Social Security Benefits for Cal-STRS Retirees

by Tom Strand, first published in FA News February 2008; revised March 2023

Important Disclaimer

This article attempts to explain several factors that can affect your SS retirement benefits. The article did not address other possibly relevant and significant factors such as cost-of-living adjustments, disability benefits, survivor benefits or Medicare. This article reflects the Social Security rules, as the author understood them, in November 2007 [updated March 2023], but these rules may change at any time through federal legislation. Because of the complexity and changing nature of Social Security rules, the information contained in this article should **not** be relied upon to make significant financial decisions. For the most up- to-date and accurate estimate of your Social Security retirement benefits, grab your latest annual Statement and a cup of coffee, then click on http://www.ssa.gov/planners/calculators.htm.

It's common knowledge that 40 quarters (10 years) of Social Security (SS) "credits" qualifies a U.S. taxpayer, or their spouse, dependents or survivors, to receive SS (and Medicare) benefits. If you or your spouse, or both, *are* eligible for SS benefits, then you should be receiving an annual statement from the SS Administration titled "Your Social Security Statement" (if you think you should be receiving one but aren't, you can request a statement or download an electronic copy at https://www.ssa.gov/myaccount/statement.html. This Statement contains a record of your taxed Social Security and Medicare earnings, or covered earnings (in 2022-23, the employee and employer each pay 7.65% on yearly earnings up to $147,000) and estimates of your monthly retirement benefits assuming different retirement ages. For example, John Doe's Statement might read:

> *At your current earnings rate, if you stop working and start receiving benefits at your full retirement age of 66 years and 6 months, your payment would be about … $300 a month.*

The monthly benefit shown in the Statement ($300 in the John Doe example) is only an estimate; many factors contribute to the monthly benefit you will actually receive. Among them are:

- Your age when you retire
- The current SS benefit authorized by federal legislation
- The size of any pension from non-covered income you receive in addition to your SS retirement benefits
- Your number of covered "substantial" earning years
- Income you earn while receiving SS benefits before full retirement age

For example, retiring earlier than your full retirement age – 66 years and 6 months in John Doe's Statement above – *reduces* the benefit, while retiring later *increases* it; historically, federal legislation has improved employees' initial SS retirement benefit each year, so the post-2007 benefit will probably *increase* the 2007 benefit; most FHDA faculty will receive Cal-STRS retirement benefits based on non-covered income, so the estimated benefit will very likely be *reduced* by Windfall Elimination Provision (WEP); the WEP may *reduce* your benefit *a lot* if you had few substantial earning years, or *little to none* if you had many substantial earning years; and finally, any income you earn while retired may *reduce* your retirement benefit until you reach full retirement age.

Note: if your year of birth is 1960 or later, your full retirement age for Social Security is 67.

Your Age When You Retire

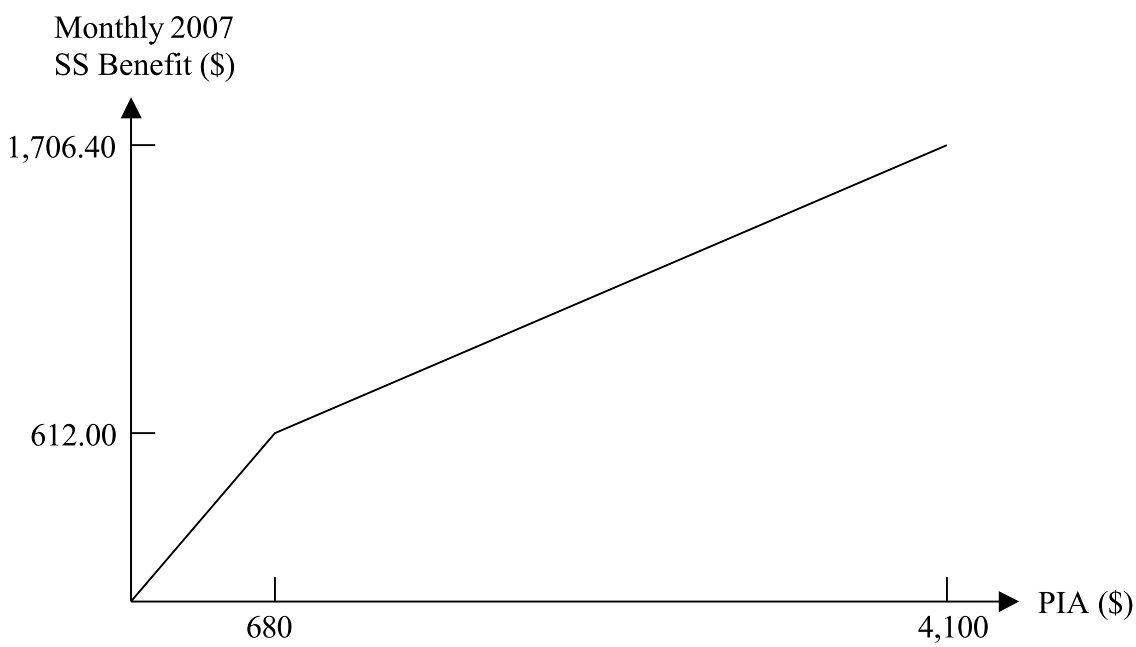
If you've earned 40 credits, you can start receiving SS benefits as early as your 62nd birthday. Your full retirement age is based on the year you were born, and it is defined by legislation. You can look this up on the SSA website at https://www.ssa.gov/prepare/plan-retirement. If you retire early, *before* your full retirement age, your monthly SS benefit will be *reduced* and if you retire late, *after* your full retirement age, your monthly SS benefit will be *increased* by a certain amount for each year you wait to retire. The table below shows the yearly increase rate.

Online calculators are available on the SSA website that will help you to plan estimated benefit at different ages. The effect of the WEP can also be calculated at https://www.ssa.gov/benefits/retirement/planner/anyPiaWepjs04.html.

Federally Legislated Social Security Benefit

Currently, your monthly SS retirement benefit at your full retirement age is determined as a fraction of your Primary Insurance Amount (PIA). Your PIA (which does *not* appear as a separate item on your SS statement) is essentially your average monthly income based on your lifetime covered earnings, adjusted for inflation, and averaged over 35 years (if your covered earnings spanned more than 35 years, SS uses your highest-earning 35 years).

In 2007, federal legislation determines your SS retirement benefit at full retirement age to be 90 percent of the first $680 of PIA earnings, plus 32 percent of the next $3,420 of PIA earnings, plus 15 percent of any PIA in excess of $4,100. For example, suppose Ritchie Rich has PIA of $5,000. Then his annual SS Statement would indicate a monthly retirement benefit of 90 percent of $680 (or $612) + 32 percent of $3,420 (or $1,094.40) + 15 percent of $900 (or $135) = $1,841.40. In contrast, John Doe's $200 monthly benefit is 90 percent of a more modest PIA of $222.22. The relationship between PIA and the monthly SS retirement benefit at full retirement age for 2007 is graphically shown in the figure below for PIAs of $4,100 or less.

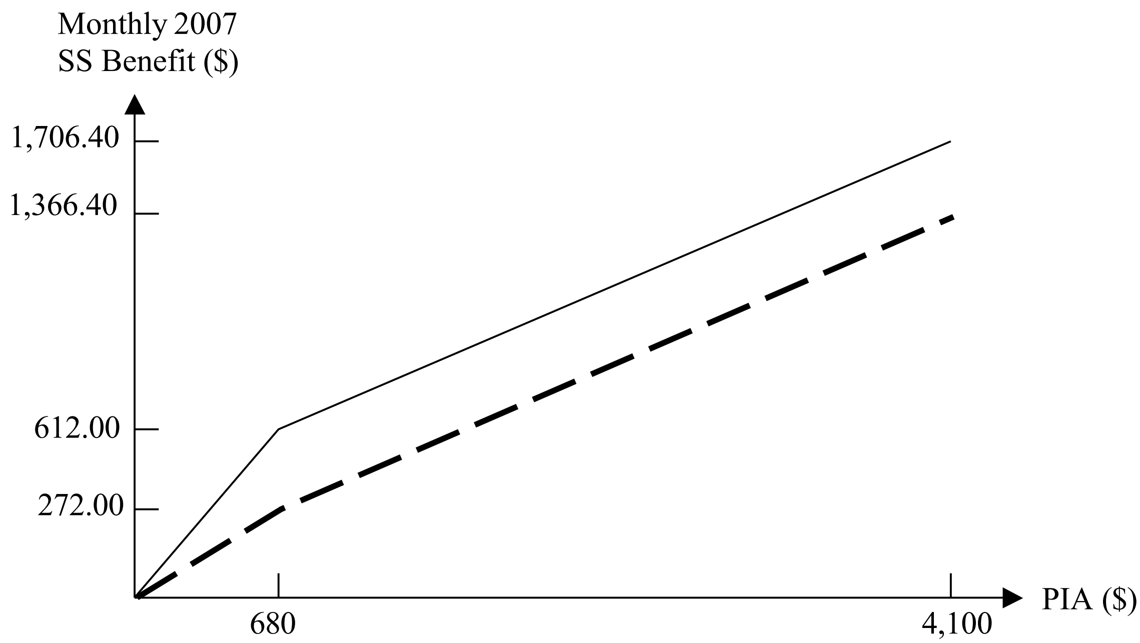


In case you are interested, you can deduce your PIA from your annual SS Statement. Here's the PIA formula (http://www.ssa.gov/OACT/COLA/piaformula.html):

> For an individual who first becomes eligible for old-age insurance benefits or disability insurance benefits in 2010, or who dies in 2010 before becoming eligible for benefits, his/her PIA will be the sum of:
> (a) 90 percent of the first $761 of his/her average indexed monthly earnings, plus
> (b) 32 percent of his/her average indexed monthly earnings over $761 and through $4,586, plus
> (c) 15 percent of his/her average indexed monthly earnings over $4,586.

Cal-STRS Retirement Income Can Reduce SS Benefits

Most FHDA faculty members are enrolled in the California State Teachers Retirement System (Cal-STRS). While Cal-STRS retirement benefits are *not* affected by any SS retirement benefits you receive, your SS retirement benefits *probably will be* affected any Cal-STRS retirement benefits you receive because of the federal Windfall Elimination Provision (WEP). WEP can reduce SS retirement benefits of employees who receive pensions for non-covered earnings (this is the case for Cal-STRS, but there are exceptions – see below). Under WEP, the recipient receives only *40 percent* – instead of 90 percent – of the first $680 of PIA earnings (the rest of the benefit calculation remains the same: 32 percent of the next $3,420 of PIA earnings, plus 15 percent of any PIA in excess of $4,100). The resulting WEP payout graph appears in the figure below as dashed line segments.



You can easily apply the WEP rule to see what effect it will have on your SS retirement benefit as follows:

- *If your annual SS Statement shows a full-retirement monthly SS benefit of $612 or less*, then your benefit under WEP is 44.44 percent of this value. For example, John Doe's benefit under WEP is 44.44 percent of $200 = $88.88 per month. (The 44.44 percent comes from dividing the monthly benefit by 0.9 to get the PIA, and then multiplying the PIA by 40 percent; and 0.4/0.9 equals 44.44 percent.)

- *If your annual SS Statement shows a full-retirement monthly SS benefit more than $612*, then your benefit under WEP is $340 less than this value. For example, Ritchie Rich's benefit under WEP is $1,841.40 – $340 = $1,501.40 per month. (The $340 is equal to $612 – $272, the vertical separation between the parallel lines in the figure above.)

There are two exceptions to the WEP rule that could diminish, or even eliminate, the WEP reduction.

<u>WEP Exception #1</u>: This exception is most likely to apply to part-time FHDA faculty members who have had careers outside of teaching with substantial covered income. If you have had more than 20 year of covered "substantial" earnings – that is, years in which you earned covered income at or above SS-defined threshold amounts – then the WEP reduction is figured on a sliding scale (details follow). The table below shows the substantial earning threshold level for each calendar year.

Substantial Earning Threshold Amounts
*(*http://www.saa.gov/pubs/10045.html)

Year	*Threshold*	*Year*	*Threshold*
1937-1954	$900	1987	$7,875
1955-1958	$1,050	1988	$8,400
1959-1965	$1,200	1989	$8,925
1966-1967	$1,650	1990	$9,525
1968-1971	$1,950	1991	$9,900
1972	$2,250	1992	$10,350
1973	$2,700	1993	$10,725
1974	$3,300	1994	$11,250
1975	$3,525	1995	$11,325
1976	$3,825	1996	$11,625
1977	$4,125	1997	$12,150
1978	$4,425	1998	$12,675
1979	$4,725	1999	$13,425
1980	$5,100	2000	$14,175
1981	$5,550	2001	$14,925
1982	$6,075	2002	$15,750
1983	$6,675	2003	$16,125
1984	$7,050	2004	$16,275
1985	$7,425	2005	$16,725
1986	$7,875	2006	$17,475
		2007	$18,150
		2008	$18,975
		2009-10	$19,800

You can determine how many substantial earning years you have by comparing the covered earnings that appear on your annual SS Statement with the threshold amounts shown above. For example, $15,000 of covered income each year from 1980 to 2005 qualifies for 22 years for substantial earnings (1980 – 2001). The sliding WEP scale is shown in the table below.

Number of Substantial Earning Years	*Full Retirement Monthly Benefit*
21	Deduct $306
22	Deduct $272
23	Deduct $238
24	Deduct $204
25	Deduct $170
26	Deduct $136
27	Deduct $102
28	Deduct $68
29	Deduct $34
30 or More	Deduct $0

For example, suppose Richie Rich's annual SS Statement showed that he had 20 years of substantial earnings. Then, his WEP-adjusted full retirement benefit would be $1,841.40 – $340 = $1,501.40 per month, the same value as calculated in an earlier example. But if Rich instead had 27 years of substantial earnings, then WEP-adjusted full retirement benefit would be $1,841.40 – $102 = $1,739.40 per month. As another example, this WEP exception cannot possibly apply to John Doe, or anyone else with a full-retirement monthly benefit of $612 or less, since more than 20 years of substantial covered earnings qualifies that employee for a full retirement monthly benefit of far more than $612.

<u>WEP Exception #2:</u> This exception is most likely to apply to FHDA faculty who qualify for only modest Cal-STRS retirement benefits. Under current SS rules, the maximum WEP reduction to your full-retirement SS benefit is one-half of your retirement pension from non-covered income, like Cal-STRS. So, for example, if John Doe retires with a modest $100 monthly retirement benefit from Cal-STRS and a full-retirement monthly benefit of $200 from SS, then Doe will get his full $100 from Cal-STRS, but instead of getting a WEP-adjusted benefit of 44.44% of $200 = $88.89, his WEP reduction will be limited to one-half of his Cal-STRS benefit of $100, so his WEP-adjusted SS benefit will be $200 – $50 = $150, for a monthly benefit of $100 (Cal-STRS) + $150 (SS) = $250 total from both sources. Likewise, if Richie Rich retires with a $100 monthly benefit from Cal-STRS and 27 years of substantial covered earnings, then Rich will get his full $100 from Cal-STRS and a WEP-adjusted SS benefit of $1,841.40 – $50 = $1,791.40, for a monthly benefit of $100 (Cal-STRS) + $1,791.40 (SS) = $1,891.40 total from both sources.

Income Offset (http://www.ssa.gov/retire2/whileworking.htm)

Once you retire *early* and begin receiving SS benefits, the SS Administration *may* penalized you for any income you earn until you reach full-retirement age (there is no SS penalty for income you earn after reaching your full-retirement age). Note that this additional income may be either covered (in which case SS may increase your monthly benefit before applying the penalty) or uncovered (in which case only the penalty applies).

- In the year you reach full retirement age, SS will deduct $1 in benefits for every $3 you earn above a different limit, but SS only counts earnings before the month you reach your full retirement age. If you will reach full retirement age in 2010, the limit on your earnings for the months before full retirement age is $37,680.
- If you are under full retirement age for the entire year, SS will deduct $1 from your benefit payments for every $2 you earn above the annual limit. For 2010, that limit is $14,160.

For example, suppose Susan Smith, born on 7/1/1944, retires on 7/1/2007, three years before her full-retirement age of 66 years when qualified to receive full-retirement monthly SS benefits of $400 and Cal-STRS monthly retirement benefits of $2,000. Further suppose that Smith's sole income after retirement is $16,000 per year (all earned during fall quarter) of non-covered income under Article 19 for five years. Applying all of the above SS rules in sequence…

- Retiring three years early reduces her full-retirement SS benefit by 20 percent, so her new benefit is 80 percent of $400 = $320
- Because of WEP, Smith's SS benefit is further reduced to 44.44 percent of $320 = $142.21 (neither WEP exception applies)
- In 2007, 2008 and 2009, Smith's SS benefit is reduced by $1 for each $2 she earns over $12,960, or by ($16,000 – $12,960)/2 = $1,520, so Smith receives no SS retirement benefit in those calendar years
- In 2010 (the calendar year Smith turns 66) and thereafter, Smith receives a monthly SS retirement benefit of $142.21 (in early 2010, her income will not exceed the $34,400 threshold, and after her birthday on 7/1/2010, there is no penalty for additional income)