

Social Security and Government Pensions

**FABF Seminar
September 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 – IN or OUT?

- This dates to agreements reached between the federal and state governments.
- Groups were permitted to be OUT of Social Security if they had a pension equal or greater in value.
- **USA:** about 28% of state/local employees are excluded.
- **Illinois OUT:** **Chicago**, Cook County, teachers, public colleges, most “Downstate” municipal police/fire
- **Illinois IN:** counties other than Cook, non-sworn municipal employees, State employees, some municipal police/fire.

Benefits IN or OUT?

- Public employees *IN* Social Security earn the same lifetime benefits as private-sector employees with similar earnings histories.
- Public employees *OUT* of Social Security may still earn Social Security benefits on their own work records (before, part-time or after public service). Also, they may be eligible for benefits from their spouse's Social Security earnings record. Any of these benefits are no longer modified by any special formulas.

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

- 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. *But not all.*

Social Security Retirement Benefits

FOR COMPARISON: Chicago and “Downstate” Fire and Police Retirement: $\text{Final Salary} \times 2.5\% \times \text{Years of Service}$.

SOCIAL SECURITY: Wages over almost the entire working life (highest 35 years, adjusted for inflation), multiplied by varying replacement rates depending on the individual's income. The higher the income, the higher the benefit but the *lower* the replacement rate.

Note that Social Security's highest 35 years will include a lot of zero (\$0) years for Illinois firefighters and police.

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.

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 **2025** 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

Spousal Benefits

A person is generally entitled to Social Security based on his or her own work record,

OR...

One-half of his or her spouse's benefit if that will result in a higher payment.

To obtain a Spousal Benefit, the higher-earning spouse must be retired.

Spouse Benefits – Example # 1

Al's Social Security Benefit: \$ 2,000

Peggy's Benefit from her work record: \$ 600

Peggy will receive a monthly check of: \$ 1,000

The couple will receive in total: \$ 3,000



Spouse Benefits – Example # 2

| | |
|---------------------------------|---------------|
| Ward's Social Security Benefit: | \$ 1,900 |
| June's work record benefit: | \$ 0 |
| June will receive: | <u>\$ 950</u> |



**The couple will
receive in total: \$2,850**

No More Government Pension Offset (GPO)

The **GOVERNMENT PENSION OFFSET** that previously impacted the benefit that City of Chicago or “Downstate” 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.**

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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 **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**.

There is no longer any barrier to a City of Chicago or "Downstate" retiree receiving a Social Security 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 or is age 60 or over.
- *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.

SSFA Implementation

- The law repealing the WEP and GPO is retroactive to January 2024. Most current retirees have received monthly benefit changes *and* retroactive checks. More complex cases may take longer.
- SSA has done a great job.
- Those who have not yet applied for Social Security should have no issues.
- **IMPORTANT:** 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, benefit statements and websites about pensions from non-covered work.

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.
- **Claiming strategy is important**: now a little more important since the *Government Pension Offset* has been repealed.

Claiming Strategies: Expert Assistance

- Two good sources have been tested by the speaker (not endorsed by IPPFA). Both reasonably priced.
 - *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.
- **Also:** your own personal financial advisor may have sophisticated software to support estimates.

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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 |

Claiming Earling – Reduction Formula

If you claim your benefit before your Full Retirement Age (FRA), the benefit is reduced for each month you draw before your FRA. Based on an FRA of 67, the annual reductions are as follows:

Age 62 – reduced by 30.0 %

Age 63 – reduced by 24.9 %

Age 64 – reduced by 20.0 %

Age 65 - reduced by 13.1 %

Age 66 - reduced by 6.7 %

Claiming Early – Earnings Limits

If you claim benefits before your Full Retirement Age, your benefits will be subject to annual wage limitations. The annual wage limitation in 2025 is \$23,400.

If you earn *wages* above that amount, your next year's SSA is reduced (withheld) by \$1 for every \$2 you were over the limit.

Special higher limits apply in the year you attain the FRA.

Benefits are technically “withheld,” not reduced. You are paid back the reduction amount after you hit the FRA. *How does that work?* Dan doesn't know.

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 |

Examples: Social Security Benefits of \$1,000 at FRA of 67

| | |
|--------------|----------------|
| At 62 | \$ 700 |
| At 63 | \$ 751 |
| At 64 | \$ 800 |
| At 65 | \$ 869 |
| At 66 | \$ 933 |
| At 67 | \$1,000 |
| At 68 | \$1,080 |
| At 69 | \$1,160 |
| At 70 | \$1,240 |

Social Security Claiming: What's the Best Age?

- Is there a 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; 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.

Social Security – When *do* People Collect?

| <u>Age</u> | <u>Percentage</u> | <u>Cumulative</u> |
|------------|-------------------|-------------------|
| At 62 | 27% | 27% |
| At 63 - 66 | 53% | 80% |
| At 67 | 5% | 85% |
| At 68 - 69 | 5% | 90% |
| At 70 | 11% | 100% |

From Social Security Annual Statistical Supplement, 2024, as reported by AARP, with rounding.

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

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

Resources

- Dan.ryan@ippfa.org
- IPPFA.org, Information Bulletins
- *IPPFA Retirement Guide*. For Article 3-4 Members.
- *Chicago Police and Fire Retirement Guide*.

Books are 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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