August 14 marks the 80th birthday of the Social Security program, which was established in the Social Security Act of 1935. Over the past 80 years, Social Security has provided important cash benefits and income security to seniors, survivors, individuals with disabilities, and their families – including to nearly 60 million people today.

Yet Social Security is on a financially unsustainable course – and is not on track to be able to pay full benefits through its 100th birthday. Last year, the program paid $73 billion more in benefits than it raised from taxes. As the more of the baby boom population retires and Americans continue living longer, that gap is projected to grow – depleting the trust fund reserves of the disability program late next year and the old age program in the early- to mid-2030s. Failure to address the gap between spending and revenue could result in an immediate 19 percent cut to all workers with disabilities, and a 20 to 30 percent across-the-board cut to retirees.

Sadly, instead of identifying solutions to prevent depletion of the trust funds, many commenters have relied on myths and half-truths to avoid having a conversation about the necessary choices. In this paper, we identify eight such myths – though there are many more:

**Myth #1:** Social Security does not face a large funding shortfall

**Myth #2:** Today’s workers will not receive Social Security benefits

**Myth #3:** Social Security would be fine if we hadn’t “raided the trust fund”

**Myth #4:** Social Security cannot run a deficit

**Myth #5:** Social Security has nothing to do with the rest of the budget

**Myth #6:** We don’t need to worry about Social Security for 20 years

**Myth #7:** Social Security reform is code for slashing benefits, especially for the poor

**Myth #8:** Social Security is too hard to fix

Below, we debunk these myths in the hopes that an honest discussion of the facts will lead policymakers to come together and put Social Security on a sustainable path for the next 80 years.
Myth #1: Social Security does not face a large funding shortfall

Fact: Social Security faces a large structural financing gap and its trust funds are projected to run out of reserves within 20 years.

As the population ages, Social Security faces a large and growing shortfall. Since 2010, the program has been paying out more in benefits than it collects in taxes. The Social Security trustees estimate these deficits will deplete the program’s combined trust fund reserves by 2034; the Congressional Budget Office (CBO) estimates an exhaustion date of 2029. At that point, the program will only be able to pay three-quarters to four-fifths of benefits, likely resulting in immediate cuts for all beneficiaries.¹

The program’s looming insolvency is mainly the result of growing program costs and an aging population. Social Security spending has already risen from 10.4 percent of payroll (4 percent of GDP) in 2000 to 14.1 percent of payroll (4.9 percent of GDP) this year, and the cost of scheduled benefits are projected by the trustees to further grow to 17 percent of payroll (6 percent of GDP) by 2040. Meanwhile, revenue will remain relatively constant at about 13 percent of payroll (4.5 percent of GDP).²

Figure 1: Social Security Revenue and Benefits, 1970-2090 (Percent of Payroll)

Source: Social Security Administration

Making Social Security solvent for the next 75 years would require the equivalent of an immediate 2.6 percentage point payroll tax increase or 16 percent across-the-board benefit cut, according to the program’s trustees. CBO estimates that a much larger 4.4 percentage point tax increase or a one-quarter benefit cut would be necessary. These shortfalls are much larger than the 1.8 percent of payroll shortfall closed in the 1983 Social Security

² Ibid.
reforms. Moreover, adjustments would have to be much larger than the current 75-year numbers – 2 to 2.5 percent of payroll larger – to maintain solvency by the 75th year.

**Myth #2: Today’s workers will not receive Social Security benefits**

Fact: Even if policymakers do nothing, the program could still pay about three-quarters of benefits.

Social Security has been around since 1935, and there is no indication that policymakers intend to eliminate the program. Although Social Security faces serious financial challenges, benefits would not disappear unless lawmakers acted to eliminate them.

The Social Security trustees expect the (theoretically) combined trust fund reserves to be depleted in 2034, which means the program could only pay benefits from incoming revenue thereafter. However, Social Security would continue to collect payroll taxes, which the trustees project would initially be sufficient to pay 79 percent of scheduled benefits, ultimately declining to 73 percent.

Rather than causing benefits to “disappear,” the absence of legislation would probably either lead monthly checks to be reduced by about one-fifth (more in later years), or issued on a delayed basis that resulted in equivalent annual benefit cuts. This cut would apply to all current beneficiaries regardless of age or income, as well as to future beneficiaries.

An immediate cut of that magnitude – particularly for older and lower income retirees – could be devastating. For that reason, most observers agree that Congress should take action to avoid such an abrupt cut.

**Myth #3: Social Security would be fine if we hadn’t “raided the trust fund”**

Fact: The program’s financial shortfall stems primarily from a growing mismatch between benefits paid and incoming revenue.

In the 1990s and 2000s, Social Security ran $1.3 trillion in primary surpluses, and including interest it has accumulated $2.8 trillion of trust fund assets. Those assets are invested in special U.S. Treasury bonds and effectively loaned to the rest of government. Many argue that these Social Security surpluses masked deficits in the rest of government and thus allowed policymakers to enact more deficit-financed tax cuts or spending increases. In that sense, it could be argued that Congress and the President “raided the trust fund.”

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3 Social Security Trustees, “1982 Annual Report, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds,” p. 70
However, regardless of how that money was used at the time by the rest of government, the full $2.8 trillion dollars is still owed to the Social Security trust fund under current law and accounted for in this fashion. All measures of Social Security’s long-term imbalances assume the $2.8 trillion is first paid back by the rest of government.

Social Security doesn’t face financial problems because those funds will not be repaid, but because the trust fund is dwarfed by the system’s projected shortfall over time. On a present value basis, the program is projected to spend $13.5 trillion more than it raises in revenue over the next 75 years – far more than the $2.8 trillion held in the trust fund. In other words, policymakers must identify $10.7 trillion, or about 2.7 percent of payroll, to make Social Security solvent even after trust fund revenue is paid back.

**Figure 2: Trust Fund Projections, 1990-2090 (Present Value, Billions of 2015 Dollars)**

![Diagram of trust fund projections]

*Source: Social Security Administration, CRFB calculations*

**Myth #4: Social Security cannot run a deficit**

Fact: Social Security is running a cash deficit today, and will keep running deficits until its trust funds run out.

Social Security is legally barred from going into debt, spending more than it takes in over the life of the program, but it can run a deficit, spending more than it takes in during a single year. In 2014, for example, Social Security ran a cash-flow deficit of $73 billion. Over the next decade, the trustees project cash-flow deficits of $1.3 trillion, and CBO projects deficits of $2 trillion.\(^7\) Even including interest income, the program is projected to begin running deficits by 2017 or 2020.

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Because the Social Security trust funds currently hold $2.8 trillion in reserves, the program is projected by the Trustees to continue to run “annual deficits for every year of the projection period” until the trust funds are depleted in 2034. At that point, current law bars Social Security from paying benefits beyond what is collected in revenue.

**Myth #5: Social Security has nothing to do with the rest of the budget**

**Fact:** Regardless of how Social Security is viewed, it interacts in many ways with the broader federal budget.

There are two different ways to look at Social Security: as its own isolated “off-budget” program or as part of the broader “unified” budget. We discuss these two frameworks in detail in our 2011 paper, “Social Security and the Budget.” Both of these frameworks are valid, and both show the program to have a financial problem. If treated in isolation, Social Security is on the road toward insolvency. If treated as part of the unified budget, Social Security is adding to the deficit, and this effect will increase over time.

If viewed as an off-budget program, Social Security does not directly add to the “on-budget deficit.” However, it indirectly contributes to the on-budget deficit because the interest payments it receives from the general fund are on-budget. It also receives funding from income tax revenue on Social Security benefits, which is technically on-budget, and has at times received general revenue transfers to compensate for policies that would reduce Social Security revenue (such as when lawmakers cut payroll taxes in 2011 and 2012).  

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Viewing Social Security as a self-financed program is not a reason to exclude it from fiscal constraints. In fact, this view highlights the need to make the program solvent for its own sake, without relying on general revenue transfers or borrowing. To be self-sufficient, the program would need changes to bring benefit spending in line with revenues.

Although Social Security is excluded from on-budget calculations, most economic analysts consider the unified budget deficit to be a more meaningful measure of the government’s fiscal health, as it better measures the budget’s impact on the economy. The Social Security system has been contributing to unified budget deficits on a cash-flow basis since 2010 and will continue to do so indefinitely. The federal government will have to borrow more, cut other spending, or raise taxes to make up for the Social Security system’s cash-flow deficit.

The trustees noted the impact of the Social Security program on the federal budget, writing in their recent report:

*The trust fund perspective does not encompass the interrelationship between the Medicare and Social Security trust funds and the overall federal budget ... From a budget perspective, however, general fund transfers, interest payments to the trust funds, and asset redemptions represent a draw on other federal resources for which there is no earmarked source of revenue from the public. In the past, general fund and interest payments for Medicare and Social Security were relatively small. These amounts have increased substantially over the last 2 decades, however, and the expected rapid growth of Medicare and Social Security will make their interaction with the Federal budget increasingly important.*

**Myth #6: We don’t need to worry about Social Security for 20 years**

**Fact:** There is a high cost of waiting to act to reform Social Security.

While the trustees and CBO expect Social Security (on a combined basis) to remain solvent through 2034 and 2029, respectively, both agree on the importance of acting soon. Although 2034 seems to be far off, many of today’s newest retirees would likely still be on the program – turning 81 – and today’s 48 year-olds would be just reaching the normal retirement age. Prompt action is the best way to keep the program solvent for these cohorts. 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... [and] allow more generations to share in the needed revenue increases or reductions in scheduled benefits.”

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Indeed, as former CBO Director Doug Elmendorf stated in testimony before Congress, “there is certainly a cost to waiting….the longer one waits to make changes, the larger the changes need to be and the more abruptly they would need to take effect.”

For example, based on projections from the trustees, the size of the necessary payroll tax increase to make Social Security solvent would rise from 2.6 percent if enacted today to 3.3 percent if enacted in a decade and 4.0 percent if enacted in 2034.

The size of the necessary across-the-board benefit cut would grow from 16 percent today to 20 percent in a decade and 23 percent by 2034. If lawmakers exempted existing beneficiaries, that cut would have to equal 20 percent today, 33 percent in a decade, and literally could not be large enough to solve the problem by 2034.

![Fig. 4: Percent Change Needed to Ensure 75-Year Solvency](image)

**Fig. 4: Percent Change Needed to Ensure 75-Year Solvency**

- **Payroll Tax:**
  - Starting Immediately: 21% (2.6)
  - Starting in 2026: 27% (3.3)
  - Starting in 2034: 32% (4.0)

- **All Benefits:**
  - Starting Immediately: 16%
  - Starting in 2026: 20%
  - Starting in 2034: 23%

- **New Benefits:**
  - Starting Immediately: 20%
  - Starting in 2026: 20%
  - Starting in 2034: 33%

Source: CRFB calculations based on Social Security Trustees

*Impossible to avoid insolvency by cutting only new beneficiaries’ benefits
Numbers in parentheses represent percentage point payroll tax increases.

**Myth #7: Social Security reform is code for slashing benefits, especially for the poor**

Fact: Under most reform plans, benefits would continue to grow faster than inflation and would be further enhanced for low-income recipients.

Under current law, scheduled benefits – even after adjusting for inflation – continue to grow over time. Indeed, average lifetime benefits are projected to approximately double over the next 40 years. This growth occurs both because benefits are indexed to wages –

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13 CRFB calculations, based on Social Security’s projections of annual benefit amounts for a worker retiring at age 65 and projected life expectancy. 2015 Trustees report.
which normally grow faster than inflation – and because growing life expectancy allows beneficiaries to receive benefits longer.

Most Social Security reform plans do not cut benefits from their current levels, but rather slow the growth of benefits to reduce some of the pressure that wage-growth and rising life-expectancy will place on the program. Many plans make these changes progressively, so that lower-earning workers continue to enjoy most or all of the benefit growth currently scheduled. Often, reform plans also include targeted benefit enhancements for low-income populations such as a minimum benefit or old-age bump up.14

Under the Simpson-Bowles plan, for example, between now and 2080 lifetime benefits would still nearly double for the highest earners, increase by roughly 150 percent for median workers, and approximately quadruple for very low earners.15 In the absence of any changes, scheduled benefits are set to more than triple for all income groups.16

Fig. 5. Lifetime Benefits Under Simpson-Bowles (2010 GDP-indexed dollars)

For very low earners, under Simpson-Bowles, benefits would be 40 percent higher than what is scheduled and 75 percent higher than what is payable under current law.

Rather than slash benefits, this and other reform plans would actually prevent a 21 percent benefit cut that would be necessary under current law, enhance benefit growth for vulnerable populations, and continue to allow other benefits to grow over time.

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14 See, for example, the plans of the National Commission on Fiscal Responsibility and Reform (Simpson-Bowles) and the Dominici-Rivlin Debt Reduction Task Force, which both included minimum benefits for low-wage workers and a benefit increase for very old beneficiaries.


16 CRFB calculations, based on Social Security Administration, Annual Scheduled Benefit Amounts (for someone retiring at 65)
Myth #8: Social Security is too hard to fix

Fact: Social Security reform options are well-known, and a combination of incremental adjustments – enacted soon – can secure the program for future generations.

While Social Security reform is politically difficult, it is not difficult to come up with policies to keep the program solvent. There are countless options available to adjust the benefit formula for future beneficiaries, modify cost-of-living adjustments, change eligibility, increase payroll tax rates, increase the amount of income subject to the payroll tax, increase the retirement age, or change other parameters in the system. The Social Security Chief Actuary has published a list of 121 such options and variations, and the Congressional Budget Office has published several lists with over 40 options combined.\(^{17}\)

If enacted soon, a combination of changes could be phased in gradually and still achieve solvency over the next decade. For example, the Simpson-Bowles plan would increase the normal retirement age from 67 to 69 by about 2075, transition to a new more progressive benefit formula by 2050, grow the taxable maximum to cover 90 (as opposed to 83) percent of wages by 2050, and index COLAs to an alternative measure of inflation that grows about 0.25 percent slower than the current formula each year.

The options available to reform Social Security are well-known. CRFB has created an interactive tool, The Reformer, to allow anyone to design their own. The Reformer lets users pick from a set of commonly-discussed options and then shows the effect of the user’s plan on solvency, spending, and revenue.

Reforming Social Security may be politically challenging, but the policy options are relatively straightforward. Policymakers should take on the challenge of addressing Social Security so it can be around for another 80 years.