

Advice Knowledge Express: Navigating Social Security – Annual Earnings Test Video Transcript

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Rayyan Anees: Welcome to the Navigating Social Security video series. I am your host, Rayyan Anees, of Advice and Planning. In this video, we'll discuss the Social Security Annual Earnings Test. Welcome back, Bob.

Bob McKinney: Thank you, Rayyan. I'm glad to be here.

Rayyan Anees: So, the Social Security Annual Earnings Test can be a little confusing because it could potentially reduce your benefits down to zero, especially if you're working and collecting benefits at the same time. Could you help us walk through the Annual Earnings Test?

Bob McKinney: Absolutely. Let's walk through that.

The Annual Earnings Test applies if you collect any Social Security benefits prior to full retirement age and have other earned income over the annual exempt amount, this will subject you to a dual reduction in benefits one for retiring early and a second reduction based on the Earnings Test.

If your earnings do not exceed the exempt amount, there is no reduction in benefits.

There are two exempt amounts, a lower amount used in the years prior to full retirement age and a higher amount used in the year you reach full retirement age.

These amounts are updated annually and available at the Social Security website.

Rayyan Anees: So, Bob, it is the excess employment earnings over the exempt amount that triggers the reduction for the earnings test and how is the reduction calculated.

Bob McKinney: Yes. So, before your full retirement age, Social Security will withhold \$1 for every \$2 you earn above the lower limit. In the year you reach full retirement age, they will withhold \$1 in benefits for every \$3 of excess earnings over the higher limit. Once you reach full retirement age, the Earnings Test no longer applies and you can earn an unlimited amount without affecting your benefit.

Sources:

www.ssa.gov/benefits/retirement/planner/whileworking.html

www.ssa.gov/pubs/EN-05-10069.pdf

Rayyan Anees: So, if you are going to be collecting benefits before full retirement age, you to make sure you understand the rules and the income limits.

Let me ask you a question. Is this reduction permanent?

Bob McKinney: If you claim benefits before full retirement age, it is a permanent reduction.

But the Earnings Test results can change each year. Fortunately, any benefits that are withheld due to the Earnings Test are not forfeited or lost. Withheld benefits will be recalculated back in at your full retirement age and paid out over your lifetime as opposed to a lump sum.

So don't plan on earmarking that for a large purchase.

Source: Social Security Administration www.ssa.gov

Rayyan Anees: What other important items do we need to know?

Bob McKinney: The Earnings Test only considers the earned income of the person receiving the benefit. It does not include a spouse's earnings. Any retirement, passive or investment income is not counted towards the Earnings Test. If you collect benefits before full retirement age, you are responsible for reporting your expected earnings and any changes to Social Security to avoid an overpayment or an underpayment in the benefits.

Source: Social Security Administration www.ssa.gov

Rayyan Anees: Bob, I've seen many people get caught off guard by the Earnings Test, especially after they return to work after claiming Social Security benefits. Are there any ways to avoid or manage the Earnings Test?

Bob McKinney: The only potential strategy to avoid the Earnings Test is if you filed within the last 12 months. You can withdraw your initial application and pay back all the benefits received.

This provides a do over as if you never applied and you can refile for benefits later.

Rayyan Anees: Thank you, Bob, for helping us better understand the Social Security Earnings Test.

Bob McKinney: You're very welcome.

Rayyan Anees: Knowing that the reduction in benefits could actually eliminate benefit payments should motivate us to take a closer look at our expectations for working while receiving Social Security benefits.

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Unless shown, the source of the data shown is the Social Security Administration (ssa.gov) as of September 2024.

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