Social Security lets you change your mind

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MarketWatch Blog by Alicia H. Munnell

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Trading lower benefits today for higher benefits later is always a good idea

A reporter asked me recently what options workers have if they claim Social Security benefits and then change their mind. COVID-19 could cause such a sequence as people fearful of the virus gain confidence in an effective vaccine. Candidly, I wasn't sure about the answer and had to do a little checking.

The answer varies depending on whether the worker is above or below the full retirement age – currently 66.

Those who have reached the full retirement age, but are not yet 70, can ask Social Security to **"suspend"** their monthly benefit payments. By doing so, they will earn a delayed retirement credit for each month of suspension, which will result in higher benefits once they choose to resume payments. If they have not already restarted their benefits sooner, benefit payments will automatically begin again at age 70.

Those who have not reached age 66 have two options. In the first 12 months after becoming entitled to benefits, workers can simply cancel their application and repay any benefits received to date. This process is called **a "withdrawal."** Workers are limited to one withdrawal per lifetime.

The second option for those who are returning to the labor force is **the earnings test**. Under this test, which is applied automatically, monthly benefits are reduced to the extent that workers' earnings exceed annual thresholds. In 2020, a beneficiary is subject to a reduction of $1 in benefits for every $2 of earnings above $18,240, and $1 for every $3 of earnings above $48,600. The $18,240 and $48,600 are adjusted each year to keep pace with national wage growth.

The most important, and least understood, aspect of the earnings test is that Social Security re-computes the monthly benefits for those affected when they reach their full retirement age. (The earnings test was eliminated for those over the full retirement age in 2000.) The subsequent increase in monthly benefits allows workers to recoup benefits "lost" because of the earnings test. So the earnings test is not a "tax;" it is a mechanism that allows workers to shift benefits from a period when they are earning money to a time when they are more likely to be retired.

The bottom line is that people have a number of options if they claim and then change their mind. If they go back to work, the earnings test takes care of things automatically – cutting benefits in the short term and raising them later. If people change their mind because they realize they have enough money to get by, they can withdraw their application before age 66 or suspend the benefits after 66.

It is worth considering these options, because Social Security benefits are actuarially adjusted. As a result, the monthly amount of benefits claimed at 70 is 76 percent greater than those claimed at 62. Given that Social Security benefits are paid for life and are adjusted each year for inflation, the more of this type of monthly income the better.

So there you have it!