




We've looked at the deductions that come out of your paycheck, otherwise known as payroll taxes. Now, let's examine a couple of big programs that are funded through these taxes and how they benefit you and others: Social Security and Medicare.



Provides retirement benefits and other benefits such as disability.

Social Security is a pay as you go program, meaning that the money you are paying into the system is being spent on current retirees' benefits.

**2011**  
Employees pay 4.2%  
Employer pays 6.2%

Social Security is funded by a payroll tax. This program provides retirement benefits to those who are eligible to retire and other benefits such as disability for those who can't work. You pay into the Social Security system under the premise that you will one day retire and receive retirement benefits. Social Security is a pay as you go program, meaning that the money you are paying into the system is being spent on current retirees' benefits.

For 2011, employees pay 4.2% of their wages up to \$106,800 (this is the current maximum, it increases every year). This represents a 2% reduction over the normal rate of 6.2%. The employer also pays 6.2% of the employee's salary.

## Social Security Taxes

Question 1 of 2

Point Value: 10

Your total wages for 2009 were \$15,122.00. How much was withheld for social security?

- \$542.32
- \$589.23
- \$653.12
- \$635.12

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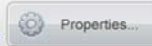
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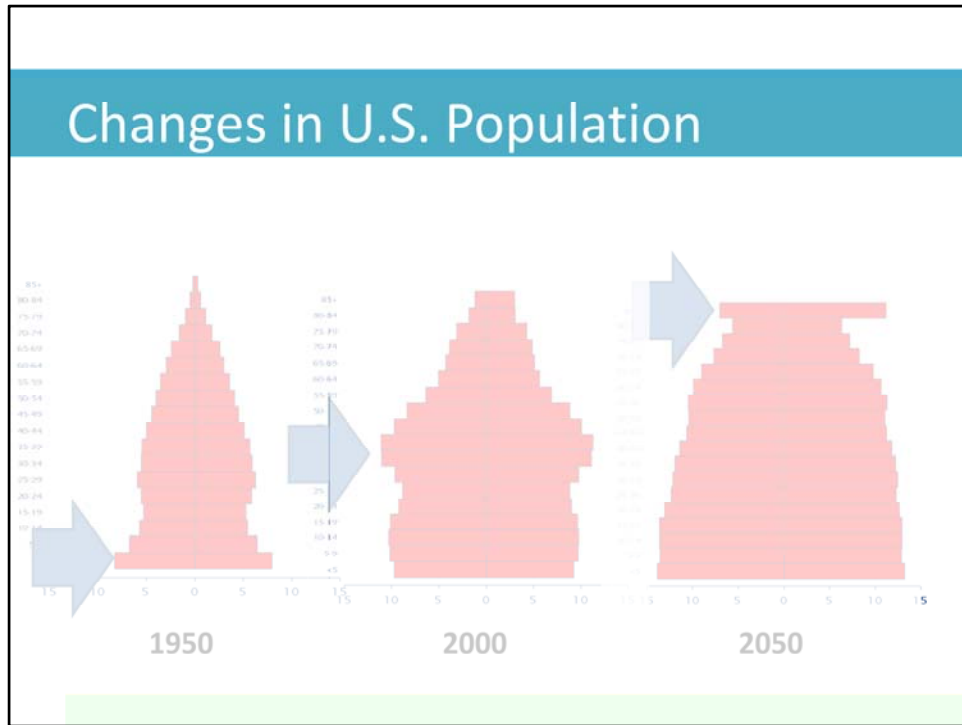
## Funding Problems



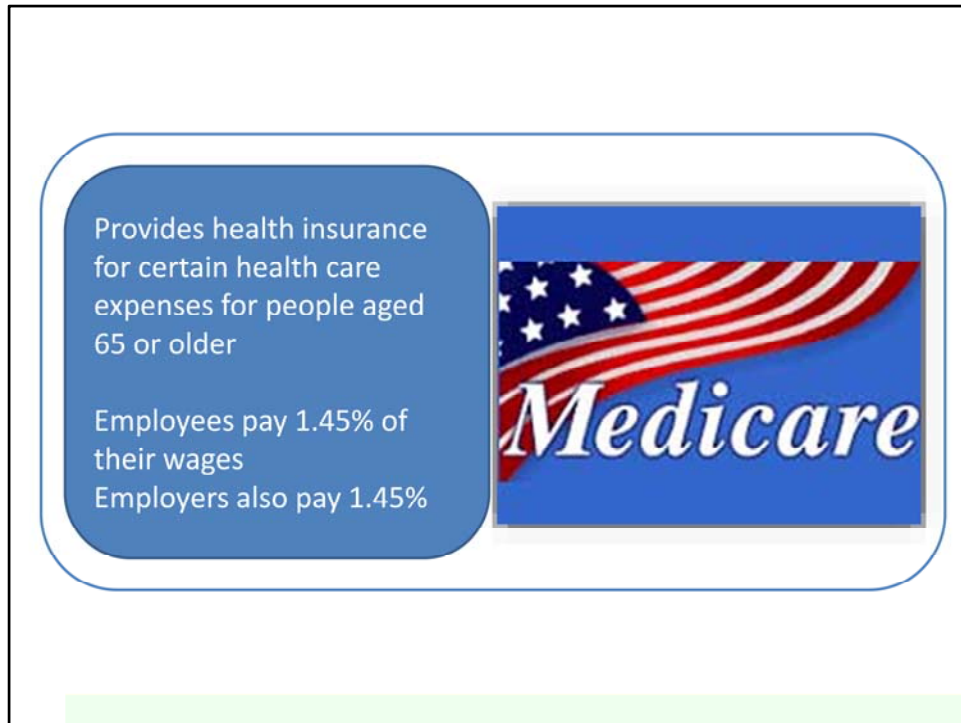
Current benefits are paid from current payroll taxes.

What happens if the number of older people starts growing faster than the number of new workers?

Remember that Social Security is a pay as you go program, and that current benefits are being paid by current payroll taxes. In other words, that four point two percent of your paycheck goes to pay the retirement benefits of Mr. Jones who lives down the street. When you retire (and it will happen one day!), your benefits will come from other people who are working, like your grandchildren. This works fine when the population is growing, and there are a lot more workers to fund the program than there are people receiving money from it. But what happens if the number of older people starts growing faster than the number of new workers?



Look at these three graphs which show the U.S. population by age in 1950, 2000 and 2050. Notice the “bulge” that appears at the bottom of the first graph, the middle of the second graph and the top of the third graph. This bulge is filled with "baby boomers," who were born during a boom in births that followed World War II. As people live longer lives due to improvements in medicine, more and more of these people will retire and live longer lives. As this happens, you can see that the number of older people will grow considerably. Notice that the 1950 graph looks much more like an arrowhead, with lots of young people and fewer older people, while the 2050 graph is more like a column with more equal numbers of all age groups and a lot of people over eighty-five. Who is going to support the Social Security benefits for these people who may have been retired more than twenty years? If nothing changes, it's possible that the Social Security fund might be empty when this happens. If that happens, or even if it doesn't, you'll want to have another plan for funding your retirement.



In 1965, President Lyndon B. Johnson signed Medicare into law. Medicare is a government health insurance program that pays for certain health care expenses for people aged 65 or older.

Like Social Security, Medicare is also funded through payroll taxes. One point four five percent is withheld from all employees and the same amount is contributed by the employer, making Medicare an effective two point nine percent tax on all wage earners in the United States.

## Medicare Coverage

Part A (hospital insurance) covers most medically necessary hospital, skilled nursing facility, home health and hospice care. It is free if you have worked and paid Social Security taxes for at least 40 calendar quarters (10 years); you will pay a monthly premium if you have worked and paid taxes for less time.

Part B (medical insurance) covers most medically necessary doctors' services, preventive care, durable medical equipment, hospital outpatient services, laboratory tests, x-rays, mental health care, and some home health and ambulance services. You pay a monthly premium for this coverage.  
Source: Medicare.gov



You may be wondering what you get for your contribution.

Most people become eligible for Medicare when they turn 65. Medicare is administered directly by the federal government and is made up of two parts which are shown here.

## Medicare Taxes

Question 1 of 3

Point Value: 10

Your total wages for 2009 were \$15,122.00.  
How much would you owe in Medicare Taxes?

- \$195.23
- \$322.56
- \$276.42
- \$219.27

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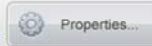
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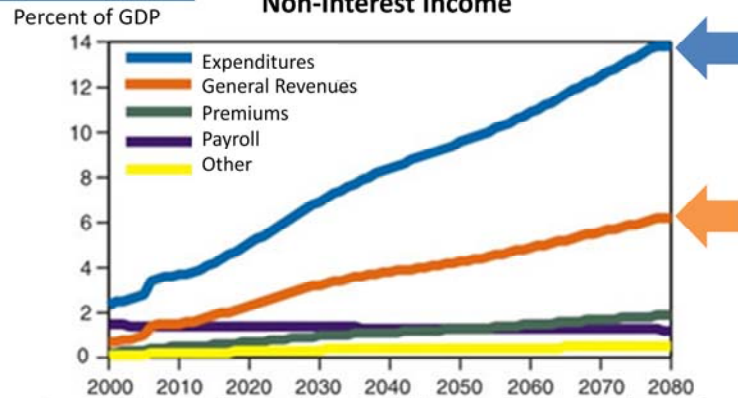




# Medicare Funding Issues

**Medicare.gov**  
The Official U.S. Government Site for Medicare

## Medicare Expenditures and Non-Interest Income



Source: 2004 Annual Report of the Board of Trustees for the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

Like Social Security, Medicare has funding issues that threaten its survival.

The Medicare Board of Trustees believes its hospital funding program will run out of money in 2018.

The blue line in the graph represents the majority of money leaving (that is expenditures) and the orange line represents the majority of money coming in (general revenue). As you can see, if the Medicare system doesn't change in some way, it will have to be funded from a source other than payroll taxes.

While the premise of Medicare is very good, fraud costs the system billions every year and there are many loopholes in its application. For a full listing of frequently asked questions, go to the Medicare [website](#).

## Regressive? Progressive?



### Regressive Tax

Same contribution regardless of salary over \$106,800 (as of 2010)

### Proportional Tax

Everyone taxed at same rate regardless of salary

Are Social Security and Medicare taxes progressive or regressive?

Social Security is a regressive tax because people with higher incomes pay a smaller percentage of their income than people with lower incomes. Remember that people with incomes over one hundred six thousand eight hundred dollars pay no additional tax no matter how much they earn; they pay four point two percent of \$106,800, or four thousand four hundred eighty-five dollars and sixty cents even if they make five million dollars a year.

Medicare is a proportional, or flat tax: everyone is taxed at the same rate regardless of their salary.

**Social Security and Medicare Taxes**

Question 1 of 3 Point Value: 10

You have a part-time job earning \$250 a week. Look at the information from your paycheck.

What should your Social Security contribution be?

\$9.25  
 \$11.25  
 \$8.72  
 \$10.50

Gross pay	\$250.00
Social Security (4.2%)	
Medicare (1.45%)	
Federal Income tax Withheld	\$30.00
State Income Tax Withheld	\$6.00
Net Pay	

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You've learned about the different deductions and how to calculate them. Let's put it all together. Let's say that you have a part-time job earning two hundred fifty dollars a week in gross pay. Look at the information from your paycheck.

Calculate the following: Social Security, Medicare, and your net pay. How much will your employer send to the government?