RETURNING TO WORK AFTER RETIREMENT CAN AFFECT BENEFITS AND TAXES

Rather than leaving work at age 65 and going fishing or focusing on gardening, many retirees are celebrating retirement by going back to work. According to a Pew Research Report from 2020, about 28.6 million Baby Boomers reported they were out of the labor force due to retirement. This is 3.2 million more Boomers than the 25.4 million who were retired in the same quarter of 2019.

It's important to understand how going back to work might impact retirement benefits and taxes.

Individuals thinking about returning to the workforce after retiring need to learn if and how Social Security benefits, health insurance and taxes will be affected so they don't lose benefits or end up in a higher tax bracket. Keep the following in mind when considering employment after retirement:

1. **Social Security Benefits:** If you're aged 62 or older, you may have already decided to start receiving retirement benefits. However, if you get a new job and expect your income to increase, you're required to notify the Social Security Administration (SSA). If you receive benefits, but are not yet at full retirement age (as defined by the SSA), some of your benefits may be reduced. For example, if you're younger than full retirement age during all of 2020, SSA will deduct $1 from benefits each $2 earned above $18,240 (Source: SSA.gov).

   The SSA full retirement age has been gradually increasing, and it's currently between 66 and 67 years old, depending on the year you were born (it is age 67 for everyone born in 1960 and later). If you reach full retirement age during 2021, the SSA will deduct $1 from your benefits for each $3 you earn above $48,600 (Source: SSA.gov).

   If you return to work after starting to receive benefits, you may be able to receive a higher benefit based on those earnings. The SSA automatically re-computes your benefit amount after the additional earnings are credited to your earnings record. Moreover, within the first 12 months of claiming retirement benefits you may be able to withdraw your claim and repay all SSA benefits collected with no interest, and the benefits will be reset to a higher number based on your current age and past earnings. If you cannot withdraw your retirement application but have reached full retirement age and are not yet age 70, you can request SSA to suspend benefit payments, and resume them at a later date.

2. **Income Tax:** Going back to work might mean more money, but it also might bump you into a higher tax bracket. In addition, extra distributions or benefits received on top of your salary may count as additional income. You could also find yourself in a higher tax bracket by taking pension distributions on top of a regular salary or by collecting Social Security benefits while you continue working. You should consider having a CPA crunch the numbers to see how close your current income is to the next tax bracket. As much as 85% of your Social Security benefits can be taxable. According to the online Benefits Planner at www.SSA.gov, if you:

   - File a federal tax return as an individual and your combined income is
     - Between $25,000 and $34,000, you may have to pay income tax on up to 50% of your benefits.
     - More than $34,000, up to 85% of your benefits may be taxable.
   - File a joint return, and you and your spouse have a combined income that is
     - Between $32,000 and $44,000, you may have to pay income tax on up to 50% of your benefits.
     - More than $44,000, up to 85% of your benefits may be taxable.
   - Are married and file a separate tax return, you probably will pay taxes on 85% of your benefits.

   (See IRS Publication 554. The SSA defines "combined income" as your adjusted gross income, plus any nontaxable interest, plus half of your Social Security benefits.)

3. **Health Care:** Health insurance is one of the biggest reasons many people under age 65 remain employed or return to the workforce. If you're age 65 or older and already covered by Medicare, check with your employer's human resources department about how the insurance coverage will work with your Medicare. You can also get information online at Medicare.gov. In 2021, the standard Part B premium amount is $148.50 (or higher depending upon income). The Medicare Part B deductible is $203 per year, then 20% of approved services.

4. **Pension Plans and Retirement Accounts:** Returning to work will likely ease your financial situation and allow you to delay accessing your 401(k) account. If you have a traditional pension plan or IRA, rules will vary. Check with your pension plan provider and the human resources department at your company to see if returning to work will impact your benefits, especially if you're returning to the same employer. The 401(k) rules get more restrictive for business owners with ownership interest exceeding 5%. The SECURE Act changed the required minimum distribution (RMD) age from 70 ½ to 72 beginning in 2020. However, working past age 72 doesn't affect RMD rules for traditional IRAs—RMDs are still required and will generally be taxed as ordinary income. There are no RMD requirements for Roth IRAs.

There are many variables involved in returning to work and evaluating the short- and long-term tax impacts, Social Security benefits and health care. A CPA can help you analyze your current situation and determine the best course of action with regard to your personal financial plan. If you don't have one, you can get a free referral and free 30-minute consultation in Oklahoma by going to FindYourCPA.com.