Social Security’s Disability and Retirement Protections for Independent Contractors

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Protection against Retirement and Disability

- Employer Benefits
- Individual Savings
- Social Security
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Employer Benefits

Individual Savings

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Effective Social Security Contribution Rates on Equivalent Labor Income

- Employees:
  - Worker contribution: 6.2%
  - Employer contribution: 6.2%

- Independent Contractors:
  - Worker contribution: 11.45%
  - Employer contribution: 0.0%
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Social Security Contribution System

**Employees**

- Automatic contributions
- Rare tax avoidance

**Independent Contractors**

- Transparent calculation of contributions
- Opportunities for tax avoidance
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Employer Benefits

Individual Savings

Social Security
Two-Thirds of Sole Proprietors Under-Report their Income

Correctly reported or over-reported: 34%
Under-reported: 66%

Total sole-proprietor tax returns: 23.4 million

Less than Half of All Self-Employment Taxes Owed are Actually Paid

Self-employment taxes actually received

$60 billion
(47%)

Self-employment taxes unpaid due to underreporting or nonfiling

$69 billion
(53%)

Approaches for improving Social Security for ICs

1. Make Social Security contributions more automatic for ICs

2. Reduce the cost-shifting burden on ICs