

FAQ

Social Security FAQ

Report • By [Monique Morrissey](#) and [Josh Bivens](#) • August 11, 2025

Social Security turns 90 this year. Despite its popularity and exemplary record of never having missed a payment—even after the 9/11 terror attacks and Hurricane Katrina—misperceptions persist about many fundamental aspects of this universal program.

This FAQ provides essential background and facts, as well as answers to some of the most frequently asked questions. It confirms that Social Security is an extraordinarily valuable public program that is well run, strategically designed, eminently sustainable, and popular with the public. It will of course need some policy tweaking in coming years to ensure that it continues to provide the same (or even greater) level of economic security it provides today, but these changes are manageable and would be welcomed by the public.

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What is Social Security and how is it financed?

What is Social Security?

Social Security is a social insurance program signed into law by President Franklin D. Roosevelt during the Great Depression. It turns 90 on August 14, 2025.

The program is best known for supporting retired workers, their spouses, and dependents. However, Social Security's Old Age and Survivors Insurance (OASI) program also provides life insurance protection. And Social Security Disability Insurance (SSDI), added to the program in 1956, supports workers with disabilities, spouses, and dependents, including disabled adult children of insured workers.

OASI and SSDI together are commonly referred to as "Social Security." The Social Security Administration (SSA) also manages Supplemental Security Income (SSI), a program for low-income seniors and people with disabilities, including many children. Whereas OASI and SSDI cover almost all workers who (along with their employers) contribute to the program, SSI is funded with general tax revenues and eligibility is limited to people with low incomes.

Why is Social Security so important?

Social Security's enduring **popularity** reflects its careful design. It is a trusted and efficient social insurance program that spreads costs and risks across the population. It is the building block of most workers' retirement and also serves an insurance function for workers and their families, replacing lost income when workers are disabled or die. It provides guaranteed income that cannot be outlived or eroded by inflation.

Social Security has very low administrative costs and its benefits are well targeted. In contrast, private retirement savings accounts have high overhead costs and are subsidized by tax dollars that **flow mostly to higher-income households** who do not need incentives to save and often pass the accumulated wealth on to heirs.

Social Security benefits constitute **the most important asset held by all households except the wealthiest 10%** and **keep more people out of poverty than any other government program**, including nearly a million low-income children who receive benefits directly or share in family benefits.

How is Social Security financed?

Aside from SSI, which is funded by general tax revenues, Social Security is financed separately from the rest of the federal government. Most of Social Security's funding (91% in 2024) comes from worker and employer contributions, though a small share (4% in 2024) comes from income taxes that some higher-income beneficiaries pay on their benefits. The remainder (5% in 2024) comes from interest on Treasury securities held in the Social Security trust fund.¹ A temporary tax break for some higher-income seniors that President Trump signed into law will, however, reduce revenue from income tax levied on benefits in 2025–2028, worsening Social Security's finances.

Social Security and Medicare contributions together constitute the Federal Insurance Contributions Act (FICA) payroll tax. For the Social Security portion of the FICA, workers and employers each contribute 6.2% of pay up to a cap—\$176,100 in 2025. Earnings above this cap are not subject to the tax and do not factor into benefit calculations. Originally, the Medicare portion of the FICA, which funds Medicare's in-patient benefits, was levied on the same capped earnings as Social Security. Since 1993, however, the Medicare tax has been levied on all earnings, with an additional surtax since 2013 paid by single workers earning over \$200,000 or married couples earning over \$250,000.

Social Security is a pay-as-you-go program, meaning that contributions from current workers cover the cost of benefits going to current beneficiaries, as opposed to an advance-funded system where contributions from workers are set aside for future benefits. A pay-as-you-go system allowed Social Security to pay modest benefits to seniors in Social Security's early years even though they had not had the chance to contribute significantly to the program. By one estimate, 42% of the first male-headed senior households to receive benefits had incomes below the poverty line even after some were able to claim Social Security, and the poverty rate was surely higher for female-headed households. However, Social Security effectively reduced old age poverty over time.

Notes

1. EPI estimates based on [Single-Year Tables in the 2025 Trustees Report](#).

Does Congress control Social Security's budget?

Social Security benefits are not subject to the annual budget appropriations process or **budget reconciliation**. This is appropriate to ensure the stability of a program funded through dedicated taxes and that people rely on for economic security throughout their lives. Congress can always decide to amend the Social Security Act to make changes to the program, as it did in January 2025 when it increased benefits for some public-sector workers. However, significant changes are infrequent and the last major reforms were enacted over four decades ago, in 1983.

Congress does decide annually how much SSA can spend to manage the program, though these funds come out of the same dedicated revenues as benefit payments. Congress has **starved SSA of administrative funds** in recent years, the Trump Administration's **causing service delays and disruptions** even before **cuts brought the agency to the brink of collapse**. These actions threaten Social Security's exemplary record of **never having missed a payment, even after the 9/11 terror attacks and Hurricane Katrina**.

Critics sometimes propose that all Social Security funding should be reauthorized frequently, if not annually. This idea never gets very far, as **most members of Congress are not eager to engage in frequent debates over popular earned benefits**. Subjecting Social Security to a regular reauthorization process could also raise the question of whether other forms of government spending, notably subsidies for retirement savings and other tax expenditures, should undergo the same treatment, since spending done through the tax code is also essentially an "entitlement" in that it is not subject to annual appropriations.

What is the Social Security trust fund?

Social Security has a trust fund that can be built up or drawn down to handle fluctuations in the relative sizes of the worker and beneficiary populations. Technically, there are separate funds for OASI and SSDI, but these are usually referred to together as “the trust fund” in the singular. **Money has periodically been reallocated between the two funds when one runs low**, though Republicans have sometimes held up **necessary changes** for **political** leverage.

Thanks to careful planning, the trust fund was built up while the large Baby Boom generation was in its prime working years, **peaking at \$2.9 trillion in 2020**. These savings are now being drawn down to pay for the Boomers’ retirement. Under normal circumstances, the trust fund would not be very large because in a pay-as-you-go system it functions more like a checking account than a savings account.

The trust fund is invested in special-issue government securities similar to the Treasury bonds sold to investors all over the world. Though borrowing and lending between government agencies is normal, this arrangement has given rise to right-wing conspiracy theories that **the bonds are worthless** and that Social Security is a “**Ponzi scheme**.”

There is no truth to these claims. The trust fund’s special-issue securities earn interest just like tradeable government bonds, and those held in the trust fund are, if anything, more valuable than other Treasury securities because Social Security retains the right to **redeem them at face value**, whereas tradeable bonds lose value when interest rates go up. This feature helps insulate the trust fund’s balance sheet from bond market volatility. The bonds are backed by **the full faith and credit of the U.S. government**, and **defaulting would be as catastrophic to the U.S. and global economy** as defaulting on any other government bond.

As for billionaire Elon Musk’s assertion that Social Security is “Ponzi scheme,” this is part of a **divide-and-conquer strategy concocted decades ago by anti-government libertarians** to implant the idea that

Social Security is at best a bad deal for younger workers and at worst will go bankrupt before they have had a chance to collect benefits. (The actual worst-case scenario, **in the extremely unlikely event that nothing is done to increase revenues before the trust fund's projected depletion in 2034, is a 19% benefit cut.**)

As with a Mafia protection racket, the real threat comes from the same people stoking the fears. These include not only Musk, whose so-called **"Department of Government Efficiency"** (DOGE) **forced SSA to make deep and indiscriminate staffing cuts** that threaten the agency's ability to administer benefits, but also **Republicans in Congress who support benefit cuts** that fall predominantly on young and mid-career workers. **Rep. Sam Johnson (R-Texas)**, for example, the former chair of the Social Security Subcommittee, proposed **deeper cuts on younger workers than would be necessary to put the system in balance** on the pretext of averting smaller cuts that would occur automatically if revenues were not increased before the depletion of the trust fund. A version of **Johnson's plan has been adopted by the House Republican Study Committee.**

Another misconception, this one more common even among Social Security's advocates, is that **the growing trust fund in recent decades enabled Congress to engage in profligate spending**—or, as this accusation is sometimes phrased, that Congress "raided" the trust fund. The fact that Social Security lends to the rest of the federal government has little influence on how much Congress can borrow or the interest it pays on the debt because even at its 2020 peak the trust fund held only about a tenth of **federal debt outstanding** and there is an international market for U.S. government securities.

What Social Security benefits do people receive?

How are Social Security benefits calculated?

Social Security retirement benefits are tied to a worker's highest 35 years of earnings, so workers who earn more and contribute more receive higher monthly benefits. However, Social Security has a **progressive benefit formula** so that monthly benefits replace a higher *share* of pre-retirement earnings for low earners than for high earners.

To be precise, a worker who turns 62 in 2025 has a "Primary Insurance Amount" (PIA) equal to 90% of their average indexed monthly earnings (AIME) up to \$1,226; 32% of their AIME between \$1,226 and \$7,391; and 15% of their AIME between \$7,391 and \$13,689, with a **top PIA of \$4,020.90 per month (\$48,250.80 per year) for someone who earned the taxable maximum throughout their career**. The PIA is the monthly payment they will receive if they wait until the normal retirement age of 67.

Though benefits are higher for those who earn more, **replacement rates** are lower for high earners. For example, in 2025, a high earner who consistently earned 160% of the average wage will receive a benefit replacing around 34% of their average earnings if they retire at the normal retirement age after a 35-year career, whereas a medium earner who consistently earned the average wage will receive a benefit that replaces around 41% of their average earnings and a low earner who consistently earned 45% of the average wage will receive a benefit that replaces around 55% of their average earnings.

A benefit replacement rate below 100% of pre-retirement earnings is

considered normal for most workers because retirees are no longer saving for retirement and generally have lower expenses than they did when they were working. However, Social Security by itself is not sufficient to fully maintain most workers' standard of living in retirement and is therefore often described as one leg in a three-legged retirement stool, along with employer pensions and savings. This does not reflect reality for many retirees who do not have pensions or significant savings and rely mostly on Social Security. By one conservative estimate, which assumes retirees will tap any home equity they have, around four in ten households will experience a drop in their standard of living after retirement.

Spouses (and former spouses who were married at least 10 years) are eligible for a benefit equal to half the insured worker's benefit if the spousal benefit is more than what they would be eligible for based on their own earnings and contributions. Widow and widower benefits range from 75–90% of a deceased spouse's benefits, and minor children can receive up to 75% of a deceased parent's benefits.

How are benefits adjusted for age of take-up and other factors?

The PIA described above is the monthly benefit a retired worker receives at the normal retirement age (NRA). For much of Social Security’s history, the NRA was 65, but **the 1983 amendments gradually increased it** for workers born after 1937. It is now 67 for anyone born in 1960 or later. The two-year increase in the NRA is simply **a 13.33% cut in benefits** for someone retiring at 65.

Workers who retire at the earliest eligibility age of 62 receive monthly benefits that are **30% lower than those who retire at the normal retirement age of 67 and 44% lower than those who retire at age 70**. Take-up after age 70 does not increase monthly benefits.

These adjustments are intended to be actuarially neutral, meaning that for workers with average life expectancies, lifetime benefits should be roughly equal regardless of when they retire—at least up to age 70. However, since Social Security is a lower-cost annuity than any that can be purchased from an insurance company, retirees in average or better-than-average health for their age **benefit from delaying Social Security take-up** if they can afford to wait and they value the peace of mind that comes with guaranteed income that cannot be outlived.

Unlike retirement benefits, disability benefits are not reduced for take-up before the normal retirement age or for working fewer than 35 years, as long as claimants meet age-based **work history** requirements. For this reason, anyone forced to stop working for health reasons before the normal retirement age should consider applying for disability benefits even if they are already receiving reduced retirement benefits.

Besides age of take-up, other factors that can affect benefits include a **limit on how much in total benefits a family can receive** based on one worker’s earnings record; an **earnings test** whereby benefits are reduced if earnings exceed certain thresholds; and a **special minimum benefit for low earners** (which few people receive because its value has not kept up

with wage growth and is now barely above the benefits a low earner would receive without it).

How are Social Security benefits taxed?

Historically, Social Security benefits were not subject to income tax. Under the 1983 amendments, extended in 1993, **a share of benefits for middle- and higher-income beneficiaries was included in taxable income**, with the revenue reverting to Social Security. This change made Social Security more progressive—that is, more favorable to low-income taxpayers compared with high-income taxpayers—in a way that would not have been possible by simply tweaking Social Security’s benefit formula, since the income tax system, unlike the benefit formula, accounts for other forms of income aside from earnings. As will be explored in more detail below, Social Security has become less progressive due to a growing gap in life expectancy between low and high earners, a problem that the taxation of benefits helps address.

Income tax revenue still accounts for a small share of Social Security revenues. However, the share has **increased over time** since the income thresholds that determine whether taxpayers owe taxes on benefits are not indexed to inflation while incomes have risen. Around **half of beneficiaries are now taxed on their benefits**, with 6.6% of benefits reverting to the program.

During his 2024 reelection campaign, Donald Trump pledged to end taxation of benefits without explaining how he would replace the lost revenue. Despite misleading boasts, **he did not do this**, but the tax package he signed into law on July 4, 2025, gave seniors a four-year \$6,000 tax deduction in addition to other regressive tax cuts. The senior deduction in the legislation **primarily benefits taxpayers with incomes between \$80,000 and \$130,000** and, along with other provisions in the legislation, **will cost Social Security an estimated \$30 billion per year**, hastening the trust fund’s depletion.

How are Social Security benefits adjusted for inflation?

Social Security is designed so that beneficiaries' living standards do not fall far behind everyone else's and benefits are not eroded by inflation. To these ends, **career earnings used in benefit calculations are indexed to average wages, while benefits themselves are indexed to prices**, ensuring that initial benefits keep up with rising living standards while later benefits at least keep up with rising prices.

The fact that initial benefits are linked to average wages is an underappreciated aspect of Social Security. It helps stabilize the contribution rate in a pay-as-you-go system and, over time, **lifts more seniors out of poverty in an absolute sense** without increasing poverty in a relative sense. (Absolute poverty thresholds are only adjusted for inflation, whereas relative poverty thresholds are tied to rising living standards. The **Organisation for Economic Co-operation and Development's (OECD) poverty threshold**, for example, is set at half of median disposable income.)

Though Social Security's annual cost-of-living adjustment (COLA) offers critical protection against inflation, it is not perfect. It is backward looking, a problem during periods of high inflation. It is also tied to an outdated price index—the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)—that is based on the purchases of working-age adults rather than seniors and other Social Security beneficiaries.

Advocates have called for switching to an index based on the purchases of seniors—the Consumer Price Index for Americans 62 years of age and older (generally known as the CPI-E). **In most years, the CPI-E has risen faster than the CPI-W primarily due to health cost inflation**, since seniors spend a larger share of their income on out-of-pocket health expenses and health cost inflation usually outpaces inflation in the rest of the economy.

In contrast, those looking for cost savings in the program often propose switching to a lower chained price index that more fully accounts for the ability of consumers to substitute cheaper goods and services when the price of a good or service increases. A lower COLA would have the biggest impact on those who receive benefits longest, including **SSDI** and **SSI** recipients who became disabled at younger ages. SSDI benefits tied to past earnings are usually low to begin with for beneficiaries whose disability onset came early in life. For this and other reasons, **disabled beneficiaries have much higher poverty rates than other beneficiaries or than the general population.**

Indexing SSDI benefits to wages would help people with disabilities, but at a significant cost to Social Security. A more **targeted approach of expanding access to—and the value of—means-tested SSI benefits** would not affect Social Security’s finances because SSI benefits are funded through general revenues.

How have DOGE cuts affected access to benefits?

Under the direction of Elon Musk's DOGE initiative, SSA announced plans to shutter offices and reduce staffing by 7,000 employees through incentives and layoffs. Cutbacks have affected all agency personnel, including critical and difficult-to-replace programmers and cybersecurity experts. Even before the DOGE cuts, staffing at the agency was at a 50-year low, though more people are receiving Social Security benefits than ever before.

Service cutbacks are not just a nuisance. They inflict permanent harm on some claimants and would-be claimants, especially those faced with navigating the complex disability claims process. Past research has found that office closings lead to a 16% decline in the number of disability recipients in surrounding areas as mobility and other barriers deter people in poor health from applying for benefits. During the COVID-19 pandemic, when field office appointments were suspended, a shift to phone applications led to a 6% decrease in SSDI and SSI applications.

It is therefore not surprising that in February and March 2025, after President Trump's DOGE initiative began laying off Social Security staff and closing offices, SSDI and SSI applications were down 20% compared to the same period in 2024.²

Even as some people with serious health conditions give up on applying for disability benefits in the face of roadblocks, others who instead opt for the simpler process of applying by phone for reduced early retirement benefits may not be made aware that they should still apply for full disability benefits. This causes them to lose a portion of the benefits they are entitled to since claimants who receive reduced retirement benefits have their benefits adjusted retroactively if they eventually qualify for disability benefits. Delays also make it less likely that claimants have the medical records needed to document the earlier onset of their disability.

This is probably one reason why, even as disability claims fell, retirement claims *rose* by 12% in February–June of 2025 compared with the same period in 2024.³ In addition, **some retired workers likely filed earlier than planned due to worries about service disruptions**. While workers who claim retirement benefits early will receive benefits longer, their monthly benefits will be lower, and **many will be worse off as a result**.

Notes

2. EPI analysis of latest available **SSA data**.
3. EPI analysis of latest available **SSA data**.

Is Social Security a good return on investment?

People sometimes believe that because the trust fund is invested in Treasury bonds, the implicit rate of return on contributions is the long-term Treasury yield, which has been low in recent decades. With the benefit of hindsight, then, it appears that participants would have been better off if the trust fund had been invested in a portfolio that included riskier assets with higher expected returns, such as stocks and corporate bonds.

Two senators have even proposed that the government should now borrow \$1.5 trillion and invest the proceeds in risky assets, dedicating the difference in expected returns to Social Security. But as economists representing a range of political views have pointed out, there is no free lunch when it comes to Social Security—or funding any other government program, for that matter. The higher expected return from stocks and corporate bonds comes with higher risk, which is amplified when you borrow to invest.

To put it another way, if this were a good idea, why not apply the same logic to paying for national defense? But it is an especially bad idea in the context of Social Security because a prolonged bull market would create political pressure to lower contributions, while a prolonged bear market would create pressure to cut benefits. This is not an abstract concern—this has continually happened over the years to many state and local government pension funds.

In any case, the idea that Social Security's implicit rate of return is simply the return on trust fund assets reflects a misunderstanding of how Social Security works. In a pay-as-you-go system, under normal circumstances, investment income from the trust fund plays a minor role. Rather, the relationship between the average worker's contributions and the benefits the worker later receives is tied to how much covered earnings grew in the intervening years due to workforce and wage growth. And if growth in covered earnings keeps pace with economic growth, as

should happen under normal circumstances, Social Security participants benefit from economic growth just as stock market investors do, but without the ups and downs caused by “animal spirits,” as economist John Maynard Keynes described investors’ mood swings and herd-like behavior.

Essentially, then, Social Security contributions are roughly equivalent to investing in the broad U.S. economy, though the implicit or “internal” rate of return is reduced by the fact that subsequent generations had to pay for the first beneficiaries’ modest benefits (with interest) even as that first generation had not had the chance to contribute to the system. This “legacy debt” does not disappear if the trust fund were invested in stocks or if President George W. Bush’s plan to divert Social Security funds to private accounts had succeeded.

As it happens, if there had been no legacy debt in the first place, the projected shortfall would almost disappear. This is not to suggest that paying for the first generation of retirees was a mistake. That generation had lived through the Great Depression and millions were desperately poor, and we are a far wealthier nation now. However, the fact that the projected shortfall can be attributed to this legacy debt is an argument for closing the shortfall by taxing wealth, since much wealth is inherited and each generation of workers would still be paying, on average, for their own benefits. While revenue from taxes on wealth and on very high incomes could be put to many good uses, it may be easier to enact such taxes if the funds go to something as popular as strengthening Social Security.

Of course, we know that growth in covered earnings did not keep up with GDP growth in recent decades, and that investing the trust fund in a portfolio that includes stocks is a gamble that would have paid off when the trust fund was flush with Baby Boomer earnings. But hindsight is 20-20, as the saying goes, and this is not an argument for borrowing money to invest in the stock market, but rather an argument for taxing wealth and for supporting policies that encourage bottom-up wage growth, such as those pursued during the Biden administration.

Is Social Security fair to low-income workers?

Social Security is intended to be somewhat progressive, favoring low earners whose monthly benefits are higher relative to their earnings and contributions than those of high earners. However, **a growing gap in life expectancy between high earners and low earners** has eroded the progressivity of retirement benefits. That is, though low earners' monthly benefits still replace a higher share of earnings, they receive retirement benefits for a shorter time than high earners.

As a result, some studies have found that **Social Security no longer favors low earners**. However, **these studies ignore** disability and survivor benefits that disproportionately go to low earners and their families, as well as the longevity insurance aspect of Social Security benefits that is **more valuable to low earners** whose life expectancy is more uncertain.

Though Social Security is less progressive than it used to be, **it remains a good deal for everyone**, including low earners, because similar insurance protection and annuities would be much more expensive to buy from private insurers. In addition to factoring in higher overhead costs, private insurers charge more to account for the fact that people in better health tend to buy life annuities and those in worse health tend to buy disability and life insurance. This adverse selection drives up the cost of private insurance and puts it out of reach of many would-be buyers, in contrast to a public system that covers everyone.

As evidence of Social Security's cost effectiveness, **former SSA Commissioner Martin O'Malley testified** that SSA administrative costs are less than 1% of annual benefits paid, compared with 19% for Allstate and nearly 24% for Liberty Mutual. Even if the comparison is limited to life annuities, a recent study found that **the average annuity provider charged 4% more than the lowest-cost provider, in addition to a 15% combined markup** to cover assumed sales costs and longevity risk.

This is not to discourage people from buying life annuities if they have

already maximized Social Security benefits by delaying take-up, since two of the study's coauthors also show [in a separate paper](#) that annuities improve living standards by providing assurance that retirees cannot outlive their savings, reducing the need for precautionary saving. Social Security, however, is the most cost-effective annuity available, which is why [objective financial advisors recommend that people in reasonably good health draw down savings to delay Social Security take-up as long as possible](#) instead of purchasing an annuity from a private insurer. This strategy is especially valuable for women, who live longer than men on average and are therefore charged more for annuities purchased from insurance companies.

Is Social Security fair to workers of color?

Some critics have called into question whether Social Security is fair to members of racial and ethnic groups, especially to Black men, whose life expectancy at birth is six years shorter than that of white men. To the critics, this suggests that Black men have less time to benefit from a system that they paid into during their working years.

There are differences in life expectancy across race, ethnicity, and gender that all impact how different groups experience the Social Security system. For instance, women, including Black women, tend to live longer than men, including white men. Hispanics and Asians, regardless of gender, have the longest life expectancies, while American Indians and Alaska Natives have the shortest.

While Black men have shorter lifespans on average than white men, their life expectancy as a group is **skewed by men who die young**, before they have had much of a chance to contribute to Social Security. Differences in life expectancy between Black and white people are less pronounced at older ages. **Black men live two years less than white men at age 65**, a smaller—though still sizeable—disadvantage. Further, **due to a greater risk of unemployment, Black workers are also less likely to work longer than 35 years**. Thus, while Black men are more likely to receive reduced benefits due to short careers, they are also less likely to make contributions that do not result in additional benefits.

The disadvantages Black men face in terms of shorter retirements are offset to some extent by **Social Security's progressive benefit formula** and by **lower-income households' greater likelihood of receiving disability and survivor benefits**. On average, Black workers have lower incomes than white workers due to the broad impacts of structural racism on labor market outcomes.

Critics from the Heritage Foundation who claimed that Social Security is unfair to Black men made this argument in support of a plan to divert Social Security contributions to private accounts, which would have

shifted risk onto workers, enriched Wall Street, and weakened a program that is especially critical to workers of color. **The Heritage argument was thoroughly debunked.**

Weakening Social Security would disproportionately harm people of color. **Black and Hispanic seniors are more reliant on Social Security than white seniors** because they are less likely to have other sources of income. **They are more likely to have low incomes and live in poverty**—one of many good reasons to raise enough revenue to not only close the shortfall but also expand Social Security and SSI benefits. It is also important to address the **underlying causes of racial and ethnic disparities in life expectancy**, including social injustices that contribute to poor health, unequal access to health care, and exposure to violence.

Is Social Security fair to women?

Social Security is a critical support for older women, who are helped by the progressive benefit formula because they earn less than men as a result of labor market discrimination and caregiving responsibilities. They also benefit from Social Security's lifetime income because they have longer life expectancies and are more likely than men to receive spouse and survivor benefits.

Even with the advantages of Social Security, however, women are more likely to experience hardship in old age as they have fewer pensions, savings, and other resources to support them due to lower career earnings. As a result, most women 65 and older rely on Social Security for most of their income.

Is Social Security fair to younger workers?

In 1983, authors from two conservative think tanks outlined a plan to weaken opposition to privatizing Social Security by assuring older workers and retirees that their benefits would not be touched and convincing younger workers that Social Security was doomed and they would never recoup their contributions. Though the plan failed to convince the public to support private accounts, the argument that Social Security was unfair to future retirees is still used as justification for drastic changes to Social Security that would only hurt younger workers.

There are **several ways to compare** what different generations have received, or will receive, in benefits relative to how much they contribute to Social Security. All these methods, of course, find that the earliest beneficiaries received net transfers. Perhaps surprisingly, given the Baby Boomers' reputation for hoarding benefits, **it appears** that they and older Gen Xers will likely **contribute somewhat more than they receive in retirement benefits**, while **later cohorts will roughly break even**. This finding ignores other types of benefits, but even a method that takes disability benefits into account shows **a similar pattern**, albeit with differences by income, gender, and marital status. In any event, it is clear that simplistic arguments about intergenerational unfairness rely more on **stereotypes** than on facts.

As with discussions around fairness to low earners and workers of color, the important point to remember is that Social Security is a good deal for everyone, regardless of who benefits most, and those claiming otherwise are often promoting plans that would hurt the groups they profess to be concerned about. In particular, this is true of "progressive" plans such as the Republican Study Committee plan supported by most House Republicans, which would make **gradual cuts to the benefits of middle and high earners until all future retirees received the same low benefit**. While such a plan would also increase benefits for the lowest earners, there is already a means-tested benefit (**SSI**) that **needs updating** if Republicans are sincere in their aim of reducing elder poverty rather than trying to shrink benefits for future generations and reframe

Social Security as a safety net program rather than a popular universal benefit.

Why is Social Security facing a shortfall?

Who estimates the shortfall?

Social Security and Medicare are overseen by a **Board of Trustees** composed of three cabinet secretaries, the Social Security commissioner, and two public trustees appointed by the president with Senate confirmation (the public trustee positions are currently vacant). The trustees release annual reports for both programs containing, among other things, the Social Security and Medicare actuaries' projections of the programs' finances over the next 75 years. The actuaries are career civil servants with an impressive track record of anticipating demographic and other challenges. The Congressional Budget Office also produces **forecasts of Social Security's financial outlook** that are similar to those of the actuaries but typically somewhat more pessimistic.

Though the Social Security Trustees Report is useful for long-term planning, it occasions annual handwringing over the future of this vital program—scrutiny other federal spending avoids. In particular, the **\$1.8 trillion in targeted tax breaks, including tax breaks for private retirement plans**, are automatically or routinely renewed without the same attention paid to them as to the \$1.6 trillion in Social Security spending. Not surprisingly, **tax expenditures** have largely escaped scrutiny by the Trump administration's DOGE initiative.

How big is the projected shortfall?

The [latest Trustees Report](#) estimates the long-term shortfall at \$25.1 trillion, or 3.8% of taxable payroll. This means that increasing the payroll tax rate from 6.2% to 8.1% of pay on both employers and workers (that is, from 12.4% to 16.2% in total) would cover costs over the next 75 years, with a year's worth of expenses held in reserve at the end.

The projected shortfall may seem large in dollar terms, but it is only 1.3% of GDP over the projection period. To put this in perspective, the cost of President Trump's "One Big Beautiful Bill," [the bulk of which is tax cuts for high-income households](#), averages [1.8% of GDP over 30 years](#) and the cost continues to escalate afterward.

Once again, a relevant comparison is with tax subsidies for retirement plans, most of which flow to upper-income households who do not need incentives to save. These tax subsidies amount to [1.3% of GDP](#), coincidentally the same as the Social Security shortfall, but receive far less attention.

There are other examples of wasteful spending that could be put to better use strengthening Social Security. The United States spends around [17.8% of GDP on public and private health care](#), [nearly twice the average health care spending of countries](#) in the Organisation for Economic Co-operation and Development (9.8%), despite gaps in coverage and worse health outcomes than the OECD average. A system that extended the [efficiencies of Medicare](#) and other public health programs to people of all ages would free up more than enough money to close Social Security's shortfall in addition to funding other priorities, including expanding Social Security benefits.

What caused the shortfall?

Social Security was projected to be in long-term balance after the 1983 reforms. What happened to change that?

In a pay-as-you-go system with a fixed contribution rate, imbalances emerge when the growth in covered earnings diverges from the growth in benefit costs. Temporary surpluses or deficits can be accommodated by building up or drawing down savings in the trust fund, as occurred when the large Baby Boomer cohort passed through their prime working and retirement years. Recessions also cause temporary deficits that are unpredictable but can be factored into long-term growth assumptions. However, persistent imbalances, like the one we face now, require adjustments to the system.

Many things have changed since 1983, so it is no surprise that Social Security is overdue for a tune-up. The factor that has received the most attention is an increase in life expectancy, which, like the Baby Boomer retirement, was fully anticipated by the Social Security actuaries. If anything, they **overestimated longevity gains, even before the COVID-19 pandemic**.

The biggest demographic challenge facing Social Security is a falling birth rate, which has slowed workforce growth and increased the aged dependency ratio. In 1983, there were **20 seniors aged 65 and older per 100 working-age people aged 20 to 64**. If the birth rate had **stabilized at three children per woman rather than declining to less than two**, the number of seniors per 100 working-age people would be rising much more slowly, reaching 26 at the end of the century instead of more than doubling to 45.

Though less important than the falling birth rate, an increase in life expectancy at retirement does contribute to rising costs. However, it can be offset by other factors, including, historically, **an increase in life expectancy at younger ages** and an **increase in women's labor force participation**. The rise of two-earner couples was doubly helpful to Social

Security's finances because it increased the number of workers contributing to the system while decreasing spousal benefits, which are not paid for by higher taxes on married workers.

Mortality improvements in recent years have been more concentrated at older ages, with **life expectancy at 65 rising by about 3.6 years since 1983**. This has been partly offset by a **gradual two-year increase in the normal retirement age** included in the 1983 Social Security amendments, but this is not enough to maintain a roughly 2-to-1 ratio of working years to retirement years. (Though an increase in the normal retirement age is simply an across-the-board benefit cut, it can in some cases be offset by **working longer**. However, this is not a realistic option for older workers facing **challenges linked to poor health, job loss, caregiving responsibilities, physically demanding and dangerous jobs**, and other barriers to continued employment.)

Another important factor—one not anticipated by the Social Security actuaries or **other forecasters**—has been slow and unequal wage growth. While productivity **grew by 77.4% between 1983 and 2023**, real wages for the bottom 90% of workers **grew only by 46.7%** while high earners saw rapid gains. There are many reasons for slow wage growth, including **anti-union policies and a minimum wage that has not kept up with productivity and inflation**. In any case, the result has been a **growing profit share** and a **near doubling (from 9% to 17%) of earnings above Social Security's taxable maximum**. As a result, **taxable earnings declined 15.2% as a share of GDP** between 1983 and 2024.

Finally, a trend that has helped Social Security's finances but may or may not be something to celebrate is a **sharp decline in take-up of disability benefits**. The causes are being debated, but likely include both **positive factors**—such as the **increased availability of remote work**—and negative ones—such as long wait times, office closings and other barriers to access that had worsened due to **staffing shortages** even before the **COVID-19 pandemic** and **DOGE** disruptions.

What happens if the trust fund runs out?

If Congress does not act before the Social Security trust fund becomes depleted in 2034, **current revenues would cover 81% of current benefits, a share that would decline to 72% by 2099.** Cuts would happen automatically because Social Security is prohibited by law from borrowing. However, it is inconceivable that Congress would allow Social Security beneficiaries to lose nearly a fifth of their benefits overnight. Congress might, however, keep dithering until forced to act.

How do people in the U.S. want to fix the funding gap?

Surveys have consistently shown that people in the U.S. across the political spectrum prefer to close the projected shortfall by increasing revenues rather than cutting benefits. The most popular policy option is lifting the cap on taxable earnings so that very high earners contribute to Social Security at the same rate as everyone else. Survey respondents also say they are willing to contribute more themselves.

There are many options for closing the shortfall by raising revenues. For example, scrapping the taxable earnings cap without increasing benefits would close 73% of the projected shortfall. Gradually increasing the combined payroll tax rate by a tenth of a percentage point over 10 years, so that employers and workers each contribute 6.7% instead of 6.2%, would close 26% of the projected shortfall. The two changes together would be more than enough to close the projected shortfall because the higher rate would also apply to earnings above the current cap, though other changes might be necessary to deter tax avoidance.

Why is Congress sitting on the sidelines?

Unfortunately, voters' clear preference for closing the funding gap by raising revenues, especially by lifting or eliminating the taxable earnings cap, conflicts with what **wealthy donors, Wall Street, and anti-government ideologues** want. This puts Republican officeholders in a bind, trapped between campaign pledges not to raise taxes and a reluctance to call for cuts to a popular program—at least not publicly.

Rather than openly pushing for unpopular benefit cuts, Republicans frame cuts as necessary tweaks to a broken system and try to lure Democrats into joining them in **backroom deals** instead of engaging in open debate. Behind the scenes, meanwhile, **most House Republicans** support a **Republican Study Committee plan** that would cut over \$700 billion from Social Security benefits over 10 years by, among other things, raising the normal retirement age again, this time to age 69 or 70.

Republicans push back against payroll tax increases by claiming that payroll taxes **cause job losses**, a claim **not based on credible evidence**. The debate around payroll taxes is similar to the **debate around minimum wages**. While it is undoubtedly true that enormous hikes in either the payroll tax or minimum wage would cause job losses, there is little evidence that smaller increases have negative employment effects. This is especially true of tax increases on high earners, who are much more likely to look for tax dodges than to work less.

Democratic and **independent** policymakers are less reluctant to propose revenue increases to extend the solvency of Social Security or eliminate the shortfall entirely. They have put forward several plans that differ in many respects, but almost all raise payroll taxes on high earners. While some Democrats adhering to Joe Biden's pledge not to raise taxes on taxpayers with incomes under \$400,000 have **trimmed their sails**, Biden's pledge is less restrictive than blanket opposition to any tax increase.

Does it matter what caused the shortfall?

In theory, it should not matter what caused the funding gap. What matters is that Social Security should be updated at least once a generation to make sure it meets current challenges and needs while preserving core tenets of the program that have stood the test of time and are key to its enduring popularity.

As summarized by SSA's former research director, who resigned under pressure from the Trump administration, these core tenets include that the system should be progressive; that it should remain a universal social insurance program and not a means-tested welfare program; and that the growth in the national economy that individuals contributed to throughout their working lives should be reflected in their Social Security benefits.

In practice, however, how Social Security's financial challenges are described influences the solutions that receive attention. Thus, those seeking to cut Social Security benefits blame the program's projected shortfall on rising life expectancy rather than on slower workforce growth and wages that failed to keep up with productivity.

Many policies that would have a positive impact on Social Security are not changes to the program itself but rather broader labor market and economic policies such as a higher minimum wage, support for unions, immigration reforms that help both immigrants and U.S.-born workers, and support for family caregivers that enable them to remain in the paid workforce. The Trump administration is instead undermining workers' rights, including immigration policies that could have a devastating impact not just on immigrants but on U.S.-born workers.

Some of these changes, even if implemented, will take time to take effect. In the meantime, we urgently need to increase revenues to the program by making everyone pay their fair share.

Want to learn more?

- [Center on Budget and Policy Priorities \(Top Ten Facts about Social Security\)](#)
- [Center on Budget and Policy Priorities \(Social Security Disability Insurance\)](#)
- [Congressional Research Service \(Primer on Social Security\)](#)