Contribution Structure

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Payroll Tax Contribution Rates for the OASDI Program

- Employees in *covered employment,* and their employers, each pay 6.2 percent of the employee's *taxable earnings* (12.4 percent is the *combined rate*)
- Self-employed individuals make contributions and pay the full 12.4 percent
- The contribution rate for the OASI program is generally 10.6 percent, while it is 1.8 percent for the DI program
  - The Bipartisan Budget Act of 2015 provided a temporary tax rate reallocation from OASI to DI from 2016 through 2018

Contribution and Benefit Base

- This is an annual dollar amount above which earnings in employment covered under the OASDI program are neither taxable nor creditable for benefit computation purposes. Sometimes called “the cap”
- $127,200 for calendar year 2017. This means:
  - $7,886.40 is the maximum Social Security tax an individual wage and salary worker will pay for 2017
  - The maximum amount of earnings for 2017 that can be used in the average indexed monthly earnings (AIME) calculation (upon which the primary insurance amount is based) is $127,200
- This is an *average-wage-indexed* amount

Taxable Ratio

- The 1977 amendments to the Social Security Act raised the contribution and benefit base so that the ratio of *total taxable payroll* to *total covered earnings* was about 90 percent
- Wage indexed thereafter
- This ratio has declined over time due to increasing earnings level disparities, and is now about 83 percent

Proposals Based on Contribution Structure

- Based on the Intermediate Assumptions of the 2017 Trustees Report, the actuarial deficit could be eliminated by increasing the combined payroll tax rate by 2.93 percent, to 15.33 percent
- BUT: the OASDI program has large and increasing annual deficits toward the end of the long-range period
- Proposals to increase tax revenue involve
  - Raising payroll tax rates
  - Raising the contribution and benefit base
  - Other more sophisticated mechanisms (e.g., taxing premiums on employer-sponsored group health insurance)

Contribution and Benefit Base Proposals

- Could eliminate the "cap" completely, and either
  - Count the additional earnings towards benefits …
  - … or not!

- Raise the "cap" so that it reaches a certain taxable ratio by a certain year
  - For example, raise the contribution and benefit base until it covers 90% of all taxable earnings in 2023
  - As a reference, a base of $250,000 covers about 90% of taxable earnings in 2017

Beyond The Cap

- Expand covered earnings to include employer and employee premiums for employer-sponsored group health insurance
- Expand covered earnings to include contributions to more voluntary salary reduction plans (like Cafeteria 125 plans and Flexible Spending Accounts)
  - Subject these contributions to the OASDI payroll tax, making the payroll tax treatment like 401(k) contributions
- Apply a 6.2 percent tax on investment income as defined in the Affordable Care Act, with unindexed thresholds as in the ACA ($200,000 for single filer, $250,000 for married filing jointly)

Questions?

- *Visit www.ssa.gov/OACT for a wealth of information and actuarial resources*