

How Does Work Affect Your Social Security Payments?

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Many people continue to work beyond retirement age, either by choice or out of necessity. In light of the current economic situation and the recent sell-off on Wall Street, it is likely that even more of us will need to work during our retirement years. If you are receiving Social Security benefits, you should be aware of how working can affect your benefit payments. Earning income above Social Security thresholds can cause a reduction in benefits and mean your benefits will be taxed. Keep in mind that the earnings limitations discussed in this article change annually. Moreover, the new administration in Washington may overhaul the whole Social Security system. So, this entire topic is a moving target subject to change at any time.

Whether it makes sense to work and collect Social Security at the same time is a complicated assessment that depends on a variety of factors, including how much you earn, when you begin taking Social Security benefits and how long you expect to live. As a general rule, early or late retirement will give you about the same total Social Security benefits over your lifetime. If you retire early, the monthly benefit amounts will be smaller to take into account the longer period you will receive them. If you retire late, you will get benefits for a shorter period of time but the monthly amounts will be larger to make up for the months when you did not receive anything.

If you work and are full retirement age or older, you can earn as much as you want and your benefits will not be reduced. Your full retirement age depends on when you were born. If you were born in 1937 or earlier, your full retirement age is 65 years. Your full retirement age goes up gradually until it reaches 67 years for those of us who were born in 1960. However, individuals may begin taking Social Security retirement benefits early, beginning at age 62. If you are younger than full retirement age, there is a limit to how much you can earn and still receive full benefits. If you earn more than \$13,560 (in 2008), Social Security will deduct \$1 from your benefits for each \$2 you earn over the threshold. In the year you reach full retirement age, you can earn up to \$36,120 (in 2008) without having a reduction in benefits. However, if you exceed \$36,120 in earnings, Social Security will deduct \$1 from your benefits for each \$3 you earn

until the month you reach full retirement age. Once you reach full retirement age, your benefits will no longer be reduced. For example, if your monthly Social Security benefit is \$700 and you earn less than \$13,560, you will receive \$8,400 ($\700×12) in benefits.

Note that if your benefits are withheld, at least some of those benefits will be returned to you in the form of higher monthly benefits once you reach full retirement age. When you reach full retirement age, Social Security will recalculate your benefits to take into account the months in which your benefits were withheld. In addition, if your latest year of earnings turns out to be one of your highest years, Social Security will refigure your benefit based on the higher earnings and pay you any increase due.

Another way that working can affect Social Security is with regard to taxes. If your combined income (Social Security calculates "combined income" by adding one-half of your Social Security benefits to your other income) is between \$25,000 and \$34,000 (or \$32,000 and \$44,000, if filing jointly), you may have to pay taxes on 50 percent of your benefits. If your income is more than \$34,000 (or \$44,000 if filing jointly), then you may have to pay taxes on up to 85 percent of your benefits.

As you can see, the decision on when to take Social Security benefits is complicated and depends on a variety of factors. Before making final decision, take the time to think through all the various scenarios.