



WINDFALL ELIMINATION PROVISION

Understanding Social Security: A look at the big picture

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Protective refers to Protective Life Insurance Company and Protective Life and Annuity Insurance Company.

The Windfall Elimination Provision

How your Social Security benefits can be reduced

Most employers withhold Social Security taxes from your salary. Others, including certain government agencies or employers outside the U.S., may offer a pension instead. Did you know that receiving a pension can potentially reduce your Social Security benefits? It's called the Windfall Elimination Provision (WEP). If you think you might be affected, it's important to understand how it works and what it means for your Social Security benefits.

Why a Windfall Elimination Provision?

Although Social Security was designed to replace a percentage of employees' pre-retirement earnings, the actual percentage varies across income levels. It can be as high as 49% of pre-retirement earnings for those with lower salaries but averages 32% for more highly-paid employees. And because of how Social Security benefits were calculated in the past, it was possible for employees to receive a higher-percentage Social Security benefit plus a pension — even if they had not paid Social Security taxes. The Windfall Elimination Provision removes this inequity.

Maximum reduction in benefits

WEP establishes a maximum amount that your retirement benefits can be reduced, based on your earnings and the year that you will reach retirement age. In 2023, the maximum deduction was \$587.

But under a special WEP rule, the reduction could be less: It can be no more than half the amount of the pension from employment not covered by Social Security.

Example:

- If you turned 62 in 2023 and you had 20 years of substantial earnings, WEP reduced your monthly benefit by \$587.
- Your full retirement age is 66. If your full retirement benefit is \$1512, your Eligibility Year benefit after the WEP reduction would be \$1,000.*

* Benefit amounts are rounded down to the nearest dollar.
Visit ssa.gov for more on maximum benefit reductions under the WEP.

Your social security benefits will be reduced:

- If you earned a pension in a job where you did not pay Social Security taxes and you also worked in other jobs long enough to qualify for a Social Security retirement or disability benefit.
- If you contributed federal service after 1956 and are covered under the Civil Service Retirement System (CSRS). Exception: Federal service where Social Security taxes are withheld (Federal Employees' Retirement System) will not reduce your Social Security benefit amounts.
- If you turned 62 or became disabled after 1985 and first became eligible for a monthly pension from an employer where you did not pay Social Security taxes after 1985, even if you are still working.

How does the formula work?

If you receive a pension from a job where Social Security taxes were not withheld, WEP applies a modified formula to calculate your Social Security benefit. This results in a lower Social Security benefit than you would otherwise receive.

Usual Social Security benefits are based on your average monthly earnings (adjusted for inflation), separated into three amounts that are multiplied using three factors.

Note the three multiplying factors below (left) used to calculate Social Security benefits. If you're eligible for the Windfall Elimination Provision, however, the 90% factor is reduced to 40% – 85%, depending on the number of years of "substantial earnings" you have from employers that withheld Social Security taxes. The 90% factor is not reduced if you paid Social Security taxes on your earnings for 30 years or more. The table below (right) shows how the factor changes with the years of substantial earnings.

How your benefits are calculated:

	First \$885 of average earnings	x90%
+	Next \$4,451 of average earnings	x32%
+	Remaining earnings amount	x15%

Total monthly benefit amount

Years of substantial earnings	Percentage
30 or more	90%
29	85%
28	80%
27	75%
26	70%
25	65%
24	60%
23	55%
22	50%
21	45%
20 or less	40%

The Windfall Elimination Provision does not apply if:

- You have 30 or more years of substantial earnings under Social Security.
- The only work you did where you did not pay Social Security taxes was before 1957.
- You are a federal worker first hired after December 31, 1983.
- You were employed on December 31, 1983, by a nonprofit organization that did not withhold Social Security taxes from your pay initially, but later did.
- Your only pension is based on railroad employment.

The Windfall Elimination Provision does not apply to survivor benefits. However, benefits may be reduced for widows or widowers because of another provision of the law, the Government Pension Offset. (See Social Security Publication No. 05-10045 at ssa.gov).

All facts surrounding Social Security benefits and the Windfall Elimination Provision cited in this brochure can be found at ssa.gov.



Be sure to talk to your financial professional to fully understand how the WEP could affect your Social Security benefit. You can also find more information at ssa.gov.

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