



Exempting the Rich: Who Pays if We Modify the Social Security Tax Cap

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Executive Summary

Social Security is a vital program for many seniors. It is primarily funded by a payroll tax on wage and salary income below a given threshold. Several proposals to improve Social Security's long-term fiscal outlook involve raising, eliminating, or otherwise modifying the tax cap in order to expand the program's contribution base.

This report calculates how many people would be directly affected by modifications to the cap and explores the characteristics of this group. Ultimately, we find that only a small percentage of earners would be affected. We also find that Black and Hispanic workers, women, and younger workers are underrepresented among the highest earners. Finally, we note that those whose earnings exceed the taxable maximum are more likely to have additional unearned, non-retirement income flows that escape the payroll tax altogether.



This month marks the 86th anniversary of the Social Security Act, which was signed into law by President Franklin D. Roosevelt on August 14, 1935. In creating Social Security, the Act brought into being an immensely popular program (Newport, 2019) that has lifted more Americans out of poverty than any other initiative in the nation's history (Romig, 2020). In recent years, however, Social Security has been dogged by concerns about its long-term viability. While the program's financial straits are sometimes overstated (Rawlins, 2020), its projected funding shortfalls merit attention. Assuming no changes are made, the most recently available Trustees report (as of this writing) indicates that Social Security will be able to pay out full benefits through 2034, after which it will be able to pay 76 percent of scheduled retiree benefits.

The Old-Age, Survivors, and Disability Insurance program (OASDI), commonly known as Social Security, derives its funding primarily from a 12.4 percent payroll tax, split evenly between employers and their employees. The amount of wage and salary income subject to the tax is capped at a level determined by the national average wage index. In 2021, the tax is not applied to individual earnings in excess of \$142,800. This means that millionaires stopped contributing to the program in February of this year (Rawlins, 2021).

Proposals to make Social Security more sustainable tend to focus on either reducing benefits or increasing revenue. While doing the former would be devastating for many seniors (Romig, 2020), the latter could be done painlessly for most Americans by modifying the cap on taxable earnings to expand the contributions base. This would also make the payroll tax less regressive than it is now, as the current tax cap allows those with earnings above the taxable maximum to pay a lower effective rate than those whose entire incomes are subject to the tax.

There have been several proposals to modify the taxable maximum in recent years. In addition to more straightforward motions to simply raise the cap, there are some that would establish a "donut hole" structure to specifically reimpose the payroll tax on the highest earners. A revived bill from Sen. Bernie Sanders and Rep. Peter DeFazio would exempt earnings between the set maximum and \$250,000 from the payroll tax and reinstate the tax for earnings over \$250,000 (NCPSSM, 2019). Were this proposal applied in 2021, it would mean that wage and salary income between \$142,800 and \$250,000 would not be subject to the payroll tax, but any annual earnings in excess of \$250,000 would be taxable. A plan

endorsed by President Biden (Konish, 2021) and reminiscent of the Social Security 2100 Act introduced by Rep. John Larson would create a similar “donut hole”, bringing back the payroll tax for earnings in excess of \$400,000. More ambitious proposals would scrap the cap entirely (CEPR, 2021) and subject all earnings to the payroll tax, replacing Social Security’s projected shortfall with an opportunity to expand benefits for vulnerable seniors.

Though conservatives have railed against the unfairness of raising or eliminating the cap, it is worth considering how many people would actually end up paying more if earnings above the current limit were taxed. This report uses data from the most recent one-year sample of the American Community Survey (ACS) to determine how many workers would be directly affected by changes to the taxable maximum. We also use this data to update and expand upon previous CEPR research (Barber & Brown, 2019) exploring the characteristics of those who might end up paying more. To focus on those with significant attachment to work, we restrict the sample in this analysis to those over the age of 16 who typically work at least 10 hours per week and who reported working at least 14 weeks in the previous 12 months. This has the effect of making our estimates more conservative, in the sense that those who do not meet these criteria tend to earn less. As the most recent ACS Public Use Microdata Sample is from 2019, the reported earnings are adjusted for inflation using projections from the Congressional Budget Office (CBO Table B-1, 2020) for 2020 and 2021.

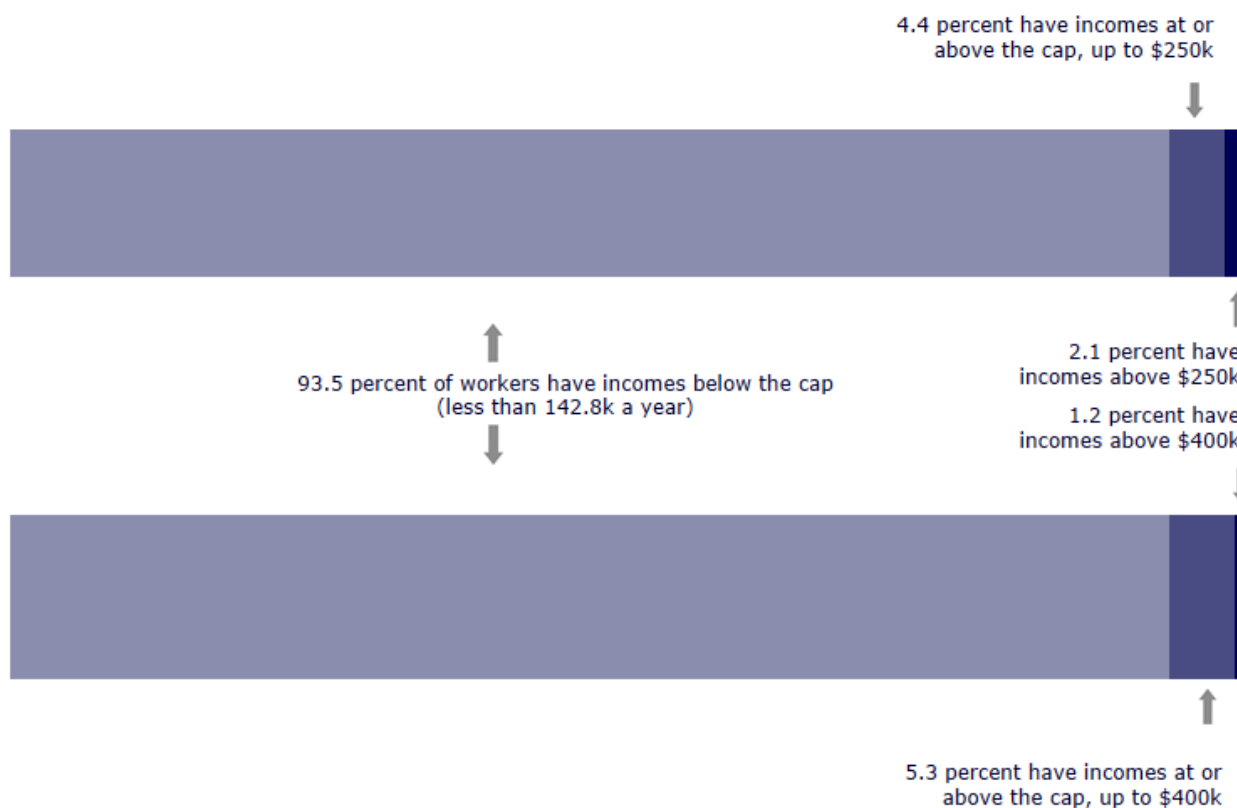
The majority of earners — 93.5 percent — would see no changes in their paychecks, as the entirety of their earnings falls below the current maximum (**Figure 1**). Even fewer would be impacted by the donut hole scenarios; just 2.1 percent of workers have wage and salary incomes over \$250,000 per year, and only 1.2 percent earn over \$400,000 per year.



Figure 1

6.5 Percent of Workers Have Incomes Above the Payroll Tax Cap

(percent)



Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.

Just 2.5 percent of Black and Hispanic workers would pay more if the current payroll tax cap were raised (**Table 1**). This drops to just over half of one percent if the threshold increases to \$250,000 (0.6 and 0.7 percent for Black and Hispanic workers, respectively). Only 0.4 percent of Black and Hispanic workers — less than 200,000 people — have wage and salary incomes in excess of \$400,000 per year. By contrast, just under 8 percent of non-Hispanic white workers have annual earnings over \$142,800, and almost 12 percent of Asian workers make above this threshold. These discrepancies are even more pronounced for higher incomes. The percentage of non-Hispanic whites with wage and salary incomes over \$400,000 is more than three times the percentage of Blacks and Hispanics with incomes in this range.

TABLE 1**Workers by Race/Ethnicity and Annual Earnings**

Race/ Ethnicity	Over \$142,800		Over \$250,000		Over \$400,000	
	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)
All	6.5	10300	2.1	3317	1.2	1862
White	7.9	7731	2.6	2593	1.5	1479
Black	2.5	492	0.6	121	0.4	70
Hispanic	2.5	707	0.7	197	0.4	105
Asian	11.9	1327	3.5	385	1.8	195
Other	3.8	72	1.1	22	0.6	12

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week. Percentages reflect the share of workers in each race/ethnic group with annual earnings above the indicated level. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.

Workers with earnings above the current cap are disproportionately white and Asian compared to all workers that meet our criteria (**Table 2**), and those with earnings over \$250,000 and \$400,000 are even more so. While Black workers make up 12.5 percent of the workers in our sample, only 3.8 percent of those with annual earnings over \$400,000 are Black. Similarly, while nearly 17.8 percent of workers in our sample identify as Hispanic, they make up only 5.7 percent of those who earn over \$400,000 per year.



TABLE 2**Workers with Annual Earnings over \$142,800, \$250,000, and \$400,000 by Race/Ethnicity**

Race/ Ethnicity	All Workers*		Over \$142,800	
	Percent	Number (in thousands)	Percent	Number (in thousands)
White	61.5	98016	74.8	7731
Black	12.5	19980	4.8	492
Hispanic	17.8	28348	6.8	707
Asian	7.0	11121	12.9	1327
Other	1.2	1921	0.7	72
	Over \$250,000		Over \$400,000	
	Percent	Number (in thousands)	Percent	Number (in thousands)
White	78.2	3317	79.4	1862
Black	3.6	2593	3.8	1479
Hispanic	5.9	121	5.7	70
Asian	11.6	197	10.5	105
Other	0.7	385	0.7	195

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. Percentages refer to the racial/ethnic composition of workers with annual earnings above the indicated level. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.

*To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week.

Our findings also show gendered effects. Men significantly outnumber women among those who make above the current cap, and the discrepancy becomes more pronounced as one moves up the pay scale (**Table 3**). This dynamic persists across racial and ethnic groups. That said, a larger share of women than men with earnings above the current tax ceiling are Black or Asian (**Table 4**).

TABLE 3**Workers by Race/Ethnicity, Gender, and Annual Earnings**

Over \$142,800					
Race/ Ethnicity	Percent	Men		Women	
		Number (in thousands)	Percent	Number (in thousands)	Percent
All	9.0	7608	3.6	2721	4.2
White	11.1	5828	4.2	1903	2.7
Black	3.1	296	1.9	197	3.0
Hispanic	3.3	525	1.5	182	2.8
Asian	15.7	906	7.9	421	5.2
Other	5.3	53	2.1	19	0.3

Over \$250,000					
Race/ Ethnicity	Percent	Men		Women	
		Number (in thousands)	Percent	Number (in thousands)	Percent
All	3.1	2588	1.0	730	2.8
White	3.9	2068	1.1	525	2.0
Black	0.8	78	0.4	43	1.7
Hispanic	1.0	154	0.3	43	1.7
Asian	4.7	271	2.1	114	4.4
Other	1.7	17	0.5	5	0.2

Over \$400,000					
Race/ Ethnicity	Percent	Men		Women	
		Number (in thousands)	Percent	Number (in thousands)	Percent
All	1.8	1483	0.5	379	1.5
White	2.3	1205	0.6	274	1.1
Black	0.5	45	0.2	25	1.0
Hispanic	0.5	82	0.2	23	0.9
Asian	2.4	141	1.0	55	2.3
Other	1.0	10	0.2	2	0.1

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week. Percentages reflect the share of workers with annual earnings above the indicated level in each combined race/ethnicity and gender group. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.



TABLE 4

Workers with Annual Earnings over \$142,800, \$250,000, and \$400,000, by Race/Ethnicity and Gender

Race/ Ethnicity	All Workers*				Over \$142,800			
	Men		Women		Men		Women	
	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)
White	62.0	52364	60.9	45652	76.6	5828	69.9	1903
Black	11.1	9405	14.1	10574	3.9	296	7.2	197
Hispanic	18.8	15905	16.6	12443	6.9	525	6.7	182
Asian	6.8	5768	7.1	5352	11.9	906	15.5	421
Other	1.2	998	1.2	924	0.7	53	0.7	19
Race/ Ethnicity	Over \$250,000				Over \$400,000			
	Men		Women		Men		Women	
	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)
White	79.9	2068	71.9	525	81.3	1205	72.2	274
Black	3.0	78	5.9	43	3.0	45	6.6	25
Hispanic	5.9	154	5.9	43	5.5	82	6.2	23
Asian	10.5	271	15.7	114	9.5	141	14.4	55
Other	0.7	17	0.7	5	0.7	10	0.6	2

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. Percentages refer to the racial/ethnic composition of workers of the specified gender with annual earnings above the indicated level. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.

*To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week.



Workers between the ages of 45 and 64 would be more heavily impacted by the proposed changes to the tax cap (**Table 5**). However, just over 3 percent of workers in this age range have annual earnings above \$250,000, and less than 2 percent have earnings above \$400,000. Higher earners skew slightly older than the overall working population (**Table 6**). Workers under the age of 35 make up over a third of workers in our sample, but only about one-in-ten workers with earnings above the current cap falls in this age range.

TABLE 5

Workers by Age Group and Annual Earnings

Age Group	Over \$142,800		Over \$250,000		Over \$400,000	
	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)
All	6.5	10300	2.1	3317	1.2	1862
16-24	0.2	35	0.1	13	0.1	11
25-34	2.8	1013	0.6	230	0.3	108
35-44	8.0	2704	2.4	820	1.3	444
45-54	10.0	3210	3.3	1052	1.8	593
55-64	9.5	2586	3.2	882	1.9	520
65+	8.2	781	3.3	320	1.9	186

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week. Percentages reflect the share of workers in each race/ethnic group with annual earnings above the indicated level. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.



TABLE 6

Workers with Annual Earnings over \$142,800, \$250,000, and \$400,000, by Age Group				
Age Group	All Workers*		Over \$142,800	
	Percent	Number (in thousands)	Percent	Number (in thousands)
16-24	12.4	19793	0.3	35
25-34	23.0	36714	9.8	1013
35-44	21.3	33882	26.2	2704
45-54	20.2	32187	31.1	3210
55-64	17.1	27248	25.0	2586
65+	6.0	9561	7.6	781
Age Group	Over \$250,000		Over \$400,000	
	Percent	Number (in thousands)	Percent	Number (in thousands)
16-24	0.4	13	0.6	11
25-34	6.9	230	5.8	108
35-44	24.7	820	23.9	444
45-54	31.7	1052	31.8	593
55-64	26.6	882	27.9	520
65+	9.7	320	10.0	186

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. Percentages refer to the age group composition of workers with annual earnings above the indicated level. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021. *To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week.

A higher percentage of men than women have earnings above \$142,800, \$250,000, and \$400,000 in all age groups (**Table 7**). However, the gender gap is slightly less pronounced for younger workers than older workers. Younger women make up a slightly larger share of women earning over \$400,00 per year than younger men do of men at this earnings level (**Table 8**).

TABLE 7**Workers by Age Group, Gender, and Annual Earnings**

Age Group	Over \$142,800			
	Percent	Men Number (in thousands)	Percent	Women Number (in thousands)
All	9.0	7608	3.6	2721
16-24	0.3	26	0.1	9
25-34	3.6	708	1.8	306
35-44	10.7	1938	4.9	766
45-54	13.9	2355	5.6	855
55-64	13.7	1953	4.9	633
65+	11.8	627	3.6	154

Age Group	Over \$250,000			
	Percent	Men Number (in thousands)	Percent	Women Number (in thousands)
All	3.1	2588	1.0	730
16-24	0.1	10	0.0	4
25-34	0.8	166	0.4	64
35-44	3.4	615	1.3	205
45-54	4.8	820	1.5	232
55-64	5.0	709	1.3	173
65+	5.0	268	1.2	52

Age Group	Over \$400,000			
	Percent	Men Number (in thousands)	Percent	Women Number (in thousands)
All	1.8	1483	0.5	379
16-24	0.1	8	0.0	3
25-34	0.4	80	0.2	28
35-44	1.9	341	0.7	103
45-54	2.8	473	0.8	119
55-64	3.0	424	0.7	96
65+	3.0	157	0.7	29

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week. Percentages reflect the share of workers with annual earnings above the indicated level in each combined age and gender group. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.

TABLE 8

Workers with Annual Earnings over \$142,800, \$250,000, and \$400,000, by Age Group and Gender

Age Group	All Workers*				Over \$142,800			
	Percent	Men Number (in thousands)	Percent	Women Number (in thousands)	Percent	Men Number (in thousands)	Percent	Women Number (in thousands)
16-24	12.0	10162	12.9	9630	0.4	26	0.3	9
25-34	23.2	19569	22.9	17145	9.3	708	11.2	306
35-44	21.5	18192	20.9	15691	25.5	1938	28.1	766
45-54	20.1	16942	20.3	15245	31.0	2355	31.4	855
55-64	16.9	14246	17.4	13001	25.7	1953	23.3	633
65+	6.3	5328	5.7	4233	8.3	627	5.7	154

Age Group	Over \$250,000				Over \$400,000			
	Percent	Men Number (in thousands)	Percent	Women Number (in thousands)	Percent	Men Number (in thousands)	Percent	Women Number (in thousands)
16-24	0.4	10	0.5	4	0.6	8	0.8	3
25-34	6.4	166	8.7	64	5.4	80	7.4	28
35-44	23.8	615	28.1	205	23.0	341	27.3	103
45-54	31.7	820	31.8	232	31.9	473	31.5	119
55-64	27.4	709	23.7	173	28.6	424	25.3	96
65+	10.4	268	7.2	52	10.6	157	7.6	29

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. Percentages refer to the age composition of workers of the specified gender with annual earnings above the indicated level. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.

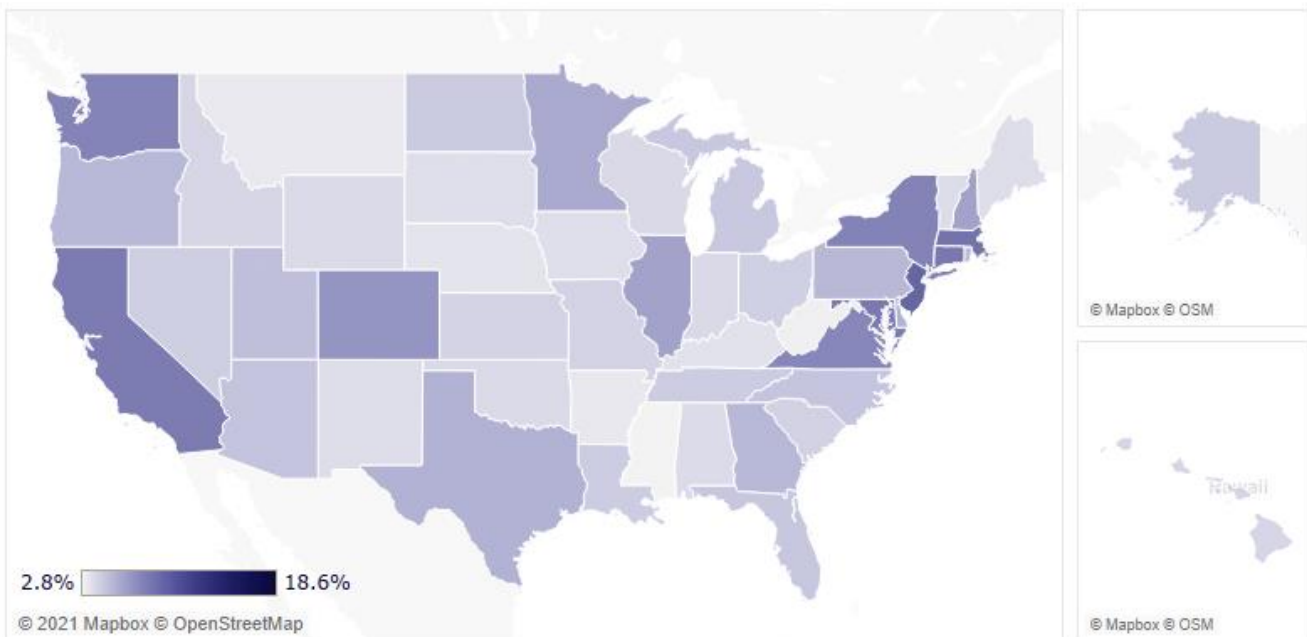
*To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week.



There is also sizable geographical variation in the percentage of workers with earnings above the cap. These earners make up a far larger share of workforce in some states than in others (**Figure 2**). Washington, D.C. has the highest concentration of workers with earnings above the cap, followed by New Jersey and Massachusetts (**Table 9**). Mississippi has the smallest concentration of workers with earnings above the current cap, followed by West Virginia and Montana. The state with the largest share of workers with annual earnings in excess of \$400,000 is Connecticut. Yet even there, 98.2 percent of workers report annual earnings below that threshold. Meanwhile, in Alaska, not a single worker in our sample reported wage and salary income over \$400,000, and less than a tenth of a percent of West Virginians reported income that high. In Alabama and Idaho, not a single woman reported earnings above \$400,000 (**Table 10**).

Figure 2

Share of Workers with Annual Earnings Above \$142,800 in Each State (percent)



Sources and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week. Percentages refer to the share of workers with annual earnings above the 2021 payroll tax cap in each state. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.



TABLE 9**Workers with Annual Earnings over \$142,800, \$250,000, and \$400,000, by State**

State	Over \$142,800		Over \$250,000		Over \$400,000	
	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)
All	6.5	10300	2.1	3317	1.2	1862
AL	3.8	83	1.4	30	0.1	3
AK	4.7	17	1.3	5	0.0	0
AZ	5.0	168	1.6	52	1.2	40
AR	3.3	44	1.4	19	1.1	15
CA	9.5	1808	3.0	568	1.5	278
CO	7.7	236	2.3	70	1.2	36
CT	9.6	176	3.6	65	1.8	33
DE	6.0	29	1.7	8	1.4	6
DC	18.6	71	4.6	18	1.7	6
FL	4.9	489	1.7	174	1.2	117
GA	5.7	288	1.9	95	1.3	66
HI	4.1	30	1.1	8	0.9	6
ID	4.1	35	1.4	12	0.1	1
IL	7.0	439	2.3	143	1.2	78
IN	4.0	129	1.3	43	1.2	39
IA	3.7	60	1.5	24	1.1	18
KS	4.3	63	1.5	22	1.0	14
KY	3.6	73	1.3	27	1.1	23
LA	4.6	94	1.5	30	0.2	3
ME	3.8	25	1.1	8	1.0	7
MD	9.6	297	2.3	72	1.1	33
MA	10.1	367	3.2	116	1.3	47
MI	4.8	229	1.5	71	1.2	56
MN	6.5	193	2.0	59	1.1	33
MS	2.8	35	1.3	17	1.1	14
MO	4.3	126	1.5	43	1.1	33
MT	3.2	17	1.4	7	1.1	6
NE	3.4	35	1.3	13	0.9	10
NV	4.5	67	1.5	22	1.2	18
NH	7.0	51	2.0	15	1.2	9
NJ	11.1	497	3.6	159	1.5	66
NM	3.7	35	1.5	14	0.1	1
NY	9.0	857	3.2	305	1.5	145
NC	5.0	250	1.6	81	1.0	52
ND	4.7	20	1.7	7	1.5	6
OH	4.4	250	1.5	83	1.2	66
OK	3.9	70	1.4	26	1.2	22
OR	5.7	117	1.7	36	1.1	22
PA	5.7	354	1.8	112	1.0	65
RI	5.3	29	1.6	9	0.9	5
SC	4.3	103	1.4	34	1.1	27
SD	3.7	17	1.2	5	0.8	4
TN	4.6	149	1.8	58	1.1	35
TX	6.1	843	1.9	264	1.1	148
UT	5.3	84	1.8	29	1.2	19

VT	3.8	13	1.3	4	0.9	3
VA	8.7	377	2.0	88	1.2	52
WA	8.9	339	2.5	94	1.0	38
WV	2.9	22	1.3	10	0.0	0
WI	4.0	119	1.4	42	1.0	31
WY	3.9	11	1.5	4	1.1	3

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week. Percentages refer to the share of workers with annual earnings above the indicated level in each state. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.



TABLE 10

Workers with Annual Earnings over \$142,800, \$250,000, and \$400,000, by State and Gender

State	Over \$142,800				Over \$250,000				Over \$400,000			
	Men		Women		Men		Women		Men		Women	
	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)
All	9.0	7608	3.6	2721	3.1	2588	1.0	730	1.8	1483	0.5	379
AL	5.8	66	1.7	17	2.3	26	0.4	4	0.3	3	0.0	0
AK	6.4	13	2.6	4	1.8	4	0.6	1	0.0	0	0.0	0
AZ	7.0	126	2.7	42	2.3	42	0.6	10	1.8	33	0.5	8
AR	4.9	34	1.5	10	2.2	15	0.5	3	1.7	12	0.5	3
CA	12.3	1284	6.0	524	4.1	430	1.6	138	2.1	218	0.7	60
CO	10.6	178	4.2	58	3.4	56	1.0	14	1.7	29	0.5	7
CT	12.8	121	6.2	54	5.3	50	1.7	15	2.8	27	0.6	6
DE	9.1	22	2.8	6	2.9	7	0.4	1	2.3	6	0.4	1
DC	21.7	41	15.6	31	6.1	12	3.0	6	2.6	5	0.8	2
FL	7.1	373	2.4	116	2.7	142	0.7	32	1.9	98	0.4	19
GA	8.3	218	2.9	70	2.9	75	0.8	20	2.0	52	0.6	13
HI	5.0	19	3.2	11	1.4	5	0.8	3	1.2	5	0.5	2
ID	6.2	28	1.7	6	2.1	10	0.5	2	0.2	1	0.0	0
IL	9.7	317	4.0	122	3.3	109	1.1	34	1.9	62	0.6	17
IN	5.8	100	1.9	30	2.0	35	0.5	8	1.8	32	0.4	7
IA	5.7	48	1.5	12	2.3	20	0.5	4	1.8	15	0.4	3
KS	6.3	49	2.0	13	2.3	18	0.6	4	1.5	12	0.4	3
KY	5.2	56	1.8	17	2.1	23	0.5	5	1.8	19	0.4	4
LA	7.1	75	1.9	18	2.4	25	0.5	5	0.3	3	0.0	0
ME	5.1	18	2.3	8	1.5	5	0.8	3	1.3	5	0.8	2
MD	13.0	208	5.9	89	3.5	55	1.1	16	1.5	24	0.6	9
MA	13.8	259	6.1	108	4.6	86	1.7	30	1.9	36	0.6	11
MI	7.1	178	2.3	51	2.3	57	0.6	14	1.8	45	0.5	11
MN	9.0	141	3.7	52	2.9	46	0.9	13	1.7	26	0.5	7
MS	4.1	27	1.4	9	2.0	13	0.7	4	1.6	10	0.7	4
MO	6.0	92	2.4	34	2.2	34	0.6	8	1.7	27	0.4	6
MT	4.8	14	1.5	4	1.9	5	0.8	2	1.5	4	0.7	2
NE	4.8	26	1.8	9	1.9	10	0.6	3	1.3	7	0.5	2
NV	6.0	48	2.7	18	2.1	17	0.7	5	1.7	14	0.6	4
NH	10.1	39	3.5	12	3.0	12	0.9	3	1.9	7	0.5	2
NJ	15.5	366	6.2	131	5.3	126	1.5	33	2.3	56	0.5	11

NM	5.1	25	2.2	10	2.0	10	0.9	4	0.1	0	0.0	0
NY	11.8	580	6.0	277	4.5	222	1.8	83	2.3	111	0.7	34
NC	7.2	187	2.6	62	2.5	65	0.7	16	1.6	43	0.4	9
ND	6.7	15	2.3	4	2.6	6	0.7	1	2.2	5	0.7	1
OH	6.5	192	2.2	58	2.3	68	0.6	16	1.8	53	0.5	13
OK	5.6	55	1.8	15	2.1	20	0.7	6	1.7	16	0.7	6
OR	8.0	87	3.1	30	2.6	28	0.8	8	1.6	17	0.5	5
PA	8.1	265	3.0	90	2.6	85	0.9	26	1.5	49	0.5	16
RI	7.7	21	2.9	8	2.6	7	0.6	2	1.4	4	0.4	1
SC	6.5	81	1.9	22	2.3	28	0.5	6	1.8	22	0.4	4
SD	5.8	14	1.4	3	1.8	4	0.5	1	1.1	3	0.5	1
TN	6.7	114	2.3	35	2.7	46	0.8	12	1.6	28	0.5	7
TX	8.6	655	3.0	188	2.8	211	0.8	53	1.5	118	0.5	30
UT	8.0	71	1.9	13	2.8	25	0.5	4	1.9	17	0.2	2
VT	5.6	10	1.9	3	2.0	3	0.5	1	1.6	3	0.2	0
VA	12.0	273	5.0	104	3.0	69	0.9	19	1.8	41	0.5	11
WA	12.4	258	4.7	81	3.6	74	1.2	20	1.5	32	0.4	7
WV	4.2	17	1.5	5	1.7	7	0.8	3	0.0	0	0.0	0
WI	6.0	94	1.8	26	2.2	35	0.5	7	1.7	26	0.3	5
WY	6.2	10	1.2	2	2.2	3	0.6	281	1.6	2	0.5	1

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week. Percentages reflect to the share of workers with annual earnings above the indicated level for men and women, respectively, in each state. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.



It is worth noting that those with wage and salary incomes that exceed the current cap are also more likely to have additional unearned income that escapes the payroll tax altogether. Only 7.7 percent of those whose entire wage and salary earnings are subject to the payroll tax report additional income from investments, dividends, and rentals (**Table 11**), excluding income from retirement accounts. By contrast, over a third of those with annual earnings above \$250,000 have additional unearned income of this nature, as do two-in-five of those earning above \$400,000 per year. The average amount of unearned rental, investment, and dividend income is also much higher for those whose earned income exceeds the payroll tax cap. This means that those who would be directly affected by modifications to the taxable maximum are also more likely to be buttressed by additional income streams that were never subject to payroll taxes at all.

TABLE 11

Workers with Unearned Income from Investments, Dividends, and Rentals, by Annual Earnings

Annual Earnings	Percent	Number	Average Annual Unearned Income from Investments, Dividends, and Rentals (thousands)
\$142,800 or less	7.7	11498	12100
Between \$142,800 and \$250,000	27.4	1924	16596
Between \$250,000 and \$400,000	34.5	501	28707
Over \$400,000	40.0	744	49276

Source and notes: Author's analysis of American Community Survey 2019 1-year Public Use Microdata Sample. To focus on workers with significant attachment to work, calculations exclude those who are younger than 16, those who worked fewer than 14 weeks in the preceding 12 months, and those who usually worked fewer than 10 hours per week. Percentages reflect the share of workers with unearned income from investments, dividends, and rentals in each earned income bracket. Earnings reported in the 2019 ACS are adjusted for inflation using the CBO projections for 2020 and 2021.

While the percentage of workers with earnings above the payroll tax cap has remained low, the overall share of earnings going above the cap is troublingly high. Over the last four decades, upward redistribution of income has weakened Social Security's finances by redirecting a larger share of earnings to those who make more than the taxable maximum,



rather than to those whose earnings are fully taxable (Brown & Baker, 2020). Modifying or eliminating the cap would blunt the impact of wage inequality on the program's solvency.

Opponents may argue that higher earners should be able to collect additional monies proportional to what they have contributed. Historically, Social Security's taxable earnings maximum has informed both the level of contributions made by workers and the level of benefit payouts to retirees. Proponents of privatization take this line of thinking even further, arguing that the trust should be replaced by private individual accounts. However, this largely misunderstands the program's function as a form of social insurance that keeps seniors out of poverty and insulates them from the worst effects of the upward income redistribution mentioned above. Workers who pay into social security are paying into insurance for society as a whole, not just for themselves as individuals. With the demise of private sector pensions (Morrissey, 2013) and the failure of wages to keep pace with soaring health care and housing costs (Miller, 2021; Guida & O'Donnell, 2021), the share of retirees for whom Social Security is an indispensable lifeline is likely to increase. To ensure that this lifeline remains robust, legislators must act swiftly to compel the richest Americans to pay their fair share.



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