

The Relationship Between Social Security and Federal Government Deficits and Debt

OCTOBER 2025

Key Points

- Social Security finances currently increase the unified budget deficit because its expenditures exceed its income. The Treasury securities held by its trust funds are redeemed to cover its cash-flow shortfalls; under current law, when depleted, benefits must be reduced because its expenditures can only be paid from its assets.
- Although Social Security does not impact either on-budget deficits or total federal debt, it does affect unified (total) deficits and the debt held by the public.
- If the trust funds become depleted, Social Security cannot increase unified, on-budget, or off-budget deficits; total federal debt; or debt held by the public since, by law, expenditures at that point cannot exceed income.

There has been considerable confusion regarding the effects of Social Security finances on U.S. federal government annual deficits and debt. This issue brief aims to clarify this confusion.

Social Security's Impact on Government Finances

Under federal law, Social Security taxes and other income are required to be deposited into its trust funds¹ and invested in interest-bearing securities backed by the full faith and credit of the United States. Because benefits can only be paid from trust fund assets² and Social Security has no borrowing authority, scheduled benefits can only be paid in full to the extent there are sufficient assets in its trust fund. In other words, general revenue of the federal government cannot be used to pay these benefits.³

Federal budget reporting can, for some purposes, be divided into two segments: that which is considered “on-budget” and that which is “off-budget.” Under the Budget Enforcement Act of 1990, the net financial operations of Social Security, specifically the Federal Old-Age and Survivors Insurance Trust Fund (for Social Security retirement) and the Federal Disability Insurance Trust Fund (for Social Security disability), is treated as off-budget for federal budget reporting.⁴ This contrasts with the rest of the federal budget, which is considered “on-budget.” The original intent of this split was to prevent Social Security surpluses from being used as a source of funding for other parts of government. Thus, neither Social Security’s income nor expenses are included as income or expenses for on-budget reporting purposes.

¹ There are two Social Security trust funds—one for the Old Age and Survivors Insurance program and the other for the Disability Insurance program. Throughout this issue brief, these trust funds have been treated as if they were combined, as Congress has historically adjusted the contribution rates for these two funds to maintain a current balance in each. The Old Age and Survivors Insurance Trust Fund is currently projected (after consideration of the One Big Beautiful Bill Act by the Office of the Actuary, Social Security Administration) to become depleted in the fourth quarter of 2032, while the two funds, considered on a combined basis, are projected to be depleted in the first quarter of 2034.

² Social Security Act, Title II, Sec. 201(h) [42 U.S.C. 401].

³ The Academy’s 2025 issue brief, [Significance of the Social Security Trust Fund](#), provides a more detailed description of trust fund operations.

⁴ U.S. Postal Service finances are also off-budget.



AMERICAN ACADEMY
of ACTUARIES

1850 M Street NW, Suite 300
Washington, DC 20036
202-223-8196 | www.actuary.org

Geralyn Trujillo
Senior Director, Public Policy

Linda K. Stone, MAAA, FSA
Senior Retirement Fellow

In contrast, the “unified” (or aggregate) federal budget encompasses the income and expenses for the entire federal government, including Social Security. Thus, whether Social Security’s tax income and benefit payments are reflected in federal deficits depends on the context and system of reporting used.

The primary revenue source for the trust funds is the dedicated payroll taxes paid by covered workers, their employers, and the self-employed. Trust fund assets consist of special-issue U.S. Treasury fixed-income securities not available to the public, which have features that accommodate specific system needs. Two far smaller sources of income are interest earned on those securities (4.9% of total Social Security income in 2024) and income tax collected on Social Security benefit payments to higher-income beneficiaries (3.9%).

- When Social Security receives more income than outgo (cash flow surplus), that year’s unified deficit decreases. The trust fund purchases government securities, thereby reducing the federal debt owed to the public and building a reserve of special issue securities available to pay future benefits. This cash flow surplus does not affect either the on-budget deficit or the total federal debt (which includes debt held by the trust fund).
- When Social Security receives less income than it spends (cash flow deficits—as it has since 2021⁵), on-budget reporting is not affected, while the deficit increases in unified budget reporting. The sale of government securities then draws down trust fund reserves. An equivalent amount of government securities must then be purchased by the public, thus increasing the amount of federal debt held by the public.

Social Security trust fund asset reserves are an accumulation of past revenues in excess of past expenditures. This accumulation has resulted in reserves of about \$2.7 trillion (about 7.5%) of the total federal debt, which is about \$36.2 trillion as of Dec. 31, 2024⁶, which has effectively reduced the amount borrowed directly from the public.

⁵ Excluding interest earned on its Treasury securities, Social Security has run a deficit since 2010.

⁶ About \$28.8 trillion is owned by the public as of December 2024, with the remainder owned by governmental entities, including about \$2.7 trillion by Social Security, \$1.0 trillion by federal employee retirement funds, and \$0.4 trillion by Medicare. The total federal debt is subject to a limitation that Congress increases from time-to-time.

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.

The Committee gratefully acknowledges the contributions of Ron Gebhardtsbauer, MAAA, FSA.

It is projected that future Social Security cash deficits will continue to reduce the trust fund reserves until they are fully depleted in about 2034⁷. Since, by law, Social Security can pay benefits only from trust fund assets, once the trust funds are depleted, Social Security expenditures cannot exceed the current level of its income. Since Social Security would no longer run a significant cash flow deficit, there would be no further negative impact on federal finances under either reporting convention.

The effect of Social Security operations on the federal deficit and debt is summarized in Table 1.

Table 1. Direct Effects of Social Security Operations on Federal Deficits and Debt

	Unified Deficit	On-budget Deficit	Total Federal Debt	Debt Owed to the Public
Annual cash flow surplus	Decrease	No impact	No impact	Decrease
Annual cash flow deficit	Increase			Increase
With no Congressional action, when the trust fund is depleted	No impact			No impact

Impact of Trust Fund Reserve Depletion

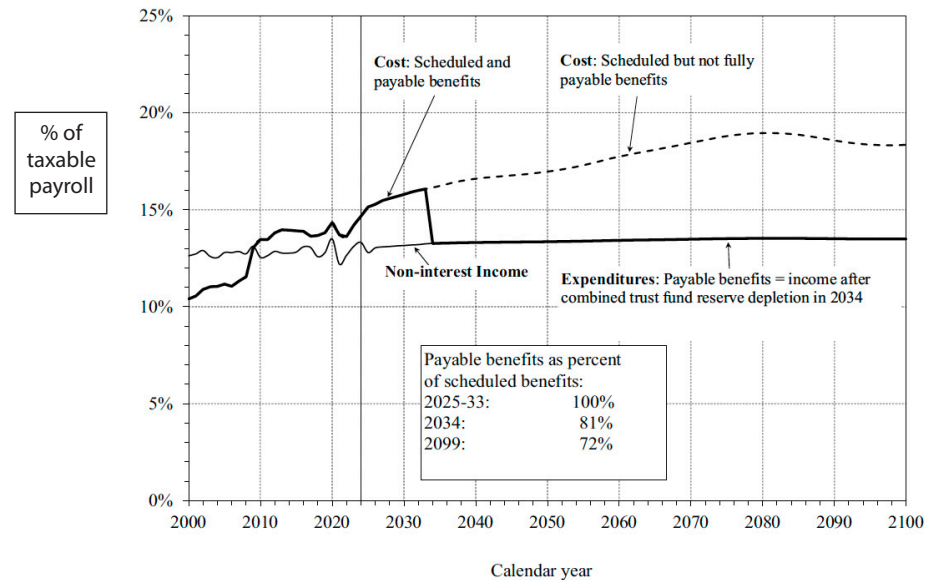
Since current law prescribes that benefits can only be paid from the Social Security trust fund, and (absent program changes) income to the trust fund will be insufficient to fund all scheduled benefits, benefits will be limited or delayed once trust fund reserves are fully depleted.⁸ Figure 1 illustrates the expected percentage of scheduled Social Security benefits that will be payable after the trust fund reserves are depleted, with costs and expenditures expressed as a percentage of taxable payroll.

⁷ [The 2025 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds.](#)

⁸ Benefit reductions and/or additional income will be needed to avoid this cutback. The Academy's 2023 issue brief, [Reforming Social Security Sooner Rather than Later](#), addresses many possible options.

Figure 1— Old-Age, Survivors, and Disability Insurance Income, Cost, and Expenditures as Percentages of Taxable Payroll

[Under intermediate assumptions, excluding the effect of the Social Security Fairness Act of January 2025]



Source: The 2025 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, Figure II.D2

Should benefit reductions occur, net government outlays would suddenly decrease, with the unified deficit reduced by the amount of scheduled Social Security benefits that are no longer payable. This is projected to be just under 1% of gross domestic product (GDP).

Benefit reductions could be avoided if Congress changes the law to allow general revenue to help finance Social Security. However, using general revenue in this manner is currently unauthorized and would be unprecedented.

Transparency Needed

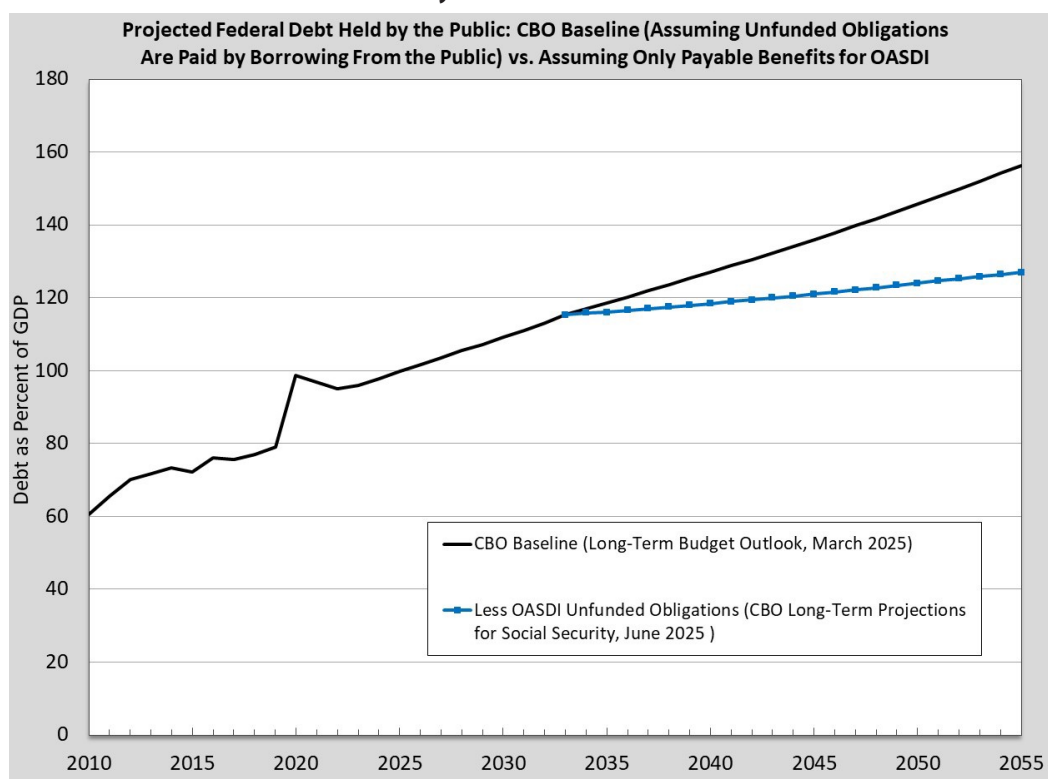
To reduce misunderstandings, it is essential to disclose the direct effects of Social Security on U.S. federal debt and deficits, including (1) the impact of Social Security operations, and (2) the expected impact of trust fund reserve depletion.

The Congressional Budget Office (CBO) currently presents budget projections based on a presumption that benefits will be paid as scheduled indefinitely into the future. It is important to acknowledge and disclose that this reporting convention is not entirely consistent with the provisions of current law as explained above, since full benefits cannot be paid after reserve depletion without a change in the law. Budget projection reports should, wherever practical, also provide deficit and debt values assuming benefits are only paid to the extent there are assets, in line with current law.

Figure 2 illustrates debt projections developed by the Office of the Chief Actuary of the Social Security Administration. These projections quantify the effect of current Social Security law on long-term projections of government debt. The black line, representing projections prepared in March 2025 by the CBO, shows that federal debt held by the public will reach an unprecedented level of about 156% of GDP in 2055, assuming scheduled Social Security benefits are paid in full.⁹

In contrast, if the CBO had assumed that, after trust fund reserve depletion, Social Security benefits would be paid only to the extent authorized by law, the debt held by the public would be represented by the blue line, which in 2055 would be about 29% of GDP less, or 127% of GDP in total. As with all such projections, there is a wide range of possible outcomes, as subsequent political and economic developments could significantly impact the outcomes after these projections were made.

Figure 2—CBO Projections of U.S. Federal Debt, Including Adjustments to Reflect the Effect of Current Social Security Law



Note: This figure does not reflect the effects of the One Big Beautiful Bill Act signed in July 2025

⁹ [The Long-Term Budget Outlook: 2025 to 2055](#); Congressional Budget Office (2025). The values in Figure 2 do not reflect the impact of the One Big Beautiful Bill Act, which was signed into law in July 2025.

Indirect Effects

This issue brief describes the direct effects of Social Security on federal debt and net income (deficits). Additionally, several indirect and second-order effects are likely to arise. Some of these effects include, but are not limited to, the following:

1. As the trust fund nears depletion, significant economic changes may arise. For example, anticipated reductions in Social Security benefits may lead some people to increase their savings, resulting in a corresponding decrease in consumption and, potentially, a reduction in GDP.
2. If reductions in Social Security benefit payments occur after the trust fund is depleted, a short-term economic contraction would likely result from reduced spending by retirees. In addition, the anticipation of smaller Social Security benefits may lead some workers who have the option to delay retirement to avoid a reduction in their retirement security. Alternatively, some workers may claim Social Security retiree benefits earlier than otherwise desired to shield themselves from a portion of the expected decrease in benefits.
3. If Congress increases payroll tax rates in the face of trust fund reserve depletion, government spending and on-budget deficits will increase due to the federal government's role as an employer (the U.S. government paid about \$23 billion in Social Security taxes on behalf of its employees in 2024).
4. Treasury securities owned by the Social Security trust fund reduce reliance on the open market due to the smaller amount of securities held by the public. However, as the trust fund continues to decline in size through 2034, a corresponding amount of Treasury securities will have to be issued in public markets, even as the total amount of federal debt remains unchanged. The interest rate that bond buyers demand may increase due to the public issuance of this large amount of debt issued to the public. This would contribute to future governmental deficits and debt, as higher interest payments on Treasury interest obligations would be required.

Although the provisions of current law require that future benefits be reduced when a trust fund becomes depleted, many observers consider it unlikely that Congress will permit such a significant reduction in benefits for all beneficiaries. If Congress follows past precedent¹⁰ by modifying Social Security’s scheduled tax income and/or scheduled benefits to prevent trust fund depletion, the trajectory of total future U.S. federal debt would more closely align with the blue line in Figure 2. If, however, Congress relies on general revenue (by issuing additional debt securities) to continue paying currently scheduled benefits, the debt trajectory would more closely match the black line.

In addition to the above-mentioned direct financial effects, several indirect and second-order effects could occur, some of which are described in the sidebar “Indirect Effects” on page 6.

It is important to note that any such long-term projections should be viewed with caution, as actual outcomes will be affected by significant economic and political events and actions, and are therefore subject to considerable uncertainties. The trajectories shown in Figure 2 assume no changes in federal taxes and expenditures after 2024. Nevertheless, the difference between these projections after trust fund reserve depletion demonstrates the significance of making projections based on current law.

¹⁰ In 1983, when faced with possible depletion of the trust fund, among other things, Congress increased Social Security-related taxes and increased the normal retirement age.

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