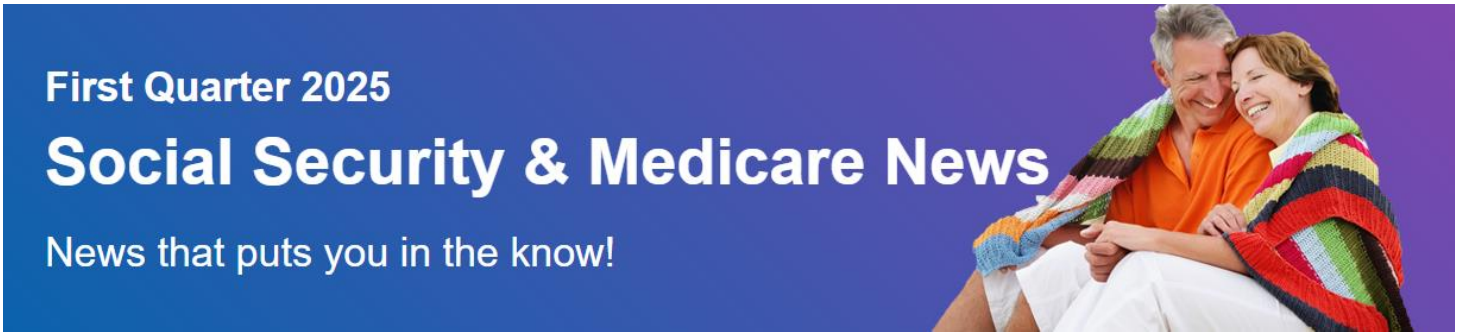

In this issue:

Impact of the Social Security Fairness Act

On January 5, 2025, the ***Social Security Fairness Act*** (referred to as the Act) was signed into law. The **Windfall Elimination Provision (WEP)** and the **Government Pension Offset (GPO)** have been repealed and will increase the Social Security benefits for about three million people.

WEP was enacted as part of the Social Security Amendments of 1983. It was originally enacted to reduce Social Security benefits for individuals receiving a pension from work not covered by Social Security, such as certain government and nonprofit jobs. WEP closed a loophole that allowed individuals who worked in both covered and non-covered employment to appear as low-wage workers, which could have enabled them to get a higher benefit. This is because the Primary Insurance Amount (PIA) formula is weighted in favor of career low-wage earners, who are more dependent on Social Security for retirement income than higher-income individuals. The Act was passed to provide full Social Security benefits to approximately two million beneficiaries and will be paid retroactively to January 2024.

The WEP PIA calculation used a different method for computing the retirement or disability (but not survivor) PIA for individuals receiving a pension based on their own earnings not covered by Social Security. Now, these individuals will use the 90% factor in the PIA formula, compared to the previous 40% factor when WEP applied. In the WEP formula for those with more than 20 years of substantial earnings covered by Social Security, the percentage increased: it was 45% for 21 years, 50% for 22 years, and reached 90% for 30 years. The substantial earnings amount increased each year and was $31,275 in 2024. The PIA formula is updated each year and uses the workers highest 35 years of earnings to calculate the Average Indexed Monthly Earnings (AIME).

Example – WEP

Scenario: John, age 66, worked in both covered and non-covered employment. He has an AIME of $2,500 but has worked in a state government job for most of his career that was not covered by Social Security, so he has less than 20 years of substantial earnings.

The 2025 PIA formula follows, and the first step is the highest percentage at 90% in favor of low-income workers.

90% of the first $1,226 of AIME, plus
32% of the next $6,165 of AIME, plus
15% of AIME in excess of $7,391

- **Before WEP Repeal**: John's PIA formula would replace 90% with 40% in the first step of the calculation. Based on his AIME of $2,500, he would receive $898 as his monthly Social Security benefit.

- **After WEP Repeal**: John will now have his Social Security benefit calculated using 90% in the first step so he will receive $1,511 … an increase of $613 a month.

GPO was enacted as part of the Social Security Amendments of 1977. The GPO was enacted to treat retired federal, state, or local government employees similarly to other retirees who worked in Social Security-covered employment. If a government employee's work had been subject to Social Security taxes, any Social Security benefit payable as a spouse, widow, or widower would have been reduced by the individual's own Social Security retirement benefit. There are more than 650,000 beneficiaries who had their Social Security benefits reduced by GPO.

With the elimination of GPO, individuals will now receive their full government pension based on non-covered Social Security employment along with an unreduced Social Security benefit. Previously, the GPO calculation allowed individuals to receive only the amount of the Social Security benefit that exceeded two-thirds of their government pension. In some cases, this resulted in the Social Security benefit being reduced to zero.

Example – GPO for a Spouse's Benefits

- **Scenario**: Anna, age 67, receives a monthly teacher's pension of $1,800 from a state where public school teachers are not covered by Social Security. Her husband, Phillip, receives a $2,000 Social Security retirement benefit based on his Primary Insurance Amount (PIA).

- **Before GPO Repeal**: Anna is eligible to receive 50% of Phillip's PIA as a spouse benefit, which amounts to $1,000 a month. However, due to the GPO, two-thirds of her pension ($1,201) exceeds her spouse benefit of $1,000, reducing her spouse benefit to zero. **Therefore, she would only receive her pension of $1,800.**

- **After GPO Repeal**: Anna will now receive her full pension of $1,800 plus the unreduced spouse benefit of $1,000, **totaling $2,800**.

Financial Impact of the Act

With the Act, the Social Security program will pay out about $196 billion in benefits over the next 10 years. There are also people that did not apply for Social Security benefits because of their high

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pension amount. These people are not in the Social Security system, so will have an even greater impact on the financial situation of the Social Security program. The two provisions repealed by the Act gives workers with non-covered earnings more generous benefits than people who have been covered by Social Security for their entire careers.

Under the rules for calculating Social Security benefits, you get the benefit based on your own work record first. If your spouse' s benefit is more, then you will receive the difference between your benefit and the spouse' s benefit to bring your total benefit up to the higher amount. The following example shows how the Social Security spouse's benefits is reduced based on both workers paying into the Social Security program. For easy comparison, the example modifies the GPO example above.

Example – Both Workers Covered by Social Security

- **Scenario**: Anna, age 67, receives a Social Security retirement benefit based on her own work record of $1,800. Her husband, Phillip, receives a $2,000 Social Security retirement benefit based on his Primary Insurance Amount (PIA).

- **Social Security benefit calculation**: Anna is eligible to receive 50% of Phillip's PIA as a spouse benefit, which amounts to $1,000 a month. However, because her Social Security benefit is higher than her spouse benefit, this reduces her spouse benefit to zero. **Therefore, she would only receive her Social Security benefit of $1,800**. This is the same amount that had applied to Anna under the GPO, but with the repeal she will now get $2,800.

The WEP and GPO provisions were put in place to treat people that had split their career between jobs that are exempt from Social Security and those that require them to pay into the system the same way as people who have worked their entire career under Social Security. WEP affected the worker themselves, and the GPO affected the spouses of those workers. An overall solution would be to have all workers pay into the Social Security program so the same rules apply to everyone. With the Act being passed, the benefits for people that have only worked in Social Security covered employment will face several changes to help pay for the additional estimated $196 billion in benefits. Options for keeping the Social Security program in balance could include a reduction in benefits paid to workers, workers paying more in taxes, and an increase in the full retirement age. Action needs to be taken sooner rather than later because the 2024 Social Security projection is that trust fund reserves will only last until 2035, with 83% of benefits still payable at that time.

Three New Medicare Prescription Drug Changes in 2025

Medicare prescription drug coverage varies depending on the chosen plan. The average total Part D monthly premium is about $46.50 in 2025, but this amount varies by plan. In 2025, there is a $590 annual deductible before reaching the initial coverage, then individuals may pay up to 25% of the drug costs and the plan and drug manufacturers pay 75%.

What's new in 2025?

1. **The yearly out-of-pocket costs are capped at $2,000.** Once $2,000 is reached, individuals won't have to pay a copayment or coinsurance for covered Part D drugs for the rest of the calendar year. After a beneficiaries out-of-pocket spending exceeds $2,000, the plan pays 60%, drug manufacturers pay 20%, and Medicare pays 20%. The following chart illustrates these costs.

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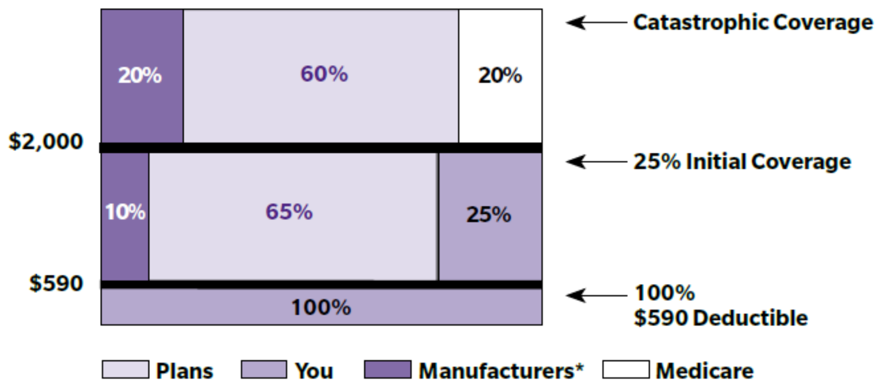

*In the initial coverage phase, manufacturers typically pay a 10% discount for brand drugs and biologics. Plans cover the 10% for generic drugs. In the catastrophic coverage phase, manufacturers typically pay a 20% discount for brand drugs and biologics. Medicare covers the 20% for generic drugs.

Note: These amounts do not include the monthly premium for your plan.

Low-income beneficiaries may be eligible for reduced cost sharing and more generous coverage by Medicare, including paying no more than $12.15 for brand and $4.90 for generic drugs.

2. **The coverage gap, also called the “donut hole,” is gone.** This gap required beneficiaries to pay higher out-of-pocket costs while in that phase. In 2024, Part D enrollees reached the coverage gap after their total prescription drug costs reached $5,030. While in the coverage gap, they had to pay up to 25% of prescription drug costs for both brand and generic drugs. After out-of-pocket spending exceeded $8,000, then the beneficiary was in the catastrophic coverage phase where the plan paid 20% and Medicare paid 80% of drug costs. The prescription drug law that created the new $2,000 out-of-pocket spending cap eliminated this coverage gap.

3. Starting in 2025, there is the option to manage out-of-pocket costs for drugs covered by the plan by **spreading the costs across the calendar year** instead of paying them all at once at the pharmacy. For drugs not covered by the plan, the beneficiary will pay 100%.

There is an online tool available at www.medicare.gov to compare the drug plans available. To determine the best plan, the beneficiary needs their Medicare card information, preferred pharmacies, and medications list including the dosages. Help is also available by calling 1-800-MEDICARE (1-800-633-4227) for assistance.

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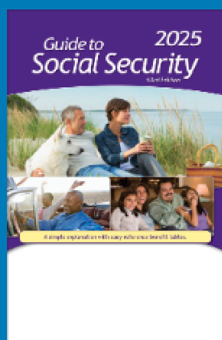

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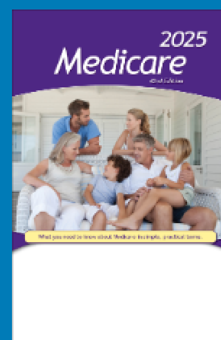

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