

5-5 SOCIAL SECURITY AND MEDICARE

To do now:

1. Write down the objectives
2. Take out earbuds

You will need:

- Papers on the student table
- Textbook
- Calculator
- Pen or Pencil
- Notebook Paper

Red Items are needed during the lecture

OBJECTIVES

Understand the reasons for Social Security and Medicare.

Compute Social Security and Medicare (FICA) taxes.

Social Security & Medicare



- They are government programs that are paid for by both you and your employer.
- They are combined and called **FICA**.
- Employers match employee contributions.
- Social Security – It provides income for people after they retire.
- Medicare – It is a government health care program for:
 - disabled people
 - people over 65

A person wearing a blue medical uniform with a stethoscope around their neck is holding a red-framed sign. The sign has a black background with the word "Medicare" written in white, chalk-like font. The person's hands are visible holding the corners of the sign.

Medicare

Paying for Medicare

- The amount you pay depends on **your income**.
- There is a percentage that is taken out of **every paycheck**.
- Currently it is **1.45%** for both you and your employer.



Paying for Social Security

- The amount you pay depends on **your income**.
- There is a percentage that is taken out of every paycheck **up to a maximum amount**.
- Currently it is **6.2%** for both you and your employer.
- You currently pay this tax for income **up to \$118,500**.

Steps to calculate FICA

Med

Step 1: Determine the Medicare tax

$$\text{Medicare tax} = \text{Gross income} \times \% \text{ tax}$$

SS

Step 2: Determine the amount of income eligible for SS tax

$$\text{Qualifier} = \text{Annual Gross Income} - \text{Max}$$

- If positive: Eligible amount = Max

- If negative: Eligible amount = Gross income

Step 3: Determine the SS tax

$$\text{Social Security tax} = \text{Eligible amount} \times \% \text{ tax}$$

FICA

Step 4: Determine the FICA tax

$$\text{FICA tax} = \text{Medicare tax} + \text{SS tax}$$

Note: Unless otherwise stated use the current rates

This year Ramiro earned \$73,210.

a. How much did he pay for Medicare taxes?

Step(s) 1:

Determine the Medicare tax

Medicare tax = Gross income x % tax

$$= 73,210 \times .0145$$

$$= \mathbf{\$1,061.55}$$

This year Ramiro earned \$73,210.

b. How much did his employer pay for Medicare taxes?

Step(s) None:

Same as employee

\$1,061.55

This year Ramiro earned \$73,210.

Example 1

c. How much did he pay for Social Security taxes?

Step(s) 2&3:

Step 2: Determine the amount of income eligible for the tax

$$\begin{aligned}\text{Qualifier} &= \text{Annual Gross Income} - \text{Max} \\ &= 73,210 - 118,500 \\ &= -45,290\end{aligned}$$

If negative: Eligible amount = Gross income

$$\text{Eligible amount} = 73,210$$

Step 3: Determine the SS tax

$$\begin{aligned}\text{Social Security tax} &= \text{Eligible amount} \times \% \text{ tax} \\ &= 73,210 \times .062 \\ &= \mathbf{\$4,539.02}\end{aligned}$$

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This year Ramiro earned \$73,210.

d. How much did his employer pay for Social Security taxes?

Step(s) None:

Same as employee

\$4,539.02

This year Ramiro earned \$73,210.

e. How much did Ramiro pay for FICA taxes?

Step(s) 4:

Determine the FICA tax

$$\begin{aligned}\text{FICA tax} &= \text{Medicare tax} + \text{SS tax} \\ &= 1,061.55 + 4,539.02 \\ &= \mathbf{\$5,600.57}\end{aligned}$$

Example 1 – You try it!

Lisa made a total of \$220,000 this year.

- a. How much did she pay for Medicare taxes?
- b. How much did her employer pay for Medicare taxes?
- c. How much did she pay for Social Security taxes?
- d. How much did her employer pay for Social Security taxes?
- e. How much did Lisa pay for FICA taxes?

Example 1 – You try it!

Lisa made a total of \$220,000 this year.

a. How much did she pay for Medicare taxes?

Step 1: Determine the Medicare tax

Medicare tax = Gross income x % tax

$$= 220,000 \times .0145$$

$$= \mathbf{\$3,190.00}$$

Example 1 – **You try it!**

Lisa made a total of \$220,000 this year.

b. How much did her employer pay for Medicare taxes?

Step(s) None:

Same as employee

\$3,190.00

Example 1 – You try it!

Lisa made a total of \$220,000 this year.

c. How much did she pay for Social Security taxes?

Step(s) 2&3:

Step 2: Determine the amount of income eligible for the tax

$$\begin{aligned}\text{Qualifier} &= \text{Annual Gross Income} - \text{Max} \\ &= 220,000 - 118,500 \\ &= 101,500\end{aligned}$$

If positive: Eligible amount = Max

$$\text{Eligible amount} = 118,500$$

Step 3: Determine the SS tax

$$\begin{aligned}\text{Social Security tax} &= 118,500 \times .062 \\ &= \mathbf{\$7,347.00}\end{aligned}$$

Example 1 – You try it!

Lisa made a total of \$220,000 this year.

d. How much did her employer pay for Social Security taxes?

Step(s) None:

Same as employee

\$7,347.00

Example 1 – You try it!

Lisa made a total of \$220,000 this year.

e. How much did Lisa pay for FICA taxes?

Step 4: Determine the FICA tax

FICA tax = Medicare tax + SS tax

= \$3,190 + \$7,347

= **\$10,537.00**

Example 4

In 1988, Social Security tax was 7.51%, to the maximum income of \$45,000. If Grace earned \$51,211 in 1988, how much **Social Security** did she pay?

Step(s) 2&3:

Step 2: Determine the amount of income eligible for the tax

$$\begin{aligned}\text{Qualifier} &= \text{Annual Gross Income} - \text{Max} \\ &= 51,211 - 45,000 \\ &= 6,211\end{aligned}$$

If positive: Eligible amount = Max

$$\text{Eligible amount} = 45,000$$

Step 3: Determine the SS tax

$$\begin{aligned}\text{Social Security tax} &= 45,000 \times .0751 \\ &= \mathbf{\$3,379.50}\end{aligned}$$

In 1988, Social Security tax was 7.51%, to the maximum income of \$45,000. In 1988 Ramona paid \$2,853.80 in Social Security tax. What was Ramona's **eligible** Social Security income in 1988?

Step(s) 3:

Social Security tax = **Eligible amount** x % tax

$$2,853.80 = E \times .0751$$

$$E = \mathbf{\$38,000.00}$$

What do I do now?

The 5-5 Assignment

When is it due?

Next Class