

What Happens to Social Security?

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Short Version

- Social Security takes in less in taxes than it pays out in benefits and has since 2010.
- The revenue shortfall is made up from the trust fund, which holds all the excess revenue collected between 1983-2009.
- If the trust fund is depleted, Social Security will not have enough money to pay benefits.

Long Version 1: Trust Funds, plural

Old Age and Survivors Insurance

- The OASI trust fund pays retirement and survivors benefits
- It is expected to be depleted in 4th quarter 2032, at which point 78% of benefits are payable

Disability Insurance

- The DI trust fund pays disability benefits
- It has no projected shortfall and is solvent over the 75-year window

Long Version 2: 1980s Redux

- Social Security has been in a similarly dire fiscal place before
- The combination of a weak economy (which lowers tax collection from wages) and high prices (which increases benefits from the automatic cost of living increase, added in 1972) drove Social Security to the brink
- The OASI fund was actually depleted, but it borrowed from the DI fund to keep benefits going
- If Congress does that again, Social Security has until 2034, at which point 83% of benefits are payable.
- This is sometimes called “The Combined Depletion Date”

What Happens at Combined Depletion?

- We don't know.
- No, really, we don't know.
- The Social Security Trustees report expresses the shortfall as “benefits payable” but there is nothing in the law about a benefit cut.
- The automatic benefit cut is an assumption without any legal basis
- In fact, when the trust fund is fully depleted, two laws come into conflict: The Social Security Act and the Anti Deficiencies Act, the former granting a legal entitlement for benefits and the latter a prohibition on spending funds without proper appropriation

What Will Probably Happen at Combined Depletion

- The best guess is that the SSA Commissioner will have to make the call about which benefits to be paid and how
 - The technical capacity of the agency does not support much creativity
- There will be legal challenges to whatever is pursued
- The “automatic benefit cut” is really filling in the space that arcane, complicated, and completely untested legal space leaves

In its 91-year history (87-year of benefits) Social Security has never missed a payment

What Will Probably Happen Before Combined Depletion

- Congress will buy even more time (authorizing use of general funds to fill the gap once the trust fund is depleted)
- Congress will pass program reform to avoid depletion

Asset Decumulation in Retirement

What retirement drawdown behavior implies for Social Security–reliant retirees

IRP Webinar: The Future of Social Security for Vulnerable Retirees

Anita Mukherjee, PhD

Associate Professor, Risk and Insurance

Richard G. and Julie J. Diermeier Professorship in Business

Wisconsin School of Business, University of Wisconsin–Madison

with Hessam Bavafa, PhD and Tyler Welch, PhD

September 30, 2026

Why this evidence matters now

Trust fund projections are a financing issue; household behavior determines who feels changes most.

Full scheduled benefits are projected until Q4 2032; after reserve depletion, continuing income would cover 78% of scheduled benefits.

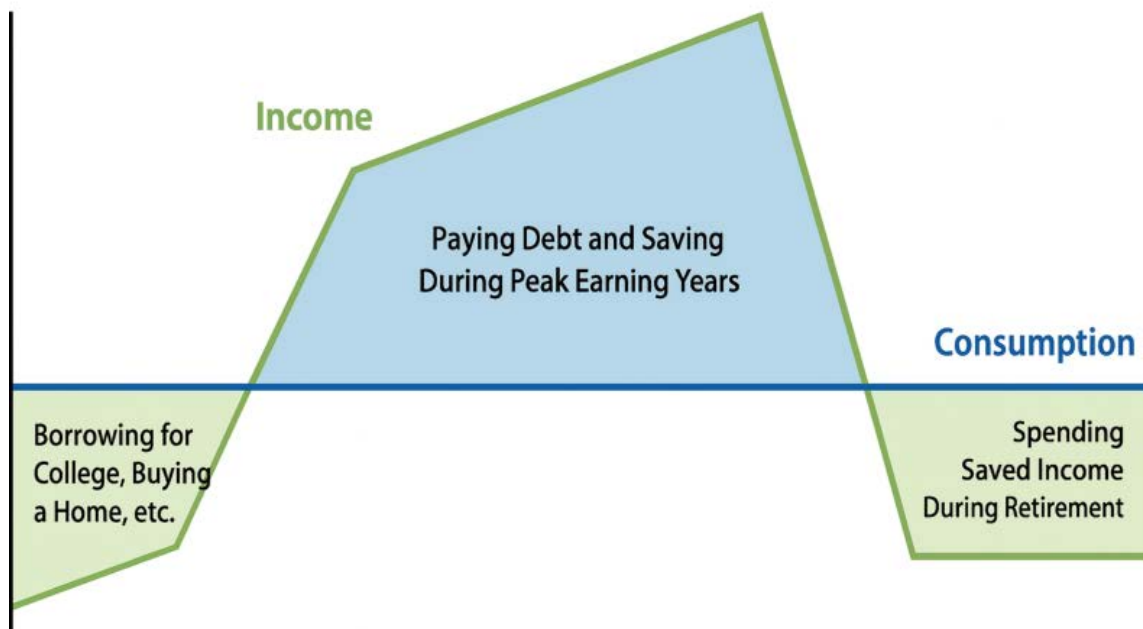
Question for this talk:

When monthly Social Security income changes, can vulnerable retirees smooth spending by drawing down other assets — or are assets psychologically and practically hard to use?

Evidence on how retirees actually use assets — not a recommendation for any specific policy option.

Textbook retirement says “spend down”

Empirically, many retirees do not rapidly convert assets into consumption.



But in the HRS data:

≈ 2 in 5

retirees increase wealth
between ages 65 and 77

≈ 70%

of financial wealth retained by the
median retiree 12 years after age
65

- Retirement drawdown is slow and varies a lot by person.
- The asset stock is not always treated like spendable income.
- This is relevant when monthly income streams are threatened.

Data: nationally representative retiree panel

Health and Retirement Study plus CAMS consumption data.

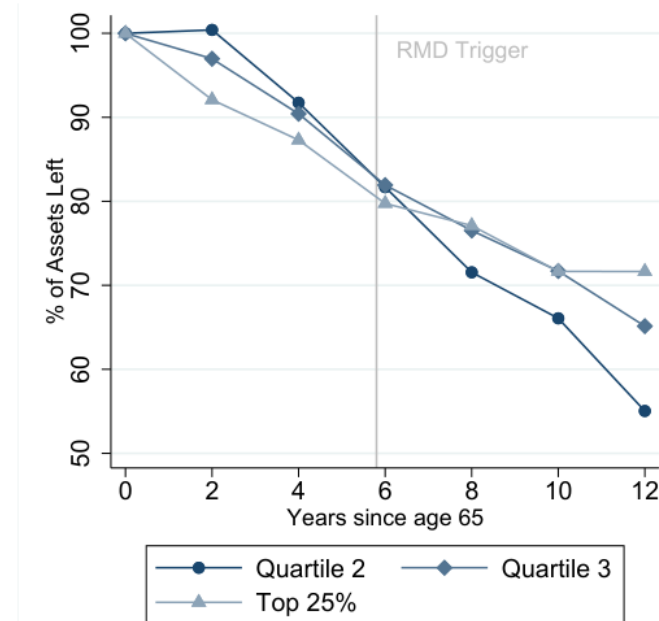
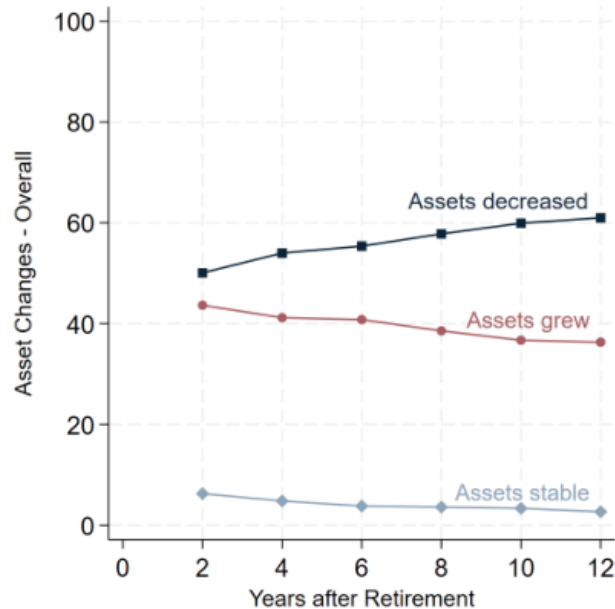
Analysis Sample

- Individuals age 62+; 1992–2022.
- Income, wealth, pensions, health, bequest plans, and demographics.
- ~12,000 households and ~5,000 consumption data households.

The goal is to observe how retirement resources are actually used — not only how much people have at retirement.

Many retirees keep — or grow — assets

Slow drawdown persists for a large share of households.

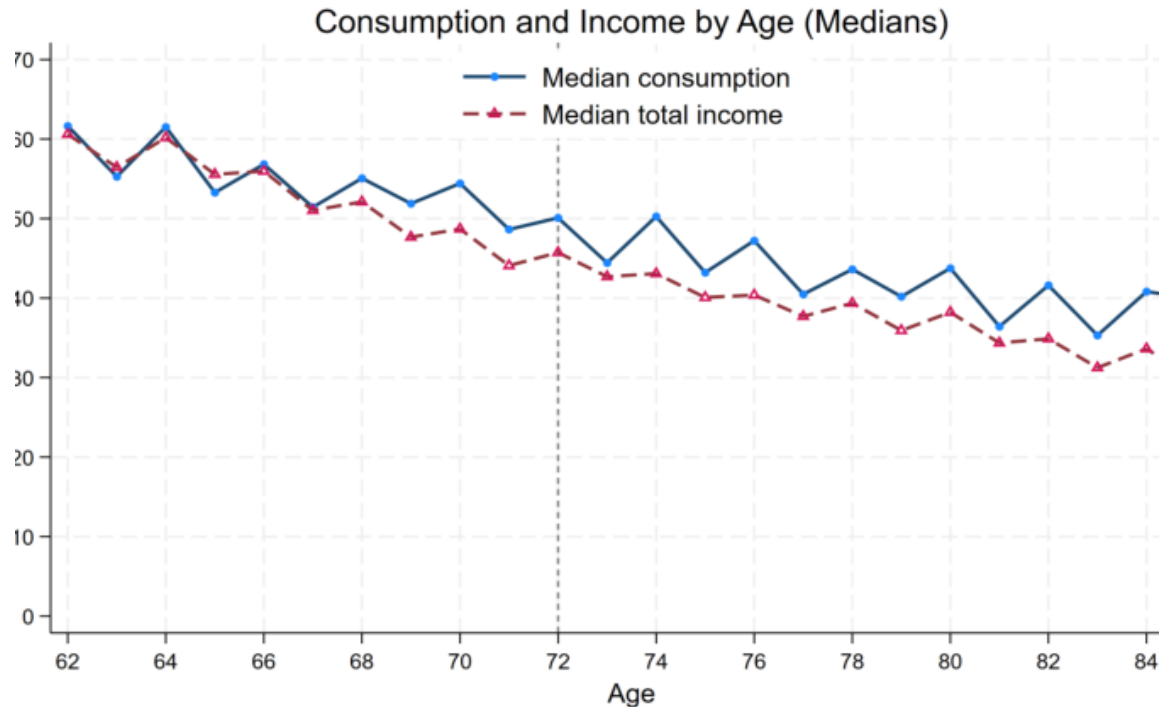


Interpretation:

Slow drawdown can reflect precautionary motives, bequests, reference points, or simply that income streams cover spending. This makes “use your savings instead” an incomplete description of retiree behavior.

Retirement spending tracks income more than wealth

Monthly income streams are especially salient for consumption.

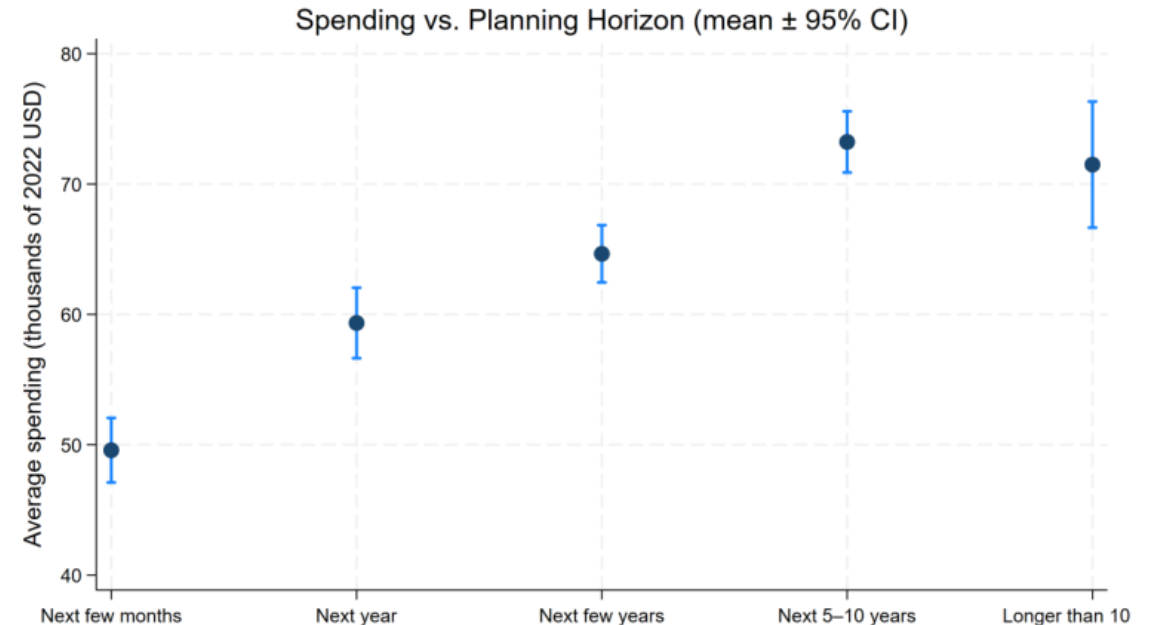
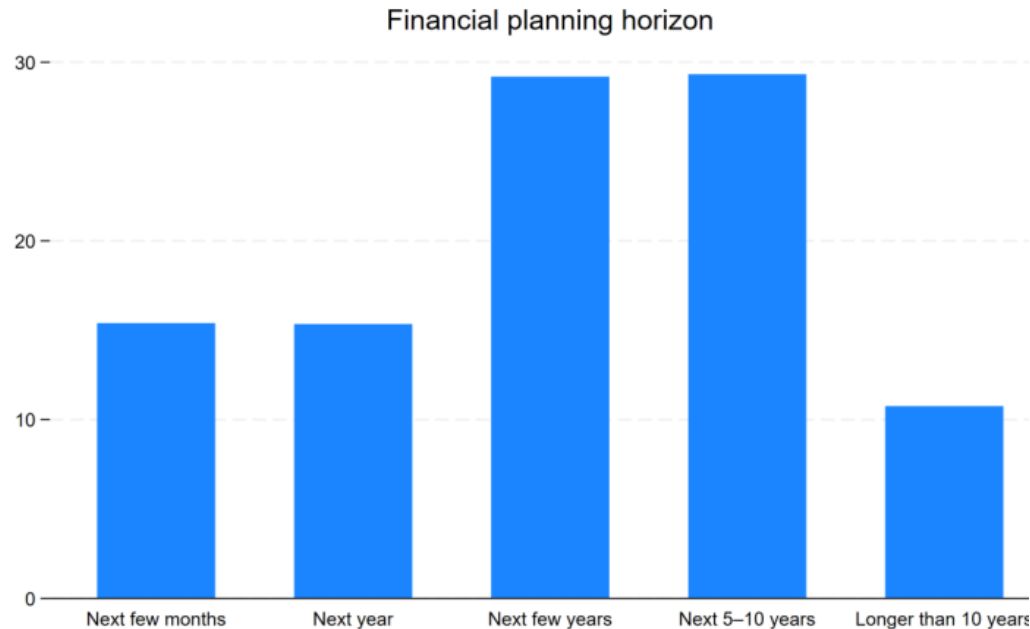


What the regressions show

- The marginal propensity to consume is much higher from income than from wealth.
- Retirees appear to spend from regular flows before drawing heavily from asset stocks.
- For Social Security–reliant households, a monthly benefit change is therefore not the same as a paper wealth change.

Planning horizons and retirement spending

Longer horizons are associated with higher spending.

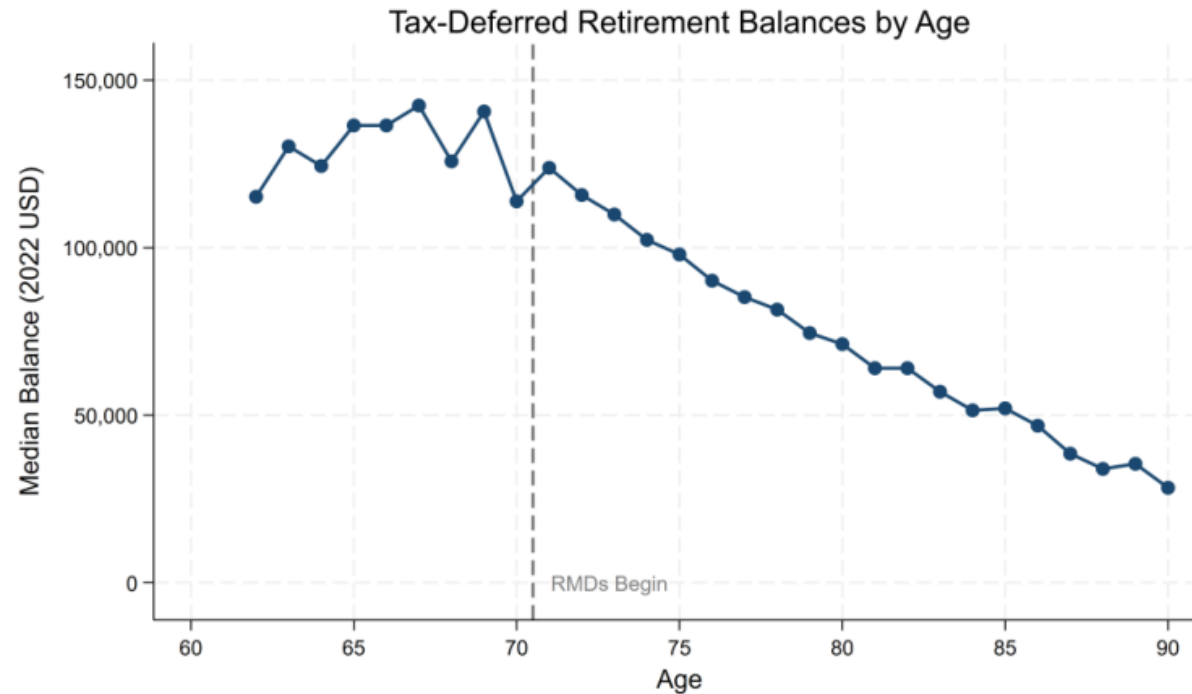


Why this matters:

Information and timing can affect whether households translate resources into stable living standards. Benefit changes that are unclear, sudden, or hard to plan around may be more difficult for vulnerable households to absorb.

When assets look like income, people spend them

IRA/RMD rules provide a useful clue.



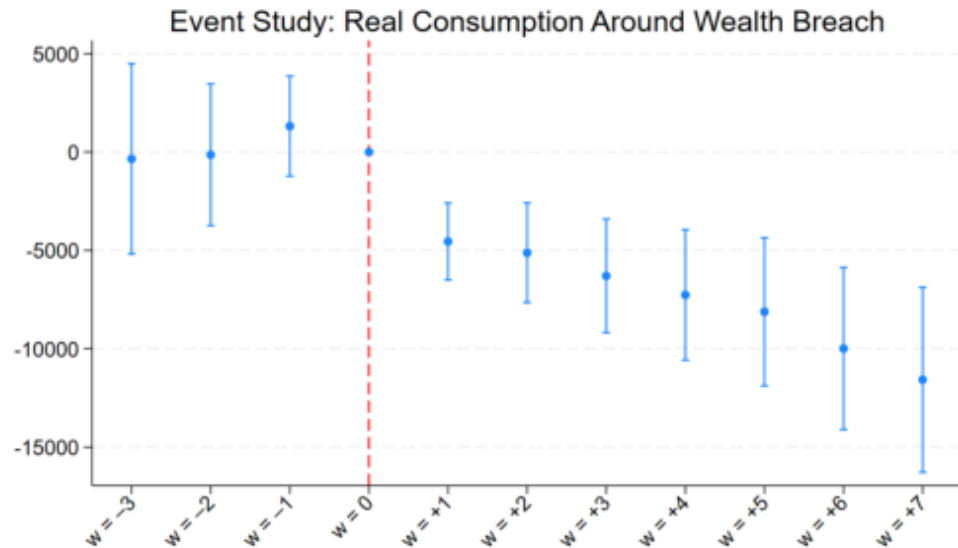
Interpretation for Social Security

- Retirees do spend down tax-deferred balances — especially when rules require withdrawals.
- A higher IRA share of wealth is associated with more retirement consumption.
- This supports the idea that structure and default income flows matter.

Social Security turns retirement resources into a predictable monthly income stream. That structure may matter for how households spend.

A possible friction: peak-wealth anchoring

Some households appear reluctant to let wealth fall below salient reference points.



After crossing a prior wealth peak:

- Spending declines in the event study.
- Peaks may act as salient reference points.
- This suggests assets can be psychologically “sticky,” not merely financially available.

Policy relevance: a benefit change may induce cutbacks even among some households with remaining assets.

What this adds to the Social Security discussion

Household behavior changes the incidence of benefit changes.

1 Monthly income is powerful

Consumption follows income streams more closely than asset balances.

2 Assets are heterogeneous

Some households preserve assets; others draw down quickly and have little margin.

3 Planning frictions matter

Planning horizon, defaults, and reference points shape decumulation.

Implication: financial vulnerability is not only about low wealth. It is also low flexibility when a regular income stream changes.

Takeaways

- Retirees often decumulate slowly; many retain or grow assets.
- Consumption tracks regular income more than asset balances.
- Vulnerability depends on usable buffers, planning capacity, and salience — not just wealth.
- Social Security is central because it is monthly, predictable income.

Early Social Security Claiming and Old-Age Poverty

Anil Kumar
Tippie College of Business, University of Iowa

Institute for Research on Poverty webinar | September 30, 2026

The 2032 shortfall: who can absorb a smaller check?

- Social Security's retirement trust fund is projected to run short in late 2032
 - Incoming taxes would still pay about 78% of scheduled benefits
- Without action, benefits could be cut by about 22%
 - The payable share keeps falling over time
- The question: who can absorb a smaller check?

Retirees differ in their ability to absorb a smaller check

- Other resources may cushion a smaller check
 - Work, savings, pensions, and family
- Retirees near poverty have fewer options
 - The ability to work or rebuild savings declines with age
- The key question
 - Does a smaller check mean lower total income and more poverty?

A historical experiment in early claiming

- A 1961 law let men claim before 65
 - Men born a year apart faced different rules
- Claiming early meant a smaller check for life
 - About 20% smaller at age 62
- Men still chose when to claim
- Data: older male-headed families

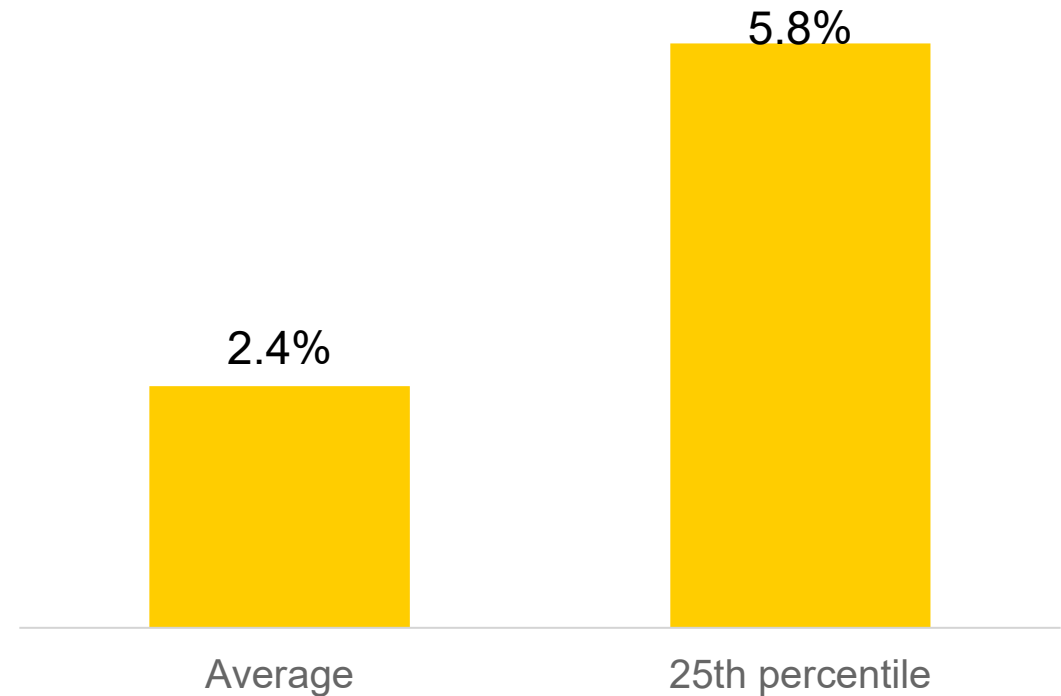
Birth cohort	Earliest age
1896 or earlier	65
1897	64
1898	63
1899 onward	62

Source: Engelhardt, Gruber, and Kumar (2022)

Early claiming led to lower family Social Security income

- Average claiming age fell about 1.4 years
- Family Social Security income fell
 - 2.4% on average
 - 5.8% at the 25th percentile of SS income
- Largest estimated decline at the 25th percentile

Decline in family Social Security income



Source: Engelhardt, Gruber, and Kumar (2022)

Lower benefits reduced total income and raised poverty

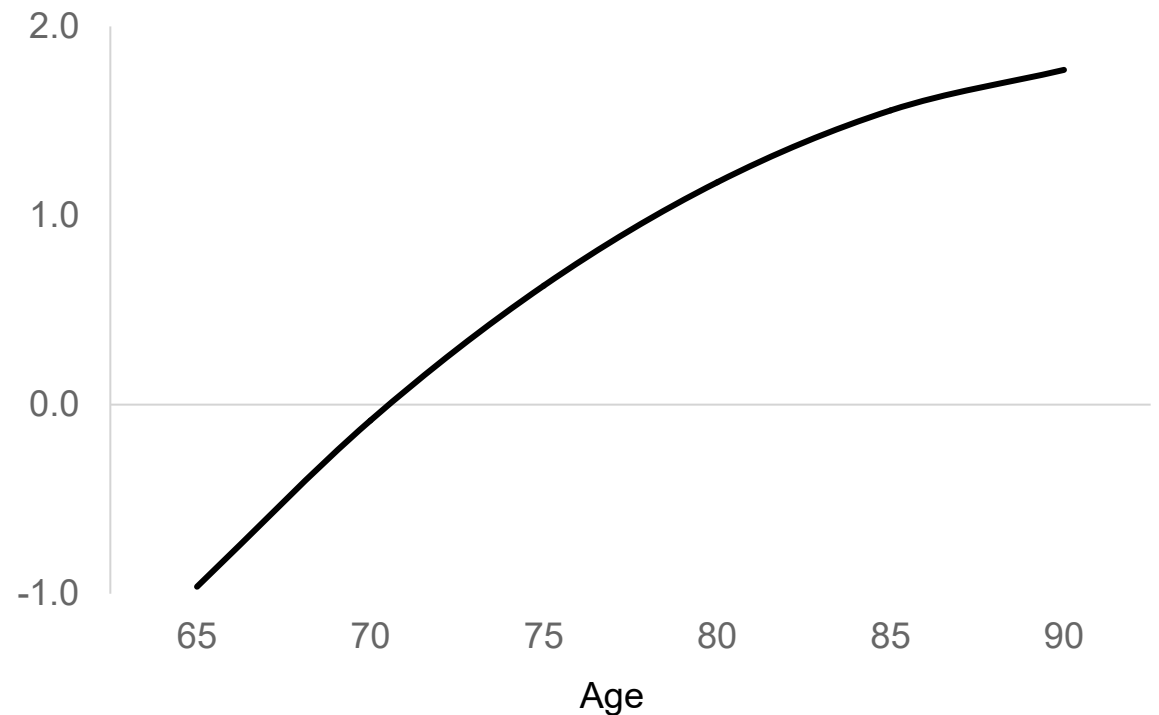
- Little or no offset from other income in the lower half of the distribution
 - Total family income fell for lower-income families
- Poverty rose about 1 percentage point
 - Relative to a pre-reform baseline poverty of about 28%
- With limited resources, a smaller check was hard to replace

Poverty effects grow with age

- Before about age 70
 - Earlier access reduced poverty
- After about age 70
 - Earlier access increased poverty
- A smaller check was harder to absorb later in life

Effect on absolute poverty (percentage points)

For each year earlier that men could claim



Source: Engelhardt, Gruber, and Kumar (2022)

Implications for the 2032 shortfall

- Lessons that carry over
 - Smaller checks were hard to replace near the bottom
 - Poverty effects grew with age
 - CBO: older retirees have less time to adjust work and saving
- Important differences
 - A broad cut is not a choice and offers no earlier income
 - Evidence covers older male-headed families, not widows living alone
 - Not a forecast of poverty after 2032

Three takeaways

- Lower benefits can mean lower total income
 - Near the bottom, other income did not make up the loss
- Families with fewer resources were hit hardest
- Age matters
 - The effect from a smaller check grew after about age 70