

SUMMARY

The Social Security Statement: How It Can Be Improved

Over the last two years, the Social Security Advisory Board has spent a considerable amount of time analyzing the *Social Security Statement* and exploring ways to improve it. The Advisory Board has made a number of specific observations about the current *Social Security Statement*:

- ***The Statement Attempts to Be All Things to All People.*** Research suggests that public pension statements—like the *Social Security Statement*—should be as compact and simple as possible. SSA includes so much information on the *Statement* that the portions that people most care about—their earnings history, their projected benefit estimate, and their normal retirement age—are not presented “front and center.”
- ***The Statement Provides Information in a One-Size-Fits-All Manner.*** Some countries have found it desirable to customize public pension statements to provide personalized information of special interest to large groups with common life circumstances, such as those approaching retirement or new to the workforce. Versions of SSA’s *Statement* are not now sent for any discrete groups with personalized information.
- ***Some Design Features of the Statement Make It Harder to Read.*** The *Statement* is printed in black text with simple green adornments and it appears cluttered and crowded. It lacks color, white space, and graphics, making it difficult to read. Information is presented as a laundry list of facts and data, rather than cogent summaries of things that people need to know to make informed decisions. The *Statement*’s design also does not change over time and this could lead to people becoming bored with the *Statement* and explain an apparent growing tendency for them to ignore even the most important information it provides.
- ***The Statement Often Uses Dense, Bureaucratic Language Making it Difficult to Understand.*** The language used in some sections of the *Statement*, for instance, the section describing the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO), remains far too dense, too bureaucratic, and too confusing and, as a result, may not be readily understood by the intended audience. In addition, many people have a hard time discerning whether or not these provisions apply to them.
- ***The Statement Uses Some Language That Could Influence Individual Decisions in Unintended Ways.*** For example, in the section of the *Social Security Statement* that presents projected benefit estimates, SSA frames its message—“if you stop working and start receiving benefits” Some people could infer from this phrasing that the decision to stop working and the decision to start receiving benefits are inextricably intertwined and could result in some individuals exiting the workforce or claiming benefits earlier

than they would otherwise, and perhaps not at the most advantageous time given their unique individual circumstances. It is similarly important how SSA describes the impact that working, while receiving retirement benefits, has on benefits levels.

In fiscal year 2008, SSA sent out about 149 million *Statements* to American workers. But not everyone who should be getting a *Statement* is receiving one. Individuals who receive Medicare benefits but have elected not to take Social Security retirement benefits do not get an automatic *Social Security Statement* from SSA. There have also been a number of problems related to mail handling resulting in many people not receiving their *Statements*. Delivery problems also occur because of the way foreign addresses are coded. Some of these undeliverable *Statements* are eventually returned to SSA, but most are simply lost. An unknown number of *Statements* are never received by the intended individual and are never returned to SSA. It is conceivable that each year upwards of 28 million to 29 million people who should receive an annual *Statement* do not get one.

The Advisory Board believes that it is imperative that the *Social Security Statement* provide the most accurate information possible and that information be communicated in a clear and objective manner. In examining how well the *Statement* is living up to its potential as an effective communications vehicle, the Advisory Board, with considerable assistance from SSA's Office of the Retirement Policy and the Office of the Chief Actuary, decided to look closely at one very important part of the *Statement* that lends itself easily to formal empirical analysis—the projection of the future retirement benefit.

The results of this analysis showed that, on average, the benefit estimates provided on the *Social Security Statement* are generally good overall, and get better as the worker approaches retirement age. However, projections for younger workers are more likely to underestimate the actual benefit at age 62. The accuracy of projections tends to be considerably lower for women than it is for men, and for lower wage workers than it is for higher wage workers. For the most part, the assumption of constant real earnings used in the *Statement* yields fairly accurate results for men and for older workers. It is clearly less realistic for younger workers who may reasonably expect to see their real earnings grow in the future. The assumption that a worker will experience no further earnings if he or she has zero earnings during both of the past two years may also be too extreme. Assuming those workers will not work again after only a brief period out of the labor force, especially for workers under age 50, seems unrealistic. In fact, projections of their benefits are the least accurate of any group discussed in this report, and the level of benefits for which they actually become eligible are the most underestimated.

The Advisory Board offers a number of conclusions and recommendations for improving the *Social Security Statement*.

Regarding the Accuracy of the Benefit Projections:

- The projected benefits provided on the *Statement* are reasonably accurate on average, although they are far more accurate for older workers than for younger ones. However, projected benefits could and should be improved by basing them on assumptions that

are as accurate as possible about future lifetime earnings. SSA should consider experimenting with and evaluating alternative assumptions and projection methods, including those used by the Office of the Chief Actuary in projecting future benefits for the Trustees Report.

- The Advisory Board is encouraged by SSA's exploration of alternative ways to provide accurate and tailored benefit projections to workers and their families. The agency has recently begun to provide targeted information to younger workers and to those nearing retirement age by including special generic inserts for the *Statement* that are for these age groups. In addition, the agency is considering new ways of displaying benefit projections that focus first on the benefit amount that may be received at the full retirement age. We encourage SSA to personalize information in *Statements* for older workers to better illustrate the impact of different claiming and retirement ages. By contrast, showing different retirement benefit projections at various retirement and claiming ages to young workers may not be necessary.
- The Board would like to encourage SSA to consider providing certain additional information to **younger** workers about their retirement benefit. Specifically, it would give them a calculation of the monthly retirement benefit they have already earned based on their actual wages to date and assuming they have no future wages. This amount would be conceptually similar to the disability benefit amount currently provided on the *Statement* in that it would be based solely on the worker's current earnings record. This would inform the worker what she or he could count on receiving from Social Security in the event that the worker has no future earnings for reasons other than disability. This amount would be recalculated each year to reflect the most recent earnings information and it would demonstrate for younger workers how their future retirement benefit is based on their continued earnings. For some workers who drop out of the labor force and have no future earnings, this calculation could be the most accurate information about their future benefit.

The Board believes that SSA, in determining whether and how to implement this additional projected benefit, should conduct a careful analysis of the impact that the Social Security benefit formula, including its progressivity and averaging period, will have on the proposed benefit projections. SSA should consider whether these social insurance features of Social Security's benefit formula will produce benefit projections which, when compared from year to year or the current projections, will produce anomalies that might be little understood by the public. Determining whether or not to include the additional information that we have suggested, how to display it, and for which age groups it would be the most valuable would require SSA to conduct empirical and focus group research on the issue.

- The *Statement* should direct workers to SSA's online benefit calculator where they can enter their own assumptions about how much they will earn in the future.

Regarding the Content of the Statement:

- SSA should make the *Statement* as accurate, clear, and concise as possible and should provide only that information that is required or necessary for making informed decisions; eliminate extraneous information; and provide more references on the *Statement* to other sources of information, such as the online retirement planner. In addition, SSA should consider separating out the Commissioner's message from the factual material provided in the *Statement*, and transmit this material in a cover letter or on a separate attachment to the *Statement*. Likewise, SSA should consider separating out from the *Statement* itself the technical descriptions of how SSA's programs work. This information can be provided elsewhere, such as in an information pamphlet. SSA should also provide information on the *Statement* about where to find further information on SSA's website.
- SSA should review the language it uses to describe benefit claiming options to assure that the phrasing used is both neutral and accurate.
- SSA should improve the *Statement's* message and information about the impact that working has on retirement benefits.
- SSA should provide a clearer, more succinct, and targeted message on the GPO/WEP provisions of law so that it is easier for the public to understand.

Regarding Statement Design Features: The Presentation of Information:

- SSA should seek to improve the overall readability of the *Statement* and should examine the impact of altering some of the *Statement's* design features, such greater use of color, graphics, or enlarged font size, along with more white space.
- SSA should consider consulting with experts outside of the agency to assist in designing a *Social Security Statement* that is state-of-the-art, and that communicates a clear message that helps the American public understand Social Security's role and importance in retirement security.

Regarding Continuous Improvement of the Statement:

- The *Statement* should be viewed as a dynamic instrument and SSA should seek to make sure it is meaningful to its audience. SSA should consider investing more staff time and resources into periodic evaluations of the *Statement* to strengthen its accuracy and understandability. The agency should look at improving its survey process and developing state-of-art survey and assessment tools, and then follow-up with improvements based on those survey results. The agency should also explore more sophisticated cognitive testing techniques and use them wherever there is critical information presented to the public to ascertain if the people who are reading the

Statement understand the messages that SSA is relaying in the manner that the agency intended.

- SSA should reexamine its process for mailing *Statements* to better ensure that workers are receiving the *Statements* to which they are entitled. In doing so, SSA should take steps to assure that Medicare-only beneficiaries receive an annual *Statement*. The agency should also improve its process for handling “undeliverable” or returned *Statements*.