Evaluating the Benefits of Social Security

The graph shows the maximum amount of Social Security withholding from 1978 through 2010.

DATA

Maximum Employee Contributions for Social Security (1978–2010)
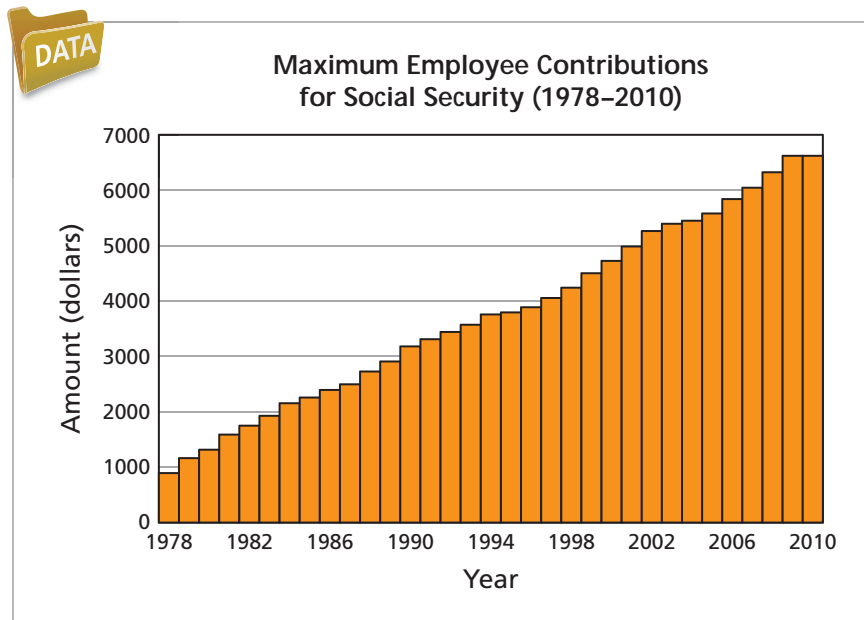
If you had paid the maximum Social Security tax each year from 1978 through 2010, both you and your employer would have paid about $124,166, for a total of about $248,332 toward your retirement benefits.

EXAMPLE 3 **Evaluating a Social Security Retirement**

Suppose you started your career late in life. You worked for 10 years and paid the maximum employee contribution to Social Security. At age 66 in 2010, you started to receive a retirement benefit of $1220 per month. Compare the amount you put into the system with the amount you will receive.

SOLUTION

Over 10 years, you would have paid about $58,000 into the system. Your employer matched this. If all payments had earned 4% interest each year, the total would have grown to about $140,000. The life expectancy of a 66-year-old is about 20 years. Over the 20 years, you will receive

Total receipts $= 20(12)(1220) = \$292,800$.

Although this comparison is oversimplified, you can still see that the two amounts are very different. In other words, the government will pay you much more than you paid it.

✓ **Checkpoint**

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People often say, "If I could invest my Social Security tax into a private retirement system, I could end up with a better retirement than the retirement I will receive from Social Security." Analyze this statement. Is it true for all workers? Is it true for any workers?