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# THE INTERCOM

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County Employees Association (CRCEA)  
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## PRESIDENT'S MESSAGE

Where has the time gone? Just “yesterday” we were heading into our summer months with time off, vacations, kids and grandkids, and all the fun stuff. Now, here we are rescheduling all our trips to the store, doctor visits, and anything else around the school schedules. The mandated later school starts really messed up my travel to breakfasts with other “retired guys” and other morning meetings. But, we can work around it – just like we did when we were gainfully employed.

The Spring Conference is now in our rear-view mirror and we are now looking through the windshield up the state to the Fall Conference in Sacramento scheduled for October 9-12, 2022. If you are not already registered, you should do so as soon as possible. The agen-

da looks good, and the local host committee is anxious to showcase their efforts and their city/county.

As a result of the pandemic for the last 2+ years, there has been considerable discussion about our conferences and the scheduling. A committee has been established as a result of that discussion and a full report will be presented at the business meeting of the conference on Wednesday. I sat in on the initial meeting of that committee and open and honest discussion of various options was held. Local association presidents and delegates should have gotten a survey to help the committee in its further review as they prepare for the final report. That additional discussion by the delegates will provide direction for CRCEA as we go forward. Please ensure that your organization has a representative at the Wednesday Business Session to get the information and express your position.

The general information flow has been slow during these summer months. It's not surprising – it usually is. It is good to see that many local associations are getting

“back to normal” with in-person meetings and gatherings and other social activities for their members.

We need to continue to support each other as we go through our retirement years. Stay in touch with your friends and make new ones. You worked for many years to get to the position where you can use the hours in a day to your own benefit. Enjoy life – you have earned it.

Once again, let's all be grateful that we worked in jobs that provided us with a semblance of security as we went into retirement. I read too many articles of people that haven't had that luxury, nor have they been able to prepare sufficiently for the so-called “golden years”. Defined Benefit Plan systems such as ours will help us get through this time of high inflation and increased costs of just about everything. Some day in the future I hope that some kind of similar plan will be in place for all working individuals.

Until next time.....

SKIP MURPHY, President



**CONGRESSIONAL BILL COULD END WINDFALL ELIMINATION**

The windfall elimination provision and government pension offset both can reduce the Social Security payments a public employee collects. But there's a bill in Congress, which has strong backing, that could eliminate both the windfall elimination provision and the government pension offset. Here's what you need to know about both and how it might affect your Social Security payments.

**Windfall Elimination Provision (WEP)**

The wind fall elimination provision (WEP) reduces the amount of Social Security benefits people can collect if they receive a government retirement plan in addition to Social Security. It applies only to workers who did not pay Social Security taxes, and so did not earn credits toward Social Security income during their working years.

According to the Congressional Research Service, roughly 6% of workers don't receive Social Security credits in a given year. Most are local, state, and federal employees who don't pay Social Security taxes because they qualify for government pensions instead. For example, these are federal civilian employees who receive their retirement through the Civil Service Retirement System. The rest are workers covered by alternative retirement schemes, such as Railroad Retirement, or poverty-level workers who earn too little to qualify.

For each year that a worker pays Social Security taxes, they receive what the government calls a "year of overage." These are the credits that accrue toward the system, and each year of coverage increases a worker's ultimate benefits once in retirement up to a maximum of 30. Government workers who receive alternative pensions, such as teachers, police officers and civil servants, often don't earn years of coverage because they don't pay Social Security taxes. This is highly state-specific and does not apply to all state or local workers.

Windfall elimination does not apply to someone who spends more than 20 years paying Social Security taxes, regardless of pension status. Also, it only applies to workers who receive some form of government pension.

**Government Pension Offset (GPO)**

The GPO cuts the benefits issued to retirees who receive both their own Social Security payments and a spouse's government pension payments. The GPO aims to prevent double earning by someone who begins collecting their spouse's retirement benefits. In the case of the GPO, it reduces a recipient's Social Security payments by two-thirds of the pension payments that they receive. For example, say that a government worker received a monthly pension of \$750. After their death, their spouse is eligible to continue collecting that pension. The pension offset, however, would reduce the surviving spouse's Social Security payments by \$500 per month.

The GPO only applies when someone directly collects their spouse's pension benefits in addition to their own Social Security benefits, such as when that spouse dies. It does not apply to a household where both people are alive and collecting their own retire-

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ment benefits. It also only applies when the government worker did not pay Social Security taxes during their working years.

### **Why Public Employees Oppose WEP and GPO**

Public employees have long called for Congress to repeal both windfall elimination and the pension offset. In particular, they say, it unfairly targets people who paid Social Security taxes during their working lives. For example, if a teacher also has a summer job in the private sector, they would earn Social Security credits through this work. Windfall elimination could reduce the Social Security payments that they receive even though they paid into the system through that second job.

Other civil servants who work in states where they do pay Social Security taxes may find themselves caught up in a confusing system of overlaps, with their government pension set against their years of paying into the system. This can create confusion and lead to errors that reduce someone's lifetime benefits in retirement.

### **What Congress Is Poised to Do**

Almost 340 members of Congress agree that it's time to eliminate the windfall elimination and retired public workers could benefit by more than \$6,000 per year. In 2021 Rep. Rodney Davis, R-Ill., introduced the Social Security Fairness Act. This bill would repeal the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) from Social Security payments. If it passes public employees could see a significant bump in their retirement incomes, and it may pass soon.

At time of writing, the Social Security Fairness Act had 294 sponsors in the House of Representatives. Its companion bill in the Senate had 41 sponsors. The measure has been placed on a legislative fast-track. By removing the Windfall Elimination Provision and the Government Pension Offset, this law targets two issues that public unions have long criticized.

### **The Bottom Line**

Government workers have long opposed the WEP and GPO, two policies that have the effect of reducing the Social Security benefits of public employees. The House of Representatives is fast tracking a bill, which has an unusually high number of sponsors, to eliminate both. The Senate version also has a high number of sponsors.

*Eric Reed - Microsoft News – online  
(thanks to Skip Murphy)*

*(The actual bill is HR 2337 originally authored by Representative Richard Neal (MA) who is Chair of the House Committee on Ways and Means.)*



## **Is Your Retirement Portfolio a Tax Bomb?**

*by David McClellan*

*www.kiplinger.com*

*August 22, 2022*

A warning to high earners and super savers: That massive 401(k) or traditional IRA that you worked so hard to build may become a big problem in retirement, resulting in huge tax bills and Medicare surcharges. Here's what you need to know, and what you can do about it.

Conventional wisdom suggests you should save everything you can in tax-deferred retirement accounts to minimize taxes in the current year and benefit from tax-sheltered growth. For many, that may still be good advice. Certainly, you should be saving everything you can for retirement. However, for high earners who save a lot, saving in tax-deferred accounts may prove to be bad advice. Why?

### **Snowballing Required Minimum Distributions**

Tax-deferred savings have an associated tax liability that you will have to pay someday. The IRS will only let you avoid taxes for so long. Withdrawals from tax-deferred accounts are taxed as ordinary income. You may take withdrawals without penalty from tax-deferred accounts starting at age 59½, but many investors wait to make withdrawals until they are required to take required minimum distributions (RMDs) at age 72.

Your tax liability continues to grow over time through contributions, employer matches, and your investment return. Eventually, this growing tax liability can snowball, but most investors have no idea of the damage it can cause in retirement.

For example, imagine a couple aged 40 who have saved \$500,000 combined in pre-tax 401(k) accounts. Presumably, this couple is tracking well for a secure retirement. If they keep maxing out pre-tax 401(k) contributions and each receive a \$6,000 employer match, their 401(k) accounts will have grown to an impressive \$7.3 million by retirement at age 65. They're in great shape, right?

The problem is that their pre-tax savings represents a growing tax liability. The couple's first RMDs will exceed \$435,000 at age 72 and are likely to grow as the couple ages, reaching \$739,000 at age 80.

Recall that RMDs are taxed as ordinary income. Do you think they may have a tax problem in retirement?

### **Medicare Means Testing**

The story doesn't end there, it gets worse. High RMDs are likely to trigger Medicare means testing surcharges (avoidable taxes by a different name) during retirement in the form of higher premiums on Medicare Part B (doctor visits) and Part D (prescription drugs). The couple in our example above is projected to pay \$1.5 million in Medicare means testing surcharges through age 90.

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### **Tax Burden for Heirs**

At death, assets remaining in inherited tax-deferred accounts have never been taxed, so the tax liability passes to your heirs. The 2019 SECURE Act eliminated the stretch IRA, which allowed heirs to stretch out RMDs from inherited IRAs over their projected life expectancy. Under the new law, RMDs for inherited IRAs no longer exist, but the entire account must be depleted within 10 years, and every withdrawal is taxed as ordinary income at the heirs' marginal tax rate. Our example couple is projected to leave \$16.1 million of tax-deferred assets (and the associated tax liability) to their heirs at age 90.

These are not tax issues unique to the super-rich. The couple in this example is upper-middle class, and are simply good savers doing exactly what conventional wisdom has suggested they do. But they clearly need a plan that balances the benefits today of saving in tax-deferred accounts against the tax liabilities this creates for them in retirement. Yet most financial advisers and CPAs focus almost exclusively on minimizing taxes in the current year, without regard to the long-term consequences in retirement.

### **Planning Strategies to Defuse a Tax Bomb**

The solution to these issues typically requires implementation of a multifaceted strategy over many years. Some of the strategies I use with my clients include the following:

#### **Shift Savings from Pre-Tax to Roth Accounts**

You'll lose the tax deduction in the current year, but your tax-free savings will snowball into the future in a good way. This is also the easiest strategy to implement. Many of my clients aren't aware they have a Roth option in their 401(k)/403(b) or mistakenly think they can't contribute to one because of income limits, but that's not true, so find out if your plan offers a Roth option.

In addition, if you have a high-deductible medical plan, contribute the maximum amount (\$7,300 in 2022 if married) to the associated health savings account (HSA). Pay your medical expenses out of pocket (not from the HSA account) and invest the account aggressively so it grows to cover medical expenses in retirement. An HSA is one of the few accounts where you get a tax deduction on contributions and money is tax-free when withdrawn (for medical expenses).

#### **Take Advantage of Asset Location**

With this strategy, investors place different asset classes into different tax buckets (taxable, pre-tax, tax-free). As an example, asset location typically places investments with low expected returns, such as bonds, into tax-deferred accounts and investments with high expected returns, such as small value or emerging market stocks, into tax-free Roth accounts. The net effect is that your tax-deferred accounts will grow more slowly (and so will your future tax liability), while your tax-free accounts will grow the most.

Few investors have even heard of asset location and it can be hard to implement, but it can significantly reduce your taxes in retirement and increase your after-tax wealth.



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**Consider Roth Conversions**

A Roth conversion involves transferring money from an existing tax-deferred account to a tax-free Roth account. The transfer amount usually is fully taxable as ordinary income. This is a good strategy to consider in low-income years, especially for people who retire early in their 50s and early 60s who may have several years to do conversions before Medicare means testing surcharges, Social Security income, and RMDs kick in. Many of my clients do annual Roth conversions early in retirement.

Saving for retirement is a good thing, but how you choose to save your money can be just as important as how much you save. Sometimes conventional wisdom can lead you astray.

Visit [www.kiplinger.com/retirement/retirement-planning](http://www.kiplinger.com/retirement/retirement-planning) if interested in additional information.



**CRCEA 2022 Fall Conference  
Sacramento  
October 9-12, 2022**

**Hosted by the Sacramento County Retired  
Employees Association (SCREA)**

**The CRCEA 2022 Fall Conference will be held at the  
Embassy Suites Sacramento – Riverfront Promenade**

**Hope to see you there!**

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