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KITCHEN TABLE ECONOMICS

How Does Social Security Work For You?

Our Social Security program has been around since 1935 and was originally created to provide Americans with a minimum retirement payment. It is paid for with money earned by each worker in America. Today, that cost is equal to 12.4 percent of the our total salaries. (though it stops collecting when an individual's yearly income tops $117,000.)

These Social Security payments are split in half, with the worker required to pay 6.2 percent and the employer chipping in the other 6.2 percent. So while a worker with a weekly paycheck of $1000 will see $62 deducted, another $62 is sent in from the employer. In other words, Social Security payments raise the employer's real cost of that paycheck to $1062.

Workers born after 1960 will be permitted to collect their full Social Security retirement checks each month after they turn 67. Unlike individual retirement accounts such as mutual funds, Social Security does not belong to the person who earned the money. When a worker dies, unless there is a surviving spouse or young children, the government keeps the rest of the money. This is true even if a worker dies before retirement age.

Presidents from both political parties - such as Democrat Bill Clinton and Republican George W. Bush - have each proposed allowing workers to own and personally invest some of their Social Security savings. Some simple math demonstrates why this might be an attractive idea.

Assume a 22 year old worker in 1990 could personally own and invest her 6.2 percent portion of Social Security, letting the government keep the employer's 6.2 percent for a retirement welfare program to care for low income and disabled citizens.

Our 22 year old may have started out earning $26,000 in 1990. Assume she received only modest raises for the rest of her life, equal only to the rate of inflation. This year, she is 46 years old and will earn about $47,000.

A conventional S&P 500 retirement mutual fund has returned an average of 10 percent per year since 1990. If our worker had been allowed to own and personally invest her 6.2 percent since 1990, then this year she would already have more than $190,000 saved for retirement - about four times her current salary.

Compare that to today's retirees, whose average annual Social Security payment is less than $16,000.

At this pace, if she retires at age 67, her final year salary will be about $79,000, but her Social Security savings equivalent will have grown to more than $1.8 million. That's nearly 23 times her salary, way more than enough to maintain that standard of living for the rest of her life.

Employees work hard for the 6.2 percent that they put into Social Security, and employers work hard to provide the matching contributions. Is the government allowing all that money to work hard enough for the people who earned it?