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DOES THE SOCIAL SECURITY "STATEMENT" ADD VALUE?

By Steven A. Sass*

Introduction

Social Security is the nation's most important source of retirement income, providing half or more of the monthly income of well over half of all retired households. Workers planning their retirement thus need to know how much they and their spouse will get and how much more they could get if they work longer and claim later. Benefits, however, are set by a complicated formula based on a worker's lifetime earnings record at retirement, the age he claims, the earnings record of a current or former spouse, whether that spouse is alive, and when that spouse claimed. So workers, on their own, cannot be expected to know how much they could get.

The Social Security Administration (SSA) started an ambitious initiative in 1995 to address this issue. It began mailing out personalized annual *Statements* that provided estimates of an individual's monthly benefit at various claiming ages. This *brief* reports the findings of studies produced by the Social Security Administration's Retirement and Financial Literacy Research Consortiums that assessed the effectiveness of the initiative – whether the *Statement* made workers better informed about their benefits and whether it changed their behavior.

The Social Security *Statement*

The Social Security *Statement* is designed to give recipients a better understanding of the program as well as the benefits they might get.[1] It thus provides an overview of Social Security retirement, survivor, and disability benefits and how these benefits are funded. More important for retirement planning, it gives each recipient a personalized estimate of the monthly benefit he might get, in current dollars, if claimed at three different ages: 1) at the worker's full retirement age (FRA); 2) at 70, the age for claiming the highest monthly benefit; and 3) at 62, the earliest a worker can claim retirement benefits (see Figure 1 on the next page).[2] The *Statement* also provides personalized estimates of the recipient's monthly disability benefit and benefits provided to a surviving spouse and children should the recipient become disabled "right now" or die "this year." The *Statement* also informs recipients that if they get retirement or disability benefits, their spouse and children might also qualify for benefits, though it does not provide dollar estimates for these specific benefits.

The *Statement* does not estimate the "spousal" benefits the recipient might get based on the earnings of a spouse or ex-spouse.[3] Nor does it show how

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Figure 1. Example of "Your Estimated Benefits" in the Social Security Statement

Your Estimated Benefits

***Retirement**	You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until…	
	your full retirement age (67 years), your payment would be about	$ 1,680 a month
	age 70, your payment would be about	$ 2,094 a month
	age 62, your payment would be about	$ 1,159 a month
***Disability**	You have earned enough credits to qualify for benefits. If you became disabled right now, your payment would be about	$ 1,527 a month
***Family**	If you get retirement or disability benefits, your spouse and children also may qualify for benefits.	
***Survivors**	You have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family may qualify for the following benefits:	
	Your child	$ 1,176 a month
	Your spouse who is caring for your child	$ 1,176 a month
	Your spouse, if benefits start at full retirement age	$ 1,569 a month
	Total family benefits cannot be more than	$ 2,908 a month
	Your spouse or minor child may be eligible for a special one-time death benefit of $255.	

Source: U.S. Social Security Administration (2015).

the age the worker claims retirement benefits could affect the survivor benefits of a spouse or ex-spouse.[4] The *Statement* nevertheless provides valuable information for retirement planning that workers would not be able to get without the assistance of SSA.

The initial 1995 mailing went to workers age 60 and over who were not receiving benefits. SSA then expanded the program and within five years was sending annual *Statements* to 125 million workers ages 25 and over. The mailings cost about $50 million a year, and budgetary constraints led SSA to suspend the program in 2011. But Congressional interest and an "improved budgetary situation" resulted in the resumption of a modified program in 2014. SSA now mails *Statements* to workers not receiving benefits at ages 25, 30, 35, 40, 45, 50, 55, and 60 or older.[5]

The question is whether the *Statement* adds value – whether it improves workers' knowledge about their benefits and helps them make better decisions.

Does the *Statement* Improve Knowledge?

SSA funded a series of surveys, conducted by the Gallup Organization between 1998 and 2004, that supported the notion that the *Statement* increased knowledge and improved retirement planning. Two-thirds of respondents in the final 2004 survey recalled receiving the *Statement*; those who did thought that it provided valuable information; and these respondents were more knowledgeable about their benefits than those who did not recall receiving a *Statement*. A later survey found that, of those age 55 and over who recalled receiving the *Statement*, over 40 percent also said that they used the information in planning their retirement.[6]

These surveys, however, did not address whether the *Statement* was responsible for making respondents better informed – or whether better-informed respondents were better able to recall receiving the *Statement*. Nor did they address whether the *Statement* mailings actually affected the recipients' retirement plans.

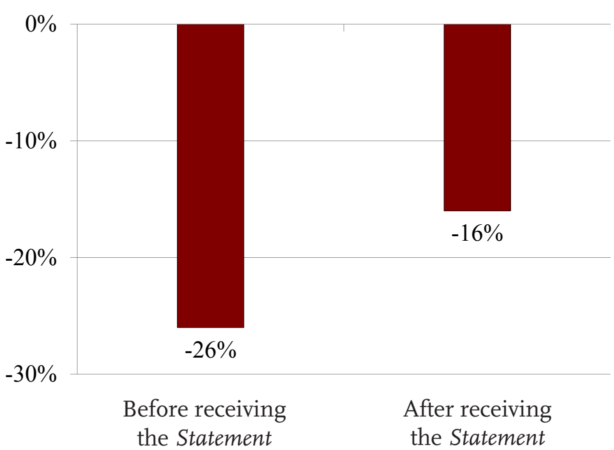
Studies by Giovanni Mastrobuoni and Andrew Biggs, which did address these concerns, identified a far more nuanced relationship between the *Statement* and what workers know.[7] These studies assessed the effect of the mailings on workers approaching retirement using the *Health and Retirement Study* (HRS), a nationally representative biennial survey of older Americans. Each biennial survey asks respondents to identify their expected retirement age and the monthly Social Security benefit they expect to get at that age. If the *Statement* improved benefit knowledge, a greater share of the respondents who received the mailings should be able to estimate that benefit, and their estimates should be more accurate.

Mastrobuoni's study used the gradual introduction of the *Statement* to identify workers who had and had not received a mailing at a given age. No one in the 1992 or 1994 HRS surveys had received a *Statement*; in the 1996 survey, only those ages 58 and over had received a *Statement*; and essentially all HRS respondents had received a *Statement* by the 1998 survey.[8]

Mastrobuoni's analysis found that the mailings had little effect on the benefit knowledge of workers who contact SSA directly. About 30 percent of workers ages 55-57, rising to 55 percent at age 61, contact SSA, presumably to learn about their benefits. But the *Statement* dramatically improved the knowledge of those who did not contact SSA. Before receiving the mailings, not contacting SSA reduced the likelihood that a worker could estimate his Social Security benefit at his expected retirement age, controlling for other factors that affect this result, by an astonishing 26 percentage points. After mailings, the effect of not contacting SSA was cut by more than one third, from 26 to 16 percentage points (see Figure 2).[9] Mastrobuoni also found that the *Statement* increased the accuracy of benefit estimates – primarily but not exclusively among workers who did not contact SSA.[10]

The Biggs study examined the ability of workers to estimate their benefit in the HRS survey conducted immediately prior to claiming. The study reports

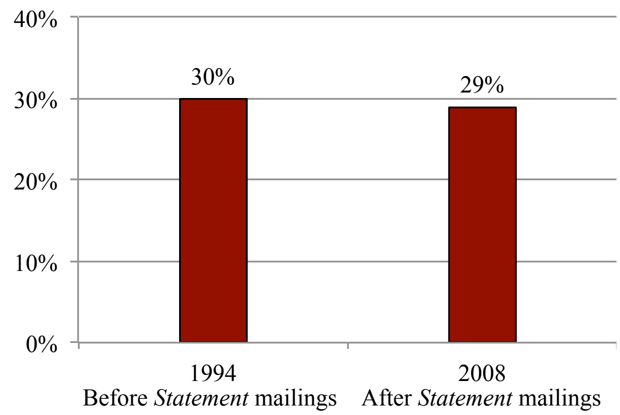
Figure 2. Effect of Not Contacting SSA on Percentage of Workers Able to Estimate Monthly Benefit, Pre- and Post-Statement



Source: Mastrobuoni (2011).

a slight reduction in the share unable to estimate their benefit in 2008 as compared to 1994, before the mailings went out. More strikingly, though, nearly 30 percent of workers in 2008, who had received annual *Statements* for a decade, were unable to estimate the benefit they would claim in two years or less (see Figure 3).[11] Among those who did provide an estimate, one third were off by more than 25 percent.

Figure 3. Percentage of Workers Unable to Estimate Monthly Benefit Within 2 Years of Claiming, Pre- and Post-Statement



Note: Responses are as of the year of the biennial HRS survey conducted immediately prior to benefit claiming.
Source: Biggs (2010).

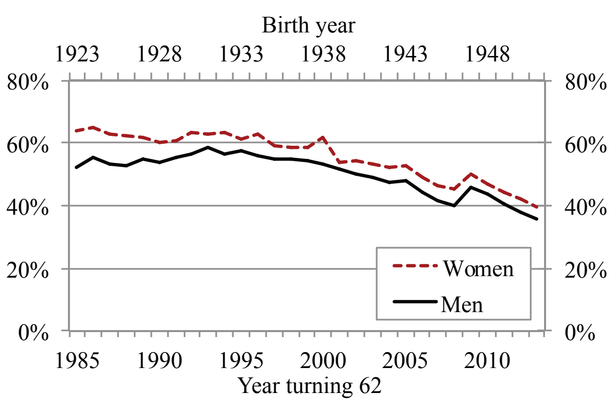
Taken together, these studies: 1) confirm that the mailings improve benefit knowledge – primarily of workers who read the *Statement*, do not contact SSA, and are not at the cusp of retirement; but 2) a large share of workers at the cusp of retirement, despite receiving the *Statement*, cannot provide an estimate of the benefit they will get in two years or less.

Does the *Statement* Change Behavior?

If the *Statement* improves knowledge, does it help workers make better retirement decisions? For example, if workers learn that the benefit at their expected retirement age is "too low" to meet their anticipated needs, the *Statement* clearly shows that they could increase their monthly benefit by working longer and claiming later. The question is whether they act on such information.

After 1995, when workers began receiving annual *Statements*, the share of 62-year-old workers claiming benefits at 62 declined sharply (see Figure 4). The 2004 Gallup survey funded by SSA reported that a third of the respondents who recalled receiving a *Statement* said that it led them to "reconsider" their retirement date. This finding suggests that the *Statement* and the information it contained about the effect of claiming later on monthly benefits could have contributed to the striking change in early claiming behavior.

Figure 4. Percentage of Insured Individuals Turning 62 Who Claimed at 62, by Birth Year



Source: Munnell and Chen (2015).

Mastrobuoni's study, however, found no change in behavior associated with receipt of the *Statement*. It found no uptick in workers changing their expected claiming age. Nor did it find that the *Statements* affected the age at which workers actually claimed. The literature has identified many factors associated with the decline in early claiming, such as rising educational attainment, the shift in employer plans from defined benefit pensions to 401(k)s, the increase in Social Security's FRA, rising longevity and medical costs, and the increased employment of married women (which tends to keep their husbands in the work force longer). Controlling for several such factors, Mastrobuoni's study found that the *Statement* had no effect on the age workers claimed.[12]

Neither the Biggs nor Mastrobuoni studies assessed whether the *Statement* improved worker knowledge about the increase in monthly benefits should they delay claiming. But a survey conducted by Jeffrey Liebman and Erzo Luttmer in 2008 found that the respondents, who had been receiving annual *Statements* for nearly a decade, were reasonably well-informed about the incentive. Eighty-five percent of the respondents knew that claiming later increases monthly benefits, and they provided reasonably accurate estimates about how much monthly benefits would rise.[13]

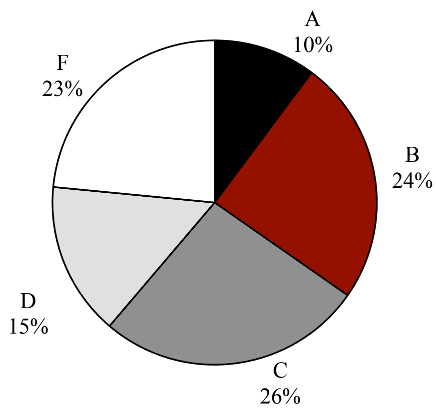
The key takeaway from these studies is that workers receiving the *Statement* generally know that claiming later would increase their monthly benefit; but no evidence exists that the *Statement* changes when they claim. As Mastrobuoni concludes, either workers were "already behaving optimally [prior to receiving the Statement], or the information contained in the Statement is not sufficient to improve their retirement behavior."

Is the Information in the *Statement* Sufficient?

It could be the case that workers are "behaving optimally," with or without the Statement. If so, a 2010 survey by Matthew Greenwald, Arie Kapteyn, Olivia S. Mitchell, and Lisa Schneider found that most workers are unaware that they are. When asked "How well prepared financially are you for retirement?" about two-thirds of the respondents gave themselves a grade of "C" or less (see Figure 5 on the next page).[14]

The survey confirmed that most workers know information contained in the *Statement* – what their monthly retirement benefit will be and that they could increase their monthly benefit by working longer and claiming later. The survey also found that the great majority of workers do not expect their benefit to be "adequate to maintain a good standard of living." But when asked "What steps, if any, have you taken in response?," 28 percent said they had done nothing;

Figure 5. Self-Assessed Financial Preparation for Retirement on a Scale from "A" to "F"



Source: Greenwald et al. (2010).

4 percent said they intend to work in retirement; and all other responses involved saving or paying down debt. Essentially none of the respondents said they had pushed back their retirement age.[15] Even though workers "know" they could increase their monthly benefit by working longer, they seemed to consider retirement planning solely in terms of saving and investment.

The major impediment to the *Statement's* ability to help workers prepare for retirement could be what Greenwald et al. call "a lack of knowledge about the key factors necessary for comprehensive retirement planning." These factors include knowing: 1) how much income they need to "maintain a good standard of living;" 2) how much they will get from Social Security; 3) how much they need from savings and other sources to complement what they get from Social Security; and 4) what they could do to get what they need, such as working longer.

A comprehensive retirement planning framework would show workers that pushing back their retirement age does more than raise their monthly Social Security benefit. It also reduces the savings they need at retirement, as the higher monthly benefit reduces the income they need from savings; and it shortens the length of time their savings need to provide that income. Retiring later also increases the savings that workers will have at retirement, as it gives them more time to save and gives their savings more time to accumulate investment income.

The lack of such a larger retirement planning framework could be why the *Statement* mailings seem not to have prompted changes in behavior.

Conclusion

The Social Security *Statement* aims to improve benefit knowledge and help workers make better retirement decisions. Surveys funded by SSA indicated that the *Statement* delivered significant value – that most workers recall receiving the *Statement* and that most who do find it valuable, with over 40 percent of those approaching retirement saying they use the information in retirement planning.

The studies reviewed in this *brief* generally confirm that the *Statement* adds value by improving benefit knowledge. In part because of the *Statement*, most workers approaching retirement can now provide an estimate of the monthly benefit they will get when they retire and how they could increase that benefit by working longer and claiming later.

The studies nevertheless have not found that the *Statement* affects claiming behavior. To help workers make better retirement decisions, the information the *Statement* provides might need to be presented in a "comprehensive" framework that allows workers to develop a plan.

Endnotes

1 SSA also intended the *Statement* to improve public understanding of the Social Security program (Smith and Couch 2014a).

2 The estimates assume the worker's real earnings remain the same to retirement and the worker retires and claims at the same age. The *Statement* also informs workers that the estimates are based on current law; that Congress could change the law and amounts Social Security pays out; that the Social Security trust fund will likely be exhausted at a specified date; and that ongoing tax revenues will then be sufficient to cover just 75-80 percent of currently scheduled benefits.

3 Spousal benefits are "top-ups" that assure workers a benefit equal to half their spouse's full retirement age benefit, with the amount assured reduced for early retirement. Such top-ups cannot be estimated with any degree of accuracy many years prior to retirement. Providing such estimates also raises privacy concerns. And due to the increased employment of married women, few workers are expected to be eligible for significant spousal top-ups.

4 The "Thinking About Retirement?" insert, included with *Statements* sent to workers age 55 and over beginning in 2000, includes "Rules that may affect your survivor: If you are married and die before your spouse, he or she may be eligible for a benefit based on your work record. If you start benefits before your full retirement age, we cannot pay your surviving spouse a full benefit from your record. Also, if you wait until after your full retirement age to begin benefits, the surviving spouse benefits based on your record will be higher." As many wives, in particular, see a sharp drop in income upon becoming a widow, the effect of working longer on a spouse's survivor benefits can be an important consideration.

5 SSA also does not mail *Statements* to workers receiving benefits or who have a "my Social Security" account that provides access to the *Statement* online. For those workers who have a "my Social Security" account, SSA notifies them by e-mail each year when a new statement is available online. See U.S. Social Security Advisory Board (2009); and Smith and Couch (2014a).

6 U.S. Social Security Advisory Board (2009); Smith and Couch (2014b).

7 Mastrobuoni (2011); Biggs (2010).

8 Mailings went to all workers age 53 and over in 1997, age 47 and over in 1998, age 44 and over in 1999, and age 25 over in 2000.

9 In estimating the effect of the *Statement*, Mastrobuoni adjusted for the potential bias due to workers who did not contact SSA before receiving the Statement but might have done so later on. In addition to the effect of the *Statement*, other factors the study identified as reducing workers' ability to estimate their benefit were gender, education, and ethnicity.

10 Results reported in Smith and Couch (2014) are consistent with Mastobuoni's finding that the *Statement* improves benefit knowledge among workers who do not contact SSA. Smith and Couch assessed the effect of the *Statement* on workers age 46 and younger using data from Gallup surveys conducted before and after this age group received the *Statement*. Very few workers in this age group are likely to contact SSA, and the study found a significant increase in benefit knowledge in the group that received the *Statement*.

11 Using a larger sample, we found that workers unable to estimate their benefit within two years of claiming dropped from 30 percent in 1994 to 26 percent in 2008. This 4-percentage-point improvement is consistent with Mastrobuoni's estimate of the effect of the *Statement* on benefit knowledge and also shows a large share of workers at the cusp of retirement unable to estimate their benefit.

12 If the *Statement* made workers more aware of the increase in monthly benefits if they delay claiming, and this awareness led them to change when they claim, the increase in monthly benefits should have a greater effect on the claiming behavior of workers who receive the mailings. Mastrobuoni's analysis, however, found that the increase in monthly benefits had much the same effect on the claiming behavior of workers who had and had not received a *Statement*, controlling for age, age squared, year, gender, education, marital status, race, and labor market experience (number of years with positive earnings).

13 Liebman and Luttmer (2012). The median estimates of how much benefits would rise each year if a worker delayed claiming, by those who knew that benefits would rise, was 5.0 percent of the worker's FRA benefit both before and after the FRA. The actual increments were 6.25 percent before the FRA and 8 percent after the FRA. The Liebman and Luttmer survey also found workers reasonably well-informed about the effect of claiming later on a spouse's survivor benefit. The respondents also cited the *Statement* as their most commonly used source of information, with 92 percent citing it as a source of information, and the most "useful" source of information, tied with a visit to SSA with an average score of 4.2 on a 5-point "usefulness" scale.

14 While the results presented in Figure 5 are from a telephone survey of workers of all ages, the authors indicate that "there are virtually no differences by age." Respondents in an online survey that the study conducted were even less confident about their financial preparation than the telephone survey respondents.

15 The question was asked of the 83 percent of respondents who expect Social Security benefits would not be adequate to maintain a good standard of living. The question was open-ended, with respondents indicating their responses. The study organized the responses into groups and listed the eight "top mentions," the lowest of which was mentioned by 3 percent of the sample. Working longer was not one of the top eight responses mentioned.

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