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
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