

Social Security: How to Shoot Yourself in the Foot

Written on June 3, 2014 by [Sharon O'Day](#) in [Finances](#), [Handling Money](#), [Saving for Retirement](#), [Women and Money](#)

235 FLARES

<http://sharonoday.com/social-security/>



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[Audio Social Security](#)

We never really pay attention until it's "about us."

And by then, it's too late.

As employees, we have little choice about what's declared to Social Security: our employer takes out of our paycheck both the employer's portion and ours.

But as entrepreneurs (whether we have a job elsewhere or not) ...

As entrepreneurs, we live in a world of "I'll do the best I can today and I know I'll have more money in the years to come." That's an entrepreneur's natural optimism. But that means that ***we give priority to our cash flow today to be sure we'll have the resources needed to build or maintain our businesses.***

(Retirement is the last thing on our minds.)

That mindset also affects what we declare as salary when we have a choice.

For example, say we are set up as a "Sub S" Corporation and we take part of our income as salary and part as profits from the corporation. We pay taxes, regardless what we call it. But we

may take a bit less as salary because that implies having to pay Social Security and Medicare on those earnings.

When we're young, our need for cash flow feels far more important than our future need for Social Security income.

Time for Social Security

Then, *sometime in our sixties, we start looking in earnest at what we'll receive from Social Security*. We start researching how the payments are calculated. (For some reason, we're totally disinterested until it's almost time to apply for this benefit.)

[Here's](#) how it works (great little worksheet on that link!):

“Social Security benefits are based on your lifetime earnings. Your actual earnings are adjusted or “indexed” to account for changes in average wages since the year the earnings were received. Then Social Security calculates your average indexed monthly earnings during the 35 years in which you earned the most. We apply a formula to these earnings and arrive at your basic benefit, or “primary insurance amount”. This is how much you would receive at your full retirement age—65 or older, depending on your date of birth.”

In short, they take the top 35 years of income (adjusted), add it together and take an average. Say you have 40 years in which you reported income. They'll take the top 35 years and ignore the rest. But say you have only 33 years in which you reported income. They'll take those 33, add zeroes for the missing years, and average that.

Needless to say, each year is important but those “zeroes” are killers!

And by then, *oh how we wish we had taken higher salaries and paid the darn Social Security*. But it's too late.

How I Shot Myself in the Foot

Why am I writing about this? Because *I just got a wake-up call* about the early years in my business. Then, cash flow felt so critical that I took a modest salary from my corporation and let the difference flow through as profits. Nothing “wrong” about what I did.

But it was very short-sighted. If I had taken more as salary and paid the extra 15% or so, I'd have made it up somehow. I could have just cut out one of those forgettable vacations. Or tightened my belt.

But today that fact is locked into the amount of money I will receive as Social Security benefits for the rest of my life.

This is just a heads-up. Retirement and Social Security feel like distant mirages, a lifetime away. (And the popular thing to do today is just write off Social Security altogether, saying it won't be there for you when the time comes.) But ***that time is not so far away. No matter how young you are now, it sneaks up on you.***

And you'll bear the brunt of those decisions forever.

Take it for what it's worth ... a little heads up, ***a "gift" from someone who is a money expert. But who still made the dumb moves so many of us make.***

Try not to make them yourself.

And let us know in the Comments section below if you ever check to see how much [Social Security estimates](#) you'll receive when the time comes.

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Bio: [Sharon O'Day](#) fixes financial lives. She is a tell-it-like-it-is money expert with a successful career in global finance, plus an MBA from [the Wharton School](#). Today she specializes in getting entrepreneurial women over 50 back on their game so they can have more money, less stress and more joy. With her "Over Fifty and Financially Free" strategies, they take actions that lead to their ultimate goal: [financial peace of mind](#).

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[A. Lynn Jesus](#) • [a year ago](#)

Nice post!! I admit that I don't spend a lot of time thinking about social security. (I often wonder if it'll even be there when I am of age to claim it.) But thank you for sharing your lesson learned. It's great information to think about!

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[Sharon O'Day](#) Mod [A. Lynn Jesus](#) • [a year ago](#)

Lynn, I think I hear "me" a few decades ago, and I know it's really difficult to think Social Security will someday matter. We too wondered if there would be money there for us. And I'm sure people gave me good advice. (I filed it that away under "Someday.") All I know is that "Someday" eventually arrives. Please tell me you're at least saving something somewhere ... ;-)

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[UnveiltheWeb](#) • [a year ago](#)

Sharon, that's a great lesson learned. Unfortunately, I'm not willing to put my future in the hands of the gov't for my retirement. I do not believe it will be there. So, I will find more creative ways to save at higher returns. So many retiring over the next 5-10 years that there will be more people in retirement than in the workforce, and they are living longer (fortunately). That is not a recipe for a sustainable program in my opinion. So, I have chosen to follow the method you outlined above by paying myself less and investing the difference, and more, elsewhere. The positive for me, I'm aware of what I'm doing and I'm intentional about it.



[Sharon O'Day](#) Mod [UnveiltheWeb](#) • [a year ago](#)

That makes sense as a conscious choice, Don. Having the discipline to invest independently in order to maximize retirement resources is perfect. You won't get any push-back from me! ;-) I don't care how people gather up those resources; I only care that they do! Bravo!



[Gina Stroud Binder](#) • [a year ago](#)

Thanks for sharing a lesson you learned the hard way, Sharon! To be honest, I think about this mainly when we receive our future estimates from SSA. As I grow older, I pay more attention, but my main focus and hope is on personal retirement investments. Thanks for highlighting the temptation to lowball the salary in an S-corp. With finances, we truly need a broad focus.

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[Sharon O'Day](#) Mod [Gina Stroud Binder](#) • [a year ago](#)

They don't mail out those annual statements any more, Gina, part of the Government budget cutbacks. So we should probably make an annual appointment with ourselves to check them online for accuracy; as supplemental income it will be appreciated. But that you also have the discipline to make those retirement investments is terrific; too many do not. And, inescapably, we each live the consequences of our own decisions ... Sounds like you'll be fine!

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[Steven Arthur](#) • [a year ago](#)

Thanks for bringing this into the light Sharon. I learned about this a few years ago. The point that has bitten me is the 'minimum amount' to qualify for a fully vested year. In some years I missed the amount by \$100-\$500 in annual income, so it basically doesn't count. Had I known then....

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[Sharon O'Day](#) Mod [Steven Arthur](#) • [a year ago](#)

That's another whole article, Steven, and thanks for raising it. For those looking to understand those details, here's a link I found from Social Security (<http://www.ssa.gov/retire2/cre...> and another one on Google (<http://bit.ly/UlfZdM>) that might be a little easier to sort out ...

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[Barbara Klein](#) • [a year ago](#)

We have a similar system in Switzerland and I can fully relate to your post and experiences. The modest salary system does not pay in the long run nor do "missing contribution years" (and it is up to you to prove that you have paid your social security dues). Quite a task as Social Security did not use to have one centre for payments but had offices all over Switzerland and registration was - how can I say this politely? - hazardous event.

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[Sharon O'Day](#) Mod [Barbara Klein](#) • [a year ago](#)

I'm tracking down a missing year as well, Barbara, which the tax people did not report forward. However, I have to admit that both our senior medical service (Medicare) and Social Security have been amazingly well organized!

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[Kung Phoo](#) • [a year ago](#)

ss is a great source of income to have for retirement in addition to other vehicles you have set up.. Some people fully survive on it..

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[Sharon O'Day](#) Mod [Kung Phoo](#) • [a year ago](#)

Yes, they do fully survive on it, Rob. Everyone assumes they won't need their Social Security benefits and they'll have all sorts of other assets at retirement age. But things like the 2008 financial upheaval happen and they may find Social Security becomes an important part of their retirement package. That's why I'm suggesting learning more about it, how to maximize it, etc. If it's not essential when the time comes, find something charitable to do with it. Or just enjoy it; you earned it!

o



[Pat Moon](#) • [a year ago](#)

Been there.. done that! My friend and I just had a conversation about SS. I am 71 and she will be in July. She thought I should be getting more SS than her because I had worked more years but most of the time I was self-employed and didn't pay into SS. She and I get an amount equal to 1/2 of our husband's SS. If we out live our husband we will then qualify to receive their SS and will lose what we are getting now. If I would have paid in enough to get more than 1/2 of my husband's then I would collect that instead of 1/2 of my husband's. Its good to tell people about how the system works. Another thing I knew about because I was an insurance agent and had been trained in Medicare. My husband was under the impression that you automatically get Medicare without paying anything when you reach 65... not so. You have to sign up for it and agree to have the premium taken out of your SS check. Currently the basic individual premium is \$104.90 per month. You have to meet a deductible and then it only pays 80% of what Medicare approves. Medicare doesn't approve everything so you have to check that out ahead of time. That means you will probably need a Medicare Supplement. I'm getting into a big topic here but people need to have a general idea how it works and be prepared to pay a premium for Medicare.

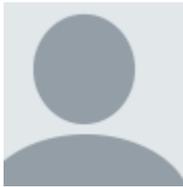
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[Sharon O'Day](#) Mod [Pat Moon](#) • [a year ago](#)

Thanks, Pat. I first wanted to get people's attention on the one element they should look into first: their SS contributions. I'll work the other topics into articles in the future. You're right, there are so many misconceptions. Some are because we don't "dig in" as we need to understand thorough, and the others are because we're misled by how the media and government address the issues. Thanks for the topics list!

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Ashley • [a year ago](#)

Thank you for sharing this important information.

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[Sharon O'Day](#) Mod [Ashley](#) • [a year ago](#)

You're welcome, Ashley.

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[Veronica Solomon](#) • [a year ago](#)

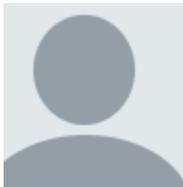
Wow! This is great information! I had no ide how it is calculated. I better make sure I am paying in enough. Then again, will there be SS when I retire?



[Sharon O'Day](#) Mod [Veronica Solomon](#) • [a year ago](#)

Yes, Veronica, there will be. SS may have to shape-shift a bit to match new demographics. (As old as we're living, the age of full retirement may move up a year or two; when designed originally, life expectancies were far younger.) Next we also have to vote in politicians willing to take on this bug-a-boo ... which they will eventually.

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[Kung Phoo](#) • [a year ago](#)

Great tips... its very important to pay into social security even if you are self employed...



[Sharon O'Day](#) Mod [Kung Phoo](#) • [a year ago](#)

"Especially" if you are self employed, Rob!

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[Carly Alyssa Thorne](#) • [a year ago](#)

I Love reading your posts you always have wonderful advise, great insights and great tips and tools for everyone Thank You for You being You...

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[Sharon O'Day](#) Mod [Carly Alyssa Thorne](#) • [a year ago](#)

Thanks, Carly, for your steady support. I know you "get" what I'm trying to achieve ... ;-)

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[Christy Garrett](#) • [a year ago](#)

Great advice. I am young and never knew that I would have to try and use my benefits at an early age. Your social security taxes also help supplement your income if you are unable to work due to a disability. I started freelancing to help earn money but it is no where near what I was making at a full time job.

I agree you are never to young to invest and start thinking about retirement. Things happen in life and you never know when you might need it.

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[Sharon O'Day](#) Mod [Christy Garrett](#) • [a year ago](#)

Christy, you bring up a very important point. I wasn't looking at what would be available in case of disability ... which can occur at any age. Thanks for highlighting that!

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[Carolyn Hughes](#) • [a year ago](#)

I love how you give us the advice we need to know Sharon. It can be so easy just to put off thinking about pensions for another day. You have me convinced that the day is today!

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[Sharon O'Day](#) Mod [Carolyn Hughes](#) • [a year ago](#)

I just keep helping people look behind closed doors, look under rocks, ask questions, read fine print ... all the things that they weren't taught to do when it comes to their financial life!

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[Heather Cameron](#) • [a year ago](#)

Great advice and so important. I'm not in the US but I'll have to look into how our is calculated. Generally I've paid in full but a few bad years there were "zero", nothing to do about that now except make sure it doesn't happen in the future.

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[Sharon O'Day](#) Mod [Heather Cameron](#) • [a year ago](#)

Once you see your contributions for each year, Heather, and know how Canada calculates, you may very well be able to "throw away" the low or zero years because you have enough good ones. But it's worth researching and monitoring. "The rest of your life" is a very long time these days! ;-)

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[fredmurray](#) • [a year ago](#)

My assumption is that by the time I retire Social Security will be bankrupt and there will be no money coming out of it.

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[Sharon O'Day](#) Mod [fredmcmurray](#) • [a year ago](#)

I hear that a lot, Fred. It may look a little different in the future, but it won't be gone. Last week at Social Security I sat next to a guy who said he and his hippie buddies started saying that back in the 1960s, so they "fudged" and didn't prioritize contributions. He also never expected SS to be needed or meaningful. My theory is that, since we don't know for sure, do what protects you best ...

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[Meryl Hershey Beck](#) • [a year ago](#)

Great information. Social Security is definitely something to remember and consider even when young. Time passes quickly and so often we tell ourselves we will catch things up later or make changes and before you realize it that time is gone.

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[Sharon O'Day](#) Mod [Meryl Hershey Beck](#) • [a year ago](#)

Like the fog, Meryl, age creeps up on little cat feet! ;-) Because they adjust your early earnings to today's dollars, even the early ones are important!

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[Tina Ashburn](#) • [a year ago](#)

This is fascinating information. I had no idea about the "zero" years, which I've been doing forever. I will pass this information on because it's vital. Thanks.

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[Sharon O'Day](#) Mod [Tina Ashburn](#) • [a year ago](#)

It is very important, Tina. Granted, a zero year is only a little worse than a \$500 year. But that's not the point: the key is that they don't divide by the number of active years YOU had; they divide by 35 regardless!

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[Nate Leung](#) • [a year ago](#)

This is something that you cannot take lightly. Yes, even though some of us may be young but the years do creep up on us and we need to be aware of that.

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[Sharon O'Day](#) Mod [Nate Leung](#) • [a year ago](#)

Trust me, Nate. One day you're 35 ... and suddenly you're 55. And since you don't feel much different ... especially if you like what you're doing ... you don't feel the years pass.

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[Roslyn Tanner Evans](#) • [a year ago](#)

Yes, we often think we 'need' the cash flow NOW and we will compensate later. I'm glad I was a civil service employee and knew I had social security and retirement handled. I suspect I would have made some poor decisions if I was a struggling entrepreneur.

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[Sharon O'Day](#) Mod [Roslyn Tanner Evans](#) • [a year ago](#)

That's the thought process so many of us fall prey to, Roz. It's the "compensate later" part of the equation that often doesn't happen as planned ...

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[Reginald Chan](#) • [a year ago](#)

Hey Sharon,

In my country, we have something like that too. And yes, higher pay means more earning and after you hit 55, you can cash them out.

Good for old age and future business!

Thanks for sharing your thought.



[Sharon O'Day](#) Mod [Reginald Chan](#) • [a year ago](#)

Fortunately, Reginald, most countries have programs like this. The important thing is for each person to check out how "their" system works so they make the best of it.

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[MariAnnLisenbe](#) • [a year ago](#)

Thanks for the heads up, Sharon. Just did some calculations, and definitely looks like I'll be adding in some zeros! I need to get busy so I can lessen the hit over the next several years. BTW, has the SS age been raised, or is 65 still the cut-off when determining the top 35 years?



[Sharon O'Day](#) Mod [MariAnnLisenbe](#) • [a year ago](#)

Here's the chart, MariAnn: <http://www.ssa.gov/retire2/ret...> -- For those born 1943-1954, full retirement is at 66. Then full retirement moves up gradually, up to age 67 for those born after 1960.

You can take a reduced amount starting at 62, or let the basis grow by not taking it until 70. After 66, the full Social Security basis grows by 8% per year that you DON'T take it, whether you work or not. Then any adjustments stop.

You can also keep working as long as you want, but I believe you're only adding to the basis until 70.

What most don't realize is that if you start taking benefits early (ages 62-66), not only are you getting less-than-full benefits, but your benefits are penalized by whatever you earn (\$1 withheld for every \$2 earned, for example) if you're still working. But at 66, you can earn as much as you want, no penalty. I know it sounds confusing, until you jump in feet first, which I have. So call if you want ... ;-)

o



[Susan Schiller](#) • [a year ago](#)

In 1979 one of my high school teachers made two predictions: "In the future every household will have a computer." and "In the future, there will be no Social Security." We collectively gasped at the former... incredulous, a computer in every home? What would we have thought of people walking around with a palm-size computer, as flat as a tablet of paper in as few as 30 yrs?

In 2008 I was the victim of a ponzi scheme, and in researching about it, I came to understand that Social Security is built on the same principles.... so I guess what I've been thinking, since then - for right or for wrong - is that even if I do get to withdraw my little bit, it's taking out of the pockets of the next generation, who won't be able to withdraw their own funds. I confess this kind of thinking, combined with having been a full-time mom for 20 years, has probably messed me up worse than I thought. And I didn't realize they compute based on 35 years, putting zeros in... yikes, that really is a wake up call!

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[Sharon O'Day](#) Mod [Susan Schiller](#) • [a year ago](#)

Susan, especially starting with Millennials (those born after 1980), the refrain is that Social Security will not be there for them. But a few changes in the structure ... including raising the age for full retirement by a couple of years (remember, we're living so much longer) ... makes it viable. There's simply no political will to force change ... so it's up to Millennials to vote people in with enough fortitude to actually do something.

As for not wanting to "take out your little bit," I'm going to put on my Big Sister face here: Are you personally responsible for the condition of Social Security? Did you work to earn what you will receive? Did you steal? That "little bit," whatever it is, will relieve a little stress in your later years. If you asked your kids what to do, what do you think they'd say? BTW, when we're on hold on the phone with Social Security, they keep reminding us that Social Security makes payments to 50 million people. Susan, do me a favor: take your little bit! ;-)

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