

Social Security wage base expected to rise to \$115,500 for 2014

The Social Security Administration's Office of the Chief Actuary (OCA) has projected that the Social Security wage base will increase from \$113,700 for 2013 to \$115,500 for 2014.

Background. The Federal Insurance Contributions Act (FICA) imposes two taxes on employers, employees, and self-employed workers—one for Old Age, Survivors and Disability Insurance (OASDI; commonly known as the Social Security tax), and the other for Hospital Insurance (HI; commonly known as the Medicare tax).

The FICA tax rate for employees and employers is 7.65% each—6.2% for OASDI up to the wage base, and 1.45% for HI (no maximum). Also, there is a 0.9% additional Medicare tax that applies to all wages in excess of \$200,000 (\$250,000 for joint returns; \$125,000 for married taxpayers filing a separate return). (Code Sec. 3101(b)(2)) In effect, this makes the Medicare tax rate 2.35% for wages in excess of those amounts.

For self-employed workers, the FICA tax is 15.3%—12.4% for OASDI and 2.9% for HI. The 0.9% additional Medicare tax similarly applies to self-employment income in excess of \$200,000 (\$250,000 of combined self-employment income on a joint return, \$125,000 for married taxpayers filing a separate return). (Code Sec. 1401(b)(2)) In effect, this makes the Medicare tax rate 3.8% for self-employment income in excess of these amounts.,

Observation: Self-employed workers deduct half of their self-employment tax above-the-line in arriving at adjusted gross income.

Projections for 2014 and onward. The 2014 projections were included as part of the annual report to Congress by the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund programs (The 2013 OASDI Trustees Report). The SSA provides three kinds of forecasts for Social Security wage bases (intermediate, low cost, and high cost). The SSA intermediate forecasts through 2022 are as follows:

- 2014 — \$115,500
- 2015 — \$118,500
- 2016 — \$123,600
- 2017 — \$130,500
- 2018 — \$137,700
- 2019 — \$144,900
- 2020 — \$152,100
- 2021 — \$159,000

- 2022 — \$165,600

Illustration 1: Based on the OCA estimate, on a salary of \$115,500 (or more), an employee and his employer each will pay \$8,835.75 in Social Security tax in 2014.

Illustration 2: Based on the OCA estimate, a self-employed person with at least \$115,500 in net self-employment earnings will pay \$17,671.50 for the Social Security part of the self-employment tax in 2014.

The Social Security wage base is also projected to be \$115,500 in 2014 under the low cost and high cost forecasts. In addition, the OCA projected, as part of the high cost forecast, the possibility that the Social Security wage base might reach \$167,400 in 2022.

Actual annual increases to the wage base are announced in October of the preceding year and are based on then-current economic conditions. As a result, the OCA's forecasts, especially the longer-range ones, are subject to change. Last year, the OCA correctly projected in its 2012 annual report that the Social Security wage base would increase to \$113,700 in 2013.

The OCA is continuing to project that the Social Security trust fund will become insolvent in 2033.