

Frequently Asked Questions – Teachers & Social Security

Q: If my spouse paid into Social Security all of his/her life, why am I not entitled to a spousal benefit?

A: *Every* spouse is *eligible* for a spousal benefit. But if a spouse has his/her own earnings record outside the home, the spousal benefit is *always* offset. This is known as the dual entitlement rule. However, those who pay into a government pension are treated *better* than those who pay into Social Security. *They will only have their benefits offset by 2/3 or 67%, instead of 100%.* The spousal benefit was originally only intended for spouses who didn't work outside the home. When it became common for both spouses to work in the marketplace, the rules were amended to accommodate the trend and more fairly treat each individual.

Q: The last day loophole allows teachers to receive the benefits that they would otherwise be entitled to receive. Why are you closing it?

A: **FALSE.** If a teacher paid into TRS his/her entire career, then he/she is not entitled to these Social Security Benefits because he/she didn't pay into Social Security. This "loophole" circumvents the intent of the law and creates an unfair distribution of benefits to those who pay into a government pensions like TRS. *Through the last day loophole, on average, a person can contribute as little as \$3 into Social Security and in return, receive an average of \$93,000 in Social Security benefits during retirement.*

Q: Are the GPO and WEP newly created reforms unfairly targeted at teachers?

A: **No.** The GPO was enacted in 1977 and the WEP was enacted in 1983 to make the system fairer for those who pay into Social Security. These reforms removed an unintended advantage that was given to those who did not fully pay into Social Security but paid into another government pension instead. Before the reforms, it looked as though these individuals had no earnings record, and thus were entitled to full social security benefits.

Q: Why do corporate executives and politicians get to keep their full pension plus full Social Security benefit, but teachers have their Social Security benefits reduced by their public pension?

A: *All* workers (executives, politicians, teachers, etc.) who pay into or have a private pension are entitled to the pension's entire benefit. {A corporate executive can pay into a 401(k) or might have a pension benefit. A politician can pay into the Thrift Savings Plan and might have a private pension. And a teacher can pay into a 403(b).} Any worker who pays into both Social Security and another private retirement plan will receive both benefits based on their contribution (i.e., you put in a lot, then you get a lot out). However, no worker will receive a full Social Security spousal benefit plus their Social Security worker benefit. This is comparing apples to oranges. Public and private retirement plans are completely different and are treated completely different, the main difference being that executives and public officials continue to pay into Social Security *in addition* to another pension.

Q: As a teacher, I have paid into social security for years before teaching, and I have all my quarters paid. Why will my Social Security benefit be reduced?

A: A worker is vested into Social Security after paying into it for 10 years (40 quarters). But a worker is not entitled to full benefits until he/she pays into Social Security for 40 years/160 quarters (or 30 years of substantial contributions). If a worker is fully vested in Social Security and vested in another public pension, he/she will receive his/her full Social Security benefit plus his/her vested interest in the other pension without being offset. A teacher who is partially vested in Social Security (worked 40-159 quarters) and has paid into TRS has his or her Social Security benefit adjusted based on a WEP formula. Since the Social Security benefit formula was originally designed to give lower income workers a bigger benefit, the formula does not always adequately differentiate a person who worked a lifetime as a low earner and one who was a high earner but for a short time. **I am concerned how this formula affects individuals like teachers who pay into government pensions, and I want to work with them to find a solution that is fair and equitable.**

HOW ARE WIDOW'S BENEFITS FIGURED FOR SOCIAL SECURITY FAMILIES VS. GPO FAMILIES (INCLUDING TEXAS TEACHERS)?

The formula is nearly the same except that GPO families, which include most Texas teachers, have a slight *advantage*.

Using the typical family where both spouses work and the husband passes away first, here is the formula for figuring widow's benefits (or spousal benefits, as it is known):

Widow's Benefits for Social Security Family

- *Formula:* 100% of the wife's Social Security plus her husband's Social Security minus 100% of the wife's Social Security.

Example: The wife keeps all \$800 of her monthly Social Security benefits + her husband's \$1,000 minus her \$800 = \$200. **Total: \$1,000**

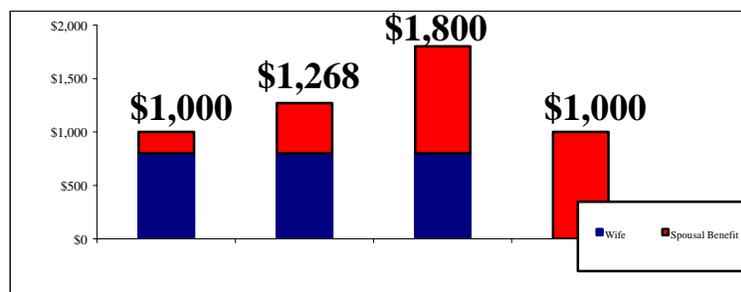
This offset is called the Dual Entitlement offset and applies to all working Social Security families in America.

Widows Benefits for GPO/Texas Teachers:

- *Formula:* 100% of the wife's benefits plus her husband's Social Security minus 2/3 of the wife's pension.

Example: The wife keeps all \$800 of her monthly retirement benefits + her husband's \$1,000 minus 2/3 of her \$800 = \$468. **Total: \$1,268**

This offset is called the Government Pension Offset (GPO) and is almost identical to the Dual Entitlement offset, except that it is more favorable for government workers and Texas teachers. The GPO is fair because it treats the government pension just like it was Social Security, which it is a substitute for.



Social Security Family (Dual Entitlement 100%) GPO Family (GPO offset 2/3) **Teacher (GPO Repeal)** Stay-at-Home

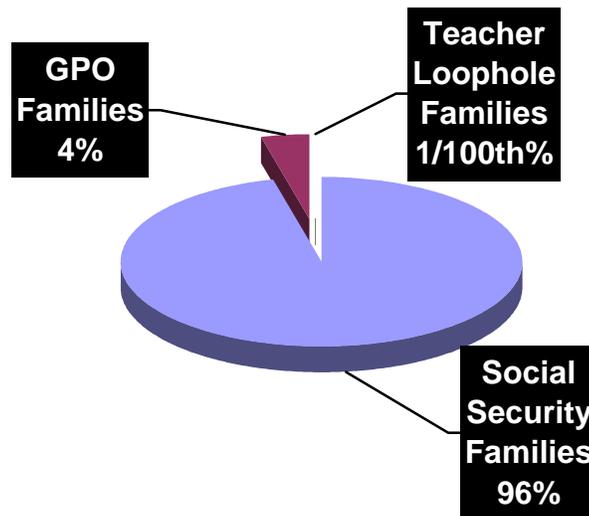
Top Mistake When Describing GPO/Texas Teacher Benefits

“Compared to other married couples of retirement age, spousal benefits involving teachers are cut by two-thirds.”

Inaccurate. While teachers who paid into the state retirement fund have their Social Security benefits reduced by two-thirds, the rest of Social Security widows have their benefits reduced *by more*, a rate of 100%. Spousal benefits are reduced for Social Security spouses just as they are for teachers and GPO spouses. Compared to other married couples of retirement age, spousal benefits involving teachers are reduced *less* than Social Security families where both spouses worked.

WHO IS AFFECTED BY THE GPO & TEXAS TEACHER LOOPHOLE?

Very few. Here is how it breaks down for U.S. families where both spouses work:



Social Security Families – 96%

In most American working families, both husband and wife contribute to Social Security through their payroll taxes. Contrary to popular perception, this includes many government workers at the local, state and federal level, including firefighters, police and Texas teachers who work in the two dozen school districts that contribute to Social Security.

GPO Families – 4%

In these families, one spouse doesn't contribute into Social Security but rather into a substitute for Social Security. Most of these workers are in retirement plans, like the Texas Teachers Retirement System, that elected many years ago to choose a substitute rather than Social Security.

Texas Teacher Loophole Families -- 1/100th of 1%

Only 24 teachers in Georgia -- and Texas teachers who do not contribute to Social Security and are under a special bifurcated system like the Teacher Retirement System -- have been able to take advantage of this 25 year-old obscure loophole, which the Social Security Administration and the General Accounting Office confirm was never intended for this purpose.

The way the “last-day exemption” works: A Texas teacher or college professor who has not contributed to Social Security can work their last day in the Teacher Retirement System at a school that participates in Social Security. Teachers can work as little as one day as a cafeteria worker or janitor, contribute \$3 into Social Security and receive an average of \$93,000 in spousal benefits over their retirement. No one else in America has a loophole. According to the U.S. General Accounting Office, this loophole is draining \$450 million from the Social Security Trust Fund and will grow if not closed.

Windfall Elimination Provision (WEP) Quick Facts

What is the WEP?

- The WEP was created to address a situation that many people thought was unfair. It is not intended to “penalize” public employees. In fact, almost $\frac{3}{4}$ of public employees pay Social Security taxes and would not be affected by the WEP.
- Social Security’s benefit formula is designed to help keep people out of poverty by replacing more of low-wage workers’ pre-retirement wages. For example, low-wage workers have about 56 percent of their average career wages replaced. In contrast, medium-wage workers have 41 percent, and high-wage workers have only 35 percent of their wages replaced.
- If a worker does not pay Social Security payroll taxes for his or her job, the benefit formula records “zero” earnings for that job. If a person has many years where “zero” earnings are recorded for his job, he may appear to have low average wages when that was not the case.
- Before the WEP was created in 1983, certain public employees who paid into a government pension plan instead of Social Security for part of their career had “zero” earnings recorded for their work. Thus, they appeared to have low average wages, and the benefit formula inadvertently replaced more of their pre-retirement wages, giving them an unintended “windfall.”
- From the perspective of people who paid into Social Security throughout their careers, this windfall was unfair. Many people felt that middle and high-income workers should not be given a benefit intended for low-wage earners.
- Texas teachers have the option of **being exempt from the GPO and WEP**. This is possible by simply requesting a full refund of all individual contributions, plus interest, from TRS.