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Is Social Security Running Out?

Understanding the Real Issue and Why Reform Is Likely

The recently released 2026 Social Security Trustees Report has made headlines; with an updated projection for the Old-Age and Survivors Insurance Trust Fund's solvency, bringing forward the depletion date to the 4th quarter of 2032 due to recent legislation that marginally lowered the taxation associated with Social Security Benefits. With the headlines reading "Social Security is Running Out of Money!" some alarm is natural. What we aim to uncover in this white paper is a description of Why the Social Security system is facing pressure, what changes could be made to prop up the system (and benefits) for decades to come, and what a Worst-Case scenario could be.

Taking a step back and looking at the broad system, Social Security is primarily funded by payroll taxes paid by workers and employers – something that continues daily. Even if the trust fund reserves were exhausted, incoming payroll tax revenue would continue. According to the 2026 Social Security Trustees Report, when and if the Trust Fund is depleted, continuing payroll taxes would still cover approximately 78% of scheduled benefits.

In other words, the "worst case" is not zero. It is a funding shortfall and some reduction in benefits payable.

Why the System Is Under Pressure

There are a few factors pressuring the system and benefits that are slated to be paid in the coming decades. Americans are living longer than originally modeled by the Fund, the large Baby Boomer generation has moved into retirement meaning there are fewer workers (taxpayers!) supporting each beneficiary than in prior decades. As a result, scheduled benefits exceed dedicated program income, requiring the trust funds to draw down reserves.

While this issue is serious, this is not the first time a short fall has been projected to occur. Fortunately, when faced with the issue in the past, Congress acted to prop the system up.

Precedent for Reform

The Social Security Amendments of 1983 represent the latest change to the system when faced with a shortfall. These reforms included gradually increasing the full retirement age up to the current age 67, accelerating scheduled payroll tax increases, taxing a portion of benefits for higher-income retirees, delaying cost-of-living adjustments, and expanding coverage to newly hired federal employees.

What Could Be Done Today

There are many potential policy levers available. Some would increase revenue, some would slow benefit growth, and others would combine both. Possible reforms include:

- Increasing or modifying the payroll tax wage base, so more high-income wages are subject to Social Security tax.
- Gradually increasing the payroll tax rate.
- Adjusting the benefit formula for higher-income retirees while protecting lower-income beneficiaries.
- Further increasing the full retirement age over time.
- Changing how cost-of-living adjustments are calculated.
- Expanding taxation of benefits for higher-income retirees.
- Using a combination of smaller changes phased in gradually.

Why We Do Not Believe Social Security Will “Run Out”

Social Security remains one of the most important and politically protected programs in the United States. In 2021, data provided by the Census Bureau shows that for 28% of all adult Social Security recipients, Social Security itself was their sole source of income. For those with supplemental income, Social Security represented over 30% of total income for those over the age of 65 in 2024. With Social Security so valuable to millions, there is likely to be bipartisan support in Washington to solve the pending insolvency issue.

Planning Implications

For retirees and near-retirees, Social Security should remain part of the retirement income plan. However, prudent planning should include stress testing. For younger workers, it may be reasonable to model reduced future benefits, delayed claiming strategies, higher taxes, or other reform scenarios.

For current retirees, large across-the-board benefit reductions are politically difficult and historically unlikely. For younger households, some change is very likely over the coming decades.

Bottom Line

While Social Security is under pressure, we believe there are small reforms that can be made to prop the system up for decades to come. If disaster strikes, it bears remembering that there is a shortfall being faced, not an elimination of benefits. History lends support to the notion that policymakers will reform the system to avoid wholesale changes, and Social Security should remain a large part of current and future retirement income plans.

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