SOCIAL SECURITY HIGHLIGHTS

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Social Security Trustees Report 2023: Here We Go Again

The Social Security Trustees annual report was issued on March 31, 2023. This is the earliest the report has been published in at least five years.

It seems that every year there is some adjustment to the day of reckoning, or the day in which the Trust Funds are projected to run out of money. Note that in spite of what some people may believe, this is not the day in which Social Security benefits will go away: It means that in the unlikely scenario that nothing is done between now and then, future benefits will be reduced.

Keep in mind that the overwhelming majority of current Social Security benefits are paid not by the Trust Funds, but by the payroll taxes withheld from workers' paychecks. The new projection is that from 2034 forward, without the help of the Trust Funds, Social Security will only be able to pay about 80 percent of the currently projected benefits.

The 2023 report is a mixed bag. The bad news is that the day of reckoning has been moved up by a year, from 2035 to 2034. This is the same date that was projected in the 2021 report. The 2022 report had pushed it back by a year.

The good news is that the Medicare situation has improved for the second year in a row. The Trustees estimate that Medicare's main trust fund, covering hospital insurance, will be able to pay full benefits through 2031. This is much sooner than the Social Security Trust Funds are anticipated to be depleted, but it's three years longer than projected last year.

There is some confusion about the detail of the report as some media outlets listed the projected Social Security Trust Fund depletion date as 2033, rather than 2034. This is because there are two separate Social Security Trust Funds, one for retirement benefits and one for disability benefits. The fund for retirement benefits is by far the larger of the two.

In the current projection, the disability fund is actually in a stronger position; it is expected to remain solvent throughout the 75 year long-range projection period. The retirement portion by itself is expected to be depleted in 2033. If the disability and retirement Trust Fund projections are combined, the overall depletion date is 2034. The two funds cannot be combined under current law; however, the combined projection is often used as an indicator of the overall status of the Social Security program.

One often-overlooked factor in the solvency of Social Security is the role of cost-of-living ("COLA") adjustments. Two consecutive years of higher-than-normal COLAs—5.9 percent in 2022 and 8.7 percent in 2023—have put an additional strain on the Trust Funds.

The combined Trust Fund balance was about $2.83 trillion at the end of last year. By law, the Trust Funds must invest exclusively in non-publicly traded government bonds. The funds ran a surplus for many years. But since 2010, annual benefit payments have exceeded the payroll and income tax revenue they collect. In spite of that, the overall Trust Fund balance kept going up slightly every year, due the interest earnings inside the funds. But that changed in 2021, when the funds began dipping into their principal reserves for the first time in decades.

The report assumes that Congress will do nothing to address this issue between now and then. That seems unlikely, but it is what nearly happened last time there was a serious Trust Fund crisis. In 1983, it took until the Trust Funds were almost completely depleted before Congress made the changes.

The 1983 changes were originally projected to keep the program solvent for 75 years. Based on the current projection, they're going to be about 24 years short.

It's hard to gauge, but chances are that Congress will eventually have to step in. That probably won't be happening anytime soon, and the longer they wait, the more difficult it becomes to solve the problem.

If and when they do step in, what methods will Congress use to fix the Trust Funds? The 1983 changes were a combination of an increase in withholding taxes and an increase in retirement age. Perhaps they will do something like that again. It's anybody's guess.

Social Security **Evaluator**

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