What are Social Security Benefits?

Worksheet

Social Security is a federal insurance program providing monthly benefits to retirees (age 62+), disabled workers, and survivors of deceased workers, funded by payroll taxes.

Questions

1. Social Security is funded by...

A) Income tax
B) Payroll tax (FICA)
C) Corporate tax
D) Sales tax

2. If you claim Social Security at 62 vs Full Retirement Age 67, you get...

A) The same benefit
B) ~30% less per month
C) ~30% more per month
D) Twice as much over lifetime

3. Social Security includes...

A) Retirement benefits only
B) Retirement + disability + survivor benefits
C) Savings account
D) Investment fund

4. To qualify for Social Security retirement, you generally need...

A) 10 quarters (2.5 years) of work
B) 20 quarters (5 years) of work
C) 40 quarters (10 years) of work
D) Employer sponsorship

5. You work for 35 years, earning 60,000,65,000, 70,000 (last year). Your average indexed monthly earnings (AIME) is5,000. At Full Retirement Age (67), your Primary Insurance Amount (PIA) is 32% of $5,000. What's your monthly benefit?

6. You're eligible for $1,600/month at age 67 (FRA). You claim at 62 instead. Reduction is ~30%. What's your monthly benefit?

7. Your spouse earned significantly less. They're eligible for a spousal benefit of 50% of your FRA amount ($1,600). What's their monthly benefit?

8. Define: What is Social Security?

9. Define: When can you claim Social Security?

10. Define: What determines your Social Security amount?

Answer Key

1. B) Payroll tax (FICA) — FICA (Federal Insurance Contributions Act) payroll tax funds Social Security and Medicare.

2. B) ~30% less per month — Early claiming reduces your monthly benefit by ~30%, though you collect sooner.

3. B) Retirement + disability + survivor benefits — Social Security covers retirees, disabled workers (SSDI), and families of deceased workers.

4. C) 40 quarters (10 years) of work — 40 quarters (~10 years) of covered earnings needed for retirement eligibility.

5. PIA (simplified) ≈ 32% × 5,000 AIME =1,600 monthly at FRA (age 67)

6. 1,600 × (1 − 0.30) =1,120 monthly Early claim costs you ~30% lifetime, but you get 5 years of payments sooner

7. Spousal benefit = 50% × 1,600 =800/month Their own benefit must be less than this to qualify for the spousal addition

8. A federal insurance program funded by payroll taxes, providing benefits to retirees, disabled workers, and survivors.

9. Age 62 (reduced benefit), Full Retirement Age 67–70 (full benefit), or delayed 70+ (increased benefit).

10. Your 35 highest-earning years. More earnings = higher benefit. Taxes cap at ~$168,600/year.