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TESTIMONY

Statement of

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Before

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Hearing on

"The Social Security Trust Funds in 2024 and Beyond"

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Chairman Ferguson, Ranking Member Larson, and Members of the Subcommittee:

Thank you for inviting me to testify on *The Social Security Trust Funds in 2024 and Beyond*. My name is Barry Huston, and I am an analyst in social policy with the Congressional Research Service (CRS).

Background on Social Security

Old-Age, Survivors, and Disability Insurance (OASDI), or Social Security, is a federal social insurance program that provides monthly cash benefits to eligible retired or disabled workers and their dependents, and to the eligible survivors of deceased insured workers.[1] The program—authorized under Title II of the Social Security Act and administered by the Social Security Administration (SSA)—protects workers and their family members against a loss of income due to old-age, disability, and death.

For two primary reasons, Social Security is commonly referred to as the federal government's largest program. First, it is estimated that in 2024 about 182 million workers (about 94% of the workforce) will work in Social Security-covered employment.[2] Second, in 2024 Social Security will pay benefits to over 67 million beneficiaries, the largest subgroup of beneficiaries being retired workers (over 75% of all beneficiaries).[3] Social Security is estimated to collect about $1.26 trillion in payroll taxes and pay about $1.47 trillion in scheduled benefits in 2024.[4]

Workers obtain insurance protection by earning of *quarters of coverage* (or credits) during their careers in employment covered by Social Security.[5] The amount needed to earn a credit generally increases annually with growth in average wages in the national economy as measured by SSA's *Average Wage Index* (AWI)—a measure of all workers' wages subject to federal income taxes and contributions to deferred compensation plans.[6] While in covered employment, a worker's earnings are subject to the Social Security payroll tax. The payroll tax is levied on the earnings of covered workers up to an annual limit commonly referred to as the *taxable maximum* or *contribution and benefit base*.[7] The taxable maximum is also indexed to the AWI, so it also generally increases annually by average wage growth.

Initial monthly benefits are computed using a progressive formula and are based on a worker's wage-indexed career-average earnings in covered employment. Workers can collect their full initial monthly benefit at the *full retirement age* (FRA). The FRA is 67 for all workers born in 1960 or later. Workers can collect a reduced monthly benefit at the *earliest eligibility age* (EEA) of 62. Conversely, workers can delay benefit collection after age 67 (up to age 70) and receive an increased initial monthly benefit. After the first year of eligibility, monthly benefits are adjusted for inflation through annual *cost-of-living adjustments* (COLAs).

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[1] For more information, see CRS Report R42035, *Social Security Primer*.

[2] Social Security Administration (SSA), Office of the Chief Actuary (OCACT), *Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program*, January 29, 2024, https://www.ssa.gov/oact/FACTS/index.html.

[3] SSA, "Monthly Statistical Snapshot, April 2024," released in May 2024, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/.

[4] *The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, May 6, 2024, at https://www.ssa.gov/OACT/TR/2024/tr2024.pdf (hereinafter cited as 2024 Annual Report), intermediate assumptions in Table IV.A3, p. 50. As shown in the table, *total* revenues and *total* costs are larger because total revenues also include income from taxation of benefits and interest income while total costs also include administrative costs and transfers to the financial interchange for railroad retirement benefits.

[5] Among other requirements, a worker generally needs 40 credits (10 years of covered employment) to be eligible for retired-worker benefits. Fewer credits are needed to qualify for a disabled-worker benefit if the worker is under age 62. The number of credits needed varies depending on the age of the worker when he or she becomes disabled.

[6] As such, it is calculated using some wages that are not subject to the Social Security payroll tax.

[7] The contribution and benefit base (CBB) links the payroll taxes paid by a worker and his or her future benefits.

Social Security Finances

Social Security revenues and costs are accounted for in two separate trust funds authorized under Title II of the Social Security Act: (1) the Federal Old-Age and Survivors Insurance (OASI) Trust Fund and (2) the Federal Disability Insurance (DI) Trust Fund.[8] A Board of Trustees manages the trust funds and issues an annual report to Congress on the financial operations and projected financial status of the two trust funds.[9] The trustees released *The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (hereafter referred to as the 2024 Annual Report) on May 6, 2024, which provides the projected financial status for trust funds for a 75-year projection period (2024-2098). Under current law, the two trust funds are legally distinct and cannot borrow from each other. The annual reports provide information on the status of the separate trust funds and on a hypothetical combined basis.[10] This statement discusses the trustees' intermediate projections for the combined (i.e., OASDI) trust funds from the 2024 Annual Report.[11]

Trust Fund Revenues

Social Security has three sources of revenue: the Social Security payroll tax, income from the taxation of Social Security benefits, and interest income on assets held in the trust funds. In 2023, the Social Security program had total revenues of $1.35 trillion. The projected total revenues are expected to increase in aggregate nominal dollars over the next 10 years from $1.38 trillion in 2024 to $2.03 trillion in 2033.[12]

Payroll Taxes

A payroll tax of 12.4% (6.2% for employees and employers, each) is levied on Social Security-covered earnings up to an annual limit (i.e., contribution and benefit base or taxable maximum). In 2023, payroll taxes were the largest source of revenue for the program ($1.23 trillion or 91.3% of total revenues).

In 2024, the taxable maximum (or contribution and benefit base)—the maximum annual amount of earnings subject to the Social Security payroll tax and that can be used in calculating benefits—increased to $168,600 (from $160,200 in 2023).[13] The taxable maximum generally rises at the same rate as average wages in the economy using the SSA's AWI.[14] Because the taxable maximum is indexed to the AWI, the share of covered workers with earnings below the taxable maximum has remained relatively stable at

[8] 42 U.S.C. §401.

[9] The Board of Trustees is composed of three officers of the President's Cabinet (Secretary of the Treasury, Secretary of Labor, and Secretary of Health and Human Services), the Commissioner of Social Security, and two public representatives who are appointed by the President and subject to confirmation by the Senate. The two public trustee positions are currently vacant.

[10] That is, were one trust fund to become depleted—as the OASI trust fund is projected to be in 2033—the combined OASDI trust fund assumes a change in law that would permit transfers between funds as needed. (The 2024 Annual Report, p. 3)

[11] Annual reports include three sets of assumptions for demographic, economic, and program-specific factors. The low-cost set of assumptions represents a future experience that is the most advantageous to the program's financial status. The high-cost set of assumptions represents a future experience that is the least advantageous to the program's financial status. As the trustees state: "These alternatives are not intended to suggest that all parameters would be likely to differ from the intermediate values in the specified directions, but are intended to illustrate the effect of clearly defined scenarios that are, on balance, very favorable or unfavorable for the program's financial status." In actual experience, it is unlikely that all demographic, economic, and program-specific factors move in a manner that is either favorable or unfavorable to the program's financial status. Thus, the trustees use the intermediate set of assumptions to illustrate their best guess as to the future experience (2024 Annual Report, p. 20).

[12] The 2024 Annual Report, intermediate assumptions in Table IV.A3.

[13] SSA, OCACT, "Contribution And Benefit Base," https://www.ssa.gov/oact/cola/cbb.html.

[14] 42 U.S.C. §430(b). The automatic indexation of the CBB was established in the 1972 Amendment to the Social Security Act (P.L. 92-336), while the current-law formula for determining the CBB was established by the Social Security Independence and Program Improvements Act of 1994 (P.L. 103-296), which set the formula for the CBB in years after 1994. While the CBB can remain the same as the previous year, it is protected from decreasing.

about 94% since the 1980s. Similarly, the share of covered workers with some earnings above the taxable maximum has remained relatively stable at approximately 6%. However, from 1983 to 2020, the percentage of aggregate covered earnings subject to the payroll tax has decreased from 89.6% to 82.1%.[15] The trustees state, "The decline was related to several factors that increased the concentration of earnings among the very high earners compared to all other earners."[16]

In aggregate nominal dollars, projected revenues from payroll taxes are expected to increase. This reflects a projected increase in the number of covered workers and the projected increase in the taxable maximum (i.e., total earnings subject to the payroll tax), in addition to other factors.[17] The projected revenues from payroll taxes are projected to increase year-to-year from $1.26 trillion in 2024 to $1.87 trillion in 2033.[18]

Taxation of Benefits

Beginning in 1984, up to 50% of Social Security benefits became subject to federal income tax for beneficiaries whose provisional income exceeds $25,000 and couples whose provisional income exceeds $32,000.[19] The proceeds from taxing up to 50% of Social Security benefits are credited to the trust funds. Beginning in 1994, if provisional income exceeded $34,000 for single-filing beneficiaries and $44,000 for couples, up to 85% of Social Security benefits became taxable. Proceeds from any tax on more than 50% of a taxpayer's benefits are credited to Medicare's Hospital Insurance trust fund.[20]

The two sets of thresholds mentioned above are fixed in law. That is, unlike the taxable maximum, they are not indexed. Because the thresholds are fixed, this share is expected to increase as overall economy-wide wages and monthly benefit amounts increase.[21] Recent projections suggest that more than half of Social Security beneficiaries will be subject to federal income taxes on a portion of their Social Security benefits each year between now and 2050.[22]

In 2023, taxation of Social Security benefits contributed $50.7 billion to the program's revenue (3.8% of total revenues).[23] Given a projected increase in the number of beneficiaries, and the projected increase in benefits, the projected revenues from the taxation of benefits are expected to increase in aggregate nominal dollars.[24] The projected revenues from the taxation of benefits are projected to increase year-to-year from $57.4 billion in 2024 to $132.8 billion in 2033.[25]

Interest Income

The trust funds provide a means for Social Security to hold its accumulated assets. From 1983 through 2009, Social Security operated with a *cash surplus* (i.e., tax revenues exceeded costs).[26] Each of those

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[15] Office of the Chief Actuary, *The Long-Range Economic Assumptions for the 2024 Trustees Report*, May 6, 2024, Table 6.2, https://www.ssa.gov/OACT/TR/2024/2024_Long-Range_Economic_Assumptions.pdf (hereinafter cited as 2024 Economic Assumptions).

[16] Ibid., p. 80.

[17] The 2024 Annual Report, Tables IV.B3 and V.C1.

[18] The 2024 Annual Report, intermediate assumptions in Table IV.A3.

[19] Provisional income equals adjusted gross income plus certain otherwise tax-exempt income, including half of Social Security benefits.

[20] The 2024 Annual Report, p. 153.

[21] Patrick J. Purcell, "Income Taxes on Social Security Benefits," SSA, Issue Paper no. 2015-02, December 2015, chart 1, at https://www.ssa.gov/policy/docs/issuepapers/ip2015-02.html.

[22] Ibid.

[23] The 2024 Annual Report, Table IV.A3.

[24] The 2024 Annual Report, Tables IV.B3 and V.C7.

[25] The 2024 Annual Report, intermediate assumptions in Table IV.A3.

[26] See https://www.ssa.gov/OACT/STATS/table4a3.html.

year's cash surpluses were invested in government securities—as required by law—and earned interest.[27] Earned interest was credited to the trust funds, their third source of revenue.

Since 2010, Social Security has operated with *cash deficits* (i.e., costs exceeded tax revenues).[28] Under the intermediate assumptions, the trustees project cash deficits for the remainder of the 75-year projection period.[29] However, from 2010 through 2020, Social Security operated with *annual surpluses* (i.e., total revenue exceeded costs). That is, interest income *plus* tax revenues exceeded costs.

Starting in 2021, Social Security has been operating with *annual deficits* (i.e., total costs exceed total revenue). Said differently, tax revenues and interest together would not have been able to pay scheduled benefits. Thus, since 2021, Social Security has redeemed asset reserves held in the trust funds in order to pay scheduled benefits. Under the intermediate assumptions, the trustees project continuing and increasing annual deficits that would require increasing amounts of asset reserve redemption.

As the combined trust fund balance decreases each year, the amount of interest earned on the balance is projected to become successively smaller each year as well. In 2023, interest income contributed $66.9 billion (5.0% of total revenues). In aggregate nominal dollars, interest income is projected to decrease year-to-year from $68.6 billion in 2024 to $29.2 billion in 2033.[30] Under the intermediate assumptions, the trustees project a positive combined trust fund balance until sometime in 2035.[31]

Trust Fund Costs

Social Security has three main costs: monthly benefit payments, administrative expenses,[32] and the Railroad Retirement financial interchange.[33] Administrative expenses and the financial interchange typically account for about 1% of program costs on an annual basis.[34] Thus, this discussion of trust fund costs focuses on monthly benefits, which account for about 99% of costs on an annual basis.

Monthly Benefits

In 2023, payment of scheduled monthly benefits totaled $1.38 trillion (or 99.1% of total costs). In aggregate nominal dollars, the projected cost of scheduled benefits is projected to increase year-to-year from $1.47 trillion in 2024 to $2.34 trillion in 2033. The cost of total monthly benefits is expected to increase for several reasons, such as increasing average initial benefits on a per beneficiary basis, an increase in the number of beneficiaries, and an increase in beneficiary longevity.

Average Initial Benefits

The 2024 Annual Report states "...new beneficiaries tend to have higher monthly benefit amounts than previous beneficiary cohorts, because their initial benefits are based on average wages, which tend to rise

[27] 42 U.S.C. §401(d).

[28] See "Income Components" and "Cost Components" at https://www.ssa.gov/OACT/ProgData/tsOps.html.

[29] The 2024 Annual Report, p. 3.

[30] The 2024 Annual Report, Table IV.A3.

[31] The 2024 Annual Report, p. 3.

[32] The program's administrative expenses are expenses incurred by the SSA and Department of Treasury for administering the program and provisions of the Internal Revenue Code (The 2024 Annual Report, p. 240). Administrative expenses are paid from the trust funds. Nearly all of SSA's administrative expenses are funded by appropriations to its limitation on administrative expenses (LAE) account, and almost all of the funding for the LAE account is provided each year as part of the annual appropriations process. For more information, see CRS Report R47746, *Social Security Administration (SSA): FY2024 Annual Limitation on Administrative Expenses (LAE) Appropriation: In Brief*.

[33] The purpose of the financial interchange is to place the Social Security trust funds in the same position they would have been in if railroad employment had been covered under Social Security since that program's inception. For more information, see CRS Report RS22350, *Railroad Retirement Board: Retirement, Survivor, Disability, Unemployment, and Sickness Benefits*.

[34] See "Cost Components" at https://www.ssa.gov/OACT/ProgData/tsOps.html.

faster than the cost of living."[35] The three-step benefit computation process, described below, is the same for all workers.[36] The process uses parameters indexed to wage growth that are likely different for each birth cohort. In general, positive wage growth has resulted in increasing average initial benefits.

The first step of the benefit computation process computes a worker's average indexed monthly earnings, or AIME. A worker's career of covered earnings is converted into current dollar values for the year the worker turns 60 (two years prior to the EEA) using the SSA's AWI. Any earnings after the age of 60 are added at nominal value without indexing. Because of differences in wage growth, two workers with identical nominal earnings at each age, but born in different years, will likely have different wage-indexed earnings. Assuming positive wage growth in the national economy, a younger worker would have higher wage-indexed earnings than an older worker with identical nominal earnings at each age. Once a worker's past earnings are indexed, the highest 35 years of indexed earnings are summed and divided by 420 (the number of months in 35 years) to yield an average monthly measure of indexed earnings, or AIME.[37]

The second step of the benefit computation process applies a progressive benefit formula to the worker's AIME. The progressive benefit formula replaces a larger share of earnings of low-wage workers compared with high-wage workers. The formula separates a worker's AIME into three brackets, or segments, using two bend points. Each bracket of a worker's AIME is multiplied by a fixed replacement factor. Specifically, the segment of a worker's AIME up to the first bend point is multiplied by 90%, the segment of a worker's AIME between the two bend points is multiplied by 32%, and the segment of a worker's AIME—if any—above the second bend point is multiplied by 15%. The sum of these three products is the worker's primary insurance amount, or PIA. The bend points used in the progressive formula are indexed to average wages (i.e., SSA's AWI), therefore, they generally increase each year.[38] Similar to the wage index, no two birth cohorts are likely to have the same bend points. So, two workers with identical AIMEs, but born in different years, will likely have different PIAs. Assuming positive wage growth in the national economy, the younger worker would likely have the higher PIA than the older worker with an identical AIME. The PIA represents a worker's basic benefit before any adjustments.

The third step of the benefit computation process applies adjustments to a worker's PIA. Two common adjustments are COLAs and adjustments for claiming age.[39] COLAs—which maintain the purchasing power of benefits—are payable after the first year of benefit eligibility. Adjustments for claiming age are intended to provide a beneficiary with the same total lifetime benefits, on average, regardless of claiming age. Workers claiming before FRA will receive a reduced monthly benefit to account for the longer expected period of benefit collection, whereas workers claiming after FRA (up to age 70) will receive an increased monthly benefit to account for the shorter expected period of benefit collection, on average.

The wage index series (used in step one of benefit calculations) and the bend points (used in step two of benefit calculations) are adjusted annually for wage growth in the overall economy as measured by SSA's AWI. Typically, overall economy-wide

Average Wage Index

The 2022 AWI was calculated by taking the annual economy-wide aggregate wages (including contributions to deferred compensation plans) of $10,531,745 million and dividing it by the number of workers, 172,031 thousand, to yield a per capita value of raw earnings of $61,220.07.[40] The 2022 per capita raw earnings were divided by the 2021 per capita raw earnings of $58,129.99, showing a percentage change in per capita raw earnings of 5.32%. Lastly, this percentage change was applied to the 2021 AWI of $60,575.07 to yield the 2022 AWI value of $63,795.13.[41]

[35] The 2024 Annual Report, p. 32.

[36] For examples of benefit calculations, see CRS Report R46658, *Social Security: Benefit Calculation*.

[40] For raw data, see https://www.ssa.gov/OACT/COLA/awidevelop.html.

(continued...)

earnings increase over time.[42] Although the benefit computation process is the same for all workers, the effects of wage-indexed parameters generally result in increasing average initial benefits.

The AWI increased by 5.32% in 2022. Under the intermediate assumptions, the trustees project continuing growth in the AWI, albeit at a relatively lower rate. In the 2024 Annual Report, the intermediate assumptions project that AWI will grow at an average annual rate of 4.16% over the next 10-year period.[44] This assumption, combined with the benefit calculation process, contributed to the growth in average initial benefits on a per beneficiary basis. This relationship will also contribute to an increase in cost, in nominal aggregate dollars, when considering the increasing number of beneficiaries and their time in current-payment status (i.e., increasing longevity).

Average Benefits

Initial average benefits tend to increase with increases in average wages (i.e., AWI). If benefits are collected after age 62 (the EEA) they are also indexed to prices. Specifically, the initial monthly benefit is adjusted based on the COLA for the period from benefit eligibility to benefit receipt. In addition, benefits already in payment are adjusted annually based on the COLA. Thus, after the EEA, benefits also tend to increase with increases in average prices. For this reason, average initial benefits *and* average benefits increase over time.[43]

Although the benefit computation process results in increasing average initial benefits, it results in stable replacement rates (i.e., percent of a worker's indexed average earnings replaced by benefits). That is, the effects of wage-indexing ensure initial benefit levels—as a percentage of pre-retirement earnings—are consistent from one birth cohort to the next. In general, the benefit computation process results in:

- **Individual Equity.** Benefit amounts are correlated to the taxes paid by workers. That is, the more a worker has paid in payroll taxes, the higher his or her benefit (see **Figure 1**).
- **Progressivity.** Workers with relatively lower career average earnings experience a relatively higher replacement rate. That is, a lifetime *low* earner will have a higher replacement rate than a lifetime *high* earner (see **Figure 2**).
- **Stable Replacement Rates.** The percentage of pre-retirement earnings that is replaced by Social Security benefits—since the 1980s—has been relatively stable from one birth cohort to the next (see **Figure 2**).

[38] For any year after 1979, the formula states that the bend points are equal to the base—set for the bend points in 1979 (i.e., $180 and $1,085)—multiplied by the ratio of (1) the AWI for the year that is two years prior to the year for which the worker turns 62 to (2) the AWI for 1977. The result is rounded to the nearest dollar. For instance, the first bend point for those born in 1960, $1,024, is calculated by multiplying the first bend point in 1979 ($180) by the ratio of the 2020 AWI to the 1977 AWI (i.e., $55,628.60 to $9,779.44). The result, $1,023.90, is rounded to the nearest dollar: $1,024.

[39] Other benefit adjustments apply in certain situations such as the windfall elimination provision—which reduces benefits for workers who have pensions from employment that was not subject to the Social Security payroll tax—and the retirement earnings test—which results in a temporary withholding of monthly Social Security benefits paid to certain beneficiaries who are younger than FRA and have earnings above a certain level. For more information, see CRS Report 98-35, *Social Security: The Windfall Elimination Provision (WEP)* and CRS Report R41242, *Social Security Retirement Earnings Test: How Earnings Affect Benefits*.

[40] For raw data, see https://www.ssa.gov/OACT/COLA/awidevelop.html.

[41] SSA publishes the annual AWI calculation in the *Federal Register*. It typically takes about three calendar quarters for the SSA to collect the wage data and perform the necessary calculations. The AWI calculations for 2022 were published in the *Federal Register* on October 23, 2023. Social Security Administration, "Cost-of-Living and Other Determinations for 2024," 88 *Federal Register* 72803, October 23, 2023.

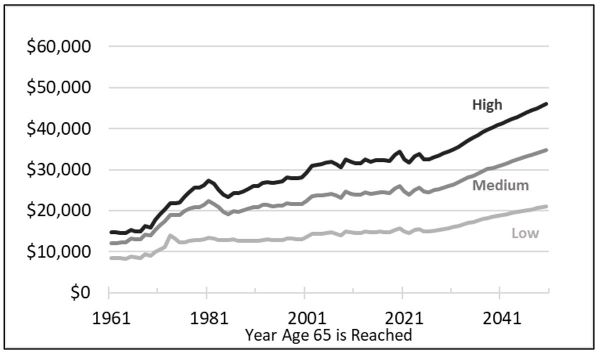
[42] Through 2022, the AWI has increased in all but one year (2009), see https://www.ssa.gov/OACT/COLA/awiseries.html.

[43] SSA, *Annual Statistical Supplement*, Table 5.B4.

[44] The 2024 Annual Report, Table V.C1.

Figure 1. Annual Scheduled Benefit Amounts for Retired Workers at 65

Indexed to 2024 Dollars Using the Consumer Price Index for Urban Wage Earners

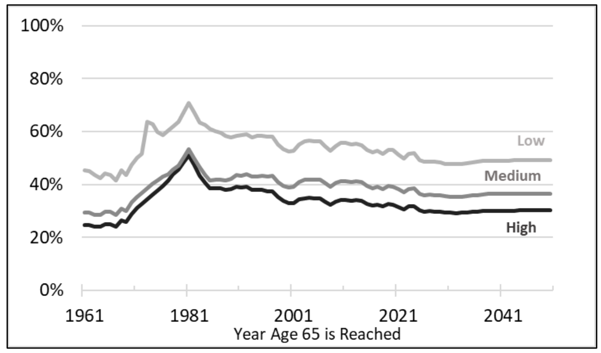


Source: The 2024 Annual Report, Table V.C7 and Supplemental Single-Year Table V.C7.

Notes: Hypothetical low, medium, and high earners are assumed to have career average earnings of 45%, 100%, and 160% of the AWI, respectively.

Figure 2. Scheduled Replacement Rates for Retired Workers at 65

Percent of Highest 35 Years of Indexed Average Earnings



Source: The 2024 Annual Report, Table V.C7 and Supplemental Single-Year Table V.C7.

Notes: Hypothetical low, medium, and high earners are assumed to have career average earnings of 45%, 100%, and 160% of the AWI, respectively.

Number of Beneficiaries

The number of beneficiaries is increasing and is projected to increase for several decades.[45] There are several reasons for the historical and projected future growth in the number of Social Security beneficiaries: (1) historical expansions in coverage of workers,[46] (2) creation of new Social Security benefits,[47] (3) increases in covered workers (i.e., baby-boomers),[48] and (4) increases in longevity. Said differently, there are more people eligible for benefits and they are expected to remain in current-payment status for a longer period of time, on average.

Figure 3 shows the historical number of Social Security beneficiaries in current-payment status, by year. As **Figure 3** shows, this number generally increased over time and is projected to increase each year under each of the trustees' sets of assumptions. A larger number of beneficiaries contributes directly to an increase in program cost in aggregate nominal dollars.

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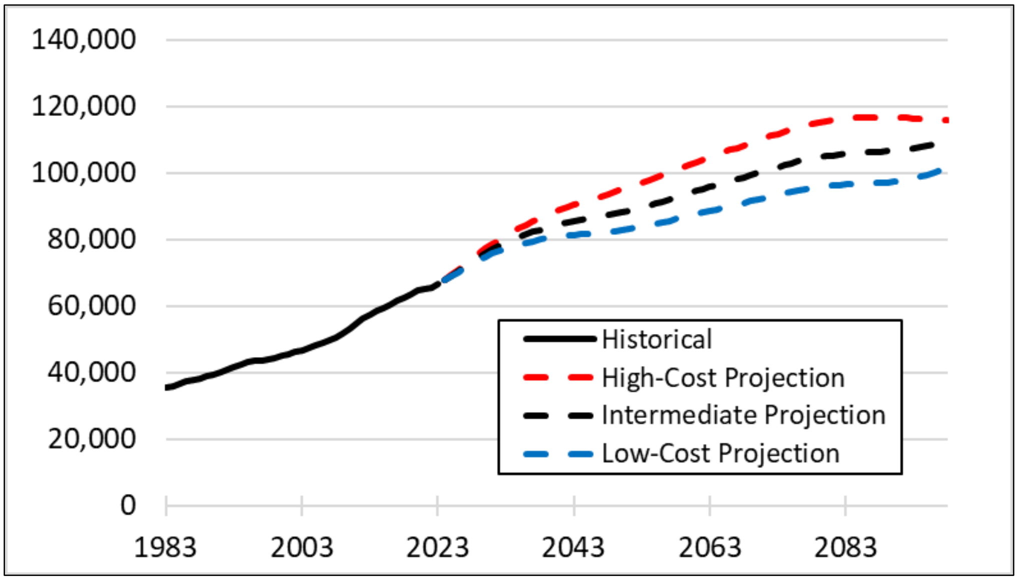
[45] The 2024 Annual Report, Table IV.B3.

[46] Initially, coverage under the program was limited to wage and salary workers in industry and commerce, which was about 56% of the workforce. The percentage increased in the 1950s to about 86% when coverage was extended to certain self-employed individuals, farm workers, and domestic workers. In 1983, coverage was extended to newly-hired federal civilian employees and employees of nonprofit organizations. In 2024, about 94% of workers will work in Social Security-covered employment. For more information, see CRS Testimony TE10083, *Social Security Fundamentals: A Fact-Based Foundation*.

[47] Over numerous efforts, lawmakers changed the focus of the program from single workers to families by passing legislation that extended benefits to certain dependent family members of insured workers. Additionally, Congress established Social Security Disability Insurance under the Social Security Amendments of 1956, see CRS Report RL30920, *Social Security: Major Decisions in the House and Senate Since 1935*

[48] "The steady growth in the number of OASI beneficiaries in the past and the expected future growth result both from the aging of the baby-boom generation and from the increase in the proportion of the baby-boom generation that is insured for benefits, relative to earlier lower-birth-rate generations." The 2024 Annual Report, p. 47.

Figure 3. Social Security Beneficiaries in Current-Payment Status
Historical (1983-2023) and Projected (2024-2098)



Source: The 2024 Annual Report, Table IV.B3.

Notes: Figure 3 begins in 1983. The Social Security Amendments of 1983, P.L. 98-21, are commonly considered the last major reforms to the program. The trustees' three projections are shown: (1) intermediate projections reflect the trustees' best estimate as to the future experience, (2) low-cost projections represent a more optimistic scenario, and (3) the high-cost projections represent a more pessimistic scenario.

Longevity

More individuals covered by the Social Security program are surviving to retirement age, and once in retirement they are collecting benefits for a greater number of years than previous generations of beneficiaries. A main measure of life expectancy is period life expectancy: an individual's expected average remaining life at a selected age, assuming no future changes in death rates.[49] In 1945, shortly after Social Security began regular monthly payments, a 65-year-old female could expect to live another 14.4 years on average and a 65-year-old male could expect to live another 12.6 years.[50] In 2023, those life expectancies were estimated to be 20.5 years and 17.9 years, respectively.[51] In 2023, more of the population survived to the age at which they were eligible for Social Security benefits than in 1945. In addition, individuals reaching age 65 in 2023 exhibited longer period life expectancies than in 1945., The trustees project this trend to continue. For instance, in 2040, under the intermediate projections, a 65-year-old female could expect to live another 21.9 years on average and a 65-year-old male could expect to live another 19.4 years.[52] Thus, projected increases in longevity indicate that beneficiaries will remain in current-payment status for longer periods of time, directly contributing to an increase in program cost in aggregate nominal dollars.

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[49] Samuel H. Preston, Patrick Heuveline, and Michel Guillot, *Demography: Measuring and Modeling Population Processes* (Malden, MA: Blackwell Publishers, 2001), p. 42.

[50] The 2024 Annual Report, Table V.A4.

[51] Ibid.

[52] Ibid.

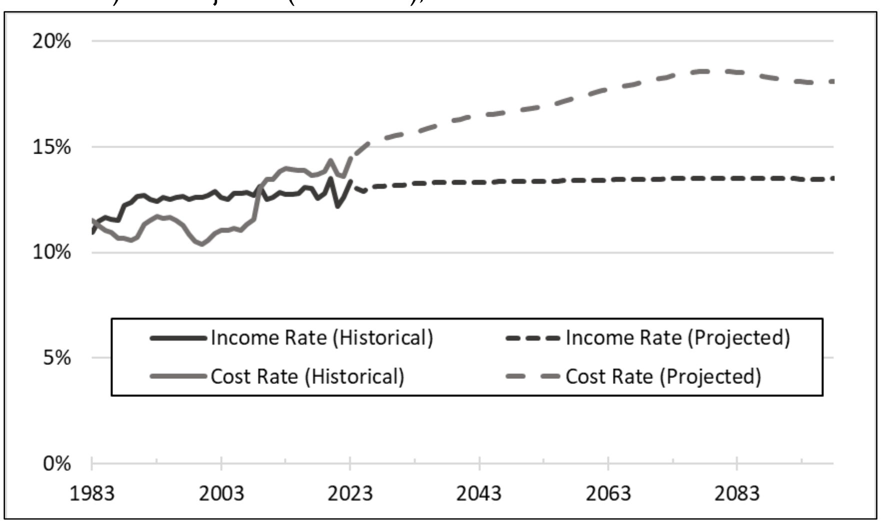
Revenues, Costs, and Policy Considerations

As discussed, the program's total revenue and total cost are expected to increase in aggregate nominal dollars. Given how the program is expected to change over the 75-year projection period—in terms of the number of workers, the proportion of earnings subject to the payroll tax, price growth, and wage growth—a common practice is to compare the programs' revenues and costs as a rate of taxable payroll.[53] As the program grows—in terms of number of covered workers (i.e., revenue) and number of beneficiaries (i.e., cost)—this practice provides a means to compare revenues and cost in a standardized manner. **Figure 4** displays this standardization with the income (i.e., non-interest revenues) and cost displayed as a percentage of taxable payroll.

Figure 4 shows the projected income rate is relatively stable (flat) over the projection period at just over 13%. Since the income rates are expressed as a percentage of taxable payroll, and the combined Social Security payroll tax is fixed under current law at 12.4% of taxable (i.e., covered) earnings, any remaining variation is caused by assumptions in the income from the taxation of benefits, which is a relatively small portion of revenue.[54] The cost rate, which has been higher than the income rate since 2010, is projected to rise rapidly through 2040 because of demographic factors, then rise more gradually through 2080 before declining somewhat afterwards.[55] The trustees' project that costs will to continue to exceed total non-interest revenue (income) indefinitely. That is, the program will continue to experience annual deficits.[56]

Figure 4. Social Security Tax Revenues and Cost as a Percentage of Taxable Payroll

Historical (1983-2023) and Projected (2024-2098), on a Combined Basis under Intermediate Projections



Source: The 2024 Annual Report, Table IV.B1 and supplemental single-year Table IV.B1.

Notes: Income rate excludes interest income.

When Social Security is operating with annual deficits, as it has since 2021, the program relies in part on the asset reserves held in the trust funds to pay scheduled benefits. Under the intermediate assumptions in

[53] The 2024 Annual Report, pp. 224-225. Taxable payroll is the weighted sum of taxable wages and taxable self-employment income. When this sum is multiplied by the OASDI program payroll tax rate, it results in the total amount of payroll taxes. See the 2024 Annual Report, p. 254. While the number of covered workers is expected to increase, and price and wage growth expected to be positive, the proportion of earnings subject to the payroll tax is expected to be relative stable. From a 2022 proportion of 82.1%, the trustees expect this to increase to 82.5% by 2033 and remain constant thereafter (2024 Economic Assumptions, Section 6.3).

[54] The 2024 Annual Report, p. 60.

[55] The 2024 Annual Report, p. 13.

[56] Ibid.

the 2024 Annual Report, the trustees project that the asset reserves of the hypothetical combined trust fund will be depleted sometime in 2035.[57] At the point of combined trust fund depletion, continuing revenues (i.e., payroll taxes and income from the taxation of benefits) are estimated to cover about 83% of scheduled payments. Because of the rising costs facing the system, relative to program revenues, the percent of scheduled benefits that could be supported by continuing revenues decreases through the projection period, falling to 73% by 2098.[58]

Under current law and intermediate projections, the trustees estimate that in 11 years the Social Security program will be unable to pay scheduled benefits in full and on time. To illustrate the magnitude of the changes needed to make Social Security solvent over the next 75 years, the trustees estimate the hypothetical immediate payroll tax increase (3.33 percentage points) or hypothetical immediate benefit reduction (21%) needed to eliminate the projected financial shortfall.[59] The projected rising costs, relative to revenues, indicate that were current law to change in the projected year of asset reserve depletion (2035), the hypothetical changes would increase in magnitude. In 2035, the trustees estimate a 4.02 percentage point increase in the payroll tax rate or a 25% reduction in benefits would eliminate the projected financial shortfall. The hypothetical scenarios described above illustrate that larger changes would be needed if action is deferred to 2035.[60] In practice, there are many more solvency-related measures available to lawmakers, including the combination of revenue-increasing and cost-reducing measures.[61]

For instance, the Social Security Amendments of 1983 (P.L. 98-21)—commonly considered the last major reform to the program—included measures that increased revenues (e.g., income from the taxation of benefits), reduced costs (e.g., increase of FRA), and expanded coverage (e.g., for newly hired federal employees), among many other provisions.[62] That said, the solvency-related issue facing lawmakers today is larger.[63] For this reason, the trustees recommend that "lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them. Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits."[64] Depending on what provisions may be included in future legislation, the effect of program changes may affect groups of workers and beneficiaries in different manners. Policy changes implemented sooner rather than later, in addition to requiring cost-reducing or revenue-increasing provisions that are smaller in magnitude, would allow current workers and beneficiaries more time to change behavior.

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[57] Under intermediate assumptions, on an individual trust fund basis, the OASI trust fund is projected to be depleted in 2033 whereas the DI trust fund is not projected to be depleted during the 75-year projection period.

[58] The 2024 Annual Report, p. 14. At the projected point of OASI trust fund depletion in 2033, about 79% of benefits could be paid with the estimated continuing revenues.

[59] The 2024 Annual Report, p. 5.

[60] Table 3 in CRS Report R47924, *Social Security: Estimated Impact of Hypothetical Solvency Measures* displays how the magnitude of these hypothetical solvency measures has changed, generally increasing, over the 2014-2023 Annual Reports.

[61] For a list of many policy options, see https://www.ssa.gov/OACT/solvency/provisions/index.html.

[62] For a description of all provisions, see https://www.ssa.gov/policy/docs/ssb/v46n7/v46n7p3.pdf.

[63] The 75-year actuarial deficit in 1983 was 1.80 percent of taxable payroll (see footnote 62) versus a 75-year actuarial deficit for 2024 of 3.50 percent of taxable payroll. The 2024 Annual Report, p. 5.

[64] The 2024 Annual Report, p. 6.

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