

Understanding HOW THE WINDFALL ELIMINATION PROVISION AFFECTS YOUR SOCIAL SECURITY BENEFITS

YOUR OPPORTUNITY WITH ARUP

ARUP provides the unique opportunity of opting out of Social Security to its employees. Some workers find that this opportunity allows them to grow their retirement assets at a faster rate.

If workers redirect the Social Security tax savings towards retirement accounts, the benefit of opting out often outweighs the penalties on Social Security benefits.

In this article, we will help you understand how your Social Security retirement benefits may be reduced through something called the Windfall Elimination Provision, a.k.a. the WEP Penalty. Let's break it down and understand how it works!



UNDERSTANDING WEP

The Windfall Elimination Provision (WEP) comes into play when you work for an employer who doesn't take out Social Security taxes from your salary. This can happen if you work for a government agency or an employer in another country. If you earn a retirement or disability pension from this kind of work, it can reduce your Social Security benefits.

SO, DOES WEP AFFECT YOU? YOU ARE AFFECTED IF BOTH ARE TRUE.



PENSION

You have pension contributions from ARUP for opting out of Social Security.



SOCIAL SECURITY

You qualify for a Social Security benefit. You may qualify from other jobs or because you opted into Social Security through ARUP.

YOUR SOCIAL SECURITY BENEFIT

Now, let's understand how Social Security benefits are calculated. The goal of these benefits is to replace a portion of your pre-retirement earnings. Your benefit amount is based on your average monthly earnings adjusted for inflation.

To calculate your full Primary Insurance Amount (PIA), the Social Security benefit you're entitled to at your Full Retirement Age, the Social Security Administration (SSA) separates your average earnings into three categories and multiplies each category by different factors.

For example, if you turn 62 in 2023, the first \$1,115 of your average monthly earnings is multiplied by 90%. Earnings between \$1,115 and \$6,721 are multiplied by 32%, and the rest is multiplied by 15%. The sum of these three amounts gives you your PIA.



HOW WEP MAY REDUCE YOUR BENEFIT

It's important to note that the Windfall Elimination Provision doesn't affect survivor's benefits. However, there may be other laws that can reduce spouses', widows', or widowers' benefits, like the Government Pension Offset (GPO).

If you have 20 years or less of substantial earnings under Social Security, you will be hit with the full WEP penalty. If you have 30 years of substantial earnings under Social Security, you no longer have a WEP penalty. Between 21 and 30 years, the WEP penalty is reduced by 10% each year. [See "important Numbers" section on the next page]



Finally, there's a guarantee to protect you if you have a low pension. Your Social Security benefit won't be reduced by more than half of your pension. Understanding the Windfall Elimination Provision can help you plan for your retirement and know how it may affect your Social Security benefits.

IN SUMMARY

Opting out of Social Security provides an opportunity to grow your retirement assets at a faster rate. You do not have to pay 6.2% of your earned income to Social Security tax. If you redirect the Social Security tax savings towards retirement accounts, you can enhance your overall retirement readiness. Opting out of Social Security introduces the WEP on any Social Security benefit you have. Understanding the WEP calculations can help you optimize that benefit.

Your situation is unique. You may find that opting out of Social Security will enhance your retirement. For others, opting out may not make sense. You should consult with professionals for individualized guidance. Capita has provided multiple resources to help you optimize your retirement benefits and your Social Security decision and is happy to review your personal situation to help you make the best decision.

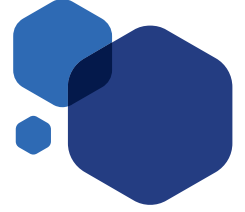
RESOURCES

[Click to listen to our Podcast Episode: GUIDED PATH 2-5 SOCIAL SECURITY PENALTIES WEP AND GPO](#)

[Click to listen to our Podcast Episode: SLEEPING WITH THE MAILMAN? MESSED-UP SOCIAL SECURITY...](#)

[Click to read the SSA's WEP Publication](#)

TO OPT IN OR OUT?



OPT OUT STAY OUT, IF:

- You have time on your side
- You're willing to be disciplined and save the SS tax amount
- You're willing to accept the WEP SS reduction and take responsibility for your retirement income
- Opting in won't reduce the WEP Penalty (aka the numbers of years remaining to reduce the WEP is more than the years you plan on working)
- You've already hit 30 years of Substantial Earnings and have worked through the WEP and eliminated the penalty

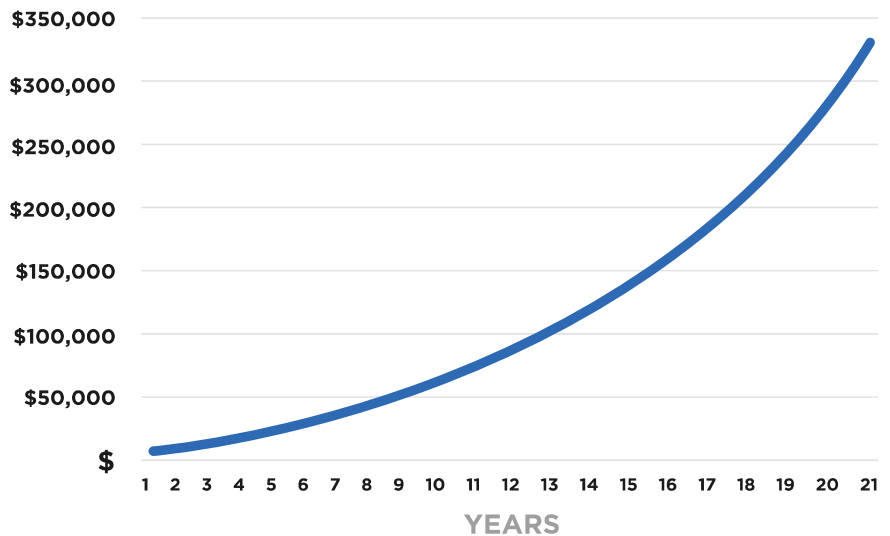
OPT IN/STAY IN, IF:

- You're in between 20-30 Substantial Earnings years and want to reduce the WEP penalty.
- You earn less than the Substantial Earnings Amount in half the year so you need to pay in the whole year in order to have it count towards a Substantial Earnings year

OPT IN/OPT OUT, IF:

- You're in between 20-30 Substantial Earnings years and want to reduce the WEP penalty.
- You earn the Substantial Earnings amount in half the year so you're able to pay into SS for just half of the year but get a full year's worth of Substantial earnings towards reducing your WEP Penalty

ADDITIONAL SAVINGS FOR OPTING OUT AFTER 20 YEARS



APPROXIMATELY \$327,000 SAVED FROM OPTING OUT AND INVESTING

This could produce about

\$1,000/MONTH
in income in retirement

Possible Full WEP Penalty:

\$557/MONTH

*\$60,000 income growing at 2% each year, saving 6.2% and 3.1% and invested to grow at 8% each year. Withdrawal is a 4% rate.

IMPORTANT NUMBERS

- Current Full WEP for someone turning 62 this year: **\$557.50**
- Current Substantial Earnings amount: **\$29,700**
 - Your annual salary would need to be at least **\$59,400** to utilize the Opt In and Opt Out Strategy
- Social Security Bend points: (Listen to this podcast episode to learn more about bend points <https://www.thefinancialcall.com/podcasts/gp2-2>)
 - **First \$1,115 - 90% given back**
 - **\$1,115 - \$6,721 - 32% given back**
 - **Remainder given back at 15%**
- Max PIA for someone reaching FRA in current year: **\$3,627**
- Maximum Social Security taxable earnings: **\$160,200**

EVERY SITUATION IS UNIQUE

If you want a professional to review your personal circumstances to help you decide what to do, call or email us and we will review your situation at no cost.

CONTACT US

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