



Windfall Elimination Provision

BACKGROUND: The [Windfall Elimination Provision \(WEP\)](#) is a formula used to adjust Social Security worker benefits for people who receive “non-covered pensions” and qualify for Social Security benefits based on other Social Security-covered earnings.^a A **non-covered pension** is a pension paid by an employer that does not withhold Social Security taxes from your salary, typically, state and local governments or non-U.S. employers. Congress passed the WEP to prevent workers who receive non-covered pensions from receiving higher Social Security benefits as if they were long-time, low-wage earners.^b In 2013, the WEP applied to approximately 2.5 percent of all beneficiaries (1.5 million beneficiaries).

HOW THE WEP WORKS: Social Security benefits are calculated by applying three different percentages to a person’s lifetime [average indexed monthly earnings \(AIME\)](#) and adding them up to obtain the worker’s monthly benefit ([primary insurance amount \(PIA\)](#)) at full retirement age. For most beneficiaries in 2015, the PIA equals the sum of:

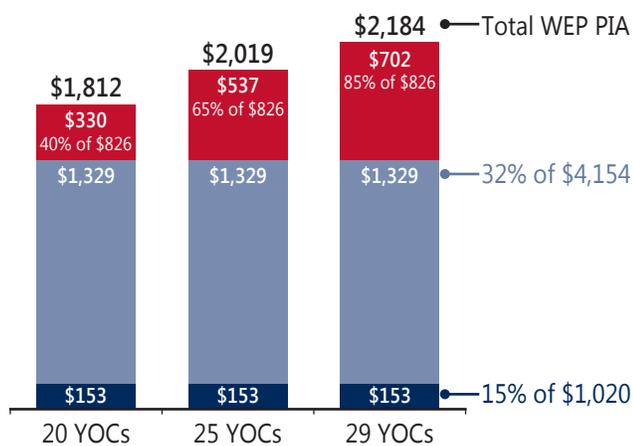
- 90 percent of the first \$826 of AIME, plus
- 32 percent of AIME over \$826 and through \$4,980, plus
- 15 percent of AIME over \$4,980.

The WEP PIA replicates the regular PIA but scales down the first percentage from 90 percent to 40 percent in increments of five percentage points for workers with less than 30 [years of coverage \(YOCs\)](#). Thus, workers with 30 or more YOCs have a first PIA factor of 90 percent, workers with 21–29 YOCs have a first PIA factor between 45–85 percent, and workers with 20 YOCs have a first PIA factor of 40 percent.

However, the difference between the regular PIA and the WEP PIA cannot exceed one-half of the monthly non-covered pension. This provision is known as the WEP guarantee and results in a smaller WEP reduction to the Social Security benefit than otherwise would have applied.

WEP PIA Examples for Different YOCs

For a hypothetical worker with a \$6,000 AIME



WEP Guarantee Examples: Hypothetical Workers

	Worker A (WEP reduction capped by WEP guarantee)	Worker B (WEP reduction)	Worker C (not affected by WEP)
YOCs	20	25	30
First PIA factor	40%	65%	90%
Regular PIA	\$1,089	\$1,241	\$1,393
WEP PIA	\$676	\$1,034	\$1,393
Regular PIA minus WEP PIA	\$413	\$207	\$0
Monthly non-covered pension	\$800	\$600	\$400
WEP guarantee (½ non-covered pension)	\$400	\$300	\$200
WEP reduction	\$400	\$207	\$0
Social Security benefit	\$689	\$1,034	\$1,393

a. Worker benefits are paid to an insured worker based on the worker’s own earnings history. Beneficiaries eligible for spouse or survivor benefits who also receive a non-covered pension are affected by another provision, the [Government Pension Offset \(GPO\)](#).

b. Brown, Jeffrey R, and Scott Weisbenner. 2012. “The Distributional Effects of the Social Security Windfall Elimination Provision.” National Bureau of Economic Research Working Paper #18342.

