



Updated June 25, 2026

Social Security's Funding Shortfall

Overview

Social Security provides monthly cash benefits to retired or disabled workers, their family members, and family members of deceased workers. Many people of all ages have some connection to the program, including an estimated 186 million covered workers and over 71 million beneficiaries in 2026.

The program's income and outgo are accounted for with the Social Security trust funds. They represent funds dedicated to pay current and future Social Security benefits. In 2025, the program had total income of \$1.45 trillion (95.2% from dedicated tax revenues), total expenditures of \$1.61 trillion (99.2% for benefit payments), and trust fund reserves of \$2.56 trillion (U.S. Treasury securities) available for future program spending. Under the 2026 intermediate assumptions, the Social Security Board of Trustees project, with these asset reserves, the trust funds to remain "solvent" until 2034 (the 2026 intermediate assumptions reflect the trustees' understanding of Social Security at the start of 2026). That is, until 2034, the trust funds are projected to be able to pay full benefits scheduled under current law on a timely basis. In 2034, however, the trust fund reserves are projected to be depleted. While the program would continue to operate with scheduled tax revenues, those revenues are projected to cover about three-fourths of scheduled benefits through the end of the projection period (2100). It is unclear how the U.S. Treasury would handle the payment of scheduled benefits under such a scenario.

Social Security's projected long-range funding shortfall is driven largely by demographic factors. Declines in fertility, increases in longevity, and decreases in net immigration are projected to result in a lower ratio of workers to beneficiaries. The ratio of workers paying into the system to support each beneficiary is estimated to fall from 2.6 in 2026 to 2.4 in 2034. Changes to Social Security have long been an issue of interest to Congress from a trust fund solvency perspective. Policy proposals to address Social Security's projected funding shortfall typically include a combination of revenue increases and benefit adjustments. Although the process of selecting specific program changes would likely involve intense debate in Congress, policymakers generally agree that taking legislative action sooner rather than later could mitigate the effects on workers and beneficiaries and allow people as much time as possible to adjust to the changes.

How Is Social Security Financed?

Social Security is a self-financing program. Of its total income, 95.2% is from dedicated tax revenues: (1) payroll taxes paid by employers, employees, and self-employed individuals; and (2) federal income taxes paid by about half of beneficiaries on a portion of their benefits. The program also receives interest income on the asset reserves held by

the Social Security trust funds (4.8%) and a small amount (less than 1%) of other income (including reimbursements from the U.S. Treasury's general fund).

Social Security coverage is nearly universal, with an estimated 93% of all workers participating in the system in 2026. The Social Security payroll tax rate is 12.4%, divided evenly between the worker and the employer; the tax is applied to the worker's earnings up to an annual limit (\$184,500 in 2026). Any covered earnings above the annual limit are not subject to the Social Security payroll tax and are not counted in the worker's benefit computation. Social Security benefits are intended to replace part of a worker's earnings. As such, a worker's benefit is based on his or her career-average earnings in covered employment (i.e., earnings subject to the Social Security payroll tax) and a progressive benefit formula that is intended to provide adequate benefit levels for workers with low career-average earnings.

Issue Before Congress

- Over its 90-year history, Social Security has collected \$30.62 trillion and paid out \$28.06 trillion, leaving trust fund asset reserves of \$2.56 trillion.
- Projections show that the combined Social Security trust funds will be unable to pay scheduled benefits in full and on time starting in 2034, primarily due to demographic factors.

What Is Social Security's Projected Financial Outlook?

For many years, Social Security collected more tax revenues than needed to pay benefits, resulting in the accumulation of trust fund asset reserves (held in the form of interest-bearing U.S. Treasury securities) available for future program spending. Starting in 2010, however, Social Security's total expenditures began to exceed *noninterest income* (i.e., cash-flow deficits emerged), requiring the program to rely on interest income to pay scheduled benefits. Starting in 2021, Social Security's total expenditures began to exceed *total income* (i.e., annual deficits emerged), requiring the program to draw on trust fund reserves to pay scheduled benefits. The trustees project that Social Security will continue to run cash-flow deficits throughout the 75-year projection period (2026-2100) and that annual cash-flow deficits will grow markedly over time. For example, the program's cash-flow deficit was \$229.1 billion in 2025 and is projected to be \$393.4 billion in 2033 (in current dollars) (2026 Social Security Trustees Report, intermediate assumptions).

Trust fund reserves are projected to decline steadily from their peak of \$2.9 trillion in 2020 to zero in 2034. Following the depletion of trust fund reserves, scheduled

tax revenues are projected to be sufficient to pay 83% of scheduled benefits initially, declining to 65% by 2100.

Social Security's cost is projected to increase faster than income over the 75-year period; cost is projected to exceed income by about 25%. Expressed in other ways, Social Security's projected 75-year actuarial deficit is equal to 4.42% of taxable payroll (total earnings subject to the Social Security payroll tax with some adjustments) or about 1.5% of gross domestic product.

What Is Driving the Projected Funding Shortfall?

Social Security's future income and costs are determined by many demographic, economic, and program-specific factors. These factors include birth rates, death rates, immigration, employment rates, productivity gains, wage growth, price growth, interest rates, disability benefits claim rates, and program design features. Among other things, they affect the number of covered workers and their level of earnings, as well as the size and makeup of the beneficiary population and the level of monthly benefits.

The trustees project that the program's income rate (i.e., income as a percentage of taxable payroll) will be stable at about 13.3% throughout the 75-year period. The cost rate, however, is projected to increase markedly over the next two decades (from about 15.4% to 20.0%) primarily due to demographic trends. Economic factors—such as recessions, which generally lead to lower taxable earnings and more beneficiaries than might otherwise be expected—play a role. However, according to the trustees, demographic factors alone would cause the cost rate to increase markedly in coming years.

The cost of the Social Security program is projected to increase faster than income primarily due to a decline in the number of workers paying into the system relative to the number of beneficiaries. Over the next 20 years, the worker-to-beneficiary ratio is projected to decline as the baby-boom generation moves into retirement and is replaced with workers from lower-birth-rate generations. 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.

What Happens to Benefits if Trust Fund Reserves Are Depleted?

Such a scenario has not occurred in the past, raising questions about how Treasury would handle scheduled benefit payments. Social Security does not have authority to borrow from the general fund of the U.S. Treasury to make up for any funding shortfalls; such borrowing would require legislative action. Yet, the United States is legally obligated to make Social Security payments to any person who meets the eligibility requirements established in Title II of the Social Security Act, and the act states that benefits shall be paid only from the Social Security trust funds. At the same time, the Antideficiency Act prevents an agency from paying more in benefits than the amount in the source of funds available to pay the benefits. It appears that beneficiaries would have to wait until the Social Security

trust funds receive a sufficient amount of tax revenues to pay full benefits, unless Congress amends applicable laws.

What Can Be Done to Restore Balance?

Over the years, policymakers have put forth numerous proposals to balance Social Security's finances and achieve other objectives. Such proposals typically include a combination of revenue increases and benefit adjustments. In the past, some proposals would have established a personal account component to the Social Security system to supplement or replace traditional Social Security benefits. Some of the more commonly discussed proposals include increasing the amount of covered earnings subject to the payroll tax (the taxable wage base), increasing the payroll tax rate, raising the retirement age, modifying the benefit formula, and changing the annual cost-of-living adjustment (COLA) calculation.

Striking a balance between Social Security's future revenue and benefit streams can prove challenging. From a policy perspective, for example, an increase in either the taxable wage base or the payroll tax rate could provide an equal amount of additional revenues. These two options, however, would affect different groups within the population. Increasing the taxable wage base would affect the estimated 6% of covered workers who have earnings above the current taxable wage base, while increasing the payroll tax rate would affect all covered workers. Additionally, these options could increase future benefits (i.e., costs). From a political perspective, public opinion regarding different options can vary among constituencies.

What Is the Time Frame for Action?

Social Security is the primary source of retirement income for many beneficiaries. Given projections showing that in less than eight years scheduled benefits cannot be paid in full and on time, and the magnitude of the projected funding shortfall, policymakers generally agree that legislative action should be taken sooner rather than later. As stated in their 2026 annual report to Congress, "The Trustees recommend 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. Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits."

To illustrate the magnitude of changes needed to maintain Social Security solvency over the next 75 years, the trustees point out hypothetically two options that it would take:

- an immediate 4.25 percentage point increase in the payroll tax rate (from 12.40% to 16.65%) or
- an immediate 25.2% reduction in scheduled benefits for all *current and future* beneficiaries (or a 30.3% reduction for *newly-eligible* beneficiaries only).

For more information, see CRS Report RL33028, *Social Security: The Trust Funds*.

Barry F. Huston, Specialist in Social Policy

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.