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White Paper

*Timing Your Earnings in Retirement to Optimize
Your Social Security Retirement Benefit*

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Timing Your Earnings in Retirement to Optimize Your Social Security Retirement Benefit

What is it?

If you work after you begin receiving Social Security retirement benefits, you may lose all or part of your retirement benefit if your earnings exceed the retirement earnings exempt amount. However, you won't lose benefits due to excess earnings once you reach normal retirement age, and it's possible to time your earnings in retirement in order to optimize your benefit.

Example(s): Lewis retired in 2007 at age 62. In 2008, he goes back to work and earns \$14,200 working part-time. Since the annual retirement earnings test exempt amount is \$13,560 in 2008, Lewis's retirement benefit is reduced by \$320 the following year (\$1 in benefits was withheld for every \$2 of excess earnings). If Lewis had reached his normal retirement age when he went back to work, he wouldn't have lost any retirement benefit due to excess earnings.

Technical Note: For 2007, the annual retirement earnings test exempt amount for beneficiaries under full retirement age was \$12,960.

Who can benefit from using this strategy?

If you're under normal retirement age and earn more than the annual retirement earnings test exempt amount by working after you retire, you may benefit from timing your earnings in retirement.

How to do it

Postpone your earnings

The easiest way to avoid losing all or part of your Social Security benefit due to excess earnings is to postpone your earnings. You can postpone your earnings in two ways:

- By determining when you actually work and earn income: If you're working for an employer, your wages are counted as income in the year you earn them. Because earnings at normal retirement age or later will never reduce your Social Security retirement benefit, you might postpone working after retirement until you reach normal retirement age if you expect to have excess earnings.

Example(s): Leslie was bored after she retired. When she was 64, she thought about working as a used-car salesperson at the local dealership. However, she thought that she could sell a lot of cars and make a lot of money, so she decided to wait until she turned 65 (her normal retirement age) before applying at the dealership so that any excess earnings she had would have no effect on her retirement benefit.

- By postponing when you receive your earnings: If you're self-employed, you can limit the effect of excess earnings on your retirement benefit by postponing when you receive your earnings. This is because earnings from self-employment are treated as earnings in the year they're received.

Example(s): By December 1, 2008, Keith (who is 63) makes \$10,000 for the year working part-time as a carpenter. Since \$10,000 is below the retirement earnings test exempt amount for 2008 (\$13,560), Keith knows that his 2008 earnings won't affect his Social Security retirement benefit. Then, he takes a \$4,500 job on December 26 and becomes concerned that the job will affect his retirement benefit by pushing his 2008 earnings over the retirement test exempt amount. His wife reminds him that because he wouldn't be paid for the job until January, those earnings wouldn't count toward the retirement test exempt amount until 2009.

Bunch your earnings

If you believe that you will lose all of your retirement benefit in one year due to excess earnings, you may be able to bunch your earnings for that year in order to avoid losing benefits the following year.

Example(s): Consider the following case:

Situation: Allen receives a monthly Social Security retirement benefit. When he is 63, he opens his own painting business and, by September, has already earned \$30,000 more than the retirement earnings test exempt amount for that year. Since \$1 of his retirement benefit will be withheld for every \$2 he has in excess earnings, he knows that his entire annual benefit will be withheld. Since business is good, he also knows that next year his retirement benefit will probably be affected by excess earnings as well.

Question: In October of that year, Allen has the chance to earn over \$8,000 by painting a business. However, the owner isn't in a hurry to pay, and Allen thinks about waiting to collect his fee until January of the following year. Should he?

Solution: No, Allen should collect his fee right away. His entire retirement benefit is already going to be withheld due to excess earnings, so the \$8,000 fee won't affect his benefit at all because any remaining excess earnings won't be carried forward to the next year. However, if Allen waits until the following year to collect his fee, that fee may affect his Social Security retirement benefit because net earnings from self-employment are considered earned (for retirement test purposes) in the year they're received.

Time the start of benefits

Special rules apply to excess earnings during the first year of retirement. You might benefit from electing to begin receiving retirement benefits during a year in which you expect your earnings to be particularly high. During the first year you receive retirement benefits, if your wages from an employer are more than the annual retirement earnings test exempt amount, your retirement benefit will be reduced by

the lesser of: (1) the reduction in benefits that would occur if the annual test applied, or (2) the benefit you received in the month or months that you earned more than 1/12th of the annual retirement earnings test exempt amount.

Example(s): Consider the following case: Jeff retires on September 30, 2008 at age 62. Before he retires, he earns \$50,000 during the year. In October, he begins working part-time and earns \$1,000 per month for the last three months of the year. Even though his earnings for the year greatly exceed the 2008 annual retirement earnings test exempt amount of \$13,560, Jeff still receives a full Social Security benefit for October, November, and December. This is because his earnings in those months do not exceed 1/12 of the annual earnings test exempt amount of \$1,130 per month in 2008. However, beginning in 2009, the annual retirement earnings test amount will apply to him because he will be beyond his first year of retirement.

Jeff's case illustrates that the effect of excess earnings on your Social Security retirement benefit can be lessened somewhat if you elect to start receiving retirement income in a year in which you expect to have high excess earnings.

Caution: This monthly test for excess earnings only applies if your wages are from an employer. If you are self-employed, the excess earnings test applies in a different manner.

Strengths

You can avoid losing part or all of your Social Security retirement benefit

By postponing or bunching your earnings in retirement, you may be able to avoid earning more than the retirement earnings test exempt amount. By timing when you first begin receiving Social Security retirement benefits, you may be able to lessen the impact of earned income on those benefits. But see Tradeoffs.

Tradeoffs

The Social Security retirement benefit you keep may not be enough to offset the earnings from working that you lose

Example(s): Phillip (age 63) receives a Social Security retirement benefit of \$1,000, or \$12,000 per year. Phillip earned \$26,560 in 2008, exceeding the earnings limit of \$13,560 by \$13,000. Phillip lost \$1 in benefits for each \$2 over the earnings limit, a total of \$6,500 in benefits. Phillip's income for 2008 is:

Social Security retirement benefit	\$5,500
Employment earnings	+ \$26,560
Total income for 2008	\$32,060

Example(s): If Phillip had decided that he didn't want to lose any Social Security retirement benefits by limiting his earnings from his job to \$13,560, his income in 2008 would have been:

Social Security retirement benefit	\$12,000
Employment earnings	+ \$13,560
Total income for 2006	\$25,560

Example(s): Even though Phillip lost part of his Social Security retirement benefit due to excess earnings, the money he earned from his job more than made up for the lost benefit.

Questions & Answers

How will earnings during the year you reach normal retirement age affect your retirement benefit?

Earnings after normal retirement age won't affect your retirement benefit. But few people reach their normal retirement age on January 1. What if you have earnings during the year before you reach normal retirement age? The answer is that you are entitled to a special earnings exemption for the months that precede your birthday. For example, if you turn 65 on December 1, 2008, you will be entitled to earn up to \$36,120 during the months that precede your birthday without reducing your benefit, and once you reach your birthday, none of your earnings will reduce your benefit. So, as long as your earnings from January through November of 2008 don't exceed \$36,120, you will receive all of your retirement benefit. However, if your earnings do exceed \$36,120, you'll lose \$1 for every \$3 of earnings that exceed the limit.

Disclosures

This material does not constitute the rendering of investment, legal, tax or insurance advice or services. It is intended for informational use only and is not a substitute for investment, legal, tax, and insurance advice.

State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters.

The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors. After reviewing your personal situation, we may recommend that you not use any strategy in this document but instead consider various other strategies available through our practice.

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