

Introduction

The Federal Insurance and Self-Employment Contribution Acts (FICA and SECA) require the withholding of taxes from wages of employed persons and the net earnings of most self-employed persons for the Social Security and Medicare programs. In 1998, earnings up to \$68,400 in covered employment were subject to Social Security (Old-Age, Survivors, and Disability Insurance—OASDI) taxes. There was no limit on annual earnings subject to Medicare (Part A Hospital Insurance—HI) taxes.

Under Social Security, the tax rate was the same (6.2 percent) for both employee and employer. The rate for self-employed workers equaled the combined employee and employer rate of 12.4 percent. Under Medicare, the rate was also the same for both employee and employer (1.45 percent). For self-employed workers it was 2.9 percent.

The amount of Social Security taxable earnings is determined first by counting wage and salary earnings and then any self-employment income up to the taxable maximum. The amount of taxes includes both the employee and employer shares for Social Security.

Two deduction provisions reduce the SECA and income tax liability of self-employed persons, with the intent of treating them the same as employees and employers for purposes of Social Security and income taxes. Taxable net earnings from self-employment is determined by reducing net profit from self-employment by an amount equal to net profit times one-half of the combined SECA tax rate. The resulting amount is not taxable for Social Security if less than \$400. In addition, self-employed persons may deduct one-half of their SECA taxes as an adjustment to income on IRS Form 1040.

This report presents 1998 earnings and employment data for persons covered under Social Security and Medicare in the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. It shows members of the Armed Forces and Reserves according to the residence listed on their W-2 form. Workers in American Samoa, Guam, U.S. citizens employed abroad by American employers and persons employed on American oceanborne vessels are

grouped together as “Other.” The data are presented by sex, age, and race.

The report uses a residence-based geographic coding system. State and county designations are based on employee residence shown on the W-2 wage reporting forms that employers send to the Social Security Administration (SSA) by magnetic media, and from self-employment earnings reports on Schedule SE. Magnetic media account for about three-fourths of the total reports filed, and that figure is increasing each year. Employers with 250 or more employees must file using magnetic media. Many smaller firms also file that way.

For employers who file on paper, the location of employment is coded as the worker’s residence because of the relatively high cost to SSA of obtaining the worker’s home address from those reports. Based on comparisons of residence codes for all workers that have both wage and salary and self-employment, about 96 percent have the same state code for their wage and salary job as they do on their Schedule SE. Where a county code is not available, the residence is shown as “Statewide.”

The tables show workers with earnings reported in more than one state or county during the year in one location, mainly their end-of-year residence. We determine residence from the address reported on the Schedule SE. If the worker files no Schedule SE, we use the address from the magnetic media or paper Form W-2 showing the highest taxable wages paid under Medicare. We count workers with earnings reported in both wage and salary jobs and self-employment in each type of employment, but only once in the total.

We obtained the data in this report from the 1 percent Continuous Work History Sample (CWHS), derived from W-2 wage reports and from Internal Revenue Service (IRS) Schedule SE of Form 1040. We inflated the sample data to correspond to SSA estimates for U.S. totals. Small discrepancies in the estimated worker counts may appear between counties due to different weighting factors for workers covered under Social Security and Medicare.

Since this report is based on a 1 percent sample,

the data are subject to sampling variability. Each number is actually an estimate of the true value in the overall population. A result of sampling is that the numbers have a level of uncertainty, and this uncertainty increases as the numbers get smaller. Therefore, the user should view numbers shown here, particularly the relatively smaller ones, with that result in mind. We describe sampling variability in the Technical Note at the end of the report. To protect the privacy of workers, we do not show table cells with fewer than 3 sample cases at the state level and 10 sample cases at the county level.

SSA collects race-ethnic data from Form SS-5 (Application for Social Security Card). Responses to the race question are voluntary. From 1936 to about 1980, SSA limited the race-ethnic designations to White, Black, and Other. After that, SSA revised the form to have five race-ethnic designations in response to Office of Management and Budget Directive No. 15 (May 12, 1977), "Race and Ethnic Standards for Federal Statistics and Administrative Reporting." Those designations are White, not of Hispanic origin; Black, not of Hispanic origin; Hispanic; Asian or Pacific Islander; and American Indian or Alaska Native. Because most of the race data in this report come from the old SS-5, the report shows only White and Black and includes any other designations in the overall totals. White and Black are not exactly comparable under the old or new standards because the categories White and Black now exclude those of Hispanic origin. In an attempt to make White and Black coding as complete as possible, we have recoded Hispanic workers in each state to White or Black in the same proportion as the overall Hispanic population in each state as of July 1, 1998, using data from the Census Bureau. We coded the earnings for Hispanics to White or Black using the same percentages.

All tables show the number of persons with taxable earnings under the Social Security and Medicare programs, the amount taxable, and the amount paid (FICA and SECA taxes).

The data for the OASDI program (Tables 1-3) exclude the earnings of persons in jobs covered by

Medicare only. For example, government employees hired after March 1986 under state and local retirement plans and federal employees hired before 1983 under the Civil Service Retirement System. However, we count their earnings from any part-time employment or self-employment under Social Security.

The data for the HI program (Tables 4-6) include earnings over the Social Security taxable maximum and any earnings in jobs covered by Medicare only (such as government employment described above).