

A Simple and Fairer System to Fund Social Security

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Abstract: FICA withholding from wages is currently used to fund Social Security. It uses a **Cap with no Floor** system, which subjects the first dollar of wage earners salaries to FICA, up to a wage cap, after which FICA is no longer applied. What is shown here, is that a **Floor with no Cap** system is better, for the myriad of reasons provided herein, and should be adopted by Congress to replace the current system.

Introduction

Under the current tax system, wage earners are subjected to FICA withholding, starting from the first dollar they make in a year, up to a yearly Cap, after which wages over it are no longer subject to FICA. This is a **Cap with no Floor** system. There are fundamental issues of fairness, wealth disparity, and economic viability, regarding this approach to funding Social Security (SS), and Medicare.

What is proposed here is that Congress act to replace it with a **Floor with no Cap** system. This system is inherently fairer to more people. It will totally eliminate the current system's burden of subjecting all the wages of poor people to FICA (thus making them poorer), will greatly reduce the burden on middle income wage earners (who for most, also have all their wages subjected to FICA), and more equitably spreads the burden to higher wage earners, who are most able to (and least debilitated from) paying it.

Economically, this will also increase the revenue base to fund SS. The immediate way it does this is by exposing to FICA all the wages above the Cap currently not subject to it. This potential revenue greatly exceeds that which no longer would be generated from wages below the Floor.

Current System

Under the current system, worker's wages are immediately subject to FICA withholding each year. The current FICA rate is 7.65%, of which 1.45% goes to fund Medicare, and 6.2% goes to Social Security, also called OASDI (Old-Age, Survivors, and Disability Insurance). This is matched by the employer at 7.65% for a total of 15.3%, split between Social Security at 12.4% and Medicare at 2.9%.

The 2024 SS employees Cap is \$168,600 (up \$8,400 from 2023); an employee max of \$10,453.20. The max for the self-employed is double, at \$20,906.40. **There is no wage Cap for the 1.45% Medicare portion.** If there was no Cap for SS, it could also raise all its revenue, at a lower rate too, from the same expanded wage base for Medicare.

Sources:

<https://www.irs.gov/taxtopics/tc751>

<https://www.ssa.gov/OACT/COLA/cbb.html>

<https://www.forbes.com/advisor/taxes/fica-tax-rate/>

<https://www.nerdwallet.com/article/taxes/oasdi-tax>

<https://www.nerdwallet.com/article/taxes/fica-tax-withholding>

<https://www.cbsnews.com/news/social-security-benefits-tax-cap-2023/>

<https://www.wsj.com/buyside/personal-finance/what-is-fica-tax-01674395539>

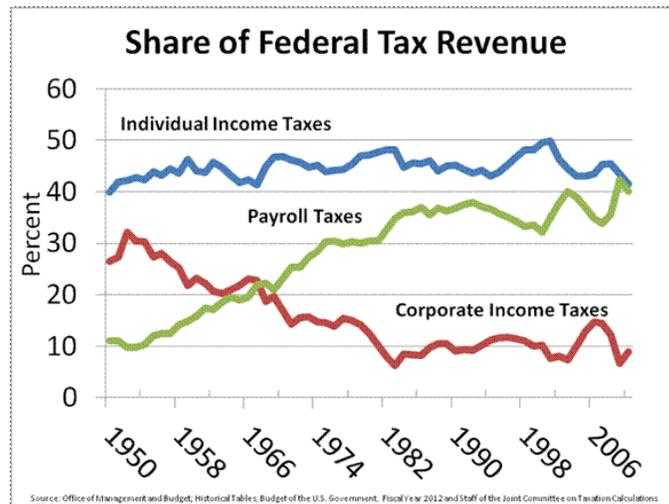
Poverty Level Floor

Below are the 2022/3 poverty levels: <https://www.healthcare.gov/glossary/federal-poverty-level-fpl/>

| Family size | 2022 income numbers | 2023 income numbers |
|--------------------|-----------------------------------|-----------------------------------|
| For individuals | \$13,590 | \$14,580 |
| For a family of 2 | \$18,310 | \$19,720 |
| For a family of 3 | \$23,030 | \$24,860 |
| For a family of 4 | \$27,750 | \$30,000 |
| For a family of 5 | \$32,470 | \$35,140 |
| For a family of 6 | \$37,190 | \$40,280 |
| For a family of 7 | \$41,910 | \$45,420 |
| For a family of 8 | \$46,630 | \$50,560 |
| For a family of 9+ | Add \$4,720 for each extra person | Add \$5,140 for each extra person |

Note: Federal Poverty Level amounts are higher in Alaska and Hawaii. [Get all HHS poverty guidelines for 2023.](#)

For the purposes of administrative simplicity, and to acknowledge the true effective poverty levels in different geographic regions, and economic disparities among different demographics of peoples, a **Floor of \$50,000** will effectively capture all the graduated family size poverty levels with one number. This number could be easily raised, if corporate income and investment profits were also exposed to more taxation|withholding, which Congress has increasingly reduced from former higher levels.



Cap With No Floor Revenues

The economic deficiencies of **Cap with no Floor** to rely only on wage withholding to fund Medicare and SS (along with FICA revenues pilfering for unintended purposes) continually causes the Cap to be raised to makeup for projected shortfalls, as shown below. <https://www.ssa.gov/OACT/COLA/cbb.html>

Contribution and benefit bases, 1937-2024

| Year | Amount | Year | Amount | Year | Amount |
|---------|---------|------|----------|------|----------|
| 1937-50 | \$3,000 | 1986 | \$42,000 | 2006 | \$94,200 |
| 1951-54 | 3,600 | 1987 | 43,800 | 2007 | 97,500 |
| 1955-58 | 4,200 | 1988 | 45,000 | 2008 | 102,000 |
| 1959-65 | 4,800 | 1989 | 48,000 | 2009 | 106,800 |
| 1966-67 | 6,600 | 1990 | 51,300 | 2010 | 106,800 |
| 1968-71 | 7,800 | 1991 | 53,400 | 2011 | 106,800 |
| 1972 | 9,000 | 1992 | 55,500 | 2012 | 110,100 |
| 1973 | 10,800 | 1993 | 57,600 | 2013 | 113,700 |
| 1974 | 13,200 | 1994 | 60,600 | 2014 | 117,000 |
| 1975 | 14,100 | 1995 | 61,200 | 2015 | 118,500 |
| 1976 | 15,300 | 1996 | 62,700 | 2016 | 118,500 |
| 1977 | 16,500 | 1997 | 65,400 | 2017 | 127,200 |
| 1978 | 17,700 | 1998 | 68,400 | 2018 | 128,400 |
| 1979 | 22,900 | 1999 | 72,600 | 2019 | 132,900 |
| 1980 | 25,900 | 2000 | 76,200 | 2020 | 137,700 |
| 1981 | 29,700 | 2001 | 80,400 | 2021 | 142,800 |
| 1982 | 32,400 | 2002 | 84,900 | 2022 | 147,000 |
| 1983 | 35,700 | 2003 | 87,000 | 2023 | 160,200 |
| 1984 | 37,800 | 2004 | 87,900 | 2024 | 168,600 |
| 1985 | 39,600 | 2005 | 90,000 | | |

Note: Amounts for 1937-74 and for 1979-81 were set by statute; all other amounts were determined under automatic adjustment provisions of the Social Security Act.

As seen previously, because Congress is continually reducing the burden on the highest wage earners and corporations to pay taxes, and contribute to SS, it has to make larger and larger yearly increases in the Cap, and expose more middle class wage earners salaries to it, to makeup for projected shortfalls. But at some point, logic and economic need will force Congress to just remove the Cap, if it intends to fund SS without completely depleting the middle class (as the poor are already completely depleted).

Another benefit of **Floor with No Cap** is, it will actually allow more people to potentially reach middle-class, which would mean there would be more people earning above the Floor, which would mean more revenue can be raised, in a non-destructive economic manner.

Fairness

The life expectancy of non-whites (especially black-males) is depressingly below the SS benefits age.

<https://www.nytimes.com/2021/07/21/us/american-life-expectancy-report.html>

<https://www.kff.org/racial-equity-and-health-policy/issue-brief/what-is-driving-widening-racial-disparities-in-life-expectancy/>

Economic status has a direct causal relationship to life expectancy, i.e. your economic status is directly related to how long you will live, meaning people who live below the federal poverty level are less likely to live to receive SS. Thus, the SS revenue generated from low life expectancy wage earners goes disproportionately to benefit the people who live the longest, who statistically are white-women.

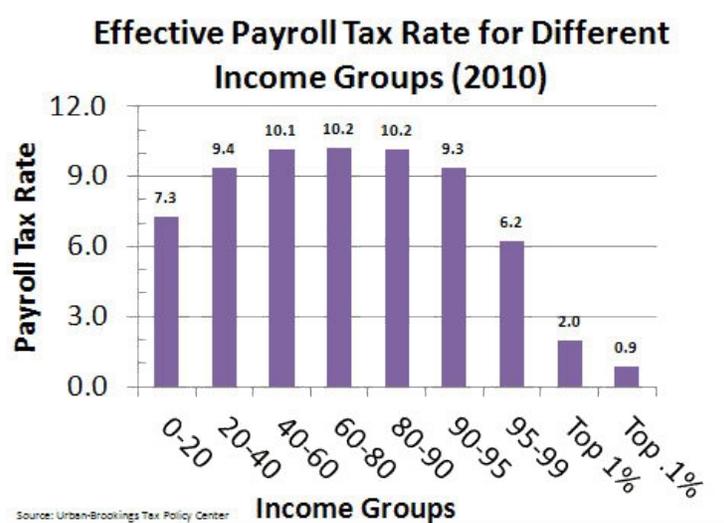
Legislative Considerations

As a legislative matter, Congress can change to **Floor with no Cap** with simple legislation. There are no structural barriers to prevent it from acting. It only needs to exhibit the will, and empathy, to do so.

Political Considerations

Congress has chosen to construct, and pay for, Social Security and Medicare in the current manner. Without debating the need to even have these systems in their present forms, and separate systems to fund them, if they are to exist they should at least be financially viable and operationally effective (actually do what is claimed they were created to do).

But its continual shielding of high wage and income earners from contributing to funding Medicare and SS (and government operations in general) is having increasing deleterious affects on the fabric of life in America. And the growing economic inequality between the haves and haves-nots will, at some point, lead to catastrophic consequences for the country.



The proposal to eliminate the FICA Cap is nothing new. There has literally always been criticism of it (along with rationales to keep it).

<https://crsreports.congress.gov/product/pdf/RL/RL32896/24>

<https://www.pbs.org/newshour/economy/what-impact-would-eliminating>

<https://www.cbpp.org/research/increasing-payroll-taxes-would-strengthen-social-security>

<https://www.asppa.org/news/crs-outlines-proposals-fix-social-security-raising-or-eliminating-wage-cap>

<https://www.investopedia.com/ask/answers/081514/why-there-cap-federal-insurance-contribution-fica-tax.asp>

<https://www.pgpf.org/blog/2023/12/should-we-eliminate-the-social-security-tax-cap-here-are-the-pros-and-cons>

However, a search for papers promoting a FICA Floor came up blank. Thus the political considerations have been exclusively about either eliminating or raising the Cap. No consideration of relieving the onerous regressive nature of raising the Cap on a larger group of people seems to ever enter the picture. The political considerations seem to exclusively focus on reducing, or eliminating completely, any new or additional burden on the growing numbers of “upper middle class” and “rich” wage earners.

Conclusion

The method to fund Social Security and Medicare thru FICA withholding on wages is an artificial political decision. There have always been proposed fairer systems that would spread the economic burden of paying for these programs to people and entities most able to do so, and be hurt the least in the process.

The fact that the FICA Cap has steadily been raised each year from 1972 (\$9,000) to 2024 (\$168,600) should set off alarms that there are fundamental issues with the current funding method that are not being addressed. At some point, the calls to just eliminate the Cap will have to be addressed, as its continued exponential raising will soon reach the millionaires class anyway within a few years, at its present rate of increase.

Thus, in the face of these empirical realities, **Floor with no Cap** constitutes an economically rationale and logical replacement. It’s unquestionably more fair, economically more sustainable and flexible, and socially more acceptable. Its resistance will primarily come from the (relatively small) groups of people and entities who are hugely benefiting from the present system.

Hopefully, Congress will put the welfare of the majority of the people as its primary concern, and adopt **Floor with no Cap**, and put funding Social Security and Medicare on a more sustainable foundation.