



October 14, 2022

# Social Security: Scheduled Versus Payable Benefits

## Background

Social Security is a self-financing program that, in 2022, covers approximately 182 million workers and provides monthly cash benefits to over 65 million beneficiaries. Social Security is composed of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs, referred to on a combined basis as OASDI.

The ability to pay fully scheduled benefits on time is determined by the financial status of Social Security. Without changes to current law, under the Social Security Trustees’ (hereafter trustees) intermediate assumptions—their best estimate of future experience is that beneficiaries in 2035 would receive a de facto reduction of about 20%. Recent surveys show about 42% of workers not yet retired expect benefits at a reduced level. Another 42% of workers not yet retired do not expect to receive any Social Security benefits (see “Additional Resources”). Congressional interest in this issue may be high because of the large number of beneficiaries—current and future—who may face benefit cuts under current law. Additionally, the possibility of benefits cuts may affect the employment and savings behavior of future beneficiaries.

## Social Security Benefits and Financial Status

Social Security, or OASDI, is a work-based social insurance program. It protects insured workers and their family members against a loss of earnings due to old age, disability, or death. Workers obtain insured status by working for a number of years specified in statute in jobs covered by Social Security. Social Security benefits are based on a worker’s career-average earnings in jobs covered by Social Security. About 94% of workers in paid employment and self-employment are covered under Social Security.

Social Security is primarily financed through dedicated tax revenues: a payroll tax (accounting for 90.1% of program income in 2021) and federal income taxes paid by about half of beneficiaries on a portion of their benefits (accounting for 3.5% of program income in 2021). Asset reserves are held in the OASI and DI trust funds. From years where total revenues exceeded total cost, these earn interest (accounting for 6.4% of program income in 2021). In 2021, 99.0% of total expenditures went toward monthly benefit payments.

In 2021, Social Security operated an *annual deficit*—the first since 1982. Since total cost exceeded total income in 2021, some trust fund assets were redeemed to pay fully scheduled benefits as specified under current law. The trustees project annual deficits to persist indefinitely (under

their intermediate assumptions). This indicates that reserves will need to be redeemed in future years.

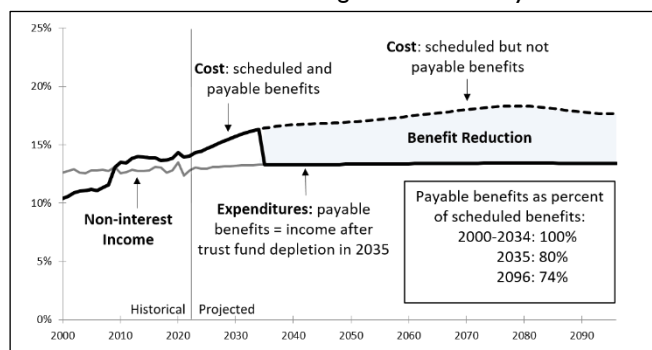
Without the redemption of asset reserves, Social Security could have paid out in benefits based only on what it received in income. In 2021, the program had total costs of \$1,145 billion and total revenues of \$1,088 billion. Thus, approximately \$56 billion in asset reserves were redeemed, or about 5% of total costs. Said differently, revenues in 2021 were sufficient to pay about 95% of scheduled benefits. At the beginning of 2022, the value of the combined trust funds was \$2,852 billion. This is the value of asset reserves available for Social Security to augment incoming tax revenues should deficits persist as projected.

## Scheduled Versus Payable Benefits

The relationship described above is illustrated in **Figure 1**. The period through 2009 shows non-interest income (i.e., tax revenues) exceeding costs. During this period, excess revenues accumulated in the trust funds. The period from 2010 onward shows cost exceeding non-interest income. Full *scheduled* benefits—benefit amounts specified under current law—were possible because of interest income through 2020 and because of redeemed asset reserves starting in 2021. **Figure 1** shows how the imbalance between cost and income is projected to continue and helps to answer the question of how long the trust funds can support scheduled benefits to be paid.

Under the intermediate assumptions, the trustees project that asset reserves will be depleted sometime in 2035. This means asset reserves can be redeemed from 2021 through 2035 to pay scheduled benefits. Once asset reserves are depleted, the program can pay out in benefits only the amount it receives in income from tax revenues. Thus, there will be a difference between scheduled benefits and *payable* benefits (i.e., the percent of scheduled benefits supported by revenue), as seen in **Figure 1**.

**Figure 1. OASDI Income, Cost, and Expenditures 2000-2096 as Percentages of Taxable Payroll**



Source: Congressional Research Service (CRS).

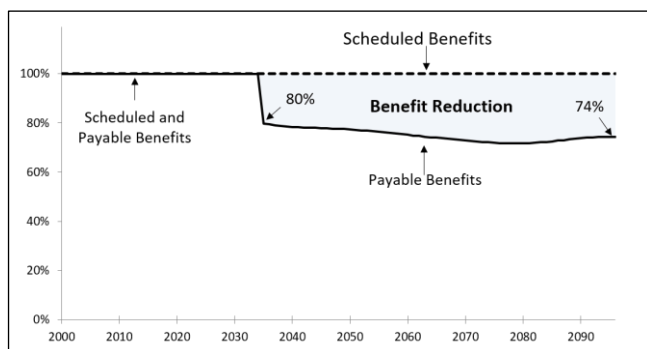
**Notes:** Projections use the trustees' 2022 intermediate assumptions.

The trustees project that in 2035—the projected date of trust fund depletion—tax revenues will be sufficient to pay about 80% of scheduled benefits. The percentage of benefits supported by revenues from payroll tax and the taxation of Social Security benefits will gradually decrease to about 74%, by 2096. As shown in **Figure 1**, the cost—as a percentage of taxable payroll—is projected to increase faster than income over the next 75-year projection period, whereas the income rate is relatively stable. This increasing cost rate is largely attributable to demographic trends (i.e., a decline in the ratio of covered workers per beneficiary). Although other (i.e., economic) factors play a role, demographic factors alone would cause the cost rate to increase markedly in coming years.

### How Will Beneficiaries Be Affected?

**Figure 2** demonstrates that until the asset reserves held in the trust funds are depleted, scheduled benefits will equal payable benefits. However, at the time of depletion (2035) and absent any change to current law, total payable benefits will become equal to continuing tax revenues. The trustees project about 80% of scheduled benefits will be payable. Beneficiaries could expect a 20% reduction in 2035 with additional reductions thereafter (see **Figure 2**).

**Figure 2. Benefits as a Percent of Scheduled Benefits 2020-2096**



**Source:** Congressional Research Service (CRS).

**Notes:** Projections use the trustees' 2022 intermediate assumptions.

As **Figure 2** shows, the percent of benefits payable will decrease to about 74% by 2096. That is, benefits would still be paid but at a reduced amount. It is unclear how payable benefits would be handled: The Social Security Act does not stipulate what would happen if scheduled benefits could not be paid. Two possible scenarios are (1) full benefit payments equal to those scheduled under current law are paid on a delayed schedule or (2) reduced benefits are paid on time based on Social Security income.

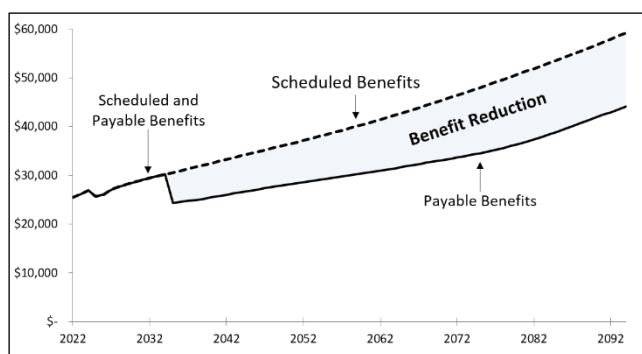
Because average real earnings (i.e., nominal earnings less inflation) generally grow over time, so do scheduled real benefits, as benefit amounts are largely dependent on a worker's earnings. Initial real benefit amount is one measure of benefit adequacy, as it helps to illustrate how the purchasing power of benefits can change over time.

**Figure 3** shows initial annual benefits for hypothetical medium earners (i.e., workers with career-average earnings

at about 100% of average wages) at full retirement age. From 2022 to 2034, the initial benefit amount for a hypothetical medium worker is projected to increase about 19% in real terms (from \$24,465 to \$30,215, or about 1.5% per year). Real *scheduled* benefits are projected to continue to grow by about 1.1% per year throughout the 75-year projection period.

However, without change to current law, real payable benefit levels are projected to drop by 20% after the trust funds become insolvent in 2035 then once again rise gradually. Projections show that initial payable benefits in 2059 would be similar to initial payable benefits in 2034. Thus, the hypothetical medium earner collecting benefits in 2059 would have the purchasing power as a similar individual initially collecting benefits in 2034.

**Figure 3. Initial Annual Benefits for Hypothetical Medium Earners at Full Retirement Age, 2022-2096**  
In 2022 Dollars



**Source:** Congressional Research Service (CRS).

**Notes:** Projections use the trustees' 2022 intermediate assumptions.

### What Can Be Done?

To illustrate the magnitude of changes needed to maintain Social Security solvency over the next 75 years, the trustees point out certain hypothetical options: (1) an immediate 3.24 percentage point increase in the combined payroll tax rate (from 12.40% to 15.64%), (2) an immediate 20.3% reduction in scheduled benefits for all *current and future* beneficiaries (or a 24.1% reduction for *newly eligible* beneficiaries only), or (3) some combination of the two approaches. The trustees state, “Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits.”

### Additional Resources

Laura D. Quinby and Gal Wettstein, *How Does Media Coverage of Social Security Affect Worker Behavior?*, Center for Retirement Research at Boston College, October 2021.

Pew Research Center, *Looking to the Future, Public Sees an America in Decline on Many Fronts*, March 2019.

CRS Report RL33514, *Social Security: What Would Happen If the Trust Funds Ran Out?*

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