

## PERSONAL FINANCE

ASK ENCORE | Focus on Retirement ♦ By Kelly Greene

## How Does Social Security Apply Earnings Test?

*I am in my first year of collecting Social Security benefits and appear to be subject to the monthly earnings test. I am a chemical engineer and work part-time; my monthly earnings fluctuate widely.*

*In months when I qualify for no benefits or reduced benefits, how does Social Security implement the reduced benefits? How does this affect my wife, who gets a percentage of my benefits?*

*Dave Eckhardt  
West Boylston, Mass.*

**T**HIS QUESTION REFERS to Social Security's so-called earnings test—in which people who are working and collecting Social Security at the same time could see their benefits reduced, depending on the size of their paychecks and their age.

The basics: If you are under your "full retirement age" (the age at which you qualify for full Social Security benefits) when you first receive Social Security payments, and if you have earned income, \$1 in benefits will be deducted from each \$2 you earn above the annual limit. In 2008, the limit is \$13,560. (The deduction shrinks in the year you reach full retirement age—and ends once you hit that age.)



That said, the Social Security Administration recognizes—as in the case of this week's question—that earnings can vary from month to month. Thus, if you are collecting Social Security retirement benefits, and if you haven't reached your full retirement age—and if you earn \$1,130 or less in at least one month this year—Uncle Sam generally uses a "monthly earnings test" to determine whether you get your benefits.

That number—\$1,130—is 1/12 of the \$13,560 you otherwise would be allowed to make this year and still collect all of your Social Security benefits. Using the monthly earnings test, if you make \$1,130 or less in a particular month from wages, you could still get your Social Security check. If you made more than that in a month, part (or all) of your Social Security payment for that particular month (depending on

the size of your earnings) would be considered an "overpayment," which you would have to pay back later. (More about that in a moment.) Again, this is if you're under full retirement age.

With the monthly earnings test, any wages you earn in the months before you start collecting Social Security don't count against you, says B.J. Jarrett, a Social Security spokesman in Baltimore.

If the spouse's Social Security retirement benefit is dependent on the retired worker's, and if the retired worker doesn't get a benefit (because of deductions tied to earnings), then the spouse doesn't get a benefit, either. But if the spouse collects a benefit based on his or her own work record, that benefit wouldn't be affected by the other spouse's work after retirement, Mr. Jarrett says.

Now for the mechanics of "overpayments." Typically, you would receive your checks from Social Security first—and then reimburse Uncle Sam at a later date. For example: When your annual earnings for 2008 are reported to Social Security, either through your employer's tax records or through your own tax return if you're self-employed, Social Security would write and ask you for a monthly breakdown if the earnings top \$13,560. If you have received overpayments, you could either write a check or have the excess payments deducted from future benefits.

Be careful how you come up with the money to make those payments: "Individuals who don't fully understand the system can get in trouble," says Mary Jane Yarrington, a senior policy analyst for the National Committee to Protect Social Security and Medicare, a Washington advocacy group. She also has a spot on the committee's Web site called "Ask Mary Jane" ([www.ncpssm.org/maryjane](http://www.ncpssm.org/maryjane)). Such individuals "increase their workforce participation to offset the loss of benefits—and thereby incur more overpayments."

Also, if you retire and then go back to work unexpectedly, "call us at 800-772-1213, and let us know that you're going to start working, and you think you're going to make this much," Mr. Jarrett says. That way, Social Security can adjust your benefits in an effort to avoid overpayments that have to be returned later.

**Questions?** Email us at [encore@wsj.com](mailto:encore@wsj.com), or write to Kelly Greene, The Wall Street Journal, 200 Liberty St., 10th Floor, New York, N.Y. 10281. Ask Encore/Focus on Retirement is a weekly column answering readers' questions about retirement and personal finance—from annuities and bonds, to trusts and inheritance issues.