

Not Much Windfall, but Clearly Elimination:

Social Security Windfall Elimination and Government Pension Offset for Michigan Police Officers & Firefighters



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Michigan police officers and firefighters in an exempt system (one that doesn't pay into Social Security), face two potential reductions in their Social Security benefits if they have other covered employment. This is called the Social Security Windfall Elimination Provision (for the retiree) and the Government Pension Offset (for the surviving spouse).

The Windfall Elimination Provision (WEP) applies to retired police officers and firefighters:

- In an exempt system (usually an older system);
- Who have other earnings covered by Social Security (other job, self-employment, etc.);
- Who reach age 62 after 1985; or
- Who become disabled after 1985.

The rule for windfall elimination is quite complex. In general, your retirement Social Security benefit is comprised of three levels of Average Indexed Monthly Earnings (AIME). For 2013, the first \$791 of AIME creates a benefit of 90%; the next \$3,977 creates a benefit of 32%, and the remainder by 15%. The Windfall Elimination Provision reduces the 90% benefit level by the number of years you had "Substantial Earnings" (earnings you paid Social Security taxes on) over a specific amount (see chart on page 2). The limitation percentage, based on your years of Substantial Earnings, is determined as illustrated in the table below. The WEP reduction will

never be more than one-half the pension from exempt employment.

Years of SE	Percentage	Max Reduction 2014
≥ 30	90	\$0.00
29	85	\$40.80
28	80	\$81.16
27	75	\$122.40
26	70	\$163.20
25	65	\$204.00
24	60	\$244.60
23	55	\$285.60
22	50	\$326.40
21	45	\$367.20
≤ 20	40	\$408.00

Let's do an example. Jason was born on 01/15/1952. He is a retired firefighter from an exempt system. His pension benefit is about \$3,700 a month. During his working career, besides as a firefighter, he also worked a variety of jobs including carpentry and teaching at a hospital. He had normal nominal work starting in 1968, and worked after he retired from Detroit in 2004. He goes on the Social Security website (socialsecurity.gov) and uses the [WEP calculator](#). After adding in his earnings for his covered years, Jason has 25 years of Substantial Earnings.

His retirement benefit at age 62 will be \$773 a month. His disability benefit would be \$973 a month. If he waits until age 66, his benefit would be about \$1,148, and considerably more if he worked the additional years (\$1,497). Note that the WEP disappears if you have 30 years of substantial benefits.

Government Pension Offset (GPO). The GPO reduces spousal and survivor benefits. Normally a spouse of a Social Security recipient gets the greater of their own Social Security or 50% of their spouse's. A survivor gets the greater of their own benefit or 100% of their spouse's. If the spouse or survivor is receiving a government pension (from an exempt system), the Social Security benefit is reduced by 2/3 of the government pension (all the way to zero). The WEP and GPO can hit twice in a household with two government employees.

Special Michigan income tax rule for exempt system pensioners. Retirees in an exempt system will receive a different exclusion from Michigan taxes than those covered by Social Security. For those born between 1946 and 1952, they may deduct up to \$35,000 of pension benefits (single) or \$55,000 (married filing joint) from their Michigan taxable income. If both spouses receive a pension from an exempt system, the deduction is increased to \$70,000. For those born after 1952, the deduction is \$15,000 for single or married, and \$30,000 if both spouses are under exempt system.

Year	Substantial Earnings	Year	Substantial Earnings
1975	\$3,525	1994	\$11,250
1976	\$3,825	1995	\$11,325
1977	\$4,125	1996	\$11,625
1978	\$4,425	1997	\$12,150
1979	\$4,725	1998	\$12,675
1980	\$5,100	1999	\$13,425
1981	\$5,550	2000	\$14,175
1982	\$6,075	2001	\$14,925
1983	\$6,675	2002	\$15,750
1984	\$7,050	2003	\$16,125
1985	\$7,425	2004	\$16,275
1986	\$7,875	2005	\$16,725
1987	\$8,175	2006	\$17,475
1988	\$8,400	2007	\$18,150
1989	\$8,925	2008	\$18,975
1990	\$9,525	2009-2011	\$19,800
1991	\$9,900	2012	\$20,475
1992	\$10,350	2013	\$21,075
1993	\$10,725	2014	

Conclusion. The WEP and GPO are serious considerations in retirement planning. Take a hard look at the prospective benefits or sit down with an LJPR adviser to evaluate the WEP and GPO and how it may affect you and your Social Security benefits in the future.

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