How work affects Social Security benefits

Ron Watson

Social Security retirement benefits are an important part of the Federal Employees Retirement System (FERS). While Social Security is not part of the Civil Service Retirement System (CSRS), many CSRS employees become eligible for Social Security benefits through other employment.

This column explores how employment earnings may offset Social Security benefits. For FERS-covered beneficiaries, it should be read in conjunction with my June 2015 column, which discussed how employment earnings may offset the special annuity supplement under FERS.

You can receive Social Security retirement benefits and work (and receive wages) at the same time. However, if you are younger than full Social Security retirement age and earn more than certain amounts, your benefits will be reduced. Full Social Security retirement age depends on your year of birth. If you were born between 1943 and 1954, your full Social Security retirement age is 66. If you were born in 1960 or later, your full Social Security retirement age is 67. For those born between 1955 and 1959, your full Social Security retirement age is 66 plus 2 months for each year after 1954.

If you work and are at full Social Security retirement age or older, you may keep all of your Social Security benefits, no matter how much you earn. However, if you are younger than full retirement age, there is a limit to how much you can earn and still receive full Social Security benefits.

The reduction is one dollar for every two dollars earned over the limit. The annual limit is an amount set by Social Security each year. It is generally pegged to the national average wage index. In 2013, the amount was $15,120. In 2014, the amount was $15,480. In 2015, the amount is $15,720.

Generally, only income from wages and self-employment count toward the earnings limit. If you work for an employer, only your wages count toward your earnings limits. If you are self-employed, Social Security counts only your net earnings from self-employment. Social Security does not count income such as other government benefits, investment earnings, interest, pensions, annuities or capital gains.

If you work for wages, income counts when it is earned, not when it is paid. If you have income that you earned in one year, but the payment was made in the following year, it should not be counted as earnings for the year you received it. If you are self-employed, income counts when you receive it—not when you earn it—unless it's paid in a year after you become entitled to Social Security and earned before you became entitled.

There is a special rule for the first year you retire. This is because sometimes people who retire mid-year already have earned more than the annual earnings limit. Under this rule, you receive a full Social Security check for any whole month you are retired, regardless of your yearly earnings. Social Security determines you to be retired, depending on your monthly wage income. In 2015, a person younger than full retirement age for the entire year is considered retired if monthly earnings are $1,310 or less. If you are self-employed, Social Security considers how much work you do in your business to determine whether you are retired. In general, if you work more than 45 hours a month in self-employment, you are not retired. If you work less than 15 hours a month, you are retired. If you work between 15 and 45 hours a month, it will depend on the nature of the self-employment work.

There is also a special rule for the year you reach your full retirement age. The reduction is one dollar for every three dollars you earn above the limit, and the limit is much higher. In 2015, the limit is $41,880 until the month you reach full retirement age. Earnings after the month your reach full retirement age do not count toward the earnings limit.

The rules are complex regarding reduction of Social Security benefits due to exceeding the earnings limitation prior to full Social Security retirement age. Knowledge of those rules is essential to the ability of retirees and those pending retirement to make fully informed decisions. There is an additional important feature of the earnings offset—the loss is not necessarily permanent. If some or all of your Social Security benefits are withheld because of earnings above the limit, your monthly benefit will increase starting at your full retirement age to take into account those months in which benefits were withheld.

The above rules apply when you are receiving regular Social Security benefits. Different rules apply if you receive Social Security disability benefits, in which case you must report all earnings to Social Security. Also, different rules apply if you work outside the United States.

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