

S.F. No. 15 – Full subtraction of Social Security benefits; partial subtraction of public pension benefits

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Date: January 11, 2023

Section 1. Social Security benefits. Modifies the partial subtraction for taxable Social Security benefits under current law to provide a subtraction for the full amount of taxable Social Security benefits. Effective beginning in tax year 2023.

Section 2. Public pension income subtraction. Provides a subtraction for benefits received from specified public pension plans based on service for which the recipient did not also receive Social Security benefits. The maximum subtraction is \$5,450 for married joint filers, \$2,275 for married couples filing separate returns, and \$4,260 for all other filers, and is phased out by 20 percent of provisional income in excess of \$82,770 for a joint return, \$41,385 for married couples filing separate returns, and \$64,670 for all other filers, respectively. The maximum subtraction and income threshold amounts are adjusted annually for inflation.

Pension benefits received by “basic members” (i.e., members who do not also receive Social Security benefits for their service) or their survivor from the following state plans are eligible for the subtraction:

- State Patrol Retirement Fund;
- Legislators Retirement Fund (for legislators first elected before 1997 and did not elect the state unclassified plan);
- Public Employee Retirement Association (PERA) General Plan, which includes the Minneapolis Employees Retirement Fund; and PERA Police and Fire Plan;
- Teachers Retirement Association; and
- St. Paul Teachers Retirement Fund Association.

The following benefits would also be eligible for the subtraction:

- Benefits from a federal retirement system based on service for which the recipient or survivor is not also receiving Social Security benefits; and

- Benefits from another state or its political subdivisions based on service for which the recipient is not also receiving Social Security benefits, provided that the state permits a similar exclusion for benefits from a Minnesota public retirement system.

The calculation for the public pension benefit subtraction is modeled after the federal and state taxation structure for Social Security benefits. Effective beginning in tax year 2023.

Section 3. Definitions. Adds a reference to the public pension subtraction to the calculation of alternative minimum tax (AMT). Effective beginning in tax year 2023.

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Senate

State of Minnesota

TO: Interested Parties

FROM: Nora Pollock, Senate Counsel (651/297-8066)

DATE: January 10, 2023

RE: Requirements for enacting or modifying a local sales tax

Local sales taxes are governed under Minnesota Statutes, section 297A.99. Local sales taxes apply to the same base as all other sales in the state sales tax base and are administered by the Department of Revenue. The requirements outlined in this memo apply only to local general sales taxes and do not apply to special taxes such as lodging or food and beverage taxes.

Local sales tax revenues may be used instead of traditional local revenues (such as LGA) only for construction and rehabilitation of capital projects that have a clear and demonstrated regional benefit beyond the local jurisdiction. The proceeds of the tax must be dedicated exclusively to payment of the construction and rehabilitation costs and associated bonding costs related to the specific capital projects as approved by voters.

The 2021 First Special Session omnibus tax bill codified the definition of “capital project” for local sales tax proposals.¹ A capital project means:

- a single building or structure including associated infrastructure needed to safely access or use the building or structure;
- improvements within a single park or named recreation area; or
- a contiguous trail.

Requirements for local governments seeking to enact a local sales tax or modify an existing local sales tax

1. Pass a resolution prior to seeking legislative authority. The resolution must include:

- The proposed tax rate;
- A detailed description of no more than five capital projects to be funded by the

¹ 2021 First Special Session, Chapter 14, Article 8, section 1; codified at Minnesota Statutes, section 297A.99, subdivision 2, paragraph (d).

proposed tax;

- The amount of revenue from the sales tax that would be used for each project and the estimated time needed to raise that amount; and
- The total revenue that will be raised for all projects before the tax expires, and the estimated length of time that the tax will be in effect if all proposed projects are funded.

- 2. Submit the resolution to the chairs and ranking members of the House and Senate Tax Committees by January 31 of the year of the proposed authorization.** The submission must include underlying documentation showing how the regional benefit, including the share of the economic benefit to or use of each project by persons residing, or businesses located, outside of the jurisdiction was determined.
- 3. Receive legislative approval to impose the tax via a special law.** The legislative approval must not include a project that was not in the resolution and must detail the tax rate, the projects, the total revenue that will be raised from the tax, and the estimated length of time the tax would be in effect.
- 4. Receive voter approval to impose the tax as authorized by the legislature at a general election held within two years after receiving legislative authority.** The ballot must contain a separate question for each proposed project. Only the projects that received a majority of “yes” votes may be funded with the tax. If not all projects are approved by the voters, the total revenue raised and the duration of the tax must be reduced proportionately based on the share of the approved projects’ costs to the total costs in the authorizing legislation.
- 5. File the resolution and documentation of voter approval with the Secretary of State.** The filing must occur before the first day of the next regular legislative session.²

Other considerations

After the tax is approved by the voters, the local government must notify the commissioner of revenue at least 90 days before the tax is imposed. The tax may be imposed only on the first day of a calendar quarter.

² Minnesota Statutes, section 645.021, subdivision 3.

January 11, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
 Analysis of S.F. 15 (Putnam)

	Fund Impact			
	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
			(000's)	
Social Security Subtraction	(\$603,500)	(\$656,500)	(\$718,900)	(\$776,500)
Public Pension Subtraction	(\$40,100)	(\$40,000)	(\$39,900)	(\$39,800)
Interaction	\$2,000	\$2,000	\$2,000	\$2,000
General Fund Total	(\$641,600)	(\$694,500)	(\$756,800)	(\$814,300)

Effective beginning tax year 2023.

EXPLANATION OF THE BILL

Current Law: A taxpayer may subtract a portion of Social Security income when calculating Minnesota taxable income. For 2023, the maximum subtraction is \$5,840 for married joint filers, \$2,920 for married separate filers, and \$4,560 for single and head of household filers.

The subtraction is reduced by 20% of provisional income over the following thresholds for 2023: \$88,630 for married joint filers, \$44,315 for married separate filers, and \$69,250 for single and head of household filers. Provisional income is income used to calculate the federally taxable portion of Social Security benefits. The thresholds and maximum subtractions are adjusted annually for inflation.

Certain government workers who are members of a public pension plan are excluded from Social Security under federal law, provided their pension benefits meet certain requirements. These pension benefits are taxable under Minnesota law to the extent they are included in federal adjusted gross income.

Proposed Law:

Social Security Subtraction. Under the bill, the entire amount of Social Security benefits received by a taxpayer during the tax year is allowed as a subtraction, to the extent included in federal taxable income.

Public Pension Subtraction. The bill would also create a new subtraction for public pension recipients, provided their benefits are based on service for which they are not receiving Social Security benefits.

The public pension subtraction’s amount would be the sum of a “federal exclusion” and a “state exclusion.”

EXPLANATION OF THE BILL (Cont.)

The federal exclusion is calculated in a similar way to the federal exclusion for Social Security benefits. The amount depends on the taxpayer's provisional income, defined as modified adjusted gross income plus one-half of taxable Social Security benefits received during the taxable year, relative to the "base amount" and "adjusted base amount," which are used to calculate the taxable portion of Social Security benefits under federal law. The base amount is \$25,000 for most taxpayers, \$32,000 for a taxpayer filing a joint return, and zero for a married couple filing separate returns who do not live apart for all of the tax year. The adjusted base amount is \$34,000 for most taxpayers, \$44,000 for taxpayers filing a joint return, and zero for a married couple filing separate returns who do not live apart for all of the tax year.

The state exclusion equals the amount of qualified pension benefits in excess of the federal exclusion, subject to a maximum state exclusion, and is phased out by income in the same way as the current Social Security subtraction.

The maximum state exclusion and phase-out thresholds are the same as for the Social Security subtraction. The maximum state exclusion is \$5,450 for a joint return, half that amount for a married taxpayer filing a separate return, and \$4,260 for all other taxpayers. The maximum amount is reduced by 20% of provisional income in excess of \$82,770 for a joint return, half that amount for a married taxpayer filing a separate return, and \$64,670 for all other filers. Those amounts will be adjusted annually for inflation beginning in tax year 2024.

The taxpayers eligible for the subtraction include members of the State Patrol Retirement Plan, members of the legacy Legislators Retirement Fund, certain legacy members of the Public Employee Retirement Association (PERA) General Plan, legacy members of the Minneapolis Employees Retirement Fund, members of the PERA Police & Fire Plan, certain legacy members of the Teacher Retirement Association, and certain legacy members of the St. Paul Teachers Retirement Fund Association. The bill also includes any members of a federal pension plan who are ineligible for Social Security, and members of a pension plan administered by another state whose income tax laws permit a "similar deduction or exemption" for beneficiaries of a Minnesota pension plan.

The phrase "similar deduction or exemption" is undefined. For this estimate, a state was considered to have a "similar deduction or exemption" if it offers any deduction or exemption specifically for pension income. The estimate does not include states that offer an additional deduction for elderly taxpayers (irrespective of the source of income), states that offer a tax credit for pension benefits, and states without an income tax.

The public pension subtraction would be allowed for purposes of the alternative minimum tax.

REVENUE ANALYSIS DETAIL

Social Security Subtraction

- The House Income Tax Simulation (HITS 7.2) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2022. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts were allocated to the following fiscal year.

Public Pension Subtraction

- The estimate is the sum of eight separate analyses: one for each of the seven state-level public pension plans, and one for the corresponding federal pension plan, the Civil Service Retirement System (CSRS).
- The 2022 valuation reports for six of the seven state pension plans specifically covered by this proposal were used to calculate the average pension benefit and the number of taxpayers eligible for this subtraction. The 2022 report for the SPTRFA plan was unavailable; in this case, the 2021 report was used instead.
- The U.S. Office of Personnel Management's Civil Service Retirement and Disability Fund Annual Reports and a Congressional Research Service report were used to estimate the average pension benefit and the number of taxpayers eligible for this subtraction from federal service.
- Since data on this population's taxable income is unavailable, a simulated beneficiary population was constructed using the 2019 income tax sample by selecting a random group of filers reporting Social Security income and replacing their Social Security income with a hypothetical pension income from one of the eligible public pension systems. The size of the sample and average pension amount were chosen to match the number of qualifying pension beneficiaries and total amount of pension income calculated from the valuation reports and CSRS forecast.
- The cost estimates for each of the state pension plans were reduced by the share of Minnesota pension recipients who retired to other states, using data from Minnesota State Retirement System and PERA. Data on TRA and SPTRFA beneficiaries was unavailable. Instead, a weighted average was used to impute a figure for this group.
- Data from the Census Bureau's 2019 Annual Survey of Public Pensions (ASPP), Public Plans Data (PPD) from the Center for Retirement Research at Boston University, and the IRS's U.S. Population Migration Data for 2018-2019 were used to estimate the number of Minnesota residents who receive retirement benefits from another state's pension plan.
- About 2.43 million public plan beneficiaries nationwide are ineligible for Social Security, according to the PPD. Approximately 47% of these beneficiaries were members of a plan administered by a state with a similar deduction or exemption, estimated based on a review of state statutes. It is assumed that 10% of these beneficiaries, or about 115,000 pension recipients, retire to states other than where they worked. Minnesota's share of these pension recipients was estimated using Minnesota's share of inbound state-to-state migrants age 65 and older for 2019 from the IRS migration data. This yields an estimated 1,600 qualifying pensioners from other states who retire in Minnesota.
- The federal estimate was discounted by 7.5% to account for the already tax-free portion of CSRS benefits.

REVENUE ANALYSIS DETAIL (Cont.)

- Minnesota pension plan growth rates through 2022 are based on the observed growth rates in pension payouts from the valuation reports. For the remainder of the fiscal years in this estimate, the projected growth rates of benefit payments from the valuation reports were used instead. Both growth rates were adjusted to account for the declining share of employees not covered by Social Security.
- CSRS growth rates were based on the average historical growth rates for CSRS pension payments.
- The public pension subtraction estimate was reduced by 5% due to interactions between the Social Security subtraction and the public pension subtraction, since some taxpayers would qualify for both.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 473,000 tax returns would be affected by the expanded Social Security subtraction in tax year 2023. The average decrease in tax from the expanded Social Security subtraction would be \$1,276.

About 48,200 taxpayers would be affected in tax year 2023 by the public pension subtraction, including 20,300 Minnesota state pension recipients, 1,600 non-Minnesota state pension recipients and 26,300 federal pension recipients. The average decrease in tax from the pension subtraction would be \$833.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)

TABLE 1. ALL FILERS

A	B	C	D	E	F	G	H	I	J	K
Income Category (FAGI)	Total Number of Returns	Number of Returns With Tax Reduction	Total Amount of Tax Reduction	Percent of Total Amt of Tax Reduction	Cumulative Pct of Tot Amt of Tax Reduction	Average Tax Reduction Per Filer	Effective Tax Rate, Current Law	Effective Tax Rate, Proposed	Change in Effective Tax Rate	Percent Change in Effective Tax Rate
9,999 or Less	305,267	87	\$ 8,000	0.0%	0.0%	\$ 92	0.00%	0.00%	0.00%	NA
10,000-19,999	258,240	2,125	\$ 151,000	0.0%	0.0%	\$ 71	-1.02%	-1.02%	0.00%	NA
20,000-29,999	242,499	25,971	\$ 876,000	0.1%	0.2%	\$ 34	0.07%	0.05%	-0.01%	-21.84%
30,000-49,999	474,236	67,503	\$ 19,196,000	3.2%	3.4%	\$ 284	1.91%	1.81%	-0.10%	-5.37%
50,000-74,999	459,268	94,298	\$ 72,921,000	12.1%	15.4%	\$ 773	3.45%	3.19%	-0.26%	-7.55%
75,000-99,999	318,730	80,861	\$ 91,904,000	15.2%	30.7%	\$ 1,137	3.95%	3.61%	-0.34%	-8.60%
100,000-124,999	235,799	69,879	\$ 113,865,000	18.9%	49.5%	\$ 1,629	4.26%	3.82%	-0.44%	-10.38%
125,000-174,999	288,359	65,719	\$ 139,405,000	23.1%	72.6%	\$ 2,121	4.74%	4.40%	-0.34%	-7.19%
175,000-249,999	185,292	31,888	\$ 70,729,000	11.7%	84.3%	\$ 2,218	5.27%	5.08%	-0.19%	-3.68%
250,000-499,999	133,711	24,604	\$ 68,955,000	11.4%	95.7%	\$ 2,803	6.33%	6.16%	-0.17%	-2.68%
500,000 or more	59,038	9,967	\$ 25,711,000	4.3%	100.0%	\$ 2,580	8.21%	8.17%	-0.05%	-0.56%
All Incomes	2,960,439	472,902	\$ 603,721,000	100.0%	NA	\$ 1,277	5.19%	4.97%	-0.22%	-4.18%

Filers with no change 2,494,184 (84.1% of all returns)

TABLE 2. FULL-YEAR RESIDENT SENIOR FILERS ONLY

A	B	C	D	E	F	G	H	I	J	K
Income Category (FAGI)	Total Number of Returns	Number of Returns With Tax Reduction	Total Amount of Tax Reduction	Percent of Total Amt of Tax Reduction	Cumulative Pct of Tot Amt of Tax Reduction	Average Tax Reduction Per Filer	Effective Tax Rate, Current Law	Effective Tax Rate, Proposed	Change in Effective Tax Rate	Percent Change in Effective Tax Rate
9,999 or Less	60,806	87	\$ 8,000	0.0%	0.0%	\$ 92	0.00%	0.00%	0.00%	NA
10,000-19,999	53,113	1,211	\$ 40,000	0.0%	0.0%	\$ 33	0.03%	0.02%	-0.01%	-20.60%
20,000-29,999	51,543	23,299	\$ 786,000	0.1%	0.1%	\$ 34	0.57%	0.51%	-0.06%	-10.80%
30,000-49,999	86,717	61,264	\$ 17,765,000	3.2%	3.3%	\$ 290	1.58%	1.06%	-0.52%	-32.95%
50,000-74,999	97,357	83,696	\$ 67,452,000	12.1%	15.4%	\$ 806	2.84%	1.73%	-1.10%	-38.92%
75,000-99,999	82,624	72,183	\$ 86,168,000	15.5%	30.9%	\$ 1,194	3.58%	2.38%	-1.20%	-33.55%
100,000-124,999	66,903	60,932	\$ 105,439,000	18.9%	49.8%	\$ 1,730	4.08%	2.67%	-1.41%	-34.51%
125,000-174,999	61,998	54,955	\$ 127,863,000	22.9%	72.7%	\$ 2,327	4.72%	3.31%	-1.41%	-29.92%
175,000-249,999	33,091	26,488	\$ 65,275,000	11.7%	84.5%	\$ 2,464	5.26%	4.29%	-0.96%	-18.34%
250,000-499,999	24,064	19,876	\$ 63,523,000	11.4%	95.9%	\$ 3,196	6.37%	5.57%	-0.81%	-12.69%
500,000 or more	9,125	6,182	\$ 23,102,000	4.1%	100.0%	\$ 3,737	7.89%	7.71%	-0.18%	-2.26%
All Incomes	627,341	410,173	\$ 557,421,000	100.0%	NA	\$ 1,359	5.05%	4.14%	-0.91%	-17.96%

Filers with no change 219,725 (34.9% of all returns)

Data source: HITS72, November 2022 forecast
* some figures computed before rounding for presentation

PENSION SUBTRACTION FOR "BASIC PLAN" MEMBERS WHO WERE NOT COVERED BY SOCIAL SECURITY

Many cities established pension plans before Social Security was created in 1935. Police and Fire Pension Plans in Minnesota date back the 1870's. First class Teacher Plans were established in 1909 as was the Minneapolis Employees Retirement Fund. By 1978, new employees in all but public safety plans were coordinated with Social Security. **Police and Fire members still today ARE NOT COVERED BY SOCIAL SECURITY.**

PERA Police & Fire Fund, Retirees and Surviving Spouses:	12,107
PERA Basic Plan Retirees (2,477 MERF/ 3,700 Other) and Surviving Spouses:	6,177
TRA Basic Plan Retirees and Surviving Spouses:	2,644
St. Paul Teachers Basic Plan Retirees and Surviving Spouses:	1,544
State Highway Patrol Troopers, DNR and BCA Agents:	1,021
Total Basic Plan Retirees and Surviving Spouses:	23,493
Active Basic Plan Members in PERA Police & Fire and Troopers:	12,541
US Dept. of Labor, Inflation Growth Year Over Year:	December 2021: 7.0%
	December 2022: 7.1%
Social Security COLA Increase:	January 1, 2022: 5.9%
	January 1, 2023: 8.7%
All State Retiree COLA:	January 1, 2022: 1%
	January 1, 2023: 1%
 All State and Local Government Spending on Pensions:	 5.2%
 Minnesota State and Local Government Spending on Pensions:	 2.4%
 Minnesota's Ranking on Pension Spending:	 46th

Prepared by Brian Rice, January 13, 2023

Sources: 2022 Pension Plan Actuarial Reports; US Dept. of Labor; Social Security Administration; and National Association of State Retirement Administrators



Government Pension Offset

A law that affects spouses and widows or widowers

If you receive a retirement or disability pension from a federal, state, or local government based on your own work for which you didn't pay Social Security taxes, we may reduce your Social Security spouses or widows or widowers benefits. This fact sheet provides answers to questions you may have about the reduction.

How much will my Social Security benefits be reduced?

We'll reduce your Social Security benefits by two-thirds of your government pension. In other words, if you get a monthly civil service pension of \$600, two-thirds of that, or \$400, must be deducted from your Social Security benefits. For example, if you're eligible for a \$500 spouses, widows, or widowers benefit from Social Security, you'll get \$100 a month from Social Security ($\$500 - \$400 = \$100$). If two-thirds of your government pension is more than your Social Security benefit, your benefit could be reduced to zero.

If you take your government pension annuity in a lump sum, Social Security will calculate the reduction as if you chose to get monthly benefit payments from your government work.

Why will my Social Security benefits be reduced?

Benefits we pay to spouses, widows, and widowers are "dependent" benefits. Set up in the 1930s, these benefits were to compensate spouses who stayed home to raise a family and were financially dependent on the working spouse. It's now common for both spouses to work, each earning their own Social Security retirement benefit. The law requires a person's spouse, widow, or widower benefit to be offset by the dollar amount of their own retirement benefit.

For example, if a woman worked and earned her own \$800 monthly Social Security benefit, but was also due a \$500 spouse's benefit on her husband's record, we couldn't pay that spouse's benefit because her own benefit offsets it. Before enactment of the Government Pension Offset law, if that same woman was a government employee who didn't pay into Social Security and earned an \$800 government pension, there was no offset. We had to pay her a full spouse's benefit and her full government pension.

If this person's government work had been subject to Social Security taxes, we would reduce any spouse, widow, or widower benefit because of their own Social Security retirement benefit. The Government Pension Offset ensures that we calculate the benefits of government employees who don't pay Social Security taxes the same as workers in the private sector who pay Social Security taxes.

When won't my Social Security benefits be reduced?

Generally, we won't reduce your Social Security benefits as a spouse, widow, or widower if you:

- Receive a government pension that's not based on your earnings; or
- Are a federal (including Civil Service Offset), state, or local government employee and your government pension is from a job for which you paid Social Security taxes; and:
 - Your last day of employment (that your pension is based on) is before July 1, 2004; or
 - You filed for and were entitled to spouses, widows, or widowers benefits before April 1, 2004 (you may work your last day in Social Security covered employment at any time); or
 - You paid Social Security taxes on your earnings during the last 60 months of government service. (Under certain

conditions, we require fewer than 60 months for people whose last day of employment falls after June 30, 2004, and before March 2, 2009.)

There are other situations for which we won't reduce your Social Security benefits as a spouse, widow, or widower; for example, if you:

- Are a federal employee who switched from the Civil Service Retirement System (CSRS) to the Federal Employees' Retirement System (FERS) after December 31, 1987; and:
 - Your last day of service (that your pension is based on) is before July 1, 2004;
 - You paid Social Security taxes on your earnings for 60 months or more during the period beginning January 1988 and ending with the first month of entitlement to benefits; or
 - You filed for and were entitled to spouses, widows, or widowers benefits before April 1, 2004 (you may work your last day in Social Security covered employment at any time).
- Received, or were eligible to receive, a government pension before December 1982 and meet all the requirements for Social Security spouse's benefits in effect in January 1977; or
- Received, or were eligible to receive, a federal, state, or local government pension before July 1, 1983, and were receiving one-half support from your spouse.

Note: A Civil Service Offset employee is a federal employee, rehired after December 31, 1983, following a break in service of more than 365 days, with five years of prior CSRS coverage.

What about Medicare?

Even if you don't get benefit payments from your spouse's work, you can still get Medicare at age 65 on your spouse's record if you aren't eligible for it on your own record.

Can I still get Social Security benefits from my own work?

The offset applies only to Social Security benefits as a spouse, or widow, or widower. However, we may reduce your own benefits because of another provision. For more information, go online to read *Windfall Elimination Provision* (Publication No. 05-10045).

Contacting Social Security

The most convenient way to contact us anytime, anywhere is to visit www.socialsecurity.gov. There, you can: apply for benefits; open a *my* Social Security account, which you can use to review your *Social Security Statement*, verify your earnings, print a benefit verification letter, change your direct deposit information, request a replacement Medicare card, and get a replacement SSA-1099/1042S; obtain valuable information; find publications; get answers to frequently asked questions; and much more.

If you don't have access to the internet, we offer many automated services by telephone, 24 hours a day, 7 days a week. Call us toll-free at **1-800-772-1213** or at our TTY number, **1-800-325-0778**, if you're deaf or hard of hearing.

If you need to speak to a person, we can answer your calls from 7 a.m. to 7 p.m., Monday through Friday. We ask for your patience during busy periods since you may experience higher than usual rate of busy signals and longer hold times to speak to us. We look forward to serving you.



Securing today
and tomorrow

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Windfall Elimination Provision

Your Social Security retirement or disability benefits may be reduced

The Windfall Elimination Provision can affect how Social Security calculates your retirement or disability benefit. If you work for an employer who doesn't withhold Social Security taxes from your salary, any retirement or disability pension you get from that work can reduce your Social Security benefits. Such an employer may be a government agency or an employer in another country.

When your benefits can be affected

The following provisions can affect you if both of them are true:

- You earn a retirement or disability pension from an employer who didn't withhold Social Security taxes.
- You qualify for Social Security retirement or disability benefits from work in other jobs for which you did pay taxes.

The Windfall Elimination Provision can apply if 1 of the following is true:

- You reached age 62 after 1985.
- You developed a qualifying disability after 1985.

If the latter applies, you must first have become eligible for a monthly pension based on work where you didn't pay Social Security taxes after 1985. This rule applies even if you're still working.

This provision also affects Social Security benefits for people who performed federal service under the Civil Service Retirement System (CSRS) after 1956. We won't reduce your Social Security benefit amount if you only performed federal service under a system such as the Federal Employees' Retirement System (FERS). Social Security taxes are withheld for workers under FERS.

How it works

Social Security benefits are intended to replace only some of a worker's pre-retirement earnings.

We base your Social Security benefit on your average monthly earnings adjusted for average wage growth. We separate your average earnings into 3 amounts and multiply the amounts using 3 factors to compute your full Primary Insurance Amount (PIA). For example, for a worker who turns 62 in 2023, the first \$1,115 of average monthly earnings is multiplied by 90%; earnings between \$1,115 and \$6,721 are multiplied by 32%; and the

balance by 15%. The sum of the 3 amounts equals the PIA, which is then decreased or increased depending on whether the worker starts benefits before or after full retirement age (FRA). This formula produces the monthly payment amount.

When we apply this formula, the percentage of career average earnings paid to lower-paid workers is greater than higher-paid workers. For example, consider workers age 62 in 2023, with average earnings of \$3,000 per month. They could receive a benefit at FRA of \$1,606 (approximately 53%) of their pre-retirement earnings increased by applicable cost of living adjustments (COLAs). For a worker with average earnings of \$8,000 per month, the benefit starting at FRA could be \$2,989 (approximately 37%) plus COLAs. However, if either of these workers starts benefits earlier than their FRA, we'll reduce their monthly benefit.

Why we use a different formula

Before 1983, people whose primary job wasn't covered by Social Security had their Social Security benefits calculated as if they were long-term, low-wage workers. They had the advantage of receiving a Social Security benefit that represented a higher percentage of their earnings. They also had a pension from a job for which they didn't pay Social Security taxes. Congress passed the Windfall Elimination Provision to remove that advantage.

Under the provision, we reduce the 90% factor in our formula and phase it in for workers who reached age 62 or developed a disability between 1986 and 1989. For people who reach 62 or developed a disability in 1990 or later, we reduce the 90% factor to as little as 40%.

Some exceptions

The Windfall Elimination Provision doesn't apply if:

- You're a federal worker first hired after December 31, 1983.
- You're an employee of a non-profit organization who was exempt from Social Security coverage on December 31, 1983. This does not apply if the non-profit organization waived exemption and did pay Social Security taxes, but then the waiver was terminated prior to December 31, 1983.
- Your only pension is for railroad employment.
- The only work you performed for which you didn't pay Social Security taxes was before 1957.

- You have 30 or more years of substantial earnings under Social Security.

The Windfall Elimination Provision doesn't apply to survivors benefits. We may reduce spouses, widows, or widowers benefits because of another law. For more information, read *Government Pension Offset* (Publication No. 05-10007).

Social Security years of substantial earnings

If you have 30 or more years of substantial earnings, we don't reduce the standard 90% factor in our formula. See the first table that lists substantial earnings for each year.

The second table shows the percentage used to reduce the 90% factor depending on the number of years of substantial earnings. If you have 21 to 29 years of substantial earnings, we reduce the 90% factor to between 45% and 85%. To see the maximum amount we could reduce your benefit, visit www.ssa.gov/benefits/retirement/planner/wep.html.

A guarantee

The law protects you if you get a low pension. We won't reduce your Social Security benefit by more than half of your pension for earnings after 1956 on which you didn't pay Social Security taxes.

Contacting Us

The most convenient way to do business with us is to visit www.ssa.gov to get information and use our online services. There are several things you can do online: apply for benefits; start or complete your request for an original or replacement Social Security card; get useful information; find publications; and get answers to frequently asked questions.

Or, you can call us toll-free at **1-800-772-1213** or at **1-800-325-0778** (TTY) if you're deaf or hard of hearing. We can answer your call from 8 a.m. to 7 p.m., weekdays. We provide free interpreter services upon request. For quicker access to a representative, try calling early in the day (between 8 a.m. and 10 a.m. local time) or later in the day. **We are less busy later in the week (Wednesday to Friday) and later in the month.** You can also use our automated services via telephone, 24 hours a day, so you do not need to speak with a representative.

Year	Substantial earnings
1937–1954	\$900
1955–1958	\$1,050
1959–1965	\$1,200
1966–1967	\$1,650
1968–1971	\$1,950
1972	\$2,250
1973	\$2,700
1974	\$3,300
1975	\$3,525
1976	\$3,825
1977	\$4,125
1978	\$4,425
1979	\$4,725
1980	\$5,100
1981	\$5,550
1982	\$6,075
1983	\$6,675
1984	\$7,050
1985	\$7,425
1986	\$7,875
1987	\$8,175
1988	\$8,400
1989	\$8,925

Year	Substantial earnings
1990	\$9,525
1991	\$9,900
1992	\$10,350
1993	\$10,725
1994	\$11,250
1995	\$11,325
1996	\$11,625
1997	\$12,150
1998	\$12,675
1999	\$13,425
2000	\$14,175
2001	\$14,925
2002	\$15,750
2003	\$16,125
2004	\$16,275
2005	\$16,725
2006	\$17,475
2007	\$18,150
2008	\$18,975
2009–2011	\$19,800
2012	\$20,475
2013	\$21,075
2014	\$21,750

Year	Substantial earnings
2015–2016	\$22,050
2017	\$23,625
2018	\$23,850
2019	\$24,675
2020	\$25,575
2021	\$26,550
2022	\$27,300
2023	\$29,700

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 %



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and tomorrow

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