Private Wealth Management Products & Services

The Impact of Working While Receiving Social Security Benefits

If the individual collecting retirement benefits is under Full Retirement Age:

- When the worker starts receiving Social Security payments, $1 in benefits will be deducted for every $2 he or she earns above an earnings limit ($16,920 for 2017). This limit is adjusted each year for inflation.
  - **Example**: Bill earns $60,000 per year as an employee. He will turn 64 in October 2017. He also is collecting Social Security retirement benefits. According to the Social Security rules, his FRA is 66. In 2016, when Bill is 64, his excess earnings will be $43,080 ($60,000 - $15,720). His reduction in benefits will be $21,540 ($1 reduction in benefits for every $2 over the $16,920 threshold).

In the year the worker reaches Full Retirement Age:

- In this case, $1 in benefits will be deducted for every $3 he or she earns above the limit of $44,880, but only counting earnings before the month the worker reaches the FRA. This limit is adjusted each year for inflation.
  - **Example**: Mark turns 66 in October 2016. From January through September of that year, he earned $45,000 (9/12ths of $60,000). His excess earnings to that point would be $120 ($45,000 - $44,880). His reduction in benefits for those 9 months would be $40($1 reduction in benefits for every $3 over the $44,880 threshold).

Starting with the month the worker reaches Full Retirement Age:

- There is NO limit on earnings after reaching FRA.
  - **Example**: As of October 2017, Paul reaches his FRA. He could continue to work and earn as much as he wanted without any reduction in retirement benefits.

Retiring mid-year:

- If a worker is at full retirement age or younger and stops working mid-year, employment income prior to collecting benefits is not counted, and the earnings test is applied on a monthly basis ($1,410 per month) for the remainder of the first year.

For purposes of these four prior rules, earned income only includes wages, bonuses, commissions, etc. It does not include investment income, capital gains, retirement plan distributions, pensions, alimony, worker's compensation, unemployment benefits, or other sources of unearned income. If you are self-employed, only your net earnings from self-employment are counted.

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Who else's benefits might be affected?

- Spousal Benefits: A spouse can lose some or all of their monthly benefits if the worker is under Full Retirement Age and has earnings exceeding the thresholds discussed above. Also, if the spouse is under FRA and has earnings above the thresholds mentioned above, their monthly benefit will be reduced.
- When both the worker and the spouse have earnings in excess of the earnings limitation, their total Family Maximum Benefit will also be reduced.
- Divorced spouse's benefits: If the worker has excess earnings above the previously discussed thresholds, this would ***not*** cause a reduction in the divorced spouse's benefit, assuming the divorced spouse has been divorced from the worker at least two years or whose former spouse was entitled to receive benefits before the divorce. However, if the divorced spouse who is collecting the benefit has excess earnings, his or her benefit will be reduced accordingly.
- Survivor's benefits: The same earnings tests apply here as they do to standard retirement benefits. However, a person receiving dependent's or survivor's benefits and has excess earnings will not see his or her excess earnings charged against the benefits payable to other dependents or survivors. For example, a child's benefit will not be reduced if the mother has excess earnings.
- Child's/Dependent benefits: If the worker has excess earnings above the previously discussed thresholds, it would cause a reduction in the dependent's benefit. However, a dependent's wages will only reduce his or her own benefit.

If a Social Security benefit is lost due to employment income, the reduction is not applied ratably to each check received throughout the year. Instead, the worker would not receive checks at all in the early part of the year then, once the total benefit reduction has been reached, the worker would start receiving monthly checks for the full monthly benefit amount later in the year. Those months in which a check was not received will not count as months where Social Security was claimed. This means that, once you reach full retirement age, your benefit amount will be recalculated as if you had not claimed Social Security during those months.

- **Example**: Bob retired at 62 and started collecting a Social Security benefit of $1,500 per month. Bob works part-time and will earn $28,920 in 2017. This is $12,000 above the allowable earnings threshold, so Bob's Social Security benefit will be reduced this year. Bob will not receive a Social Security check for the first 8 months of the year ($12,000/$1,500), but will receive a check for $1,500 each of the last 4 months of the year. If we assume that Bob continues earning the same income and ignore inflation adjustments to Social Security benefits and the earnings threshold, when Bob reaches his full retirement age at 66, he will receive an increase in his monthly benefits at that time. The Social Security Administration will consider Bob to have started collecting benefits at age 64 and 8 months, rather than at age 62 and 0 months, and increase his monthly benefit check accordingly at that time. If Bob lives long enough, he will fully recover the benefits that were withheld due to his excess employment income.

Special Payments

After a worker retires, there are certain circumstances under which that individual might receive payments for work done before receiving Social Security benefits. These income sources are considered Special Payments and will not affect your Social Security, if they are for work done before you retired and started collecting a benefit.

Income received after retirement counts as a special payment if the last thing a person did to earn the payment was completed before the individual stopped working.

Types of Special Payments include bonuses, accumulated vacation or sick pay, severance pay, back pay, standby pay, sales commissions and retirement payments. It also includes deferred compensation reported on a W-2 for one year, but was earned in a previous year. The deferred compensation amounts may be shown on an individual's W-2 in the box labeled nonqualified plan.

If the worker was self-employed, any net income received after the first year the person retired counts as a special payment if the services to earn the payment were performed before being entitled to receive Social Security benefits. Special Payments for self-employed individuals might include income derived by an owner of a business who does not perform significant services in that business, agricultural program payments, income from carryover crops.

If a retiree receives a special payment which causes their income to exceed the earnings limit, contact the Social Security Administration and notify them that a special payment was received. That income will not count as a part of the recipient's total income for the year.