Roosevelt Institute

January 2026

Fact Sheet

What's Actually Behind Social Security's Trust Fund Shortfall

And What Policymakers Need to Know to Fix It

Rising Income Inequality and Macroeconomic Shocks, Not Benefit Growth, Explain the Trust Fund's Depletion Timeline

Social Security's Old-Age and Survivors Insurance Trust Fund—which pays monthly benefits to tens of millions of Americans—is projected to deplete its reserves in the early-to-mid 2030s, decades earlier than anticipated. Without Congressional action, beneficiaries could see harmful cuts to benefit payments. This situation has fueled renewed claims that Social Security is unsustainable and that benefits must be reduced.

But as a new Roosevelt brief shows, the evidence points elsewhere. The projected shortfall reflects a breakdown in payroll tax revenue as income gains increasingly flowed to the highest earners—many of whose earnings are not subject to Social Security taxes—and as the Great Recession further weakened the tax base. Policy discussions that center benefit cuts not only threaten vulnerable beneficiaries but overlook the primary drivers of the projected shortfall.

The 1983 Reforms Worked As Intended—Until The Economy Changed

The last major Social Security reforms, enacted in 1983, were designed to secure roughly 75 years of fiscal stability. The projections behind those reforms correctly anticipated population aging and longevity, fertility trends, labor force growth, and average real earnings growth.

What they did not anticipate was a sharp and sustained shift in how income growth was distributed—and whether it was taxed to support Social Security.

Rising Earnings Inequality Quietly Eroded The Tax Base

Payroll taxes fund Social Security, but only earnings below a set cap (currently $184,500) are taxed. In 1983, about 90 percent of covered earnings fell below the cap. The system assumed income growth would remain broadly shared. It didn't.

As income gains increasingly concentrated at the top, a growing share of earnings escaped Social Security taxes altogether. From 1983 to 2000, the top roughly 6 percent of earners saw real earnings grow far faster than everyone else, while the vast majority of workers experienced much more modest gains. Because earnings above the cap aren't taxed, a growing share of income growth bypassed Social Security entirely—even as the program continued paying full benefits.

This shift deprived the Trust Fund of payroll tax revenue for decades and reduced the interest it would have earned at precisely the moment it was supposed to be building reserves. Social Security did what it was designed to do, but policymakers did not adjust the funding system as inequality widened.

The Great Recession Turned a Revenue Problem into a Timeline Problem

The Great Recession delivered a second, compounding shock. The downturn cut payroll tax revenue through prolonged unemployment and weak wage growth. Some older workers retired earlier than expected, moving costs forward in time. And because the recovery remained sluggish for years, these effects lingered far longer than in a typical recession.

Unlike most government programs, Social Security was designed such that it cannot borrow or draw on general revenues unless Congress acts. That left the program fully exposed to a prolonged period of economic weakness layered on top of an already eroding tax base.

Absent rising inequality and the Great Recession, the Trust Fund would have begun using reserve funding around 2021–22, with reserves likely lasting until about 2063—roughly in line with what Congress intended in 1983. Instead, reserve drawdown began around 2009. With fewer years to accumulate interest, projected depletion shifted to the early-to-mid 2030s.

What The Evidence Rules Out—And What It Points Toward

As a new Roosevelt brief makes clear:

- Benefit generosity did not drive the Trust Fund shortfall.
- Demographic trends were anticipated and do not explain why the timeline accelerated.
- The financing gap emerged because taxable payroll failed to keep pace with a more unequal economy.

Income inequality is not a side issue in Social Security financing. It sits at the center of the Trust Fund shortfall. **A program weakened by rising inequality should not be stabilized by asking beneficiaries to give up benefits while high earners remain shielded from contributing more as the economy grows.**

This diagnosis also helps explain why proposals to rebalance how Social Security is funded—such as by asking those who have captured the largest share of income growth to contribute a fairer share—consistently draw broad public support. National polling shows that large, bipartisan majorities favor approaches that strengthen Social Security's finances through fairer revenue contributions rather than benefit cuts, reflecting a clear public understanding of where the real imbalance lies.

The lesson of the past four decades is not that Social Security promised too much. It is that its funding rules failed to keep pace with an economy that grew more unequal—and that future reforms must account for that reality if the program is to remain strong and secure.

➔ Read the brief: **“Will Social Security Run Out?” Is the Wrong Question: How Lawmakers Can Protect Beneficiaries and Strengthen OASI**

Policy Principles for Securing Social Security’s Future

Start with the right diagnosis

Social Security’s shortfall did not come from runaway benefits. It came from an economy where income growth increasingly flowed to the top, escaping taxation, while the program’s funding rules failed to keep pace.

Do not balance the system on the backs of beneficiaries

A program weakened by rising inequality should not be stabilized by cutting benefits for workers and retirees. Benefit growth did not drive the shortfall, and cuts do not address its cause.

Build resilience against future shocks

The past four decades show the cost of waiting for crises to force action. Social Security’s financing should be designed to adjust when economic conditions or revenue patterns shift, rather than relying on delayed intervention.