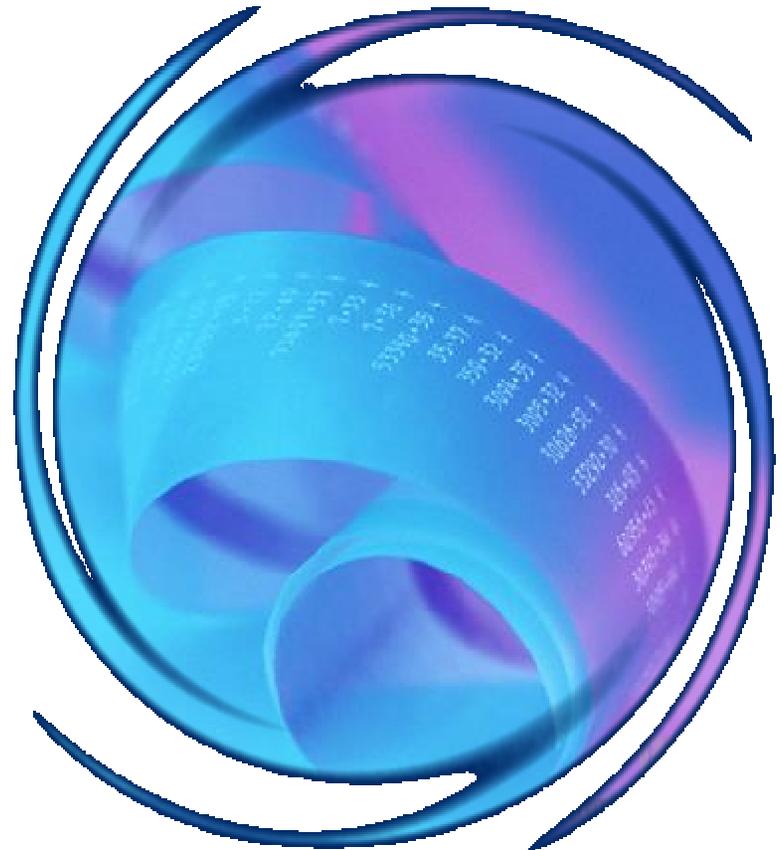
**Step 3 - Result is “average indexed monthly earnings”**

**Step 4 - Apply formula to get benefit amount**

1,569	1,367.0	59,079.0	1,127.8	1,154.2	\$3,567.0
1,544.8	1,528.7	1,443.8	1,511.0	1,276.0	1,470.0
2,019.4	1,887.8	1,682.1	1,269.3	1,069.0	947.0
750.5	888.4	565.0	478.3	425.6	391.6
(48.7)	(4.2)	(36.8)	(32.1)	(17.2)	5.0
1,283.4	1,071.7	1,405.9	1,073.0	857.2	789.5
786.6	864.7	495.8	397.4	312.6	286.0
495.4	1,273.9	909.8	675.6	547.5	483.0
\$3.78	\$3.06	\$2.64	\$1.73	\$1.26	\$1.00
681.5	546.3	386.3	270.3	333.7	229.0
\$1.64	\$1.28	\$0.82	\$0.63	\$0.54	\$0.50
443.0	384.8	253.8	211.3	245.0	278.0
707.9	725.9	695.0	644.2	598.8	560.0
907.9	848.5	767.9	745.2	703.3	659.0

# Retirement Benefit Computation-2004

**90% of first \$612 of  
average indexed  
monthly earnings,  
plus  
32% of the next \$3,077  
plus  
15% of the remainder**



# Full Benefit Retirement Age

Age at which full benefits are payable is rising from 65 to 67 in the future:

<u>Year of Birth</u>	<u>Full Benefit Age</u>
1937 or earlier	65
1940	65-6 mo.
1943-54	66
1957	66-6 mo.
1960 & later	67



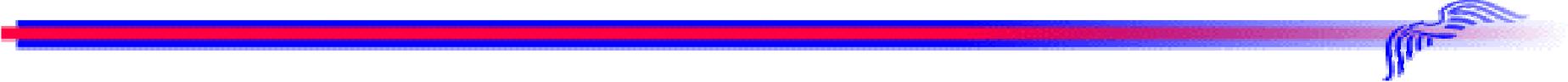
# Dual Entitlement



- ◆ **Often an individual is eligible for both a benefit as a worker and a benefit as a dependent (spouse or widow(er)).**
- ◆ **Since 1939, the Social Security law has provided that the amount of a person's dependent's benefit will be offset, dollar for dollar, by the amount of any worker's benefit the person may have earned.**
- ◆ **If, for example, a woman gets a Social Security retirement benefit of \$300 based on her own work, then \$300 is subtracted from any Social Security benefit she would otherwise get as a wife or widow.**



# OFFSETS--GPO & WEP



- ◆ Government pension offset (GPO) and windfall elimination provision (WEP) affect people with pensions from non-covered employment:
- ◆ The GPO affects benefits received as a spouse or widow(er)--dependent's benefits.
- ◆ The WEP affects primary worker's benefits.



# Government Pension Offset



The GPO affects government retirees who are eligible for two retirement benefits:

- A pension based on their *own* work in a Federal, State, or local government job that was not covered by Social Security, and
- A Social Security dependent's benefit based on their husband's or wife's work in employment covered by Social Security.

For such a retiree, the GPO requires that the Social Security spouse's benefit be reduced--or "offset"--by two-thirds of the amount of the noncovered government pension.

# GPO vs. Dual Entitlement

## Dual Entitlement

### *Daphne*

- Social Security Worker's Benefit of \$300
- Social Security Spouse's Benefit of \$600

$$\$600 - \$300 = \$300$$

- \$300 spouse's benefit payable
- Total Social Security = \$600

## GPO

### *Geraldine*

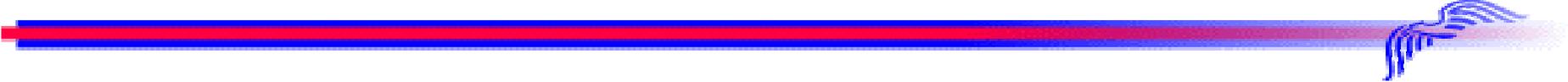
- Noncovered Government Pension of \$300
- Social Security Spouse's Benefit of \$600

$$\$300 \text{ pension} \times .6667 = \$200 \text{ offset}$$

- \$600 - \$200 = \$400 spouse's benefit payable
- Total pension & Social Security = \$700



# Windfall Elimination Provision



- **Affects retirees with non-covered pensions who have enough covered earnings to receive a Social Security benefit as a worker.**
- **Affects benefits of a retired or disabled worker's entitled family members, but not survivors.**



# WEP



- Under the WEP, a different Social Security benefit formula applies to workers who:
  - are eligible for a pension based on noncovered employment, and
  - have fewer than 30 years of substantial earnings under Social Security.

# WEP BENEFIT FORMULA

## Regular Formula:

- 90 % of first \$612 of AIME, +
- 32% of next \$3,077 of AIME, +
- 15% of remainder

## WEP Formula:

- 40 % of first \$612 of AIME, +
- 32% of next \$3,077 of AIME, +
- 15% of remainder



# WEP



- **No WEP reduction applies if worker has 30+ years of substantial earnings under Social Security. WEP reduction phased out if worker has 21 to 29 of such years.**
- **Reduction in benefits can never exceed one-half of the pension based on non-covered work.**
- **Purpose is to remove the heavy weighting -- the 90 percent factor -- in the regular Social Security benefit formula that is intended to boost benefits for life-long, low-paid earners.**

# In 2018, Social Security Will Begin Paying More in Benefits Than is Collected in Taxes

