MarketWatch

How a college degree is like a Social Security check

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Admit it – you made some very questionable fashion decisions in your teenage years. If you cast your mind back, or pull out an old yearbook from high school, it's likely to make you wonder, "What was I thinking? What were WE thinking?"

From sheath-and-heels to pompadours, from tie-dye to perfect Farrah-Fawcett feathered hair, on to bell bottoms, powder-blue frilly tuxedos, neon shirts over peg-leg pants, Goth make up … those pictures don't lie. No matter the decade, our formative years were full of (mostly) low-cost, low-consequence personal styling choices that definitely didn't stand the test of time.

Happily, we've moved on. Along with advances in grooming and styling, we decided to invest in additional skills and knowledge professionally. For many Americans who are approaching or in retirement, choosing to 'Be Cool, Stay in School,' paid off even more handsomely than shaving off those pork-chop sideburns.

Back then, you decided to go to college before entering the world of work full time. Today, big financial decisions loom as you exit that same work-world. Since cutting the very first check on Jan. 31, 1940 to Ida May Fuller (who ultimately lived to be 100 years old), the U.S. government has offered an income entitlement for older workers in the form of OASDI, which stands for old age, survivor and disability insurance. More commonly referred to as Social Security, a majority of working folks do pay into the Social Security insurance system. The 6.2% salary reduction is a mandatory withholding on your first $127,200 of income in 2017. This payment is matched by the employer, whether the worker is traditionally employed or self-employed.

What's not mandatory, though, is drawing your benefit before full retirement age, or even before age 70! Back when you were just 17, you may have wondered,

"Will you still need me, will you still feed me, When I'm 64?"

By the time you hit age 64, though, getting a check that covers the monthly groceries started to look pretty appealing. Why wait?

It seems that only a minority of Americans understand how to truly maximize their benefit from the Social Security Administration. Like the good-looking prom king who saved up his money and bought a hot-rod to impress the chicks, today's 62-year-olds may believe that getting any check, sooner, seems like an excellent idea. Why defer when you can have fun now, they ponder?

Why waiting works

Those of you who, in high school, played the role of the university-bound Dexter rather than the homecoming royalty found out that waiting works wonders. Can you see the parallels between the earnings power of an advanced college degree and the lifetime benefit for you and/or your spouse garnered by an age 70 start date to your Social Security benefit?

The National Center for Education Statistics found that current (2014) median earnings for young adults ages 25-34, based off the highest education earned are:

•High school drop outs: $25,000

•High school graduates: $30,000

•College grads (with a bachelor's degree): $49,900

•Advanced degree holders: $59,100

And the differences have grown over the years. According to a Pew Research study, compared to their boomer grandparents, millennials will have twice the impact on their salaries by postponing the working years and going to college.

Social Security has similar timing tradeoffs. For each year you wait to draw, between ages 62-70, your benefits increase at 8% per year, plus a cost-of-living adjustment (tiny!). For example, if you were born in 1954 and are expecting a check for $1,000 per month beginning at your FRA of 66 in year 2020, then you have a decision to make today:

1.keep waiting,

2.pause your benefit to let it grow for several more years, or

3.start now

Age 62	FRA age 66 (born 1954 or before)	Age 70
$750 a month	$1,000 a month	$1.320 a month, plus inflation

Let's be clear: the decision to turn on your Social Security benefit is not dependent on whether or not you've quit your job. There are factors to consider, such as the Earnings Test, which will 'claw back' $1 for every $2 you earn … but only between ages 62-65. Also, half of your Social Security benefit becomes taxable if you are married filing jointly and earn more than $32,000 (almost all, or 85%, of the benefit you receive, becomes taxable when you earn more than $44,000). This earnings threshold takes account of income from all sources, including tax-exempt interest and withdrawals from your tax-deferred IRAs. It's never been indexed for inflation. So, it's hard to avoid.

But remember, the Internal Revenue Service is taxing the lifetime income that the Social Security Administration is giving you. You can't outlive it, even if you cumulatively draw out more than you, or your spouse, ever contributed over your working lifetime. That has real value.

'How terribly strange to be 70…'

Simon & Garfunkel famously sang, "How terribly strange to be seventy …" in their song "Old Friends," released in 1968. Both men are now 70-plus. Let's look at cumulative Social Security earnings for folks who wait until this terribly strange age, according to the J.P. Morgan Guide to Retirement 2017 Edition:

Monthly check	Cumulative individual benefits collected at age 76	Cumulative annual benefits collected at age 80	Cumulative annual benefits collected at age 90
$2,141 per month at age 62	$465,000	$623,000	$1,095,000
$3,209 per month at age 66y, 2m	$477,000	$689,000	$1,326,000
$4,646 per month at age 70	$422,000	$700,000	$1,532,000

Just as high school graduates these days earn 20% more than high school drop outs, folks who allow their Social Security benefit to grow by 8% per year ultimately 'out earn' their early-drawing peers by significant amounts. The longer they — or their surviving spouses — live, the greater the cumulative benefit.

'But wait," you say, "as a teenager, I believed I was immortal. As a retiree, I know I'm not." The reframing of the Social Security calculus is this: your goal is to NOT outlive your money. Therefore, maximizing a lifetime income is the safe bet. This is especially true if you have a spouse who survives you and is younger than you are. Unlike a university degree, the Social Security benefit transfers upon death to your surviving spouse, who can draw on it for the rest of his or her natural life.

Take a smaller check, sooner?

Admittedly, there may be situations where it makes sense to turn on the spigot now, i.e., take a smaller check, sooner.

•Fact: Social Security is about 73% funded through year 2083 . It's a payroll tax, so money comes in weekly, monthly, and annually, as long as someone out there is employed.

•Fact: The Social Security Administration's recent changes are improving the viability and solvency of this program. Moving FRA later (from age 65 … to 66 … to 67) and increasing the Social Security wage base rapidly in the past decade are major contributors to the program's coverage ratio.

•Fact: Consider your personal issues when deciding to submit an application for benefits. What's your health standing? What life expectancy can you thoughtfully and unemotionally consider? Try the Real Age test. Do you need income? Do you anticipate that you'll continue to work after you begin drawing this check? And finally, what about your spouse — how does he or she answer these questions?

•Fact: Your check from Social Security will probably not be enough money to live on. You'll need additional savings in the form of retirement accounts and other assets to supplement your lifestyle.

•Extra credit: Can you imagine working part time and just supplementing your income from savings, as a way to defer and draw a much larger check later? Locking in the biggest lifetime income check you can, could put less pressure on your nest egg later in life.

Whether you do or do not like the outcome of these calculations and conversations on your household's long-term retirement income, you do have options.

Homework: Review your Social Security statement, available here. Then:

• determine whether or not it's accurate

• are there any years missing?

• can you bolster the size of your future check by working (that is allowed!)?

You're not alone in putting some time and some brainpower into your retirement income calculations, given advances in longevity, particularly for upper-middle and upper-income households. In fact, more and more folks are extending their years in the workforce, according to Ben Steverman at Bloomberg . In his article, "Working Past 70: Americans Can't Seem to Retire," Steverman cites Bureau of Labor Statistics data showing that 19% of people age 65 or older are working at least part-time this year. Significantly, "this age group's employment/population ratio hasn't been higher in 55 years," he states.

Clearly, the girl you sat next to in Geometry class back in 1968 has figured out that — with extra years in the workforce, earning more — the math is on her side. Folks today are staying in the workforce for myriad reasons; from the list below, what's yours? Read J.P. Morgan Guide to Retirement 2017.

□Try a new career

□Job opportunity

□Enjoy working

□Stay active and involved

□Decreased value of savings or investments

Keep insurance or benefits

Make ends meet

Buy extras

From making sure your earnings record is accurate, to considering the impact of your claiming strategy on not only yourself but your spouse, you have choice and control over how you manage this lifetime income benefit. Get informed, and decide from facts rather than emotion, when filing for your benefit. Think hard before joining the ‘in crowd’ of early claimers with their small checks. For many people, waiting works wonders. You’ve done it before; be as thoughtful about maximizing your Social Security check as you were about maximizing your value in the workplace, in the first place.

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