SOCIAL SECURITY BENEFITS

- A WIDOW'S GUIDE -

FOR UNDERSTANDING GOVERNMENT PENSION OFFSET

WH Cornerstone Investments

Understanding Government Pension Offset

When you lose your loved one and call or visit Social Security to talk about your benefits as a surviving spouse, you may not hear about Government Pension Offset (GPO). In fact, you may not hear about it until your own pension kicks in, depending on where you earned it.

Before securing your retirement plans, it's important to understand an important deduction: GPO.

GPO is a little-known retirement game-changer that can wreak havoc with your best-laid plans.

Let's look at GPO carefully to be sure you know if you are among the vulnerable.

An Overview of GPO

The Government Pension Offset was created for 'fairness' reasons. Social Security initially set up spousal and survivor benefits for women who were dependent on their wage-earning husbands. But as women started qualifying for their own retirement benefits, especially pensions from non-covered employment like teachers and state employees, Congress felt the result was double-dipping. With GPO, it sought to limit any duplication.

GPO is an issue if you have a pension from non-covered employment and are (or have been) married to someone with Social Security benefits. As a widow, for example, you could find your survivor benefits greatly reduced when you claim benefits based on your spouse's Social Security work record.

GPO is now said to affect close to 10 percent of Social Security spousal, ex-spousal or survivor beneficiaries, or 6.5 million individuals. The great majority of those affected will have their Social Security benefits wiped out entirely by GPO.

Who could be at risk

Whenever you have the Social Security system (a 'covered' pension) interacting with a pension from a job that did not participate in the Social Security system (a 'non-covered' pension), whether in your own work history or between yours and that of your spouse, greater planning and scrutiny are called for. You may be susceptible to GPO.

Non-covered employment typically includes public workers such as teachers, police and firefighters. It also includes many (but not all) other state, county, and local employees in those states with state-run pension plans, plus nonprofit organizations and foreign governments.

As life expectancy increases, our work lives are growing longer. Many of us are enjoying multiple careers, some of which could be in such non-covered jobs. If that is your case, especially as a widow, be sure to read on or consult your financial advisor. And if it is not your case, be sure to share this with anyone you know who might be at risk. (Yes, it is that important!)

Who is not affected

GPO will not reduce your Social Security benefits as a spouse, ex-spouse or survivor if the noncovered pension you receive is not for your own earnings, or if you yourself qualify to collect both a non-covered pension and Social Security benefits linked to your own work history. GPO also does not apply if your pension is from a private company.

How GPO works

GPO comes into play when your non-covered pension interacts with spousal, ex-spousal or survivor Social Security benefits linked to your spouse's work history. It reduces those benefits by the equivalent of two-thirds of the amount of your non-covered pension. Social Security will pay out only the remainder, which could be $0.

Say your non-covered pension pays you $3,300 per month and you and your husband calculated his survivor benefits should pay you $1,800 per month. When you file, you will discover that the GPO reduction (based on two-thirds of your pension, or $2,200) is more than $1,800 so you will receive nothing.

When GPO kicks in

The GPO issue remains dormant as long as you are not receiving your non-covered pension. However, the reduction is triggered when the non-covered pension begins. That means you could receive spousal, ex-spousal or survivor Social Security benefits in full before your noncovered pension starts to pay out. Once the pension is activated, the payments going forward would be reduced by two-thirds of the value of your pension.

How GPO can be minimized

A very complex workaround exists, called the Last 60 Month Rule, in which you would have to work your last 60 months of employment in a job that contributes to Social Security, but that also has the same retirement plan as your non-covered retirement plan. Although the increase in lifetime retirement earnings could be considerable, the odds of finding that combination are low, and the pitfalls are many.

A widow's story

Peggy was widowed at 63. Kevin was just 66 when he retired from his own business. He had worked hard for all those years and, since Peggy would have a good pension from the county, they decided he didn't have to work to 70 to maximize his Social Security benefits.

Thinking back over the years – particularly the early ones – Peggy remembered all the months Kevin struggled to take a salary from his company so he could contribute to Social Security. Lots of pizza nights instead of going out for dinner. But he felt it was well worth it when they saw what Social Security would pay. What neither could have known was that he would die not too long into retirement.

Now that some of the black clouds are receding and Peggy is starting to think about the future, it is time to begin researching what she can count on going forward. The last thing she wants to be is a burden on any of the kids, so it's 'question time.'

She knows what she receives as her survivor benefit from Social Security. If she retires next year, what will her pension pay? How does that number increase for each year she keeps working? Can she be forced to take retirement at some point? When she does receive her pension, how does that affect her Social Security survivor benefit? How does this dreaded GPO affect her? Is there any way to work around it?

A widow's story (continued)

Because her state is one in which government work does not contribute to Social Security, hers will be considered a state-run (or 'non-covered') pension. So, two-thirds of the amount of her pension will be subtracted from her Social Security survivor benefit, even if it eliminates that benefit entirely. As Peggy does her calculations, she may have to decide to work until she is forced to retire, while she accumulates her survivor benefit from Kevin, to maximize her resources for the long term.

Where to find help

GPO doesn't make retirement planning particularly complicated. Its application is surprisingly simple: either it applies or it does not. And it has virtually no workarounds. (The ones it does have are almost impossible to fulfill.) The most important thing is not to let GPO come as a surprise, especially while you have some options available in terms of work years and flexibility of when you trigger your pension.

If you choose to navigate these waters on your own, the Social Security Administration's website www.ssa.gov is an excellent resource, with greater detail offered at the "Government Pension Offset Factsheet".

On the other hand, if you want to talk through your options on the pluses and minuses of your timing, let us review your pension options with you, so you maximize your benefits and minimize your losses.

We are here to help.

Do you want to understand more about social security, including GPO?

If you want to avoid unpleasant surprises altogether, let us review your Social Security circumstances with you, so you maximize your benefits and minimize your risks.

Learn more at www.whcornerstone.com.

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