



**Introduction:**

Welcome to the Paragon Financial Partners podcast, where we discuss the markets, our strategies and how to live better today while planning for tomorrow.

**Elean:**

Hello and welcome to the new episode of the Paragon podcast. I'm Elean Mendoza and I'm here with Evan Shorten, the firm's founder and principal.

**Evan:**

Hello, This is Evan Shorten and I want to thank you for listening to our podcast. If there are any topics you would like for us to discuss, please reach out to us on our Facebook page or e-mail us at [info@paragonfinancialpartners.com](mailto:info@paragonfinancialpartners.com). If you would like to subscribe to our podcast you can do so on iTunes or Stitcher radio.

**Elean:**

So we often get a lot of questions regarding social security benefits. One of the things we always find is that social security is one of the most misunderstood financial topics and we really wanted to address some of the most common questions and concerns regarding Social Security. Now, because we can't discuss all of the major questions on this topic in one single podcast, we thought we should do something new. We're going to launch a four-part miniseries addressing what we have found to be the most asked questions.

Part one, which is today's episode, is going to cover what happens if you work while receiving Social Security benefits. Part two is going to discuss if and how Social Security benefits are taxed. Part three is going to discuss how you can change your Social Security election. Lastly, part four is going to discuss spousal, divorce, and widow's Social Security benefits. So let's start with the most common question:

*If I work or receive income, how does that affect my Social Security benefit? Will Social Security reduce my monthly benefit?*

**Evan:**

Well, when you reach your full retirement age, working does not affect the amount you're entitled to receive from your earned Social Security benefit. Regardless of income, your Social Security does not get withheld - the key being if you claim benefits at your full retirement age. Should you claim benefits early, before having reached your full retirement age, your Social Security will indeed be impacted by earning income.

Full retirement age is 66 for people who were born between 1943 and 1954, slowly increasing until full retirement age of 67 for people born in 1960 or later. The Social Security Administration sets what is called an earnings test, and this is the maximum amount you can earn before benefits are withheld. You're limited to no more than \$16,920 per year or \$1410 dollars per month. If you earn more than those amounts in a given month or during the year, one dollar of your Social Security benefits will be withheld for every two dollars you earn over the earnings over these amounts.



Now, I also want to mention that the earnings test increases in the year you turn full retirement age. For the months leading up to your birth month, the earnings test increases to \$44,880 per year or \$3,740 per month. In these months every three dollars you earn above the earnings test will result in one dollar of Social Security benefits being withheld.

**Elean:**

Okay, so as an example, I was born in April. If I claimed Social Security benefits before my full retirement age and I worked while receiving Social Security benefits, the earnings test would increase in the year I reach my full retirement age. Given that I was born in April, the maximum amount I could earn in January, February, and March is increased to \$3,740 per month.

**Evan:**

Correct. But if you're going to be earning income above the earnings test, you really need to ask yourself why you're applying for early Social Security benefits as it may not make sense to claim benefits at this point. You may be better off working until you can at least reach your full retirement age in order to receive full Social Security benefits and to add to your earnings record.

**Elean:**

Okay fair enough. What about for individuals who are in fact working and are having Social Security benefits withheld because their income is above the earnings test? Are they forfeiting the withheld amounts? Is it lost forever?

**Evan:**

Fortunately no. You don't lose the withheld amount. Essentially, the Social Security Administration does not consider you to have taken that amount from your Social Security benefit. They will recalculate your benefit at your full retirement age and incorporate the amount withheld when you surpass the earnings test. To make it simple, let me give you an example. Let's assume your full retirement age is 66 and you apply for Social Security at age 64. You continue working and your income surpasses the limits according to the earnings test. Let's also assume half of your Social Security benefit is withheld due to your income. That means over the course of two years, you actually received one year worth of Social Security benefits and one year's worth of Social Security benefits withheld.

Once you reach age 66, the full retirement age in our example, the Social Security Administration will recalculate your Social Security benefit and treat it as if you actually retired at age 65 for the purposes of their calculations. You would actually see an increase in your Social Security benefit to make up for the withheld amount while you continued to work, but again if you are going to work substantially beyond age 62, you really need to ask yourself why you're going to apply for Social Security benefits in the first place because it most likely may not make much sense.



**Elean:**

Okay, great. Thanks Evan. Now there is also a second aspect of this question that comes from people who are going to receive income from their retirement accounts. They often ask us and worry about how their pension, 401K, or their IRA income may affect their social security benefits. Evan, do your retirement accounts reduce your social security benefits?

**Evan:**

So let me start by saying that retirement accounts do not affect your Social Security benefits. Your 401K, IRA or Roth IRA distributions will have no impact on how much of your Social Security benefit you'll receive. Where things differ is with the type of pension you receive. It depends on whether you paid into Social Security while working at the employer who provides your pension. Typically you find individuals who receive, or will receive a pension from a private employer, do pay into Social Security during their working years. If you are one of these employees your employers' pension income will not affect your Social Security benefit.

However, public employees typically do not contribute into the Social Security system but may instead contribute to another retirement system. Your state's pension fund could be an example. If a public employee earned a pension without contributing to Social Security and at some point in their career earned Social Security benefits in the private sector, they may likely see a reduction in their Social Security benefit once they take distributions from their pension. It may be beneficial in that scenario to take Social Security benefits first and delay your pension benefits for potentially a higher compounded benefit down the road.

**Elean:**

Okay great. Hopefully we covered one of the most common Social Security concerns in this episode. Stay tuned as our next episode in our Social Security miniseries will discuss taxation and Social Security benefits. To subscribe to our podcast, please visit iTunes or Stitcher radio. Or you can also listen to our podcast directly on our website at [paragonfinancialpartners.com/media](http://paragonfinancialpartners.com/media). Thank you for listening.

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