Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

ANSWERS TO QUESTIONS FOR THE RECORD

Following a Hearing on

Social Security's Finances

Conducted by the
Committee on the Budget
United States Senate

September 26 | 2024

On September 11, 2024, the Senate Committee on the Budget convened a hearing at which Molly Dahl, Chief of Long-Term Analysis at the Congressional Budget Office, testified about the finances of the Social Security program.[1] *After the hearing, Chairman Sheldon Whitehouse and Ranking Member Chuck Grassley submitted questions for the record. This document provides CBO's answers. It is available at* www.cbo.gov/publication/60733.

Chairman Whitehouse's Question About Ways to Improve Social Security's Finances

Question. Dr. Dahl, in your oral remarks, you said that "scheduled benefits could be paid through 2098 if payroll tax rates were increased from 12.4% to 16.7%, a relative rise of 35%, CBO projects. Alternatively, a reduction in scheduled benefits of 24% would permit full payment of those smaller benefits through 2098."

Dr. Dahl, aren't those just two examples of how solvency could be extended? Could revenue also be raised by expanding the payroll tax base, such as by lifting the FICA taxable maximum, in order to extend the solvency of the trust fund?

Answer. Yes, those are two examples of how Social Security's finances could be improved. Reductions in outlays, increases in revenues, or a combination of such changes would strengthen Social Security's finances, as would transfers from the Treasury's general fund.[2]

Outlays could be reduced by raising the age at which workers become eligible for full retirement benefits, by using an alternative measure of inflation to adjust benefits for changes in the cost of living, by reducing benefits for people with high earnings, or by changing benefits in other ways.[3]

Revenues could be increased by applying the Social Security payroll tax to earnings greater than the maximum amount subject to that tax under current law ($168,600 in 2024), by raising the payroll tax rate, by increasing income taxes on benefits, by adding other sources of revenues, or by making some combination of such changes.

Ranking Member Grassley's Questions About the Gap Between Social Security's Outlays and Revenues and the Program's Effects on Federal Debt

Question. When the Budget Committee wants to know how much a bill costs or saves, it's supposed to ask the Congressional Budget Office. Has CBO analyzed the effect of S. 1174 on Social Security's finances?

Answer. CBO has not evaluated the effects of the Medicare and Social Security Fair Share Act (S. 1174) on the federal budget or the Social Security trust funds.

Question. Has CBO analyzed any legislative proposal that would extend the solvency of Social Security through the 75-year window just by increasing taxes on the so-called wealthy?

Answer. CBO has not analyzed a legislative proposal that would extend the solvency of Social Security through the 75-year projection period solely by increasing taxes on people with high earnings or large amounts of assets.

Question. What is the single biggest reason that the annual gap between Social Security's outlays and its dedicated tax revenues has grown since 1984?

Answer. From 1984 to 2009, revenues dedicated to the Social Security program exceeded spending for the program each year. Since 2010, the program has run an annual deficit, with spending exceeding dedicated revenues.

1. Testimony of Molly Dahl, Chief of Long-Term Analysis, Congressional Budget Office, before the Senate Committee on the Budget, *Social Security's Finances* (September 11, 2024), www.cbo.gov/publication/60691.

2. For analyses of various options to reduce spending or increase revenues for the Social Security program, see Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), www.cbo.gov/publication/58164, and *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions* (December 2022), www.cbo.gov/publication/58163.

3. For an analysis of the effects of increasing the age at which workers become eligible for full retirement benefits, see Congressional Budget Office, letter to the Honorable Brendan Boyle about raising the full retirement age for Social Security (September 25, 2024), www.cbo.gov/publication/60516.

Demographic changes—especially an increase in the number of people age 65 or older relative to the number of people ages 20 to 64—are the largest driver of the increase in Social Security's outlays relative to the size of the economy since 1984. In particular, the oldest members of the baby boom generation were first eligible to claim Social Security benefits in 2008. The retirement of many members of that generation led to a rapid increase in the number of beneficiaries and thus in spending.

Social Security's revenues have been roughly stable relative to the size of the economy. That stability is the net result of offsetting factors. Increases in the Social Security payroll tax rate (from 11.4 percent in 1984 to the current level of 12.4 percent in 1990) and growth in revenues from income taxes on benefits pushed revenues up from what they otherwise would have been. Conversely, economic factors, such as increases in the share of compensation that is not subject to the payroll tax, pushed revenues down from what they otherwise would have been.

On net, Social Security's annual outlays have increased more rapidly than its annual revenues since 1984.

Question. During the hearing, Commissioner O'Malley claimed that "Social Security does not contribute to the debt." How does Social Security affect the federal budget and federal debt?

Answer. Most public discussion and reports about the federal budget focus on the unified budget, which encompasses all activities of the federal government, including those related to Social Security. CBO estimates that in fiscal year 2024, outlays for Social Security will exceed the program's tax revenues by $140 billion, increasing the budget deficit by that amount.[4] Annual shortfalls for the Social Security program are projected to grow thereafter under current law, contributing to the projected growth of deficits.[5]

4. Social Security's payroll tax revenues include amounts that the federal government pays as an employer. That intragovernmental payment is estimated to total $23 billion in 2024.

5. For CBO's most recent 10-year projections for the Social Security trust funds, see Congressional Budget Office, "10-Year Trust Fund Projections" (supplemental material for *An Update to the Budget and Economic Outlook: 2024 to 2034*, June 2024), www.cbo.gov/data/budget-economic-data#5.

Social Security's revenues are credited to the program's two trust funds—one for Old-Age and Survivors Insurance (OASI) and one for Disability Insurance (DI). In addition to tax revenues, the trust funds receive interest payments on the Treasury securities they hold. Those interest payments are intragovernmental: They are recorded in the budget as outlays from the general fund of the Treasury and as income to the trust funds and have no net effect on the deficit.

Social Security has different effects on different measures of federal debt. Debt held by the public, which consists mainly of Treasury securities sold to investors, indicates the extent to which federal borrowing affects the availability of private funds for other borrowers. As such, it is the measure of debt that matters for CBO's projections of economic growth and the measure that CBO uses in its budget reports. Debt held by the public does not include the balances of the OASI and DI trust funds.

Two other measures of federal debt are gross federal debt (the sum of debt held by the public and debt held by government accounts) and debt subject to limit (that is, debt subject to the statutory ceiling that applies to gross federal debt, with some small exceptions). Both of those measures include the balances of the OASI and DI trust funds. At the end of August 2024, the two trust funds held a total of $2.8 trillion in Government Account Series (GAS) securities issued by the Treasury. (GAS securities are special-issue securities that cannot be sold to investors.)

The trust funds serve as accounting mechanisms to link Social Security's income with corresponding expenditures. When a trust fund receives income that is not immediately needed to pay benefits or cover other expenses, the Treasury issues GAS securities totaling that amount to the trust fund and then uses the extra cash to finance the government's activities, just as it uses other revenues. As a result, the government borrows less from the public than it would without that extra net income (given a fixed amount of revenues and outlays).

When a trust fund's income falls short of its outlays, the reverse happens: The fund returns GAS securities to the Treasury, which then must borrow from the public to acquire the resources needed to make payments to Social Security beneficiaries. Thus, the current and projected shortfalls for the Social Security trust funds lead to larger deficits, more borrowing by the Treasury, and an increase in debt held by the public—the measure of federal debt underpinning CBO's projections of economic growth.

The balance of a trust fund is a measure of the historical relationship between a program's income and outlays. That balance (in the form of GAS securities) is an asset for the individual program but a liability for the rest of the government. Trust funds have legal meaning—in that their balances are a measure of the amounts the government has the legal authority to spend for certain purposes under current law—but they have little relevance in an economic or budgetary sense unless the balance of a trust fund falls to zero. (CBO projects that under current law, the balance of the OASI trust fund would be exhausted in fiscal year 2033 and the balance of the DI trust fund would be exhausted in calendar year 2064.)[6]

For certain budget enforcement purposes, budget accounts are divided into two categories: on-budget and off-budget. By law, most programs' budget authority, outlays, and revenues are on-budget—that is, included in budget totals. On-budget activities are subject to the normal budget process and to budget enforcement procedures. Social Security is classified as off-budget (as is the Postal Service). Most activities for off-budget programs are not subject to spending caps or other budget enforcement procedures under the Statutory Pay-As-You-Go Act of 2010. In addition, off-budget programs are generally excluded from Congressional budget plans, such as budget resolutions.

6. Congressional Budget Office, *CBO's 2024 Long-Term Projections for Social Security* (August 2024), www.cbo.gov/publication/60392.