The “Trust Fund Exhaustion” scenario underscores the need to take action sooner rather than later to address Social Security’s financing shortfall. In so doing, the scenario illustrates trade-offs between sustainable solvency and benefit adequacy and equity.

By definition this scenario would achieve sustainable solvency because after trust fund exhaustion, benefit payments would be adjusted each year to equal annual tax income. Before exhaustion, the scenario would have the same unified fiscal results as paying currently scheduled benefits with no policy changes. After exhaustion, fiscal results would be increasingly similar to funding currently scheduled benefits with a tax increase (tax increase benchmark) and a benefit reduction benchmark that incorporates gradual and progressive reductions.

Benefits would differ sharply over time. Before trust fund exhaustion, currently scheduled benefits would be paid in full. After, benefits for all would be reduced across the board by 27 percent (to 73 percent of currently scheduled levels). Additional reductions would need to be taken in successive years such that at the end of the 75-year projection period, benefits would be reduced by 33 percent (to 67 percent of currently scheduled levels).

The Trust Fund Exhaustion scenario raises significant intergenerational equity issues. Specifically, a much greater burden would be placed on younger generations. Those born in 1955 would see no benefit reductions until age 83, while those born in 1985 would experience reduced benefits immediately upon retirement and benefits lower than under either GAO’s benefit reduction benchmark or tax increase benchmark in all years of retirement. Consequently, lifetime benefits would be reduced more for younger generations. Benefits would be adjusted proportionately for all recipients, increasing the likelihood of hardship for lower-income retirees and the disabled.

Assessing the Social Security Administration’s (SSA) administrative challenges under this scenario is difficult given a lack of historical precedent and legislative clarity on how SSA would proceed. A focus on cash management would be needed to calculate and implement the needed ongoing benefit adjustments.