Social Security: The Trust Funds and Interest Income

Background
The Old-Age, Survivors, and Disability Insurance (OASDI) program, or Social Security, is a self-financing social insurance program that protects workers and their families against loss of income due to old age, death, or disability. Workers become eligible for future benefits by working in Social Security–covered employment. (About 94% of workers in paid employment and self-employment are covered under Social Security.) Given that Social Security covers approximately 182 million workers and pays benefits to over 65 million beneficiaries, it is the federal government’s single largest program.

The financial status of Social Security determines the program’s ability to pay fully scheduled benefits on time—that is, the ability to provide monthly payments to current and future beneficiaries. At a basic level, the financial status of Social Security is simply the relationship among revenues, expenses, and the holdings in the Social Security trust funds. This report focuses on the trust funds and interest income, a decreasing source of income for the program.

Sources of Income
Social Security is primarily financed through a payroll tax where employers and workers each pay 6.2% of covered earnings up to an annual limit ($147,000 in 2022). Payroll taxes accounted for 90.1% of program income in 2021. Additionally, some beneficiaries are subjected to federal income tax on a portion of their Social Security benefits. Taxation of benefits accounted for 3.5% of program income in 2021. The payroll tax and income from taxation of benefits are commonly referred to as the program’s tax revenues or non-interest income. These tax revenues are used to pay monthly Social Security benefits.

A third source of income is interest income. Excess revenues that are not needed to immediately pay benefits are credited to the Social Security trust funds. As required by law, any excess revenues are invested in interest-bearing U.S. Treasury securities held in trust funds. This transaction loans money to the “rest of government.” Interest on trust fund asset reserves accounted for 6.4% of program income in 2021. The average interest rate on asset reserves (i.e., effective interest rate) was 2.5% in 2021.

The Trust Funds
The trust funds provide the program with a means to track revenues and expenses. Additionally, the trust funds provide a means for the Social Security program to hold accumulated assets—that is, money not immediately needed to pay benefits—for the payment of future benefits. At the end of 2021, the trust fund balance was $2,852 billion. This balance represents the accumulation of excess revenues and the interest earned on those excess revenues. The Board of Trustees oversees the Social Security trust funds and is required by law to report to Congress annually on the financial status of the trust funds.

From 1983 through 2009, Social Security operated with a cash surplus (i.e., tax revenues exceeded expenses). The cash surplus is the shaded blue area, as shown in Figure 1.

![Figure 1. Social Security Tax Revenues and Expenses 1980-2034 (in Billions of Current Dollars)](https://crsreports.congress.gov)

Source: CRS.
Notes: Projections use the trustees’ 2022 intermediate projections.

Each of those year’s cash surpluses were invested in government securities and earned interest. Figure 2 shows how those cash surpluses (i.e., trust fund asset reserves) and the earned interest grew over time. However, Figure 2 also shows how the value of the trust funds decreased in 2021. Figure 2 also shows the projected value of the trust funds decreasing to zero by the end of 2035 (under the Board of Trustees’ 2022 intermediate assumptions, its best guess of future experience).

![Figure 2. Social Security Trust Fund Asset Reserves 1980-2034 (in Billions of Current Dollars)](https://crsreports.congress.gov)

Source: CRS.
Notes: Projections use the trustees’ 2022 intermediate projections.
**Cash Deficits and Annual Deficits**

Since 2010, Social Security has operated with *cash deficits* (i.e., expenses exceed tax revenues). Under the intermediate assumptions, the trustees projected cash deficits for the remainder of the 75-year projection period (see Figure 1). However, from 2010 through 2020, the program still ran *annual surpluses* where total income (i.e., tax revenues plus interest) exceeded expenses (see Figure 3). During this time, the trust funds continued to increase in value because of the interest earned on the trust fund asset reserves.

In 2021, Social Security experienced its first *annual deficit* since 1982. Said differently, in 2021 tax revenues plus interest income could not support total expenses. Thus, in 2021, the redemption of asset reserves held in the trust funds provided the additional $56 billion that was needed to pay scheduled benefits. As shown in Figure 3, growing annual deficits are projected through 2035—the projected year of asset reserve exhaustion.

**Peak Trust Fund Value and Decreasing Interest Income**

The redemption of asset reserves in 2021 marks the first time since 1982 that reserves were needed to pay benefits. This change could be important to lawmakers for two reasons: (1) It indicates that the combined trust fund balance is past its peak value and (2) the projections of ongoing annual deficits would require further redemption of asset reserves. This means some amount of trust fund assets would be redeemed each year until the projected depletion date (2035). The projected rising expenses of the program suggest that successively more assets would be redeemed each year until depletion. The trust funds grew from 1983 through 2020 (38 years). Under intermediate assumptions, the entirety of the trust funds balance would be redeemed from 2021 through sometime in 2035 (about 14 years).

This means that as the trust funds balance decreases each year, the amount of interest earned is projected to become successively smaller each year as well (see Figure 4). The trust funds would not gain from compounding interest income as in previous years. Interest income is a function of the principal (i.e., trust fund balance) on which interest is earned and the effective interest rate. The trust fund balance is projected to decrease by increasing amounts, and the effective interest rates are relatively low (see “Additional Resources”). Once all the assets have been depleted, the program would no longer earn interest income.

**Figure 4. Social Security Trust Fund Interest Income**

1980-2034 (in Billions of Current Dollars)

The trust funds are commonly thought of as the amount of money that the “rest of government” owes Social Security. In 2035, once all asset reserves have been redeemed, the rest of government would have paid back Social Security with interest. The trust funds would no longer hold any accumulated assets but would continue to track program income and expenditures.

**What Does This Mean?**

Social Security monthly benefit payments are financed primarily by tax revenues. For many years—since 2010—tax revenues alone were not sufficient to cover monthly benefit payments. However, tax revenues augmented by the trust funds (i.e., asset reserves and interest) are projected to be able to cover monthly benefit payments until sometime in 2035. At the time of trust fund depletion, with no assets to redeem or interest income, tax revenues are projected to support about 80% of monthly benefit payments. That is, absent changes, beneficiaries would face a de facto cut in benefits of about 20%. (See CRS In Focus IF12231, *Social Security: Scheduled Versus Payable Benefits*.)

Policymakers have a wide range of options to address the projected financial shortfall. Generally speaking, these policy options are categorized as either revenue-increasing (e.g., payroll tax rate increase) or cost-reducing (e.g., an increase in the eligibility age) or a combination of the above. The trustees’ latest projections show that as time elapses, the magnitude of the changes needed to maintain Social Security solvency increases.

**Additional Resources**


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