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Social Security: working and taking benefits

Case Study

“I claimed Social Security early after I lost my job. Now I’m going back to work and I’m concerned about how my income will affect my benefits.”

Calvin Jones

Age 65

A former newspaper editor. He eased into retirement and has taken Social Security for two years already. Now he is returning to work and is concerned about how his income may impact his benefits.

Calvin Jones spent his entire career working for a newspaper in a two-paper town, ending up as section editor for the local news. Unfortunately, cable news and the internet began to make it impossible for cities to support two papers, and Calvin’s paper was the one that closed.

Calvin was already 63 when he lost his job and he slowly warmed up to the idea of an early retirement. He sold his house and purchased a small cabin on a lake outside the city. He also filed for Social Security. Filing early meant taking a reduced benefit, but it was enough for his new, simpler lifestyle. He settled in, exploring hiking trails, buying a second-hand fishing boat and getting started on the novel he’d always wanted to write.

At 65, the surviving newspaper called. They’d lost a section editor in a car accident and needed someone to fill that role immediately. They were willing to pay Calvin quite well if could help them out for at least a couple years. He accepted.

Almost immediately, he began to worry about his Social Security benefits. He vaguely remembered that if he worked, his benefits might be reduced or taxed. He called his financial professional, Vanessa Raines, to get a handle on the situation.

Social Security IQ

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A Social Security strategy

Vanessa acknowledges that Calvin's memory is correct – his new income will impact his Social Security benefits in multiple ways.

A chance for a permanent benefit increase

A worker's retirement benefit is based on the 35 highest-earning years. Since Calvin will be earning the highest salary of his career at his new job, the Social Security Administration will automatically recalculate his benefit amount. Any increase in his benefit will be permanent.

A temporary benefit reduction

Calvin already took a permanent benefit reduction by filing before his full retirement age (FRA). Earned income will further reduce the amount, but only temporarily.

- **Before his FRA**, for every $2 he earns over a stated limit, his benefits will be reduced by $1.
- **The year he reaches his FRA**, for every $3 he earns over a higher earnings limit, his benefits will be reduced by $1, but only until the month before his birthday.
- **After his FRA**, his earnings will no longer be reduced. In fact, his benefit will be recalculated to give credit for any amounts that were previously withheld due to earnings.

Taxation of benefits

Working will likely make his benefits partially taxable. The tax is determined by adding half the benefit amount to total income (wages, pension, withdrawals from retirement accounts and investment income, including tax-exempt interest on municipal bonds). If the total is greater than:

- $32,000 (joint) or $25,000 (single), up to 50 percent of the benefits are taxable
- $44,000 (joint) or $34,000 (single), up to 85 percent of the benefits are taxable

A chance to increase the benefit

When Calvin reaches his FRA, he has the option to suspend his benefits and reclaim them later. His benefits will increase by 8 percent each year they are suspended up to age 70.

THE MORAL OF THE STORY

It's important to understand how earned income will impact your benefits. Should your situation change after you file for benefits, there are limited options that can help you increase your benefit amount. A financial professional and/or Social Security expert can help you make the best decision to maximize your benefit.

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