



The Social Security “penalty” that isn’t

By Jon S.

Are you really penalized for taking Social Security benefits before full retirement age while still working? There’s a common misconception around the benefits earnings test, which applies for people ages 62 to 67 who are still working and who claim Social Security retirement benefits before their full retirement age. If you want to learn more about how much you can earn before you “lose out on” benefits and why you don’t actually lose anything, keep reading.

There are a lot of moving parts in analyzing when to claim [Social Security retirement benefits](#). These include your current working status, your life expectancy, and how badly you need the income to support your lifestyle expenses.

One quick distinction: It’s important to remember if you file for retirement benefits before you hit your full retirement age, your benefit will be *permanently* reduced, i.e. lower than if you wait until full retirement age, whether you are working or not.

Three benefits earnings test examples

- Let’s say our sample client, Tom, is 65 years old and still working, but he won’t hit full retirement age until 66 and 2 months (next year). If Tom files for Social Security retirement benefits now and continues to work, there is a cap on what he can earn before his Social Security benefits are reduced. [In 2021, that earnings limit is \\$18,960](#). So, for every \$2 Tom earns above this level, he will “lose out on” \$1 in benefits.

I put “lose out on” in quotes because Tom doesn’t really lose out on any benefits at all. Rather, these reduced benefits are held back until Tom reaches full retirement age. At this point, Social Security increases Tom’s benefits to make up for what they withheld prior to him reaching 66 years and 2 months. In other words, these benefits aren’t lost, they’re delayed. A temporary penalty if you will.

- Now, let’s assume our sample client, Tom, will hit full retirement age in July of this year. The Social Security Administration allows for a higher earnings limit in the year a person hits FRA. [For 2021, this amount is \\$50,520](#). For every \$3 earned above this level, benefits are reduced by \$1. And the benefits earnings test disappears the month he hits full retirement age.

Again, any benefits that are reduced due to the earnings limit are made up to Tom after he hits FRA.

- Lastly, let’s assume Tom is age 68 and still working. The [benefits earnings test](#) only applies before someone hits their full retirement age. Since Tom is past his full retirement age, he can earn any amount and it will not impact his Social Security retirement benefits.

It’s worth reiterating that claiming Social Security retirement benefits before FRA permanently reduces your benefit as compared to what your FRA benefit will be. To me, that’s the real penalty...filing before FRA means you’re actually losing out on future benefits. With the benefits earnings test, any reduced benefits are made up later.

Social Security can be complex. If you’d like our help assessing your financial situation, [please connect with us](#).

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