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What Happens if You Work After Signing Up for Social Security?

Depending on your age and income, you might not be able to collect your Social Security retirement benefits and work at the same time.

By Maryalene LaPonsie | Contributor July 22, 2016

Consider these factors before deciding to continue to work. (Getty Images)

You can sign up for Social Security retirement benefits as early as age 62, and you do not actually have to be retired to get them. However, working while receiving benefits may not be in your best interest.

"The Social Security election point is one of the largest financial decisions you'll make in your life," says Larry Rosenthal, president of Rosenthal Wealth Management Group in Manassas, Virginia. If you file early and continue to work, part

or all of your benefit could be temporarily withheld if you earn too much. However, if you wait to sign up for Social Security until full retirement age, you can work as much as you like and only have to worry about taxes.

Early filing could mean withheld benefits. The full retirement age for those reaching the milestone this year is 66. People as young as 62 are entitled to file for early benefits, but by doing so they receive a monthly amount that is roughly a third less than what they would get if they had waited until their full retirement age.

Benefits could be reduced even more if you have an income greater than $15,720 in 2016. For every two dollars you earn in excess of that amount, one Social Security dollar will be withheld. "It's not a tax, but it is, in essence, a 50 percent penalty," says Rick Seiler, vice president of ASC Financial Group's office in Allentown, Pennsylvania.

In the year you reach your full retirement age, Social Security allows up to $41,880 in earnings before wages begin to affect benefits. Every three dollars earned in excess of that amount results in one dollar of benefits withheld.

Once workers reach their full retirement age, they can earn as much as they want while receiving benefits. This is true regardless of whether a person filed early or waited to begin benefits. And if your Social Security payments were withheld because of your earnings, your monthly benefit will increase beginning at your full retirement age to give you credit for the withheld benefits.

Working could make your benefits taxable. Another consideration when it comes to working is whether your income could make part of your Social Security benefits taxable. For both early filers and regular filers, the Social Security Administration uses combined income to determine the amount of benefits, if any, subject to income tax.

The combined income is calculated by adding the following three money sources:

- Adjusted gross income
- Nontaxable interest
- 50 percent of Social Security benefits

If an individual filer's combined income falls between $25,000 and $34,000, half of that person's Social Security benefits may be subject to federal income tax. If combined income exceeds $35,000, then 85 percent of benefits are subject to tax. The actual amount owed will depend on your tax bracket.

For couples filing a joint return, half of benefits are taxable if the combined income is between $32,000 and $44,000. If the combined income exceeds $44,000, then 85

percent of that couple's benefits are taxable. Seiler notes these numbers have been in place for decades without any adjustment for inflation, and that may explain why they are low compared to many of today's typical incomes.

Making the right decision. Many people have a "land grab mentality" which makes them likely to apply for benefits too early, Seiler says. Unfortunately, a rash decision can have long-term effects on finances. "They want to make sure they understand the tax implications," says Willie Schuette, a financial coach with The JL Smith Group in Avon, Ohio. While Social Security will allow people to change their mind within a year of filing and pay back the benefits received, Schuette says for most people, "If they select it early, it's a permanent decision."

As a result, they may have a reduced monthly benefit for life and also find it difficult to return to work and maintain those benefits. For that reason, finance experts say it's always wise to talk to someone knowledgeable about the program before taking any action. "It's a large decision, and you need to have a Social Security discussion with your financial advisor," Rosenthal says.