

# Policy Backgrounder: The Federal Deficit and Social Security

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## Trusted Insights for What's Ahead™:

This week, the Congressional Budget Office (CBO) released its estimate of the Fiscal Year 2023 Federal deficit at \$1.7 trillion, a sharp increase from Fiscal Year 2022. The Social Security Administration also announced a 3.2 percent cost-of-living increase (COLA) for Social Security recipients for 2024, adding to pressure on Social Security's finances.

- Both CBO's estimate of the deficit and the pressure on Social Security show the impact of higher interest rates on overall Federal spending, including on servicing the national debt, which rose 33 percent over FY 2022.
- A decline in Federal receipts also explains the higher deficit estimate.
- The Social Security Trust Fund is expected to become insolvent in 2033, requiring a 23 percent cut in benefits unless action is taken.

## CBO Deficit Estimate

CBO's [Monthly Budget Review](#), the last covering the just-concluded from the Congressional Budget Office contains sobering news: CBO estimates that the Federal deficit for the just-concluded Fiscal Year 2023 will be \$1.7 trillion—\$300 billion higher than last year and far higher than had been hoped as pandemic-era stimulus spending ended. The twin challenges of higher interest rates and inflation that leads to those higher rates raises the cost of servicing the national debt and pushes higher spending on mandatory programs, including health programs.

As reasons for the increase in the deficit, CBO highlights the decline in Federal revenues more than spending; CBO estimates that revenues fell \$455 billion (9 percent) from FY 2022, while outlays declined \$141 billion (2 percent), reflecting the winding down of spending under pandemic relief programs. However, the largest increase in outlays was interest on the Federal debt: net interest payments [rose](#) \$177 billion to \$711 billion according to CBO's estimate—an increase of 33 percent over FY 2022.

CBO's estimate of the deficit is not the final figure; the Treasury Department must still compile the formal statement of the FY 2023 deficit. Measuring the deficit for FY 2023 is also complicated by the impact of student loan relief; while the Administration's proposal for full student loan relief (\$430 billion) was defeated in the Supreme Court, the Administration is holding some funds available for its income-driven repayment plans for student loan debt, which, along with other alternative student loan cancellation strategies, [eliminated more than \\$117 billion](#) in debt for 3.4 million student loan borrowers. Government accounting rules require this figure, and the effect of other debt cancellation policies the Administration is promoting, to be included in the FY 2023 deficit even if the economic effects will occur over several years. This calculation will affect the Treasury Department's final FY 2023 deficit. But it is clear that the deficit will be higher than last year.

CED has long argued that that addressing our high national debt is a matter of urgency. Our Solutions Brief [Debt Matters: A Roadmap for Reducing the Outsized Debt Burden to 70% of GDP](#) recommends a path forward—and also shows that sustained attention to the debt, for several decades, will be necessary to restore fiscal health.

## A fiscal commission

CED also recommends establishment of a strong Congressional fiscal commission with authority to propose solutions to the debt and deficits and require an up-or-down vote in Congress on its proposals. This new, bipartisan National Commission on Fiscal Responsibility and Reform should build a consensus for solutions to address our outside and dangerously high public debt. As CED wrote in our Solutions Brief [Dealing with Fiscal Debt: A Policy Roadmap](#), “the nation needs an annual budget resolution that takes a holistic view of the debt problem and reinvigorates the reconciliation process for its intended purpose of deficit reduction.” In a recent survey of CED Trustees, [87% of CED Trustee business CEOs and Board Directors](#) believe that a bipartisan commission can help reduce the national debt.

Ideally, a fiscal commission should have broad powers, addressing the most complex fiscal challenges, including reforming Federal entitlement programs, considering revenue increases, and make strong recommendations for Congress’ own management of the budget process, including undertaking a complete appropriations process every year and paying for any new initiatives. To have the greatest chance of success, the Commission should be composed of Members of Congress, not outside experts. Members can speak to other Members in ways that take account of the unique pressures and responsibilities they face. Given that the Fiscal Responsibility Act enacted in June raised the debt ceiling only until January 2, 2025, at which point it must be raised again or face the possibility of default on US obligations, establishing a commission quickly will encourage success; Congress will need time to consider its recommendations before the debt ceiling deadline.

## Social Security COLA

Separately, the Social Security Administration (SSA) [announced](#) a 3.2 percent cost-of-living adjustment (COLA) for 2024, as required by law. SSA expects that recipients’ Social Security checks will rise, on average, about \$50 per month. The increase will apply to over 66,000,000 Social Security beneficiaries and to 7.5 million people receiving Social Security Income disability insurance payments (some people receive both types of payments). Next year, the maximum amount of earnings subject to the 6.2 percent Social Security tax (which employers match) will [rise](#) to \$168,600 from its current \$160,200. (In 2022, about 181,000,000 workers were [subject](#) to Social Security tax and paid \$1.107 trillion in payroll taxes.)

The COLA for Social Security benefits is not calculated based on the typical figure used for the Consumer Price Index (CPI), known as CPI-U. Instead, it is calculated based on an older measure, CPI for Urban Wage Earners and Clerical Workers (CPI-W), which is a variation on how CPI was calculated in 1935 at the time Social Security was established. Social Security uses a measure which takes changes in CPI-W from the third quarter of the previous year to the third quarter of the current year to determine the COLA. Thus, this year’s COLA reflects the moderation of prices which had already begun in the fourth quarter of calendar year 2022; December’s increase in inflation was the [smallest](#) since October 2021.

In 1978, CPI was changed to reflect spending by all urban consumers rather than wage earners, thus including the self-employed, unemployed, and retired workers. Arguably, CPI-U, by including retired workers, better reflects the spending patterns of Social Security beneficiaries, but the index has not changed and in practice, the Bureau of Labor Statistics derives both measures from the same data collection and only later weighs the basket of goods contributing to CPI differently for CPI-U and CPI-W.

While the 2024 COLA is far lower than last year's 8.7 percent increase and reflects moderating prices throughout the economy, it is once again a call to action on long-term reforms necessary to strengthen Social Security. Social Security's Trustees [estimate](#) \$1.237 in total benefit payments for FY 2023, up from \$1.138 trillion in FY 2022 (almost exactly in line with Congressional Budget Office [projections](#) from May 2022).

Social Security's current fiscal path is unsustainable: The Congressional Budget Office projects that by 2053, interest on the national debt will be higher (7.2 percent of GDP) than Social Security payments (6.4 percent of GDP). Yet as life expectancy rises, Social Security payments will as well.

As CED wrote in its Solutions Brief [Debt Matters: A Road Map for Reducing the Outsized US Debt Burden to 70% of GDP](#) in January, "[a]n alternative potential approach for Social Security includes the consideration of a higher retirement age, a broader payroll tax coverage for workers with higher wages/generous fringe benefits, and a reduction in benefits for more well-off workers." These are the steps that will ensure future solvency for Social Security.

Beyond this, CBO has prepared [analysis](#) on a variety of recommendations for addressing budget challenges for both entitlement programs and appropriated funds. Options with respect to Social Security include [expanding Social Security to include all newly hired state and local government workers](#), who can currently be exempt if states maintain a similar retirement program. Broadening the pool of those who pay Social Security tax in this way would, according to CBO, decrease the deficit by \$131.5 billion over ten years.

Another option would use an [alternative measure of inflation](#) to index Social Security and other mandatory programs, by using the "chained CPI" measure which the Bureau of Labor Statistics calculates along with the traditional CPI. CBO estimates this could reduce the deficit by \$257.5 billion over ten years.

### Raising the age for full Social Security benefits

A more ambitious option would be to raise the age at which people are eligible for full Social Security benefits from 67 to 70 and to require high earners to pay Social Security tax on their full earnings (as opposed to the 2024 limit of \$168,600). While this would be a [benefit cut](#) over the lifetimes of most Social Security beneficiaries, it would encourage working longer, putting more funds into Social Security and raising the level of benefits when workers eventually claim their full benefit. In addition, taxing earnings for Social Security at higher levels would reverse the current trend under which a declining percentage of wages (90% in 1983, 81.4 percent in 2021) is taxed for Social Security purposes. According to one [estimate](#), this decline reduced reserves in Social Security by \$1.4 trillion, about 50 percent—money that could be used to shore up the system.

Similarly, the Republican Study Committee's [proposed](#) 2024 budget would raise the age for eligibility for full Social Security benefits to 69, raising the age gradually over eight years beginning in 2026, except for workers who have reached age 62 by 2025. The Study Committee estimates that this and other changes to Social Security would save about \$718 billion from Social Security over ten years.

Whatever options are chosen, the problem is urgent: this year's [report](#) of the Social Security Trustees predicts that Social Security's Trust Fund will be unable to pay full benefits beginning in 2033—leading to 23 percent cuts for beneficiaries if nothing is done. It will take bold reforms today to save Social Security for seniors tomorrow.

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