

CAREERS

Pitfalls of Working Past Retirement Age

Benefit Reductions Are One Possibility, Even for Part-Timers

By TODDI GUTNER

It is no secret that more Americans are working past retirement age. And as economic pressures mount, the decision to remain in the work force -- or return after retiring -- might be less about choice and more about necessity. Regardless, many professionals don't want to stop working -- they just want to work less.



But what workers with defined-benefit pensions and those who already have tapped Social Security benefits might not realize is that there are significant financial disincentives that make working into retirement age a tricky proposition.

Without understanding where the financial time bombs lie, many older workers could find their Social Security payments reduced and their pension-plan-payout rates at serious risk, says Chantel Sheaks, a principal at Buck Consultants, an employee-benefits and human-resources consulting firm.

"People want to move forward and forge new careers, but they don't want to be penalized," says Jeri Sedlar, an expert on the aging work force and author of "Don't Retire, Rewire."

A company's pension benefits typically are based on a worker's salary at the time of retirement. Say you retire as a full-time employee earning \$120,000. Your pension payout is based on that salary. But if you continue working part time at a reduced salary of, say, \$60,000 a year, your pension benefit would be based on the lower salary -- and be permanently reduced.

Another pitfall: Those who retire and draw Social Security before 65 years old (or later, depending on your birth year) and then return to work face benefit reductions when taxable earnings top \$13,560 a year. Benefits are docked \$1 for every \$2 of income earned if you are under your full retirement age.

In 2003, the latest year studied, about four million people between the ages of 62 and 65 were drawing Social Security benefits; about 1.6 million were working at least part time, estimates Jae G. Song, an analyst in the division of economic research at the Social Security Administration.

To help make re-entering the work force easier for older workers, a slate of legislation aims to alleviate the disincentives. Sen. Herb Kohl (D., Wis.), chairman of the Senate Special Committee on Aging, is spearheading several bills, one of which will be introduced Tuesday and another later this spring. Among the highlights: rules that would prohibit pension-plan-benefit penalties if an individual chooses to keep working on a reduced schedule, and a revision to Social Security benefits that proposes a reduction of \$1 for every \$3 earned before the full retirement age.

These bills follow the Older Worker Opportunity Act and Health Care and Training for Older Workers Act that Sen. Kohl introduced in February 2007. The first act offers a tax credit for employing older workers in flexible work programs. The second provides for extended Cobra coverage for older workers and improved access to job-training programs as well as establishes a clearinghouse of best practices for

hiring and retaining older workers. It is unclear whether the bills will gain the traction needed to pass.

Other areas of reform, suggests Marc Freedman, founder of San Francisco think tank Civic Ventures, is to allow workers over 65 to opt out of the Social Security payroll tax and allow people between 55 and 65 to buy into Medicare in order to smooth the way for a move to another job.

If you are older and plan to keep working, watch for these pitfalls:

Pension Peril

Scenario: You retire and begin to take a distribution from your defined-benefit plan. A few years later, you return to that company in a similar position and work more than 1,000 hours a year -- or more than 20 hours a week for a year.

The Risk: Your pension benefits are likely to be temporarily suspended, says Anna Rappaport, an actuary and retirement-strategy consultant and senior fellow at the Conference Board.

What You Can Do: Ms. Rappaport suggests you research and understand your benefits and ask whether they will be suspended if you return to work and how your payments will be recalculated when you retire again. Or, ask your former employer whether you can return as a contract worker or consultant, or as a temporary worker through an employment agency.

Social Security Drain

Scenario: You retired early and opted to receive Social Security benefits early. Now, you want to return to work -- and you expect to bring home more than pocket change.

The Risk: Your Social Security payments will be reduced by \$1 for every \$2 you earn if your taxable income is more than \$13,560 a year.

What You Can Do: The only thing to do is abstain from drawing Social Security benefits until full retirement age.

Medical Coverage Gaps

Scenario: You are eligible for Medicare and over 65, but you continue to work for an employer that offers medical insurance.

The Risk: Medicare coverage and supplements won't be available to you since your employer is required to insure you. "This policy is a tremendous disincentive for companies to hire older workers, because they end up paying the full cost of medical bills," says Ms. Rappaport. Continuation of retiree medical benefits that some companies offer could be lost if you go back to work, and you could end up losing this coverage when you retire for good.

What You Can Do: Investigate your company's retiree-benefits policy before you agree to come back to work.

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