American Academy of Actuaries

Issue Brief

Significance of the Social Security Trust Fund

AUGUST 2025

Key Points

- Assets of Social Security are held in two trust funds, which receive all their income and from which all benefits are paid. While past surpluses built trust fund assets to a peak of $2.9 trillion in 2020, subsequent deficits are expected to cause depletion around 2034.
- Trust fund assets consist of U.S. Treasury securities, reducing the amount of publicly held federal debt. However, as trust fund depletion approaches, publicly held debt must increase by the same amount.
- Some question whether keeping Social Security's assets in trust funds serves a valuable purpose. The answer depends on the context in which the question is asked: whether it refers to (1) the Social Security system itself, (2) the entire federal government, or (3) the national economy.

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Background

Social Security was designed primarily as a pay-as-you-go system. This means that, in any given year, most beneficiary benefit payments are funded by taxes paid by workers and their employers in that year. Put another way, the benefits of each generation of retired workers are mostly paid for by succeeding generations during their working years. Nevertheless, from the outset, it was deemed necessary to maintain an asset reserve to mitigate short-term fluctuations in revenue and expenditures. The Old Age and Survivors Insurance (OASI) trust fund was established for this purpose.

When disability benefits were added in 1956, a separate Disability Insurance (DI) trust fund was established. In this issue brief, the two trust funds are treated as one combined Old Age, Survivors, and Disability Insurance (OASDI) trust fund, under the assumption that, if one of the trust funds were depleted before the other, Congress would reallocate tax income or assets to ensure both programs could continue making their scheduled benefit payments. In support of this assumption, in 2015, Congress temporarily reallocated a portion of tax income from the OASI to the DI trust fund because the projected depletion date of the DI trust fund was significantly earlier.

From the end of World War II until 1983, the trust fund generally contained assets sufficient to pay no more than one year's benefit payments. In the 1983 Social Security Act, Congress enacted a series of tax rate increases designed to build up significant trust fund assets that could be drawn upon as demographics became less favorable with the baby boomers' retirements (mostly over 2010-2030). In 1983, it was anticipated that these tax increases would be sufficient to fund scheduled benefit payments until the early 2060s.

However, subsequent experience has been less favorable than anticipated. Income exceeded benefit payments and administration expenses only through 2020, when trust fund assets reached a peak of $2.9 trillion. Since then, it has been necessary to withdraw assets from the trust fund to continue paying scheduled benefits; these withdrawals are expected to increase until the trust fund is depleted around 2034.[1] Without trust fund assets to draw on, income is projected to be sufficient to pay about 83 percent of scheduled benefits in 2035, decreasing to 73 percent by the end of the current 75-year projection period.

When assets were accumulating in the trust fund, many policy analysts asked whether those assets were "real"—that is, whether they represented a store of value that could be drawn on to pay future benefits or an accounting device without significance. The drawdown and imminent projected depletion of these assets have focused attention on this question. To understand the issues involved and to assess the economic and fiscal consequences of the trust fund, this issue brief describes three perspectives from which the Social Security trust fund can be viewed:

- *Social Security system perspective*—Social Security holds financial assets backed by the full faith and credit of the U.S. government. The legal consequence of not having sufficient assets to make benefit payments is that full benefits cannot be paid.

- *Unified budget perspective*—The federal government is a single fiscal entity. The securities in the Social Security trust fund are both assets of the trust fund and liabilities of the Treasury's general fund.[2] The assets and liabilities offset each other and, therefore, do not affect the government's net balance sheet.

1 Based on the 2025 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds (Trustees Report), reflecting the effect of the repeal of the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) in January 2025.
2 "The general fund of the Treasury" is the common term for the funds held by the Treasury of the United States, other than receipts collected for specific purposes (such as Social Security) and maintained in a separate account for that purpose.

This paper was drafted by members of the Social Security Committee: Sam Gutterman – Chairperson, MAAA, FCA, FCAS, FSA; Janet Barr, MAAA, ASA, EA; Iris Kazin, MAAA, EA, FCA, FSA; Amy Kemp, MAAA, EA, ASA; Eric Klieber, MAAA, EA, FSA; Piotr Krekora, MAAA, ASA, EA, FCA; Jerry Mingione, MAAA, FCA, FSA; Brian Murphy, MAAA, EA, FCA, FSA; John Nylander, MAAA, FSA; Neela Ranade, MAAA, FSA; Larry Rubin, MAAA, FCA, FSA; Jeffery Rykhus, MAAA, FSA; Joan Weiss, MAAA, FSA.

- *Entire economy perspective*—Whether the trust fund has macroeconomic consequences depends primarily on whether it affects the level of overall national savings, capital accumulation, and gross domestic product (GDP). It may also affect the distribution of after-tax income by enabling a shift in the tax burden between payroll and income taxes.

Whether the trust fund is seen as “real” depends primarily on the perspective from which this question is approached.

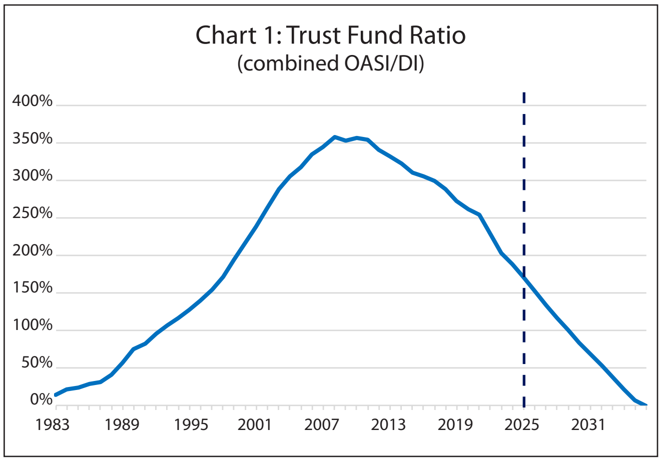
Trust Fund Basics

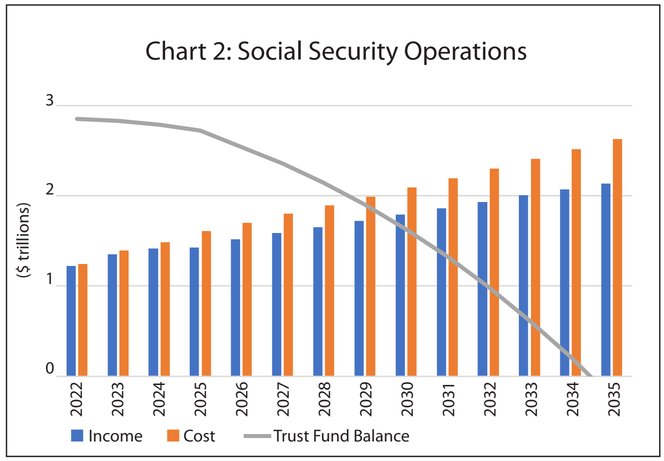
Under federal law, Social Security taxes are required to be deposited into the trust fund and invested in interest-bearing securities backed by the full faith and credit of the U.S. government.[3] For this purpose, the Treasury Department has created special-issue securities that differ from Treasury securities issued to the public in two ways: they can be redeemed at par[4] at any time and they cannot be traded in the financial markets.[5] By law, the interest rate applicable to securities issued in a given month is the average market yield on marketable interest-bearing securities of the federal government, which are not due or callable until after four years from the last business day of the prior month. Trust fund assets are regularly invested and redeemed to cover fluctuations in cash flows as revenues come in, securities mature, and benefit payments and other expenses become due. For the most part, these trust fund operations are carried out with little public attention.

In addition to payroll taxes, the trust fund receives interest on its bond holdings and a portion of the regular income tax paid by beneficiaries on their Social Security benefits. Benefit payments account for about 99 percent of program expenses. The remainder comprises administrative expenses and a small payment to the Railroad Retirement System under a reciprocity arrangement between the two programs.

3 Social Security Act, Title II, Sec. 201(d) [42 U.S.C. 401].
4 Par value is the value printed on the face of a security. For both public and special issues held by the trust funds, par value is also the redemption value at maturity.
5 The trust fund can redeem securities before maturity only when needed to pay Social Security’s costs, not to reinvest in securities earning a different interest rate. Even when cash flows are positive, short-term fluctuations in revenue can require that bonds be redeemed before maturity. The Treasury Secretary determines the need for asset redemption.

Historical and projected trust fund ratios (trust fund assets divided by annual program costs) are shown in Chart 1. Trust fund assets, income, and costs are also presented in Chart 2, all based on the intermediate cost estimates in the 2025 Trustees Report.





Under the Budget Enforcement Act of 1990, Social Security and the U.S. Postal Service are treated as "off-budget" for federal budget reporting, in contrast to the rest of the federal budget, which is considered "on-budget." In the case of Social Security, the intent was to prevent surpluses from being used as a rationale for increased spending in other areas of government. Although these entities are part of the government, this practice implies that neither their income nor expenses are treated as income or expenses of the government for budget reporting purposes. This separation means that Social Security's past surpluses have not offset the government's reported deficits, nor do benefit payments paid in excess of dedicated payroll tax income (the current situation) add to the government's reported deficits. In addition, Treasury securities held by the trust fund are treated as if they were held outside the government, i.e., they are counted as part of the federal government debt.

Most policy analysts, both inside and outside the government, pay more attention to the "unified budget," which encompasses the financial effects of all government programs, including Social Security. Under the unified budget, only payroll tax revenue constitutes income to the government. Interest and income taxes received by Social Security are paid by the government and are thus treated as internal governmental transfers.

Regardless of accounting convention, from 1984 to 2009, the excess of payroll tax income over benefit payments and administrative expenses was invested by the trust fund in government securities, constituting loans to the Treasury. As those loans were available to finance other government expenditures, actual on-budget government spending in those years required less revenue from other taxes or less borrowing from the public than would have been the case had there been no Social Security surpluses.

The securities held in the trust fund illustrate the lending and borrowing relationship between Social Security and the general fund of the Treasury. When the securities in the trust fund are redeemed, other sources of federal revenue finance part of Social Security benefit payments. This situation is not unprecedented. In each year from 1957 to 1965, redemptions of trust fund assets financed a portion of Social Security costs; in 1959, interest and asset redemptions funded more than 17 percent of cash outflows.

The following sections elaborate on the three perspectives from which the economic consequences of the trust fund can be assessed: the Social Security system, the unified budget (federal government as a whole), and the entire economy.

1. Social Security System Perspective

It was important for the original designers of Social Security that the program and its benefits be perceived, not as welfare or charity, but as an insurance program funded by contributions from covered workers. For this purpose, they financed Social Security with a dedicated tax and segregated its income from that tax into a trust fund separate from the government's other assets.

In the short term, the trust fund serves as an accounting mechanism, providing a useful tracking function as a record of claims to a share of government financial resources dedicated to Social Security through cumulative Social Security taxes. Because dedicated revenues do not precisely match program costs each year, the trust fund lends the excess revenue (surplus) to the general fund of the Treasury in some years and requires repayments of such loans in other years when there is a revenue shortfall (deficit).

Over the long term, the trust fund serves a distributional or smoothing function. A pay-as-you-go program with a level tax rate and benefit formula can be sustained for a long period only if the ratio of workers to beneficiaries is relatively stable or increases. As the population ages and benefit costs increase relative to contributions, the resulting imbalance between contributions and payments will eventually necessitate remediation through a combination of tax increases, benefit reductions, or additional sources of revenue.

The trust fund enabled Social Security to transition from pure pay-as-you-go financing to partial prefunding, as excess tax revenue prescribed under the 1983 Act was deposited into the trust fund in anticipation of future deficits. The trust fund has enabled Social Security to pay all scheduled benefits without an increase in the payroll tax rate since 1990.

The trust fund provides a direct connection between the payroll taxes that finance Social Security and the benefits the program provides. This relationship has fostered a widely held perception that the benefits are earned, making it politically difficult to rescind or reduce them. In this way, the trust fund can be viewed as a vital component of the social contract between workers and the federal government.

In sum, there are several valid views of the functions of trust fund assets, including:

- A **tracking** function
    - · forces a rationalization of payroll taxes vs. benefit payouts
    - · credits the program with tax revenue paid in advance of payout needs
    - · limits program payouts to the amount of taxes collected (absent legislative change).
- A **smoothing** function to help address varying demographics over time (e.g., the 1983 legislation brought limited advance funding).
- A **legitimizing** function, i.e., the existence of trust assets validates beneficiaries' claims to benefits (since, to some extent, they have already paid for them).

Another important feature of the program is that it is not allowed to borrow. The assets in the trust fund set a limit on benefit amounts that Social Security can pay out. In this manner, the trust fund facilitates an effective governance function by constraining potential Congressional action to raise benefits to levels not supported by dedicated program revenue.

2. Unified Budget Perspective

Accounting Mechanism

Regardless of how the federal budget is reported, Social Security is a part of the federal government. The unified budget perspective considers the totality of government finances, rather than distinguishing between those parts that are on-budget and off-budget or viewing one government program in isolation from other government programs. The federal government can only spend as much money as it collects in taxes and borrows from the public.[6] When one part of the government borrows from another, the government's total debt to outside parties remains unchanged.

6 A government may also finance its spending by seigniorage, i.e., printing money. However, in the United States, seigniorage has never been a large source of government finances. Central banks of developed countries tend to restrain seigniorage because excessive seigniorage can lead to hyperinflation.

From a unified budget perspective, the trust fund serves as a buffer between Social Security and the rest of the government's financial operations; its impact varies depending on whether the program is in a surplus or deficit position. When Social Security runs a surplus, it invests in securities issued by the government, which provides the government with additional funds for other purposes. When Social Security runs a deficit and must redeem some of its securities, the government must borrow an equivalent amount from the public by selling Treasury securities. If the trust fund assets were depleted, Social Security would have only its own income to pay benefits, and the rest of the government would neither receive money from nor pay money to Social Security. When the trust fund contains assets, it can be viewed as an accounting mechanism that connects Social Security with the rest of the government's finances.

Budgetary Effects in the Long Term

The existence of the trust fund may affect other government budgetary choices. At one extreme, the on-budget deficit (or surplus) may be assumed to be completely independent of Social Security finances so that every dollar of Treasury securities issued to the trust fund means one less dollar borrowed from the public. Based on this perspective, the trust fund accumulation has enabled a dollar-for-dollar reduction in public debt. However, not all economists believe this conclusion to be completely correct. An opposite view assumes that public borrowing capacity may be limited, so that the ability of the general fund to borrow from the trust fund enables and incentivizes additional deficit spending. These two competing theories may be partially reconciled, given the impact of additional public debt issuance on interest rates—that is, issuing greater amounts of public debt will likely result in higher interest rates, making deficit spending more expensive.

Although researchers have tried to estimate the effect, if any, that the trust fund has had on the federal budget, such measurement is complicated by the dynamic nature of the legislative process and varying assumptions about the economic, legislative, and political environments.

3. Whole Economy Perspective

National Savings

An argument often heard in debates about Social Security is that saving for retirement should contribute to the nation's total savings. According to standard macroeconomic theory, higher sustained national savings lead to more capital investment and a higher level of future economic output or GDP.[7] Focusing on the macroeconomic aspects of retirement savings, a critical question about the trust fund is whether it affects the overall level of national savings.

National savings equals private savings minus government deficits. Therefore, for national savings to increase, typically, private savings must increase or government deficits must decrease. The savings levels of governments and the private sector often change in opposite directions. For example, if the government increases income taxes without increasing spending, deficits will decrease. However, if individuals react to their lower after-tax income by saving less, national savings will increase less or not at all. Conversely, a tax cut is likely to increase private savings and increase government deficits; the net effect on national savings is the sum of the two effects. Thus, if the accumulation of Social Security trust funds affect government deficits (a possibility discussed in the previous section), the private sector response (to the higher-than-necessary rate of payroll taxation) will at least partially offset any impact on national savings.

Distributional Aspects

The Social Security payroll tax is a level percentage of earnings up to the taxable maximum. Income tax rates, in contrast, are progressive—lower-income individuals pay lower taxes as a percentage of their incomes. Consequently, overall taxation is less progressive when Social Security is running a surplus and the excess payroll tax finances a portion of other government expenditures than if those expenditures were financed by higher income taxes. Conversely, overall taxation tends to be more progressive when payroll tax income is insufficient to pay benefits if income taxes are raised to address Social Security's funding shortfalls.

7 This view, that higher savings leads to more capital investment, is more applicable over the long term. In the short term, capital investment may be less directly related to savings. For example, in a recession, when businesses have a pessimistic outlook because of depressed demand, additional savings might have no positive effect on capital investment. They may even have the opposite effect by further depressing aggregate demand.

Individuals at the low end of the income spectrum generally spend most of their income, so a shift in their after-tax income induces a similar change in consumption. Higher-income individuals tend to divert a portion of their income to savings, so changes in their after-tax income generally affect both consumption and savings. This implies that, in addition to the effect on national savings, the earlier buildup and subsequent drawdown of the Social Security trust funds may have resulted in material differences in how the burden of taxation is distributed among taxpayers over time.

No Net Wealth?

As discussed earlier, Social Security's holdings of Treasury securities can be viewed as an allocated portion of the government's overall debt. As such, trust fund assets may not represent net economic wealth to society. Thus, it would be understandable to conclude that, from the perspective of the entire economy, they are not "real." By the same criteria, however, it may be difficult to conclude that any type of fixed-income security is real, in the sense that any debt security represents an asset to one party of the transaction (the bondholder) and a liability of offsetting value to the other (the bond issuer).

Still, the trust funds may be viewed as a positive addition to national wealth to the extent that their accumulation freed up capital (through lower levels of public debt issuance) for other productive uses. Also, government expenditures financed via debt issuance can create wealth if put to productive use. With government expenditures, it is not always easy to differentiate between consumption and investment. For example, road construction and other government-financed infrastructure can represent increases in productive capital, and education can increase the future productivity of the labor force. Government policies seek to strike a balance between meeting current public needs and maximizing long-term economic growth.

Economic growth is crucial for Social Security, or indeed any retirement program, to provide income to participants after they have stopped working without imposing an unreasonable burden on succeeding generations of workers. This is because, typically, most goods and services are consumed shortly after they are produced. Therefore, current consumption usually does not deviate significantly from current economic activity. In the near term, government policy and market forces normally can only change how the existing economic pie is allocated. Over the long term, however, policies that encourage a reasonable balance among consumption, savings, and investment can promote economic growth and enhance society's ability to support future retirement needs.

Conclusion

Any answer to the question "is the Social Security trust fund real?" may lead to misunderstanding because its meaning depends on its often-unstated context. In assessing the relevance of the trust fund, conclusions may differ based on the context in which the trust fund is viewed. From the viewpoint of Social Security's ability to pay benefits, given its existing design and the legal context in which it operates, trust fund assets have concrete and easily recognizable consequences. From the viewpoint of total government finances, trust fund assets could be considered irrelevant, although this would require an assumption that scheduled benefits will be paid regardless of the ability of the trust fund to finance the payments. From the viewpoint of the entire economy, an assumption that the accumulation of excess tax revenue in the trust fund had a positive impact on national savings implies at least some positive effect on economic growth. There are also other ways in which the dynamics of trust fund accumulation and depletion may affect the distribution of income and wealth.

Even if there were universal agreement on the nature of the trust fund, differences in matters of policy would remain since, under current projections, the trust fund provides only a temporary buffer against future increases in the cost of Social Security—benefit cuts and/or tax increases will become necessary if the program is to remain solvent. Regardless of the financing mechanism, each future year's benefits must be provided from that year's total economic output. Society has to decide how to allocate its resources, including trade-offs between workers and retirees, which affect both tangible and intangible standards of living for both societal groups.

Common Questions and Answers About the Trust Fund

Q: *Why did the trust fund grow to such a large size?*

A: When the trust funds were created, they were intended to hold only a small amount of assets—enough to pay benefits for a few months—as a buffer against short-term fluctuations in tax receipts and benefit payments. This is called "pay-as-you-go" financing. As part of a package of reforms enacted in 1983 to place Social Security into a 75-year actuarial balance (through the 2060s), Congress set tax rates higher than necessary to fund benefits then payable, anticipating that benefit payments would rise steeply in the years after the baby boomers began retiring in 2008. This policy decision is understandable, given the alternative of a continuous series of tax increases in step with rising benefit payments—with the baby boomers largely avoiding that increasing tax burden.

Q: *Has the Social Security trust fund been raided and spent on other government programs?*

A: The trust fund holds Treasury debt securities. This means their excess revenue has been lent to the general fund of the Treasury. The federal government has used the borrowed revenue to finance its expenditures, as any borrower does, and, like any borrower, is legally obligated to repay the trust fund when money is needed for benefit payments, as has been the case since 2020. The level of overall government spending may be only loosely related to the existence of the Social Security trust fund.

Q: *Would the trust fund be more real if invested in private-sector stocks and bonds?*

A: Financial securities are claims on a share of real resources. Payments in any given year must come from the total resources available in the economy that year. This does not depend on whether those payments are financed in that year with current taxes, government borrowing, or the sale of private securities. Had excess Social Security tax revenue been invested in public securities rather than Treasury obligations, that would have resulted in shifts in capital market prices and interest rates, with secondary impacts on both public and private finances (e.g., potentially higher Treasury yields and lower equity returns). The same cost of benefits would have to be paid, but there would have been at least some shift in the ultimate payors.

Q: *Why can't Social Security save for its future beneficiaries the way a family saves for a future expense, such as a car or college tuition?*

A: Analogies between individuals or companies on the one hand and governments on the other are of limited use because of differences in scale. In a reasonably stable economy, families or businesses can defer consumption and expect to use the resulting savings to purchase future goods and services because these savings are small relative to the capital markets and the overall economy. However, in a national context, goods and services must be provided in real time to match expenditures. Investing in productive activities that lead to greater economic growth may be one of the best ways to increase future resources. Social Security, of course, is not the whole economy, so it can save to the extent it accumulates calls on future revenue from the Treasury (as evidenced by the accumulated trust funds). Still, it represents a large enough fraction of the total economy that both the accumulation and dissipation of its savings can significantly impact economic activity.

Q: *How does the trust fund fit into policy decisions about Social Security's future?*

A: In any likely scenario, the trust fund assets will be helpful mainly as a smoothing or transitional device. Beginning around 2050, the cost of Social Security benefits is expected to stabilize at around 6 percent of GDP. At that point, it could theoretically revert to pay-as-you-go financing with a tax rate about one-third higher than the current tax rate. The transition from now to then could be financed by drawing down the trust fund while gradually increasing the tax rate. Alternatively, benefits could be reduced so that the current tax rate, together with a gradual drawdown of the trust fund, would then be sufficient to keep Social Security solvent indefinitely. Many intermediate solutions involving tax increases and benefit reductions are possible. The ultimate level of Social Security taxes and benefits is a policy decision that will be based partly on the share of the nation's resources that we, as a society, are willing to devote to Social Security. In this macroeconomic context, the current level of Social Security assets represents only a minor transitional element.