Social Security and Work

Many people want (or need) to continue to work in retirement. But did you know that your Social Security benefits might be impacted by your decision to work? You don’t have to stop working to collect Social Security benefits, but if you take Social Security benefits before your full retirement age and make more than a certain amount, your Social Security benefits will be reduced. Once you’ve reached full retirement age, however, you can keep working with no reduction in your Social Security benefits.

A strategy that may provide greater financial peace of mind for you and your family is to continue to work as long as possible and delay collecting benefits until you reach full retirement age or later. You’ll receive a higher monthly benefit guaranteed for life, increase the survivor benefits for your family and avoid any reductions due to Social Security’s earning limits.

When Are You Eligible for Benefits?

You are eligible to collect Social Security benefits at age 62, but your full retirement age, which is based on the year you were born, determines when you can retire without facing benefit reductions. For example if you were born January 2, 1943, through January 1, 1955, your full retirement age is 66. Use the Social Security Administration’s age chart at www.ssa.gov to look up your specific age of retirement.

Working and Collecting Benefits

If you are full retirement age or older, you can work and earn as much as you like without facing any reductions in your benefits. But if you work and claim Social Security benefits before full retirement age, the following rules apply:

- Social Security withholds $1 for every $2 earned above the annual limit, which is $14,160 in 2011, for the years before you reach full retirement age.
- Social Security withholds $1 for every $3 you make above the annual limit, which is $37,680 in 2011, for the year in which you reach full retirement age.

Example: Laura is 62 and works part-time as manager of a large Italian restaurant. In 2011, she earned $15,160. Since Laura’s earnings were $1,000 over the limit, half of that overage ($500) would be withheld from her Social Security income.

Are Withheld Benefits Gone Forever?

If you work, have not reached full retirement age and earn more than the annual earnings limit, Social Security will withhold some of your monthly benefits (as mentioned above). But these withheld benefits are not lost. Social Security re-computes your benefit amount and increases it when you reach full retirement age.

Example: Joe is 62, works full time as a carpenter, and in 2011 earned $22,160. If Joe claimed his Social Security benefits now he would receive $800 per month ($9,600 for the year). Joe wants to continue working and if he waits until age 70 to claim, he’ll receive approximately $1,400 in monthly benefits for the rest of his life.

Although Joe is getting by fine on his salary, he is considering claiming benefits this year. If he claims and continues to work...
How Much Will You Receive in Benefits?

Your monthly Social Security benefit amount is generally based on when you start to collect, as well as the average of the highest 35 years of earnings from which you paid Social Security payroll tax. The earning potential for many people is much higher later in life, so the longer you can wait to claim Social Security benefits the bigger your monthly Social Security payment will be. Also, just because you’ve reached full retirement age doesn’t mean your benefits will stop growing. In fact, after reaching full retirement age, your benefits will significantly increase each year until you turn 70. For example, if you were born in 1943 or later, you get an 8 percent increase annually until the age of 70. To find out how much you’ll receive in benefits, use AARP’s Social Security Benefits Calculator at www.aarp.org/socialsecuritybenefits, or visit www.ssa.gov.

What Counts as Income?

There is a clear distinction as to what is considered income when working and claiming benefits. If you work for someone else, only your wages are counted toward the earning limits. If you are self-employed, your net earnings are the only income counted. Government benefits, earnings from investments, interest, pensions, annuities and capital gains, aren’t considered income by Social Security when reducing benefits for earnings. Also, for employees, wages count when they are earned, not paid. For those who are self-employed, income counts when it’s paid not earned.

Special Rule For the First Year You Retire

Sometimes working individuals will start collecting Social Security in the middle of the year and have already surpassed the yearly retirement earnings limit of $14,160. In this case, there’s a special rule that allows the Social Security Administration to disregard your annual earnings and simply look at your monthly earnings. If you fall below the monthly limit your monthly benefits will not be reduced. This rule typically only applies for the first year in which you collect benefits.

Example: Don, who is 62 years old, retires on July 31, 2011, and claims his Social Security benefits early.
Special Rules for Self-Employed

If you are self-employed, Social Security considers how much time you spend working to determine whether or not you are retired. Generally self-employed beneficiaries who work less than 45 hours a month are considered retired and those that work more than 45 hours a month are considered not retired. Additionally, if you work in a job that requires a specific skill, or manage a sizable business for 15 to 45 hours each month, you are also considered not retired. For more information on self-employment rules visit www.ssa.gov.

Stay on Top of Your Earnings

While you continue to work it pays to keep track of your future Social Security benefits by getting a copy of your Personal Earnings and Benefit Estimate Statement (PEBES) annually from the Social Security Administration. You can request a copy by calling 1-800-772-1213 or visiting www.ssa.gov.

Why It Matters

Staying on top of your work record could help you evaluate your earnings and identify errors that could erroneously lower your earnings average. The PEBES statement lists the number of years you’ve worked and projects the size of your benefit at 62 or at your full retirement age. Have a change in earnings during the year? Make sure to contact the Social Security Administration right away.

From January–July, Don earned $45,000, which is much higher than Social Security’s 2011 earnings limit of $14,160. Since this is Don’s first year of claiming benefits, he will still receive his full Social Security benefit each month because of a special rule that applies to earnings in the first year of retirement. For the first year, Social Security will disregard any earnings made prior to receiving benefits, regardless of the amount of those earnings, and you will receive a full Social Security check.

Let’s look closer to see what happens when Don decides, like many retirees, that he has too much time on his hands and he’d like to go back to work, or as is also common, he needs additional money to live more comfortably.

Don’s new situation looks a little like this:

- From January–July, Don earned $45,000 from full time employment.
- From August to October, Don received his monthly Social Security benefit.
- In November and December, he went to work part-time and received $1,000 per month and his monthly Social Security benefit.

Even though Don clearly earned more than the $14,160 per year earnings limit, and he earned $1,000 per month from part-time work, the special rule for first time claimers still applies for workers considered retired. Don is considered retired because during the months that he worked and received benefits (November and December) he did not earn more from work than the monthly limit of $1,180 (the $1,180 monthly limit is found by dividing the $14,160 yearly limit by 12). Next year, during his second year of claiming, Don will have to follow the yearly earnings limit instead of the special first year rule.
Your To Do List:

- Estimate how much you expect to earn in the year you want to start collecting Social Security benefits and calculate how much will be withheld if you earn more than the limit.

- Use AARP’s Social Security Benefits Calculator to calculate how much more in benefits you’ll get if you decide to wait until full retirement age or later to collect benefits: www.aarp.org/socialsecuritybenefits.

- Track your current and future Social Security benefits by getting a copy of your Personal Earnings and Benefits Estimate Statement from the Social Security Administration.

- Determine how much retirement income you might need from work to supplement your retirement savings. Visit www.aarp.org/retirementcalculator.

- Create a plan to reach your retirement goals, whether it means learning new skills to stay employed longer, saving more money for retirement or possibly downsizing. AARP’s Ready for Retirement? Tools to Achieve Peace of Mind™ can help you get started: www.aarp.org/readyforretirement.