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IN FOCUS

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Social Security, Deficits, and Debt

Social Security is a self-financing program that covers an estimated 178 million workers and will provide monthly benefits to about 64 million beneficiaries in 2020. The Social Security program is composed of the Old-Age and Survivors Insurance (OASI) program and the Disability Insurance (DI) program, commonly referred to on a combined basis as OASDI. Social Security, or OASDI, is the federal government's single largest program in terms of both the number of people affected (i.e., covered workers and beneficiaries) and its finances (i.e., revenues and payments).

The Social Security program is primarily financed through a payroll tax (employers and workers each pay 6.2%), which is applied to covered earnings up to an annual limit ($137,700 in 2020). A second source of funding is from the federal income tax imposed on a portion of Social Security benefits of some beneficiaries. These tax revenues (i.e. noninterest revenues) are used to pay monthly benefits. By law, any surplus—arising when noninterest revenues are greater than total costs—is loaned to the rest of the federal government, creating assets in the form of interest-bearing U.S. Treasury securities. These securities are known as *special issues* and are nonmarketable (i.e., not available for public purchase or sale). This process provides a third source of income, the interest payments those investments generate. This In Focus examines the relationship of the Social Security trust funds to the rest of government and how this impacts federal deficits and the federal debt.

The Trust Funds

A trust fund is an accounting mechanism that allows a program to track revenues and costs and, if necessary, provides a means to hold any accumulated assets, such as cash surpluses. The trust funds are dedicated to spend on current and future scheduled monthly benefits. The trust funds provide automatic spending authority to pay benefits without the need for Congress to periodically re-authorize the spending. The OASI and DI programs are two legally distinct trust funds and do not have the authority to borrow from each other. Tax revenues are credited to each program's trust fund according to the percentage set in statute, and payments to each program's beneficiaries are debited from its respective trust fund. Any interest earned on asset reserves held in the trust funds is also credited to the respective trust fund.

Section 201 of the Social Security Act (42 U.S.C. §401) requires tax revenues not immediately needed for current costs (i.e., current monthly benefits) to be invested in interest bearing U.S. Treasury securities. Additionally, any interest income from asset reserves held in the trust funds is invested in government securities. During periods of short-term surpluses—in which incoming tax revenues exceed outgoing costs—this investment process results in Social Security revenues being exchanged for Treasury securities. Said differently, during times of surpluses, Social Security is essentially lending cash to the General Fund of the Treasury or the "rest of government." Such lending from one part of the federal government to another part is called *intragovernmental debt*. Surpluses that are converted into government securities and held in the trust funds become indistinguishable from other revenues in the general fund.

Annual OASDI Surpluses and Deficits

- When annual income (tax revenues plus interest income) is greater than annual costs, the program is said to be in *surplus*. Alternatively, when annual income is less than annual costs, the program is in a *deficit*. Under the 2019 Board of Trustees' intermediate assumptions, the combined OASDI program will be in deficit starting in 2021.
- When annual tax revenues are greater than annual costs, the program is operating a *cash surplus*. Conversely, when annual tax revenues are less than annual costs, the program is operating a *cash deficit*. On a combined OASDI basis, the program has been operating cash deficits since 2010. These are also referred to as short term surpluses or deficits, respectively. Unlike surpluses and deficits described above, short-term cash surpluses and cash deficits do not include interest income.

Conversely, times of short-term deficits—in which outgoing costs exceed incoming tax revenues—result in the opposite transaction taking place. With a short-term deficit, Social Security would redeem trust fund asset reserves held in U.S. Treasury securities for cash. Said differently, this reverse transaction would result in the general fund *paying back* the Social Security trust funds for amounts previously borrowed. The trust funds' holdings represent the amount of money that the general fund, or the rest of government, owes the trust funds. A trust fund can redeem securities so long as the trust fund balance is positive: once depleted, a trust fund no longer has Treasury securities to redeem to augment income during a time of program deficit. For Social Security, this means the amount of scheduled benefits that could be paid would be determined solely by incoming tax revenues.

Under current law, the trust funds do not have the authority to borrow money from the general fund or outside creditors after they are depleted. That is, the trust funds cannot issue debt obligations to pay for benefits. For this reason, maintaining a positive trust fund balance (or sufficient continuing tax revenues) is important, if tax revenues are not sufficient to pay scheduled benefits. If holdings were to be depleted, and continuing reserves and tax revenue were

not sufficient to pay scheduled benefits, then Social Security would not be able to pay full benefits on a timely basis. Should this occur, as is projected in 2035 under the 2020 Board of Trustees' intermediate assumptions, a distinction would arise between *scheduled* benefits (e.g., level of benefits specified under current law) and *payable* benefits (level of benefits supported by continuing revenues).

Social Security and Interest Income

The trust funds balance is continually turning over. Specifically, incoming revenues are invested in Treasury securities and the securities closest to maturation are redeemed to pay benefits. As with other Treasury securities, the federal government is obligated to make timely repayments of principal and interest. Maturing securities that are not needed to pay benefits are reinvested in new Treasury securities.

Although trust fund reserves and other intragovernmental debt generate interest, this is money that the federal government owes itself and hence does not affect the total federal fiscal balance (i.e., balance between total government revenues and total government expenditures). When the general fund spends money owed to the trust funds, these typically represent funds that would have to be borrowed from other sources. When the Social Security program experiences short-term deficits, as it is projected to in 2021, the program can draw down from the existing reserves held in the trust fund.

Off-Budget Status

All federal programs are included in the *unified* budget, which provides an exhaustive view of all federal receipts and expenditures. Some programs—such as Social Security—use trust funds to track receipts and expenditures, or revenues and costs. In the case of Social Security, the trust fund mechanism essentially links the Social Security payroll tax to the payment of Social Security benefits.

The Budget Enforcement Act (BEA), a portion of the Omnibus Budget Reconciliation Act (OBRA) of 1990 (P.L. 101-508), took the Social Security programs "off-budget" while most other federal programs remained "on-budget." The off-budget status means that the Social Security programs are not included in the annual congressional budget resolution or the President's budget. That is, the Social Security programs' revenues and costs are not included in the federal totals.

Federal Deficits

Despite the implication of its off-budget status, Social Security spending and revenues affect annual net deficit measurements.

Under the unified budget, Social Security surpluses reduce total annual deficits (i.e., the surpluses are subtracted from the general account deficit). If instead Social Security trust funds run annual deficits, those amounts would increase annual deficits.

Since 1984, Social Security has run large surpluses that have reduced annual deficits. The Board of Trustees projects that Social Security will run annual deficits beginning in 2021, at which time there would no longer be a surplus to be subtracted from the general account deficit.

Federal Debt

Trust fund reserve changes have no effect on total federal debt, which equals publicly held debt plus intragovernmental debt (including debt owed to trust funds). Trust fund reserve accumulation results in an increase in intragovernmental debt and an offsetting decrease in publicly held debt, leaving total federal debt constant.

The trust fund investment process decreases the amount of money needed to be borrowed from the public. Were it not for the availability of Social Security cash surpluses and other forms of intragovernmental debt, all else being equal, the federal government would need to increase its publicly held debt. Unlike intragovernmental debt, publicly held debt increases federal spending devoted to net interest payments. Publicly held debt is also typically the measurement used by economic analysts to measure federal fiscal health. Higher levels of publicly held debt increase overall financing costs and reduce the capacity for future borrowing.

The Board of Trustees project that in 2021 Social Security will begin to run program deficits and will need to start drawing from their assets to pay full scheduled benefits on a timely basis. This will involve the trust funds redeeming the principal amounts in the trust funds. The government will have to increase revenues, reduce government spending elsewhere, or increase publicly held debt holdings (i.e., borrow from the public).

Under current law, the Social Security trust funds cannot borrow money or go into debt. Thus, projections of benefit payments after trust fund depletion (i.e., beyond the program's ability to pay them based on continuing tax revenues) are presented on a hypothetical basis. Any change to current-law benefit schedules that would extended the projected date of trust fund depletion, whether through revenue increases or benefit reductions, would reduce both the unified budget deficit and publicly held debt.

Related Resources

CRS Report RL33028, *Social Security: The Trust Funds*

CRS Report R44383, *Deficits, Debt, and the Economy: An Introduction*

CRS Report RL33514, *Social Security: What Would Happen If the Trust Funds Ran Out?*

Social Security Trust Fund Cash Flows and Reserves, by David Pattison, Social Security Bulletin, vol. 75, no. 1, February 2015

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