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# How Work Affects Social Security Benefits

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Monthly Social Security benefits are paid to individuals for a number of reasons, including retirement, disability, and death. If a Social Security recipient also works, some of the benefits may be reduced if the income earned exceeds certain dollar amounts.

However, the month an individual reaches “Full Retirement Age,” or FRA, Social Security benefits are no longer reduced, regardless of the amount of income earned.

FRA is the age at which an individual can expect to receive 100% of his or her normal retirement benefit, without reduction for early retirement. For those born in 1937 or earlier, FRA is age 65. For those born after 1937, FRA gradually increases until it reaches age 67 for those born in 1960 or later.

Age of Social Security Benefits Recipient	Annual Exempt Amount <sup>1</sup>		One Dollar of Benefits Is Lost for Every Two or Three Dollars You Earn Over the Exempt Amount
	2023	2024	
Under FRA	\$21,240	\$22,320	Every Two Dollars
Year FRA Reached	\$56,520	\$59,520	Every Three Dollars
Month FRA Reached	No Limit	No Limit	No Loss of Benefits

**Example (1):** An individual begins receiving Social Security benefits at age 63 in January 2024, with an entitlement of \$500 per month. If the retiree works and earns \$32,320 during the year, he or she would have to give up \$5,000 of Social Security benefits (\$1 for every \$2 over the \$22,320 limit), but would still receive \$1,000.

**Example (2):** Assume an individual reaches FRA in November 2024. Also assume the individual earns \$75,024 during the year, with \$62,520 of this amount being received in the first 10 months of the year. The individual would give up \$1,000 in benefits, \$1 for every \$3 earned above the \$59,520 limit. Assuming a Social Security retirement benefit of \$500 per month, the individual would still receive \$4,000 out of \$5,000 for the first 10 months of the year. Full benefits of \$1,000 (\$500 per month) would be received for November and December, after FRA was reached.

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<sup>1</sup> Source: Social Security Administration

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## Special Rule for the First Year of Retirement

A special rule applies to the first year of retirement, to benefit an individual who, just before retiring, earns more than the annual limit. Under this rule, unreduced Social Security benefits are paid for any month after benefits begin that an individual does not earn more than the monthly exempt wage amount (\$1,860 in 2024).

Example: Assume an individual retires at age 62 on October 31, 2024, having earned \$50,000 before retiring. Although his earnings before retirement substantially exceed the 2024 annual limit (\$22,320), he will still receive a full Social Security payment for November and December. If, however, this individual then takes a “retirement” job, and earns more than \$1,860 a month, he won’t receive a benefit for any month (November or December) this his earned income exceeds this amount. Beginning in 2025, only the annual limit will apply to him.

## What Counts as Earnings?

Any wages earned after retirement from work as an employee and any net earnings from self-employment count as earnings. Wages include bonuses, commissions, fees, vacation pay, pay in lieu of vacation and cash tips of \$20 or more in a month.

## What Doesn’t Count as Earnings?

- Investment income, including stock dividends, interest from savings accounts, income from annuities, limited partnership income and rental income from real estate you own (unless you are a real estate dealer).
- Income from Social Security, pensions, other retirement pay and Veterans Administration Benefits.
- Gifts or inheritances.
- Royalties received in or after the year a person reaches FRA, from patents or copyrights created or obtained before that year.
- If you are a retired partner, retirement payments from partnerships don’t count if:
  - The payments continue for life under a written agreement which provides for payments to all partners or a class of them; and

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- You rendered no services to the partnership during the taxable year the retirement payments were received; and
- Your share of the partnership capital was paid to you in full before the end of the partnership's taxable year and there is no obligation to you other than retirement payments.
- Income from self-employment received in a year after the year a person becomes entitled to benefits. This refers to income which is not attributable to services performed after the month of entitlement.

### Benefits Withheld Restored at Full Retirement Age (FRA)

When an individual has had benefits withheld as a result of the Social Security retirement earnings test, these “lost” benefits are later restored, beginning at FRA. In the benefit re-computation at FRA, the actuarial reduction that was applied in the initial computation (because the individual applied for benefits early) is adjusted (lessened) to reflect the number of months that he or she received no or partial benefits as a result of the earnings test. A larger benefit is then paid, beginning at FRA.

For example, assume a worker claims Social Security retirement benefits at age 62. He then takes a part-time job which, over time, results in 12 months of benefits being withheld. Once the worker reaches FRA, his retirement benefit will be re-calculated, in this case as if he had first taken Social Security retirement benefits 12 months later, at age 63, rather than at age 62. This recalculation effectively “recaptures” the benefits earlier withheld.

If spousal benefits are withheld under the earnings test, they will be adjusted upward when the spouse (not the worker) attains FRA. For a spouse who has already reached FRA, there is no subsequent adjustment to benefits to take into account months for which no or a partial benefit was paid as a result of the earnings test.

### Online Information

The Social Security Administration has a great deal of information available on its website at: <https://www.ssa.gov/>.

The Social Security website also has a Retirement Earnings Test Calculator, available at: <https://www.ssa.gov/OACT/COLA/RTeffect.html>

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