No, seniors won't lose their Social Security if they 'unretire'

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Many retirees considering a return to work worry about the impact on their Social Security benefits.

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Many people who retire early have second thoughts. Maybe they miss working, or perhaps they need more money — a common concern amid today's inflation and market volatility. But for those pondering returning to work, a daunting question looms: Will they lose their Social Security?

The answer, in fact, is no. The Federal Old-Age and Survivors Insurance program, the main part of Social Security that covers retirees, is filled with incentives to keep working as long as possible — including by "unretiring" if necessary. And yet financial advisors often encounter clients who want to go back to work, but hold back because they fear they'll lose their benefits.

"I think there are a lot of 65-year-olds who would say, 'I'd love to work half-time, but if I work the government is going to take away my Social Security!' And that's simply not true," said John Sabelhaus, a senior fellow at the Brookings Institution, a public policy research group in Washington, D.C.

Because of this widespread misunderstanding, the program sometimes has the opposite of its intended effect: Instead of motivating seniors to work longer, it scares them into staying retired. Sabelhaus says this is because the system has become overly complicated, and officials don't explain it clearly to the public.

"I think we have in place a lot of really convoluted rules about benefits, particularly Social Security, and there's a lot of misperceptions about how Social Security works," he said. "I think the government could do a better job of saying, 'Hey, if you work more, you're not losing anything in Social Security. In fact, you're going to get more in the future by putting it on hold.'"

Now this poor messaging could be more damaging than ever. In the wake of COVID-19 and the "Great Resignation," America has a huge number of early retirees. From the start of the pandemic to August

2021, 2.4 million Americans retired younger than they otherwise would have, according to the Federal Reserve Bank of St. Louis. From 2019 to 2021, the labor force participation of men aged 55 to 64 fell by 1.3 percentage points, according to the Wharton Pension Research Council. For women that age, it fell by 0.4 points.

Many scholars believe this is because older workers were particularly vulnerable to the virus, so retiring seemed — quite literally — like the safest option. But now that vaccines are available and the most dangerous phase of the pandemic is over, some of those retirees may want to come back to work — and in some cases, concerns about Social Security are stopping them. Advisors can help these retirees understand what their real options are.

How 'unretiring' affects benefits

In terms of Social Security, there is much more money in retiring later. The closer people are to their full retirement age (FRA) when they claim their benefits, the larger those benefits will be. And after they do reach that age, delayed retirement credits add an extra percentage to the payments for each additional month the person waits, all the way up to age 70.

For example, let's say a person born in 1970 earns a salary of $100,000 (or at least that's their average income over 35 years). If they retire early, at age 62, their benefit will be $1,846 per month. But if they wait until age 70, that payment will jump to $3,399 — almost twice as much.

These increases are still available to someone who retires, returns to work and then "re-retires" later. If the person is below their FRA, some of those benefit payments will be temporarily reduced or withheld while they're working. But in the long run, this "unretired" senior would not only be paid back that withheld money, but would also collect larger benefits when they finally retire for good.

"The amount that your benefits are reduced … isn't truly lost," the Administration says in an online pamphlet. "Your benefit will increase at your full retirement age to account for benefits withheld due to earlier earnings."

The cost of confusion

And yet this misconception persists. Tammy Wener, a CFP at RW Financial Planning in Illinois, says a number of her clients have asked her the "losing Social Security" question, usually on behalf of other family members.

"A lot of people don't understand it," Wener said. "They're confused about what they're reading online, they're calling Social Security and not getting great information, and then they're trying to make decisions."

In one example, a client's relative was a nurse's aide at an assisted living center at the height of the pandemic, when COVID-19 was tearing through facilities for the elderly. Out of concerns for her own safety, the woman quit her job in 2021, when she was 62 — four years short of her full retirement age. But a year later, she needed more money and wanted to go back to work. There was just one problem.

"This person actually thought they were going to lose all of their Social Security benefits … and they weren't going to get those dollars back later," Wener said. "It's kind of a quandary … Are you at the end of the day going to end up with less?"

Wener explained to her client that the relative's fear was misplaced — she would not permanently lose any of her benefits.

"I thought it was in my client's interest to provide the information to say, 'It is true that the money is going to be withheld by Social Security, but then they're going to use that amount that was withheld and rebate it back once this woman turns 66.'"

That clarity was crucial. Without it, the nurse's aide may have stayed in retirement without knowing it was against her financial interest. Experts suspect there are many seniors at risk of making the same mistake.

"There's a lot of very talented people in their early to mid-60s who might have left the labor force, but who could come roaring back and help with some of the workplace and labor shortage problems," Sabelhaus said. "I worry that we have a very narrow window with this group of people who left early, and [about] whether or not they're going to come back."

How advisors can help

Experts have proposed a number of reforms to make Social Security less confusing. For his part, Sabelhaus recommends "getting rid of" the retirement earnings test, which determines the size of one's benefits based on their income. Many mistakenly think that if they earn too much money, the test will disqualify them from receiving benefits. In reality, it withholds money before one's full retirement age and then gives it back afterward.

"There is a lot of research showing it has a negative impact on working even though it should not," Sabelhaus said.

Such reforms could be beneficial, but Congress seems unlikely to pass them any time soon. In the meantime, there's much that advisors can do to help. For confused clients, Wener recommends sitting down with them and calculating their benefits on a piece of paper, based on their income and the age at which they plan to retire. The more concrete the details, the better.

"I try to actually use real numbers," she said. "I've also had people show me their Social Security statement, and we can actually see what their earnings have been over their lifetime."

Mary Johnson, a Social Security and Medicare policy analyst at the Senior Citizens League, echoed this advice — but instead of a paper pad, she recommended a digital spreadsheet.

"What you really need to do is give them an Excel sheet … and project what they are going to get in Social Security from [retirement] age 62 to 92," Johnson said. "That is an excellent drill to put people through."

Fortunately, the Social Security Administration offers multiple tools on its website to help do this, including a retirement age calculator and a page on delayed retirement credits. In combination, they show how much one can expect to collect at every possible retirement age. A quick look at these pages makes it clear that working for longer pays off — which is how Social Security is supposed to work.

"It was designed to help replace income when people can no longer work," Wener said. "So if you're able to work and you want to work, Social Security wants to incentivize people to go back."

The key, Sabelhaus said, is getting the word out.

"We need to do a better job of explaining to people that even if you're already retired and claiming, you can sort of put that on hold and pretend that you had waited, and you get that extra benefit," he said.

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