

# California State Social Security Administrator Program

## SSSAP Bulletin No. 7 – May 2014

### RETIREMENT EARNINGS LIMIT: RECEIVING SOCIAL SECURITY BENEFITS WHILE STILL WORKING

You can receive Social Security retirement or survivor's benefits<sup>1</sup> and work at the same time. However, if you are younger than your **full retirement age**<sup>2</sup> and earn more than certain amounts, your benefits will be reduced. Specifically, if you earn more than the amounts specified by the annual **Retirement Earnings Limit**, your Social Security/Survivor's benefits will be reduced by the Social Security Administration (SSA).

As of January 1, 2014:

- The 2014 annual Retirement Earnings Limit is **\$15,480** for workers under their full retirement age.
- The 2014 annual Retirement Earnings Limit is **\$41,400** for the year in which the worker reaches their full retirement age. (Note: A special rule may apply in the first year you retire; see the "Special Rule" section below.).

The following explains how much your benefits may be reduced, based on the Retirement Earnings Limit:

- If you are under your full retirement age for the entire year, SSA deducts \$1 from your benefit payments for every \$2 you earn above the Retirement Earnings limit.
- In the year you reach your full retirement age, SSA deducts \$1 in benefits for every \$3 you earn above the Retirement Earnings limit until the month you reach your full retirement age (SSA only counts towards the Retirement Earnings Limit earnings **before** the month you reach your full retirement age.).
- Starting with the month you reach full retirement age, you can receive your benefits with no earnings limit imposed.

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<sup>1</sup> Different rules apply if you receive Social Security **disability** benefits or Supplemental Security Income (SSI) payments. In such cases, you must report all earnings to Social Security. Different rules also apply if you work outside the United States; contact the SSA if you are working, or plan to work outside the country.

<sup>2</sup> If you were born between January 2, 1943 and January 1, 1955, for example, your full retirement age is 66. For other age ranges, see: <http://www.socialsecurity.gov/retire2/agereduction.htm>

In computing your earnings, SSA counts only (1) the full year's wages [including overtime, bonuses, commissions, and vacation pay] you make from your job, or (2) your net profit, if you're self-employed. They do **not** count pensions; annuities; investment income; interest; and veterans, or other government/military retirement benefits.

The Social Security website offers an earnings test calculator<sup>3</sup> to use to determine the amount of reduction an individual will incur.

#### **EXAMPLES:**

- 1. A person filing for Social Security benefits in January 2014 at age 62 (thus, less than “full retirement age”), whose benefit would be \$600 per month:**

During 2014, the person plans to earn \$24,000 (\$2,000 per month), which is \$8,520 above the \$15,480 limit. SSA would withhold half this excess (\$4,260; i.e., \$1 for every \$2 earned over the limit) from their Social Security benefits. SSA would do this by **withholding all benefit payments from January 2014 through August 2014** (i.e., eight months @ \$600 a month = \$4,800, which exceeds the \$4,260 “excess”).

Beginning in September 2014, the person would receive their \$600 Social Security benefit each month for the remainder of the year. Then in 2015, in addition to their normal Social Security benefits, SSA would pay them the additional \$540 ( $\$4,800 - \$4,260 = \$540$ ) they withheld for August 2014.

- 2. A person filing for Social Security benefits in January 2014 reaches full retirement age in November 2014, whose benefit would be \$800 per month:**

During 2014, the person plans to earn \$45,000 (\$4,500 per month) in the ten months from January through October<sup>4</sup>, which is \$3,600 above the \$41,400 limit for the year in which they reach full retirement age. SSA would withhold one-third of this excess (\$1,200; i.e., \$1 for every \$3 earned over the limit) from their Social Security benefits. They would do this by **withholding all benefit payments from January 2014 through February 2014** (i.e., two months @ \$800 a month = \$1,600, which exceeds the \$1,200 “excess”). Then in 2015, in addition to their normal Social Security benefits, SSA would pay them the additional \$400 ( $\$1,600 - \$1,200 = \$400$ ) they withheld for February 2014.

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<sup>3</sup> See: <http://www.socialsecurity.gov/OACT/COLA/RTeffect.html>

<sup>4</sup> Remember that for this purpose, SSA only counts, towards the Retirement Earnings Limit, earnings **before** the month you reach your full retirement age.

**3. A person filing for Social Security benefits in January 2014 at age 63 (thus, less than “full retirement age”), whose benefit would be \$800 per month:**

During 2014, the person plans to earn \$48,000 (\$4,000 per month), which is \$32,520 above the \$15,480 limit. Due to the relatively small Social Security benefit compared to the person’s “excess” earnings, **this person would receive no Social Security benefits for 2014**. The following year, however, they would “start fresh.”

**Special Rule for the Year in Which You Retire:**

Some people who retire mid-year have already earned more than the yearly earnings limit. Therefore, SSA has a special rule that applies to earnings for one year (usually the first year of retirement). The special rule provides that they will not deduct excess earnings from any whole month they consider an individual “retired,” regardless of their yearly earnings. In 2014, you are considered “retired” if you will:

- Be under your full retirement age for all of the year you retire: you are considered retired in any month that your earnings are \$1,290<sup>5</sup> or less, and you did not perform substantial services in self-employment.”<sup>6</sup>
- Reach your full retirement age for the year you retire: you are considered retired in any month that your earnings are \$3,450<sup>7</sup> or less, and you did not perform substantial services in self-employment.

**Example:** Ms. Siri Smith retires at age 62 on June 30, 2014. She earned \$37,000 before she retired. On October 5th, Ms. Smith starts her own business. She works at least 15 hours a week (and thus, is over the “substantial services” threshold) for the rest of the year and earns a profit of \$3,000. Thus, her total earnings for 2014 are \$40,000.

Although her earnings for the year substantially exceed the Retirement Earnings Limit of \$15,480, Ms. Smith will receive a Social Security payment for July, August and September (i.e., the months between her Social Security retirement, and when she started her own business), because she was not

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<sup>5</sup> This is 1/12<sup>th</sup> of the 2014 Retirement Earnings Limit of \$15,480. **The Retirement Earnings Limit changes each year. As such, the monthly limit will change** (i.e., the \$1,290 amount is applicable only for 2014).

<sup>6</sup> "Substantial services in self-employment" means that you devote more than 45 hours a month to the business or between 15 and 45 hours to a business in a highly skilled occupation.

<sup>7</sup> This is 1/12<sup>th</sup> of the 2014 Retirement Earnings Limit of \$41,400. The Retirement Earnings Limit changes each year. As such, the monthly limit will change (i.e., the \$3,450 amount is applicable only for 2014).

yet self-employed, and thus her earnings in those three months were \$1,290 or less per month (the limit for people younger than full retirement age.)

However, Ms. Smith will not receive Social Security benefits for October, November or December 2014 because she worked in her business over the “substantial services” threshold each of those months.

Beginning in 2015, any further deductions will be based on Ms. Smith’s annual earnings limit.

### **Additional Information:**

Social Security adjusts the amount of Social Security benefits (i.e. the number of payment months that will be withheld) based on what an individual tells them they are going to earn. Therefore, it is extremely important to report any changes to this amount as soon as possible to avoid being overpaid.

It should also be noted that these benefit reductions are not truly “lost.” After you reach full retirement age, SSA will recalculate your benefit amount to account for any full month’s benefits withheld due to earlier earnings above the Retirement Earnings Limit. This may increase your monthly benefit amount and any future benefit amounts your family and survivors may receive.

Furthermore, as long as you continue to work and receive benefits, SSA will check your record every year to see whether your additional earnings will increase your monthly benefit. (i.e., if your earnings for the year are higher than one of the years originally used to compute your retirement benefit<sup>8</sup>, they will substitute the new year of earnings.) If there is an increase, they will send you a letter telling you of your new benefit amount.

### **Final Notes:**

If you are **not** already receiving benefits, be sure to contact SSA at the beginning of the year you reach your full retirement age. Even if you are still working, you may be able to receive some or all of your benefits for the months before you reach your full retirement age.

It is important to avoid unanticipated reductions in your Social Security benefits due to the Retirement Earnings Limit. Careful planning to keep your anticipated earnings under the Retirement Earnings Limit, and/or deferring your retirement from Social Security until you reach your full retirement age, are the best ways to avoid such reductions.

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<sup>8</sup> For more information as to how SSA computes your benefits, see <http://www.socialsecurity.gov/pubs/EN-05-10070.pdf>.

## **For More Information:**

The following links on the Social Security website will be helpful:

How Work Affects Your Benefits:

<http://www.socialsecurity.gov/pubs/EN-05-10069.pdf>

Retirement Planner: Getting Benefits While Working:

<http://www.socialsecurity.gov/retire2/whileworking.htm>

Retirement Planner: How We Deduct Earnings From Benefits:

<http://www.socialsecurity.gov/retire2/whileworking2.htm>

Retirement Planner: When You Work And Reach Full Retirement Age:

<http://www.socialsecurity.gov/retire2/whileworking3.htm>

Retirement Planner: Special Earnings Limit Rule:

<http://www.socialsecurity.gov/retire2/rule.htm>

Retirement Earnings Test Calculator:

<http://www.socialsecurity.gov/OACT/COLA/RTeffect.html>