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THE SOCIAL SECURITY INFORMATION ACT: EMPOWERING AMERICANS TO PLAN MORE EFFECTIVELY FOR RETIREMENT

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Between 1997 and 2030, the number of retirees and their dependents who are eligible for Social Security benefits will more than double—from 30 million to over 60 million. If the history of the system is a reliable indicator, most of these Americans will rely on Social Security as the major source of their retirement income. Today, for example, Social Security benefits are the primary source of income for almost two-thirds of all retirees, especially low-income retirees. In 1994 alone, Social Security payments made up 92 percent of the income of elderly individuals living below the poverty line, either by themselves or with non-relatives, and 76 percent of the income of poor retirees living with their families.[1]

For many families, Social Security will be the biggest and most important financial investment they make, consuming up to one-eighth of their total lifetime income. Less than half of all American workers have an employer-provided pension plan, and that proportion is even smaller for younger workers. According to the Advisory Council on Social Security, "many Americans reach retirement with little accumulated savings," and retirees "have difficulty maintaining their pre-retirement standards of living."[2]

When it comes to ensuring financial security in retirement, the vast majority of today's baby boomers will not be any more successful than previous generations have been. One of the reasons for this failure is that many working Americans still lack crucial information on the kind of return their investment in Social Security can be expected to gener-

1 Information on Social Security recipients and benefits for this section has been taken from Social Security Administration, *Annual Statistical Supplement 1996 to the Social Security Bulletin*, esp. Table 3.E3.

2 Advisory Council on Social Security, *1994-95 Panel on Trends and Issues in Retirement Saving, Final Report*, available on the Internet at *http://www.ssa.gov/policy/tirs1.txt.*

ate—the type of information that private investment firms routinely provide their clients. To correct this problem, Senator Rod Grams (R-MN) has proposed a measure to make this information available and thereby empower families to plan more effectively for their retirement years. The Social Security Information Act (S. 1145), introduced in the Senate on September 3, 1997, would require the Social Security Administration (SSA) to give all working Americans over the age of 25 detailed information each year on their future Social Security benefits. This would enable them to judge more accurately the extent to which they should supplement their Social Security contributions with other forms of retirement savings.

WHY BETTER INFORMATION ON SOCIAL SECURITY BENEFITS IS NEEDED

Today, most retirees depend on Social Security as their principal source of retirement income, but Social Security is not—and was never intended to be—the only means of support for retired Americans. It was designed to be only one of three legs that would support a footstool of post-retirement income security for every American. The other two legs were supposed to be employer-provided pensions and personal savings and investments.

For such a balance to be achieved, Americans should be saving and investing for their retirement years as expected; to do this, however, they need to know up front what they realistically can and cannot expect to receive from the Social Security system. Specific data on future Social Security benefits and exactly how these benefits compare to what they are paying into the system each year would make it easier for Americans to judge the degree to which they should be supplementing their Social Security contributions. Their retirement portfolios would be more likely to include, in addition to their expected Social Security benefits, other forms of retirement savings like private pension plans and personal savings and investments.

The Advent of Benefits Statements. Since 1988, the Social Security Administration has provided limited information on projected benefits through the Personal Earnings and Benefits Estimate Statement (PEBES) program. Legislation introduced by Senator Daniel Patrick Moynihan (D-NY) and enacted in 1989 required the Social Security Administration not only to improve the PEBES statements, but also to send them annually, beginning in 2000, to every eligible individual age 25 and over. In introducing this legislation, Senator Moynihan criticized the low level of information provided to those who pay into the Social Security system:

> All of us pay into Social Security but rarely, until we become beneficiaries, do we ever hear from Social Security.... We receive monthly statements from our banks and credit card companies. Yet every month, in every paycheck, we see money withheld for Social Security, but we hear nary a word from the Social Security Administration.[3]

What's Wrong with the Current Statement. Although the PEBES statement as it currently exists is welcome, it needs to be improved. The U.S. General Accounting Office (GAO) has reported that the information provided by the current PEBES statement is extremely difficult to understand.[4] Moreover, the current statement does not include much

3 Remarks by Senator Daniel Patrick Moynihan while introducing S. 212, *Congressional Record*, January 25, 1989.

of the information that is necessary if individuals are to plan most effectively for their retirement years. Among its shortcomings, the PEBES statement:

- Gives no indication of the yield on a worker's investment in the Social Security program.
- Is unclear as to whether the benefit estimate is based on nominal or inflation-adjusted dollars. This can make the PEBES statement misleading and financial planning impossible. According SSA projections, for example, an annual benefit worth $98,880 in nominal dollars in 2045 (the year in which a typical individual born in 1978 would retire) would be worth only $16,387 in 1997 inflation-adjusted dollars.
- Gives no details on the future status of Social Security programs other than a vague statement in the introductory letter from the SSA Commissioner to the effect that "the system will continue to have adequate resources to pay benefits in full for more than 30 years."[5]

On May 14, 1997, the Education and the Workforce Committee of the U.S. House of Representatives approved the bipartisan Savings Are Vital to Everyone's Retirement Act (H.R. 1377). Companion legislation (S. 757), introduced by Senator Charles Grassley (R-IA), would require the U.S. Department of Labor to launch an ongoing campaign to educate workers and employers on the importance of retirement savings and the various investment vehicles available. The legislation also calls for a National Summit on Retirement Savings, to be held at the White House every four years to improve public knowledge on retirement savings, to identify barriers to retirement saving, and to formulate policies that would remove these barriers.

According to the 1994/1995 Advisory Council on Social Security, numerous professional studies have shown that many workers, even those nearing retirement, "continue to have error-laden estimates of their likely Social Security benefits."[6] It is likely, therefore, that any initiative to enable workers to plan more effectively for old age will fail in the absence of reliable and complete information on future Social Security benefits—benefits that for most Americans will constitute their primary source of income in old age.

How the Social Security Information Act Addresses the Need for Better Information

The Social Security Information Act drafted by Senator Grams would require the Social Security Administration to improve significantly the usefulness of the PEBES statement. Specifically, it would require:

- An estimate (in inflation-adjusted dollars) of the annual value of the Old Age and

4 U.S. General Accounting Office, letter report, *SSA Benefit Statements: Well Received by the Public but Difficult to Understand*, GAO/HEHS-97-19, December 5, 1996.

5 U.S. General Accounting Office, testimony, *Appendix I, SSA Benefit Statements: Well Received by the Public but Difficult to Understand*, GAO/HEHS-97-19, December 9, 1996.

6 Advisory Council on Social Security, *1994-95 Panel on Trends and Issues*, *op. cit.* See also B. Douglas Bernheim, "Adequacy of Savings for Retirement and the Role of Economic Literacy," in *Retirement in the 21st Century...Ready or Not*, ed. Dallas Salisbury and Nora Super Jones (Washington, D.C.: Employee Benefits Research Institute, 1994), pp. 73-82.

Survivors benefit;

- An estimate (in inflation-adjusted dollars) of the lifetime total of the Old Age and Survivors benefit that an individual can expect to receive;
- An estimate (in inflation-adjusted dollars) of the lifetime total of Old Age and Survivors Insurance contributions that will be paid on behalf of the eligible employee by the individual and his or her employer(s);
- An estimate of the individual's annualized real rate of return from participation in the Old Age and Survivors Insurance program;
- Historical values of the real rates of return from investing in equities, as measured by Standard and Poor's 500 and the ten-year U.S. Treasury Savings Bond, which would enable workers to compare their rates of return from contributions to the Social Security program with the returns that other pension savings and investments could earn; and
- Information on the projected long-run financial status of the Social Security trust funds.

Senator Grams's legislation stipulates that the SSA must provide the most important elements of this information on a single easy-to-read form. In addition, it stipulates that the Board of Trustees of the Social Security Trust Funds must formulate the methodology used to derive the estimates of these figures, and that this information must be published for public comment at the start of each calendar year. The Act would allow individuals to request that the SSA provide benefit estimates based on their own instructions. For example, individuals who plan to retire early or take lower-paying jobs in the future could ask the SSA to estimate how these choices might change their future Social Security benefits. Individuals could provide personal details, such as their ethnicity and the ages of their spouses, in order to get more finely detailed estimates of projected benefits.

QUESTIONS AND ANSWERS ABOUT IMPROVING SOCIAL SECURITY BENEFIT INFORMATION

Q: Do Americans really need or want this additional information?

A: Although the GAO criticized the SSA's current PEBES statements as poorly laid out and difficult to understand, it also found that even this information was welcomed by most individuals, especially those who were close to retirement.[7] Numerous surveys by academic economists reveal that many individuals, especially elderly workers, have an inaccurate impression of the Social Security benefits they will receive and lack the tools and information necessary to plan appropriately for financial security in their old age.[8] The Social Security Information Act would require the SSA to provide the most important information from the PEBES statement on an easy-to-read one-page form similar to the benefits statement produced by the Canadian Pension agency.

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7 GAO letter report, *SSA Benefit Statements*, *op. cit.*

8 See Bernheim, "Adequacy of Savings for Retirement," *op. cit.*, and *Is the Baby Boom Generation Preparing Adequately for Retirement?* Summary Report, Merrill Lynch & Co., Inc., 1993. See also Laurence Kotlikoff and Alan J. Auerbach, "U.S. Fiscal and Savings Crises and Their Impact for Baby Boomers," in *Retirement in the 21st Century*, pp. 85-119.

Summary Benefit Statement

1997

Name		SSN#	___-__-____
Address		Birthdate	__ / __ / __
		State	ZIP Code

This is an estimated statement of the benefits that you may receive and the taxes which you may pay into the Social Security program. If you have a spouse or dependent children, you may be entitled to additional benefits (see accompanying literature). The amounts are estimates and are provided for information purposes only. Your real benefits may vary significantly from these amounts.

1 Disability Insurance Information

If you became disabled today it is estimated that you would receive the following amount in Annual Disability Benefits $

Your Disability Insurance is financed by a 1.88% tax levied on your wage and salary and self-employment income

2 Old Age and Survivors Insurance Information

If you retired at age 65 you could receive annually: $
(Valued in today's dollars)

If you died today your spouse and children may receive the following annual amounts:
(Valued in today's dollars)

For your child	$
For your spouse caring for your child	$
For your spouse upon reaching retirement age	$
Maximum benefit which a family could receive	$

Total Lifetime Amount of Old Age and Survivors Benefits which you and your family can expect to receive : $
(Valued in today's dollars)

Total Old Age and Survivors Contributions which you are projected to pay during your Lifetime:
(Valued in today's dollars)

Paid directly by you	$
Paid by your employer on your behalf	$
Total	$

3 Comparative Rate of Return Information

Total amount which your Old Age and Survivors Insurance contributions would be worth upon retirement if it had been invested in U.S. Treasury 10 Year Savings Bonds (Valued in today's dollars) $

Annual rate of return (less inflation)

Your projected return from Old Age and Survivors Insurance program	%
Currently available from United States Ten Year Savings Bonds	%
Received from S&P 500 over the previous 25 years	%

These are for indicative purposes only. Investments differ not only regarding return but also on the basis of coverage, convenience and risk.
Please review the assumptions used to calculate these amounts. These are listed overleaf.

Q: Would it be difficult and expensive to provide the information required by the Act?

A: The data and techniques necessary to provide this information already exist and are widely available. The SSA currently maintains detailed earnings records and information on the date of birth, ethnicity, and gender of eligible individuals who have Social Security numbers. The SSA's Office of the Chief Actuary already produces estimates of future earnings trends and life expectancy for use in such publications as the *Annual Report of the Trustees of the Old Age and Survivors and Disability Insurance Trust Funds* and the current PEBES statements. Furthermore, the techniques used to calculate the estimates required by this legislation are used widely within the private sector and can be applied easily in an automated form to the creation of personalized statements for eligible individuals.

The SSA already is required to produce and mail an annual PEBES statement to each eligible individual age 25 and over beginning in the year 2000. The recurring cost of providing an enhanced PEBES statement will exceed only minimally the amount already budgeted for this purpose, and can be accommodated easily by eliminating wasteful expenditures not directly related to the administration of the nation's Social Security system. The GAO found, for example, that "in 1995, time spent on union activities at SSA totaled about 413,000 hours, costing SSA trust funds about $12.6 million."[9]

Q: Is it valid to compare the rate of return from Social Security with that of other types of investment options?

A: Some have argued that the rate of return concept underestimates the relative benefits from Social Security because it does not take into account either Social Security's special status as a government-guaranteed, open-ended annuity or its role as a form of survivors' insurance. But this claim overlooks how information on an investment's rate of return is used. Assets differ in terms of their particular characteristics and degree of risk. Bonds, for example, typically are considered less risky than stocks. The rate of return is simply one piece of information that investors use when examining all of an investment's characteristics—including its level of risk and the ease with which it can be converted into cash—in an effort to work out how well the investment matches their own needs. Individuals already are aware of the coverage and risk associated with Social Security; what they need is information on its rate of return and how this would compare with returns from other investment options.

For many individuals, Social Security is not necessarily a more convenient or lower-risk form of investment. For example, workers with no remaining dependent children can contribute up to one-eighth of their lifetime income to Social Security; but what if they pass away on the eve of retirement, before reaching age 65, without collecting

9 U.S. General Accounting Office, testimony, *Social Security: Union Activity at the Social Security Administration*, GAO/T-HEHS-96-150, June 4, 1996. The GAO also noted in its report that "unions have significant involvement in operations and management decisions and union representatives use authorized paid time off to conduct their activities." According to the GAO's findings, "agencies are not required to track the amount of official time charged to union activities"; in addition, "in 1995, the number of full-time SSA union representatives increased to 145," and "SSA believes that time spent on union activities is underreported because there is no reporting system that adequately tracks union representatives' activities."

anything from Social Security? If they had invested that money in other options, their heirs would receive the benefits. In addition, many individuals would prefer to hold assets that can be converted into cash in case of emergency, or perhaps used in part as capital for a retirement business or home—an option not possible with their Social Security contributions.

Q: Why is legislation needed to require the Social Security Administration to provide this information?

A: The GAO has found that the limited benefit data required by Congress and provided by the SSA are difficult to understand, chaotically presented, and often irrelevant to an individual's particular circumstances. Because federal agencies like the Social Security Administration have only limited discretion over the types of information they make available to the public, Congress can and should improve the current system by requiring the SSA to provide reliable and easy-to-understand information that will help Americans plan adequately for their retirement years.

CONCLUSION

Many Americans are inadequately prepared for financial security in retirement, and few know how much they actually will receive from Social Security. There is, therefore, a pressing need for every American to have access to key information each year on his or her likely Social Security benefits. This need is not addressed adequately by the current PEBES benefit statements.

The Social Security Information Act would mandate that the Social Security Administration give American workers more detailed and beneficial information on their annual PEBES statements—information which would empower them to invest more soundly and save for their retirement years more effectively. Congress should take the initiative to ensure that all those who have paid into the Social Security system fully understand the benefits they can expect to receive from their contributions, and that they have the tools they need to plan accordingly for financial security in retirement.