THE PERPLEXING WORLD OF SOCIAL SECURITY AND EARNINGS IN RETIREMENT

Launched in 1935 during the Great Depression as a principal component of Franklin D. Roosevelt's New Deal recovery program, the Social Security System has earned an unquestionable reputation for the reliability of its stream of monthly checks to retirees, the nation's first comprehensive source of retirement income.

But did the laws that authorized the checks and ensured their reliability also:

- Permit the checks—based on your lifetime income —to be large enough to sustain seniors in comfortable retirement?
- Require Social Security checks to be taxed too much by the same Treasury Department which issued them?
- Reduce the checks too severely for those who needed money before becoming 65.
- Enable beneficiaries to get back all of the money they had paid into the system over the years?

While these questions—and the question of the system's continuing reliability as the ratio of beneficiaries to taxed active workers increases—are debatable and debated by lawmakers, the most baffling for many individual workers as they plan for the approach of retirement is: *when do you start receiving Social Security checks?*

The answer, partly rooted in changing regulations, is not easy. Nor is it the same for all individuals.

Yet, it is very important. On it depends not only when you start to receive checks, how large your checks will be—the earlier you start, the smaller your checks—and how much you may earn from other work once you start, but also how much *net* Social Security income you will have left after income taxes.

To understand how these things are determined, you first have to understand the regulatory concept of your *"normal retirement age"* (also called your *"full retirement age")* at which your retirement benefits equal your *"primary insurance amount."* For those born in 1937 or earlier, it is 65. For those born in 1960 or later, it is 67. For those born in 1938 through 1959, it is in-between. (Useful tables which spell out this and other relevant regulations appear on the Social Security Administration's Web site, www.ssa.gov).

If you decide to start withdrawing Social Security before your "normal" retirement age, you may retire as early as age 62, but your benefits may be reduced as much as 30 percent if you were born after 1959 or 25 percent if you became 62 in 2005—a reduction that shrinks your monthly checks permanently.

If you decide to defer getting Social Security past your "normal" retirement age (delayed retirement credits), your benefits may be increased by percentages depending on when you were born: from 3 percent if you were born in 1917-1924 to 8 percent if you were born in 1943 or later. You would receive your largest benefit by retiring at 70.

Whatever the SSA determines you should get monthly (to be further adjusted annually for inflation unlike most private sector pensions) may be (further) reduced if you get work for pay *before* you reach your "normal" retirement age: $1 in benefits for each $2 you earn above an annual limit. Last year, that limit was $12,000; this year, it's $12,480. In the year you will reach "normal" retirement age, the reduction is less—$1 in benefits for each $3 you earn above $33,240 in 2006, until you reach the point at which you can earn all you are able to without penalty. This point is reached once the recipient arrives at their normal retirement age.

For example, a retiree with earned income of $25,000 and a Social Security benefit of $1,000 per month would receive just $478 each month after a reduction due to earnings.
Done with the SSA, you now emerge on the radar screen of the Internal Revenue Service, which is required to get its share and finds you an especially fertile target if you have substantial income beyond Social Security. A SSA Web site calculator helps you to understand how the earnings test would apply to you.

If you are filing a federal income tax return as an individual and have *"provisional income"*—defined as adjusted gross income plus nontaxable interest (such as interest from tax-exempt bonds and income dividends from municipal bond mutual funds) plus 50 percent of your Social Security benefits—between $25,000 and $34,000, you may have to pay income tax on that 50 percent. If your combined income exceeds $34,000, up to 85 percent of your benefits may be taxable.

If you file a joint return and you and your spouse have provisional income (as defined above) of between $32,000 and $44,000, you may have to pay tax on 50 percent of your Social Security benefits. However, up to 85 percent of your benefits become taxable when your combined income exceeds $44,000. This is a complex rule, so consider contacting the Social Security Administration or your tax adviser for more information.

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