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Social Security: What Would Happen If the Trust Funds Ran Out?

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Summary

Social Security's receipts and expenditures are accounted for through two federal trust funds: the Federal Old-Age and Survivors Insurance (OASI) Trust Fund and the Federal Disability Insurance (DI) Trust Fund. Under their intermediate assumptions and under current law, the Social Security trustees project that the OASI trust fund will become depleted in 2033 and the DI trust fund will become depleted in 2057. Although the two funds are legally separate, they are often considered in combination. The trustees project that the combined Social Security trust funds will become depleted in 2034 (under different assumptions and projection methods, the Congressional Budget Office projected in 2021 that the combined trust funds will become insolvent in 2032). At that point, the combined trust funds would become *insolvent*, because incoming tax revenue would be sufficient to pay only about 78% of scheduled benefits. Insolvency does not mean that Social Security will be completely broke and unable to pay any benefits.

The 2021 intermediate assumptions reflect the trustees' understanding of the status of the Social Security trust funds at the start of 2021. Unlike the previous year's report, the 2021 estimates do include potential effects of Coronavirus Disease 2019 (COVID-19). Although the report includes impacts from COVID-19, the impacts are confined to the near term. The trustees acknowledge that effects from the pandemic, especially in the long term, are subject to a high level of uncertainty.

If a trust fund became depleted and current receipts were insufficient to cover current expenditures, there would be a conflict between two federal laws. Under the Social Security Act, beneficiaries would still be legally entitled to their full scheduled benefits. However, the Antideficiency Act prohibits government spending in excess of available funds, so the Social Security Administration (SSA) would not have legal authority to pay full Social Security benefits on time.

It is unclear what specific actions SSA would take if a trust fund were insolvent. After depletion, the trust funds would continue to receive tax revenues, from which a majority of scheduled benefits could be paid. One option would be to pay full benefits on a delayed schedule; another would be to make timely but reduced payments. Social Security beneficiaries would remain legally entitled to full, timely benefits and could take legal action to claim the balance of their benefits.

Maintaining financial balance after trust fund insolvency would require substantial reductions in Social Security benefits, substantial increases in tax revenues, or some combination of the two. The trustees project that following depletion of the combined funds in 2034, Congress could restore balance by reducing scheduled benefits by about 22%; the required reduction would grow gradually to 26% by 2095. An alternative could be for Congress to raise the Social Security payroll tax rate from 12.4% to 15.8% following depletion in 2034, then gradually increase it to 16.7% by 2095.

Trust-fund insolvency could be avoided if expenditures were reduced or receipts increased sufficiently. The sooner adjustment to Social Security policy is undertaken, the less abrupt the changes would need to be, because they could be spread over a longer period and would therefore affect a larger number of workers and beneficiaries. As well, enacting adjustment to Social Security policy sooner, rather than later, would give workers and beneficiaries more time to plan and adjust their work and savings behavior.