

# SECTION 218 AGREEMENTS FOR MISSOURI POLITICAL SUBDIVISIONS

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# AGENDA

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- ✘ State Administrator Introduction
- ✘ History of 218 Agreements
- ✘ Missouri's Political Subdivisions
- ✘ Coverage:
  - + Entities with an Agreement
  - + Entities without an Agreement
- ✘ Coverage Referenda
- ✘ Social Security Benefits

# STATE ADMINISTRATOR

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The State Administrator is the official liaison between the political subdivisions and the Social Security Administration for coverage issues. The political subdivisions should consult with the State Administrator for all official interpretations and questions of application for Social Security coverage. If you find inconsistent interpretations from other sources, you should consult the State Administrator for the official information.

# HISTORY OF THE 218 AGREEMENTS

- ✘ Social Security Act in the 1930's
- ✘ Inclusion of State governments in 1950's
- ✘ Agreement between SSA and the States
- ✘ Agreement between the States and political subdivisions
- ✘ Amendment effective in July 1991 for “Mandatory Coverage” for those employees NOT covered by a 218 or in a FICA equivalent plan.

# MISSOURI POLITICAL SUBDIVISIONS

## ✘ 70.210 RSMo:

- + (1) "Governing body", the board, body or persons in which the powers of a municipality or political subdivision are vested;
- + (2) "Municipality", municipal corporations, political corporations, and other public corporations and agencies authorized to exercise governmental functions;
- + (3) "Political subdivision", counties, townships, cities, towns, villages, school, county library, city library, city-county library, road, drainage, sewer, levee and fire districts, soil and water conservation districts, watershed subdistricts, county hospitals, and any board of control of an art museum, and any other public subdivision or public corporation having the power to tax.

# COVERAGE—ENTITIES WITH AGREEMENTS

- ✘ 218 Agreement means your entity has agreed to cover their employees for Social Security UNLESS:
  - + A position was specifically excluded in the agreement; OR
  - + A position was covered by a retirement system at the time the agreement was effectuated.
  - + A position is excluded under another provision.
- ✘ Once an agreement is put into place, it can NEVER be terminated.

# COVERAGE—ENTITIES WITHOUT AGREEMENTS

- × FICA equivalent retirement plan?
  - + No---then employees are covered by Mandatory Social Security (Section 210 of the Act)
  - + Yes---then in order to be covered by Social Security, then a successful referendum must be held.
    - × Governing Board of the entity must request a referendum
    - × If a referendum is NOT held, OR is unsuccessful, then the entity's employees cannot participate in Social Security.

# COVERAGE REFERENDA

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- ✘ The Governing Body Requests a referendum be held.
  - + The State Administrator coordinates the Notice
    - ✘ Law requires Notice 90 Days in advance of the vote
  - + The State Administrator will conduct a secret ballot election.
  - + Absentee ballots are available.
- ✘ Successful if a Majority of Eligible Voters vote  
YES.



# SOCIAL SECURITY BENEFITS

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- ✘ Part of a decision to hold a referendum is to understand the benefits provided to employees covered by Social Security
- ✘ There are also some legal provisions that must be considered that may affect some employees including the Windfall Elimination Provision and the Government Pension Offset.

# SOCIAL SECURITY BENEFITS

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- ✘ Social Security is more than just retirement
  - + Retirement
  - + Disability
  - + Survivor

<http://www.socialsecurity.gov/pubs/10024.pdf>

# SOCIAL SECURITY RETIREMENT BENEFITS

- ✘ 40 credits (10 years of work) to qualify
- ✘ If you stop working, or enter into a position that is not covered by Social Security, the credits remain on your Social Security record.
- ✘ If you return to work in a Social Security covered position, you can add more credits.
- ✘ We cannot pay retirement benefits until you have 40 credits.

# EARNING CREDITS

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- ✘ In 2013 each \$1,160 in Social Security-covered earnings gives you 1 credit.
- ✘ \$4,640 in earnings = all 4 credits
- ✘ Earning 40 credits throughout your working life will qualify you for a retirement benefit.
- ✘ \*SSA is your source for review of your individual earnings records.

# HOW ARE BENEFITS CALCULATED?

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- ✘ Social Security benefits are based on Social Security-covered earnings.
- ✘ Yearly earnings are put in current dollars
- ✘ Add up 35 highest years of indexed earnings
- ✘ Divide by 35 years, then divide by 12 months to get “Average Indexed Monthly Earnings”(AIME)

# CURRENT DOLLARS

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- ✘ \$10,000 earned in 1983 = \$28,203
- ✘ \$10,000 earned in 1993 = \$18,579
- ✘ \$10,000 earned in 2003 = \$12,617
- ✘ \$10,000 earned in 2013 = \$10,000

# BENEFIT FORMULA FOR 2013

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✘ Plug AIME into the benefit formula:

+90% of the first \$791 of AIME

+32% of \$791 through \$4,768

+15% of earnings over \$4,768

=Monthly Social Security benefit at full retirement age

# TYING THEM TOGETHER

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- ✘ Remember the benefit formula as we talk about the referendum.
- ✘ The referendum's outcome can affect:
  - + Retirement
  - + Disability
  - + Survivor



# HOW BENEFITS CAN BE AFFECTED

- ✘ If the referendum passes, benefits remain unchanged.
- ✘ If the referendum fails, you stop paying Social Security taxes on earnings. You will begin to have wages in a position not covered by Social Security
- ✘ You may not be due a benefit or the amount could be reduced by:
  - + No additional earnings = years of zeroes that reduce your AIME
  - + Windfall Elimination Provision
  - + Government Pension Offset (GPO)

# WINDFALL ELIMINATION PROVISION (WEP)

- ✘ Applies if any part of your government pension is based on work not covered by Social Security
- ✘ Can reduce your Social Security retirement or disability benefits

# WEP COMPUTATION 2013

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## Normal Computation

90% of the first \$791

32% of the next \$3,977

15% of the remainder

## WEP Computation

40% of the first \$791

32% of the next \$3,977

15% of the remainder

Maximum Reduction possible = \$396\*

Cannot reduce benefit to \$0

\*The exact amount is \$395.50

# WEP EXCEPTION NO. 1—SMALL PENSION

- ✘ WEP will not reduce your Social Security benefit by more than half the amount of your non-Social-Security-covered pension.
- ✘ Carl is eligible for a Social Security retirement benefit, but also receives a \$400 non-Social-Security-covered pension. WEP will reduce Carl's Social Security retirement benefit by \$200 ( $1/2 \times \$400$ ) at most.

## WEP EXCEPTION NO. 2—SUBSTANTIAL EARNINGS

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| <u>Years of substantial earnings</u> | <u>First factor in benefit formula</u> |
|--------------------------------------|--|
| 30 or more                           | 90                                     |
| 29                                   | 85                                     |
| 28                                   | 80                                     |
| 27                                   | 75                                     |
| 26                                   | 70                                     |
| 25                                   | 65                                     |
| 24                                   | 60                                     |
| 23                                   | 55                                     |
| 22                                   | 50                                     |
| 21                                   | 45                                     |
| 20 or less                           | 40                                     |

# EXAMPLES OF WEP

- ✘ Example 1—Angela is 29 years old. She made \$32,371 last year, and has 11 years of substantial earnings.

|                                 | Referendum passes | Referendum fails |
|---------------------------------|-------------------|------------------|
| AIME                            | \$1,289           | \$760            |
| WEP reduction                   | —                 | \$396 (full)     |
| Benefit at full retirement age: | \$1,289           | \$364            |

# EXAMPLES OF WEP

- ✘ Example 2—Billy is 44 years old. He made \$28,600 last year. Billy has 20 years of substantial earnings.

|                                 | Referendum passes | Referendum fails |
|---------------------------------|-------------------|------------------|
| AIME                            | \$1,220           | \$897            |
| WEP reduction                   | —                 | \$396 (full)     |
| Benefit at full retirement age: | \$1,220           | \$501            |

# EXAMPLES OF WEP

- ✘ Example 3—Cal is 44 years old. He made \$39,354 last year, and has 23 years of substantial earnings.

|                                 | Referendum passes | Referendum fails |
|---------------------------------|-------------------|------------------|
| AIME                            | \$1,461           | \$1,064          |
| WEP reduction                   | —                 | \$276 (partial)  |
| Benefit at full retirement age: | \$1,461           | \$788            |



# EXAMPLES OF WEP

- ✘ Example 4—Dana is 56 years old, and earned \$106,500 last year. She has 33 years of substantial earnings.

|                                 | Referendum passes | Referendum fails |
|---------------------------------|-------------------|------------------|
| AIME                            | \$2,159           | \$1,885          |
| WEP reduction                   | —                 | —                |
| Benefit at full retirement age: | \$2,159           | \$1,885          |

# GOVERNMENT PENSION OFFSET

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- ✘ Reduces your Social Security spouse's or widow(er)'s benefit if you receive a government pension based on work not covered by Social Security
- ✘ Reduction of two-thirds the amount of the non-Social-Security-covered pension
- ✘ Can reduce spouse's or widow(er)'s benefit to \$0

## EXAMPLE OF GOVERNMENT PENSION OFFSET

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- ✘ Linda would be eligible for a \$500 spouse's benefit from Social Security, but she receives a non-Social-Security-covered pension of \$600. Linda's potential benefit is reduced by \$400 ( $\frac{2}{3} \times \$600$ ), leaving \$100.

# APPLYING THIS INFORMATION

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- ✘ WEP/GPO only apply if you have a pension from work not covered by Social Security.
  - + If the referendum were to pass, then you will have unchanged Social Security benefits.
  - + If the referendum were to fail, then you may be subject to WEP and GPO.
- ✘ SSA can estimate your benefit for both outcomes—pass or fail.

# INDIVIDUAL BENEFIT QUESTIONS

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- ✘ Social Security Administration

- + 800-772-1213

- + Or a local office—Find a Location at:

- [www.ssa.gov](http://www.ssa.gov)

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# Questions?

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<http://oa.mo.gov/acct/ssa.htm>

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