

# CRS Report for Congress

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## Social Security and Medicare Taxes and Premiums: Fact Sheet

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**Taxes:** Financing for Social Security—Old Age, Survivors, and Disability Insurance (OASDI)—and the Hospital Insurance (HI) part of Medicare is provided primarily by taxes levied on wages and net self-employment income. They are referred to as FICA taxes (for Federal Insurance Contributions Act) and SECA taxes (for Self-Employment Contributions Act). The FICA tax is paid by employees and employers; the SECA tax is paid by the self-employed (about 96% of the work force is required to pay them). Both have three components: OASI, DI, and HI. The FICA tax was first levied in 1937 at a rate of 1% (for both employee and employer) on earnings up to \$3,000. The current rate is 7.65% — 6.2% for OASDI, 1.45% for HI. The SECA rate for the self-employed is 12.4% for OASDI, 2.9% for HI. The OASDI tax is levied on earnings up to \$87,900 in 2004 (earnings subject to the OASDI tax are indexed to increases in the national average wage). The HI tax is levied on all earnings. This fact sheet is updated annually.<sup>1</sup>

**FICA and SECA Tax Rates (in percent)**

| CY   | Rate paid by employee & employer |     |       |      |       | Self-empl. rate |                                 | Maximum taxable earnings |
|------|----------------------------------|-----|-------|------|-------|-----------------|---------------------------------|--------------------------|
|      | OASI                             | DI  | OASDI | HI   | Total | rate            |                                 |                          |
| 1937 | 1.0                              | —   | —     | —    | 1.0   | —               | \$3,000                         |                          |
| 1950 | 1.5                              | —   | —     | —    | 3.0   | —               | \$3,000                         |                          |
| 1960 | 3.0                              | .25 | 2.75  | —    | 3.0   | 4.5             | \$4,800                         |                          |
| 1970 | 3.65                             | .55 | 4.20  | 0.60 | 4.8   | 6.9             | \$7,800                         |                          |
| 1980 | 4.52                             | .56 | 5.08  | 1.05 | 6.13  | 8.1             | \$25,900                        |                          |
| 1990 | 5.60                             | .60 | 6.20  | 1.45 | 7.65  | 15.3            | \$51,300                        |                          |
| 1995 | 5.26                             | .94 | 6.20  | 1.45 | 7.65  | 15.3            | \$61,200 (OASDI); no limit (HI) |                          |
| 2000 | 5.30                             | .90 | 6.20  | 1.45 | 7.65  | 15.3            | \$76,200 (OASDI); no limit (HI) |                          |
| 2004 | 5.30                             | .90 | 6.20  | 1.45 | 7.65  | 15.3            | \$87,900 (OASDI); no limit (HI) |                          |

**NOTE:** Until 1991, the amount of maximum taxable earnings was the same for OASDI and HI. In 1992, the amount of maximum taxable earnings for HI was raised to \$125,000. In 1993, it was raised to \$135,000. For 1994 and thereafter, the HI tax is levied on all earnings. Tax credits were provided to the self-employed for the period from 1984 through 1989. For 1990 and later, only 92.35% of net self-employment earnings is taxable and half of the SECA taxes so computed is deductible for federal income tax purposes.

<sup>1</sup> This report was written by former CRS analyst Geoffrey Kollmann.

**Examples of Annual FICA and SECA Tax Payments, Selected Years 1950-2004**

| Calendar year | Average-wage earner <sup>a</sup> |                   | High-wage earner <sup>a</sup> |                   |
|---------------|----------------------------------|-------------------|-------------------------------|-------------------|
|               | FICA <sup>a</sup>                | SECA <sup>b</sup> | FICA <sup>a</sup>             | SECA <sup>b</sup> |
| 1950          | \$38                             | —                 | \$45                          | —                 |
| 1960          | \$120                            | \$180             | \$144                         | \$216             |
| 1970          | \$297                            | \$427             | \$374                         | \$538             |
| 1980          | \$767                            | \$1,014           | \$1,588                       | \$2,098           |
| 1990          | \$1,609                          | \$2,748           | \$3,924                       | \$6,234           |
| 2000          | \$2,460                          | \$4,203           | \$7,624                       | \$12,140          |
| 2004          | \$2,770                          | \$4,732           | \$8,350                       | \$13,411          |

<sup>a</sup> Employee share only for FICA column. An average-wage earner is assumed to be someone who earned average wages throughout his or her working years (average wages are estimated for 2004). For 1950 through 1990, a high-wage earner is assumed to be someone who earned the maximum wage level subject to OASDI and HI taxes. For 2000 and 2004, a high-wage earner is assumed to be someone who earns \$200,000 a year.

<sup>b</sup> For 1990 and later, figures in the table are net of federal income tax deduction equal to one-half of SECA taxes. In 1990, the average and high-wage worker is assumed to be in the 15% and 28% marginal tax brackets, respectively. In 2000, they are assumed to be in the 15% and 36% marginal brackets, respectively. In 2004, average and high-wage earners are assumed to be in the 15% and 35% marginal brackets, respectively.

**Workers Exempt From FICA and SECA Taxes**

**State and local government workers** participating in alternative retirement systems

(HI tax is mandatory for state and local government workers hired since April 1, 1986).

**Election workers** earning \$1,200 or less a year.

**Ministers** who choose not to be covered, and certain religious sects.

**Federal workers** hired before 1984 (the HI portion is mandatory for all federal workers).<sup>a</sup>

**College students** working at their academic institutions.

**Household workers** earning less than \$1,400 a year, or for those under age 18, for whom household work is not their principal occupation.

**Self-employed workers** with annual net earnings below \$400.

<sup>a</sup> Federal workers *first* hired in 1984 or later are mandatorily covered. Elected office holders, political appointees, and judges are mandatorily covered regardless of when their service began.

**Medicare Premiums:** Financing for the Supplementary Medical Insurance (SMI) part of Medicare is from premiums paid by enrollees and contributions from the government (government contributions make up approximately 3/4ths of the program's income). In 2004, SMI premiums are \$66.60 per month. The relatively small number of people who do not have a sufficient work record to qualify for HI coverage (40 or more quarters of Medicare-covered employment), or who do not have an eligible spouse, pay HI premiums of \$189 per month in 2004 if they have 30 to 39 quarters of covered employment, or \$343 per month in 2004 if they have fewer than 30 quarters of coverage.

Additional reference: CRS Report 95-543, *The Financial Outlook for Social Security and Medicare*.