

# ***Information Release***

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## **Can You Work and Collect Social Security?**

Understand Your Benefits

National Association of Tax Professionals (NATP) Appleton, WI – Social security. Many of us wonder if there will be benefits for us when we reach retirement age. How does social security work, and what is the most advantageous age to begin collecting? Can you or should you still work when you are eligible to begin collecting benefits?

Social security was always intended as a supplement to income for workers when they reach their retirement years. It was never intended as a sole source of income. The premise of the social security program is simple. During your younger years, you work and pay social security tax (currently 6.2 percent of income for employees, 12.4 percent for self-employed). Those wages earn “credits” that accumulate and determine if you are able to collect social security when you reach retirement age. How much you work and earn determines your eventual benefit amount. The more you earn, the higher your eventual benefit will be, given that you have reached a certain level.

American workers receive up to four “credits” per year toward social security. In 2005, one credit equals \$920 of earnings. To be eligible for social security you must acquire 40 credits. After that, it’s an all or nothing deal. If you earn 40 credits, you’re in. If you haven’t, you’re not. For the typical employed worker, it takes about ten years to earn eligibility.

Assuming you have acquired 40 credits, at what age can you collect social security benefits? Reduced social security benefits can start as early as age 62 (60 for widows and widowers). Full benefit age has been 65 for many years, however, for people born in 1938 or later, that age will gradually increase until it reaches 67 for people born after 1959.

If you have reached retirement age and you're still working, then what? Can you work while collecting benefits and is that in your best interest?

- If you have reached full retirement age, you can collect benefits while working and keep your entire benefit. Because social security benefits are based on your highest wage years, if your current pay is a high-income year, your benefits may go up. If not, it will stay the same.
- If you work while collecting benefits, social security works as follows:
  - o If you are younger than age 65 and 6 months all year, \$1 from each \$2 you earn above \$12,000 will be deducted from your benefits.
  - o If you turn 65 and 6 months during 2005, \$1 from each \$3 of earnings above \$31,800 will be deducted from your benefits.
  - o If you are self-employed, count all net earnings income at the time you receive them unless they were earned before becoming eligible for social security, but not paid until a year after eligibility.
  - o If you are an employee, only your wages count toward social security's earnings limits at the time they are earned, not when they are paid.

Is it wise to begin collecting right away? If you begin collecting benefits before full retirement age, your benefits are permanently reduced for the length of time you draw them. You will collect less money annually, but will collect over a longer period of time, depending on how long you live. If you start to collect benefits at full retirement age, you will receive the full amount for the remainder of your life. For individuals who have not acquired 40 social security credits and are able to earn the additional credits needed by working a couple more years, it is almost surely worthwhile to work until you are eligible. Aside from that situation, retirement planning for individuals will vary depending on life circumstances; there is no one course of action that applies to everyone.

For more information on this and other tax issues, consult a reputable tax preparer. Selecting the right tax professional will save you time, headaches, and oftentimes money. Contact us at [consultant@thepmgroupsc.com](mailto:consultant@thepmgroupsc.com) or phone us at (864) 233-0254.

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