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Social Security Fairness Act

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As 2024 drew to a close, Congress passed, and President Biden signed the Social Security Fairness Act. This bill won't impact most people, but for those who earned pension benefits from employment not covered by Social Security (i.e., PERA covered employment in Colorado) and their families, the changes may be very meaningful.

The Act repeals the Windfall Elimination Provision (WEP) which impacts workers who qualify for a pension from non-Social Security covered employment and Social Security benefits from other work. The WEP can reduce Social Security benefits by up to 50% of the non-covered pension amount. By way of example, consider a worker who worked in the private sector (and accumulated the necessary Social Security credits, 10 years of work or 40 quarters) and was eligible for a $1,400 primary insurance amount (PIA) retirement benefit at 65. If the worker then took a job in the public sector and was covered by a public pension, WEP would reduce the Social Security Benefits by up to 50% of the PIA or $700 in this example.

Now, and retroactive to January 1, 2024, if that worker filed at age 65, they would receive the full $1,400 PIA Social Security Benefit

Additionally, the Act eliminated the Government Pension Offset (GPO). This applies to spousal or survivor Social Security benefits for individuals who also receive a government pension from non-Social Security-covered work. The GPO reduces spousal or survivor benefits by two-thirds of the amount of the government pension, often eliminating these benefits entirely. Many spouses and widows wouldn't even file for Social Security Benefits because of the offset. Now, spousal and survivor benefits are available without reduction.

Consider the example of a married 60-year-old couple where one spouse receives a $5,000 monthly pension and the non-covered spouse had accumulated a $2,500 monthly Social Security benefit. Before this law was enacted, the spouse with a pension would not be eligible for a spousal benefit under social security because 2/3 of the pension amount ($3,333) exceeds the potential $1,250 spousal benefit. With the elimination of GPO, the pension recipient is also eligible for the spousal benefit.

While these changes are retroactive to January 1, 2024, implementation will take some time as the Social Security Administration updates its systems. For those receiving benefits now, no action is

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required. For those who may not have applied for benefits because of GPO, a fresh look at the issue and an application are in order. For those who may be covered but not yet at retirement age, the potential for increased government guaranteed income, the impact on retirement planning suggests a need for an update to retirement plans.

Finally, for those not directly impacted, we need to cross our fingers that the new Act will prompt longer-term structural reforms to ensure the stability of the system. The estimated incremental cost of these benefits is $200 billion over 10 years. For a plan that was already on precarious footing, this may not have been what the doctor ordered.

The Social Security Fairness Act will have a significant impact on Social Security benefits for current and former public sector employees and their spouses (including ex-spouses and survivors). It will be important to check with the Social Security Administration or log into ssa.gov to see if you are impacted.

Those impacted are expected to receive an additional $20 billion a year over the next decade.

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