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INFLATION AND RETIREES: WHEN TO THINK ABOUT GOING BACK TO WORK

Look at Social Security benefits, taxes and health care costs before taking a job during retirement.

By: Rachel Hartman - July 28, 2022

If you are living on a fixed income in retirement, the increases at stores and restaurants could seem especially painful. Consumer prices went up by 9.1% from June 2021 to June 2022, the largest increase in 40 years.

Looking for employment to help cover these hikes is one way to get through a period of inflation. However, you'll want to think about how a job could impact your household and finances.

Before going back to work during a time of inflation, you can:

- Evaluate job opportunities.
- Calculate what you could earn.
- Look at Social Security benefits.
- Check on taxes and Medicare.
- Consider the cost of living.

Use the following guidelines as you go through the work application process and find the best way to spend your retirement years.

Evaluate Job Opportunities

Looking for jobs online and checking with your former employer can be good starting points. "With the growing emphasis on people working remotely and the demand for hard-to-find skilled workers, there are so many more job opportunities for people in retirement than there have ever been before," says Chris Orestis, president of Retirement Genius and national senior care advocate in Cumberland County, Maine.

If you want flexible hours and the chance to work from home, consider part-time remote work. A job that requires physical presence could fulfill social needs. "There is a lot of demand for help in the hospitality and service industries, retail, health care, and in jobs where someone's past career skills could prove to still be very valuable," Orestis says. For some positions, you may need to undergo training remotely or on-site.

Calculate What You Could Earn

You may find that some retailers and restaurants in your area have raised their pay rates. Certain companies are also responding to inflation by offering higher salaries. These wage increases apply to both part-time jobs with hourly wages and full-time salaried positions.

Compare the income you could earn with the amount you need to maintain your lifestyle. If Social Security benefits and the other money you receive regularly leave a large gap, making it difficult to pay for monthly bills, you may be looking for a salaried opportunity. "If you only need a little more money, though, or it is more for engagement than salary, be creative," says John Graves, founding and managing partner at G&H Financial Group in North Canton, Ohio. You might enjoy work at a local hardware store if you've always had a passion for tools and handiwork. You could check out a craft store if you love creating and arranging décor.

Look at Social Security Benefits

Your age and whether you are receiving Social Security benefits could impact your overall income. "If you continue to work after reaching full retirement age, your benefits will not be reduced," says Michael Collins, founder and CEO of WinCap Financial and professor at Endicott College in Beverly, Massachusetts. "However, if you start collecting benefits before full retirement age and continue to work, your benefits may be reduced."

For those who are not yet full retirement age and receive Social Security benefits, the earnings limit is $19,560 in 2022. For every $2 earned above that amount, $1 will be deducted from the benefit payment. During the year in which full retirement age is reached, the earnings limit is $51,960 in 2022. For every $3 above that amount, $1 will be subtracted from the benefits check.

Starting with the month that full retirement age is reached, earnings are no longer reduced. The Social Security Administration will also recalculate the benefit amount to give credit for the months that benefits were withheld due to the income earned.

Check on Taxes and Medicare

Retirees may need to think about taxes when taking on employment. For those receiving Medicare, which is available for Americans starting at age 65, going back to work could have an impact as well. "If you earn over a certain amount, you may increase taxation on your Social Security," Graves says. "If you earn even more, you will drive up your Medicare premium by hitting an IRMAA increase." IRMAA stands for income-related monthly adjustment amount. It is determined by looking at your income tax returns for the previous two years. If you earn over a certain amount, there could be a surcharge on Medicare Part B and Part D premiums. In 2022, the surcharge applies to those who earn more than $91,000.

What you pay in taxes on Social Security will depend on what you earn. If you file taxes as an individual and earn between $25,000 and $34,000, you could pay income tax on up to 50% of your benefits. If you earn more than $34,000, you could be taxed up to 85% of your Social Security income. For those filing jointly, earnings of between $32,000 and $44,000 may lead to an income tax of up to 50% on benefits. For earnings of more than $44,000, up to 85% of benefits could be taxable

Talk to your tax preparer or financial advisor to see if your taxes and Medicare costs will be impacted if you take a job. Also ask the employer about work-related benefits. You may be able to get health care coverage through the company. You could also have the chance to contribute to a retirement account such as a 401(k) and grow your nest egg before fully retiring.

Consider the Cost of Living

Going back to work to help cover your current day-to-day expenses may ease financial strains. "If the cost of living is rising faster than wages, it may be difficult to make ends meet even if you are working," Collins says. You might need to consider ways to reduce your monthly bills and expenses. You could downsize to a smaller home to save on mortgage or rent payments and maintenance.

Social Security makes adjustments to benefit checks every year based on the cost of living and inflation. Benefits increased by 5.9% in 2022 based on the cost-of-living-adjustment (COLA). If you continue to work now and take benefits later, the checks could be higher due to the COLA factor. This is especially true if inflation continues rising in the coming years. If you wait to take benefits until past your full retirement age, your benefits will increase until age 70.