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TESTIMONY

Social Security Is Worsening the Debt Crisis

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Social Security: The Reality

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Chairman Johnson, Ranking Member Merkley, and members of the Committee on the Budget, thank you for inviting me to testify. I am a senior research fellow at the Mercatus Center at George Mason University. The views I express today are my own.

The federal government's gross debt is over $40 trillion, publicly held debt is about $32.8 trillion, and the deficit is about $2 trillion. This public debt is on track to surpass its postwar record by the end of the decade. Interest payments have nearly tripled over the past five years and show no sign of coming down, especially while inflation remains a problem.

Social Security's shortfall is large and growing. It also sits inside an even larger fiscal crisis. Medicare is the bigger and faster-growing driver of future debt, on track to add $85 trillion to the national debt by 2056, including interest. But the size of Medicare's problem is no reason to minimize Social Security's. Congress must address both problems before the trust funds are exhausted.

To do this, we also need to define the problem correctly. Unfortunately, a few misunderstandings are sabotaging our ability to reform the program, including the nature of the trust funds' assets and the factors contributing to Social Security's shortfall.

The Problem Is Already Here

From 1983 to 2009, the Social Security trust funds accumulated about $2.5 trillion in assets. It did that by collecting more in taxes than Social Security paid out in benefits. The extra payroll tax money went into the Treasury's general account and paid for everything else the government does, from buying aircraft carriers to doling out farm subsidies. In exchange, the Treasury handed special bonds to the Social Security Administration.

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Those bonds are a claim that the Social Security trust funds hold against the Treasury's general fund. What Social Security counts as an asset, the Treasury owes as a liability of the same size. For the government as a whole, the two cancel out.

The trust funds' primary function is a legal one. When their balance is positive, Social Security may pay full benefits. But when that balance reaches zero, which the trustees expect will happen for the retirement fund in late 2032, the law limits benefit payments to no more than incoming revenue. That means a cut of about 22 percent in benefit payments.

Social Security's fiscal problem does not begin when the trust funds are exhausted, however. Social Security is contributing to federal deficits and debt right now.

Indeed, a positive balance in the trust funds does not mean that Social Security does not contribute to the deficit. Since 2010, Social Security has paid out more in benefits than it collects in taxes. The trustees project the gap will never close. To pay for all the benefits, the program has started redeeming the assets in the trust funds. Its bonds are claims on a Treasury that spent the surpluses as they arrived, and today the Treasury borrows from the public to honor the bonds, thereby adding to the deficit. Last year alone, Social Security added about $229 billion. In the past, the program received general fund transfers to pay for payroll tax relief, which also contributed to budget deficits. According to Romina Boccia's calculations, Social Security added $1.6 trillion including interest from 2010 to 2025. It will add another 3.4 trillion by 2032.[1]

How the Shortfall Grew

We should also be precise about why Social Security's finances have deteriorated. Demographics are one driver of the shortfall. There are 2.6 workers for every beneficiary today, and the trustees expect that number to fall to 1.9 by 2075; this year they lowered their assumption even further, to 1.75. But American women now have about 1.6 children on average, so even the trustees' latest estimate still assumes a rebound that the Congressional Budget Office (CBO) and the Census Bureau do not project.

But demographics are not the whole story.

Congress writes the rules that determine who collects, at what age, and how much, and it has repeatedly expanded benefits without the revenue to pay for them. The pattern began before the first Social Security check went out. The 1935 law scheduled the first monthly retirement checks for January 1942, but its 1939 amendments moved the first benefits up to 1940. It also added spouse and survivor benefits and moved the program away from building up its asset reserves. Ida May Fuller, the first monthly beneficiary of the program, paid $24.75 in payroll taxes and collected $22,888.92 over 35 years.

Later choices compounded this gap between Social Security's incoming assets and outgoing benefits. Congress raised benefits by about 77 percent in 1950 and by 20 percent in 1972—the second time, months before a presidential election. The 1972 law also created automatic cost-of-living adjustments beginning in 1975, and a flaw in the formula over-indexed the initial benefits of future retirees. The 1977

[1] Romina Boccia, "The Fiscal Situation of the United States" (Testimony Before the Joint Economic Committee, Cato Institute, March 12, 2024), https://www.cato.org/testimony/fiscal-situation-united-states.

amendments fixed that error, but they also built steady cost growth into the program as it tied each new retiree's initial benefit to economy-wide wage growth.

Retirement ages moved far less. Congress first let women claim at age 62 in 1956 and men in 1961, and it waited until 1983 to legislate a higher full retirement age, which stops at 67. Longer lives and earlier claiming mean the average retirement now lasts about nine years longer than it did in 1940.

The program has been rescued several times, all of which have left the flawed design in place. The 1977 amendments raised payroll taxes sharply, in the hope that the new infusion of revenue would keep the program sound from 1980 to 2030. By late 1982, however, the retirement fund had to borrow from the other trust funds to keep paying benefits. The 1983 reform moved the scheduled payroll tax increases forward, began taxing the benefits of higher-income beneficiaries, and gradually raised the retirement age. It restored solvency *on paper*. But it also left the pay-as-you-go structure in place, set aside no real savings for future obligations, and worsened the deal for younger workers.

In addition, Presidents Biden and Trump both signed laws that worsened the trust fund shortfall. In January 2025, President Biden signed the Social Security Fairness Act, which repealed two provisions that reduced benefits for retirees with government pensions from jobs outside Social Security. As a result, about 3 million people got larger checks. CBO put the cost at $196 billion over 10 years and said that, as a result, the trust funds would run dry about six months sooner.[2] Then, President Trump signed the One Big Beautiful Bill Act, which included a temporary $6,000 deduction for people 65 and older and reduced the income tax on benefits that flow into the trust funds. Social Security's chief actuary estimated the cost to the program at $168.6 billion over 10 years and moved the retirement fund's depletion forward, from early 2033 to late 2032.[3]

These choices have resulted in a program that always promises increasingly expensive lifetime benefits while its dedicated financing fails to keep pace. The American Enterprise Institute's Andrew Biggs calculates that average inflation-adjusted Social Security payments increased 36 percent between 2000 and 2021,[4] and annual benefits today can pay out six-figure sums to married retirees. What was once an economic security program for retirees has become a massive entitlement program that transfers resources from the young to support their more affluent elders.

This is the problem Congress needs to solve in the face of the program's upcoming insolvency.

According to the trustees' 2026 report, Social Security's 75-year shortfall is now 4.42 percent of taxable payroll, up from 3.82 percent a year ago.[5] That's a shortfall of about $30 trillion. Closing this shortfall with taxes alone would take an immediate 4.25-point (34 percent) increase in the payroll tax

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[2] Congressional Budget Office, "Cost Estimate: H.R. 82, Social Security Fairness Act of 2023," September 9, 2024, https://www.cbo.gov/system/files/2024-09/hr82.pdf.

[3] Social Security Office of the Chief Actuary, letter to Senator Ron Wyden, August 5, 2025, https://www.ssa.gov/oact/solvency/RWyden_20250805.pdf.

[4] Andrew G. Biggs, "Hearing on 'Protecting Social Security for All: Making the Wealthy Pay Their Fair Share'" (Testimony Before the US Senate Budget Committee, American Enterprise Institute, July 12, 2023), https://www.aei.org/research-products/testimony/hearing-on-protecting-social-security-for-all-making-the-wealthy-pay-their-fair-share/.

[5] Social Security Administration, *The 2026 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, June 9, 2026, https://www.ssa.gov/oact/TR/2026/tr2026.pdf.

on every worker. Closing it with benefits alone would require an immediate 25 percent reduction in benefits for everyone.

Social Security and the Debt

Social Security's shortfall is part of the debt problem, and moving it to the general fund does not make it disappear. Repealing the automatic reduction and paying scheduled benefits from general revenue, as Congress will surely consider, would remove the program's only binding budget constraint. Repealing the statutory trigger that reduces benefits in 2032 would add an estimated shortfall of $46 trillion over 30 years to an already unsustainable federal debt. In the absence of future surpluses pledged to repay it, markets would absorb the new debt through higher interest rates, a higher price level, or both, and inflation hits retirees living on their savings hardest.

I expect Congress will be tempted to postpone the reckoning by shifting money from the disability trust fund, which is not projected to run short, to the retirement fund. Supporters will cite 2015, when Congress moved payroll tax revenue in the other direction—but after 2015, no structural reform followed. This shift would be a short-term stopgap at best. A transfer would push the combined depletion date to 2034, a year after Medicare's hospital fund is expected to run dry. It would not raise or save a dollar.

Congress should also reject proposals to expand benefits and create new entitlements, which are supposedly justified by the disruption of artificial intelligence and would be paid for with new taxes on investment income. If AI raises wages, wage-indexed benefits rise automatically. A tax on capital is a tax on the investment that would produce those gains.

Finally, Congress should not raise the payroll tax, either by increasing the rate or by lifting the cap on taxable wages. Social Security already treats almost everyone unfairly, and a higher tax would make it worse. Young workers today hand over 12.4 percent of their wages—half of that directly through their paychecks and the other half in the form of lower wages— to retirees, who are now the wealthiest age group in the country. A second earner in a married couple raises the household's lifetime payroll taxes by about 45 percent and its benefits by only about 5 percent. At the top, a maximum earner pays roughly $1 million in retirement payroll taxes and collects about $666,000 in benefits. Instead of considering proposals that will heighten this inequality, Congress should focus on reforms that will truly limit Social Security's shortfall and its contributions to the federal debt.