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Earn Income, Lose Social Security Benefits

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Financial advisor Kimberly Foss has a client in Arizona who went from a lifetime career in technology to making artistic jewelry after she turned 62, the early retirement age for Social Security.

The client does not make a lot of money with her new craft, but that's OK, Foss says, because the woman does not want to get hit by Social Security penalties.

A lot of people in or near retirement do not realize Social Security penalizes people, depending on their age, for continuing to work while they collect Social Security. Financial advisors need to know how their clients will be affected by the Social Security penalties and help them calculate their best option.

"It is up to us as financial advisors to know the issues involved with Social Security and make sure our clients do not get surprised when Social Security withholds benefits because they are working," she says.

Foss is a financial advisor who founded her own firm, Emyrion Wealth Management Inc. in Roseville, Calif., 24 years ago. She specializes in advising women in transition, including divorcees and widows, and retirees and near retirees.

"People get barraged with information today and they get overwhelmed," says Foss. "Advisors have a fiduciary responsibility to make sure their clients do not make the mistake of working while they collect Social Security and then getting 'dinged' for their Social Security benefits because of the extra money they make."

If a person retires before full retirement age, which is 66 for most people, but keeps working, Social Security withholds some benefits. For a person 62 through 65, Social Security withholds \$1 for every \$2 earned above \$15,120 a year. The income limits are increased periodically.

During the year the person reaches full retirement age, the person is allowed to make up to \$40,080 between Jan. 1 and her birthday. During that time Social Security withholds \$1 for every \$3 earned. At full retirement age a person is allowed to make any amount without penalty.

IRA and 401(k) withdrawals and investment income do not count towards the income limit; it is only earned income that counts.

Even if benefits are being received, withholding for Social Security and Medicare continues for any earned income and the employer continues to pay his share on behalf of the employee. A self-employed person continues to pay both the employee's and the employer's amount for Social Security and Medicare, which is 15 percent of the earned income.

For Foss's Arizona client, the income restrictions are not a hardship, Foss says. Instead, it is just something to keep an eye on to make sure she does not go over the income limit. She and her husband want to travel, so the jewelry making fits with their lifestyle, still brings in some money, and allows the client to do something she has always wanted to do.

Another Foss client retired from one career and took a job at Home Depot. "He wanted to have some purpose to get up each day. Many people do not want to retire today at 62 or 66 years of age, but they may want, or need, to start collecting Social Security. Sixty is the new 50, and retirement is around 75 for many, so everyone needs to know the rules for benefits," she says.

The Social Security Administration gives examples of how benefits are withheld when someone continues to work after starting to collect Social Security payments.

One scenario uses a person who files for Social Security benefits at age 62 in January 2013 and receives a benefit of \$600 a month or \$7,200 for the year. During 2013, the recipient works and earns \$20,800, which is \$5,680 above the \$15,120 limit. Social Security would withhold \$2,840 of the Social Security benefit, or \$1 for every \$2 earned over the limit. To do this, Social Security would withhold all benefit payments from January 2013 to May 2013, which is \$160 over the amount that should be withheld. Beginning in June 2013, the person would receive the \$600 benefit each month for the remainder of the year. In 2014, the additional \$160 that was withheld will be repaid.

A second example involves a recipient who is not yet at full retirement age at the beginning of the year, but reaches it in November 2013. Based on the best information available, Social Security determines the person will earn \$41,580 in the 10 months from January through October, or \$1,500 over the limit. During this period, Social Security withholds \$500, or \$1 for every \$3 earned above the \$40,080 limit. To do this, Social Security withholds the first check of the year. Beginning in February 2013, the recipient receives the \$600 benefit each month for the remainder of the year. Social Security then pays the extra \$100 it withheld in January 2014.

"Between 62 and 66 is 'tweaking time' if you want to start taking Social Security while you keep working," Foss says. "The advisor has to know when the client will go over the limit or when it is worth giving up some benefits to keep working."



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