What to Know Before 'Reversing' Your Retirement

If you've retired, you may have thought you closed the book on one chapter of your life. But what happens if you need to "reverse" your retirement?

Due to higher inflation and rising interest rates, many retirees are taking out more money from their retirement accounts than they had originally anticipated. As a result, some are headed back to the workforce. If you're thinking of joining them, you'll need to consider some factors that may affect your finances.

First, if you've been taking Social Security, be aware that you could lose some of your benefits if you earn over a certain level, at least until you reach your full retirement age, which is likely between 66 and 67. Specifically, if you are under your full retirement age for the entire year, Social Security will deduct $1 from your benefit payments for every $2 you earn above the annual limit, which, in 2024, is $22,320. In the year you reach your full retirement age, Social Security will deduct $1 in benefits for every $3 you earn above a different limit, which, in 2024, is $59,520.

Social Security will only count your earnings up to the month before you reach your full retirement age, at which point your earnings will no longer reduce your benefits, regardless of how much you earn. Also, Social Security will recalculate your benefit amounts to credit you for the months your payments were reduced due to your excess earnings. Social Security also allows you to pay back early benefits received if you withdraw your application within 12 months of starting benefits. This move could help you receive substantially higher benefits at full retirement age.

Your Social Security isn't the only benefit that could be affected by your earnings. Your Medicare Part B and Part D premiums are based on your income, so they could rise if you start earning more money. Also, your extra income could push you into a higher tax bracket.

Nonetheless, you can certainly gain some benefits by returning to the working world. Obviously, you'll be making money that can help you boost your daily cash flow and possibly reduce some debts. But depending on where you work, you might also be able to contribute to a 401(k) or other employer-sponsored retirement plan. And regardless of where you work, you'll be eligible to contribute to an IRA. By putting more money into these accounts, you may well be able to strengthen your financial position during your retirement years. You might also be able to receive some employee benefits, such as group health insurance — which could be particularly valuable if you haven't yet started receiving Medicare.

In addition to the potential financial advantages of going back to work, you might get some social benefits, too. Many people enjoy the interactions with fellow workers and miss these exchanges when they retire, so a return to the workforce, even if it's on a part-time basis, may give you an emotional boost.

In the final analysis, you'll want to weigh the potential costs of going back to work against the possible benefits. There's no one right answer for everyone, but by looking at all the variables, you should be able to reach a decision that works for you.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

Edward Jones, Member SIPC.

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