



# Planning for Social Security



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## 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.

### 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.socialsecurity.gov](http://www.socialsecurity.gov). You can create various scenarios based on current law that will illustrate how different earnings amounts and retirement ages will affect your benefits.

### 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.



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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.



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**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.

Even 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 much is the retirement earnings test exempt amount?

In 2015, the annual exempt amount is \$15,720 (\$15,480 in 2014) for beneficiaries under normal retirement age. However, in the year you reach full retirement age, a different limit applies. The limit in 2015 is \$41,880 (\$41,400 in 2014), 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 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.

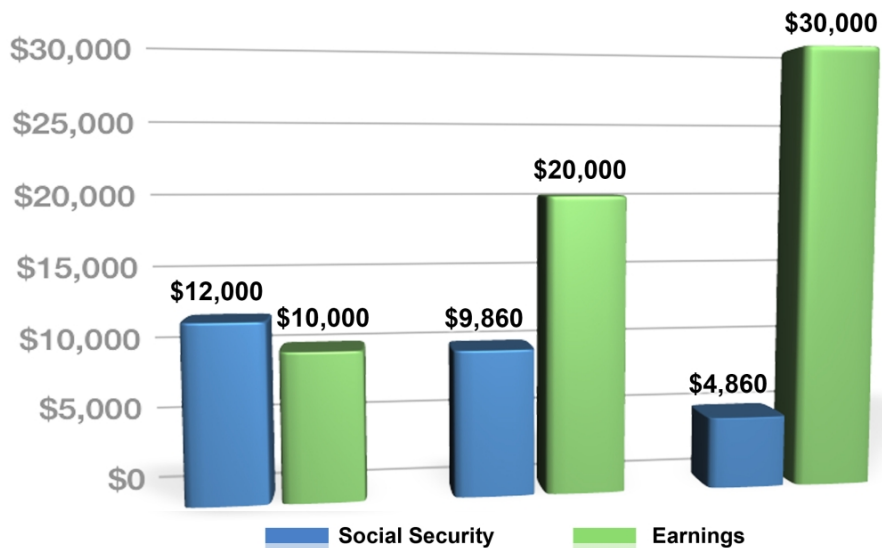
**Q: How does the SSA know how much you earn after you retire?**

**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 2015, your benefit will be reduced by \$1 for every \$2 of earnings in excess of \$15,720\*

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, 2014

\*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.



## Four Common Questions about Social Security

As you near retirement, it's likely you'll have many questions about Social Security. Here are a few of the most common questions and answers about Social Security benefits.

### ***Will Social Security be around when you need it?***

You've probably heard media reports about the worrisome financial condition of Social Security, but how heavily should you weigh this information when deciding when to begin receiving benefits? While it's very likely that some changes will be made to Social Security (e.g., payroll taxes may increase or benefits may be reduced by a certain percentage), there's no need to base your decision about when to apply for benefits on this information alone. Although no one knows for certain what will happen, if you're within a few years of retirement, it's probable that you'll receive the benefits you've been expecting all along. If you're still a long way from retirement, it may be wise to consider various scenarios when planning for Social Security income, but keep in mind that there's been no proposal to eliminate Social Security.

### ***If you're divorced, can you receive Social Security retirement benefits based on your former spouse's earnings record?***

You may be able to receive benefits based on an ex-spouse's earnings record if you were married at least 10 years, you're currently unmarried, and you're not entitled to a higher benefit based on your own earnings record. You can apply for a reduced spousal benefit as early as age 62 or wait until your full retirement age to receive an unreduced spousal benefit. If you've been divorced for more than two years, you can apply as soon as your ex-spouse becomes eligible for benefits, even if he or she hasn't started receiving them (assuming you're at least 62). However, if you've been divorced for less than two years, you must wait to apply for benefits based on your ex-spouse's earnings record until he or she starts receiving benefits.

### ***If you delay receiving Social Security benefits, should you still sign up for Medicare at age 65?***

Even if you plan on waiting until full retirement age or later to take your Social Security retirement benefits, make sure to sign up for

Medicare. If you're 65 or older and aren't yet receiving Social Security benefits, you won't be automatically enrolled in Medicare Parts A and B. You can sign up for Medicare when you first become eligible during your seven-month Initial Enrollment Period. This period begins three months before the month you turn 65, includes the month you turn 65, and ends three months after the month you turn 65.

The Social Security Administration recommends contacting them to sign up three months before you reach age 65, because signing up early helps you avoid a delay in coverage. For your Medicare coverage to begin during the month you turn 65, you must sign up during the first three months before the month you turn 65 (the day your coverage will start depends on your birthday). If you enroll later, the start date of your coverage will be delayed. If you don't enroll during your Initial Enrollment Period, you may pay a higher premium for Part B coverage later. Visit the Medicare website, [www.medicare.gov](http://www.medicare.gov) to learn more, or call the Social Security Administration at 800-772-1213.

### ***Will a retirement pension affect your Social Security benefit?***

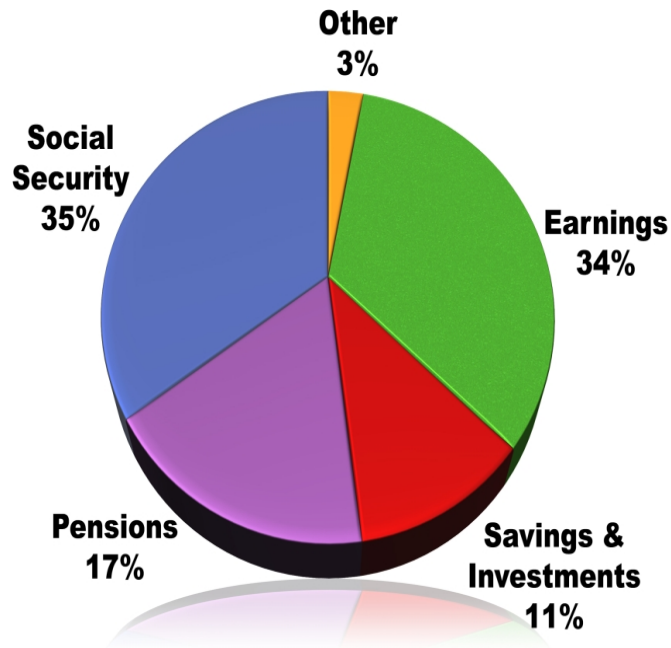
If your pension is from a job where you paid Social Security taxes, then it won't affect your Social Security benefit. However, if your pension is from a job where you did not pay Social Security taxes (such as certain government jobs) two special provisions may apply.

The first provision, called the government pension offset (GPO), may apply if you're entitled to receive a government pension as well as Social Security spousal retirement or survivor's benefits based on your spouse's (or former spouse's) earnings. Under this provision, your spousal or survivor's benefit may be reduced by two-thirds of your government pension (some exceptions apply).

The windfall elimination provision (WEP) affects how your Social Security retirement or disability benefit is figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit is modified, resulting in a lower Social Security benefit.

## 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:



**Source:** *Fast Facts & Figures About Social Security, 2014, Social Security Administration*



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