

Social Security and Government Pensions

**Metro Fire Chiefs
May, 2025**



Disclaimer

- Social Security has almost 3,000 benefit and eligibility rules.
- Plus, Administrative Law Decisions
- Plus, Court Decisions
- Nobody at IPPFA is an expert in all of this. Today's presentation is for educational purposes only. Do your own research before making any important decisions.

Social Security – What's New?

- The *Social Security Fairness Act*, HR82, signed in to law on January 5, 2025. Effective January 2024.
- Repeals **Windfall Elimination Provision (WEP)**.
- Repeals **Government Pension Offset (GPO)**.
- These are major changes that affect public employees who have pensions from work outside of Social Security.

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Social Security Basics

Established in 1935. Provides retirement, disability and survivor benefits.

Funded by:

- Employee Contributions (6.2% up to \$176,100 in 2025)

- Employer Match – same amount.

- Taxes on Social Security benefits.

All public employees are in Medicare if hired after March 1986.

Long-term projections for funding show a need for improvement due to a deteriorating ratio of actives to retirees: either in revenue (higher taxes), benefit reduction, or a combination.

Social Security: Generally received in *one* of four ways:

#1) **Retirement benefits** from a worker's own Social Security record of earnings.

#2) **Survivor Benefits** from a spouse's record after a spouse dies.

#3) **Disability Benefits** due to illness or injury.

#4) ***Spousal Benefits*** from a spouse's Social Security record while the spouse is still alive.

Earning Social Security Retirement Benefits

- Attained by earning 40 “credits” in Social Security covered employment.
- A credit is earned in 2025 by making \$1,810. Up to four credits may be earned each year.
- Generally, a benefit is earned if you work for 40 calendar quarters, or 10 years total.
- Most Illinois sworn personnel will qualify for some Social Security retirement benefit.

Social Security Benefit Calculations:

Final salary is calculated by averaging a retiree's salary over his/her working life (with an inflation index).

The average wages are then “replaced” using a formula with varying replacement rates.

The 2025 formula is:

First \$ 1,226 in monthly Wages	90%
Next \$ 6,165 in monthly Wages	32%
Over \$ 7,391 of Taxable Wages	15%

10 Retirees Apply for Social Security

<u>Average Wages</u>	<u>Benefit</u>	<u>%</u>
\$ 1,000	\$ 900	90%
\$ 2,000	\$1,351	68%
.....		
\$ 5,000	\$2,311	46%
.....		
\$ 7,000	\$2,951	42%
.....		
\$10,000	\$3,468	35%

No more Windfall Elimination Provision

The **Windfall Elimination Provision (WEP)** that previously impacted the benefit that some public employees would receive from his or her own Social Security earnings record:

REPEALED

You are entitled to the calculation of your Social Security benefit from your earnings record using the same formula as the private-sector workforce (the formula shown on the prior slide).

What did the **WEP** Repeal Change?

When in effect, the **Windfall Elimination Provision** set the first percentage factor in the PIA formula at 40% (not 90%).

First \$1,226 in monthly wages	90% 40%
Next \$6,165 in monthly wages	32%
Over \$7,391 in taxable wages	15%

After repeal, it reverts to 90% for all workers.

How Much Social Security Will You Receive?

Hard to say, everyone's situation will be different.

- Example of One FF/Officer who is “out” of SSA:
 - With annual civilian earnings of \$5,000 from age 19 to 21, \$30,000 until age 25, nothing until age 55, then \$40,000 to age 65 receives a Social Security benefit of **\$917 per month**.
 - Earn more and the amount will be higher, earn less and the amount will be lower.
 - The estimate above would have been **\$407** under the **Windfall Elimination Provision**
- All earnings estimates in 2024 dollars.

How Much Social Security Will You Receive?

Best Approach: Go to ssa.gov and register an account.

From there, you can see your Social Security earnings record and use their tools to estimate your future benefits. Note: they may still try to drive you towards a special **WEP Calculator** for public employees. Ignore that!

..... Next up: Spousal Benefits

Spouse Benefits – Example # 1

Al's Social Security Benefit:	\$ 2,000
Peggy's Benefit from her work record:	\$ 800
Peggy will receive a monthly check of:	<u>\$ 1,000</u>
The couple will receive in total:	\$ 3,000



Spouse Benefits – Example # 2

Ward's Social Security Benefit:	\$ 1,500
June's work record benefit:	\$ 0
June will receive:	<u>\$ 750</u>



**The couple will
receive in total: \$2,250**

No More Government Pension Offset (GPO)

The **GOVERNMENT PENSION OFFSET** that previously impacted the benefit that “Downstate” or City of Chicago retirees could receive from a spouses’ benefit:

REPEALED

You are entitled to a spousal benefit if that benefit is more than $\frac{1}{2}$ of the benefit payable from your own earnings record. **The impact of this change will vary among individuals.**

Survivor Benefits in General

A surviving spouse can collect up to 100 percent of the late spouse's Social Security benefit.

However, a surviving spouse gives up his or her own Social Security when a survivor benefit is paid.

About 3.8 million widows and widowers were receiving survivor benefits as of August 2024 (*source AARP*).

Survivor Benefits and a Public Pension

The same rule, the **Government Pension Offset**, that reduced a benefit from a living spouse's record also reduced or eliminated a benefit that might be received as a surviving spouse. This has been **repealed**.

Upon repeal of the **Government Pension Offset**, there is no longer any barrier to a "Downstate" or **CFD-CPD** retiree receiving a Survivor benefit. But remember, you give up your own Social Security retirement or disability payment if you qualify for a Survivor benefit.

Spousal and Survivor Benefits: Divorce

- Both Spousal and Survivor Benefits are available based on the earnings of an ex-spouse as long as the marriage lasted 10 years and the recipient remains unmarried.
 - *This is a special circumstance which should be investigated and reviewed if it may affect you.*
 - However, the Social Security application process should bring this opportunity into the calculation at the time of retirement.
- Next up: SSFA implementation.

Social Security Fairness Act: Implementation

- The law repealing the WEP and GPO is retroactively effective to January 2024.
- This means that current retirees will receive benefit changes *and* retroactive checks.
- This tasking is assigned to the Social Security Administration, a well-functioning government agency, but they are underfunded. They have a website on the subject: ssa.gov/benefits/retirement/social-security-fairness-act.html.
- IPPFA will monitor various sources for information on the progress. Probably good sources: the Illinois Retired Teachers Association (Irtaonline.org), Texas Retired Teachers Association (trta.org).

SSFA Implementation – Part II

- Simple cases already being adjusted. Complex ones could take a year or two.
- Those who have not yet applied for Social Security should have no issues.
- Those who are on Social Security? SSA likely has the information they need to update the benefit and make a retroactive payment.
- Those who did not apply, because they didn't think they were entitled, *should now apply for benefits.*

Things to Forget About.....

- The Windfall Elimination Provision (WEP).
- The Government Pension Offset (GPO).
- A year of “substantial earnings.”
- Warnings in Social Security publications and websites about pensions from non-covered work.

Questions – Part I - ???

Any questions on Social Security
or
the Social Security Fairness Act?

..... Next up: Claiming Strategies

Social Security Claiming Strategy: An Overview

- Social Security can be claimed at different ages, from 62 to 70. The later the age, the higher the benefit.
- For married couples, benefits can be claimed at different times. Also, in some circumstances, a benefit may be started on a person's own record but then switched to a spousal benefit once the spouse retires.
- For married couples, certain sophisticated/complicated *Claiming Strategies* were terminated effective April 1, 2016. These involved initial retirement under a spouse's record then switching to the worker's record later. Persons who were age 62 by 4/1/16 may have eligibility for these prior strategies.

Social Security Claiming Strategy: Continued

- Claiming strategy is important: now a little more important since the **Government Pension Offset** has been repealed.
- You may want to consider using an expert-service to assist in your claiming decision(s).
- **Dan is not a claiming expert.**

Claiming Strategies: Expert Assistance

- Two good sources have been tested by the speaker (not endorsed by IPPFA).
- **MaximizemySocialSecurity.com**. Website of Boston University professor and author on benefit maximization. Recommended by Terry Savage, nationally syndicated columnist.
- **SocialSecurityAdvisors.com**. Very complete reports plus the option to speak to an expert.
- Both reasonably priced.
- **Also**: your own personal financial advisor may have sophisticated software to support estimates.

.....Next up: Base info for claiming strategies.

The Basics: SSA Full Retirement Ages

The SSA formulas estimate or determine benefits at the so-called Full Retirement Age (FRA). **Your FRA is:**

Year Born	Full Retirement Age
Thru 1954	66 years old, 0 months
1955	66 years old, 2 months
1956	66 years old, 4 months
1957	66 years old, 6 months
1958	66 years old, 8 months
1959	66 years old, 10 months
1960 and later	67 years old

Social Security Benefits: Claiming Early

- If you claim your benefit before your Full Retirement Age, the benefit is reduced for each month before the FRA and your benefits will be subject to annual wage limitations. **The annual limitation in 2025 is \$23,400.**
- If you earn above that amount in a year, your next year's SSA is reduced by 50-cents per \$1 you were over the limit.

If your FRA is 67 and you claim your benefits before that age, the reductions are as follows:

Claiming Age	Reduction
62	30.0%
63	24.9%
64	20.0%
65	13.1%
66	6.7%

Social Security Benefits: Delaying to a Later Age

If you claim your retirement benefits *after* your Full Retirement Age, the amount paid increases each month on a uniform increase of 8% per year.

Examples at an FRA of 67 years old:

Claiming Age	Increase
67	Calculated Benefit
68	8% higher
69	16% higher
70	24% higher
Above 70	No further increases

Social Security Claiming: What's the Best Age?

- There is no best age. The formulas are neutral, based on system-wide life expectancy. Mandy draws at 62, Mike at 66, and Maddie at 70, they all made a good decision if it fit their needs.
- Considerations for Delaying. People with educations at high-school and above, middle class incomes and health insurance will usually live longer. Delaying makes sense if you are going to live longer than the average American.
- The formulas don't take gender into account, but since women live longer, women should consider delaying Social Security.
- Considerations for Not Delaying. I'm single and want to build up savings for an estate or charity.

Social Security Claiming: What's the Best Age ? – continued...

- One Approach: if you need it, take it. If you don't need it, delay claiming Social Security to increase your benefit and/or a spouse's benefit later in life.
- Questionable Approaches:
 - (a) calculating a breakeven age
 - (b) being afraid that Social Security is going to run out of money.

Random Financial Planning Issue: the “widow’s gap”:

- When the first spouse dies, household income drops.
- Survivor benefits are lower than the pension that was being paid.
- The lower of the two Social Security benefits is eliminated.
- What can you do? Insure it, save for it, or just consider it in your financial planning.

Wrap up

- Social Security is one of the three-legs or retirement income: Pension, Social Security, personal savings.
- The Social Security leg just got a little stronger.
- The Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) are repealed.
- Claiming strategies also just got a little more important, especially if Spousal Benefits are in play.
- There is almost always a benefit to earning more Social Security credit.

Questions – Final

Any questions on **either part** of this module?

Resources

- Dan.ryan@ippfa.org
- www.ssa.gov/benefits/retirement/social-security-fairness-act.html.
- IPPFA.org, Information Bulletins
- *IPPFA Retirement Guide*. For Article 3-4 Members.
- *Chicago Police and Fire Retirement Guide*.

Books available on Amazon.com and via bulk purchase at IPPFA.org. Look for the “updated for 2025” edition to be sure you are receiving the new Social Security information.

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