

Understanding the Social Security Trust Funds

Few budgetary concepts generate as much unintended confusion and deliberate misinformation as the Social Security trust funds. The trust funds are invested in Treasury securities that are just as sound as all other U.S. government securities, held by investors around the globe and regarded as being among the world’s safest investments. Starting in 2021, Social Security began drawing down trust fund reserves to help pay for benefits. Although Social Security has a long-term financial shortfall that must be closed, the program’s combined trust funds will not be depleted until around 2035, which gives policymakers time to develop a carefully crafted financing plan.

How Do the Trust Funds Work?

Social Security’s financial operations are handled through two federal trust funds: the Old-Age and Survivors Insurance (OASI) trust fund and the Disability Insurance (DI) trust fund. Although legally distinct, they are often referred to collectively as “the Social Security trust fund.” All of Social Security’s payroll taxes and other earmarked income are deposited in the trust funds, and all of Social Security’s benefits and administrative expenses are paid from the trust funds.

Social Security is largely a “pay as you go” program, meaning today’s benefits are funded primarily by the payroll taxes collected from today’s workers. For over three decades, however, Social Security collected more in payroll taxes and other income than it paid in benefits and other expenses, and the Treasury invested the surplus in interest-bearing Treasury securities, ultimately reaching a total of \$2.9 trillion in trust fund reserves. In 2021 Social Security began redeeming those reserves to help pay benefits. Payroll taxes from current workers will continue to pay for the bulk of benefits. The trust fund reserves will make up the difference between income and costs until the reserves are depleted. At that point, Social Security’s income will still be able to pay roughly 83 percent of promised benefits — even in the unlikely event that policymakers fail to act.

What Is the Trust Funds' Financial Status?

Social Security is adequately financed in the short term but faces a modest long-term financial shortfall amounting to 1.2 percent of GDP over the next 75 years, the period that the program's actuaries use in evaluating Social Security's long-term finances.

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Following the bipartisan Social Security financing deal in 1983, Social Security ran a surplus every year until 2021. Starting in 2021, Social Security's total cost exceeded its total income. However, the trust funds' reserves supplement the program's income – from payroll taxes, income taxes on benefits paid to higher-income beneficiaries, and interest earned on the trust funds' bonds – to enable Social Security to keep paying full benefits until 2035.

If Social Security's trust funds run out of Treasury bonds to cash in, benefits would not stop – contrary to a common misunderstanding. At that point, if nothing else is done, Social Security could still pay about 83 percent of promised benefits using its annual tax income. Of course, paying less than full benefits is not an acceptable way to run this vital program, and Congress will need to act to strengthen its long-term finances.

Most analyses of Social Security focus on the combined OASI and DI trust funds, since both are integral parts of Social Security, but the two trust funds are, in fact, separate. The Trustees project that the DI trust fund reserves will last through the 75-year long-range projection window, contrasting with the 2057 projected depletion forecasted in the 2021 report. However, the much larger OASI fund is projected to last until 2033.

Is It Better to Act Sooner Rather Than Later?

Not necessarily. Some people mistakenly suggest that Social Security's shortfall gets larger the longer policymakers wait to address it, but that's only an artifact of the projections. The annual Social Security trustees' report includes projections that span the next 75 years. Each year's new report adds a year in which deficits are relatively large. This increases the estimated 75-year gap, even if the shortfall in each individual year of the projection remains the same.

That said, acting sooner to address the shortfall – whether by increasing Social Security's income, reducing its benefits, or some combination of the two – would spread the burden over more generations of workers and beneficiaries and allow for smaller future adjustments. For example, if Social Security tax increases were phased in soon, current workers could contribute to restoring solvency. But if tax increases were delayed, they would fall entirely on younger workers, and the required increase would be larger. At the same time, however, future generations will be more prosperous and better able to afford adjustments. Policymakers will need to balance these competing concerns.

Acting sooner to strengthen Social Security's financing would give workers plenty of notice about changes so that they can plan their work, savings, and retirement. It would also strengthen public confidence in the

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system by easing worries about its financing. Social Security faces no imminent crisis, however; policymakers have time to carefully craft a financing package that minimizes cuts to the program’s modest but critical benefits.

How Are the Trust Funds Invested?

The Social Security trust funds are invested entirely in U.S. Treasury securities. Like the Treasury bills, notes, and bonds purchased by private investors around the world, the Treasury securities that the trust funds hold are backed by the full faith and credit of the U.S. government. The U.S. government has never defaulted on its obligations, and investors consider U.S. government securities one of the world’s safest investments.

By the end of 2021, the trust funds had accumulated \$2.9 trillion worth of Treasury securities, earning an average interest rate of 2.3 percent during that year. The Social Security Administration provides monthly reports on the [investment holdings](#) of the trust funds, their maturities, and interest rates. The trustees project that the trust funds will earn \$68.6 billion in interest income in 2024.

What Happens to Trust Fund Surpluses?

When the rest of the budget is in deficit, a Social Security cash surplus allows the government to borrow less from the public to finance the deficit. (The “public” encompasses all lenders other than federal trust funds, including U.S. individuals and institutions, the Federal Reserve System, and foreign investors.) The Treasury always uses whatever cash is on hand – whether from Social Security contributions or other earmarked or non-earmarked sources – to meet its current obligations before engaging in additional borrowing from the public. There is no sensible alternative to this practice. After all, why should the Treasury borrow funds when it has cash in the till?

Money that the federal government borrows, whether from investors or from Social Security, is used to finance the ongoing operations of the government in the same way that money deposited in a bank is used to finance spending by consumers and businesses. The bank depositors will get their money back when needed, and so will the Social Security trust funds. In fact, that has been happening since 2021, as the combined trust funds have been drawing down their accumulated reserves.

Updated July 24, 2024.

For more information, see this CBPP report:

Kathleen Romig, “What the 2024 Trustees’ Report Shows About Social Security,” July 24, 2024.