Improving the Social Security Statement

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Statement Contains...

» Explanation of Social Security benefits and benefit provisions
» Brief discussion of solvency issues
» Individual’s lifetime earnings record
» Estimate of benefits:
  > Retirement (age 62, NRA, 70)
  > Disability
  > Survivors
  > Family maximum
### Rollout of Statement

<table>
<thead>
<tr>
<th>Year</th>
<th>Age and older</th>
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<tbody>
<tr>
<td>1995</td>
<td>60</td>
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<tr>
<td>1996</td>
<td>58</td>
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<tr>
<td>1997</td>
<td>53</td>
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<td>1998</td>
<td>47</td>
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<td>1999</td>
<td>40</td>
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<td>2000</td>
<td>25</td>
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</tbody>
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Starting theory

» Because benefits are difficult to predict, universal mailing of Statement will lead to:
» Immediate increase in benefit knowledge, followed by
» Smaller improvements in following years as further receipt of Statement reinforces knowledge
» Was I right?
Basic research methods

» HRS asks pre-retirees to estimate their future Social Security benefit
» HRS asks retirees what their Social Security benefit is
» For individuals interviewed both pre/post retirement, we can compare estimated and actual benefit
  > Multiple estimates often available, but here focused on final estimate; assumed to be most informed
Basic results

» Around one-quarter of those interviewed either “don’t know” or refuse to answer

» Of those who do provide estimate, on average not far off (median +4%; mean +14%)

» But there is wide variation

  > One quarter underestimate >22%
  > One tenth underestimate by >50%
  > One quarter overestimate by >21%
  > One tenth overestimate by >100%
Does the Statement help?

» Did universal mailing of Statement to near-retirees reduce benefit estimation errors?
» Method 1: Calculate distribution of estimate errors for individuals retiring in different years
» Method 2: Regression analysis to control for changes in population
Percent of "don’t knows"

Source: Author’s calculations; HRS.
Estimate Distribution: 1994

Percent of sample vs. Benefit estimation error (in percent)
Estimate distribution: 1994-2008

Author's calculations; HRS.
Median errors over time
Regressions

» Regressions control for changes in claiming population that could affect benefit knowledge

» Dependent variable: Absolute value of benefit estimation error

» Control variables: gender; race; education; Hispanicity; dummy for whether automatically received Statement

  > Alternate specifications include log of estimation error; marital status, etc.

» Results: Having automatically received Statement has no statistically significant effect on estimation accuracy
Does Statement help over time?

» Simple receipt of the Statement seems not to improve benefit knowledge, but would multiple Statements improve knowledge over time?

» Alternate regression in which dummy variable for simple receipt is changed to show estimated number of years individual received Statement

» Preliminary result: Estimation errors drop by around 2% for each year individual received Statement

> Note: work is continuing on this question
Why might effects be small?

» Statement provides numbers, but numbers are easily confused

» Statement doesn’t estimate auxiliary benefits
  > Although errors for married/never-married women are similar

» Statement doesn’t provide context, mental framework that makes estimate easier to remember
  > E.g., pseudo-replacement rate: “Your estimated benefit equals 40% of your current earnings…”
  > Charts/graphics in addition to language/numbers

» Statement is crowded with other information
Next steps...

» Continue research on how well Statement has worked to date
» Expand research on how to improve the Statement
  > Length of Statement
  > Text versus numbers versus graphics
  > Paper versus electronic transmission