

Special Payments After Retirement



Bonuses, Vacation Pay, Commissions, Sick Pay, Insurance Commissions, Carryover Crops and Other Special Payments

What are “special payments?”

After you retire, you may receive payments for work you did before you started getting Social Security benefits. Usually, those payments will not affect your Social Security benefit if they are for work done before you retired. This fact sheet describes some of the more common types of special payments, helps you to decide if you received any and tells you what steps to take if you did.

What qualifies as a special payment?

If you worked for wages, income received after retirement counts as a special payment if the last thing you did to earn the payment was completed before you stopped working. Some special payments to employees include bonuses, accumulated vacation or sick pay, severance pay, back pay, standby pay, sales commissions and retirement payments or deferred compensation reported on a W-2 form for one year, but earned in a previous year. These amounts **may** be shown on your W-2 in the box labeled “Nonqualified Plan.”

If you were self-employed, any net income you receive **after the first year you retire** counts as a special payment if you performed the services to earn the payment before you were entitled to receive Social Security benefits. “Services” are any regular work or other significant activity you do for your business.

Some special payments to self-employed people include farm agricultural program payments, income from carryover crops or income derived by an owner of a business who does not perform significant services in that business.

What are earnings limits?

Generally, earnings limits apply to Social Security beneficiaries who work and are younger than the full retirement age. Their benefits will be reduced if their earnings exceed a certain limit. In 2004, the full retirement age is 65 and 4 months. The full retirement age will increase gradually each year until it reaches age 67 for people born in 1960 or later. As soon as you reach your full retirement age, there is no earnings limit. You can earn as much income as you can and still receive all of your Social Security benefits.

- If you are younger than your full retirement age, \$1 in benefits will be deducted for each \$2 you earn above \$11,640 in 2004.
- In the year you reach your full retirement age, your benefits will be reduced \$1 for every \$3 you earn above \$31,080 in 2004.
- Starting with the month that you reach full retirement age, you can get your full benefits no matter how much you earn.

If you think you received a special payment

If you get Social Security and your total yearly earnings exceed the limit and these earnings include a special payment, you should contact Social Security. Tell us you think you received a special payment. If we agree, we will not count the amount of the special payment as part of your total earnings for the year.

(over)

Example of a special payment

This example shows how a special payment is treated under Social Security rules.

Mr. DeSilva retired at age 62 in November 2003 and began to receive Social Security benefits. In January 2004, Mr. DeSilva received a check from his employer for \$17,000 for his leftover vacation time. Because this was for vacation pay he accumulated before he retired, Social Security will consider it a special payment and will not count it toward the earnings limit for 2004.

Insurance salespeople and farmers

Two specific occupational groups that commonly receive earnings which qualify as special payments are insurance salespeople who receive renewal or repeat commissions and farmers who receive income from carryover crops.

Insurance salespeople

Many insurance salespeople continue to receive commissions after the year they retire for policies they sold prior to retirement. This income will not affect their Social Security benefits, as long as the income was the result of work done before they retired.

Farmers

Many farmers harvest and store crops in one year to be sold in another year. This income will not affect Social Security benefits.

Contacting Social Security

For more information, visit our website at www.socialsecurity.gov or call toll-free **1-800-772-1213** (for the deaf or hard of hearing, call our TTY number, **1-800-325-0778**). We can answer specific questions and provide information by automated phone service 24 hours a day.

We treat all calls confidentially. We also want to make sure you receive accurate and courteous service. That is why we have a second Social Security representative monitor some telephone calls.