The Basics

Your free financial report card

Are you doing enough to prepare for your later years? Your annual Social Security statement can help you figure out how your net worth and paycheck measure up.

By Liz Pulliam Weston

The Social Security statements that U.S. workers get every year -- typically about three months before our birthdays -- are meant to accomplish several tasks, including to:

Remind us that Social Security still exists, even if it is in trouble.

Offer an estimate of future benefits.

Help workers spot missing earnings or possible wage fraud.

If you spot a zero or another figure that's too low in any year, your employer may not have properly reported your wages. Figures that are too high could indicate someone is illegally using your Social Security number. Either way, you'll want to contact the toll-free number on the back: 800-772-1213.

There are a few other things you can do with this handy little document, including the following:

Give yourself a wealth score

This can help you see what you've got to show for the money you've made over the years. Basically, you'll add up all of your earnings, then divide that by your net worth.

Page 3 of your statement shows your earnings record -- what you made each year, as reported by your employers or, if you were self-employed, what you reported.

There are two columns here: Social Security earnings and Medicare earnings. These two columns may be different because Social Security taxes are capped and Medicare taxes aren't. If they are different, use the Medicare column. The results might look something like this:

Medicare earnings

Year	Earnings	Year	Earnings
1990	$21,028	1999	$30,470
1991	$21,812	2000	$32,155
1992	$22,935	2001	$32,922
1993	$23,133	2002	$33,252
1994	$23,754	2003	$34,065
1995	$24,706	2004	$35,649
1996	$25,914	2005	$36,953
1997	$27,426	**Total**	**$455,035**
1998	$28,861		

Now figure your net worth, which is basically what you own minus what you owe. If you use personal-finance software such as Microsoft Money or Intuit's Quicken, you may already know this figure because the software is set up to calculate it automatically. Otherwise, you'll need to add up your assets -- amounts in bank and brokerage accounts, the value of your home, your retirement accounts, etc. -- and subtract from that figure your mortgage, student loans, auto loans, retirement-plan loans and any credit card debt.

Now take your net worth and divide by your lifetime earnings. That's your wealth score. Rick Ulivi, a fee-only financial planner in Orange, Calif., likes to see the following scores for his clients:

In your 20s and early 30s, the desired ratio is somewhere between zero and 25%.

For your late 30s through your 50s, Ulivi wants a ratio between 25% and 100%.

By retirement age, the preferred ratio is 100% to 200%.

You also might be interested in where you stand relative to others your age. The following figures come from the latest Federal Reserve Survey of Consumer Finances, taken in 2004. (For comparison purposes, you can use your age and net worth from that year or from this year; I won't tell.)

The median is the midpoint, the figure at which half of those in the age bracket have more wealth, and half have less. The top 25% and top 10% figures show how much you need to be worth to make it into those brackets. Finally, the "negative" figure shows what percentage of those in the age bracket has a negative net worth (these folks owe more than they own).

Net worth by age

Age	Median	Top25%	Top 10%	Negative
20-29	$7,900	$36,000	$119,300	24.7%
30-39	$44,200	$128,100	$317,800	11.1%
40-49	$117,800	$338,100	$719,800	7.5%
50-59	$182,300	$563,800	$1,187,600	5%
60-69	$209,200	$647,200	$1,429,500	5.8%

Source: Federal Reserve Board's 2004 Survey of Consumer Finances

What if your numbers aren't that impressive? Then use this exercise as a motivator to start building up your net worth. To do that, you've got to increase your assets while reducing your liabilities. Two of the best ways to do that:

Boost your 401(k) or other retirement plan contribution by an additional 1% or more of your pay.

Pay off credit card debt. It's expensive and toxic to your financial health.

Check how you're doing

The Social Security Administration tracks the growth in average wage levels over time. As you can see from the chart below, that growth often exceeds the inflation rate. (The percentage figures show the change from the period five years previous. The average wage for 1970, for example, was 33% higher than for 1965, while inflation for that five-year period totaled 23%.)

Wage growth vs. inflation growth

Year	Averagewage	5-year wage growth	5-year inflation
1970	$6,186	33%	23%
1975	$8,631	40%	39%
1980	$12,513	45%	53%
1985	$16,823	34%	31%
1990	$21,028	25%	21%
1995	$24,706	17%	17%
2000	$32,155	30%	13%
2005	$36,953	15%	13%

Sources: Social Security Administration, Federal Reserve Board

So how does your personal earnings growth compare? Find your earnings figures for every five-year interval, going back to the year you started work. To calculate your growth, subtract the older year's figure from the previous year, divide by the previous year and multiply by 100. Using the chart above, you'd subtract the 2000 year figure of $32,155 from the 2005 figure of $36,953 to get $4,798. You'd divide $4,798 by $32,155 to get .149. Multiply by 100, and you've got 14.9%.

In the early years of your career, your wage growth rate should have, and probably did, greatly exceed the average rate for all workers as you gained skills and productivity. As you near retirement, your wage growth may fall below average. Also, your wage growth may drop below average if you take substantial time off work voluntarily -- to take care of a child or elderly parent, for example -- or involuntarily through job loss.

If your recent wage growth isn't at least keeping up with inflation, that's a sign you may need to investigate new jobs or invest in more training.

Refine your retirement calculations

It's hard to know how much faith to put into the benefits estimates on Page 2 of your Social Security statement, particularly if you're more than a few years from retirement. (If Congress ever does reform Social Security, it isn't likely to trim the payouts of current retirees, although it may subject more of the checks to taxation.)

The Social Security Administration says it will start paying out more in benefits than it collects in taxes in 12 years and that the trust fund will be exhausted by 2041. At that point, the system will collect only enough to pay 74% of promised benefits.

The farther out your retirement and the more money you make, the more you may want to discount the estimated benefits on Page 2. (Higher-income workers may see their benefits cut more than lower-income workers, if Congress decides to preserve the safety-net aspect of the retirement system.) What this means:

If you're in your 20s, you might not want to include the estimates at all when calculating how much you want to save. If you do include them, figure on getting 25% to 50% of the amounts on Page 2.

If you're in your 30s and 40s or make more than six figures annually, you might figure on getting 50% to 75% of the promised benefits.

In your 50s, figure on receiving 75%.

MSN Money's Retirement Planner doesn't give you the option to adjust your Social Security benefit -- you accept its estimate or reject it -- but you can include a smaller number simply by rejecting the Social Security option and using the "other retirement income" slot instead.

Liz Pulliam Weston's column appears every Monday and Thursday, exclusively on MSN Money. She also answers reader questions in the Your Money message board*.*