CENTER for RETIREMENT RESEARCH at BOSTON COLLEGE

LEVERAGING TAX DATA TO MEASURE THE POTENTIAL IMPACT OF BROADENING SOCIAL SECURITY'S REVENUE BASE

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Abstract

This paper measures the prevalence, value, and distribution of certain fringe benefits that are currently excluded from Social Security's Old Age, Survivors, and Disability Insurance (OASDI) contribution base, including employer-sponsored health insurance (ESI) and employer contributions to health savings accounts, medical savings accounts, and dependent care benefits. We then simulate the potential impact of broadening the contribution base to include the value of those benefits, showing the effects on program revenue and the size and distribution of OASDI contributions. Our data come from federal income tax records from the Internal Revenue Service, which links individual tax returns, business returns, and information returns, including Form W-2s.

The paper found that:

- In 2021, 40 percent of wage and salary workers received ESI benefits, with an average annual value of $10,710, equal to 12 percent of annual cash wages. The prevalence and value of ESI benefits increased with earnings, but ESI benefits equaled a larger share of cash wages for low-wage earners than for higher-wage earners.
- Broadening the OASDI contribution base to include ESI benefits for wage and salary workers would have raised average annual 2021 OASDI contributions by $420, a 7 percent increase. Among wage and salary workers with ESI, average annual 2021 contributions would have increased 12 percent overall and 22 percent for those with annual earnings between $25,000 and $49,999.
- Adding employer contributions to health savings accounts, medical savings accounts, and dependent care benefits to the contribution base would have negligible effects because relatively few workers receive those benefits.

The policy implications of the finding are:

- Broadening the OASDI contribution base to include the value of ESI benefits could improve program finances by generating additional revenue.
- However, adding ESI benefits to the contribution base would raise payroll tax burdens for many low-wage workers, while collecting no additional revenue from workers with earnings above the program's taxable maximum.

Introduction

The Old Age, Survivors, and Disability Insurance (OASDI) program, better known as Social Security, faces a long-term financing gap that if not addressed by policymakers could erode benefit adequacy.[1] Federal law requires Social Security to finance benefit payments solely from program resources, without using general government revenues. Program revenues come primarily from payroll taxes paid by workers and their employers and income taxes that some higher-income people pay on their Social Security benefits. However, OASDI benefit payments have exceeded revenues since 2021, and benefits are projected to grow faster than revenues, primarily because the number of beneficiaries collecting payments is growing faster than the number of workers making contributions. Social Security's actuaries project that program costs as a share of noninterest income will grow from 107 percent in 2010 to 135 percent in 2070, based on the actuaries' intermediate assumptions (Board of Trustees, Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds 2024, Table VI.G10). The trust fund that Social Security built up over the past four decades when revenues exceeded benefit payments can cover the shortfall now, but the combined OASDI trust fund is projected to run out in 2035 (Board of Trustees, Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds 2024). If the trust fund is depleted and policymakers do not change Social Security's benefit rules or revenue streams, the trustees forecast that the program could pay only 83 percent of scheduled benefits in 2035 and 73 percent of scheduled benefits in 2098.

Placing Social Security on a sound financial footing grows more challenging with each year that passes without meaningful reform. The sooner Congress acts, the greater the chances to spread the costs of bringing the system into long-range fiscal balance across more generations of workers and beneficiaries and avoid the possibility of large, sudden tax changes or benefit reductions (Blahous 2010).

Many experts recommend that increased revenue, especially from higher earners, should be at least part of the solution to Social Security's financing imbalance (Altman 2005; Diamond and Orszag 2005). Public opinion polls show that most Americans favor increasing program revenues over cutting benefits (Bond and Kenneally 2024; Cook and Moskowitz 2012; Data for Progress 2024; Gallup 2024; Pew Research Center 2024; Tucker, Reno, Bethell 2013; Walker,

[1] We use the terms OASDI and Social Security interchangeably throughout this paper.

Reno, and Bethell 2014). Policymakers could increase Social Security revenues by expanding the program's contribution base or raising required contributions on the existing base.

Social Security's current contribution base consists primarily of cash wages and salaries earned each year up to a certain amount, set at $176,100 in 2025. Annual earnings above that taxable maximum are exempt from the Social Security payroll tax. The value of most fringe benefits, which are generally not subject to federal income taxes, are also excluded from the OASDI contribution base. These benefits include employer contributions to employer-sponsored health insurance (ESI), employer-sponsored retirement plans (such as 401(k) and 403(b) plans), health savings accounts (HSAs), Archer medical savings accounts (MSAs), and dependent care benefits (DCBs). Employee contributions to these benefit plans, which are usually made on a pretax basis, are also generally excluded from the Social Security contribution base. However, employee contributions to 401(k) and 403(b) retirement plans, which are not subject to federal income taxes until funds are withdrawn from the accounts, are included in the OASDI contribution base. Other types of fringe benefits are also excluded from the OASDI contribution base, but our data include only ESI, HSAs, MSAs, and DCBs.[2]

Expanding the OASDI contribution base by adding the value of some fringe benefits or raising the taxable maximum could significantly increase Social Security revenues and narrow the program's long-range financing gap. Virtually all recent proposals from bipartisan commissions and Democratic legislators would increase the taxable maximum in some way (Bipartisan Policy Center 2016; Smith, Johnson, and Favreault 2020). Several Social Security proposals (as well as some Medicare solvency proposals) would include health insurance premiums in the contribution base (Aaron 2018; Debt Reduction Task Force 2010), and various proposals would add the value of other fringe benefits (Debt Reduction Task Force 2010; Rockeymoore and Lui 2011; Weller 2010). However, raising the taxable maximum would likely have different distributional effects than adding the value of fringe benefits to the OASDI contribution base. Raising the taxable maximum would require only higher-wage workers to contribute more, sparing lower-wage workers, whereas adding the value of fringe benefits to the contribution base would affect workers with earnings below the taxable maximum, sparing high-wage workers.

[2] Table 2-1 in IRS (2025) lists the various types of fringe benefits exempted from the Social Security and Medicare payroll tax.

Data constraints have limited our knowledge of the fiscal and distributional effects of expanding OASDI's contribution base. Much of the available earnings data come from household surveys. Those surveys do not generally collect detailed information on fringe benefits, and even if they did most respondents likely know relatively little about the monetary value of their fringe benefits. The topcoding of earnings and non-random non-response also compromise data quality in household surveys.

In this study we overcome those data limitations by using federal income tax records to measure the incidence and value of certain employee fringe benefits and show how they vary across the earnings distribution. We examine the total value of ESI coverage, paid by both employer and employee contributions, and employer contributions to HSAs, Archer MSAs, and DCBs, all of which are recorded on Form W-2, the wage and income tax statement that employers must file with the Internal Revenue Service (IRS). We then measure the potential impact of adding these benefit values to the OASDI contribution base on program revenues and the size and distribution of worker contributions to the program. We also compare those effects to the impact of raising the taxable maximum.

Our results show that adding ESI benefits to the OASDI contribution base would moderately increase OASDI revenues. About 4 in 10 wage and salary earners received ESI in 2021, and the annual benefit averaged about 12 percent of cash earnings. Average 2021 OASDI contributions would have been about 7 percent higher overall if the OASDI contribution base included the value of ESI, and about 10 percent higher among people who earned at least $25,000 that year but less than $100,000. Adding the value of employer contributions to HSAs, MSAs, and DCBs to the contribution base would have a negligible impact on OASDI contributions because relatively few earners receive these benefits and their value is relatively low.

Background

Payroll taxes provide most of the revenue received each year by Social Security. In 2023, they accounted for 91 percent of total OASDI income, with 4 percent coming from federal income taxes paid on benefits and 5 percent coming from interest earned on the combined OASDI trust fund (Board of Trustees, Federal Old-Age and Survivors Insurance and the Federal

Disability Insurance Trust Funds 2024). The OASDI contribution rate is currently 12.4 percent, split evenly between employees and their employers.

Some compensation is not subject to Social Security contributions. Most importantly, the contribution base is capped at a certain amount each year, excluding earnings above that threshold. The threshold, set at $176,100 in 2025, increases over time with the growth in the economy-wide average wage. Because earnings have been growing much faster for high-wage workers than low-wage workers recently (Piketty and Saez 2007), the share of total earnings included in the OASDI contribution base has been shrinking. In 2023, 83 percent of earnings were subject to OASDI contributions, down from 89 percent in 1985 (Social Security Administration 2024). That reduction has prompted many Social Security experts to advocate for an increase in the taxable maximum (Altman 2005; Bipartisan Policy Center 2016; Debt Reduction Task Force 2010; Rockeymoore and Lui 2011).

Most employers supplement the cash compensation provided to employees with fringe benefits. Results from the National Compensation Survey, a large establishment-based survey of employers conducted by the U.S. Bureau of Labor Statistics, show that in 2024, 57 percent of civilian workers received health benefits from their employer, 42 percent received short-term disability coverage, 37 percent received long-term disability coverage, and 61 percent received life insurance (Bureau of Labor Statistics 2024a). Additionally, 57 percent of civilian employees participated in an employer retirement plan, such as a 401(k)-type salary deferral plan or a more traditional defined benefit pension plan. Contributions employers make to fund these benefits are not included in the compensation measure used to compute Social Security contributions. Employees often contribute toward the cost of some of these benefits, usually with pre-tax dollars, and those salary reductions are also generally excluded from the OASDI contribution base. The one exception is employee deferrals for qualified 401(k)-type plans, which are included in the Social Security and Medicare contribution base even though they are not generally subject to income taxation until they are withdrawn from the plan.

Employer-Sponsored Insurance

In 2023, nearly 6 in 10 individuals younger than 65 received health insurance from their employer or a family member's employer, according to data from the American Community Survey, while fewer than 1 in 10 received coverage from a nongroup health insurance policy

purchased from a health insurer (KFF 2024). The popularity of ESI over nongroup insurance results mostly from its relatively low cost. Nongroup plans generally charge higher premiums because they often suffer from adverse selection, the tendency for health insurance plans to attract people with health problems who are more likely to use health care services than people in better health. Adverse selection is less common in ESI plans because most workers choose employment based on multiple factors, not just health insurance, so ESI plans do not attract a disproportionate share of high-cost enrollees.

The tax code further reduces ESI costs. Premiums for ESI plans, unlike those for nongroup policies, are generally exempt from federal and state income taxes, whether paid by employers or employees, lowering spending on employer-provided health insurance compared with nongroup insurance. In fiscal year 2024, tax breaks for ESI reduced annual federal tax revenues by $256 billion, more than for any other tax exclusion (U.S. Department of the Treasury 2025).

The average annual ESI premium in 2023 was $8,435 for single coverage and $23,968 for family coverage, according to a national survey of about 2,100 private firms and nonfederal government employers (KFF 2023). Premiums vary considerably across employers, with 19 percent of covered workers employed at a firm with an average premium for single coverage that exceeds $10,000 per year. Most employees make contributions to cover part of the cost of their ESI coverage. In 2023, covered workers paid 17 percent of ESI costs for single coverage and 29 percent of ESI costs for family coverage (KFF 2023). ESI represents a sizeable portion of worker pay, accounting for 7.5 percent of workers' overall total compensation in 2023, and it equaled 10.9 percent of workers' cash wages and salaries (Bureau of Labor Statistics 2024b).

Other Fringe Benefits

Many employers offer other health-related benefits to their employees, often through Section 125 cafeteria plans. Cafeteria plans provide certain fringe benefits, including some accident and health benefits, adoption assistance, dependent care assistance, group term life insurance, and health spending accounts, on a pre-tax basis. Employers often contribute to these plans, and those contributions are not subject to federal or state income taxes or OASDI contributions. Adding the value of those currently exempt benefits to the OASDI contribution base would boost OASDI revenues.

HSAs are often provided to employees through cafeteria plans. They are tax-advantaged accounts that people can use to save and pay for unreimbursed medical expenses, including deductibles, co-payments, coinsurance, and services not covered by insurance, that are incurred by account owners, spouses, and qualified dependents (Rosso 2022). Accounts can be funded by employer and employee contributions. HSA contributions and investment returns earned on account balances are tax exempt, and funds can be withdrawn tax free as long as they are used to cover qualified medical expenses. Only people enrolled in a high-deductible health plan (HDHP) who are not covered by other health insurance can contribute to an HSA, but there are no income restrictions on eligibility. Annual contribution limits depend on the type of HDHP coverage, the account holder's age, the date the account holders became eligible for an HSA, and the date they ceased being eligible. In 2024, the total annual HSA contribution limit was $4,150 for self-only HDHP coverage and $8,300 for family HDHP coverage (IRS 2023). About 11.3 million tax returns, representing 7.1 percent of all returns, reported an employer HSA contribution in 2019 (Rosso 2022).

MSAs are another type of tax-advantaged account for health care expenses to which employers can contribute. They are an older, more restrictive type of HSA that are also paired with HDHPs. Both employees and employees may make pre-tax contributions, but they cannot both contribute in the same year. However, people generally have not been able to open new MSAs after 2007, so they are no longer very common. In 2018, only about 4,500 tax forms reported an MSA (Rosso 2021).[3]

Some earners also receive DCBs from their employers. These benefits are funds paid directly to an earner or care provider to finance care for qualified individuals that allow earners to remain employed. Qualified care recipients include children younger than age 13 who can be claimed as a dependent, spouses with a disability that prevents them from caring for themselves, and other people with disabilities who live with the earner for at least half the year and can be claimed as a dependent. Employer contributions toward these benefits that do not exceed $5,000 a year in 2024 and 2025 are not subject to federal income tax withholding or Social Security or Medicare payroll taxes (IRS 2024).

[3] Another type of MSA, known as a Medicare Advantage MSA, is used solely to pay the qualified medical expenses of an account holder who is eligible for Medicare.

Expanding the OASDI contribution base to include additional fringe benefits, especially ESI, could significantly boost OASDI revenues. However, unlike raising the OASDI's taxable maximum, which would affect only higher earners, adding certain fringe benefits to the contribution base would increase tax burdens only on workers below the taxable maximum, including those with relatively low earnings. To assess the potential impact of such as expansion on workers at various earnings levels, better information is needed on how the availability of certain fringe benefits are distributed across the workforce.

Data and Methods

To assess the potential impact of adding the value of select employer fringe benefits to the OASDI contribution base, we use internal IRS tax return data, which we obtained through the IRS-sponsored Joint Statistical Research Program. A running record of all individual tax events, including refunds, payments, penalties, and taxpayer status, the data include information returns collected from employer-submitted Form W2s. The W2 data include information on both filers and nonfilers.

Form W2 provides data on the following types of compensation:

- *Medicare covered earnings*, reported in box 5. They consist of uncapped annual cash wages, including workers' tax-deferred contributions to retirement plans but excluding most other payroll deductions.
- *Social Security covered earnings*, reported in box 3. They consist of annual cash wages in Social Security covered employment up to the Social Security taxable maximum ($142,800 in 2021), including workers' own tax-deferred contributions to retirement plans.
- *Value of ESI benefits*, reported in box 12 with code DD. They combine tax-exempt contributions made by both employers and employees. Because Form W2 does not distinguish between employer and employee contributions toward ESI costs, part of the amount reported supplements employees' cash compensation and part represents a pre-tax payroll deduction.
- *Employer contributions to HSAs*, reported in box 12 with code W, which are currently exempt from taxes.

- *Employer contributions to MSAs*, reported in box 12 with code R, which are currently exempt from taxes.
- *Employer contributions toward DCBs*, reported in box 10, which are currently exempt from taxes.

From the 2021 tax data, we create a 1 percent random sample of all people with a Social Security number in the tax return data, generating a file of 2,491,471 unique individuals. Because self-employed workers do not receive Form W2s, which provide our benefit data, we exclude them from our analysis. Our sample consists of wage and salary workers with positive Social Security earnings in 2021 and shows outcomes for that year.

The analysis begins by examining the prevalence and value of certain fringe benefits that are currently excluded from the OASDI contribution base. We compute the percentage of Social Security-covered earners receiving ESI and employer contributions to HSAs, MSAs, and DCBs. Although other types of compensation are also excluded from the OASDI contribution base, including group life insurance coverage, tuition and education benefits, transportation benefits, achievement awards, and discounts, they are not reported on Form W2 and thus are not available in our data. We also compute the average value of ESI coverage—the combined amount paid by employees and their employers—and average employer contributions to HSAs, MSAs, and DCBs. In addition to showing average amounts, our tabulations compare the total value of ESI and employer HSA, MSA, and DCB contributions to earnings, reporting the ratio of average annual benefit values to average annual Medicare wages.

The analysis then simulates the potential impact of adding ESI benefits and employer HSA, MSA, and DCB contributions to the OASDI contribution base, as summarized in Table 1. We show how much employees would have contributed to OASDI in 2021and what the average contribution rate—the ratio of average annual contributions to average annual Medicare wages—would have been if those fringe benefits had been included in the contribution base, and we compare those outcomes to estimates of their actual 2021 contributions under current law. We show the potential impact for earners overall and only for those with ESI and those receiving employer contributions to HSAs, MSAs, or DCBs. When tallying earners' contributions and contribution rates, we count both the employee and employer portions of the payroll tax because most Social Security analysts assume that employees ultimately pay the employer portion of the payroll tax through reduced wages (Smith, Johnson, and Favreault 2020). Economists generally

assume that if a government policy change forces employers to contribute more to OASDI, employers offset that additional cost by reducing the wages they pay by the amount of the additional contribution, so employees' total compensation does not change.

We simulate outcomes under two alternative scenarios. The first scenario assumes no change in the taxable maximum, so that workers would not pay OASDI payroll taxes on any expansion of the contribution base above $142,800, the taxable maximum in 2021. The second scenario further expands the OASDI contribution base by eliminating the taxable maximum, subjecting all qualifying compensation to the OASDI payroll tax. Both scenarios assume that both the employee and employer portions of the payroll tax would be levied on the expanded contribution base.

Our analysis shows how outcomes vary across the wage distribution, comparing results for workers at different earnings levels. We classify earners by their annual Medicare wages. In 2021, annual Medicare wages averaged $58,470 (Table 2). About 1 in 9 earners (11.5 percent) earned less than $5,000, and about 1 in 4 (24.3 percent) earned at least $5,000 and less than $25,000. About one-half of all earners made between $25,000 and $99,000. About 13 percent of covered workers earned at least $100,000 in 2021.

In the final stage of our analysis, we estimate the impact on annual OASDI revenue of broadening the OASDI contribution base for wage and salary workers. We simulate how much aggregate 2021 contributions would have increased if the contribution base for wage and salary workers had included the total value of ESI coverage and employer contributions to HSAs, MSAs, and DCBs, under various taxable maximums. We compare the impact of maintaining the current taxable maximum ($142,800 in 2021), increasing the taxable maximum to $250,000 or $400,000, and eliminating the taxable maximum, so that all wages and relevant benefits would be included in the contribution base regardless of earnings level. We also simulate how much 2021 revenues would have increased if the actual 2021 taxable maximum continued except for the addition to the contribution base of wages above a second, higher level. This innovation was included in the proposed 2023 Social Security Expansion Act and the Social Security plan proposed by President Biden during his 2020 presidential campaign (Johnson et al. 2024; Smith, Johnson, and Favreault 2020). In the current analysis, we consider two variations on this approach, reinstating the payroll tax on annual earnings above $250,000 and above $400,000.

Under each scenario, all earnings and benefits in the expanded contribution base would be subject to both the employee and employer portions of the payroll tax.

Results

Our results show that broadening the OASDI contribution base to include ESI benefits would moderately increase OASDI revenues. After describing below the prevalence and value of ESI benefits and employer contributions to MSAs, HSAs, and DCBs, we show how adding these fringe benefits to the OASDI contribution base would affect workers' contributions and how those additional contributions would be distributed across the workforce.

Workplace-Based Health Insurance Costs

In 2021, 39.8 percent of wage and salary workers received ESI (Table 3). Coverage rates increased with annual Medicare wages. Only 3.6 percent of wage and salary workers earning less than $5,000 annually received ESI, compared with 43.4 percent of those earning between $25,000 and $49,999 annually, 68.6 percent of those earning between $100,000 and $142,800 (the taxable maximum in 2021), and 76.8 percent of earning $400,000 or more.

Among wage and salary earners covered by ESI, the average annual 2021 ESI benefit, funded by employer and employee contributions, was $10,710, equal to 11.8 percent of annual Medicare wages. The value of the ESI benefit generally increased with earnings, averaging $4,560 among workers earning less than $5,000 annually, $8,370 among those earning between $25,000 and $49,999, $13,810 among those earning between $100,000 and $142,800, and $18,560 among those earning $400,000 or more. Relative to cash earnings, however, the value of ESI benefits fell as earnings increased. The value of those benefits averaged 26.1 percent of cash wages among workers earning between $5,000 and $24,999, 11.7 percent of cash wages among those earning between $100,000 and $142,800, and 1.9 percent of cash wages among those earnings at least $400,000. Among the relatively few ESI-covered workers earning less than $5,000, the average ESI benefit was more than double the value of annual cash wages.

Average ESI benefits are much lower when we consider all wage and salary workers, not just those covered by ESI. Among all wage and salary workers, the total annual value of ESI coverage averaged $4,260 in 2021, 7.3 percent of annual Medicare wages.

Other Health and Dependent Care Benefits

Employer contributions to HSAs, MSAs, and DCBs are much less common than ESI coverage. In 2021, only 8.7 percent of wage and salary workers received an employer contribution to an HSA, although the prevalence of employer HSA contributions was much higher among highly paid earners, who benefit more from the tax exemption than lower paid workers (Table 4). The share of workers receiving an employer contribution to an HSA reached 19.4 percent among those earning between $100,000 and $142,800 annually and 30.6 percent among those earning at least $400,000. Employer contributions to HSAs were relatively modest and substantially smaller than ESI benefits. Among all wage and salary workers receiving an employer HSA contribution, the average annual contribution was $2,500, equal to 2.1 percent of annual Medicare wages. The dollar value of value of those contributions increased with earnings, averaging $1,330 among workers earning between $25,000 and $49,999 annually and $5,470 among workers earning at least $400,000. Contributions measured as a percentage of wages, however, fell as earnings increased, declining from 4.6 percent among workers earning between $5,000 and $24,999 annually to 0.6 percent among workers earning at least $400,000.

Employer contributions to MSAs and DCBs are even less common than contributions to HSAs. Only 1 percent of wage and salary workers received an employer contribution to a DCB in 2021 and fewer than one-tenth of 1 percent received an employer contribution to an MSA. Employer DCB contributions were more common among high-wage workers, but even among workers earning at least $400,000 annually only 6 percent received an employer contribution. The average annual employer contribution among recipients was $3,340 for DCBs and $1,430 for MSAs. Average annual contributions among all workers, including those who did not receive a contribution, was less than $1 for MSAs and $32 for DCBs.

Combined Prevalence of ESI, HSAs, MSAs, and DCBs

In 2021, 40.7 percent of Social Security-covered wage and salary earners had ESI coverage or received an employer contribution to an MSA, HSA, or DCB (Table 5). Although these benefits are relatively rare among workers earning less than $25,000 a year, a majority of wage and salary workers earning more than $50,000 a year received at least one of these benefits in 2021, including 70.3 percent of those earning between $100,000 and $142,800 and 79.6 percent of those earning $400,000 or more.

Among recipients of these benefits, the average annual 2021 value was $11,100, equal to 12.2 percent of annual Medicare wages. Average annual values generally increased with earnings, reaching $14,500 among wage and salary workers earning between $100,000 and $142,800 and $20,300 among workers earning $400,000 or more. By contrast, the average annual value was only $4,490 among workers earning between $5,000 and $24,999.

Potential Impact of Broadening the OASDI Contribution Base

Broadening the OASDI contribution base to include ESI benefits and employer contributions to HSAs, MSAs, and DCBs could moderately increase OASDI contributions. Table 6 compares average annual 2021 contribution amounts under current law with what average annual 2021 contributions would have been if the contribution base included those fringe benefits. Table 7 reports the increase in average contributions under the potential expansion, and Table 8 reports average OASDI contribution rates—the ratio of average annual contributions to average annual Medicare wages—under current law and the expansion. For comparison, the tables also show the impact of eliminating the taxable maximum.

We estimate that adding ESI benefits and employer contributions to HSAs, MSAs, and DCBs to the OASDI contribution base while maintaining the current-law taxable maximum would have boosted average annual 2021 OASDI contributions by $440, from $5,920 to $6,360, a 7.4 percent increase (Table 6). Contributions would have increased more for higher earners below the taxable maximum than for lower earners, although the contribution hike would have consumed a meaningful portion of wages for workers at all earnings levels below the taxable maximum. Those additional contributions equal 7.7 percent of annual Medicare wages for workings earning less than $5,000 annually, 10.3 percent of wages for workers earning between $25,000 and $49,999 annually, and 7.0 percent of wages for workers earning between $100,000 and $142,800 annually. Adding those fringe benefits to the OASDI contribution base would have increased the overall share of earnings that workers contribute to Social Security from 10.1 percent to 10.9 percent (Table 8). The contribution rate would have increased 0.8 percentage points (from 12.4 percent to 13.2 percent) for workers earning less than $5,000, 1.3 percentage points for workers earning between $25,000 and $49,999 (from 12.4 percent to 13.7 percent) and 0.9 percentage points for workers earning between $100,000 and $142,800 (from 12.4 percent to 13.3 percent).

Eliminating the annual cap on earnings subject to OASDI contributions would have a larger impact on OASDI contributions than adding ESI benefits and employer HSA, MSA, and DCB contributions to the OASDI contribution base. Eliminating the taxable maximum would have increased average annual 2021 OASDI contributions by $1,330, or 22.5 percent, about three times more than adding the specified fringe benefits to the contribution base. Moreover, eliminating the taxable maximum would not affect workers earning less than the existing taxable maximum, instead restricting contribution increases to workers earnings more than the existing maximum. In 2021, workers earning between $142,801 and $249,999 annually would have contributed about 27 percent more to OASDI if the taxable maximum had been eliminated, while workers earning between $250,000 and $399,999 would have contributed more than twice as much and workers earning at least $400,000 would have contributed nearly seven times as much. If the expanded contribution base included ESI benefits and employer contributions to HSAs, MSAs, and DCBs as well as all Medicare wages, average annual 2021 OASDI contributions would have reached $7,810, 31.9 percent more than under current law.

The increase in OASDI contributions that would result from adding fringe benefits to the contribution base would come almost entirely from the inclusion of ESI benefits. Including ESI benefits in the contribution base would increased average annual 2021 OASDI contributions by $420, while adding employer contributions to HSAs, MSAs, and DCBs would have increased average annual contributions by only $20.

The estimated impact of adding ESI benefits to the OASDI contribution base is larger when we consider only earners with ESI coverage (Table 9). Including ESI benefits in the contribution base would have increased average annual 2021 OASDI contributions by $1,070, or 12.4 percent, for wage and salary earners with ESI coverage, and it would have increased the average OASDI contribution rate to 10.7 percent. For ESI-covered wage and salary workers, adding ESI benefits would have increased OASDI contributions 25.9 percent among those earning between $5,000 and $24,999, 16.5 percent among those earning between $50,000 and $99,999, and 9.7 percent among those earning between $100,000 and $142,800. Adding ESI to the contribution base would not change OASDI contributions for workers whose earnings exceed the taxable maximum. But average OASDI contributions would have more than tripled for ESI-covered wage and salary workers earning less than $5,000 a year. Eliminating the taxable maximum as well as adding ESI benefits to the contribution base would have increased average

annual 2021 OASDI contributions by 45 percent among all wage and salary workers with ESI coverage (from $8,650 to $12,540), with workers earning $400,000 or more paying contributing about seven times more to OASDI (from $17,710 to $124,430). While this is a big dollar increase in OASDI contributions for the highest earners, their $124,430 contribution would represent only 12.6 percent of their Medicare wages, a smaller share than for ESI-covered workers earning less than $400,000 per year.

Adding the value of ESI benefits and employer contributions to MSAs, HSAs, and DCBs for wage and salary workers to the OASDI contribution base would have increased annual OASDI revenues by $73 billion in 2021, a 7.4 percent hike (Table 10). Nearly all the revenue increase would come from adding ESI benefits; adding the other components to the contribution base would have a negligible impact on program revenues. By comparison, raising the 2021 taxable maximum from $142,800 to $250,000 without adding fringe benefits to the contribution base would have increased annual 2021 OASDI revenue by $80 billion, or 8.2 percent, while revenues would have increased 12.4 percent if the taxable maximum were increased to $400,000 and 22.5 percent if the taxable maximum were eliminated. Keeping the taxable maximum at its current level but adding annual earnings equal to or greater than $400,000 to the contribution base would generate an additional $99 billion in revenue, an increase of 10.1 percent, slightly more than adding ESI benefits and employer contributions to HSAs, MSAs, and DCBs. Adding annual earnings equal to or greater than $250,000 to the contribution base would have increased annual 2021 OADSI revenues by $140 billion, or 14.3 percent.

Conclusions

Our results show that adding ESI benefits to the OASDI contribution base would moderately increase program revenues. Including the value of ESI benefits for wage and salary workers, whether funded by contributions from employers or employees, in the contribution base would have raised average annual 2021 OASDI contributions by $420, an increase of about 7 percent, and provided an additional $70 billion in revenue to Social Security. Among workers receiving ESI benefits, broadening the contribution base to include ESI benefits would have increased average annual contributions by $1,070, or about 12 percent. This is one of the first studies to show the potential impact of such an expansion. Adding employer contributions to

HSAs, MSAs, and DCBs to the contribution base would have negligible effects because relatively few workers receive those benefits.

The additional revenue generated from broadening the OASDI contribution base could improve Social Security's finances. In 2024, Social Security's actuaries estimated that the program's 75-year actuarial deficit equaled 3.5 percent of taxable payroll (Board of Trustees, Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds 2024), indicating that Social Security's long-term financing gap could be eliminated by increasing the payroll tax rate, currently 12.4 percent, by 3.5 percentage points, or 28 percent. Thus, adding ESI benefits to the contribution base would generate about a quarter of the revenue needed to balance Social Security's financing. The impact on program solvency would be smaller, however, if workers earned future Social Security benefits on the ESI benefits added to the contribution base.

Adding ESI benefits to the OASDI contribution base would generate slightly less revenue than increasing the annual taxable maximum by about $100,000 or levying the OASDI payroll tax on the portion of annual earnings that equal or exceed $400,000. These policy changes would affect lower-earning and higher-earnings workers very differently. Raising the taxable maximum or adding earnings that exceed $400,000 to the contribution base would require highly paid earners to contribute more, while sparing workers who earn less than the current taxable maximum. By contrast, adding ESI benefits to the OASDI contribution base would require many lower-paid earners to contribute more, with average annual contributions increasing about 8 percent among workers earning less than $5,000 annually and 11 percent among workers earning between $50,000 and $99,000 annually. For workers with ESI coverage, OASDI contributions would increase about 26 percent for those earning between $5,000 and $24,999 a year, and annual contributions would more than triple for those earning less than $5,000 a year. Including ESI benefits in the OASDI contribution base would increase the contribution-to-earnings ratio for ESI-covered workers earning less than $5,000 a year from 12.4 percent to 38.2 percent, while requiring no additional contributions from workers who earn more than the taxable maximum. Workers earning more than $400,000 would continue to contribute less than 2 percent of their earnings to OASDI even if ESI were added to the contribution base. These distributional consequences could be helpful to consider as the debate over Social Security's solvency intensifies.

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Table 1. *Summary of Fringe Benefits Added to the OASDI Contribution Base in Our Simulations*

Fringe benefit	Description
Employer-sponsored health insurance (ESI)	Combined annual value of employer and employee contributions to ESI coverage
Health savings accounts (HSAs)	Annual value of employer contributions to HSAs, tax-advantaged accounts that people use to save for and pay for unreimbursed medical expenses ($4,150 limit for self-only coverage, $8,300 limit for family coverage)
Archer medical savings accounts (MSAs)	Annual value of employer contributions to MSAs, an older, more restrictive type of HSA that can finance medical expenses (annual deductible and income limits)
Dependent care benefits (DCBs)	Annual value of employer contributions to DCBs, which are paid directly to an earner or care provider for care for qualified individuals so earners can remain employed ($5,000 limit, $2,500 limit for married filing separately)

Source: Authors' analysis.

Table 2. *Distribution of Earners by Annual Medicare Wages, 2021*

Annual Medicare wages	Number of earners (thousands)	Percentage of earners	Average earnings ($)
All	165,057	100.0	58,470
$1 to $4,999	18,980	11.5	2,120
$5,000 to $24,999	40,097	24.3	14,360
$25,000 to $49,999	43,890	26.6	38,860
$50,000 to $99,999	40,467	24.5	69,780
$100,000 to $142,800	10,893	6.6	118,040
$142,801 to $249,999	7,257	4.4	180,960
$250,000 to $399,999	2,085	1.3	308,370
$400,000 and more	1,388	0.8	974,030

Notes: Estimates are restricted to wage and salary workers with Social Security-covered earnings. The 2021 taxable maximum was $142,800. Earnings are rounded to the nearest $10.
Source: Authors' tabulations from internal IRS tax return data.

Table 3. *Prevalence and Total Value of Employer-Sponsored Health Insurance by Annual Medicare Wages, 2021*

Annual Medicare wages	Percentage receiving ESI benefits	Average annual ESI value ($)	ESI value as a percentage of Medicare wages	Among ESI recipients	
				Average annual ESI value ($)	ESI value as a percentage of Medicare wages
All	39.8	4,260	7.3	10,710	11.8
$1 to $4,999	3.6	160	7.5	4,560	210.1
$5,000 to $24,999	14.5	650	4.5	4,460	26.1
$25,000 to $49,999	43.4	3,640	9.9	8,370	22.0
$50,000 to $99,999	61.3	7,120	10.2	11,620	16.5
$100,000 to $142,800	68.6	9,480	8.0	13,810	11.7
$142,801 to $249,999	72.1	10,790	6.0	14,970	8.3
$250,000 to $399,999	74.5	12,180	3.9	16,350	5.3
$400,000 and more	76.8	14,250	1.5	18,560	1.9

Notes: Estimates are restricted to wage and salary workers with Social Security-covered earnings. The 2021 taxable maximum was $142,800. ESI value includes contributions paid by both employers and employees and is rounded to the nearest $10. The value of ESI as a percentage of wages is computed by dividing average annual ESI benefit amounts by average annual Medicare wages. ESI = employer-sponsored insurance.
Source: Authors' tabulations from internal IRS tax return data.

Table 4. *Employer Contributions to Health Savings Accounts, Medical Savings Accounts, and Dependent Care Benefits by Annual Medicare Wages, 2021*

Annual Medicare wages	Percentage receiving employer contributions	Average annual employer contribution ($)	Contributions as a percentage of Medicare wages	Among recipients	
				Average annual employer contribution ($)	Contributions as a percentage of Medicare wages
Health Savings Accounts					
All	8.7	217	0.4	2,500	2.1
$1 to $4,999	0.3	2	0.1	760	29.7
$5,000 to $24,999	1.7	13	0.1	810	4.6
$25,000 to $49,999	7.4	98	0.3	1,330	3.4
$50,000 to $99,999	13.5	295	0.4	2,190	3.0
$100,000 to $142,800	19.4	615	0.5	3,180	2.7
$142,801 to $249,999	24.7	987	0.5	4,000	2.2
$250,000 to $399,999	29.0	1,352	0.4	4,660	1.5
$400,000 and more	30.6	1,672	0.2	5,470	0.6
Medical Savings Accounts					
All	0.01	0.17	0.00	1,430	1.6
$1 to $4,999	*	*	*	*	*
$5,000 to $24,999	*	*	*	*	*
$25,000 to $49,999	0.01	0.17	0.00	1,380	3.5
$50,000 to $99,999	0.02	0.33	0.00	1,420	2.0
$100,000 to $142,800	0.02	0.25	0.00	1,430	1.2
$142,801 to $249,999	*	*	*	*	*
$250,000 to $399,999	*	*	*	*	*
$400,000 and more	*	*	*	*	*
Dependent Care Benefits					
All	1.0	32	0.1	3,340	2.2
$1 to $4,999	0.0	0	0.0	490	19.4
$5,000 to $24,999	0.1	2	0.0	1,110	6.4
$25,000 to $49,999	0.5	11	0.0	2,240	5.7
$50,000 to $99,999	1.3	43	0.1	3,360	4.5
$100,000 to $142,800	2.6	100	0.1	3,840	3.2
$142,801 to $249,999	4.1	154	0.1	3,760	2.0
$250,000 to $399,999	5.2	196	0.1	3,750	1.2
$400,000 and more	6.0	246	0.0	4,070	0.5

Notes: Estimates are restricted to wage and salary workers with Social Security-covered earnings. The 2021 taxable maximum was $142,800. Annual contributions among recipients are rounded to the nearest $10. Contributions as a percentage of wages are computed by dividing average annual contributions by average annual Medicare wages. * Indicates that the sample size is too small to report an estimate.
Source: Authors' tabulations from internal IRS tax return data.

Table 5. *Total ESI Values and Employer Contributions to HSAs, MSAs, and DCBs, by Annual Medicare Wages, 2021*

Annual Medicare wages	Percentage with ESI or receiving HSA, MSA, or DCB contributions	Average annual amount ($)	Amount as percentage of Medicare wages	Among recipients	
				Average annual amount	Amount as percentage of Medicare wages
All	40.7	4,510	7.7	11,100	12.2
$1 to $4,999	3.7	170	8.0	4,540	209.2
$5,000 to $24,999	14.7	660	4.6	4,490	26.3
$25,000 to $49,999	44.2	3,750	10.2	8,470	22.2
$50,000 to $99,999	62.7	7,460	10.7	11,900	16.9
$100,000 to $142,800	70.3	10,190	8.6	14,500	12.3
$142,801 to $249,999	74.2	11,930	6.6	16,080	8.9
$250,000 to $399,999	77.1	13,730	4.5	17,800	5.8
$400,000 and more	79.6	16,170	1.7	20,300	2.1

Notes: Estimates are restricted to wage and salary workers with Social Security-covered earnings. The 2021 taxable maximum was $142,800. Average annual values are round to the nearest $10. ESI value and employer contributions as a percentage of wages are computed by dividing average annual benefit amounts by average annual Medicare wages. ESI = employer-sponsored insurance; HSA = health savings accounts; MSA = medical savings accounts; DCB = dependent care benefit.
Source: Authors' tabulations from internal IRS tax return data.

Table 6. *Average OASDI Contributions under Alternative Expansion Scenarios by Annual Medicare Wages, 2021 ($)*

Annual Medicare wages	Under current earnings definition	Add ESI only	Add HSA only	Add MSA only	Add DCB only	Add All
Contribution Base Includes Earnings up to $142,800 (Actual 2021 Taxable Maximum)						
All	5,920	6,340	5,930	5,920	5,920	6,360
$1 to $4,999	260	280	260	260	260	280
$5,000 to $24,999	1,780	1,860	1,780	1,780	1,780	1,860
$25,000 to $49,999	4,570	5,020	4,580	4,570	4,570	5,040
$50,000 to $99,999	8,650	9,540	8,690	8,650	8,660	9,580
$100,000 to $142,800	14,640	15,620	14,710	14,640	14,650	15,670
$142,801 to $249,999	17,710	17,710	17,710	17,710	17,710	17,710
$250,000 to $399,999	17,710	17,710	17,710	17,710	17,710	17,710
$400,000 and more	17,710	17,710	17,710	17,710	17,710	17,710
Expand the Contribution Base to Include All Earnings						
All	7,250	7,780	7,280	7,250	7,250	7,810
$142,801 to $249,999	22,440	23,780	22,560	22,440	22,460	23,920
$250,000 to $399,999	38,240	39,750	38,410	38,240	38,260	39,940
$400,000 and more	120,780	122,550	120,990	120,780	120,810	122,790

Notes: Estimates are restricted to wage and salary workers with Social Security-covered earnings. OASDI contributions include contributions paid by employees and their employers and are rounded to the nearest $10. The 2021 taxable maximum was $142,800. ESI = employer-sponsored insurance; HSA = health savings accounts; MSA = medical savings accounts; DCB = dependent care benefit.
Source: Authors' tabulations from internal IRS tax return data.

Table 7. *Increase in Average Annual OASDI Contributions under Alternative Expansion Scenarios by Annual Medicare Wages, 2021*

Annual Medicare wages	Under current earnings definition		Add ESI only		Add HSA, MSA, and DCB only		Add All	
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent
Contribution Base Includes Earnings up to $142,800 (Actual 2021 Taxable Maximum)								
All	0	0.0	420	7.1	20	0.3	440	7.4
$1 to $4,999	0	0.0	20	7.7	0	0.0	20	7.7
$5,000 to $24,999	0	0.0	80	4.5	0	0.0	80	4.5
$25,000 to $49,999	0	0.0	450	9.8	20	0.4	470	10.3
$50,000 to $99,999	0	0.0	890	10.3	40	0.5	930	10.8
$100,000 to $142,800	0	0.0	980	6.7	50	0.3	1,030	7.0
$142,801 to $249,999	0	0.0	0	0.0	0	0.0	0	0.0
$250,000 to $399,999	0	0.0	0	0.0	0	0.0	0	0.0
$400,000 and more	0	0.0	0	0.0	0	0.0	0	0.0
Expand the Contribution Base to Include All Earnings								
All	1,330	22.5	1,860	31.4	1,360	23.0	1,890	31.9
$142,801 to $249,999	4,730	26.7	6,070	34.3	4,870	27.5	6,210	35.1
$250,000 to $399,999	20,530	115.9	22,040	124.4	20,720	117.0	22,230	125.5
$400,000 and more	103,070	582.0	104,840	592.0	103,310	583.3	105,080	593.3

Notes: Estimates are restricted to wage and salary workers with Social Security-covered earnings. OASDI contributions include contributions paid by employees and their employers. Increases are calculated relative to contributions under current law. ESI = employer-sponsored insurance; HSA = health savings accounts; MSA = medical savings accounts; DCB = dependent care benefits.
Source: Authors' tabulations from internal IRS tax return data.

Table 8. *Average OASDI Contribution Rates under Alternative Expansion Scenarios by Annual Medicare Wages, 2021 (%)*

Annual Medicare wages	Under current earnings definition	Add ESI only	Add HSA, MSA, and DCB only	Add All
Contribution Base Includes Earnings up to $142,800 (Actual 2021 Taxable Maximum)				
All	10.1	10.8	10.2	10.9
$1 to $4,999	12.4	13.2	12.3	13.2
$5,000 to $24,999	12.4	13.0	12.4	13.0
$25,000 to $49,999	12.4	13.7	12.5	13.7
$50,000 to $99,999	12.4	13.7	12.5	13.7
$100,000 to $142,800	12.4	13.2	12.4	13.3
$142,801 to $249,999	9.8	9.8	9.8	9.8
$250,000 to $399,999	5.7	5.7	5.7	5.7
$400,000 and more	1.8	1.8	1.8	1.8
Expand the Contribution Base to Include All Earnings				
All	12.4	13.3	12.5	13.4
$142,801 to $249,999	12.4	13.1	12.5	13.2
$250,000 to $399,999	12.4	12.9	12.5	13.0
$400,000 and more	12.4	12.6	12.4	12.6

Notes: Estimates are restricted to wage and salary workers with Social Security-covered earnings. OASDI contributions include contributions paid by employees and their employers. The OASDI contribution rate is defined as the ratio of annual OASDI contributions to average annual Medicare earnings. ESI = employer-sponsored insurance; HSA = health savings accounts; MSA = medical savings accounts; DCB = dependent care benefit.
Source: Authors' tabulations from internal IRS tax return data.

Table 9. *Average Annual OASDI Contributions under Alternative Expansion Scenarios for Wage and Salary Earners with ESI, by Annual Medicare Wages, 2021*

Annual Medicare wages	Dollar value		As a percentage of annual Medicare wages		Increase	
	Current earnings definition	Add ESI	Current earnings definition	Add ESI	Dollar value	Percent
Contribution Base Includes Earnings up to $142,800 (Actual 2021 Taxable Maximum)						
All	8,650	9,720	9.6	10.7	1,070	12.4
$1 to $4,999	270	830	12.4	38.2	560	207.4
$5,000 to $24,999	2,120	2,670	12.4	15.6	550	25.9
$25,000 to $49,999	4,730	5,760	12.4	15.1	1,030	21.8
$50,000 to $99,999	8,750	10,190	12.4	14.4	1,440	16.5
$100,000 to $142,800	14,670	16,100	12.4	13.6	1,430	9.7
$142,801 to $249,999	17,710	17,710	9.8	9.8	0	0.0
$250,000 to $399,999	17,710	17,710	5.7	5.7	0	0.0
$400,000 and more	17,710	17,710	1.8	1.8	0	0.0
Expand the Contribution Base to Include All Earnings						
All	11,210	12,540	12.4	13.9	3,890	45.0
$142,801 to $249,999	22,460	24,320	12.4	13.4	6,610	37.3
$250,000 to $399,999	38,310	40,340	12.4	13.1	22,630	127.8
$400,000 and more	122,120	124,430	12.4	12.6	106,720	602.6

Notes: Estimates are restricted to wage and salary workers with Social Security-covered earnings. OASDI contributions include contributions paid by employees and their employers. Percent increases are calculated relative to contributions under current law. ESI = employer-sponsored insurance
Source: Authors' tabulations from internal IRS tax return data.

Table 10. *Impact of Expanding the OASDI Contribution Base for Wage and Salary Workers on Aggregate OASDI Contributions by Expansion Scenario, 2021*

	Current earnings definition	Add ESI only	Add HSA, MSA, and DCB only	Add All
Contribution Base Includes Earnings up to $142,800 (Actual 2021 Taxable Maximum)				
Annual revenue ($billions)	977	1,046	980	1,049
Dollar increase over current law ($billions)	0	70	3	73
Percent increase over current law	0	7.1	0.3	7.4
Expand the Contribution Base to Include Earnings up to $250,000				
Annual revenue ($billions)	1,057	1,138	1,061	1,142
Dollar increase over current law ($billions)	80	162	85	166
Percent increase over current law	8.2	16.6	8.7	17.0
Expand the Contribution Base to Include Earnings up to $400,000				
Annual revenue ($billions)	1,098	1,183	1,103	1,187
Dollar increase over current law ($billions)	121	206	126	210
Percent increase over current law	12.4	21.1	12.9	21.6
Expand the Contribution Base to Include All Earnings				
Annual revenue ($billions)	1,197	1,284	1,202	1,289
Dollar increase over current law ($billions)	220	307	225	312
Percent increase over current law	22.5	31.5	23.1	32.0
Expand the Contribution Base to Include Earnings Equal to or Greater than $250,000				
Annual revenue ($billions)	1,116	1,192	1,120	1,196
Dollar increase over current law ($billions)	140	215	143	219
Percent increase over current law	14.3	22.1	14.7	22.5
Expand the Contribution Base to Include Earnings Equal to or Greater than $400,000				
Annual revenue ($billions)	1,075	1,148	1,079	1,151
Dollar increase over current law ($billions)	99	171	102	174
Percent increase over current law	10.1	17.5	10.5	17.9

Notes: Estimates are restricted to wage and salary workers. ESI = employer-sponsored insurance; HSA = health savings accounts; MSA = medical savings accounts; DCB = dependent care benefits.
Source: Authors' tabulations from internal IRS tax return data.

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