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Social Security: Selected Findings of the 2023 Annual Report

According to the 2023 report of the Board of Trustees of the Social Security Trust Funds, the program's finances are in a similar, albeit marginally worse, position in 2023 relative to what they were in 2022. Under intermediate assumptions, the projected combined trust fund asset depletion date is 2034 (versus 2035 in last year's report), after which the percentage of benefits payable would be 80% (the same as in the 2022 report).

Social Security Overview

Social Security is a self-financing program that in 2023 covers approximately 183 million workers and provides monthly cash benefits to over 66 million beneficiaries. It is the federal government's largest program in terms of both the number of people affected (i.e., covered workers and beneficiaries) and its finances. Social Security is composed of Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI), referred to collectively as OASDI.

The OASDI program is primarily financed (90.6% of total revenues in 2022) through a payroll tax applied to Social Security–covered earnings up to an annual limit. Some beneficiaries pay income tax on a portion of their Social Security benefits (4.0% of total revenue in 2022). From 1983 to 2009, the OASDI program collected more in tax revenues than needed to pay benefits. Excess revenues are held in interest-bearing U.S. Treasury securities, providing a third source of funding for the program (5.4% of total revenues in 2022). Monthly benefits are the largest OASDI program cost (99.0% of total costs in 2022). Administrative and other costs accounted for the remainder.

The Trust Funds

Both the OASI and DI programs use a trust fund financing mechanism. Monies credited to these trust funds are earmarked for paying Social Security benefits and certain administrative costs. Using a trust fund allows OASI and DI programs to track their respective programs' revenues and costs and to hold any accumulated assets from years when revenues exceed costs. The OASI Trust Fund and DI Trust Fund are legally distinct entities. They are discussed here collectively as the OASDI trust funds.

A Board of Trustees manages the trust funds. The trustees' annual reports to Congress on the trust funds' status and financial operations include short-range (10-year) and long-range (75-year) projections. In general, the trust funds' *solvency*—the ability to pay full benefits scheduled under current law on a timely basis—indicates their status. If assets held in the trust funds were to be depleted, the OASDI program could pay out in benefits only what it receives in revenues. **Table 1** shows the trust funds' key dates under the trustees' intermediate assumptions, which reflect their best estimate of future experience.

Table 1. Key Dates Projected for the Social Security Trust Funds in the 2022 and 2023 Trustees Reports

(Under the Trustees' Intermediate Assumptions)

	2022 Report			2023 Report		
	OASI	DI	OASDI	OASI	DI	OASDI
Cost exceeds tax revenues	2010	2044	2010	2010	2044	2010
Cost exceeds total revenues	2021	2090	2021	2021	>2097	2021
Trust fund reserves depleted	2034	>2096	2035	2033	>2097	2034

Source: CRS, based on the 2022 and 2023 OASDI trustees report.

In the 2023 report, the trustees project a date of 2033 for OASI trust fund reserve depletion. The DI trust fund is not projected to become depleted in the 75-year projection period. As stated, "the DI program continued to have low levels of disability applications and benefit awards for 2022. Disability applications have declined substantially since 2010, and the total number of disabled-worker beneficiaries in current payment status has been falling since 2014." Prior to the 2023 report, the 2022 report was the first since 1983 in which the DI trust fund was not projected to become depleted inside the 75-year projection period.

In the previous year's (2022) report, as shown in **Table 2**, the trustees projected that the trust funds' overall balance (i.e., the total amount of accumulated asset reserves) would decrease. Asset reserves held in the trust funds decreased less than expected during 2022 owing to larger-than-projected revenues relative to larger-than-projected costs.

Table 2. Financial Operations for the Social Security Trust Funds in the 2022 and 2023 Trustees Reports

(In Billions; Under the Trustees' Intermediate Assumptions)

	2022 (projected)	**2022** (actual)	**2023** (projected)
Starting trust funds' reserves	$2,852.0	$2,852.0	$2,829.9
Total revenue	1,195.8	1,221.8	1,334.7
Total costs	1,242.7	1,243.9	1,387.9
Change in trust funds' reserves	-46.8	-22.1	-53.2
Ending trust funds' reserves	2,805.2	2,829.9	2,776.7

Source: CRS, based on the 2022 and 2023 OASDI trustees report.

Since 2010, total costs (i.e., scheduled benefits) have exceeded noninterest revenue (i.e., tax revenues). In 2022, total costs exceeded total revenues (i.e., tax revenues and interest revenue). The same projection is made in the 2023 report (**Table 1**). If this projection were to be realized, the trust fund asset reserves would continue to decrease. As such, trust fund asset reserves are predicted to decline from their peak value of $2.91 trillion in 2021 to $0 in 2034. Upon the trust funds' asset reserves depletion, the trustees project that income from tax revenues would be sufficient to pay approximately 80% of scheduled benefits in 2034 and decrease to 74% by 2097.

Projected Long-Range Financial Outlook

The 2023 report projects a long-range funding shortfall. The funding shortfall is largely a result of rising costs over the 75-year projection period, primarily due to demographic trends. The ratio of OASDI beneficiaries per 100 covered workers, a common indicator of rising costs, is projected to remain relatively the same as that in the 2022 annual report. The 2022 report projected an average of 45.4 beneficiaries per 100 covered workers over the 75-year projection; the 2023 report projects this ratio to be 45.5 beneficiaries per 100 covered workers. Consistent projections in the ratio of beneficiaries to workers (i.e., future age distribution) suggests program costs are projected to grow faster than program revenues. In 2022, the trustees estimated that costs would exceed revenues by 22.0% over the projection period. In 2023, the trustees estimate that costs will exceed revenues by 22.7% over the next 75 years.

If the total program revenues were to exceed total costs annually, the program would have a *surplus*; if the total program costs were to exceed the total revenues, the program would have a *deficit*. The trustees project the program to have a deficit in 2023—just as in 2021 and 2022—and for all remaining years in the 75-year projection period.

The actuarial balance, a summarized measure of the annual surpluses and deficits over the projection period, is one measure of the Social Security program's long-range financial position. When the actuarial balance results in higher costs than revenues over the projection period, the program is described as having an *actuarial deficit*. In 2022, the trustees estimated the long-range actuarial deficit over the next 75 years to average 3.42% of *taxable payroll* (i.e., total earnings subject to the OASDI payroll tax with some adjustments). In 2023, the trustees estimated the long-range actuarial deficit over the next 75 years to average 3.61% of taxable payroll. This amount represents the average increase in the payroll tax over the 75-year projection period that would be needed for the program to pay full scheduled benefits on time.

The change in the estimated actuarial deficit, a decrease of 0.19% of taxable payroll, is mainly attributable to a change in the assumptions for the levels of productivity and Gross Domestic Product (GDP) in the near term period. The trustees state: "For this year's report, the Trustees assume that the level of potential GDP was about 0.9 percent lower than the level estimated in last year's report for 2020, widening to about 3.0 percent lower by 2026 and for all years thereafter. This shift was made as the Trustees lowered the levels of GDP and total economy labor productivity in response to recent economic developments, including higher-than-expected inflation rates and lower-than-expected output growth." As in previous years, a shifting of the 75-year valuation period—from 2022-2096 to 2023-2097—means that a large negative annual balance for 2097 is now included in the actuarial balance.

Annual Balances

In the 2023 report, the trustees project the annual balances (i.e., difference between revenues and costs on an annual basis) to reflect a higher deficit for all years from 2024 through 2097. That is, for all years after 2023, the trustees project larger annual cash-flow deficits than were projected in last year's report.

COVID-19 and International Events

The 2023 report acknowledged the lack of consensus on the lasting effects of the COVID-19 pandemic on the program's long-term trends. However, although the trustees do not foresee changes in long-term ultimate assumptions, "the Trustees assume that the pandemic and other evolving international events, like the war in Ukraine, will have consequential effects on the future structure of the economy and the level of productivity."

What Can Be Done?

The trustees project that in 11 years Social Security will be unable to pay scheduled benefits in full and on time. To illustrate the magnitude of changes needed to make Social Security solvent over the next 75 years, the trustees estimate the hypothetical payroll tax increase *or* hypothetical benefit reduction needed to maintain solvency (**Table 3**). These hypothetical changes would take immediate effect and apply to all *current* and *future* beneficiaries. The table also shows estimates for changes that would be needed at the projected 2034 insolvency date.

Table 3. Hypothetical Measures to Maintain Solvency

	2022 Report		2023 Report	
	2022	2035	2023	2034
Payroll tax increase (in percentage points [pp])	3.24 pp	4.07 pp	3.44 pp	4.15 pp
Scheduled benefit reduction	20%	25%	21%	25%

Source: CRS, based on the 2022 and 2023 OASDI trustees report.

In the 2023 report, the size of the payroll tax increase and benefit reduction needed to maintain solvency are larger than estimated in 2022. A noted parallel to last year's report is that as time elapses, the magnitude of the changes needed to maintain Social Security solvency increases. This characteristic is attributable to the program's rising costs and suggests that the portfolio of legislative options to achieve solvency decreases as the trust funds approach the projected depletion date. As in many previous reports, the trustees state, "Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits."

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