

# Sooner Rather than Later

## Policy Options Shrinking for the 2034 Social Security Shortfall



**Social Security's combined trust funds will be depleted in 2034,** as projected in the 2025 Trustees Report. Unless Congress acts, payroll taxes would cover only about 80% of scheduled benefits, resulting in an automatic 20% benefit cut. The 2034 shortfall—2.88% of taxable payroll—is nearly three times larger than the gap that triggered the last significant Social Security reform in 1983.

Historically, Congress has phased in tax increases and benefit changes while protecting current retirees. To preserve gradual implementation and avoid abrupt changes, lawmakers will need to act soon. Delaying actions would result in larger changes and could coincide with a financial strain in Medicare.

## Revenue Options

Key options to reduce the shortfall include:

- ▶ **Raise or eliminate the taxable maximum** (\$184,500 in 2026): Taxing all earnings or applying taxes above \$400,000 could substantially improve solvency.

- ▶ **Increase the employer/employee payroll tax rate** (currently 12.4%): A 25% increase would restore full 2034 benefits, though phased-in increases would be less disruptive.



- ▶ **Expand the tax base to tax items such as fringe benefits or investment income**, though this would alter the program's structure.

- ▶ **Increase investment income** or dedicate all income taxes on Social Security benefits to the trust funds, potentially requiring general revenue support.
- ▶ **Broaden participation** (e.g., covering remaining state and local workers) or **increase legal immigration**, both of which would have modest effects.

# Benefit Reduction Options

Meaningful savings require early implementation:



- ▶ **Reduce benefits for higher earners** through changes in replacement rates or progressive price indexing.
- ▶ **Raise the normal retirement age**, potentially to 69, which could modestly reduce the shortfall but may disproportionately affect lower-income workers.

- ▶ **Modify the COLA**, such as adopting the chained CPI or limit these increases for higher income beneficiaries, which would reduce annual benefit growth and could close about 11% of the 2034 gap.



## Conclusion

Without congressional action, Social Security faces a sharp benefit cliff in 2034. Acting soon would allow gradual phase-ins, spread costs more broadly, reduce tax hikes or benefit cuts needed, and strengthen public confidence. Options are narrowing as you read this, making abrupt changes increasingly likely and increasing fiscal strain.

No single measure will be sufficient to prevent a short-term trust fund depletion. Even combining selected revenue and benefit changes may not overcome the projected 2034 shortfall. A durable solution must also address the 75-year actuarial deficit, potentially through automatic adjustment mechanisms such as indexing retirement age or tax rates to demographic changes.

**Read the full issue brief,**  
**[Reforming Social Security Sooner Rather Than Later](#),**  
**to learn more.**

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