

WORKING P A P E R

What Do People Know About Social Security?

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I. Executive Summary

Ensuring a secure retirement requires that people carry out successful retirement planning. In practice, this means that three key steps are crucial: people must undertake a careful assessment of projected retirement needs; develop a clear understanding of the retirement income one might be entitled to from pensions and Social Security; and determine what adjustments are feasible if needs are projected to exceed retirement income. Yet in practice, retirement planning turns out to be a difficult and often daunting prospect for many older persons.¹ As a consequence, many households are faced with substantial shortfalls in retirement saving, particularly low-income workers, women, minorities, and the least educated.²

One possible explanation for such retirement insecurity may be that many people fail to understand the structure of Social Security benefits and how these change depending on when the benefits are claimed. Previous research using the Health and Retirement Study (HRS) and the Retirement Confidence Survey (RCS) has found that many respondents lack the basic knowledge of Social Security necessary for making informed decisions about when to retire and claim benefits.³ What people believe about Social Security is of course likely to influence their savings and spending behavior, especially as they near retirement, and shape their financial security (or lack thereof) later in life.

¹ See Ameriks et al. (2003) and Lusardi and Mitchell (2007a, b, c; 2009)

² See Bernheim (1998); Lusardi and Mitchell (2008); Mitchell and Moore (1998); and Rohwedder and Van Soest (2006).

³ See Chan and Huff Stevens (2008); Gustman et al. (2004, 2008); Lusardi et al. (2010); Mitchell (1988); Mitchell and Moore (1998); and Scholz et al. (2006).

In this project, we have conducted two surveys on what people know about various aspects of the benefits offered by Social Security, to assess knowledge gaps and measure the level of baseline knowledge for future analysis. The first, developed with Mathew Greenwald & Associates (MGA) and described in detail in Chapter II of this report, is a telephone survey of 2,000 respondents in which people were “quizzed” on their comprehension of basic Social Security facts. The team also assessed how well contributors recall receiving and understanding the Social Security Statement and inserts to these mailings. A short list of socio-demographic characteristics is also gathered for this group.

The second survey, described in Chapter III of this report, administered a variant of the same questions to members of the American Life Panel (ALP). This survey relies on a RAND-sponsored internet panel of some 3,000 individuals age 18+ in which respondents use their own computer or WebTV to access the Internet. The ALP evidence is useful in two ways. First, it can be used to validate results obtained from the nationally representative telephone survey, though we do not expect the two surveys to provide identical results due to differences in survey mode and sample. Second, the ALP survey also affords the opportunity to provide a necessary baseline for the measurement of the impact of several future interventions to be undertaken for other projects underway for the Financial Literacy Center projects.⁴

Several key topics were identified for special attention in both surveys. One pertains to peoples’ self perception of retirement preparedness and their self-assessed level of knowledge about how much they will need to retire comfortably, how long they might live in retirement, and how the Social Security system works. Another focuses on respondents’ familiarity with Social Security including how benefits are calculated, the relationship between claiming ages and

⁴ The mission of the Dartmouth/RAND/Wharton Financial Literacy Center is to develop and test innovative programs to improve financial literacy and promote informed financial decision-making. Current projects are detailed at <http://www.rand.org/labor/centers/financial-literacy/>

benefit amounts, and how spousal benefits are determined. We also explore respondents' views of Social Security solvency and their degree of confidence regarding scheduled benefits as well as longevity; we also delve into perceptions of benefit adequacy. Next is a "Social Security Literacy Quiz" which asks people how they think benefits are determined, how benefits might change with work and claiming behavior, how benefits are taxed, and how confident people are regarding their responses to these questions. In addition questions are asked regarding how much respondents expect to receive in benefits, and also how benefits are determined for the disabled and survivors.

Because the project is motivated by an interest in retirement literacy, there are also several questions about current materials provided by SSA in its benefits statement and awareness of the SSA retirement calculator. Respondents are also asked whether they have used the online retirement calculator and/or read their Earnings and Benefits statement and insert to that mailing, sent by the SSA. Of interest also is whether people would appreciate receiving from the SSA information on how the system works, how to prepare financially for retirement, retirement calculators, benefit estimators, and organizations trusted to provide information about retirement income. It is likewise of interest to ascertain how people would like to receive this information – via regular mail, email, text messaging, via public service announcements, or other venues – and how they would like to claim their retirement benefits – online, in person, or some other way.

The results reveal an intriguing combination of very low levels of Social Security literacy paired with pervasive skepticism about the future of Social Security. We also find that respondents place a great deal of trust in the SSA and they express a strong desire for the SSA to play a proactive role in retirement and Social Security education.

Policymakers from many different venues are increasingly moving beyond an expression of interest in financial literacy, to implementing programs that will do much to boost the state of knowledge about retirement security (e.g. PACFL 2008). The SSA in particular has determined, with the Financial Literacy Consortium, to take steps that will lead to the generation of useful and informative materials, websites, and tools that will help educate the public on financial literacy and retirement-related topics, developed primarily by non-profits, institutions of higher education, and other government agencies. While these products will usefully shape the campaign that the Social Security Administration plans to implement, it remains the case that all campaigns require evaluation and impact measurement. To determine the effectiveness of this campaign and the materials it generates, our baseline information gathered here will help illustrate how the public understands key retirement planning issues and the role of Social Security in particular. Future surveys will thus be able to assess what works most effectively to enhance financial literacy.