Weighing benefits of early retirement

Vic Brown
is a Philadelphia writer who blogs at http://victorbrown.wordpress.com

As much as I would like to deny it, I am creeping ever closer to retirement, and adding my name to the rolls of all of those who receive government assistance — in my case, Social Security.

After 42 years of steady labor — two years as a high school chemistry teacher, 30 years in the chemical industry, and the last 10 years on the faculty and staff of Ursinus College, I have decided to retire from full-time employment in June. Thereafter, I plan to become an adjunct faculty member at Ursinus, do some consulting for industry, and tackle the huge stack of topics that I have been wanting to write about.

Most of these endeavors are not guaranteed to bring home any bacon. So I looked into collecting Social Security two years ahead of my full retirement age of 66, as a supplement to the pension that I earned during all of those years in the chemical industry.

I knew, of course, that there are limits on outside income if you collect early — they take back 50 cents in benefits for every dollar you make in excess of $14,000 per year. As I considered my own situation, I started thinking about the broader consequences of this policy.

The idea is to discourage people like me from retiring early and drawing those scarce Social Security Trust Fund dollars any sooner than necessary. I get that.

But what about the guy who is laid off at age 64? He can't easily find work and so decides to collect Social Security just to make ends meet. Once he does that, his search for work becomes a little less intense. But that part-time, no-benefits job he finally finds that is supposed to pay $24,000 actually pays less, once the Social Security penalty is deducted from his earnings.

If his job opportunity comes through self-employment as a contractor, then he must not only pay federal, state, and local taxes, but he must pay both employer and employee sides of FICA and Medicare taxes — a 15 percent bite in itself.

Once this person factors in the tax payments and the Social Security penalty, a part-time job isn't looking all that attractive. So he decides to spend his time fishing, and he's a little more careful about what he spends. The upshot is that the U.S. Treasury is paying him and not receiving any tax revenue in return. That's just bad tax policy.

So while we are all fretting over the Buffett rule, and various iterations of a millionaires' tax, let's not forget that the entire tax and entitlement system is broken. A top-to-bottom overhaul is needed. Nothing short of that will address all of the current system's deficiencies.

My own plan is to keep working, keep contributing where I can, and pay self-employment taxes that add up to a significant portion of everything I bring in. My hope is that I come out ahead of what I can draw from Social Security by doing nothing more than playing golf.

But if the economy is not strong, if clients don't think I can help them, if nobody wants to compensate me for my many pearls of written wisdom, then I will probably conclude that my self-marketing efforts are not really worth it. In that case, I'll default to the Social Security alternative and work on my chipping.

But that would mean another person has dropped out of the workforce, with no benefit to government or society. That I do not get.

E-mail Vic Brown at vicbrown@me.com.