

Social Security Benefit Formula In Exercises 7–10, use the information below. (See Examples 3 and 4.)

Social Security benefits are based upon lifetime earnings and retirement age. The formula shown is applied to a worker’s average indexed monthly earnings (AIME) to arrive at the basic benefit, or primary insurance amount (PIA). This is how much the worker will receive each month after reaching full retirement age. Multiply this amount by 75% to find the estimated monthly retirement benefit at age 62.

- 7. A worker’s AIME is \$3800. Estimate the worker’s PIA at full retirement age.
- 8. A worker’s AIME is \$6200. Estimate the worker’s PIA at full retirement age.
- 9. A worker’s AIME is \$4500. Estimate the worker’s PIA at age 62.

2010 Social Security Benefit Formula

1. Multiply the first \$761 of the AIME by 90%. \$ _____
2. Multiply the AIME over \$761 and less than or equal to \$4586 by 32%. \$ _____
3. Multiply the AIME over \$4586 by 15%. \$ _____
4. Add 1, 2, and 3. Round down to the next lowest dollar. This is your estimated monthly retirement benefit. \$ _____

- 10. What do you think your AIME will be when you retire? Estimate how much you will receive each month from Social Security at full retirement age. (Neglect inflation.)



Retirement In Exercises 11 and 12, use the information below taken from a worker’s annual Social Security Statement. Assume a 3% cost-of-living increase each year. (See Example 4.)

Your Estimated Benefits	
*Retirement	You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until... <ul style="list-style-type: none"> your full retirement age (66 years), your payment would be about \$ 2,029 a month age 70, your payment would be about \$ 2,678 a month If you stop working and start receiving benefits at... <ul style="list-style-type: none"> age 62, your payment would be about \$ 1,530 a month
*Disability	You have earned enough credits to qualify for benefits. If you become disabled right now... <ul style="list-style-type: none"> Your payment would be about \$ 2,067 a month
*Family	If you get retirement or disability benefits, your spouse and children also may qualify for benefits.
*Survivors	You have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family may qualify for the following benefits: <ul style="list-style-type: none"> Your child \$ 1,550 a month Your spouse who is caring for your child \$ 1,550 a month Your spouse who reaches full retirement age \$ 2,067 a month Total family benefits cannot be more than \$ 3,617 a month Your spouse or minor child may be eligible for a special one-time death benefit of \$255.
Medicare	You have earned enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.

- 11. How long would the worker have to live to make waiting for full benefits more economical than retiring at age 62?
- 12. How long would the worker have to live to make waiting for the benefits at age 70 more economical than retiring at age 62?

