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**Peter S. Young**  
**Attorney at Law**  
271 Miller Avenue  
Mill Valley, CA 94941  
Tel: (415) 388-1009  
Fax: (415) 388-1009  
webtuner@pacbell.net

T R A N S M I T T A L

To: Marlena Weinstein

From: Peter Young

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Re: Early Retirement & Excess Earnings

Marlena:

For clients who start Social Security early but then contemplate additional work exceeding the current test amount, the decision matrix is tricky. Ignoring work for the moment, here is the early retirement formula:

The reduction is .555 (5/9 of 1% per month) for the first 36 months of early retirement and a smaller penalty of .416 (5/12 of 1%) for any remaining months. For example, workers retiring exactly at age 62 in the window from 2005 through 2016 (the time band in which full retirement age is currently 66) will incur a 48-month reduction of 25.0%:  $(36 \times 5/9) + (12 \times 5/12) = 25.0\%$ .

So assume a worker who retires at 62 and starts benefits (with a 25% reduction), but then returns to work at exactly age 63 for 24 months, with enough excess earnings to cause a zero benefit. Benefits resume at age 65, when the excess earnings end, but benefits are still paid with a 25% reduction. It is a year later, at age 66 and the end of the excess earnings test, that the benefit is recalculated to give the worker credit for the 24 months of non-payment.

Adding 24 months to age 62 yields age 64, leaving 24 months to full retirement age at 66. The math becomes:  $24 \times 5/9 = 13.33\%$ , leaving a 86.67% benefit payable at age 66 and beyond.

Important notes: When a worker starts benefits early, the reduction is frozen until the recalculation at full retirement age. Also, a premature use of the retirement grace year can be costly.

Odd note: Suppose I grab benefits at age 62, even though my earnings will cause a zero benefit. I invest the benefits and wait for the annual overpayment notice after I file my tax return on April 15th. I return the overpaid funds each year, but I have had the use of the money for well over a year. It's a free loan with no interest or penalty.