Social Security:

Understanding government pension offset and the windfall elimination provision

Allianz

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

ENT-1518-N (R-8/2020)

The basics

Generally speaking, Social Security is pretty straightforward. You get your primary insurance amount (PIA) at full retirement age and:

- it is reduced if you take it early, or
- increased if you take it after full retirement age.

Spousal and widow(er) benefits, though slightly more complicated, work very similarly.

However, there are two situations where things get much more complicated, and the end result could be a reduction in the amount of Social Security benefit you or your spouse will receive.

These reductions are the **government pension offset (GPO)** and **windfall elimination provision (WEP).** The GPO applies only to Social Security benefits as a spouse, or widow, or widower. The WEP applies only to your own benefits. Lets start with the GPO.

GOVERNMENT PENSION OFFSET (GPO)

According to the information published by the Social Security Administration, if someone worked for a federal, state, or local government and was not covered by Social Security throughout their last 60 months[1] of employment, their potential Social Security benefit as a spouse, widow, or widower may be reduced. The spouse, widow, or widower can receive only the amount of the Social Security benefit that exceeds two-thirds of their government pension. (This offset does not affect Medicare eligibility.)

Let's look at a hypothetical example of Phil, a teacher, and his wife, Anna.

PHIL (teacher)	**ANNA** (spouse)
At his **full retirement age**	At her **full retirement age**
Teacher's pension **$900**	Not a government employee
Phil is not covered by Social Security throughout his last 60 months of employment.	Anna's Social Security PIA is $1,000.

Under Social Security rules, Phil would be eligible for a spousal benefit of 50% of Anna's benefit.	**$1,000** × 50% = $500
Without government pension offset, Phil would get $1,400.	**$900** + $500 = $1,400
With government pension offset, Phil would get the Social Security spousal benefit only to the extent it exceeds two-thirds of his pension.	2/3 of **$900** = $600

Since $600 is greater than $500, **his spousal benefit would be $0.**

[1] May be fewer than 60 months if last day of employment was before March 2, 2009.

The characters used in this example are fictional and do not represent actual clients.

The government pension offset was enacted to treat retired government employees similarly to other retirees who worked in Social Security-covered employment. If a government employee's work had been subject to Social Security taxes, any Social Security benefit payable as a spouse, widow, or widower would have been reduced by the person's own Social Security retirement benefit.

Without the GPO, a person would get their full government pension based on noncovered Social Security employment, as well as an unreduced Social Security benefit.

But what happens when Anna passes away?

Under the Social Security rules, Phil would be entitled to move up to Anna's $1,000. But, again, it would be offset by 2/3 of his $900 pension ($600).

$1,000 – $600 = $400

Plus, his $900 pension: $400 + **$900** = $1,300

Please note: Even with a lump-sum payout of the government pension, the Social Security Administration will calculate the reduction as if you chose to get a monthly benefit.

WINDFALL ELIMINATION PROVISION (WEP)

The windfall elimination provision may reduce an individual's Social Security retirement or disability benefits if an individual receives a pension from any employer who did not withhold Social Security taxes. It primarily affects individuals who also worked in other jobs long enough to qualify for a Social Security retirement or disability benefit.

Examples of this type of employer are government agencies or an employer in another country. If you are eligible to receive such a pension, a modified formula is used to calculate your Social Security benefit and may result in a reduced benefit. The reduction of your Social Security benefits is generally less if you have 21 or more years of "substantial" earnings subject to Social Security withholding – and totally eliminated if you have 30 or more years of "substantial" earnings subject to Social Security withholding.

Please note: The law protects you if you get a low pension. The Social Security Administration will not reduce your Social Security benefit by more than half of your pension for earnings after 1956 on which you did not pay Social Security taxes. The windfall elimination provision doesn't apply to survivor benefits.

To learn more about government pension offsets or windfall elimination provisions, talk to your financial professional and contact a Social Security representative.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America and Allianz Life Insurance Company of New York. Variable annuity guarantees do not apply to the performance of the variable subaccounts, which will fluctuate with market conditions.

Products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. www.allianzlife.com. In New York, products are issued by Allianz Life Insurance Company of New York, 1633 Broadway, 42nd Floor, New York, NY 10019-7585. www.allianzlife.com/new-york. Only Allianz Life Insurance Company of New York is authorized to offer annuities and life insurance in the state of New York. Variable products are distributed by their affiliate, Allianz Life Financial Services, LLC, member FINRA, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. www.allianzlife.com