



EMPLOYEE RELATIONS BULLETIN

April 29, 1991

To: HEADS OF ALL DEPARTMENTS OF CITY GOVERNMENT
(except Water and Power)

Subject: **SOCIAL SECURITY COVERAGE FOR CERTAIN CITY EMPLOYEES/
CHANGES IN MEDICARE TAX**

Federal tax legislation enacted in 1990 resulted in two changes that have an impact on some City employees.

INCREASE WAGE BASE FOR MEDICARE PAYROLL TAX

One of the new provisions increased the wage base for the Medicare payroll tax from \$51,300 to \$125,000 effective January 1, 1991. The wage base refers to the amount of gross earnings to which the 1.45% tax paid by both the employee and employer is applied; earnings above the base are not subject to the tax. The tax funds Medicare Part A which provides hospital insurance coverage to covered persons at age 65.

This change potentially affects all City employees hired since April 1, 1986, when the Medicare tax was extended to all new public employees, however it immediately affects only those employees with earnings above the old \$51,300 wage base. The high base means that virtually all earnings of affected City employees will now be subject to the Medicare tax.

SOCIAL SECURITY FOR PART-TIME AND TEMPORARY EMPLOYEES

Effective July 1, 1991 all public employees who are not members of a retirement system will be required to pay the entire Social Security payroll tax. The tax consists both of the Medicare Part A portion (1.45%) and the remaining 6.2% portion that funds Old Age Survivors and Disability Insurance (OASDI). The following categories of City employees will be affected:

Civilians

- Part-time, temporary employees (including Commissioners), and emergency appointees on the payroll as of July 1 who are not members of the CERS will be required to start paying, in addition to the current 1.45% tax for Medicare, 6.2% for OASDI on all earnings up to the Social Security wage base of \$53,400 for 1991.

Sworn

- Employees in the classes of Police Officer I, Firefighter I and Paramedic I who are in training at the Police Academy, Fire Drill Tower or Paramedic Training Institute are not yet members of the Fire and Police Pension System. During this period, which varies depending on the length of their training period, they will be required to pay the combined 7.65% rate for Social Security taxes.

The 6.2% OASDI portion will be discontinued upon membership in the Pension System and the employees' will begin contributing 8% toward their pension. The Medicare portion will continue throughout their career.

Employees who are subject to Social Security taxes should be reminded that the wage base is indexed to increase each January 1 to reflect inflation changes in the CPI. We are uncertain whether the new \$125,000 Medicare wage base is similarly indexed.

All employees who will be affected by these new provisions should be advised prior to July 1, 1991. Questions may be directed to the CAO Employee Relations Division or to the Controller's Office.

RAM:ss