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## Introduction

The Federal Insurance and Self-Employment Contribution Acts (FICA and SECA) require the withholding of taxes from wages of employed persons and the net earnings of most self-employed persons for the Social Security and Medicare programs. In 2002, earnings up to \$84,900 in covered employment were subject to Social Security (Old-Age, Survivors, and Disability Insurance, OASDI) taxes. There was no limit on annual earnings subject to Medicare Part A (Hospital Insurance, HI) taxes.

Under Social Security, the tax rate was the same (6.2 percent) for both employees and employers. The rate for self-employed workers equaled the combined employee and employer rate of 12.4 percent. Under Medicare, the rate was also the same (1.45 percent) for both employees and employers. For self-employed workers, it was 2.9 percent.

The amount of Social Security taxable earnings is determined first by counting wage and salary earnings and then any self-employment income up to the taxable maximum. The amount of taxes includes both the employee and employer shares for Social Security.

Data in this report are not adjusted for multiemployer tax refunds. Employees pay taxes on their earnings up to the annual taxable amount for each employer that they work for during the year. Employees who work for two or more employers and earn more than the annual maximum taxable amount over the course of the year pay excess contributions that are later refunded. Corresponding employer contributions are not refunded.

Two deduction provisions reduce the SECA and income tax liability of self-employed persons, with the intent of treating them the same as employees and employers for purposes of Social Security and income taxes. Taxable net earnings from self-employment is determined by reducing net profit from self-employment by an amount equal to net profit times one-half of the combined SECA tax rate. The resulting amount is not taxable for Social Security if less than \$400. In addition, self-employed persons may deduct one-half of their SECA taxes as an adjustment to income on Internal Revenue Service (IRS) Form 1040.

This report presents 2002 earnings and employment data for persons covered under Social Security and Medicare in the 50 states, the District of Columbia, and Puerto Rico. It shows members of the armed forces and reserves

according to the residence listed on their W-2 form. Workers in American Samoa, Guam, Northern Mariana Islands, and Virgin Islands; U.S. citizens employed abroad by U.S. employers; persons employed on U.S. oceanborne vessels; and workers with unknown residence are grouped together as Other. The data are presented by sex, race, and age.

The report uses a residence-based geographic coding system. State and county designations are based on employee residence shown on the W-2 wage reports that employers send to the Social Security Administration (SSA) by magnetic media or electronic filing and on self-employment earnings reports on Schedule SE. Magnetic media or electronic filing account for about four-fifths of the total reports, and that figure is increasing each year. Employers with 250 or more employees must use magnetic media or electronic filing, and many smaller firms do so voluntarily.

For employers who file on paper, the location of employment is used to represent the worker's residence because of the relatively high cost to SSA of obtaining the worker's residence from those reports. Based on comparisons of residence codes for all workers who have both a wage and salary job and self-employment, about 96 percent have the same state code for their wage and salary job as they do on their Schedule SE. Where a county code is not available, the residence is shown as Unknown within the state.

The tables show workers with earnings reported in more than one state or county during the year in one location, mainly their end-of-year residence. The logic sequence for coding a workers' residence begins with the address reported on Schedule SE. If the worker files no Schedule SE, the address from the magnetic media or electronic report showing the highest taxable wages paid under Medicare is used. If there are only paper reports, the employer address from the report showing the highest taxable wages paid under Medicare is used. Workers with earnings reported in both wage and salary jobs and self-employment are counted in each type of employment, but only once in the total.

Data in this report were obtained from the 1 percent Continuous Work History Sample (CWHS), derived from W-2 wage reports and from IRS Schedule SE of Form 1040. The sample data were inflated to correspond to SSA estimates for U.S. totals. For some counties, different

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weighting factors result in small discrepancies between the estimated number of workers in Social Security employment and the number in Medicare employment. All employment covered by Social Security is also covered by Medicare.

Since this report is based on a 1 percent sample, the data are subject to sampling variability. Each number is actually an estimate of the true value in the overall population. A result of sampling is that the numbers have a level of uncertainty, and this uncertainty increases as the numbers get smaller. Therefore, the user should view numbers shown here, particularly the relatively smaller ones, with that result in mind. Sampling variability is described in the appendix. To protect the privacy of workers, table cells with fewer than 3 sample cases at the state level and 10 sample cases at the county level are not shown.

SSA collects race and ethnic data from Form SS-5 (Application for Social Security Card). Responses to the race question are voluntary. From 1936 to about 1980, SSA limited the race and ethnic designations to White, Black, and Other. After that, SSA revised the form to have five designations in response to Office of Management and Budget Directive No. 15 (May 12, 1977), "Race and Ethnic Standards for Federal Statistics and Administrative Reporting." Those designations are White, not of Hispanic origin; Black, not of Hispanic origin; Hispanic; Asian or Pacific Islander; and American Indian or Alaska Native. Because much of the race data in

this report come from the old SS-5, the report shows only White and Black and includes any other designations in the overall totals. White and Black are not exactly comparable under the old or new standards because the categories White and Black now exclude those of Hispanic origin. In an attempt to make White and Black coding as complete as possible, Hispanic workers in each state have been recoded to White or Black in the same proportion as the overall Hispanic population in each state using data from the U.S. Census Bureau. Earnings for Hispanics were coded to White or Black using the same percentages.

All tables show the number of persons with taxable earnings under the Social Security and Medicare programs, the amount taxable, and the amount paid (FICA and SECA taxes).

The data for the OASDI program (Tables 1–3) exclude the earnings of persons in jobs covered by Medicare only, for example, government employees hired after March 1986 under state and local retirement plans and federal employees hired before 1983 under the Civil Service Retirement System. However, their earnings from any part-time employment or self-employment under Social Security are counted.

The data for the HI program (Tables 4–6) include earnings over the Social Security taxable maximum and any earnings in jobs covered by Medicare only (such as government employment described above).