Social Security Tax Base Shrinks as Upper Incomes Grow

By Editor Test *Wed, Jul 29, 2009*

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Executives and other highly compensated employees represent only six percent of U.S. wage-earners but receive more than one-third of all pay in the U.S., the Wall Street Journal found in an analysis of Social Security Administration data. Billions of dollars more in compensation goes unrecorded by the government.

Highly paid employees received nearly $2.1 trillion of the $6.4 trillion in total U.S. pay in 2007, the latest figures show. The compensation numbers don't include incentive stock options, unexercised stock options, unvested restricted stock units and certain benefits.

The pay of employees who earn more than the Social Security wage base of $106,800 rose 78%, or nearly $1 trillion, over the past decade, compared to a 61% increase for other workers, according to the analysis.

As executive pay has increased, the percentage of wages subject to payroll taxes has shrunk, to 83% from 90% in 1982. Compensation that isn't subject to the portion of payroll tax that funds old age benefits now represents foregone revenue of $115 billion a year.

Lawmakers over the years have tried to raise or eliminate the taxable wage ceiling, as was done for the Medicare portion in 1993. Lifting the earnings ceiling could result in higher Social Security benefits payments to higher-income individuals, but the additional tax revenue would have decades to grow, thus offsetting the added costs.

Social Security Administration actuaries estimate that removing the earnings ceiling could eliminate the trust fund's deficit altogether for the next 75 years, or nearly eliminate it if credit toward benefits was provided for the additional taxable earnings.