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Social Security Planning for Retirement

WHAT'S INSIDE?

Join the Retirement Planning Conversation

The Effects of Work and Taxes on Benefits

In April 2020, we launched a series of articles focused on factors that may play a role in deciding when to push the Social Security "on" button. For a closer look at the potential variables previously discussed, refer to the April 2020 and May 2020 issues of *Social Security Advisor*.

This month, we are continuing this series with a closer look at how work may impact the claiming decision and the very real possibility that a portion of the monthly benefit could be eroded by taxes, particularly for individuals who will supplement social security income with other sources of savings.

Not fully understanding the interplay between work, other sources of retirement income, and the potential effect on the net monthly benefit can lead to disastrous results on a retirement income plan.

The Earnings Limitation

When working with a client who is considering filing for Social Security benefits prior to full retirement age (FRA), your first question should be *"Are you still working?"* If the answer is yes, then helping your client understand the potential impact of their paycheck on benefits can be vital.

The earnings rule for pre-FRA claims imposes a limit on how much an individual may earn and still collect benefits. The rule only applies to the earned income of the early filer and not to the earnings of a spouse. Further, the limitation no longer applies once the filer reaches FRA, generally ranging from 66 to 67. *(You can refer to the "Calculating Social Security Benefits" chart found in the April 2020 issue of Social Security Advisor to find a filer's FRA.)*

Earning limits generally increase each year. In 2020, the threshold is $18,240 for an individual who is under FRA for the entire year. Excess earnings reduce Social Security benefits by 50% of the income over that threshold.

In the year that FRA is reached, up to the month before FRA, the earnings threshold rises to $48,600. During that calendar year, benefits are reduced by only a third of the excess amount.

Filing for benefits while working, without understanding how earnings can further reduce or even eliminate an early claim, can create unintended consequences to anticipated monthly income.

Example: Mary is planning to file for benefits on July 1, 2020 — *her 62nd birthday.* Having been born in 1958, Mary's FRA is 66 and 8 months. By filing at age 62, Mary will receive 71.7% of her full $1,530 FRA benefit, or $1,096 a month.