

WILL YOUR FUTURE SOCIAL SECURITY PAYMENTS BE SMALLER THAN EXPECTED?

Your future Social Security payments might be smaller than expected—more than \$300 a month smaller in some cases—and you might not even realize it.

Are you entitled to receive pension benefits from a job in which you pay no Social Security taxes, such as work for the federal government under the Civil Service Retirement System, your state government, or for an employer in another country? Yet you've also worked part-time or gone into a second career where you paid Social Security taxes and will some day be eligible for benefits? Then those Social Security benefits (including disability benefits) might be smaller than you anticipate because of what's called the Windfall Elimination Provision.

Around for over 20 years, WEP is designed to take away some of the "double dipping" a worker might receive who accrues a small or modest amount of Social Security benefits while working primarily in jobs not covered by Social Security. That's because Social Security benefits are skewed more heavily toward low wage earners.

The law exempts some workers from WEP. Those hired by the federal government after 1983 are not subject to the limitation because they are under the Federal Employees Retirement system, which pays Social Security taxes. Also exempt are those whose non-covered work occurred before 1957, whose only pension is based on railroad employment, or who have managed to accumulate 30 or more years of "substantial earnings" under Social Security.

But many workers, particularly those in their 50s or 60s with long careers in government, remain affected by the Windfall Elimination Provision and they don't realize it. As a consequence, they often are less financially prepared for retirement than they might think. Currently, for example, the annual retirement benefit estimates that Social Security sends to workers don't reflect any potential benefit loss due to WEP.

To better inform future Social Security recipients, the Social Security Protection Act of 2004 included two provisions. Starting this year, employers not covered under Social Security will be required to inform new hires moving from jobs that paid into Social Security about WEP and its potential impact on their future Social Security benefits. Starting in 2007, the Social Security Administration must inform those potentially subject to WEP how much their benefits might be reduced.

How can you determine in the meantime whether and how much the Windfall Elimination Provision might affect you? Start with what Social Security calls "substantial earnings." Each year, Social Security publishes the minimum amount of earnings necessary to qualify for a full year's credit of "substantial earnings." For example, in 2004 a worker needed to earn \$16,275 to qualify. In 1984, the amount was \$7,050.

If you can accumulate 30 years of qualified "substantial earnings," such as through side jobs or years of full employment in jobs paying Social Security tax, you won't be hit by WEP. But if you have less than 30 years of substantial earnings, WEP will reduce benefits. Let's say you retire at age 65 with 20 years of substantial earnings and you're eligible for \$1,000 in monthly Social

Security retirement benefits. According to Social Security tables, your monthly benefits would be reduced by \$306. With 25 years of substantial earnings, you'd lose \$153 monthly.

The WEP limits the reduction of Social Security benefits to no more than 50 percent of the benefits you receive from a non-Social Security pension. This helps workers with small pensions. For example, if your non-covered pension is \$400, the reduction in Social Security benefits would be no more than \$200, even if benefits would have been reduced more than that under the standard WEP tables.

Also keep in mind that the amount your Social Security benefits are reduced remains the same every year. That is, if you lose \$153 in monthly benefits your first year of collecting Social Security, then you'll never lose more than that amount in the future, even though your overall Social Security payments rise due to annual inflation adjustments.

While disclosure of the impact of the Windfall Elimination Provision will better alert future retirees, financial planners caution workers to keep one key point in mind: if you believe you will fall under WEP, you need to adjust your retirement plans and savings efforts accordingly to make up the shortfall.

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