Social Security: Key Strategies for Protecting Post-Retirement Income

By Motley Fool

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Recent surveys tell us that working during one's post-career years is the new expectation for most retirees.

In a Merrill Lynch/Age Wave poll conducted last year, three in four pre-retirees (workers aged 50 years and up) responded that some element of a working life not only figured into their retirement, but would actually make their after-65 lifestyle ideal .

That kind of move toward post-retirement work -- and additional income -- means that many retirees will also have to think about what happens when they're working and taking benefits such as a monthly Social Security check. Consider the following possibilities.

- If you earn enough, all income combined, it can add up to a pay bump that puts you in higher tax bracket or incurs taxes on your total income that you didn't expect.
- If you're taking Social Security and you earn enough from other sources that your combined income -- adjusted gross income plus nontaxable interest income plus half your Social Security benefit, as the Social Security Administration defines it -- crosses a set threshold , you could expose 50%-85% of your Social Security income to taxation.
- If you're taking Social Security but also earning above set annual income limits before full retirement age, you could end up having some of your expected SSA checks temporarily withheld. Those withheld payments will be returned to you once you've hit your full retirement age, but some working Social Security recipients are unprepared for that consequence.

The point is that post-retirement income can pack some surprises unless you plan ahead to address the government's rules. Read on to learn a number of key ways you can keep your ideal working-retirement plan from turning into something more complicated -- and expensive -- than you'd hoped it would be.

Defer Social Security

A straightforward approach is to simply delay collecting your Social Security benefits. If your work and investments can sustain you all the way to age 70, for example, you can avoid exceeding the SSA's combined-income threshold, and you'll also accrue delayed-retirement credits, which increase your eventual benefit by 8% for every year you defer.

File and suspend

Married couples who are full retirement age can use the file-and-suspend strategy to deal with the mix of working income and benefits. If one spouse files for Social Security and then immediately suspends the payments, then he or she can continue to work while accumulating delayed-retirement credits, which boost their eventual Social Security benefit by 8% for each year they delay up until age 70. Meanwhile, the other member of the couple, who may no longer be working, can still tap the suspending partner's benefits for up to 50% of what the distribution would be if they hadn't suspended. And here's where it gets even more interesting: The partner who's claiming those 50% spousal benefits could in turn delay their benefits and gain delayed-retirement credits, too.

Invest in Roth IRAS

A tried and true method of protecting income against tax-bracket bumps and is to put it into a tax-free vehicle such as a Roth IRA . Unlike a traditional IRA, the Roth IRA does not require you to start withdrawing a minimum amount each year starting at age 70-1/2. Only after you pass away must the new account owner take required minimum distributions. If you do take distributions during your retirement years, however, then be prepared for tax-bracket changes or adjust other income streams to avoid them.

Keep close track of other distributions

Don't let pre-tax plans in your portfolios surprise you, either. For example, traditional 401(k) distributions are taxed and can therefore change your income scenario when it comes to taxes. So long as your earned income is sufficient, you might well save on your tax bill by keeping pre-tax plan withdrawals to the bare minimum required. If you need to clear pre-tax distributions from your income scenario altogether, the IRS does let you convert a 401(k) into a Roth IRA. You'll pay taxes on the converted funds once, during the year you make the switch.

Take advantage of the planning tools that the IRS and the Social Security Administration offer -- the RMD calculator already mentioned, as well as the online payment projections you can view once you create a my Social Security account.

Creating that ideal mix of retirement and work that you enjoy is the future for many retirees. It's a rewarding balance, but it does mean that you'll have to become even more proactive about monitoring and controlling how the income you generate affects what's taxable in your holdings, and by how much.

The $60K Social Security bonus most retirees completely overlook

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