



**TESTIMONY**

**Social Security's Finances**

**Phillip L. Swagel**  
**Director**

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Committee on Ways and Means  
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Chairman Ferguson, Ranking Member Larson, and Members of the Subcommittee, thank you for inviting me to testify about the Social Security program.

Social Security faces a significant financial challenge in the coming decade. Its two components, Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI), are financed by revenues from payroll taxes and income taxes on benefits that are credited to separate trust funds.

- In the Congressional Budget Office's projections, the OASI trust fund is exhausted in fiscal year 2032, and the DI trust fund is exhausted in 2050. If the two trust funds were combined, they would be exhausted in fiscal year 2033.
- Economic growth is a key source of uncertainty in these projections. If the economy grew faster than projected, annual revenues would be greater and the trust funds would be exhausted later than projected (or the opposite could occur).

CBO produces two main sets of long-term projections for Social Security, which differ in the concepts used to estimate benefits after the projected exhaustion of the trust funds:

- Scheduled benefits—benefit amounts are paid as scheduled under current law, regardless of whether balances in the program's trust funds are sufficient to cover those payments.
- Payable benefits—total benefit amounts are limited to annual revenues from payroll taxes and income taxes on benefits after the trust funds are exhausted.

In this testimony, I will discuss CBO's two sets of projections of Social Security's finances and the agency's underlying demographic projections.

### Scheduled Benefits

CBO's baseline budget projections for Social Security are required by statute to reflect scheduled benefits.<sup>1</sup> The agency projects that if Social Security benefits were paid as scheduled, the program's actuarial deficit over the next 75 years would equal 1.8 percent of gross domestic

product (GDP), or 5.2 percent of taxable payroll.<sup>2</sup> In other words, trust fund balances would be sufficient to pay scheduled benefits through 2097 if payroll tax rates were increased immediately and permanently by about 5.2 percentage points (before accounting for the effects of such changes on the economy). Such an increase would boost payroll taxes from 12.4 percent to 17.6 percent, a relative rise of 42 percent. Alternatively, a corresponding reduction in benefits of 38 percent would be sufficient to pay scheduled benefits. A combination of changes to taxes and benefits could also suffice.<sup>3</sup>

Such policies would not ensure Social Security's solvency after 2097. Although policies that increased taxes or reduced benefits by a constant percentage would create annual surpluses over roughly the next 25 years, they would result in growing annual deficits later.

CBO projects that if Social Security paid benefits as scheduled, spending on the program would increase from 5.2 percent of GDP in 2023 to 7.2 percent in 2097. In those projections, spending for Social Security increases rapidly in relation to GDP over the next decade as the large baby-boom generation retires. That growth then slows as members of that generation die, although spending continues to rise because of ongoing increases in life expectancy.

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1. Congressional Budget Office, *CBO Explains How It Develops the Budget Baseline* (April 2023), [www.cbo.gov/publication/58916](http://www.cbo.gov/publication/58916).

2. The actuarial balance is the sum of the present value of projected income and the current trust fund balance minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. (The present value expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid today.) The long-term projections summarized in this testimony are consistent with CBO's February 2023 budget projections for 2023 to 2033. For details about last year's long-term projections for Social Security, see Congressional Budget Office, *CBO's 2022 Long-Term Projections for Social Security* (December 2022), [www.cbo.gov/publication/58564](http://www.cbo.gov/publication/58564).

3. For a discussion of policy options to address the Social Security program's finances, see Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), [www.cbo.gov/publication/58164](http://www.cbo.gov/publication/58164); *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions* (December 2022), [www.cbo.gov/publication/58163](http://www.cbo.gov/publication/58163); "How Changing Social Security Could Affect Beneficiaries and the System's Finances" (interactive tool, April 2019), [www.cbo.gov/publication/54868](http://www.cbo.gov/publication/54868); and *Social Security Policy Options, 2015* (December 2015), [www.cbo.gov/publication/51011](http://www.cbo.gov/publication/51011).

Unlike outlays, revenues for Social Security remain stable in relation to the size of the economy, at around 4.6 percent of GDP from 2023 to 2097. Payroll tax revenues decrease slightly, and receipts from income taxes on Social Security benefits increase slightly, in CBO's projections. Those changes offset each other, so the amount of tax revenues credited to the trust funds remains roughly unchanged as a percentage of GDP.

CBO's projections of the amount by which Social Security's spending exceeds its revenues over the long term are subject to considerable uncertainty. In addition to economic growth, demographics are a key source of that uncertainty. If demographic trends differed from CBO's projections, the effects could be especially large in the later years of the projection period, in part because those effects would compound over time.

## Payable Benefits

Under current law, Social Security outlays are limited to amounts payable from annual revenues. After a trust fund's exhaustion, the Social Security Administration would no longer be able to pay full benefits when they are due. After the OASI trust fund's exhaustion in 2032, payable benefits would be 25 percent smaller than scheduled benefits for that component of Social Security, CBO projects. Although it is unclear how much payments to specific beneficiaries would be reduced if total benefits were limited to the amounts payable from dedicated funding, CBO estimated the amount of the total annual reduction in benefits that would be necessary for the OASI trust fund's outlays to match revenues after the fund was exhausted.<sup>4</sup>

The reductions in benefit amounts would have four important economic effects, in CBO's assessment—the first decreasing output and the others increasing it:

- Retirees' income would decrease, pushing down the overall demand for goods and services and causing output to be lower in the years immediately after exhaustion than CBO currently projects.
- Some people would work more hours per week, and some would work more weeks per year—perhaps by delaying their retirement. Both of those factors would increase the economy's output in the long term.

- Some workers who have not yet retired would respond to the prospect of smaller benefit payments by boosting their saving and reducing their spending. Those changes would lessen the effect that smaller future benefit payments would have on households' future income and spending. The resulting increases in saving would boost the stock of private capital and output.
- Federal debt would be lower than it is in CBO's projections—increasing the amount of money available for private investment in capital goods and services, boosting the stock of private capital, and making output greater than it would be otherwise.

In CBO's projections, about 78 million people (roughly one-fifth of the population) receive OASI benefits in 2032. If all of those people experienced the same percentage reduction in their benefits, CBO estimates that consumption would decrease more and lifetime hours of work would increase more for households with lower lifetime incomes than for those with higher lifetime incomes.

Because payable benefits are limited by the amount of revenues credited to Social Security's trust funds, the uncertainty of CBO's projections of the amounts of those benefits stems mainly from uncertainty about the economic growth that generates those revenues.

## Demographics

CBO's long-term projections for Social Security are based on a detailed microsimulation model that starts with data about individuals from a representative sample of the population and projects economic and demographic outcomes for that sample through time.<sup>5</sup> In CBO's projections, the share of people age 65 or older rises in most years of the projection period as growth of that group outpaces growth of younger age groups (see Figure 1).<sup>6</sup> In particular, the number of people in that older age group, who are less likely to work and to pay payroll taxes and who are generally eligible for Social Security benefits, grows faster than the number of people ages 25 to 54, who are more likely to work and to pay payroll taxes.

4. Barry F. Huston, *Social Security: What Would Happen If the Trust Funds Ran Out?* Report RL33514, version 34 (Congressional Research Service, September 28, 2022), <https://tinyurl.com/3v5t6a28>.

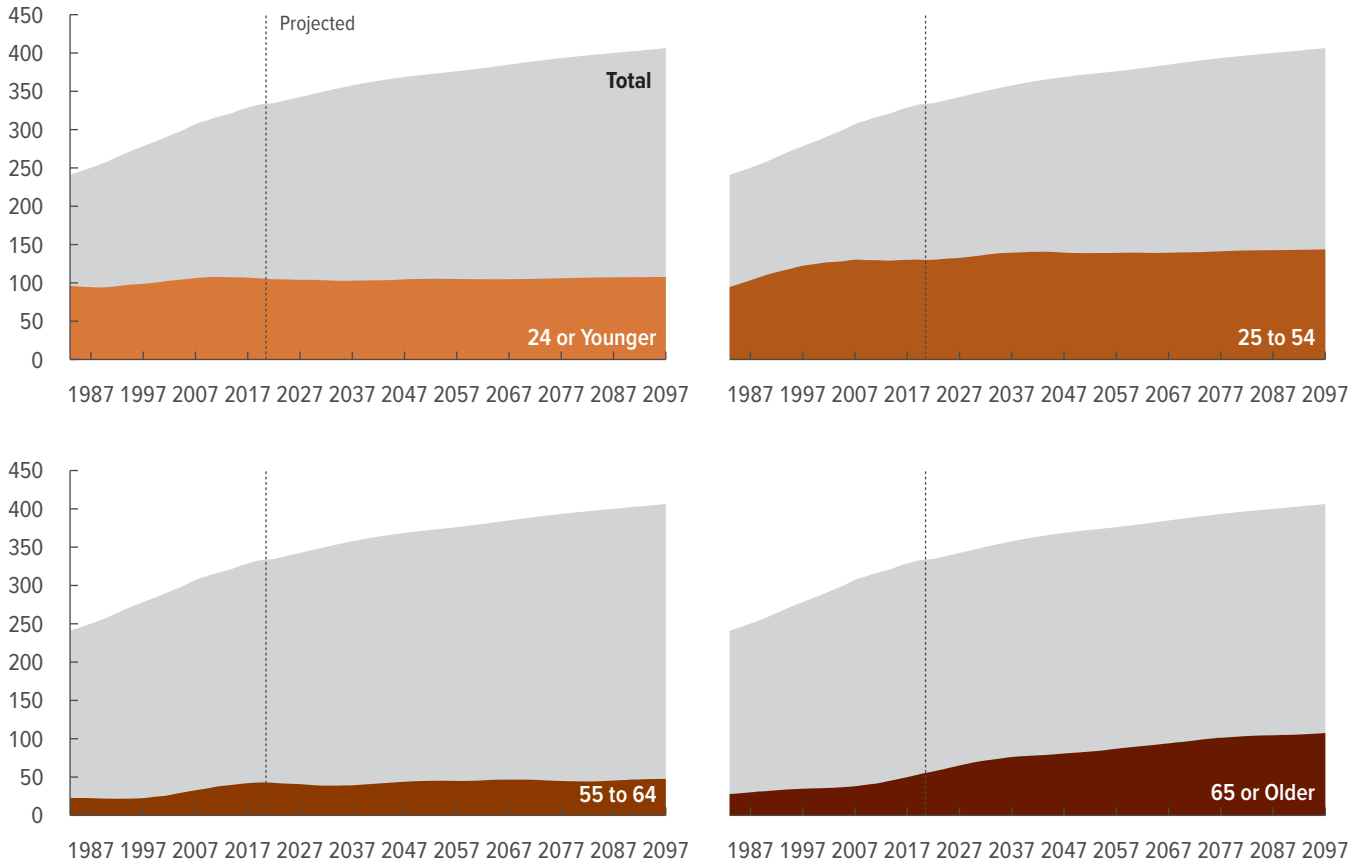
5. Congressional Budget Office, *An Overview of CBOLT: The Congressional Budget Office Long-Term Model* (April 2018), [www.cbo.gov/publication/53667](http://www.cbo.gov/publication/53667).

6. Congressional Budget Office, *The Demographic Outlook: 2023 to 2053* (January 2023), [www.cbo.gov/publication/58612](http://www.cbo.gov/publication/58612).

Figure 1.

## Population, by Age Group

Millions of People



Data source: Congressional Budget Office, using data from the Social Security Administration. See [www.cbo.gov/publication/59052#data](http://www.cbo.gov/publication/59052#data).

The population referred to in this figure is the Social Security area population, which includes all residents of the 50 states and of the District of Columbia, as well as civilian residents of U.S. territories. It also includes federal civilian employees and members of the U.S. armed forces living abroad and their dependents, U.S. citizens living abroad, and noncitizens living abroad who are eligible for Social Security benefits on the basis of their earnings while in the United States.

Population growth is determined by births, deaths, and net immigration. In CBO’s projections, fertility rates remain lower than the replacement rate (the fertility rate required for a generation to exactly replace itself in the absence of immigration), mortality rates generally continue to decline, and immigration becomes an increasingly important part of overall population growth.

### Fertility

CBO projects fertility on the basis of historical trends and other factors. For the 20 years before the 2007–2009 recession, the total fertility rate was 2.02 children per woman, on average. After peaking at 2.12 in 2007, the rate generally fell (largely because of lower fertility rates

among women age 24 or younger), reaching a low of 1.64 births per woman in 2020.

In CBO’s projections, the total fertility rate equals 1.67 births per woman in 2023 and then rises as fertility rates among women ages 30 to 49 increase. By 2030, the fertility rate is projected to be 1.75 births per woman and remains so through 2097. That rate is below the replacement rate of 2.1 births per woman. In CBO’s projections, fertility rates rise for women of relatively older childbearing ages and fall for women of relatively younger childbearing ages. That pattern is consistent with the trends of delayed childbearing and the rising average age of mothers.



Two key sources of uncertainty affect CBO's projections of fertility. First, if trends in fertility, such as the rising average age of mothers and delayed childbearing, differed from CBO's expectations, then the agency's projections of overall fertility rates and the age distribution of mothers would change. Second, significant uncertainty remains about the long-term effects of the coronavirus pandemic on fertility rates.

### Mortality

CBO projects mortality rates mainly on the basis of historical trends. In those projections, mortality rates decrease from 2020 to 2024 at roughly the same average rate as they did between 2010 and 2019—and life expectancy correspondingly increases. After 2024, mortality rates return to their longer-term trends, declining at the average pace experienced between 1950 and 2019. The agency also incorporated the effects of COVID-19 on mortality rates through 2043 by increasing those rates for older people, who are more likely to die from that illness.

As a net result, in CBO's projections, life expectancy at age 65 increases from 18.9 years in 2023 to 24.6 years in 2097 because projected mortality rates decline over that period.

The evolving effects of the pandemic on mortality rates are a significant source of uncertainty in CBO's projections of those rates. Changes in the total number of deaths from COVID-19 or the age composition of those deaths could affect outcomes significantly. Mortality rates in the long term are also uncertain because factors such as the evolution of medical technology and environmental conditions may have different effects in the future than they have had in the past.

### Net Immigration

For the first two decades of the projection period (from 2023 to 2043), CBO's estimates of net immigration (the number of people who enter the United States in a given year minus the number who leave in that year) are based on the agency's economic projections and assessment of recent trends in immigration. From 2044 to 2097, net immigration in a given year is projected to grow at roughly the same rate as projected overall population growth in the previous year—0.2 percent per year, on average.

In CBO's projections, annual net immigration to the United States averages 1.1 million people per year over the 2023–2097 period. Over that period, the net number of new lawful permanent residents averages 870,000 people per year; net immigration of legal temporary residents averages 80,000 people per year; and net immigration of foreign-born people without legal status averages 190,000 people per year.<sup>7</sup>

Several key factors contribute to the uncertainty of CBO's projections of net immigration. Changing conditions in immigrants' countries of origin, for example, could affect outcomes significantly.

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7. Lawful permanent residents are authorized to work, responsible for paying taxes, and eligible for Social Security benefits. Legal temporary residents are also eligible for Social Security benefits. Both of those types of residents must meet the eligibility requirements, such as those related to past earnings, to receive benefits. Foreign-born people without legal status are generally not eligible for Social Security benefits. People without legal status who are authorized to work in the United States—such as recipients of Deferred Action for Childhood Arrivals, people with Temporary Protected Status, and some asylum seekers—may be eligible for Social Security benefits. See Congressional Budget Office, *The Foreign-Born Population, the U.S. Economy, and the Federal Budget* (April 2023), [www.cbo.gov/publication/58939](http://www.cbo.gov/publication/58939).

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Mark Doms, Jeffrey Kling, and Robert Sunshine reviewed the testimony. Scott Craver edited it, and Jorge Salazar created the figure and prepared the text for publication. The testimony is available at [www.cbo.gov/publication/59052](http://www.cbo.gov/publication/59052).



Phillip L. Swagel  
Director

