



**TESTIMONY**

# **Social Security's Finances**

**Molly Dahl**  
**Chief of Long-Term Analysis**

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Chairman Whitehouse, Ranking Member Grassley, and Members of the Committee, thank you for inviting me to testify about the Social Security program.

Social Security faces a significant financial challenge in the coming decade. The program is financed by revenues from payroll taxes and from income taxes on Social Security benefits; those revenues are credited to the Old-Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund. The Congressional Budget Office projects that starting in a decade, Social Security's revenues will not be sufficient to cover all of the benefits that are due under current law.

CBO's latest analysis of the program's finances reached the following conclusions:<sup>1</sup>

- If all benefits are paid as scheduled under current law, the balance of the OASI trust fund will decline to zero in fiscal year 2033, and the balance of the DI trust fund will do the same in 2064.<sup>2</sup> If the two trust funds were combined, their balance would be exhausted in fiscal year 2034.
- The trust funds' balances would be sufficient to pay benefits as scheduled under current law for the next 75 years if the Social Security payroll tax rate was increased immediately and permanently by 35 percent—from the current rate of 12.4 percent of taxable earnings to 16.7 percent—or if benefits were reduced by 24 percent. Alternatively, Social Security's finances could be bolstered through a combination of changes to taxes and benefits or through transfers from the general fund of the Treasury to the trust funds.
- Long-term projections of Social Security's finances are highly uncertain—in particular because of uncertainty about demographic and economic trends. For instance, if the economy grows more quickly than CBO projects, the trust funds' annual revenues will be greater, and the changes to taxes or spending that would be necessary to pay benefits as scheduled under current law through 2098 would be smaller. If, instead, the economy grows more slowly than projected, revenues will be smaller, and the necessary changes would be larger.

1. For more details, see Congressional Budget Office, *CBO's 2024 Long-Term Projections for Social Security* (August 2024), [www.cbo.gov/publication/60392](http://www.cbo.gov/publication/60392).

2. Unless indicated otherwise, the years referred to in this testimony are calendar years. When fiscal years are mentioned, they are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

CBO's 75-year projections for Social Security are based on a detailed microsimulation model that starts with data about individuals from a representative sample of the population and simulates demographic and economic outcomes for that sample over time.<sup>3</sup> Those demographic and economic outcomes are consistent with the ones CBO uses in its baseline projections and in its estimates and analyses.

CBO projects Social Security's finances over the long term under two scenarios that incorporate different assumptions about the amount of benefits that would be paid after the balances of the trust funds were exhausted:

- In the scheduled-benefits scenario, people's benefits are paid as scheduled under current law, regardless of whether the balances of the Social Security trust funds are sufficient to cover those payments.
- In the payable-benefits scenario, total benefits are limited to the amounts that can be paid from Social Security's annual revenues once the combined balance of the trust funds is exhausted.

In the rest of this testimony, I will provide more details about CBO's two sets of projections of Social Security's finances and key sources of uncertainty about those projections.

## The Scheduled-Benefits Scenario

CBO's baseline budget projections for Social Security are required by statute to reflect scheduled benefits.<sup>4</sup> The agency projects that if Social Security benefits were paid as scheduled, spending for the program would rise from 5.1 percent of gross domestic product (GDP) in 2024 to 6.7 percent of GDP in 2098 (see Figure 1).<sup>5</sup> In CBO's projections, most of that increase occurs over the next

3. Congressional Budget Office, *An Overview of CBOLT: The Congressional Budget Office Long-Term Model* (April 2018), [www.cbo.gov/publication/53667](http://www.cbo.gov/publication/53667).

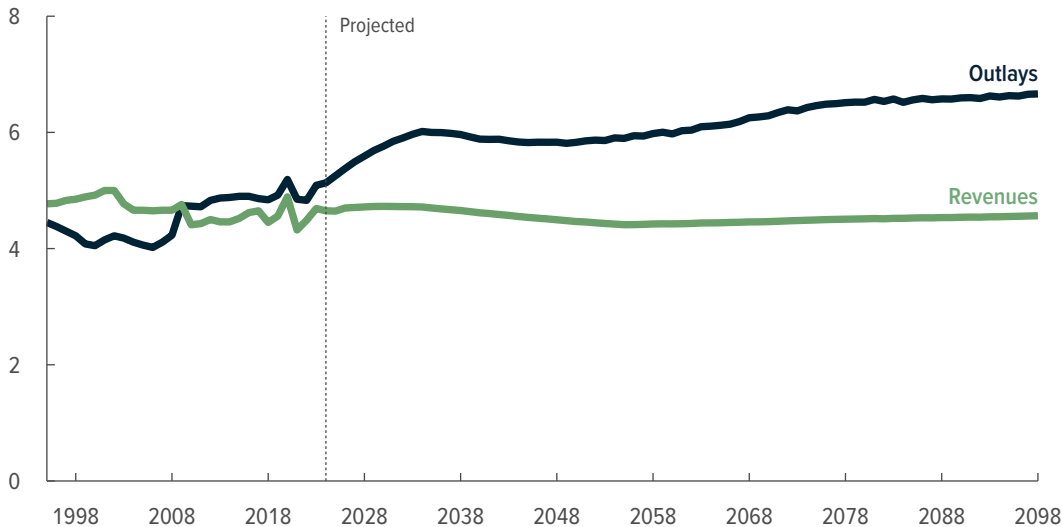
4. Congressional Budget Office, *CBO Explains the Statutory Foundations of Its Budget Baseline* (May 2023), [www.cbo.gov/publication/58955](http://www.cbo.gov/publication/58955).

5. CBO's long-term projections for Social Security follow the agency's 10-year baseline budget projections and then extend most of the concepts underlying those projections. The long-term budget projections described here are based on CBO's June 2024 baseline budget and economic projections and January 2024 demographic projections. See Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (June 2024), [www.cbo.gov/publication/60039](http://www.cbo.gov/publication/60039), and *The Demographic Outlook: 2024 to 2054* (January 2024), [www.cbo.gov/publication/59697](http://www.cbo.gov/publication/59697).

Figure 1.

## Social Security's Outlays and Revenues, With Scheduled Benefits

Percentage of gross domestic product



In CBO's projections, the gap between Social Security's outlays and revenues widens over the long term because of an increase in outlays as a percentage of GDP—driven mainly by increases in the number of new beneficiaries and in average life expectancy.

Data source: Congressional Budget Office. See [www.cbo.gov/publication/60392#data](http://www.cbo.gov/publication/60392#data).

Scheduled benefits are benefits as calculated under the provisions of the Social Security Act, regardless of the balances of the Social Security trust funds. Outlays consist of scheduled benefits, administrative costs, and transfers to the Railroad Retirement program (which pays retirement benefits to railroad workers and their families). Revenues consist of payroll taxes, income taxes on benefits, and reimbursements from the general fund of the Treasury to make up for reductions in payroll tax rates in 2011 and 2012.

decade, as members of the baby boom generation continue to retire. Growth in the number of Social Security beneficiaries slows after 2034, when the youngest baby boomers turn 70 (the age by which nearly all recipients claim Social Security benefits). Nevertheless, outlays for Social Security continue to grow as a percentage of GDP, albeit slowly, through 2098 and beyond because of projected increases in life expectancy.

Unlike outlays, revenues for Social Security are projected to change little in relation to GDP over the next 75 years, remaining close to their average of 4.5 percent of GDP from 2024 to 2098. In CBO's projections, a slight decline in payroll tax revenues is offset by a slight increase in revenues from income taxes on Social Security benefits, leaving total revenues for the program fairly stable during that period, a trend that would continue after 2098.

Payroll taxes decrease slightly relative to GDP in CBO's projections because earnings grow more quickly for higher earners than for lower earners. As a result, the amount of earnings below the maximum amount subject to the Social Security payroll tax declines as a percentage of GDP over the next three decades. (That percentage is projected to remain stable thereafter.) Revenues from income taxes on Social Security benefits increase slightly

as a percentage of GDP because the structure of the individual income tax means that, over time, the percentage of benefits that are taxed increases, as does the average tax rate they are subject to.

Several measures that are commonly used to assess Social Security's finances include the exhaustion dates for the balances of the trust funds, the actuarial balance, and the sustainability of the program. A trust fund's balance is exhausted when it reaches zero. The actuarial balance summarizes the current balance of a trust fund and its annual streams of revenues and outlays over a future period, such as 75 years, in a single number.<sup>6</sup> (A negative actuarial balance is called an actuarial deficit.) Sustainability is an important consideration because policies that would eliminate a 75-year actuarial deficit might not ensure the program's solvency after that period.

6. The actuarial balance is the sum of the present value of projected income and the current trust fund balance minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the projection period. (A present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid today. Such a value depends on the discount rate that is used to translate a cash flow in a future year into current dollars.)

### Exhaustion of Trust Fund Balances

In CBO's projections, the amount in the OASI trust fund continues to decline steadily in relation to annual outlays in the coming years as spending outpaces income to the trust fund. The balance of that trust fund is exhausted in fiscal year 2033. The flow of income to the DI trust fund, by contrast, increases in relation to outlays in each of the next 14 years as income exceeds spending. The balance of the DI trust fund is exhausted in 2064. If the balances of the two trust funds were combined, they would be exhausted in fiscal year 2034.

### Actuarial Balance

The Social Security program as a whole has a 75-year actuarial deficit equal to 1.5 percent of GDP or 4.3 percent of taxable payroll (the total payroll subject to the Social Security tax), CBO projects.

That actuarial deficit implies that the federal government could pay the Social Security benefits prescribed by current law through 2098 and have trust fund balances equal to a year's benefits at the end of that period if the payroll tax rate was raised immediately and permanently by 4.3 percentage points (or 35 percent)—from the current rate of 12.4 percent of taxable earnings to 16.7 percent.<sup>7</sup> Decreasing spending on benefits to achieve the same goal would require reducing scheduled benefits by 24 percent (an amount equivalent to 4.3 percent of taxable payroll). Other ways to maintain the necessary trust fund balances include combining tax increases with benefit reductions or transferring money to the trust funds.<sup>8</sup>

### Sustainability

A policy that increased revenues or reduced outlays by the same percentage of taxable payroll each year (or made an equivalent combination of such changes) to eliminate the 75-year shortfall would not ensure Social Security's solvency after 2098. Estimates of the actuarial deficit

7. This analysis excludes the effects of changes in taxes or spending on people's behavior and the economy. Those effects, which would depend on the specifics of the policy change, would alter the size of the tax increase or benefit reduction needed to eliminate the actuarial deficit.
8. For a discussion of policy options to address the Social Security program's finances, see Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), [www.cbo.gov/publication/58164](http://www.cbo.gov/publication/58164), *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions* (December 2022), [www.cbo.gov/publication/58163](http://www.cbo.gov/publication/58163), "How Changing Social Security Could Affect Beneficiaries and the System's Finances" (interactive tool, April 2019), [www.cbo.gov/publication/54868](http://www.cbo.gov/publication/54868), and *Social Security Policy Options, 2015* (December 2015), [www.cbo.gov/publication/51011](http://www.cbo.gov/publication/51011).

do not account for revenues or outlays after the 75-year projection period. CBO projects that the gap between Social Security's revenues and outlays would widen thereafter. Although a policy to eliminate the 75-year actuarial deficit would create annual surpluses in the next three decades, it might result in growing annual deficits later and might not leave Social Security on a sustainable financial path beyond 2098.

### The Payable-Benefits Scenario

The Social Security projections discussed above reflect the assumption that the program would continue to pay benefits as scheduled under the provisions of the Social Security Act, regardless of the balances of the trust funds. To show how the exhaustion of those balances might affect benefits, CBO also projects Social Security benefits under the assumption that they would be limited to the amounts payable from the program's dedicated funding sources.

Once the trust funds' balances decline to zero, as CBO projects they will, the Social Security Administration will no longer be able to pay full benefits when they are due (although beneficiaries will remain legally entitled to full benefits). Thereafter, annual outlays would be limited to annual revenues, and payments to beneficiaries would be reduced. (The method for reducing payments is not prescribed in current law.) Thus, in CBO's projections, payable benefits equal scheduled benefits until the combined trust funds' balance is exhausted in fiscal year 2034; after that, total payable benefits are the same as the program's annual revenues (see Figure 2).

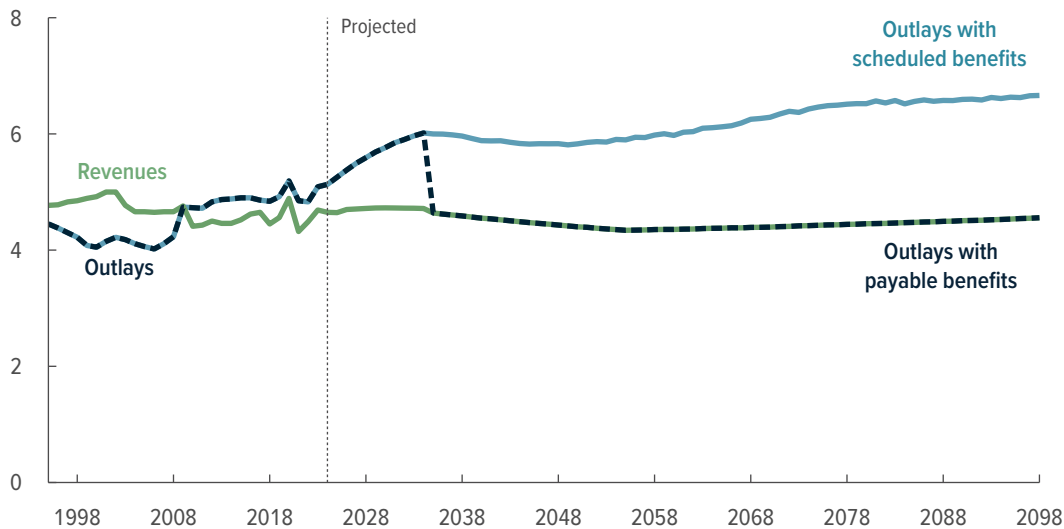
In 2035, Social Security's revenues are projected to equal 77 percent of the program's scheduled outlays. Thus, CBO estimates that Social Security benefits would be reduced by 23 percent in 2035 under the payable-benefits scenario. In CBO's projections, about 82 million people (roughly one-fifth of the population) receive OASI or DI benefits in 2035. The gap between scheduled and payable benefits would equal 28 percent by 2098 and remain stable thereafter.

For that estimate, CBO treats the OASI and DI trust funds as a combined entity. If the two funds were treated as separate entities, as under current law, and the transfer of resources between them was not permitted, the reductions in scheduled benefits under the payable-benefits scenario would begin in 2034 for OASI and in 2065 for DI, CBO estimates. OASI benefits would have to be reduced by 25 percent in 2034, and DI benefits would have to be reduced by 13 percent in 2065. By 2098, the gap between scheduled and payable benefits would equal 30 percent for OASI and 6 percent for DI.

Figure 2.

## Social Security's Outlays and Revenues, With Scheduled and Payable Benefits

Percentage of gross domestic product



In CBO's projections, outlays for Social Security would total 4.6 percent of GDP in 2098 if the program could only pay benefits equal to its annual income after its trust fund balances were exhausted. Outlays would total 6.7 percent of GDP in 2098 if the program had enough resources to pay the full benefits scheduled under current law.

Data source: Congressional Budget Office. See [www.cbo.gov/publication/60392#data](http://www.cbo.gov/publication/60392#data).

Scheduled benefits are benefits as calculated under the provisions of the Social Security Act, regardless of the balances of the Social Security trust funds.

Payable benefits are scheduled benefits reduced as necessary to ensure that outlays do not exceed the Social Security system's revenues once the combined balance of the Social Security trust funds is exhausted. If a trust fund's balance declined to zero and current revenues were insufficient to cover benefits specified in law, the Social Security Administration would no longer be permitted to pay full benefits when they were due. In the years after a trust fund's balance was exhausted, annual outlays would be limited to annual revenues.

Outlays consist of benefits, administrative costs, and transfers to the Railroad Retirement program (which pays retirement benefits to railroad workers and their families). Revenues consist of payroll taxes, income taxes on benefits, and reimbursements from the general fund of the Treasury to make up for reductions in payroll tax rates in 2011 and 2012. The revenues shown here are consistent with payable benefits. (They would be slightly higher if scheduled benefits were paid, because revenues from income taxes paid on those benefits would be higher.)

In CBO's assessment, the reductions in benefit amounts under the payable-benefits scenario, which would affect millions of people, would reduce the nation's economic output in the short term and increase it in the long term. That projected outcome is the net result of four key effects:

- Retirees would have less income and would be able to consume less, dampening the overall demand for goods and services and causing output in the years immediately after the trust funds' exhaustion to be smaller than CBO currently projects.<sup>9</sup> If benefits were reduced equally for all Social Security beneficiaries after the balances of the trust funds were exhausted, the number of beneficiaries living in poverty would increase.<sup>10</sup>

9. Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget* (July 2023), [www.cbo.gov/publication/59233](http://www.cbo.gov/publication/59233).

10. Kathleen Romig, *Social Security Lifts More People Above the Poverty Line Than Any Other Program* (Center on Budget and Policy Priorities, January 31, 2024), <https://tinyurl.com/2rpyvpxd>.

- Some people would find it necessary to work more or to remain in the labor force longer than they would have otherwise, which would expand the supply of labor and thus the economy's output in the long term.
- Some workers who had not yet retired would respond to the prospect of smaller Social Security benefits by boosting their saving and reducing their spending. Those changes would lessen the effect that smaller future benefit payments would have on households' future income and spending. The resulting increases in saving would boost the stock of private capital and economic output in the long term.
- Federal debt would be smaller than projected in CBO's extended baseline. That smaller debt would increase the amount of money available for private investment in capital goods and services, boost the stock of private capital, and increase output in the long term.

CBO estimates that, on average, lifetime spending would decline by a larger percentage, and lifetime hours worked



would increase more, for households with less lifetime income than for those with more lifetime income.

## Key Sources of Uncertainty

Long-term projections, such as CBO's 75-year outlook for Social Security's finances, are inherently uncertain. If demographic trends or economic conditions differed from what CBO projects, actual spending and revenues for Social Security would also differ from the projected amounts. Such discrepancies could be especially large in the later years of the projection period because differences in the underlying projections would compound over time.

### Demographic Trends

Projections of demographic factors—including fertility, mortality, and net immigration—are uncertain. If trends in fertility diverged from CBO's projections, which include delayed childbearing, overall fertility rates would also differ from the projected rates. In addition, mortality rates over the long term are uncertain because factors such as environmental conditions and the evolution of medical technology may have different effects in the future than they have had in the past. The mortality rate has declined more slowly in recent years than it did earlier. How long that slowdown will continue is unknown.

CBO's projections of net immigration are also uncertain—particularly for people in the category that CBO calls “other foreign nationals,” because information about that group is hard to obtain.<sup>11</sup> Moreover, changing conditions in other countries or changes in federal immigration policy, even without changes in law, could

11. The other-foreign-national category includes people who entered the United States illegally and have not obtained a permanent legal status, people who were allowed to enter the country lawfully through the use of parole authority and who may be awaiting proceedings in immigration court, and people who previously resided in the United States legally in a temporary status but who remained in the country after that legal status expired. See Congressional Budget Office, *The Demographic Outlook: 2024 to 2054* (January 2024), Appendix C, [www.cbo.gov/publication/59697](http://www.cbo.gov/publication/59697).

significantly alter the number of people who choose to immigrate to the United States.

If the number of working-age people was larger than CBO projects, the amount of revenues paid into the Social Security trust funds would exceed CBO's projections. And if demographic changes resulted in more Social Security beneficiaries than anticipated, outlays for the program would be greater than projected.

### Economic Trends

CBO's assessment of the outlook for Social Security depends in part on the agency's projections of economic factors. Those factors are also uncertain, especially over a long projection period. The growth of GDP, for example, is a key driver of the Social Security system's finances. When economic growth is strong, the growth of earnings is also strong, resulting in more revenues paid into the trust funds and eventually more outlays for Social Security benefits. Inflation, which affects annual cost-of-living increases to benefits, is another source of uncertainty, as are interest rates.

Differences from the economic projections underlying CBO's long-term Social Security projections could have significant implications for other parts of the federal budget—because those economic projections are consistent with the ones the agency uses to prepare its baseline. For example, the projections of interest rates that underlie CBO's Social Security projections are consistent with those used to project federal debt. Higher projected interest rates would result in a smaller actuarial deficit for the Social Security program.<sup>12</sup> But when the federal budget is considered in its entirety, those higher interest rates would result in larger net outlays for interest, larger budget deficits, and more federal debt.

12. Higher interest rates result in a smaller actuarial deficit for Social Security because the years with larger shortfalls—those relatively far into the future—have a smaller effect on the actuarial deficit than they would if the interest rates used to discount future cash flows for present-value estimates were lower.

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In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, this testimony makes no recommendations. Mark Doms, Jeffrey Kling, and Robert Sunshine reviewed the testimony, Christian Howlett edited it, and R. L. Rebach prepared it for publication. The testimony is available at [www.cbo.gov/publication/60691](http://www.cbo.gov/publication/60691).

