Social Security at 90

Policy Options for Strengthening the Program's Finances and Avoiding Automatic Benefit Cuts

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NATIONAL ACADEMY OF SOCIAL INSURANCE

Acknowledgments

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Executive Summary

As it marks its 90th anniversary, Social Security is the cornerstone of economic security in the United States. However, it faces a long-term financing gap. Lawmakers will need to address Social Security solvency within less than a decade, as the program's trust funds are projected to become depleted—and unable to pay full benefits—in 2034. Doing nothing would lead to large benefit cuts and widespread hardship.

Much of the program's long-term shortfall stems from the legacy costs of paying benefits to early generations of recipients after the program's inception. More recently, the further deterioration in Social Security's financial outlook since 1983 is largely due to the rise in earnings inequality that has eroded the program's tax base, along with a failure to adjust tax rates in recent decades.

While the 1983 amendments are often cited as a model for the present situation—in process if not also in substance—the reality is more complicated. In reality, the commission process was not the success it is often made out to be, and the long-term solution Congress enacted was not a balanced mix of revenues and benefit reductions; rather, it leaned more heavily on benefit reductions. Moreover, the challenges Social Security faces today differ notably from those of 1983, and many of the one-time revenue infusions that were used then are no longer available today. Today's funding shortfall is also projected to be larger and longer lasting, presenting policymakers and the public with difficult choices.

Looking to the future, revenue increases for Social Security have strong public support and would allow lawmakers to address solvency without worsening seniors' economic security. In addition, unless lawmakers adopt a package that would rapidly bring significant revenues into the system in the coming decade, they may need to consider some form of general revenue financing on at least a temporary basis, as a stopgap measure to avoid substantial benefit reductions in 2034. Past examples show that such funding could be structured in a variety of ways, including with temporary or permanent duration, new or existing taxes, and with or without repayment. In particular, general revenue funding could help address some of the legacy costs from the program's early years.

Introduction

Social Security is the backbone of economic security, providing a suite of insurance that protects nearly all Americans in the event of retirement, disability, or death of a breadwinner. About 97 percent of people 60 or older receive it or will receive it when they retire; for most, it is the only source of income that—although modest—is guaranteed for life and will automatically keep up with inflation. The program enjoys strong public support, and polling consistently finds Americans are willing to pay to preserve and expand it.

The Trustees Report projects that Social Security is fully funded until 2034, but faces a long-term shortfall thereafter. Lawmakers will need to take action well before the program's 100th birthday in 2035 to prevent a sudden, sharp cut in benefits that would cause acute hardship and economic insecurity.

This paper briefly examines the findings of the Trustees Report and the dire outlook if lawmakers do nothing, then turns to lessons from Social Security's history that can help inform a potential path forward. It concludes with an examination of potential policy options, including revenue sources beyond the traditional payroll tax that could help prevent a sudden across-the-board benefit cut in 2034.

The Current Solvency Challenge Ahead of 2034

Findings of the 2025 Trustees Report

The 2025 Social Security Trustees Report updates projections about the future finances of Social Security's trust funds.[1] After many years of surpluses, Social Security has been gradually drawing down the asset reserves in its two trust funds from their peak of $2.9 trillion in 2020 to $2.7 trillion at the end of 2024. If Congress does not act first, the trustees project that in 2034, Social Security's combined trust funds will be depleted; revenue continuing to come in from workers' and employers' contributions and taxation of benefits would cover about 81 percent of scheduled benefits.

Over the report's 75-year projection period, Social Security's shortfall amounts to 1.3 percent of Gross Domestic Product (GDP) or 3.82 percent of taxable payroll—that is, 3.82 percent of all earnings that are subject to Social Security contributions. To put this in perspective, the projected shortfall would be eliminated if the contribution rate paid by employees and employers each were 8.025 percent instead of 6.2 percent.[2]

Looking at the two trust funds individually, the Old-Age and Survivors Insurance (OASI) trust fund is projected to face a shortfall starting in 2033, while the Disability Insurance (DI) trust fund is projected to stay solvent throughout the 75-year projection period.

Compared to last year's trustees report, this year's report projects slightly sooner trust fund depletion dates and a slightly larger shortfall. Both the OASI and the combined OASDI trust funds are projected to become depleted about three-quarters of a year sooner than projected last year: earlier in calendar year 2033 for OASI, and in 2034 (instead of 2035) for OASDI. The 75-year shortfall is also slightly larger at 3.82 percent of taxable payroll instead of 3.50 percent in last year's report.

These changes are largely due to the enactment of the Social Security Fairness Act (P.L. 118-273), which increases benefits for certain public-sector employees—and their family members—who worked in jobs not covered by Social Security. Other changes are due to lower assumed fertility rates over the next few decades, lower assumed labor compensation compared to GDP, and the one-year advance in the 75-year projection period, which is now 2025-2099. Year-to-year changes in the estimates are to be expected.

Doing Nothing Would Be Catastrophic

Congress has never let Social Security's trust funds become depleted, yet under current law, if nothing is done these funds will be depleted by 2034. What would happen then if lawmakers did nothing?

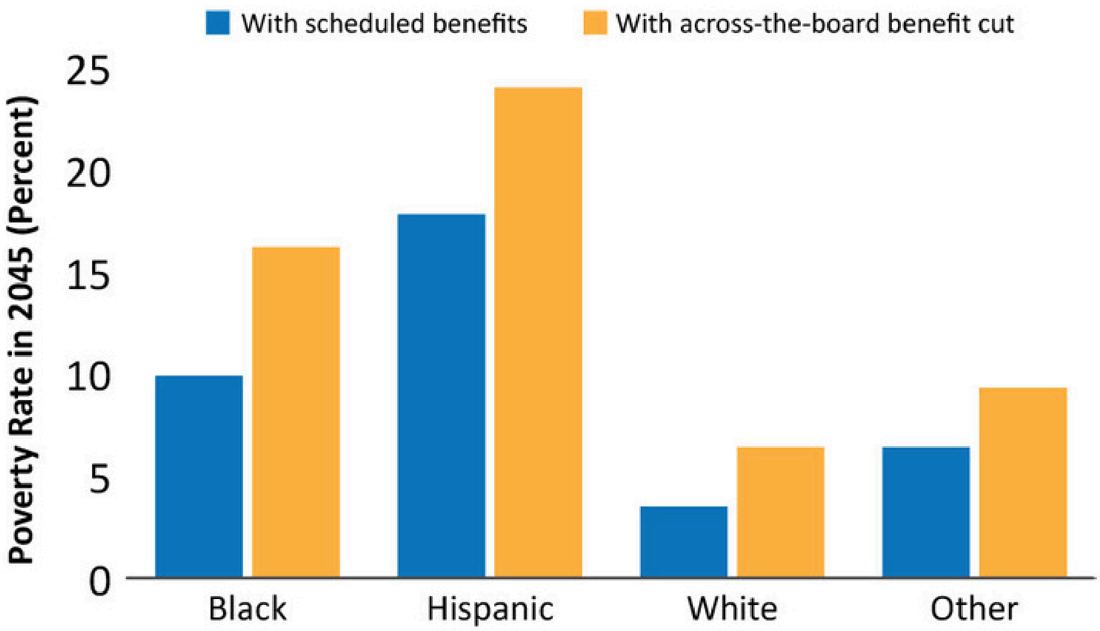
By law, Social Security cannot pay benefits in excess of its income and reserves—that is, it cannot spend money it does not have, either through incoming revenue or accumulated trust fund reserves. A common misconception is that Social Security would cease to pay any benefits at all when the trust funds become depleted.[3] In reality, under current projections, Social Security's ongoing income from payroll taxes and taxation of benefits would allow it to pay about four-fifths (81 percent) of benefits due in 2034.

Because this is uncharted territory, it is unclear exactly how the Social Security Administration (SSA) would implement the necessary cuts in benefits. One approach might be to pay benefits monthly, on the usual schedule, but only about 80 cents on the dollar. Another would hold all checks until enough money comes in to pay the normal monthly amount—so that beneficiaries would have to make their check stretch an extra week, or more.[4] Either way, unprecedented amounts of uncertainty and fear among individual beneficiaries and those near retirement would mean that the agency and policymakers would be inundated with calls and that some people may rush to claim benefits early—locking in lower benefits for life—for fear of missing out.[5] In addition, if funding were eventually restored, SSA would face the extra duty of retroactively paying out the missed benefits to beneficiaries or to their survivors or estates.

If benefits were reduced or delayed, the economic effects would be acute. Social Security is the biggest source of retirement income for most seniors, and benefits are already modest.[6] Benefits are also essential for disabled workers and other types of beneficiaries. In December 2024, the average retired-worker benefit was about $1,975 a month, and only 2 percent of beneficiaries got more than $4,000.[7] Disabled workers and widows average even less.

By 2034, Social Security benefits are projected to be about 5.7 percent of GDP, so a one-fifth across-the-board cut would knock off more than 1 percent of GDP, primarily by reducing older and disabled consumers' purchasing power.[8] Results from Urban Institute's Dynamic Simulation of Income Model (DYNASIM) show median per-capita income for people 62 or older would drop by about 14 percent, and poverty rates would spike, particularly for Hispanic and Black seniors and people with disabilities (Figure 1).[9]

Figure 1. Poverty Rates for Seniors and People With Disabilities Would Soar If Benefits Are Cut Across the Board



Source: Urban Institute.
Notes: Data are for 2045. Poverty rates are for people 62 or older, or younger than 62 if collecting Social Security disability. "Other" includes Asian, indigenous, and multiracial.

For about 4 percent of very poor Social Security recipients, Supplemental Security Income (SSI) benefits would partially offset the reduction or loss of Social Security benefits.[10] SSI is a means-tested program for poor seniors and people with disabilities, with little income and few assets. That would not generally lift them out of poverty, however, because the maximum SSI benefit amount is only about three-fourths of the poverty level. SSA might expect thousands more to apply for SSI, out of the millions inquiring about the sudden drop in their benefits. The extra workload would be formidable.

How Did We Get Here?

The solvency challenges facing the program did not arise suddenly. Social Security's 90-year history offers insights on how we got here, from the legacy debt of the program's inception to the parallels—and pitfalls—of the 1983 amendments and what has changed since then, including the rise of earnings inequality in the U.S.

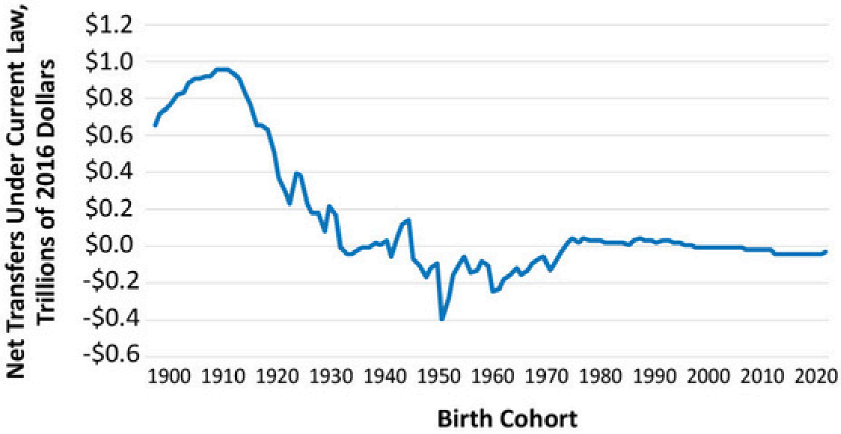
Most of Social Security's Funding Gap Reflects "Legacy Costs"

Legacy costs—a term coined in the early 2000s, though the concept existed before then—refer to the costs of paying out benefits to Social Security's earliest beneficiaries far in excess of their contributions, since most of their working years were before the program's inception. This was the case for the program's first few generations, mostly people born before the 1930s. Until the 1983 amendments, Social Security operated on a modified pay-as-you-go basis, with clear links between contributions and benefits yet little actual pre-funding.

During the early decades of the program, it was possible for workers and their families to get full benefits despite a relatively short time in covered employment. They might have previously toiled for decades, but before the inception of the program or in industries that were not yet—or only recently—covered by Social Security. The first recipient of monthly retirement benefits, Ida May Fuller, famously received a total of more than $22,000 during the course of her retirement after having contributed $25 over the three years she paid in.[11] She had worked for decades as a teacher and legal secretary, but most of that occurred before Social Security began collecting payroll taxes in 1937.[12]

The upshot is that early generations, in aggregate, received significantly more than they contributed, even with interest. That is not true for people born after 1930 or so, most of whose careers have been fully covered by Social Security (Figure 2).[13] One analysis put the legacy debt at nearly $30 trillion.[14] This legacy debt continues to dominate Social Security's shortfall even today.

Figure 2. Social Security's "Legacy Cost"
Mostly Comes From People Born Before 1930:
Net Transfers By Birth Cohort



Source: Center for Retirement Research at Boston College.

Tax Rates Were Historically Adjusted Frequently but Have Been Static for Decades Now

Throughout much of Social Security's 90-year history, lawmakers frequently adjusted the program's revenues to match its commitments and to maintain long-term solvency. As the program matured and benefits increased—and new types of benefits were added, such as survivor benefits in 1939 and disability benefits in 1954—payroll contribution rate increases were seen as a normal and necessary adjustment.[15] For instance, over Social Security's first 40 years of existence (1935-1975), contribution rates increased 14 times.[16] Congress often designed these increases so they did not take effect immediately after the law's enactment, but rather were scheduled in advance to start in a specific future year.[17]

In recent decades, however—while benefits have continued to increase to keep up with wages and inflation—Social Security's contribution rate has remained static at 6.2 percent of earnings up to the tax cap, for employers and employees each. This rate was enacted in 1977, took effect in 1990, and has remained unchanged for the past three and a half decades since.[18]

What Happened in 1983?

That brings us to 1983, the last time Congress enacted major Social Security legislation. While the 1983 amendments are often cited as a model for the present situation—in process if not also in substance—the reality is more complicated. In reality, the commission process was not the success it is often made out to be, and the long-term solution Congress enacted was not a balanced mix of revenues and benefit reductions. Moreover, the challenges Social Security faces today differ notably from those of 1983.

The 1983 Commission Process Was Widely Misunderstood

Some people see the need to shore up Social Security's trust funds and ask, "Why can't we just do what we did in 1983—farm out the job to a commission?" But that misrepresents the true story of the National Commission on Social Security Reform, better known as the Greenspan Commission for its chair Alan Greenspan.[19] Even in the face of a very urgent need for solvency changes, the commission process failed; instead, direct negotiations between political leaders resulted in the ultimate agreement.

It was already clear in 1981 that Social Security's finances would need to be mended, soon. The 1982 Trustees Report added urgency, warning that there would not be enough money to pay benefits by July 1983—just over a year out. As a stopgap, lawmakers authorized the OASI trust fund to borrow from the DI trust fund and Medicare's Hospital Insurance (HI) trust fund, which it did in late 1982.

After being named in late 1981, the Greenspan Commission met throughout 1982, yet on its own failed to reach consensus on a package. Robert M. Ball, a commission member and longtime former SSA Commissioner, explained that "[t]he commission itself stalled—essentially deadlocked, despite continuing to talk—after reaching agreement on the size of the problem that needed to be addressed."[20]

By mid-December, with the commission deadlocked, top White House aides intervened to move things along. Representatives for President Ronald Reagan and House Speaker Tip O'Neill, whom Ball described as "the only two people who really mattered," began negotiating in secret.[21] At that point,

> *The commission became primarily a cover for the negotiations between the leaders of the two parties, Reagan and O'Neill. [...] The usual commission process was then turned on its head. An agreement was negotiated between the principals by proxy and then the already agreed-to result was taken back to the commission for its endorsement.*[22]

The short-term plan developed in these negotiations was agreed to by the commission and subsequently presented as the Greenspan Commission plan. The commission's final report, in January 1983, presented a plan for short-term measures and fixes that would close two-thirds of the long-run shortfall. The commission deadlocked on the other one-third, with one camp favoring a tax increase and the other a benefit cut.

Once the commission's plan was released, it still had to make its way through Congress under regular procedures. While the core package remained reasonably intact, the relevant subcommittees and committees held full markup sessions and added substantive changes. The single biggest alteration—the increase in retirement age—was added on the floor, beating out a payroll-tax increase. (For more on what was in the 1983 Amendments, see the next section.)

Many reports of prestigious commissions and task forces simply collect dust. The Greenspan Commission's impact stemmed from a unique mix of urgency, program expertise, pragmatic personalities, excellent staff work (experienced staff were detailed from the agency and from Congressional offices), willingness to compromise, thousands of hours of effort freely given, and engagement from legislative and executive branch leaders. Still, it was ultimately not the commission itself but the negotiations between political leaders that led to a successful compromise. As Ball explained,

> *[T]o suggest that the Greenspan Commission provides a model for resolving questions [...] would be laughable if it were not so dangerous. [...] A commission is no substitute for principled commitment. Above all, we should not fall into the trap of expecting miracles from another Greenspan Commission—by deluding ourselves into believing, mistakenly, that the first one was a great success.*[23]

Today some urge a "closed-room" approach to fixing Social Security, essentially outsourcing the job to a small group and tiny staff, then fast-tracking the results for an up-or-down vote with no committee or floor changes allowed. They cite the Greenspan Commission as a model. But that is not what happened in 1983.

The 1983 Amendments' Benefit Cuts Were Not Balanced by Revenue Increases in the Long Run

The 1983 Social Security amendments simultaneously addressed a short-term, immediate funding crisis and balanced the program's finances over the long term, for a projected life of 75 years. The mix of revenue increases and benefit cuts that contributed to each of those solutions differed significantly (Figure 3).

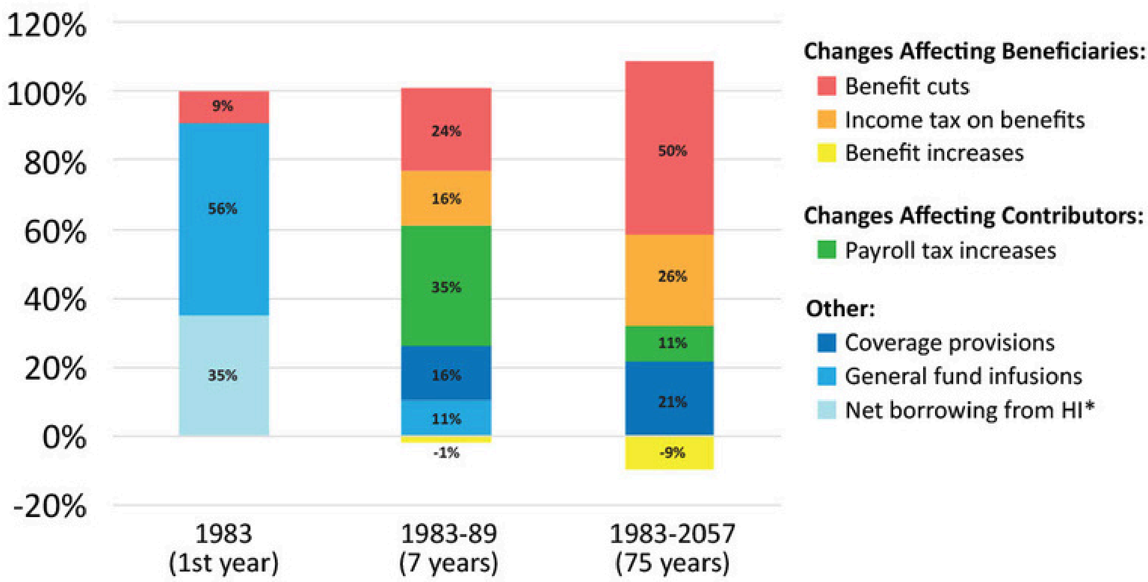
In the very immediate term—the first year—the amendments gave Social Security a badly needed infusion of nearly $23 billion, plus an additional $12 billion that was borrowed from the HI trust fund and repaid a few years later.[24] (We consider borrowing from HI to be part of the 1983 rescue even though it was enacted earlier and occurred in the first quarter of the fiscal year.)

Over a seven-year period, the amendments "contained a mix of changes that affected contributors and beneficiaries more or less evenly."[25] In addition to extending Social Security coverage to new groups of workers, the plan reduced benefits by delaying the cost-of-living adjustments (COLAs) and making some benefits taxable. On the revenues side, it sped up previously-scheduled increases to the contribution rate for the remainder of the 1980s, but did not alter the ultimate rate of 6.2 percent starting in 1990, as had been originally scheduled by law in 1977.[26]

Those same changes partially addressed the long-term shortfall, but not completely. The Commission could not agree on how to solve the remaining third of the long-term shortfall, and Congress considered two options: scheduling a future contribution rate increase, or increasing the retirement age from 65 to 67. After a fierce debate, Congress ultimately chose the retirement age increase.[27] As the Academy has previously explained:

> *The 1983 changes are often described as a balanced plan of benefit cuts and contribution increases. But that is not the case for the long run: the benefit cuts taking place in this century were not balanced by any new contributions.*[28]

Figure 3. Mix of Solvency Provisions, 1983 Amendments*



Source: Authors' calculations based on Svahn and Ross, 1983, Tables 1 and 4.
* Calculations include the interfund borrowing from Hospital Insurance (HI), a stopgap measure that was enacted in 1981, used in late 1982 (fiscal 1983), and fully repaid in 1985-86 from savings generated by the 1983 amendments.

Earnings Inequality Has Hurt Social Security's Finances Since 1983

The 1983 amendments were projected to ensure the combined trust funds would not need replenishment again until the early 2060s. It was a solid, long-term fix. But instead, that need will come a few decades sooner: OASI is now expected to draw down its reserves in 2033, or in 2034 if it were combined with the smaller, and solvent, DI fund.[29]

What's responsible for the deterioration since 1983? It is important to point out what *isn't*. Contrary to a common misperception, it isn't demographic change. The ratio of older people to working-age adults is almost exactly what the Social Security actuaries foresaw in 1983. That is not surprising: the Baby Boom had already ended twenty years before; medical advances were boosting life expectancy; and it was widely recognized how those trends would affect Social Security. In fact, the 1983 amendments built up early surpluses to help pay for the boomers' retirement. Over the last four decades, demographic trends have largely vindicated the 1983 projections. So while demographics have certainly shaped Social Security's long-term cost trends, they are not a reason for the acceleration of trust fund depletion post-1983.

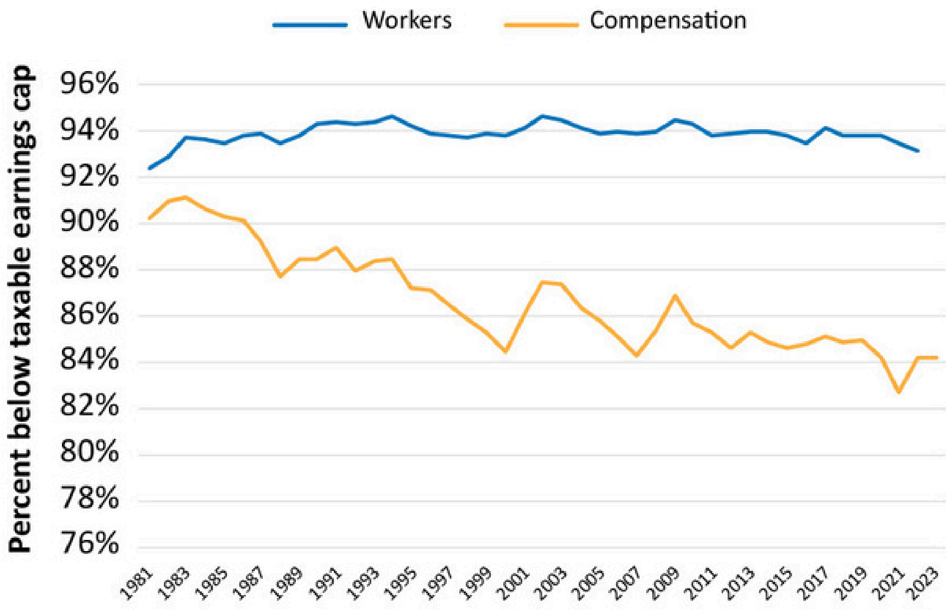
And it also isn't legislation. There has been no significant Social Security legislation since the 1983 amendments. Smaller—though important—measures including the Disability Benefits Reform Act of 1984, the Omnibus Budget Reconciliation Act of 1990, and the Social Security Domestic Employment Reform Act of 1994 (the so-called "nanny tax" law) generally had neutral to beneficial impacts on solvency. More recently, the Social Security Fairness Act is expected to accelerate the combined trust fund depletion date by several months—a notable change, to be sure, but hardly a main cause of trust fund depletion.

If not demographics nor legislation, what has caused the change in outlook? The single biggest factor is a rise in earnings inequality that has eroded Social Security's payroll tax base. The program has always had a taxable earnings cap, or "tax cap"—the amount of earnings on which workers and their employers owe payroll taxes, and earn eventual credit for benefits. The cap ensures that while all workers—even high earners—are covered, benefits are not paid out based on extremely high earnings.

Lawmakers last raised the tax cap in 1977, when they set it to cover about 90 percent of earnings. They set up automatic adjustments after 1981 that were intended to keep the cap at around the same share of earnings: they anticipated that after 1981, 95 percent of workers would earn less than the cap, and 91 percent of all covered earnings would be taxable.[30]

Instead, rising earnings inequality has put more and more earnings outside the reach of the Social Security payroll tax. While a steady 6 percent or so of workers earn more than the taxable earnings cap, the quickly-growing paychecks of the highest earners have put about 18 percent of earnings outside the payroll tax's reach, double what the 1977 drafters anticipated (Figure 4).[31] In short, wages have grown more quickly above the tax cap than below it, meaning that an increasing share of earnings escape Social Security taxation.

Figure 4. Rising Inequality Means a Smaller Share of Earnings Fall Under Social Security's Taxable Earnings Cap



Source: Social Security Administration.

That erosion has sharply worsened the program's outlook. A recent analysis by the Social Security actuaries traced nearly the entire financial deterioration since 1983 to this reduction of the tax base from rising earnings inequality.[32] Other analyses have found that if the taxable earnings cap had continued to cover 90 percent of all wages since 1983, the 75-year financing gap would be about a quarter smaller,[33] and Social Security's payroll tax income would be about 8 percent higher going forward.[34]

Returning to the 1977 law's intent by taxing about 90 percent of earnings, now and in the future, would mean approximately doubling the 2025 taxable earnings cap, from $176,100 to about $350,000.[35] That would greatly help the program's future finances, though it would not recapture the revenues foregone over the past four decades.

A distinctly secondary factor that worsened Social Security's finances was a modest rise in disability rates since the early 1980s.[36] In 1983, disability spending was at a low point, the result of a Reagan-era tightening that denied benefits to severely impaired applicants and even terminated benefits for many people already receiving them.[37] The DI trust fund was projected to run such large surpluses that lawmakers had even redirected a significant share of Social Security's payroll tax from DI to OASI. Resistance from the public, Congress, and the courts undid the harshest of the Reagan-era measures, and benefit receipt rose from its artificial low.[38,39] Eventually lawmakers restored approximately half of the payroll-tax share that they had shifted from DI to OASI in 1983, and DI is now in solid shape throughout the 75-year horizon.

And although there has been little significant legislation directly affecting Social Security solvency since 1983, there have been several measures that affected it indirectly. Notably, the Affordable Care Act of 2009 was forecast to help Social Security finances by nudging the composition of workers' pay from (nontaxable) fringe benefits to (taxable) wages and salaries. In contrast, several tax cuts, including in 2001, 2003, and 2017, reduced income tax rates and therefore reduced income to the trust funds from taxes on benefits. Most recently, the Social Security Fairness Act increases benefit costs and is projected to accelerate trust fund depletion by several months.

In sum, erosion of the payroll tax base explains most of the deterioration in Social Security's financial outlook since 1983. Other factors are secondary.

How Does Today's Situation Compare to 1983?

In addition to a different political environment, there are many key differences between the current moment and 1983.

- *The challenge is bigger:* In 1982, the program faced a very immediate financing challenge, but one that was not expected to last.[40] Things were bad in 1982 largely because of high inflation in the late 1970s and recessions in the early 1980s, but were expected to turn around in the 1990s as the large Baby Boom generation aged into its peak earning years, pumping more revenue into the system than it paid out in benefits.[41] The same 1982 Trustees Report that warned of trust fund depletion by July 1983 forecast a small, overall *surplus* in the first 25-year period before Social Security slipped into deficits. That's not true now; Social Security is running annual deficits and is projected to continue doing so throughout the projection period.[42]

- *One-time fixes are no longer available:* Some fixes that brought in significant (and quick) money in the 1983 compromise—such as lump-sum transfers for past military credits and for unnegotiated checks, and extending coverage to federal employees—could only be done once. Similarly, borrowing from HI is no longer an option because Medicare's HI fund will itself be depleted by 2033.[43] DI—though solvent—is much smaller than OASI, so even if Congress borrows from that trust fund, it would extend overall solvency by about a year to 2034 for the combined OASDI trust funds.

- *Benefits have already been cut due to the 1983 amendments:* Several of the provisions in the 1983 amendments permanently reduced benefits, especially the increase in the full retirement age from 65 to 67, which reduces benefits at any age they are claimed. Delaying COLAs and making part of benefits subject to income taxes had smaller effects. One analysis found that, in total, these three changes lowered benefits by 19 percent on average.[44] Because the retirement age increase and taxation of benefits were phased in gradually over time, we have not yet seen the full effects of these reductions on seniors' economic security.[45]

- *Further increasing the retirement age past 67 or reducing the COLA are unpopular options:* In the Academy's recent poll, Americans were far more likely to oppose these policies than support them.[46] Moreover, any increase in the retirement age would likely need to be phased in very gradually over decades, as lawmakers did in 1983, meaning it would not help avert trust fund depletion in the near term. Another delay or reduction in the COLA would likely be unpopular in an era marked by a laser focus on inflation.

- *Most benefits are already subject to income taxation:* 1983 was the first time Social Security benefits became subject to income taxation. By not indexing the thresholds it used, Congress essentially phased in taxation of benefits slowly over the decades. In 1994, lawmakers subjected more of the benefits to taxation, with proceeds from the newer part going to the HI trust fund. Today, up to 85 percent of benefits are subject to taxation, and about half of beneficiaries pay income taxes on part of their benefits. There is little room left—and seemingly little appetite from policymakers—to get additional revenues out of further taxing benefits.

In short, today's situation is arguably more challenging than in 1983. While lawmakers do not (yet) face the same immediacy of the solvency crisis as in 1983, they face a longer lasting imbalance between costs and benefits, driven in large part by rising earnings inequality. At the same time, they do not have the option of many of the one-time revenue infusions that were used in 1983. Moreover, today's benefits have already been cut due to the 1983 amendments, particularly due to the increase in the full retirement age from 65 to 67.

Options For Moving Forward

As lawmakers consider a range of options to address Social Security's shortfall, the Academy's research finds that Americans have a strong preference toward doing so by raising revenues, and they are even willing to contribute more themselves. More broadly, however—especially as the options become more limited as trust fund depletion approaches—lawmakers may need to consider directing other types of revenues to Social Security at least temporarily. This section explores the types of options available and what Americans prefer to see happen.

Traditional Options: Revenue Increases or Benefit Changes

The most frequently discussed options for addressing Social Security's financing gap are benefit cuts, revenue increases from the payroll tax, or some combination—often along with targeted benefit improvements. Social Security's actuaries have prepared an exhaustive menu of such options for lawmakers and others to consider.[47]

- *Benefit reductions* would reduce Social Security's costs—as well as beneficiaries' incomes—by methods such as changing the basic benefit formula (Primary Insurance Amount, or PIA), reducing COLAs, increasing the retirement age, changing family members' benefits, and so forth. The 2025 Trustees Report estimates that achieving 75-year solvency solely through benefit reductions would require reducing benefits by more than one-fifth if started now; if delayed until 2034, that fraction grows to more than one-quarter.[48]

- *Increasing Social Security's dedicated payroll tax revenues* can be done in a number of ways. Payroll taxes make up about 91 percent of the program's income.[49] Options to bring in more payroll tax revenues include raising the rate, raising or eliminating the taxable earnings cap, and broadening the tax base by including certain fringe benefits. The 2025 Trustees Report estimates that achieving 75-year solvency solely through revenues would require increasing revenues by more than one-fourth (for instance, increasing the payroll tax rate from 6.2 percent for workers and employers each to 8.025 percent). Again, that fraction grows if delayed until 2034, at which point a tax rate of 8.335 percent would be necessary.[50]

- *Targeted improvements to Social Security benefits* are often part of the discussion in order to improve economic security—or help mitigate the effects of any benefit reductions—for specific vulnerable groups. Common options include improving widow(er) benefits, adding caregiver credits for those who take time out of the workforce to care for dependents, and adding a "bridge benefit" for older workers who might not qualify for disability benefits.[51] Any such improvements would add to the size of the financing shortfall that needs to be addressed. (Alternatively, some types of targeted improvements for the lowest-income beneficiaries might be better achieved by improving SSI. That approach might be "a more effective approach to reducing poverty," and would mean that the costs of better supporting those with the lowest incomes would come from general funds, rather than from Social Security's trust funds.[52])

The annual Trustees Reports project Social Security's future finances over a 75-year window, intended to cover the remaining lifespan of even the youngest current workers.[53] As a result, policymakers often aim to design solutions for 75 years—as they did in 1983, although later developments accelerated trust fund depletion, as discussed above. However, there is no requirement that changes address the entire 75-year future of the program all at once; Congress could consider changes designed to put the program on sound financial footing for a shorter period, such as 25 or 50 years.

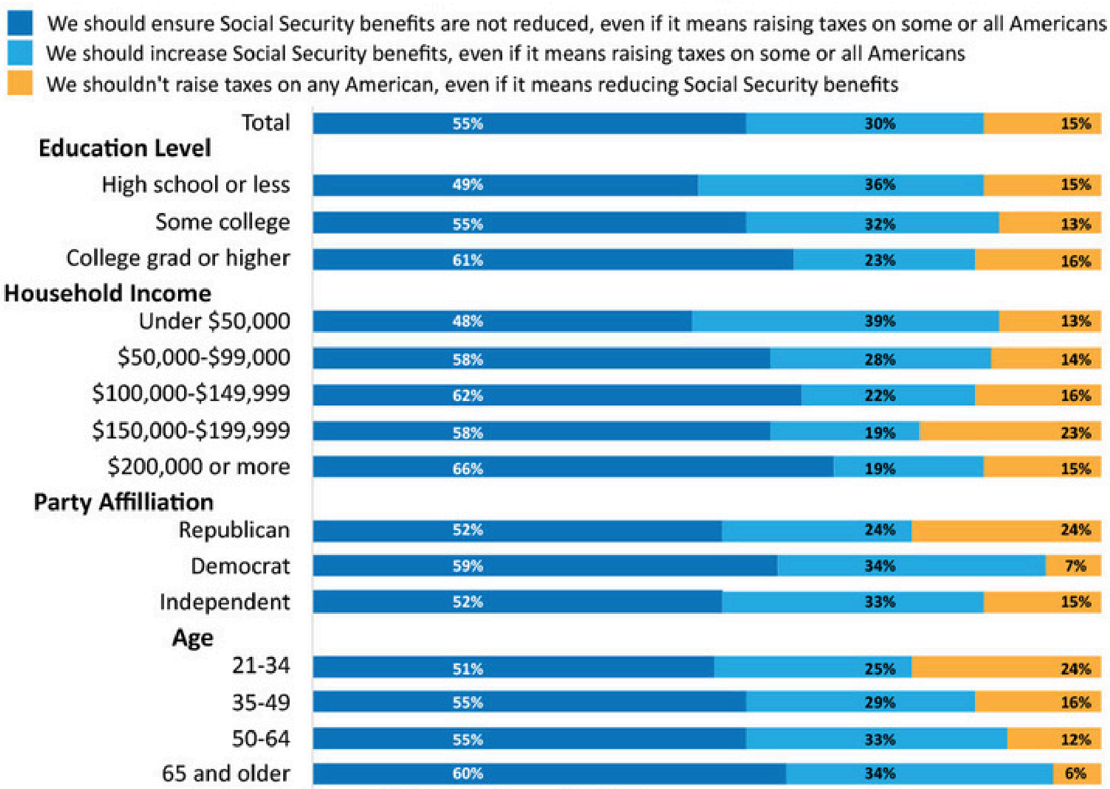
In addition, Congress could legislate automatic adjustments as a backstop to help ensure that the changes they design maintain the desired level of solvency. A carefully-designed metric could trigger small, gradual automatic adjustments to any of the policy levers described above—including payroll tax rates, benefit amounts, the retirement age, or others—if the metric exceeds a target range or threshold.[54] These kinds of automatic adjustments, however, are best used as a backstop and not as a means of avoiding difficult choices about Social Security's future.

Americans Prefer Revenue Increases Over Benefit Reductions—and Are Willing to Contribute More

A recent Academy survey explored Americans' preferred approaches to addressing Social Security's financing gap, and found that Americans overwhelmingly favor increasing revenues over reducing benefits—and in addition to widely supporting asking the wealthy to contribute more, they are willing to pay more themselves in order to avoid benefit cuts.[55]

Asked which statement comes closest to their view, 85 percent of Americans say they want to maintain (55 percent) or increase (30 percent) Social Security benefits, even if it means raising taxes on some or all Americans. Only 15 percent prefer not to raise taxes on any American, even if it means reducing Social Security benefits (Figure 6).

Figure 5. Americans Overwhelmingly Support Raising Revenues Over Reducing Benefits



Source: National Academy of Social Insurance.

Americans across demographic and political groups share this preference for raising revenues over reducing benefits. Agreement is strongly bipartisan, including 76 percent of Republicans, 93 percent of Democrats, and 85 percent of Independents.

When it comes to specific policy options, Americans again favor increasing revenues over reducing benefits. Of all the policies tested, respondents most strongly prefer lifting Social Security's taxable earnings cap. Large majorities consisting of around two-thirds of respondents favor eliminating the taxable earnings cap entirely (68 percent) or doing so only on earnings over $400,000 (65 percent). Support for both of those options is strongly bipartisan. The survey also found broad support (57 percent) for gradually increasing Social Security's payroll tax contribution rate that workers and employers pay.

Americans' most preferred package of policy options—favored over the status quo by 82 percent of respondents across party and demographic lines—includes eliminating the payroll tax cap for earnings over $400,000 and increasing the tax rate to 7.2 percent, as well as several targeted benefit improvements.

In contrast, there is little support for changes that would reduce benefits, such as raising the retirement age or adopting lower cost-of-living adjustments. For instance, 48 percent oppose raising the retirement age to 68 and only 37 percent support it, with respondents twice as likely to be strongly opposed (21 percent) as strongly in favor (9 percent).

In short, the survey found strong bipartisan support for Social Security, strong bipartisan opposition to cuts, and overwhelming agreement that lawmakers should close the system's financing gap by raising the revenues needed to keep it on strong footing for the long term.

Is It Time to Consider New Revenue Sources?

Throughout its history, Social Security has paid its benefits and administrative expenses with dedicated funding, primarily payroll taxes and interest on its trust fund assets. Many emphasize that dedicated payroll tax funding allows for a clear link between people's contributions and benefits—a key principle of the program since its inception. Others, however, argue that the time has come to consider new sources of revenues, potentially including transfers from the Treasury's general fund. (For purposes of this report, we consider such transfers, which are often called general revenues, to encompass any non-payroll tax revenues.[56]) For instance:

- *Increases in other taxes:* Looking beyond the traditional payroll tax might mean considering a new income tax add-on, a reinvigorated estate tax, an expansion of the Net Investment Income Tax (NIIT) that currently imposes a small surtax on investment income if filers have income over $200,000 ($250,000 for couples), a tax on the unrealized capital gains of the wealthiest taxpayers, expanding the portion of Social Security benefits that are subject to income taxation, or other options. The rationale for such an approach would be to capture some of the income of workers who receive their compensation not mainly through wage income but instead through other sources such as investments. Any of these changes could be enacted into law with the revenue dedicated to Social Security.

- *Redirection of existing taxes:* Social Security's trust funds could be credited with a lump sum every year from the general fund to balance its books, similar to the way appropriations finance three-fourths of Medicare Part B (enrollees' premiums finance the other one-fourth). Or Congress could redirect the taxes on Social Security benefits that currently go to the HI trust fund and credit them instead to Social Security.[57] However, while this could replenish Social Security on paper, it would not strengthen government finances overall, and in fact would create a shortfall for HI.[58]

One rationale for using general revenue funding is that, for current and future workers, Social Security payroll taxes and benefits are already in near-balance;[59] instead, a large part of the program's shortfall stems from the unreimbursed legacy costs from early generations of beneficiaries. Those legacy costs—and the hidden interest on them—still have to be paid. Using general revenues, which are primarily derived from individual income taxes, to cover these legacy costs would offer an alternative financing option that is more progressive and applies to additional types of income other than wages.[60]

Moreover, it appears increasingly likely that the timing of program changes may effectively require at least a temporary general revenue infusion to avoid sudden across-the-board benefit reductions at trust fund depletion. Especially if lawmakers wait until the last minute to act, it may be impossible to phase in revenue increases or benefit cuts fast enough. General revenues may be necessary for bridge financing around 2034.

Whether we look at tax increases or benefit reductions, lawmakers throughout the course of Social Security's history have preferred gradual changes.[61] The most notable example is the retirement age increase from 65 to 67, which was enacted in 1983 but phased in very gradually over about 40 years, exempting then-current and near retirees. Workers born in 1937 and earlier (who were turning age 46 and older in 1983) were not subject to the change and kept a full retirement age of 65. The change started phasing in for workers age 45 and younger that year; the full increase to 67 applies to those who were 23 and younger at the time (born in 1960 and later), who will start reaching their full retirement age in 2027.[62] Similarly, on the revenue side, lawmakers often designed payroll tax increases so they did not take effect immediately after the law's enactment, but rather were scheduled in advance to start in a specific future year; for instance, the current rate of 6.2 percent was scheduled in 1977 to take effect starting in 1990, 13 years later.[63]

But gradual changes will struggle to bring in enough revenues soon enough to prevent trust fund depletion within a decade. For instance, if lawmakers wanted to increase the payroll tax rate, doing so gradually at a rate of one-twentieth of one percentage point per year (for workers and employers each) closes just over a third of the annual shortfall after 10 years—meaning it would not come close to preventing trust fund depletion—while an abrupt increase from 6.2 to 8 percent closes more than three times the annual shortfall after a decade, and could prevent depletion.[64] On the benefit reductions side, even draconian cuts—say, cutting benefits by 5 percent for people turning 62 in 2025 or later, or raising the full retirement age from 67 to 69 between now and 2036—would close only about 10 percent of the gap in 2034.[65] It's highly likely there will need to be rapid revenue increases, bridge financing from the general fund, or both.

Historical Precedent

Transfers from the general fund into Social Security have been limited and directed for specific purposes.[66] Historically, those included so-called Prouty benefits for uninsured people who reached age 72 before 1968; reimbursements for modest, noncontributory wage credits for military service; and the provision of deemed wage credits to Japanese-Americans for the period they were interned during World War II.[67] Today, small transfers cover the administrative costs of certain agency tasks (such as mailing information about deferred benefits to people who may have earned them from private pensions) that are unrelated to core responsibilities under the Social Security Act.[68]

There have been two instances where general fund transfers softened payroll tax burdens. First, in the 1983 amendments, lawmakers sped up scheduled tax increases for covered employees and brought rates for the self-employed into line with those for wage and salary workers. To mitigate the impact, the law provided that all of the employee increase (for 1984 only) and much of the self-employed increase (for 1984-1989) would be financed by the general fund.

Second, to help the economy heal from lingering effects of the Great Recession, lawmakers trimmed two percentage points from the employee share of the payroll tax in 2011-12. The amounts lost were wholly made up by the general fund, and Social Security suffered no harm.

The circumstances differed, but both of those episodes made clear that lawmakers occasionally approve using general funds to substitute for part of the payroll tax.

Social Security has never borrowed from the general fund. Congress considered, but rejected, such borrowing as a "fail-safe" in 1983.[69] It had previously (in 1981) authorized the Social Security and Medicare HI funds to borrow from each other; the OASI fund borrowed from the others in 1982, and fully repaid those loans by 1986.[70] Although it was unclear in 1981 how the fund would repay, the 1983 amendments created ample cash flow.

How Might General-Fund Financing Work?

There are any number of ways lawmakers could design general fund financing for Social Security.[71] Among the key policy levers or parameters:

- *Purpose:* Historically, general fund financing of Social Security has typically been limited to reimbursements for specific, narrow purpose, such as Prouty benefits for mostly uninsured seniors over age 72, or the lost revenues from the 2011-12 payroll tax holiday. Alternatively, general-fund financing could be used for the broad purpose of funding some or all of Social Security. Many income security programs (such as SSI, the Supplemental Nutrition Assistance Program, and Medicaid, all of which are means-tested unlike Social Security) are funded this way, as is about three-fourths of Medicare's Supplementary Medical Insurance (Part B) program. This funding approach differs radically from Social Security's history and its philosophy that people earn benefits by contributing based on their own earnings history.

- *Amount:* Similarly, the amount of general revenue transfers could be set to be large or small, and uncapped (open-ended) or capped. The historical precedents were generally small but uncapped in amount. For instance, there was no set dollar amount or formula that capped the amount of reimbursements for the payroll tax holiday or Prouty benefits; instead, the total amount of the reimbursement was limited only by its purpose and covered all of the costs under the specified purpose, whatever that ended up being. Of course, in both of those examples, the purpose was also relatively time-limited (see below).[72] Alternatively, general revenue funding could be structured as large, uncapped transfers in amounts as needed to ensure trust fund solvency.

- *Timing:* General revenue transfers could be authorized on a temporary or one-time basis, similar to the 1981 provision that allowed Social Security to borrow (albeit from other trust funds, not from general revenues) only before 1982, later extended to 1987.[73] Similarly, if general revenues are authorized for a specific purpose that is itself time-limited—such as reimbursing the funds lost from a temporary payroll tax holiday—the transfers are in effect temporary. Alternatively, transfers could be structured as a permanent, ongoing feature, such as the ongoing revenue that Social Security receives from the income taxation of benefits; as noted above, general revenue funding could be structured as permanent transfers designed to ensure trust fund solvency.

- *Repayment:* For temporary or short-term general revenue infusions, a major decision point is whether or not those funds have to be repaid as a loan. In the early 1980s when Congress authorized borrowing as a temporary stopgap to get the program through its immediate financing crisis, it required Social Security to repay the loans by 1989. In other situations, where there is more of a rationale for the general fund to subsidize part or all of a specific benefit type—such as with Prouty benefits and military wage credits—repayment may be less desirable. Lawmakers should be mindful of the program's future ability to repay any loan; authorizing borrowing without also ensuring the ability to repay could undermine trust in the program and create opportunities for brinkmanship, akin to what occurs around government shutdown or debt-ceiling deadlines.

- *Source of the revenues:* A general fund infusion into Social Security could come from a specific, dedicated funding stream (that is, dedicating to Social Security the proceeds of a specific revenue source) or it could be simply allocated out of the general fund. In addition, it could be designed as new revenues being raised or could come out of existing ones. For example, reallocating the existing income taxes on benefits from HI to the Social Security trust funds would represent a dedicated funding stream, but not newly-raised revenues—meaning it would create a funding gap elsewhere, in HI. A revamped estate tax dedicated to Social Security would be both dedicated and new funding.

- *Method:* In theory, general fund transfers could be designed as mandatory spending (not subject to annual appropriations) or discretionary (subject to annual appropriations). In reality, lawmakers would almost certainly want to keep Social Security benefits out of the annual appropriations process, and doing so is consistent with the program's history: while the agency's administrative costs are subject to appropriations, its benefit payments have always been mandatory. Other similar programs with general revenue funding are also mandatory spending, such as SSI and the funding for Medicare Part B.

Practical steps for averting a last-minute solvency crisis:

Given how important Social Security benefits are to beneficiaries' economic security, it is worth considering what might happen if lawmakers wait until the last minute before trust fund depletion to enact Social Security changes. History is a partial guide here; in 1983 the program came within months of being unable to pay full benefits. But as discussed earlier, some of the quick fixes used in 1983 are no longer available, and it may be impossible to phase in revenue increases or benefit cuts fast enough to avoid trust fund depletion without intermediate steps.

Regardless of what mix of revenue or benefit changes Congress decides to enact, waiting until the last year or two to enact them will likely require stopgap actions such as:

Borrowing, reallocating, or combining Social Security's two trust funds:

This is the likely first step, since the OASI trust fund alone is projected to become depleted in 2033, while the DI trust fund is projected to remain solvent for the long-term future.

Social Security's two trust funds are often discussed on a combined basis, but they are legally separate. By law, the total 6.2 percent payroll tax rate is split between the funds; currently, 0.9 percent goes to the DI trust fund and 5.3 percent goes to the OASI trust fund. Since DI began in 1957, Congress has reallocated these tax rates 13 times, most recently in 2015, in order to better equalize the status of the two funds as each continues to evolve over time.[74] That included temporarily reallocating tax rates from DI to OASI in 1980-1981, as OASI approached a short-term financing crisis.[75] Eventually, Congress might decide that it makes more sense to combine the trust funds rather than continuing to have to reallocate taxes periodically. Alternatively, Congress could again reallocate the payroll tax rate between the funds, or it could authorize OASI to temporarily borrow from DI—although the size difference between them (OASI is about 14 times larger than DI) would make this option of limited help.

Any of these methods would at most postpone trust fund depletion from 2033 (as projected for OASI alone) to 2034 (as projected for the combined OASDI trust funds).

Temporary general revenue infusion:

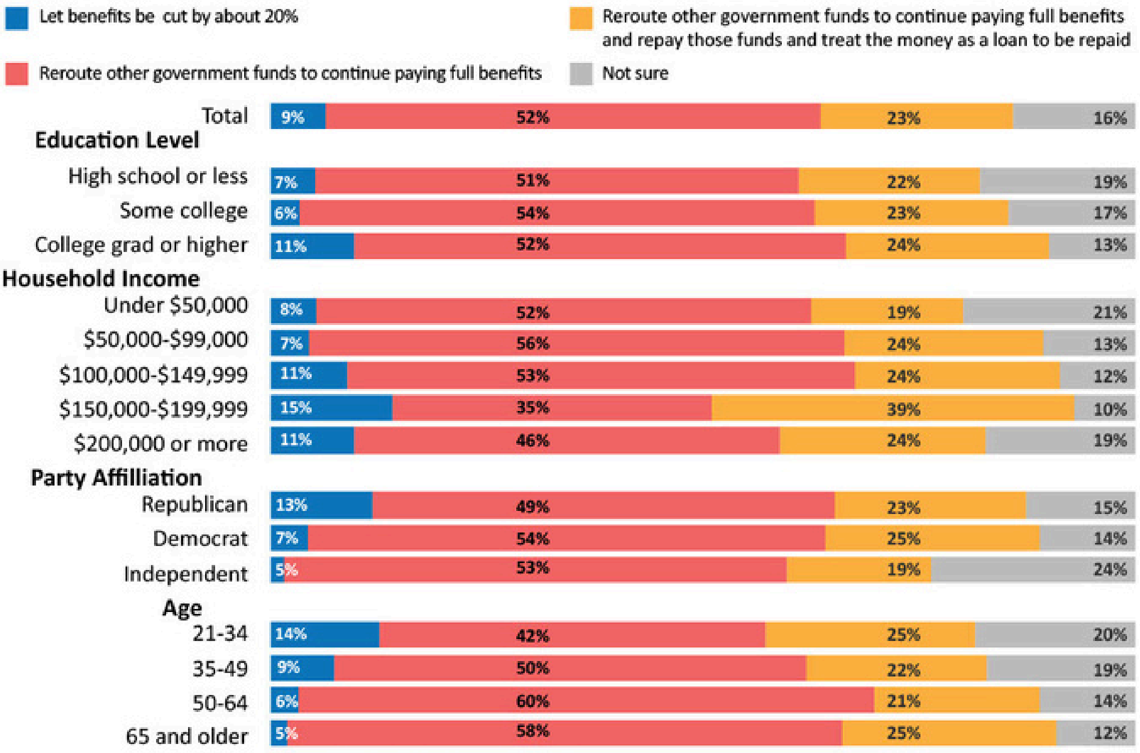
General revenues may be necessary for bridge financing around 2034, to avoid an abrupt and disruptive benefit reduction. Even if Congress did not want Social Security to be permanently financed with general funds, a temporary infusion could be done by authorizing borrowing from the general fund with a set timeframe for repayment once the program changes start to take effect, or by creating a temporary general revenue funding stream without repayment.

The borrowing from HI in the early 1980s is a useful example, even though any borrowing in the 2030s would likely have to come from the general fund instead of HI, due to HI's projected depletion. Starting in 1981, Congress authorized borrowing between the three trust funds (OASI, DI, and HI) for a limited time frame (initially ending in 1982, though this was later extended to 1987), and with a specific timeframe and requirements for repayment. The loaning trust fund would essentially be held harmless; any funds borrowed had to be paid back in full and with interest, before the end of 1989.[76] Congress could similarly authorize borrowing—this time from the general fund—with a fairly short timeline for repaying the funds. Even a temporary infusion of revenues could help buy time to allow other, more gradual program changes to start taking effect without trust fund depletion occurring in the meantime.

Americans Prefer Re-routing General Revenues to Across-the-Board Benefit Cuts

The Academy's recent survey finds that Americans overwhelmingly prefer re-routing other government funds instead of letting Social Security benefits be reduced at trust fund depletion. Seventy-five percent of Americans prefer using other government funds for this purpose, including 52 percent who support doing so without paying the other funds back and 23 percent who would want to repay those funds as a loan. Only 9 percent prefer to let benefits be cut without rerouting other government funds (Figure 7).[77]

Figure 6. Which one of the following comes closest to what you think should be done at the 2035 trust depletion date?



Source: National Academy of Social Insurance.

More broadly, two-thirds of Americans (65 percent) support re-routing funds from other federal tax revenues to fund Social Security in general, not only to prevent immediate benefit reductions upon trust fund depletion. The most popular revenue source is estate taxes (57 percent support among those who wanted any new revenues), followed by general revenues (46 percent), a potential carbon tax (42 percent), capital gains tax (36 percent), and taxes on employee benefits (11 percent).

Conclusion

Lawmakers will have to address Social Security solvency within a decade, and may want to begin much sooner. Doing nothing would lead to large benefit cuts and widespread hardship. Much of the program's long-term shortfall stems from its legacy costs, and the further deterioration in the financial outlook since the 1983 amendments is largely due to the rise in earnings inequality that has eroded the program's tax base—along with the lack of revenue adjustments to match the benefit reductions enacted in 1983.

The American people are united in wanting to see lawmakers address Social Security's financing gap with revenue increases instead of benefit cuts. And while general revenues have not been a big part of the debate, unless lawmakers adopt a package that would rapidly bring significant revenues into the system in the coming years, they may need to consider some form of general revenue financing on at least a temporary basis, as a stopgap measure to avoid substantial across-the-board benefit cuts in 2034.

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74. Virginia P. Reno, Elisa A. Walker, and Thomas N. Bethell, "Social Security Disability Insurance: Action Needed to Address Finances," Issue Brief No. 41, National Academy of Social Insurance, 2013, https://www.nasi.org/sites/default/files/research/SS_Brief_041.pdf; Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin, 2024,* 2024, Table 2.A3, https://www.ssa.gov/policy/docs/statcomps/supplement/2024/2a1-2a7.html#table2.a3.
75. Board of Trustees, *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds,* 1982, https://www.ssa.gov/oact/tr/historical/1982TR.pdf.
76. DeWitt, 1998.
77. All data in this section are from National Academy of Social Insurance, 2025. Survey questions used the then-current combined trust fund depletion date of 2035, from the 2024 Trustees Report.

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