



NATIONWIDE RETIREMENT INSTITUTE®

The **Nationwide Retirement Institute** provides practical thought leadership and comprehensive solutions to financial advisors and their clients. Through education and insights, client-ready tools and consultative support, complex retirement challenges are broken down and simplified to help advisors and clients plan for a more secure financial future.

How working affects your Social Security benefits

If you are under full retirement age (FRA), there's a limit to what you can earn before some or all of your benefits are withheld. This is true whether you are receiving Social Security retirement or a survivor benefit. Once you reach FRA, you can make as much as you want. It's important to note that this is not a tax. If the earnings penalty applies to you, Social Security will adjust your benefit formula at FRA to treat the months you did not receive a check as if you had not elected benefits for that month.

What's considered income

If you are employed by someone else, only wages are considered earned income and would apply to the earnings test. For those who are self-employed, only net earnings are considered. It's important to note that employee contributions to a pension or retirement plan are included in the employee's gross wages. Income that is not counted as earnings includes:

- Government benefits
- Investment earnings
- Interest
- Pensions
- Annuities
- Capital gains

Self-employment income is counted during the year when earnings are received, while W-2 income counts when it was earned.

How much I can earn

If you are below full retirement age, Social Security will deduct \$1 for every \$2 you earn above the exempt amount. In 2019, that amount is \$17,640. This applies to all years leading up to the year in which you attain your full retirement age. If you turn age 66 in 2019, the exempt amount increases to \$46,920 and \$1 will be withheld for every \$3 you earn above the exempt amount.

Example:

Sam files for Social Security in January 2019 and his payment will be \$800 a month (\$9,600/year). During 2019, he plans to work and earn \$24,000 (\$6,360 above the \$17,640 limit). Social Security will withhold \$3,180 of his benefits (\$1 for every \$2 earned over the limit). From January 2019 through April no payment will be sent. Starting in May, Sam would receive his first payment of \$800.

If you don't provide the Social Security Administration with an earnings estimate they will pay you all benefits for the year that you work. All benefits will be withheld in the following year until the full value of the overpayment is paid back.

Special rule

For people who file for benefits mid-year and have already earned more than the exempt amount, the monthly earnings test is applied. For any month during that first year that you earn under the monthly exempt amount, you will receive your full benefit for that month, regardless of your earnings before you filed for benefits.

Example:

Jane attains full retirement age in June of 2019, so she can earn up to \$46,920 from January through May of that year without being impacted by the earnings test. Jane expects to earn \$30,000 from January through May and \$40,000 from June through December. She will receive all payments for the entire year even though she earned more than the exempt amount. Once you reach full retirement age, the earnings test no longer applies; so of the \$70,000 that Jane earned that year, only \$30,000 was considered for the earnings test.



Adjusting benefits for the earnings test

Benefits withheld are not completely lost. At full retirement age your benefit is recalculated to account for the number of months you did not receive a benefit.

Months of deduction at election	24
- Months benefits withheld	12
Adjustment at full retirement age	12

Primary insurance amount	\$2,041
New reduction factor	6.67%
New benefit amount	\$1,904

*No cost of living adjustment applied

*Reduction factor is based on a monthly factor of .5555%

Example:

John elected benefits at age 64 and his benefit amount was \$1,768 (13.34% reduction on his full retirement age benefit of \$2,041). Since he did not receive 12 payments due to the earnings test, his benefit is adjusted as if he only elected one year early instead of two. And John's new benefit at full retirement age is \$1,904.

The ability to run these calculations and find the best possible election strategy is important to your clients who expect to work between age 62 and full retirement age. The earnings test can have a major impact on your election strategy. Nationwide's Social Security 360 Analyzer® can help you find the best option for your clients.



For more information, visit
nationwidefinancial.com/360analyzer

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