



# SOCIAL SECURITY ADVISOR

## Social Security Planning for Retirement

### WHAT'S INSIDE?

#### Successfully Mixing Work with Social Security Is a Matter of Time

- Nuts and Bolts
- AET Income Defined
- Income Planning Beware
- Gone, but Not Forgotten
- Special Rule for Mid-Year Retirements
- Checking the Calendar
- To Start, or Not to Start...
- Survivor's Switch
- Crucial Choice

<Pages 1-4>

#### Executive Summary

<Page 2>

#### Advisor Mailbag

<Page 5>

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#### Social Security for Military Service

<Pages 6-8>

### Successfully Mixing Work with Social Security Is a Matter of Time

I frequently receive questions about the annual earnings test (AET). Although this topic might seem straightforward — *substantial earned income before full retirement age (FRA) can cause some or all Social Security benefits to be withheld* — the AET can actually be more complex than portrayed.

#### Nuts and Bolts

Here are the AET basics:

- Claiming Social Security retirement benefits before FRA results in a scaled reduction, depending on the length of time before FRA the benefit is claimed. The maximum reduction from someone's FRA is 30%, if he or she was born in 1960 or later. That assumes starting Social Security at age 62.
- A senior who adds substantial work into the mix while claiming a benefit before FRA might have even bigger problems; it's important to become fully educated on the unique interplay between the AET and an early claim for Social Security.
- In 2022, someone who is under FRA for the entire year while earning more than \$19,560 stands to see Social Security benefits drop by \$1 for every \$2 over that threshold. The cuts will come before the first dollar of benefits is paid.

- In another scenario, someone who will reach his or her FRA this year can earn up to \$51,960 before encountering the AET. Even then, only \$1 for every \$3 of excess earnings will be withheld from the monthly Social Security benefit before the first dollar is paid.
- Once the coveted month of FRA is reached, the AET no longer applies. The AET becomes one rule that can be struck off the list of claiming considerations.

#### AET Income Defined

One reason that the AET is widely misunderstood is the confusion about what constitutes "earnings." For this purpose, earned income comes from employment, either by working for someone else or through self-employment. Earnings include all Social Security-covered gross wages (salary, bonuses, tips, and elective retirement contributions reported in Box 3 of Form W-2). AET earnings also include wages not covered by Social Security, which might be paid to employees by certain government employers, such as state teachers' retirement systems.

For the AET, only the earnings of the individual filing early are counted, not those of the claimant's spouse. Also excluded from the AET calculation

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