There's Something About Social Security Benefits

Windfall Elimination Provision (WEP)

I am now working for an agency which does not withhold any Social Security taxes from my salary. If I later become eligible for pension from this agency, will my Social Security retirement or disability benefits be affected?

Yes. Your Social Security retirement benefits may be reduced. The "windfall elimination provision" affects how the amount of your retirement or disability benefits is calculated if you receive a pension from work where Social Security taxes were not taken out of your pay. A modified formula is used to calculate your benefit amount, resulting in a lower Social Security benefit.

Why should my Social Security benefits be reduced?

Your Social Security benefits are reduced because they were intended to replace only a percentage of a worker's pre-retirement earnings. In Social Security, lower-paid workers get a higher return than highly paid workers. For example, lower-paid workers could get a Social Security benefit that equals about 55 percent of their pre-retirement earnings. Meanwhile, the average replacement rate for highly paid workers is about 25 percent.

Before 1983, people who worked in jobs not covered by Social Security received benefits that were computed as if they were long-term, low-wage workers. They received the advantage of a higher percentage of benefits in addition to their other pension. Congress passed the windfall elimination provision to eliminate this advantage.

How does this windfall elimination provision (aka WEP) work?

Social Security benefits are based on the worker's average monthly earnings adjusted for inflation. These average earnings are separated into three amounts and such amounts are multiplied using three factors. For example, for a worker who turns 62 in 2004, the first $612 of average monthly earnings is multiplied by 90 percent; the next $3,077 by 32 percent; and the remainder by 15 percent.

The 90 percent factor is reduced in the modified formula and phased in for workers who reached age 62 or became disabled between 1986 and 1989. For those who reach 62 or who became disabled in 1990 or later, the 90 percent factor is reduced to 40 percent.

Are there any exceptions to this rule?

Yes. For example, the 90 percent factor is not reduced if you have 30 or more years of "substantial" earnings in a job where you paid Social Security taxes. If you have 21 to 29 years of substantial earnings, the 90 percent factor is reduced to between 45 and 85 percent.

Likewise, WEP does not apply to survivors benefits. It also does not apply if:

- You are a federal worker first hired after December 31, 1983;
- You were employed on December 31, 1983, by a non-profit organization that did not withhold Social Security taxes from your pay at first, but then began withholding Social Security taxes from your pay;
- Your only pension is based on railroad employment; or
- The only work you did where you did not pay Social Security taxes was before 1957.

Will WEP still apply even if my Social Security benefits are already low?

No. If you get a relatively low pension, you are protected. The reduction in your Social Security benefit cannot be more than one-half of that part of your pension based on your earnings after 1956 from which Social Security taxes were not deducted.

If we want more information, who should we contact and how?

For more information, you may visit our website at www.socialsecurity.gov or email us at ssad.varo.manila@ssa.gov. If you reside in the Philippines, you may call at telephone number (632) 528-6300 ext. 2526, 6216, or 6302. If you reside outside the Philippines, you may call at telephone number (632) 526-5936 or (632) 522-4716. Fax messages may also be transmitted via fax number (632) 522-1514.