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# Planning for Social Security

# Social Security Retirement Benefits

Social Security was originally intended to provide older Americans with continuing income after retirement. Today, though the scope of Social Security has been widened to include survivor's, disability, and other benefits, retirement benefits are still the cornerstone of the program.

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## How do you qualify for retirement benefits?

When you work and pay Social Security taxes (FICA on some pay stubs), you earn Social Security credits. You can earn up to 4 credits each year. If you were born after 1928, you need 40 credits (10 years of work) to be eligible for retirement benefits.

## How much will your retirement benefit be?

Your retirement benefit is based on your average earnings over your working career. Higher lifetime earnings result in higher benefits, so if you have some years of no earnings or low earnings, your benefit amount may be lower than if you had worked steadily. Your age at the time you start receiving benefits also affects your benefit amount. Although you can retire early at age 62, the longer you wait to retire (up to age 70), the higher your retirement benefit.

You can estimate your retirement benefit online based on your actual earnings record using the Retirement Estimator calculator on the Social Security website, www.ssa.gov. You can create various scenarios based on current law that will illustrate how different earnings amounts and retirement ages will affect the benefit you receive.

## Retiring at full retirement age

Your full retirement age depends on the year in which you were born.

| If you were born in: | Your full retirement age is: |
|---|---|
| 1943-1954 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 and later | 67 |

***Note:*** *If you were born on January 1 of any year, refer to the previous year to determine your full retirement age.*

If you retire at full retirement age, you'll receive an unreduced retirement benefit.

## Retiring early will reduce your benefit

You can begin receiving Social Security benefits before your full retirement age, as early as age 62. However, if you retire early, your Social Security benefit will be less than if you wait until your full retirement age to begin receiving benefits. Your retirement benefit will be reduced by 5/9ths of 1 percent for every month between your retirement date and your full retirement age, up to 36 months, then by 5/12ths of 1 percent thereafter. For example, if your full retirement age is 67, you'll receive about 30 percent less if you retire at age 62 than if you wait until age 67 to retire. This reduction is permanent--you won't be eligible for a benefit increase once you reach full retirement age.

Still, receiving early Social Security retirement benefits makes sense for many people. Even though you'll receive less per month than if you wait until full retirement age to begin receiving benefits, you'll receive benefits several years earlier.

## Delaying retirement will increase your benefit

For each month that you delay receiving Social Security retirement benefits past your full retirement age, your benefit will increase by a certain percentage. This percentage varies depending on your year of birth. For example, if you were born in 1943 or later, your benefit will increase 8 percent for each year that you delay receiving benefits. In addition, working past your full retirement age has another benefit: It allows you to add years of earnings to your Social Security record. As a result, you may receive a higher benefit when you do retire, especially if your earnings are higher than in previous years.

## Working may affect your retirement benefit

You can work and still receive Social Security retirement benefits, but the income that you earn before you reach full retirement age may affect the amount of benefit that you receive.

Here's how:

- If you're under full retirement age: $1 in benefits will be deducted for every $2 in earnings you have above the annual limit
- In the year you reach full retirement age: $1 in benefits will be deducted for every $3 you earn over the annual limit (a different limit applies here) until the month you reach full retirement age

Once you reach full retirement age, you can work and earn as much income as you want without reducing your Social Security retirement benefit.

## Retirement benefits for qualified family members

Even if your spouse has never worked outside your home or in a job covered by Social Security, he or she may be eligible for spousal benefits based on your Social Security earnings record. Other members of your family may also be eligible. Retirement benefits are generally paid to family members who relied on your income for financial support. If you're receiving retirement benefits, the members of your family who may be eligible for family benefits include:

- Your spouse age 62 or older, if married at least one year
- Your former spouse age 62 or older, if you were married at least 10 years
- Your spouse or former spouse at any age, if caring for your child who is under age 16 or disabled
- Your children under age 18, if unmarried
- Your children under age 19, if full-time students (through grade 12) or disabled
- Your children older than 18, if severely disabled

Your eligible family members will receive a monthly benefit that is as much as 50 percent of your benefit. However, the amount that can be paid each month to a family is limited. The total benefit that your family can receive based on your earnings record is about 150 to 180 percent of your full retirement benefit amount. If the total family benefit exceeds this limit, each family member's benefit will be reduced proportionately. Your benefit won't be affected.

## How do you sign up for Social Security?

You should apply for benefits at your local Social Security office or on-line two or three months before your retirement date. However, the SSA suggests that you contact your local office a year before you plan on applying for benefits to discuss how retiring at a certain age can affect your finances. Fill out an application on the SSA website, or call the SSA at (800) 772-1213 for more information on the application process.

***If you expect you will have substantial earnings after you retire and you have not yet reached normal retirement age, you may be able to time your post-retirement earnings to prevent withholding of all or part of your Social Security retirement benefit.***

# Planning for Earned Income in Retirement

If you're like a lot of people, retirement won't be the world of gardening, golfing, traveling, and tennis you once envisioned. Rather, retirement will mean relaxing and working. Maybe you've retired from your "regular" job and started a business, or perhaps you want to work part-time just to stay busy. However, if you work after you start receiving Social Security retirement benefits, your earnings may affect the amount of your benefit check.

## How your earnings affect your benefit

***Your earnings in retirement may increase your retirement benefit***

Your monthly Social Security retirement benefit is based on your lifetime earnings. When you become entitled to retirement benefits at age 62, the Social Security Administration (SSA) calculates your primary insurance amount (PIA) upon which your retirement benefit will be based. Later, your PIA will be recalculated annually if you have had any new earnings that might substantially increase your benefit. So if you continue to work after you start receiving retirement benefits, these earnings may eventually increase your PIA and thus your retirement benefit.

***Your earnings in retirement may decrease your retirement benefit***

If you earn income over a certain limit by working after you begin receiving retirement benefits, your benefit may be reduced proportionately. This limit, known as the retirement earnings test exempt amount, affects only beneficiaries under normal retirement age. The benefit reduction is based on your annual earnings and is not permanent; your monthly benefit is reduced starting in January of the year following the year you had excess earnings and will be reduced until the excess earnings are used up.

***If you have retired and your spouse and/or child receives benefits based on your Social Security record, any excess earnings you have may reduce their benefits.***

***Example:*** *Emily is entitled to a Social Security retirement benefit of $800. When she was 64, her annual earnings exceeded the retirement earnings test exempt amount, so her benefit was reduced by $600. Consequently, in January of the following year, she received only a $200 monthly benefit check ($800 minus $600 equals $200). However, in February, she again received an $800 monthly benefit check.*

## How much is the retirement earnings test exempt amount?

In 2012, the annual exempt amount is $14,640 ($14,160 in 2011) for beneficiaries under normal retirement age. However, in the year you reach full retirement age, a different limit applies. The limit in 2012 is $38,880 ($37,680 in 2011), which applies to earnings up to, but not including, the month you reach normal retirement age.

## How much benefit is withheld if you exceed the annual earnings limit?

If you're under normal retirement age, $1 in benefits is withheld for every $2 of earnings in excess of the annual exempt amount.

***Example:*** *Ida was a self-employed potato farmer. After she began receiving Social Security retirement benefits at age 62, she continued to sell potatoes at her produce stand outside of Boise. Since she exceeded the annual retirement earnings test exempt amount by $380, $190 was withheld from her benefit check the following January.*

In the year you reach normal retirement age, $1 in benefits is withheld for every $3 of earnings in excess of the special exempt amount that applies that year, but only counting money earned before the month you reach normal retirement age.

***Example:*** *In the year that Ida reached normal retirement age, she earned $3,200 more than the special earnings limit that applies in that year. However, she earned $500 of that after she had reached normal retirement age, so that amount wasn't counted in calculating how much benefit would be withheld. Instead, the remaining $2,700 was used in the calculation, and $900 was withheld from Ida's benefit ($1 for every $3 in excess of the earnings limit).*

## What kinds of earnings may affect your benefit?

### *Earnings that might reduce your benefit*

- Wages you earned as an employee (counted for the taxable year they're earned)
- Net earnings from self-employment (usually counted in the year earnings are received)
- Other types of work-related income, such as bonuses, commissions, and fees

### *Earnings that won't reduce your benefit*

- Pensions and retirement pay
- Workers' compensation and unemployment compensation benefits
- Prize winnings from contests, unless part of a salesperson's wage structure, or entering contests is your "business"
- Tips that are less than $20 a month
- Payments from individual retirement accounts (IRAs) and Keogh plans
- Investment income
- Income earned in or after the month you reach normal retirement age

Other types of earnings may affect your benefit. If you have additional questions about how the Social Security Administration defines earnings, contact the SSA at (800) 772-1213.

## Which of your benefits may be affected by excess earnings?

### *Your own retirement benefit*

Your Social Security retirement benefit may be reduced if you earn income over the retirement earnings test exempt amount.

### *Benefits paid to your spouse or child*

If you have retired and your spouse and/or child receives benefits based on your Social Security record, any excess earnings you have may reduce their benefits. In addition, any excess earnings they have may reduce their own benefits but not your benefit.

***Example:*** *Bill is 63 and receives a Social Security retirement benefit. His wife Betty, who is also 63, receives a retirement benefit based on Bill's earnings that is equal to 50 percent of Bill's benefit. If Bill earns $200 over the retirement earnings test exempt amount, his benefit is reduced by $100 ($200 divided by 2) the following January. Betty's benefit is reduced by 50 percent of that amount, or $50.*

*However, assume that Betty also works and earns $200 over the retirement earnings test exempt amount. Her benefit will be reduced by $100 ($200 divided by 2). Her benefit is reduced an additional $50 by Bill's excess earnings. Bill's benefit, however, is reduced by $100 because of his own excess earnings but is not affected by Betty's excess earnings.*

### *Benefits paid to your survivors*

If you die and a member of your family receives a survivor's benefit, that benefit may be reduced if the family member earns money in excess of the retirement test exempt amount.

***Example:*** *When Bill dies, Betty, his widow, begins receiving survivor's benefits based on Bill's Social Security record. Since she earns $200 more than the exempt amount that year, Betty's survivor's benefit of $825 is reduced by $100 in January of the following year.*

## The earnings test is different in the first year of retirement

### *Earnings from an employer*

In the first year of retirement, the earnings test is applied differently than in later years. Normally, the earnings test is based on the amount of income you earned annually; however, in the first year of retirement, the earnings test can be based on the amount of income you earned monthly, if that would benefit you. You can receive a full Social Security benefit check for any whole month in which your earnings don't exceed 1/12th of the annual exempt amount.

***Example:*** *Caleb retired on July 31 at age 62. From January through July of that year, he earned $40,000. After he retired, he began working part-time and earned only $300 a month from August to December (each month, less than the monthly earnings exempt amount). Thus, even though his annual earnings during the year he retired greatly exceeded the annual earnings exempt amount, Caleb's benefit check was not reduced the following year.*

## Earnings from self-employment

If you're self-employed, the SSA also considers whether you perform substantial services in your business. You will receive full benefits for any month you're not substantially self-employed. In general, you're considered to be substantially self-employed if you worked as a self-employed person more than 45 hours in one month. If you work less than 15 hours in one month, you will not be considered substantially self-employed, and you probably will receive your full retirement benefit for that month. If you work between 15 hours and 45 hours a month, you may or may not be considered substantially self-employed by the SSA, and your retirement benefit may be affected.

## How you can keep your post-retirement earnings from exceeding the earnings exempt amount

### *Time your post-retirement earnings*

If you expect you will have substantial earnings after you retire and you have not yet reached normal retirement age, you may be able to time your post-retirement earnings to prevent withholding of all or part of your Social Security retirement benefit.

### *Create a self-employment loss*

If you're self-employed, you may be able to generate a self-employment loss to offset excess self-employment income.

### *Incorporate a sole proprietorship*

If you incorporate a sole proprietorship as an S corporation, you may be able to reduce your self-employment earnings by receiving profit distributions that will not be considered self-employment income for the purposes of the retirement earnings test.

### *Shift earnings to others*

You may be able to reduce your net self-employment earnings if you shift earnings to others by forming a partnership with your spouse or employing minor children.

***Caution:*** *The SSA may scrutinize questionable retirement arrangements. Under the law, you are entitled to work and combine your Social Security benefits and earnings in such a way as to get the most income you can. However, you should not understate your earnings or establish fictitious business arrangements.*

## Questions & Answers

***Q: If you earn more than the retirement earnings exempt amount, when will all or part of your benefit be withheld due to excess earnings?***

**A:** *Your excess earnings will be withheld starting in January of the year following the year you had excess earnings.*

***Q: If you receive Social Security retirement benefits based on your ex-spouse's Social Security earnings record, will your benefit be reduced if your ex-spouse works after retirement and earns more than the exempt amount?***

**A:** *No. If you've been divorced for more than two years, your benefits will not be reduced if your ex-husband has excess earnings. The only way your benefit will be reduced is if you have excess earnings.*

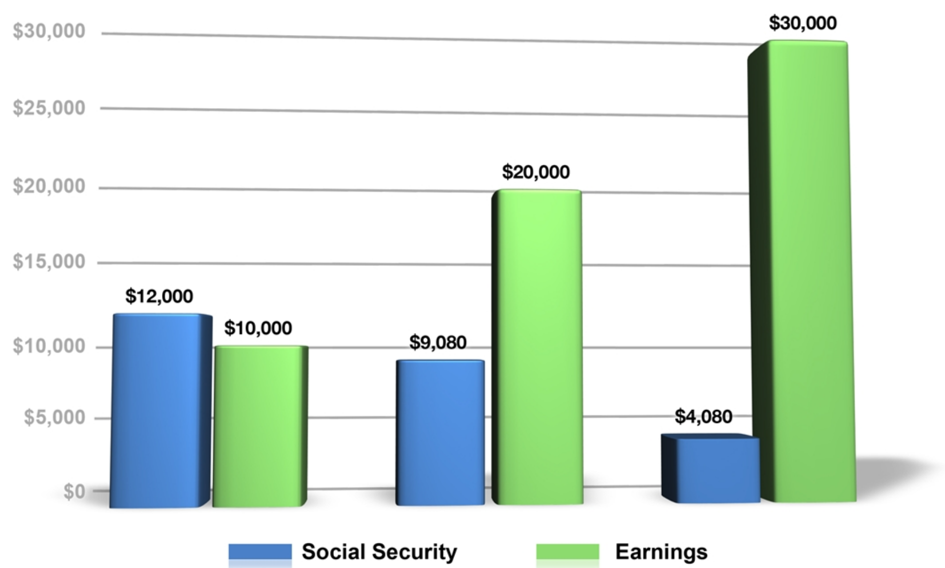
***Q: How does the SSA know how much you earn after you retire?***

**A:** *The SSA knows how much you earn because you are required to estimate your earnings when you apply for Social Security benefits. Later, the SSA will get information about your earnings from your IRS W-2 form (submitted annually by your employer) or, if you are self-employed, from your annual income tax return. They also may ask you to send them an earnings estimate annually. In addition, if you think the earnings used to calculate your benefit may be incorrect, contact the SSA at (800) 772-1213 so that your benefit can be accurately calculated.*

## How Earnings Affect Social Security

If you begin to receive Social Security retirement (or survivor's) benefits before you reach full retirement age, money you earn over a certain limit will reduce the amount of your Social Security benefit. In 2012, your benefit will be reduced by $1 for every $2 of earnings in excess of $14,640.*

The chart below shows the effect of annual earnings of $10,000, $20,000, and $30,000 on a $12,000 annual Social Security benefit ($1,000 monthly) for someone who hasn't yet reached full retirement age.




***Source:*** *Social Security Administration, 2011*

*Special rules apply in both the year you reach full retirement age and the year you retire if you have not reached full retirement age.

# Timing Your Earnings in Retirement to Optimize Your Social Security Retirement Benefit

If you work after you begin receiving Social Security retirement benefits, you may lose all or part of your retirement benefit if your earnings exceed the retirement earnings exempt amount. However, you won't lose benefits due to excess earnings once you reach normal retirement age, and it's possible to time your earnings in retirement in order to optimize your benefit.

***If you work after you begin receiving Social Security retirement benefits, you may lose all or part of your retirement benefit if your earnings exceed the retirement earnings exempt amount.***

***Example:*** *Lewis retired in 2011 at age 62. In 2012, he goes back to work and earns $15,280 working part-time. Since the annual retirement earnings test exempt amount is $14,640 in 2012, Lewis's retirement benefit is reduced by $320 the following year ($1 in benefits was withheld for every $2 of excess earnings). If Lewis had reached his normal retirement age when he went back to work, he wouldn't have lost any retirement benefit due to excess earnings.*

## Who can benefit from using this strategy?

If you're under normal retirement age and earn more than the annual retirement earnings test exempt amount by working after you retire, you may benefit from timing your earnings in retirement.

***Tip:*** *Remember, though, if your monthly benefit is reduced in the short term due to your earnings, you'll receive a higher monthly benefit later. That's because the SSA recalculates your benefit when you reach full retirement age, and omits the months in which your benefit was reduced.*

## How to do it

### *Postpone your earnings*

The easiest way to avoid losing all or part of your Social Security benefit due to excess earnings is to postpone your earnings.

You can postpone your earnings in two ways:

The first way is to determine when you actually work and earn income: If you're working for an employer, your wages are counted as income in the year you earn them. Because earnings at normal retirement age or later will never reduce your Social Security retirement benefit, you might postpone working after retirement until you reach normal retirement age if you expect to have excess earnings.

***Example:*** *Leslie was bored after she retired. When she was 65, she thought about working as a used-car salesperson at the local dealership. However, she thought that she could sell a lot of cars and make a lot of money, so she decided to wait until she turned 66 (her normal retirement age) before applying at the dealership so that any excess earnings she had would have no effect on her retirement benefit.*

The second way is to postpone when you receive your earnings: If you're self-employed, you can limit the effect of excess earnings on your retirement benefit by postponing when you receive your earnings. This is because earnings from self-employment are treated as earnings in the year they're received.

***Example:*** *By December 1, 2012, Keith (who is 63) makes $10,000 for the year working part-time as a carpenter. Since $10,000 is below the retirement earnings test exempt amount for 2012 ($14,640), Keith knows that his 2011 earnings won't affect his Social Security retirement benefit. Then, he takes a $5,500 job on December 26 and becomes concerned that the job will affect his retirement benefit by pushing his 2012 earnings over the retirement test exempt amount. His wife reminds him that because he wouldn't be paid for the job until January, those earnings wouldn't count toward the retirement test exempt amount until 2013.*

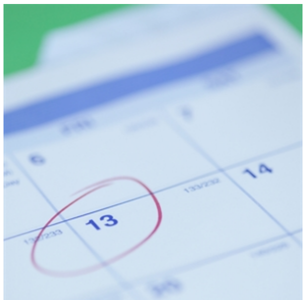
### *Bunch your earnings*

If you believe that you will lose all of your retirement benefit in one year due to excess earnings, you may be able to bunch your earnings for that year in order to avoid losing benefits the following year.

***Example:*** *Consider the following case:*

*Situation: Allen receives a monthly Social Security retirement benefit. When he is 63, he opens his own painting business and, by September, has already earned $30,000 more than the retirement earnings test exempt amount for that year. Since $1 of his retirement benefit will be withheld for every $2 he has in excess earnings, he knows that his entire annual benefit will be withheld. Since business is good, he also knows that next year his retirement benefit will probably be affected by excess earnings as well.*

***By postponing or bunching your earnings in retirement, you may be able to avoid earning more than the retirement earnings test exempt amount.***



*Question: In October of that year, Allen has the chance to earn over $8,000 by painting a business. However, the owner isn't in a hurry to pay, and Allen thinks about waiting to collect his fee until January of the following year. Should he?*

*Solution: No, Allen should collect his fee right away. His entire retirement benefit is already going to be withheld due to excess earnings, so the $8,000 fee won't affect his benefit at all because any remaining excess earnings won't be carried forward to the next year. However, if Allen waits until the following year to collect his fee, that fee may affect his Social Security retirement benefit because net earnings from self-employment are considered earned (for retirement test purposes) in the year they're received.*

### *Time the start of benefits*

Special rules apply to excess earnings during the first year of retirement. You might benefit from electing to begin receiving retirement benefits during a year in which you expect your earnings to be particularly high. During the first year you receive retirement benefits, if your wages from an employer are more than the annual retirement earnings test exempt amount, your retirement benefit will be reduced by the lesser of: (1) the reduction in benefits that would occur if the annual test applied, or (2) the benefit you received in the month or months that you earned more than 1/12th of the annual retirement earnings test exempt amount.

***Example:*** *Consider the following case:*

*Jeff retires on September 30, 2012 at age 62. Before he retires, he earns $50,000 during the year. In October, he begins working part-time and earns $1,000 per month for the last three months of the year. Even though his earnings for the year greatly exceed the 2012 annual retirement earnings test exempt amount of $14,640, Jeff still receives a full Social Security benefit for October, November, and December. This is because his earnings in those months do not exceed 1/12 of the annual earnings test exempt amount of $1,220 per month in 2012. However, beginning in 2013, the annual retirement earnings test amount will apply to him because he will be beyond his first year of retirement.*

*Jeff's case illustrates that the effect of excess earnings on your Social Security retirement benefit can be lessened somewhat if you elect to start receiving retirement income in a year in which you expect to have high excess earnings.*

***Caution:*** *This monthly test for excess earnings only applies if your wages are from an employer. If you are self-employed, the excess earnings test applies in a different manner.*

## Strengths

### *You can avoid losing part or all of your Social Security retirement benefit*

By postponing or bunching your earnings in retirement, you may be able to avoid earning more than the retirement earnings test exempt amount. By timing when you first begin receiving Social Security retirement benefits, you may be able to lessen the impact of earned income on those benefits.

## Tradeoffs

### *The Social Security retirement benefit you keep may not be enough to offset the earnings from working that you lose*

***Example:*** *Phillip (age 63) receives a Social Security retirement benefit of $1,000, or $12,000 per year. Phillip earns $27,640 in 2012, exceeding the earnings limit of $14,640 by $13,000. Phillip loses $1 in benefits for each $2 over the earnings limit, a total of $6,500 in benefits. Phillip's income for 2012 is:*

| | |
|---|---|
| **Social Security retirement benefit** | $5,500 |
| **Employment earnings** | $27,640 |
| **Total income** | $33,140 |

*If Phillip decided that he didn't want to lose any Social Security retirement benefits by limiting his earnings from his job to $14,640, his income in 2012 would have been:*

| | |
|---|---|
| **Social Security retirement benefit** | $12,000 |
| **Employment earnings** | $14,640 |
| **Total income** | $26,640 |

*Even though Phillip lost part of his Social Security retirement benefit due to excess earnings, the money he earned from his job more than made up for the lost benefit.*

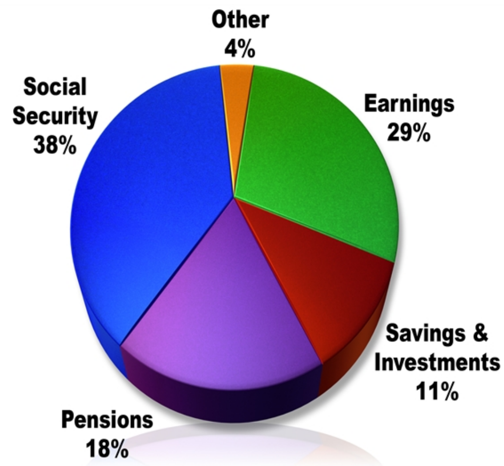
## Questions & Answers

***Q: How will earnings during the year you reach normal retirement age affect your retirement benefit?***

**A:** *Earnings after normal retirement age won't* affect your retirement benefit. But few people reach their normal retirement age on January 1. What if you have earnings during the year before you reach normal retirement age? The answer is that you are entitled to a special earnings exemption for the months that precede your birthday. For example, if you reach normal retirement age on December 1, 2012, you will be entitled to earn up to $38,880 during the months that precede your birthday without reducing your benefit, and once you reach your birthday, none of your earnings will reduce your benefit. So, as long as your earnings from January through November of 2011 don't exceed $38,880, you will receive all of your retirement benefit. However, if your earnings do exceed $38,880, you'll lose $1 for every $3 of earnings that exceed the limit.*

## Sources of Retirement Income: Filling the Social Security Gap

According to the Social Security Administration, more than nine out of ten individuals age 65 and older receive Social Security benefits. But most retirees also rely on other sources of retirement income, as shown on this chart:




***Note:*** *Data may not total 100% due to rounding.*

***Source:*** *Fast Facts & Figures About Social Security, 2011, Social Security Administration*

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