

# Windfall Elimination Provision



## Your Social Security retirement or disability benefits may be reduced

If you work for an employer who does not withhold Social Security taxes from your salary, such as a government agency or an employer in another country, the pension you get based on that work may reduce your Social Security benefits.

The "windfall elimination provision" affects how the amount of your retirement or disability benefits is calculated if you receive a pension from work where Social Security taxes were not taken out of your pay. A modified formula is used to calculate your benefit amount, resulting in a lower Social Security benefit.

## When your benefits may be affected

The windfall elimination provision primarily affects people who earned a pension from working for a government agency and also worked at other jobs where they paid Social Security taxes long enough to qualify for retirement or disability benefits. It also may affect you if you earned a pension in any job where you did not pay Social Security taxes, such as in a foreign country.

**An important point:** If you are a federal employee, the windfall elimination provision will affect you only if you are getting a Civil Service Retirement System pension. It will begin with the first month you get both a Social Security benefit and the CSRS pension.

This provision affects Social Security benefits when any part of a person's federal service after 1956 is covered under the CSRS. However, federal service where Social Security taxes are withheld (Federal Employees' Retirement System or CSRS Offset) will not reduce your Social Security benefit amounts.

Your Social Security will be reduced if:

- You reached 62 after 1985; or

- You became disabled after 1985; or
- You first became eligible for a monthly pension based on work where you did not pay Social Security taxes after 1985, even if you are still working.

## Why is a different formula used?

Your Social Security benefits are reduced because Social Security benefits were intended to replace only a percentage of a worker's pre-retirement earnings. The way Social Security benefit amounts are figured, lower-paid workers get a higher return than highly paid workers. For example, lower-paid workers could get a Social Security benefit that equals about 55 percent of their pre-retirement earnings. The average replacement rate for highly paid workers is about 25 percent.

Before 1983, people who worked in jobs not covered by Social Security received benefits that were computed as if they were long-term, low-wage workers. They received the advantage of a higher percentage of benefits in addition to their other pension. Congress passed the windfall elimination provision to eliminate this advantage.

## How does it work?

Social Security benefits are based on the worker's average monthly earnings adjusted for inflation. This is a complex formula. If you do not understand it, let us know, and we will be happy to help you. We separate your average earnings into three amounts and multiply the amounts using three factors. For example, for a worker who turns 62 in 2004, the first \$612 of average monthly earnings is multiplied by 90 percent; the next \$3,077 by 32 percent; and the remainder by 15 percent.

The 90 percent factor is reduced in the modified formula and phased in for workers who reached age 62 or became disabled

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