

How Social Security Penalties Hurt Teachers

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Teachers are often hurt by what are called “public servant penalties” in Social Security – the Windfall Elimination Provision and the Government Pension Offset.

Background

Originally, the Social Security system excluded state and local government employees from coverage. In 1954, state and local employees were given the opportunity to elect to participate in the Social Security program. California public school educators chose not to join because they were paying for better disability and survivor benefits than what would have been provided by Social Security.

However, many CalSTRS members and other government workers are eligible for Social Security benefits because they had other employment that was covered by Social Security or by being married to a Social Security recipient.

Windfall Elimination Provision (WEP)

The Rationale

Social Security is intended to provide a greater level of income replacement for poorer members of society. The formula could not differentiate between those who worked in low-paying jobs their entire career and those who appeared to have received low pay because they worked for many years in jobs not covered by Social Security. Congress believed that the non-Social Security pension benefit would be an adequate retirement even if the earned Social Security benefit was cut.

The Formula

The typical Social Security benefit is figured by a three-step formula. The first step provides 90 percent of the first \$816 of average monthly earnings; the second step provides 32 percent of the next \$4,101, and the final step provides 15 percent of the remaining earnings.

For a retired teacher, the benefit is figured on a modified formula. Instead of 90 percent of the first \$816, the benefit is calculated on 40 percent of those earnings – a reduction of 50 percent!

The WEP affects those educators who have work experience both in the CalSTRS system and in Social Security-covered employment. For someone who has 20 years or less in Social Security jobs, the WEP reduces the Social Security benefit by 50 percent.

The Reality

Teaching is not a highly-paid profession and imposition of the WEP formula results in significant losses of earned retirement income. Most agree that the amount of the reduction was an arbitrary figure, and since it applies only to the first increment of earnings it is a highly regressive formula. It is essentially the only means-testing in Social Security, but without taking into account the actual income of the recipient.

The WEP also significantly reduces the ability to recruit private industry workers to bring their skills and knowledge to California's classrooms. This transfer of knowledge is particularly important in some of the high technology areas for California high schools and community colleges.

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The Government Pension Offset (GPO)

The Rationale

The GPO, which passed in 1977, was imposed to stop highly-paid federal civil servants from being able to double-dip into Social Security and other pensions.

The Formula

The GPO deprives retired educators of their spousal and survivor benefits under Social Security. Typically spouses of Social Security recipients receive half of the amount of their partner's benefit if they do not qualify for Social Security on their own. Under the GPO, that amount is reduced by two-thirds of the amount of a CalSTRS pension.

For example: John collects a Social Security benefit of \$800 a month. His wife Mary is a retired school teacher drawing a CalSTRS pension of \$1,200 a month.

Effect of GPO With Living Spouse

Mary's Potential Social Security: $\$800 \times 1/2 = \400

CalSTRS Pension Calculated for GPO: $\$1,200 \times 2/3 = \800

Total Monthly Social Security: $\$400 - \$800 = \text{No benefit}$

Effect of GPO Upon Death

Mary's Social Security Survivor (Death) Benefit: \$800

CalSTRS Pension Calculated for GPO: $\$1,200 \times 2/3 = \800

Total Monthly Social Security: $\$800 - \$800 = \text{No benefit}$

(Note: If there is no Social Security benefit, the surviving spouse also could be required to pay more for Medicare Part B.)

Even in cases where a total offset has not occurred, any increase in the teacher's pension results in a recalculation of the offset, reducing the Social Security benefit.

The GPO penalizes the public worker, such as a teacher, not the spouse. If the retired teacher has a survivor's benefit on his/her pension, the spouse receives that full amount plus any Social Security to which either party is initially eligible.

The Reality

The GPO hits hardest those who have provided lifetime careers of public service often for comparatively lower salaries and pensions. The GPO also discourages both individuals and spouses who have earned Social Security benefits from entering into CalSTRS-covered employment because of the double penalty of the WEP and the spousal offset.

The WEP and GPO are both patently unfair. Someone's earned Social Security benefits should not be affected in any way because of employment in a government job.

CalRTA Is Fighting for You

CalRTA is at the forefront of the fight to repeal these penalties. Activities such as letter writing campaigns, Congressional testimony, and advocacy visits to leaders in Washington, D.C., keep this important topic alive, even during tight economic times.

To see how you can help, go to the CalRTA website, www.calrta.org, and click on "Take Action."★

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