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What the 2023 Trustees’ Report Shows About Social Security

By Kathleen Romig

Despite the economic upheaval caused by the COVID-19 pandemic, the long-term outlook for the Social Security trust funds is about the same as it was last year, the latest annual report from the program’s trustees shows. Social Security can pay full benefits for 11 more years but then faces a significant, though manageable, funding shortfall.1 Several key points emerge from the report.

• The trustees estimate that if policymakers take no further action, Social Security’s combined Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust fund reserves will be depleted in 2034. This is one year earlier than projected in last year’s report.2

• While most of Social Security’s benefits are funded by the payroll taxes collected from today’s workers, the program has also accumulated $2.8 trillion in trust fund reserves over the past three decades.3 During that period, Social Security’s income exceeded its costs, and the program invested the surplus in interest-bearing Treasury securities. Over the next 11 years, those reserves will make up the difference between Social Security’s income and costs.

• After 2034, Social Security could still pay roughly 80 percent of scheduled benefits using its tax income even if policymakers took no steps to shore up the program.4 Those who claim that Social Security won’t be around at all when today’s young adults retire and that young workers will receive no benefits either misunderstand or misrepresent the trustees’ projections.


4 2023 Trustees’ Report, Table IV.B4.
The program’s shortfall amounts to 1.3 percent of GDP over the next 75 years (and about 1.5 percent of GDP in the 75th year).\footnote{2023 Trustees’ Report, Table VI.G4.}

The program’s trustees have maintained their estimate for the DI trust fund, projecting for the second time since 1983 that its reserves will not be depleted within the 75-year, long-range projection window.\footnote{2023 Trustees’ Report, Table II.D1.} Because DI costs and income are in close balance, even small changes can significantly alter the DI trust fund’s projected reserve depletion date.\footnote{2023 Trustees’ Report, Table IV.B1.}

The ongoing pandemic, its economic repercussions, and the legislative response will continue to affect Social Security’s financial outlook, causing uncertainty in the near term. This year’s report shows that Social Security’s long-term outlook remains similar to what the trustees expected before the pandemic. (See Table 1.)


Recent trends also justify boosting Social Security’s payroll tax revenue: Social Security’s tax base has eroded since the last time policymakers addressed solvency in 1983, largely due to increased earnings inequality and the rising cost of non-taxed fringe benefits, such as health insurance.\footnote{SSA, “Contribution And Benefit Base,” https://www.ssa.gov/oact/cola/cbb.html.}

Report Holds Few Surprises

For Social Security as a whole, the outlook in the 2023 trustees’ report remains similar to last year’s. The report focuses on the next 75 years — a horizon that spans the lifetime of just about everybody now old enough to work. With no tax increases scheduled, the trustees project that the program’s tax income will remain around 13 percent of taxable payroll.\footnote{2023 Trustees’ Report, Table IV.B1; Social Security payroll taxes equal 12.4 percent of taxable payroll, while dedicated income taxes that higher-income beneficiaries pay on a portion of their Social Security benefits contribute a gradually rising percentage of taxable payroll.} (Taxable payroll is total wages and self-employment income up to Social Security’s taxable maximum, which is currently $160,200 a year.)\footnote{SSA, “Contribution And Benefit Base,” https://www.ssa.gov/oact/cola/cbb.html.} Meanwhile, program costs are expected to climb, largely due to the aging of the population. Costs will grow more steeply for about 20 years and then moderate, rising to roughly 18
percent of taxable payroll in 75 years. Interest earnings, long an important component of the trust funds’ income, will shrink and eventually disappear.

Over the entire 75-year period, the trustees put the Social Security shortfall at 3.61 percent of taxable payroll; the shortfall is concentrated in the later decades of the projection. Expressed as a share of the nation’s economy, the 75-year shortfall equals 1.3 percent of GDP.

While Social Security provides earned benefits to people of all ages — young children and their surviving parents who have lost a family breadwinner, working-age adults who become seriously disabled, and retired workers and older widows and widowers — roughly 4 in 5 beneficiaries are older Americans. The share of the population that is aged 65 or older will climb steeply over the next 15 years, from about 1 in 6 people in the U.S. to 1 in 5, and then inch up thereafter. Social Security costs as a percentage of GDP will rise slightly less than that due to already enacted increases in the age for full retirement benefits (previously 65, then 66, and now 67), which dampen the rise in benefit costs. (See Figure 1.) These facts reinforce the point that Social Security’s fundamental challenge is demographic, traceable to a rising number of beneficiaries rather than to escalating costs per beneficiary.

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12 2023 Trustees’ Report, Table IV.B1.
13 2023 Trustees’ Report, Table II.D2.
14 2023 Trustees’ Report, Table VI.G4.
16 2023 Trustees’ Report, Table V.A3.
17 The rise in the full retirement age from 66 to 67, which phased in between 2017 and 2022, slowed the growth of program costs, as the previous rise from 65 to 66 did. For an explanation, see Kathleen Romig, “Raising Social Security’s Retirement Age Cuts Benefits for All Retirees,” CBPP, January 20, 2016, https://www.cbpp.org/blog/raising-social-securitys-retirement-age-cuts-benefits-for-all-retirees.
FIGURE 1

Social Security’s Growth Roughly Tracks Population’s Aging

Percent of the population aged 65+

Social Security as a percent of GDP

Note: Social Security’s age for full retirement benefits rose from 65 to 66 between 2000 and 2005 and reached 67 in 2022. That change dampens the rise in Social Security benefit costs.

GDP = gross domestic product.

Source: Social Security Administration
Social Security Needs Shoring Up but Will Not Go “Bankrupt”

2034 is the “headline date” in the trustees’ report, because that is when the combined Social Security trust fund reserves — that is, the excess contributions it has collected and invested in Treasury bonds over the past three decades — will be depleted. At that point, if nothing else is done, the program could pay about 80 percent of scheduled benefits, mostly out of workers’
ongoing contributions, and that figure that would slip to 74 percent in 75 years.\textsuperscript{18} Contrary to popular misconception, benefits would not stop.\textsuperscript{19}

The trustees project that the DI trust fund reserves will last through the 75-year, long-range projection window.\textsuperscript{20} Because DI costs and income are in close balance, even small changes can significantly alter the DI trust fund’s projected reserve depletion date. So far, the pandemic has not led to an increase in disability claims. In fact, the number of DI awards has declined each year since 2010.\textsuperscript{21} Analysts anticipated this basic trend, since most of the growth in DI enrollment in prior years was due to demographic factors such as the aging of the baby boom generation, but enrollment has fallen more than expected. The trustees assume that disability claims will increase in the near term.\textsuperscript{22}

Although the exhaustion dates attract media attention, the trustees caution that their projections are uncertain. For example, while 2034 is their best estimate of when the trust fund reserves will be depleted, they judge there is an 80 percent probability that the reserves will be depleted between 2032 and 2039.\textsuperscript{23} The Congressional Budget Office projected in 2022 that the trust fund reserves would be depleted in 2033.\textsuperscript{24} In short, all reasonable estimates show a long-run problem that needs to be addressed but not an immediate crisis.

Following the 1983 Social Security amendments, the trust fund reserves grew dramatically, which has helped to finance the retirement of the baby boom generation. The principal and interest from the trust funds’ bonds will enable Social Security to keep paying full benefits until 2034. The bonds have the full faith and credit of the United States government, and — as long as the solvency of the federal government itself is not called into question — Social Security will be able to redeem its bonds just as any private investor might do.\textsuperscript{25} To do so, the federal government will have to increase its borrowing from the public, raise taxes, or spend less. That will be a concern for the Treasury Department — but not for Social Security.

\textsuperscript{18} 2023 Trustees’ Report, Table IV.B4.
\textsuperscript{20} In addition, the 2015 bipartisan budget agreement addressed DI solvency by temporarily reallocating payroll taxes between the DI and OASI trust funds, which extended the solvency of the DI trust fund by several years but did not affect the projected exhaustion year of the OASI fund.
\textsuperscript{22} 2023 Trustees’ Report, Table V.C5.
\textsuperscript{23} 2023 Trustees’ Report, Table VI.E1.
Getting Social Security Solvency Right

Policymakers need to strengthen Social Security. Nearly every American participates in Social Security, first as a worker and eventually as a beneficiary. The program’s benefits are the foundation of income security in old age, though they are modest both in dollar terms and compared with benefits in other countries.26 Millions of beneficiaries have little or no income other than Social Security.27

Because Social Security benefits are so modest and make up the principal source of income for most beneficiaries, policymakers should restore solvency primarily by increasing Social Security’s tax revenues. Added revenues could come from raising the maximum amount of wages subject to the payroll tax (which covered only about 81 percent of earnings in 2021,28 well short of the 90 percent figure envisioned in the 1977 Social Security amendments); broadening the tax base by subjecting voluntary salary-reduction plans, such as cafeteria plans and health care Flexible Spending Accounts, to the payroll tax — as 401(k) plans are; and raising the payroll tax rate by small steps.29

Future workers are expected to be more prosperous than today’s. Under the trustees’ assumptions, the average worker will be nearly twice as well off in real terms by 2075.30 It is appropriate to devote a small portion of those gains to the payroll tax, while still leaving future workers with substantially higher take-home pay. Social Security is a popular program, and poll respondents of all ages and incomes have expressed a willingness to support it through higher taxes.31 Policymakers need to design reforms judiciously so that Social Security remains the most effective and successful income security program.

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30 2023 Trustees’ Report, Table VI.G6.
31 Walker, Reno, and Bethell, op. cit.; Pew Research Center, op. cit.