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Social Security: Finances and Policy Options

Background

Social Security is the federal government's largest program in terms of both the number of people affected (i.e., covered workers and beneficiaries) and its finances. In 2024, the program covered over 180 million workers and paid about $1.47 trillion in benefits to over 68 million beneficiaries.

Social Security is composed of the Old-Age and Survivors Insurance (OASI) and the Disability Insurance (DI) programs, referred to collectively as OASDI. It protects insured workers and their family members against the loss of income due to old age, disability, or death. Most Social Security beneficiaries are retired or disabled workers whose monthly benefits depend primarily on their past earnings and claiming age. Benefits paid to workers' dependents and survivors are based on the earnings of the insured workers.

Both OASI and DI use a trust fund accounting mechanism to track their respective revenues (i.e., tax revenues and earned interest) and costs (i.e., benefits and administrative expenses). The Social Security Act requires the Board of Trustees—managers of the trust funds—to report annually to Congress on the current status of the trust funds and their projected status over the next five fiscal years. In practice, the trustees report on the 75-year financial outlook for the trust funds, as this period generally covers the average future lifespan of all current workers and provides Congress "a projection period long enough to illustrate the complete and mature effects of past amendments and potential future changes to the Social Security Act."

The trustees' most recent intermediate (i.e., best) estimates reflect a current and projected imbalance between Social Security's revenues and costs. Without changes to current law, the trustees estimate that beneficiaries would receive a de facto reduction in benefits of about 20% in 2035 (the projected date of trust fund depletion). Because of the program's size and projected financial shortfall, there has long been congressional interest in ensuring that current and future Social Security benefits are paid in full.

Social Security Financial Status: Past, Present, and Projected

The ability to pay full scheduled benefits on time is determined by the financial status of the Social Security trust funds. At a basic level, the financial status of Social Security is simply the relationship among its revenues, costs, and holdings in the Social Security trust funds.

The trust funds provide the program with a means to track revenues and costs. Additionally, the trust funds allow the program to hold accumulated assets—money not immediately needed to pay benefits—for the payment of future benefits. At the start of 2024, the trust fund balance was $2.78 trillion. This balance represents the accumulation of excess revenues and the interest earned on those excess revenues.

- From the last major reform in 1983 (explained below) through 2009, Social Security operated with a *cash surplus* (i.e., tax revenues exceeded costs). As required by law, each year's cash surplus was invested in government securities and earned interest, resulting in increasing trust fund values.

- Since 2010, Social Security has operated with *cash deficits* (i.e., costs exceeded tax revenues), and the trustees project this trend to continue. However, from 2010 through 2020, the program still ran *annual surpluses* when total revenues (tax revenues plus interest) exceeded costs. Thus, the trust fund values continued to increase during this period.

- Since 2021, Social Security has operated with *annual deficits* (i.e., total costs exceeded total revenues). With annual deficits, trust fund assets are redeemed to help pay full scheduled benefits. Therefore, trust fund values have been decreasing since 2021.

The projected rising costs of the program indicate that increasingly more trust fund assets will be redeemed each year until depletion. Under trustees' projections, the entirety of the trust funds balance ($2.78 trillion) will be redeemed by 2035. At that time, program revenues are estimated to support about 80% of scheduled payments.

The projected shortfall is a result of rising costs relative to revenues. Social Security's future revenues and costs are determined by demographic (e.g., fertility, mortality, and immigration), economic (e.g., wage growth, price growth, and productivity), and program-specific factors (e.g., disability benefits claim rates). For example, these factors affect the number of covered workers and their levels of earnings, as well as the size and makeup of the beneficiary population and the level of monthly benefits. Most notably, declines in fertility and increases in longevity have resulted in a lower ratio of workers paying into the system relative to beneficiaries collecting from the system.

Rising Costs

Over the next 20 years, the worker-to-beneficiary ratio is projected to decline as the post–World War II baby boom generation moves into retirement and is replaced with workers from generations with lower birth rates. Although projected increases in life expectancy play a role, the trustees point to the shift in the population's age distribution due to lower birth rates as the dominant factor in increased program cost over the next 75 years.

Economic factors—such as recessions, which generally lead to lower tax revenues and more beneficiaries than expected—also play a role. However, according to the trustees, demographic factors alone would cause the cost rate to increase markedly in coming years.

Social Security Amendments of 1983

The Social Security Amendments of 1983 (P.L. 98-21) are commonly considered the last major reform to Social Security. When the amendments were passed, Social Security was months away from being unable to pay full benefits. The amendments were largely based on the final report of the National Commission on Social Security Reform (i.e., the Greenspan Commission) created by President Ronald Reagan after his proposal favoring benefit reductions failed to gain support.

The amendments included measures that increased revenues (e.g., new revenues from the taxation of benefits), reduced costs (e.g., increased the full retirement age), and expanded coverage (e.g., for newly hired federal employees), among many other provisions. With the legislation, the program's average projected cost and revenue rates were relatively close over the long-term 75-year period. However, a projected imbalance remained at the end of that 75-year period. Over time, as the program advanced toward the end of this period, it has moved further out of financial balance. Experts attribute this shift to the decrease in fertility and the decline in the share of earnings subject to the payroll tax.

Post-1983 Reform Efforts: Commissions

Since the Social Security Amendments of 1983, Congress has considered legislation to eliminate or delay the system's projected funding shortfall, among other policy objectives. At times, reform efforts have used commissions, similar to the Greenspan Commission, to study potential changes to the Social Security program to address financing issues and other objectives. In some cases, the commissions were exclusively focused on Social Security, whereas in other cases they were focused on government-wide deficit reduction efforts.

President's Commission to Strengthen Social Security

In 2001, President George W. Bush established the President's Commission to Strengthen Social Security. The 16-member commission was tasked with making recommendations to "modernize and restore fiscal soundness to the Social Security system." Its final report, approved unanimously by commission members, included three alternative plans for reforming Social Security. Under all three plans, workers could invest in personal retirement accounts, and their traditional Social Security benefits would be reduced (offset) by some amount. There was no congressional action on any of the plans developed by this commission.

President's Commission on Fiscal Responsibility and Reform

In 2010, President Barack Obama established the National Commission on Fiscal Responsibility and Reform (also known as Simpson-Bowles). The 18-member commission was tasked with "identifying policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run."

The commission did not meet the 14-member threshold needed to issue an official final report. However, the two co-chairs released an unofficial report that received 11 votes. In addition to recommendations for tax reform and discretionary spending cuts, the co-chairs proposed to eliminate Social Security's projected shortfall by a combination of revenue increases (e.g., increasing the amount of earnings subject to payroll taxes), cost reductions (e.g., modifying the benefit formula and cost-of-living adjustments), and program expansion (e.g., coverage of all newly hired state and local workers), among other measures. There was no congressional action on the Social Security component of the plan developed by this commission.

The Road Ahead: Policy Options

In their 2024 annual report, the trustees recommended that "lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them." Looking ahead, the *timing*, *degree*, and *nature* of any future changes to Social Security will reflect the policy objectives of lawmakers engaged in the debate at the time.

Timing of Policy Changes

From the perspective of lawmakers, the time frame for making changes to the program may or may not be viewed as requiring "immediate" action. The trustees project that the program will not be able to pay full scheduled benefits in about a decade. However, the projected annual deficits imply that Social Security will experience a weaker financial position with each year. This means the magnitude of the changes needed to eliminate the projected shortfall increase with each year.

Degree of Policy Changes

Lawmakers may also have differing views on the degree of future changes to the program. Many proposals have sought to address the entire projected shortfall. Lawmakers could also address a portion of the projected financial shortfall by implementing changes that could extend the program's solvency for less than the 75-year projection period and could provide for a higher percentage of payable benefits after the trust funds are depleted.

Nature of Policy Changes

In 1983, reform proposals focused almost exclusively on financing problems: eliminating the financial shortfall by increasing revenues and reducing costs. The approach taken in 1983 may or may not reflect the policy objectives of lawmakers today. For instance, lawmakers may want to address the objectives, size, and scope of Social Security. Or policymakers may want to include Social Security reform as one part of a broader package of government-wide policy initiatives.

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