**Social Security and the Nation's Fiscal Crossroads**

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Good morning, Chairman Johnson, Ranking Member Merkley, and members of the committee. Thank you for inviting me to testify today.

My name is Jason Fichtner, and I am the Executive Director of the LIMRA Retirement Income Institute. I am also a Senior Fellow at the National Academy of Social Insurance, as well as a Senior Policy Fellow at the Center for Social Development (CSD) at the Brown School, Washington University in St. Louis. I am on the Board of Directors for the FINRA Investor Education Foundation, and a Member of the Puerto Rico Pension Reserve Trust, where I serve on both the Pension Benefits Council and the Pension Reserve Board. Previously I served in several positions at the Social Security Administration (SSA), including deputy commissioner of Social Security (acting) and chief economist. All opinions I express today are my own and do not necessarily reflect the views of any organization with which I am affiliated.

My testimony today will focus on the relationship between Social Security's financing challenges, the federal budget, and the Treasury market. My central message is straightforward: Congress should address Social Security's financing shortfall before trust-fund depletion forces an abrupt response. Reform is not only a retirement-policy imperative. It is also a matter of fiscal resilience, household affordability, and financial stability.

Social Security's approaching financing deadline does not arise in isolation. It comes amid sustained federal deficits, a large public debt, and substantial interest costs. Delaying action increases the likelihood that Congress will rely on additional borrowing to maintain scheduled benefits. That choice could place further pressure on Treasury financing and expose households to higher borrowing costs, inflation, or both.

My testimony does not endorse a particular package of benefit changes or revenue increases, nor does it predict an imminent fiscal crisis. Its main takeaway is that Congress should not wait for unmistakable market distress before acting. It should legislate well before Social Security's primary trust fund is depleted. I will make three points: the financing deadline is a budget issue; additional borrowing carries fiscal, household, and inflation risks; and market monitoring informs policy but cannot substitute for reform. At

[1] Biographical information, my CV and list of publications are available here: https://sites.google.com/site/jasonjfichtner/.

stake are both the retirement security of millions of Americans who rely on Social Security benefits and the larger fiscal position of the United States.[2]

### Social Security's Financing Deadline Is a Budget Issue

Social Security's retirement and disability programs are financed largely on a pay-as-you-go basis, as today's workers fund today's beneficiaries. Trust-fund reserves bridge the difference when dedicated income falls short of scheduled benefits. Demographic change places pressure on this arrangement. As the population ages and the ratio of workers to beneficiaries falls, fewer workers support each dollar of promised benefits. Wage growth, productivity, claiming behavior, and mortality also affect the program's finances.

The trust funds hold special-issue Treasury securities. These securities are legal claims on the Treasury, but they are not marketable assets that Social Security can sell to private investors. When the program redeems them, Treasury must provide cash through revenues, reductions in other spending, or borrowing from the public. Redemptions therefore connect Social Security's cash-flow shortfall to the government's broader financing operations. They do not create new resources for the federal government as a whole.

Trust-fund depletion does not mean that Social Security disappears or stops collecting revenue. It means that reserves are depleted. Because the program lacks its own borrowing authority, it cannot continue paying scheduled benefits above the level supported by dedicated income without congressional action.

Congress will face difficult choices among benefit adjustments, revenue increases, and general-revenue transfers. These choices are not costless. If they are financed with deficits rather than offsetting revenues or spending changes, they require additional federal borrowing. In a way, Social Security is technically "solvent" because benefit payments cannot exceed existing revenue, which means that, without congressional action, benefits will be reduced by approximately 22 percent when the OASI trust fund is depleted.[3] It is hard to believe, however, that any Congress will allow approximately 70 million Social Security recipients to experience a 22 percent reduction in benefits overnight.[4] Rather, it is more likely that, upon OASI Trust Fund depletion, Congress will seek to borrow money to make up the shortfall, either on a temporary basis to buy time for more deliberate congressional action, or on a permanent basis. By one estimate, the shortfall between

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[2] This testimony is based off my co-authored research work with Veronique de Rugy: "Social Security's Fiscal Gap and the Risk of Bond Market Strain." June 2026. Available online: https://www.mercatus.org/research/research-papers/social-securitys-fiscal-gap-and-risk-bond-market-strain

[3] Social Security Administration, *2026 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, https://www.ssa.gov/oact/TR/2026/tr2026.pdf

[4] Social Security Administration, Office of the Chief Actuary, "OASDI Beneficiary Statistics," https://www.ssa.gov/oact/STATS/OASDIbenies.html

2032 and 2036 will total approximately $2.8 trillion.[5] In 2033 alone, the annual shortfall is approximately $600 billion, and by 2036 the annual gap grows to around $700 billion. This additional amount of borrowing would be on top of the estimated $2.7 trillion deficit and U.S. national debt of $46.5 trillion in 2033 (118 percent of GDP).[6, 7]

The distinction matters for this Committee. While the Congressional Budget Office assumes in its baseline estimates that scheduled benefits will continue to be paid by general revenue transfers, this would not be automatic. Social Security does not automatically acquire borrowing authority when its reserves run out. Congress would have to authorize a financing response. The question is whether that response restores a sustainable balance or shifts an enduring shortfall onto an already strained federal budget. A temporary borrowing bridge may buy legislative time, but without a credible resolution it risks becoming a permanent financing strategy.

### Fiscal Risk Has More Than One Transmission Channel

Government borrowing is not inherently harmful. It can finance long-lived investments and help cushion recessions. The concern is persistent borrowing to finance spending that is not matched by a credible path of future revenues or spending restraint. As interest obligations grow, they compete with other public priorities and can require further borrowing. Net interest has become one of the largest federal budget expenditures, exceeding spending on national defense.

Two analytical frameworks help explain the risks. In the conventional framework, sustained deficits increase the supply of Treasury securities. Investors may demand higher yields to absorb that supply, particularly when balance sheets are constrained or inflation uncertainty is elevated. Higher government borrowing can also displace private investment, reducing the capital stock, productivity, and long-run economic growth. When interest costs grow faster than the economy's capacity to support them, stabilizing debt becomes more difficult.

The second framework, the Fiscal Theory of the Price Level, emphasizes confidence in the fiscal backing of government liabilities. If investors doubt that future primary surpluses—revenues less noninterest spending—will adequately support outstanding nominal debt, adjustment can occur through a higher price level. Inflation reduces the real value of government liabilities, while also reducing households' purchasing power. Under this framework, a sharp increase in Treasury yields is not a necessary first step.

These are distinct mechanisms, not interchangeable descriptions of a single process. They also do not establish that any specific increase in borrowing must cause a crisis. Market

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[5] Urban Institute, "Social Security Is Running Out of Money—And Congress Might Count It as Savings," *Urban Wire*, February 16, 2026, https://www.urban.org/urban-wire/social-security-running-out-money-and-congress-might-count-it-savings

[6] Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033*, Visual Summary Handout, February 2023, https://www.cbo.gov/system/files/2023-02/58848-Handout-Visual-Summary.pdf

[7] Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033*, February 2023, https://www.cbo.gov/system/files/2023-02/58848-Outlook.pdf

demand, monetary policy, economic conditions, and expectations about future congressional action all matter. Nevertheless, both frameworks identify a risk in financing a permanent shortfall without a credible fiscal correction.

A household analogy, though imperfect in important ways, can illustrate some dynamics of government borrowing.[8] People borrow money to buy a house, a car, or to finance an education. While individuals also borrow money to finance consumption (for example, through the use of credit cards), it is generally not considered a good idea to borrow money for everyday expenses. Financial professionals make a distinction between "good debt" and "bad debt," where good debt helps you increase your financial position (home) or generate future income (education), while bad debt decreases your net worth and does not generate future income (vacations, daily consumption expenses, clothes).[9] When households rely on credit cards to finance too much spending in excess of their income, the resulting debt can lead to financial difficulty, crowd out other necessary expenditures, and, for some people, lead to bankruptcy.

A household analogy captures part of the concern, as borrowing repeatedly to cover current expenses can crowd out future priorities. But the federal government differs from a household because it issues debt in its own currency. Fiscal adjustment therefore need not take the form of bankruptcy or formal default. It may instead occur through higher financing costs, weaker growth, or an erosion of purchasing power. Focusing exclusively on the possibility of default misses important ways that fiscal deterioration can harm Americans.

The practical lesson is to avoid treating fiscal risk as a binary choice between calm markets and catastrophe. A slow erosion of national wealth is damaging even without a dramatic market break. And when expectations change abruptly, waiting for a clear signal can leave Congress with fewer options for a gradual, equitable response.

### Additional Borrowing Can Reach Household Budgets

If Congress maintains scheduled Social Security benefits through deficit-financed transfers, Treasury must raise additional cash from the public. The effect depends not just on the amount borrowed, but also on the composition of issuance. Greater reliance on short-term bills increases exposure to rollover needs and short-term interest-rate changes. Longer-term securities can lock in financing, but investors may demand compensation for holding additional duration risk.

Treasury investors have different objectives and constraints. Banks and dealers manage liquidity, capital requirements, and interest-rate risk. Money market funds favor short maturities. Pensions and insurers seek assets that match long-term obligations. Foreign investors consider reserve-management objectives, exchange rates, and relative returns.

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[8] Tamara Keith, "How the Federal Budget Is Just Like Your Family Budget (Or Not)," *NPR: It's All Politics*, March 19, 2013, https://www.npr.org/sections/itsallpolitics/2013/03/19/174762184/how-the-federal-budget-is-just-like-your-family-budget-or-not

[9] Fidelity Investments, "Good Debt vs. Bad Debt," *Smart Money* (Learning Center), https://www.fidelity.com/learning-center/smart-money/good-debt-vs-bad-debt

Strong aggregate demand for Treasuries does not guarantee that any amount of new debt can be issued at unchanged yields. The relevant question is not simply whether the debt can be sold, but at what price and under what conditions.

Higher Treasury yields can transmit directly to households through mortgage rates and other borrowing costs. They can make housing less affordable and increase the cost of financing vehicles, education, and other purchases. Higher discount rates can also depress asset prices. The size and timing of these effects depend on market conditions; illustrative interest-rate scenarios should not be treated as precise forecasts.

The government itself is exposed as maturing debt is refinanced and new deficits are funded. Higher interest costs can widen deficits, requiring still more issuance. Meanwhile, tighter financial conditions and weaker private investment can slow economic growth and reduce the payroll-tax base. This creates a feedback loop: borrowing to address Social Security's shortfall can weaken the fiscal and economic conditions that support the program.

The inflation channel raises a different concern. Borrowing without credible fiscal backing may undermine confidence in the real value of government liabilities even while Treasury auctions appear orderly. Inflation then operates like an unlegislated tax on purchasing power. The underlying paper emphasizes the exposure of retirees, wage earners, and savers to this adjustment. Preserving nominal payments through borrowing does not, by itself, guarantee protection of households' real living standards.

It is worth noting that, at this point, the CBO baseline estimates for the 10-year Treasury rate have already underestimated the current 10-year rate. CBO's February 2026 report on "The Budget and Economic Outlook: 2026 to 2036."[10] CBO's 10-year Treasury rate was estimated to be 4.1 percent for 2026 and an average rate of 4.4 percent for the years 2031-2036. As of the end of last week, the 10-year Treasury rate was at 5.1 percent[11] – 100 basis points higher than CBO estimated. This leads to an obvious question as to whether CBO's forecasts of interest rates are properly reflecting the increased interest rates and borrowing costs that might occur should Social Security's OASI trust fund depletion occur.

In a September 24, 2026, letter to Ranking Member Merkley, CBO responded to a request from the Ranking Member "… for an analysis of projected deficits and debt under alternative scenarios for interest rates and the budget."[12] CBO analyzed one scenario under which interest rates increased until they were 1 percentage point higher than in CBO's extended baseline, which is currently 4.1 percent, by increasing the interest rate 5 basis points each year until reaching a total 100 basis point increase. Under these assumptions, CBO estimates primary deficits over the 2026-2036 period would be about $178 billion larger than CBO's baseline estimates, while total deficits over the 2026-2036 period would be about $1.5 trillion larger than in the CBO extended baseline. Moving out farther to 2056,

[10] https://www.cbo.gov/data/budget-economic-data#4
[11] https://www.cnbc.com/quotes/US10Y
[12] https://www.cbo.gov/publication/62758

under these assumptions, debt held by the public would be 222 percent of GDP, or 47 percentage points larger than in the extended baseline estimates.

Again, as of last week, a 100 basis point increase in the 10-year Treasury interest rate has now occurred. If interest rates maintain this level, or increase further, the CBO's estimated effects on the federal budget are a significant underestimation of what might occur.

The Federal Reserve also faces a difficult tradeoff if fiscal pressures intensify. Monetary tightening can raise government debt-service costs, as accommodating fiscal pressure can permit inflation to substitute for legislative adjustment. Fiscal dominance describes a situation in which fiscal pressures constrain the central bank's ability to control inflation without worsening debt dynamics. This is a risk to avoid, not a claim that Social Security depletion alone inevitably produces it. A credible fiscal resolution reduces the burden placed on monetary policy.

### Market Monitoring Is Useful, but Not a Substitute for Reform

Treasury-market indicators can help the Committee assess financing conditions. Relevant measures include auction bid-to-cover ratios; auction tails, or the difference between the final auction yield and the pre-auction when-issued yield; indirect-bidder participation; and the share absorbed by primary dealers. Secondary-market liquidity, repo conditions, volatility, and term premia—the additional compensation for holding longer-term debt—provide complementary information.

No single indicator conclusively predicts a crisis. A weak auction may reflect temporary conditions rather than a structural loss of confidence. Persistent deterioration across several measures is more informative than an isolated observation. Primary dealers play an important backstop and intermediation role, but their balance-sheet capacity is not unlimited. Market resilience depends on both investor demand and the capacity to intermediate issuance.

The price-level framework also suggests attention to inflation expectations and confidence in future fiscal adjustment. Orderly auctions should not be read as proof that an unresolved financing shortfall carries no risk. Deep demand for dollar-denominated safe assets may mute market signals. Investors may also expect Congress to resolve the shortfall through some combination of benefit and revenue changes rather than permanent borrowing.

For that reason, it can be difficult to infer an imminent crisis from individual auction results or inflation readings. The stronger case for action rests on the known financing challenge and the narrowing time available to address it. Congress should use monitoring to inform policy, not make visible market distress a prerequisite for reform.[13]

[13] For example, to monitor some of these indicators, see "Tracking the Bond Market and U.S. Fiscal Health." Bipartisan Policy Center. Available online at: https://bipartisanpolicy.org/explainer/bond-market-tracker/

## Conclusion - Congress Should Act Before the Financing Deadline

The Committee should distinguish clearly between maintaining scheduled benefits and sustainably financing them. Benefit changes and revenue increases have economic and distributional consequences that deserve careful evaluation. Borrowing can smooth near-term disruption, but it does not eliminate the underlying imbalance. Any general-revenue financing should be evaluated in the context of the unified budget, debt-service costs, and the credibility of the long-term fiscal path.

Earlier legislation allows adjustments to be phased in more gradually and gives workers and beneficiaries more time to plan. It also provides markets with greater clarity about future borrowing needs. Delayed legislation compresses the transition, increases political pressure for a borrowing-based response, and risks forcing decisions under unfavorable economic conditions.

I do not take a position on any particular reform package in my testimony today, nor do I ask this Committee to choose a particular reform package. I ask it to recognize that leaving the shortfall unresolved is itself a consequential policy choice. The central objective should be a durable financing solution that protects retirement security without relying on an open-ended increase in federal borrowing.

Social Security's fiscal deadline will arrive if Congress does not take legislative action. The absence of a dramatic market warning is not evidence that delay is safe. Addressing the program's finances early can reduce future issuance pressure, improve fiscal resilience, and lower the risk that households bear the adjustment through higher borrowing costs or lost purchasing power.

Congress should act while it still has the time to shape a durable solution—not wait until the financing deadline dictates the choices. The task is not simply to preserve scheduled payments, but to protect the retirement security those payments are meant to provide without deepening the nation's fiscal vulnerability. Delay is a policy choice, and its costs will fall on the workers, retirees, and taxpayers this program serves. I urge this Committee to help move Congress from acknowledging the shortfall to resolving it.

Thank you for the opportunity to testify. I welcome your questions.