EFFECT OF PLAN PARTICIPATION ON SOCIAL SECURITY BENEFITS

As a participant in the UCF FICA Alternative Plan (the "Plan"), your earnings are not subject to Social Security taxes because the benefits provided from the Plan are considered to be a substitute for Social Security benefits. As a result, your work in a position covered by the Plan and your earnings related thereto are disregarded for purposes of calculating your Social Security benefits (but **not** your Medicare benefits). Thus, if your lifetime employment history is in a position covered by the Plan, you would not receive any Social Security benefits. However, most Plan participants are eligible for substantial Social Security benefits as a result of other employment covered by Social Security. Assuming you will be entitled to Social Security benefits, there are two potentially applicable Social Security provisions that may cause your Social Security benefits to be reduced as a result of benefits payable to you from the Plan due to the fact that your current earnings are not subject to Social Security taxes. These Social Security benefit reductions are commonly called the Windfall Elimination Provision ("WEP") and the Government Pension Offset ("GPO"). The following is a brief explanation of these Social Security benefit reductions.

WINDFALL ELIMINATION PROVISION

- The WEP affects how the amount of your Social Security retirement or disability benefit is calculated if you receive a pension from work where Social Security taxes are not taken out of your pay. A modified formula is used to calculate your benefit amount, resulting in a lower Social Security benefit than you otherwise would receive. We recently received information from the Social Security Administration that the WEP modified formula will apply to your Social Security benefits as the result of benefits payable to you from the Plan.
- Social Security benefits are based on the worker's average eligible monthly earnings adjusted for inflation. The Social Security Administration separates your average earnings into three amounts and multiplies the amounts using three factors. For example, for a worker who turns 62 in 2011, the first $749 of average monthly earnings is multiplied by 90 percent; the next $3,768 by 32 percent; and the remainder by 15 percent. The sum of the three amounts equals the total monthly payment amount.

    - The 90 percent factor is reduced under the WEP modified formula. For those who reach 62 or became disabled in 1990 or later, the 90 percent factor is reduced to 40 percent.
    - There are exceptions to this rule. 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. Substantial earnings means an annual amount of earnings you received from such employment (determined on a calendar year basis) that ranges from $900 between calendar years 1937-1957 to $19,800 in 2011. The substantial earnings limit is adjusted annually.

- If you have 21 to 29 years of substantial earnings, the 90 percent factor is reduced to between 45 and 85 percent (depending on your number of years of substantial earnings). To see the maximum amount your benefit could be reduced, visit ***www.socialsecurity.gov/retire2/wep-chart.htm***.

- The reduction in your monthly Social Security benefit cannot be more than the lesser of (i) one-half of the amount of your monthly pension that is based on earnings after 1956 on which you did not pay Social Security taxes or (ii) a specified dollar amount that is annually adjusted (currently $374.50 with respect to individuals attaining age 62 in 2011).
- If you receive your benefits payable from the Plan in a lump sum, we understand that the Social Security Administration will calculate the WEP reduction as if you chose to get monthly benefit payments from the Plan. In other words, the Social Security Administration apparently will convert your lump sum payment to an equivalent monthly amount in applying this reduction.
- The WEP does not apply to Social Security spouse or survivors benefits. However, these benefits may be reduced because of the GPO, which is described in the following paragraphs.

GOVERNMENT PENSION OFFSET

- If you receive a pension from a federal, state or local government based on work where you did not pay Social Security taxes, your Social Security spouse's or widow's or widower's benefits may be reduced. We recently received information from the Social Security Administration that benefits payable from the Plan causes the GPO reduction to apply to these Social Security benefits.
- These Social Security benefits will be reduced by two-thirds of your government pension. In other words, if you get a monthly government pension of $600, two-thirds of that, or $400, must be deducted from these Social Security benefits. For example, if you are eligible for a $500 spouse's, widow's or widower's benefit from Social Security (in addition to your $600 monthly government pension noted above), you will receive $100 per month from Social Security ($500 – $400 = $100).
- If you receive your benefits payable from the Plan in a lump sum, we understand that the Social Security Administration will calculate the GPO reduction as if you chose to get monthly benefit payments from the Plan. In other words, the Social Security Administration apparently will convert your lump sum payment to an equivalent monthly amount in applying this reduction.
- The GPO applies only to Social Security benefits as a spouse or widow or widower and thus, does not apply to your own benefits. However, your own benefits may be reduced because of the WEP (see discussion above).