

## How Much Do People Know About Social Security?

**M**any Americans have little understanding of how much money they will need in retirement and what they can expect in the form of pension and Social Security benefits. Yet, without such information, they might not be able to plan for the future and make adjustments while they are still working, if future needs are projected to exceed retirement income. In particular, certain households, particularly those with low incomes, women, minorities, and the less educated, face potentially serious financial hardships in retirement.

In this project, the team set out to benchmark how much people know about the rules and benefit offerings under Social Security. Although such knowledge might not be sufficient for successful retirement planning, it will influence how much people save and spend as they near retirement and will shape their financial security later in life. The study will therefore serve as a benchmark for the Social Security Administration (SSA) in its initiative to improve the financial literacy of the American public. It also identifies knowledge gaps that can be addressed by the SSA and other providers of financial education and information.

The team conducted two surveys: One was a nationally representative telephone survey of 2,000 respondents ages 25 to 65 in March 2010, and the other was an Internet survey of 2,500 participants ages 18 and older in the American Life Panel (ALP).<sup>1</sup> Questions focused on four key topic areas:

- how respondents are preparing for retirement
- how well they understand the way Social Security works
- what kind of protection they expect from the Social Security system
- how they perceive the role of the SSA in educating the public.

In this brief, we highlight findings from the telephone survey, since findings from the Internet survey were similar. Only slight differences emerged across interview format: For example, those surveyed online appeared less confident about being prepared for retirement but slightly more knowledgeable about how Social

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<sup>1</sup> In addition to benchmarking the telephone survey, the ALP also affords a baseline for future Financial Literacy Center projects to measure the impact of several interventions.

Security works. Overall, the surveys demonstrate that most Americans have a very low level of understanding of how the Social Security system works, yet they have very high level of trust in the agency. They also have high expectations of the SSA as an agency that can provide them with the information they need to improve their retirement planning.

### Preparing for Retirement

Before delving into knowledge about Social Security, the analysts asked respondents how they were planning for retirement. Very few respondents stated that they were well prepared financially: One-quarter gave themselves a grade of C, while almost 40 percent graded their own efforts as a D or F (see Figure 1). Although older people might be expected to be better prepared, there are virtually no differences by age in how people assess their retirement planning. Those with higher incomes, however, do feel more confident that they are prepared: Sixty percent of those having incomes of \$100,000 or more gave themselves an A or B, compared with just 13 percent of those with incomes below \$25,000.

The low level of confidence reflected in these results could be due in part to respondents' lack of knowledge of

basic financial issues, such as how much money they will need in retirement, how long they are likely to live, and when they should start claiming Social Security benefits. Only one-quarter of respondents said that they feel "very knowledgeable" about how much they need to save in order to retire comfortably or how inflation will affect their savings. Also notable is that African Americans are among the least likely to feel very knowledgeable about how much they need to save in order to retire comfortably (14 percent), compared with whites (29 percent) and Hispanics (21 percent). Similarly, just 22 percent of respondents said that they understand how long they might live in retirement.

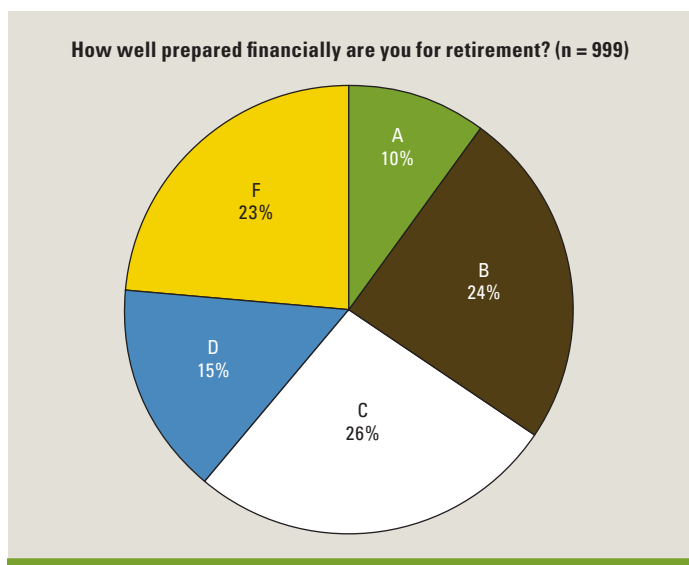
Although 82 percent of respondents claimed to be somewhat to very knowledgeable about the age at which they will become eligible for full Social Security retirement benefits, there is evidence of a good deal of confusion about their retirement age, benefit-claiming age, and the level of benefits they can receive. Perhaps in part due to this confusion, many plan to claim early, before their full Social Security eligibility age of 66 or 67, leading to a reduction in benefits that could weaken their future financial security.

### Understanding How Social Security Rules Work

When asked about how well they understand the Social Security rules, most respondents claimed to have limited knowledge. Only two in ten in the phone survey indicated that they feel "very knowledgeable" about how Social Security works, and this finding is consistent across all income and education levels. Another 57 percent feel "somewhat knowledgeable" about how the system works. Although workers over age 45 are more inclined to describe themselves as very knowledgeable (24 percent), compared with younger respondents (14 percent), only one in four of those nearing retirement age feel highly informed about Social Security. This lack of Social Security literacy might be closely related to lack of overall financial and retirement literacy described in the previous section.

Even these modest self-assessments, however, appear to exaggerate the level of Social Security understanding. For example, when respondents were asked to answer seven basic questions about Social Security, half of them

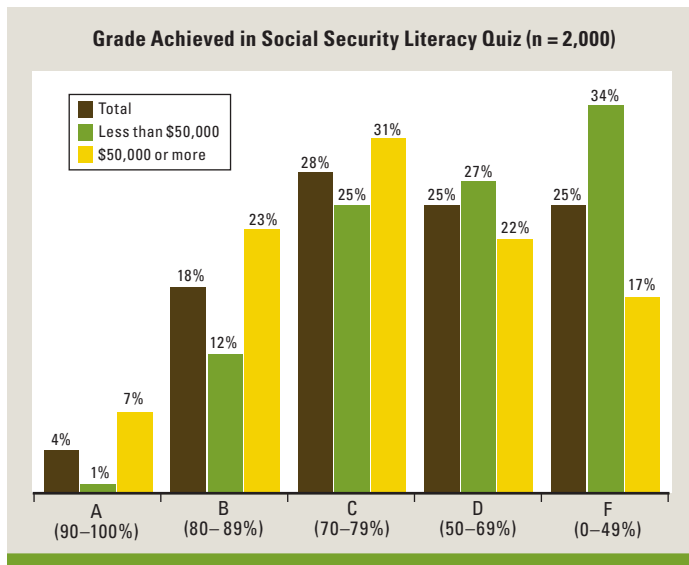
**Figure 1. Respondent Evaluations of Own Retirement Preparedness**



received a grade of D or F (by correctly responding to four or fewer questions), and just 22 percent earned an A or B (by correctly answering at least six questions) (Figure 2). Those with higher incomes, as shown in the figure, and higher education levels received markedly higher scores on the quiz.

The results in Table 1 point to some specific gaps in the public’s knowledge of the Social Security system. For example, only 23 percent could correctly identify how Social Security benefits are calculated (based on an aver-

**Figure 2. Results of the Social Security Literacy Quiz (by Household Income)**



**Table 1: Responses to Quiz Questions (%)**

Question (n = 2,000)	Correct	Incorrect	Don't Know
Which of the following best describes how a worker’s Social Security benefits are calculated?	23	54	24
True or false: If retirees have income above a certain level from work or investments while receiving Social Security benefits, their monthly benefit will be taxed.	57	26	16
True or false: After retirement, Social Security benefits are adjusted for inflation.	57	34	9
True or false: No matter how old people are when claiming benefits, their monthly Social Security benefit check is always the same.	64	30	6
True or false: If people are not eligible for Social Security benefits because they did not work for pay, they could still receive benefits if their spouse qualifies for Social Security benefits.	74	17	10
True or false: People have to claim Social Security benefits as soon as they stop working completely.	75	19	5
Is it true that most working people who pay Social Security taxes can get Social Security disability benefits if they become disabled and are unable to work?	88	8	3

age of the highest 35 years of earnings); 42 percent did not understand that benefits could be taxed if incomes in retirement exceed certain thresholds; and just as many did not realize that benefits are adjusted for inflation. In addition, one in five incorrectly believed that people must claim benefits as soon as they stop working.

These knowledge gaps are confirmed by responses to other questions. When asked to estimate the monthly benefits they expect to receive at their planned claiming age, as well as what they might expect if they waited two years beyond this age, most people (62 percent) understood that their monthly retirement benefit would increase if they delayed claiming. On the other hand, more than one-third (36 percent) did not understand how benefits are adjusted based on claiming age, or incorrectly believed that monthly benefit amounts would be the same no matter when they claim.

Similarly, many respondents did not appear to understand how spousal benefits are determined and the fact that these can rise at later claiming ages. Most understood that a spouse who did not work for pay might still receive benefits if the other spouse qualifies for Social Security, but far fewer—only about two in ten married respondents—claimed to know much about how their choice of claiming age will affect their spouses or how their spouses’ decisions will affect them.

In addition, a sizable portion of the population demonstrates a lack of understanding regarding the tax treatment of Social Security benefits. One-quarter of respondents

incorrectly believed that their benefits would not be taxed even if they earn incomes from work or investments above a certain level; and 16 percent admitted not knowing whether benefits are taxed based on income in retirement. How working after claiming could affect one’s benefits is among the least-understood topics covered in this survey.

Perhaps the only benefit area in which people demonstrated greater awareness is in the area of survivor and disability benefits. Nearly nine out of ten respondents (88 percent) were aware that those who work and pay Social Security taxes might be eligible for disability benefits through Social Security if they become disabled and unable to work. Nearly as many understand that Social Security will pay a survivor benefit to children under 18 (84 percent) and to spouses (76 percent).

### Expectations of Social Security

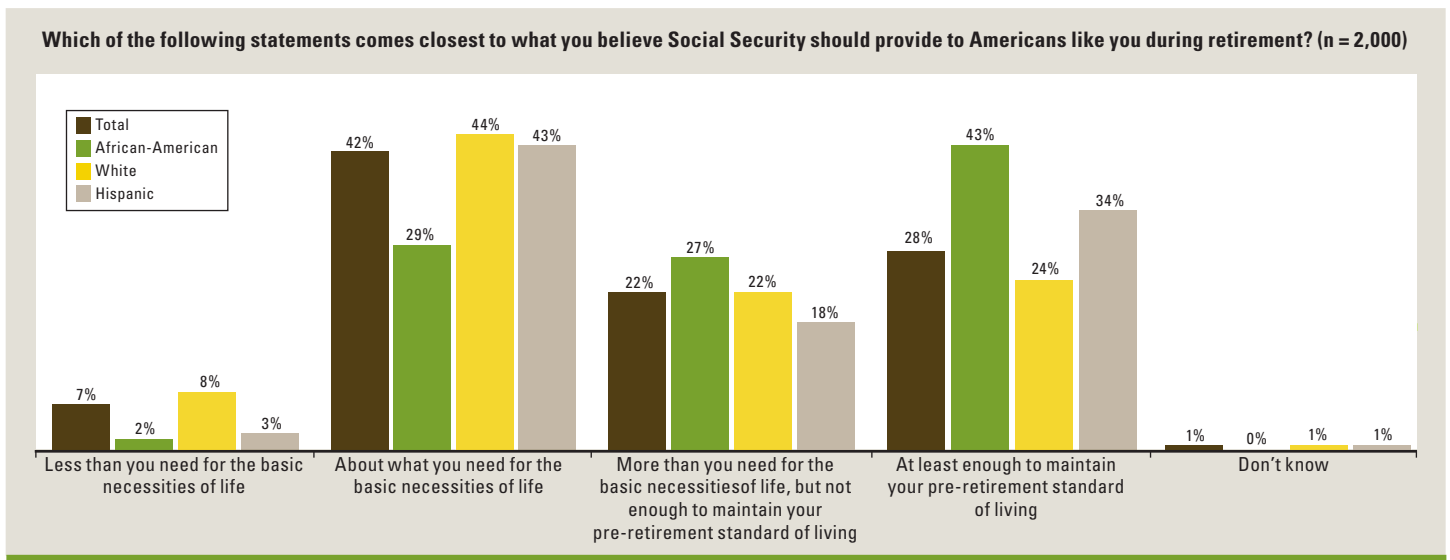
When the Social Security Act was signed into law in August 1935,<sup>2</sup> President Franklin Roosevelt described it as “a law which will give some measure of protection to the average citizen and to his family . . . against poverty-ridden old age.” According to the survey, respondents today have expectations of Social Security that go well

<sup>2</sup> Public Law 74-271.

beyond this original intention (Figure 3). Half of respondents surveyed believed that Social Security should provide more than what is needed for basic necessities, including 28 percent who felt that their Social Security benefits should allow them to *at least* maintain their preretirement standard of living. By comparison, 42 percent felt that the system should provide “about what people need for the basic necessities of life.” Those with less education and lower household incomes are twice as likely as the more educated and affluent to feel that Social Security should provide enough for beneficiaries to maintain the lifestyle they had before they retired. African Americans are also especially likely to feel that the system should provide this higher level of benefit. Also of note is that respondents who scored lower on the survey’s literacy quiz (34 percent who received a D or F) are more inclined to believe that Social Security should provide enough to support their preretirement standard of living (compared with 22 percent with a higher grade).

Despite what they believe that Social Security *should* provide, more than half of respondents (55 percent) reported that they are not confident that the Social Security system will provide the benefits scheduled under current law. Not surprisingly, respondents who are currently eligible for benefits or nearing eligibility are more certain that they will receive what has been prom-

**Figure 3. Beliefs About the Level of Benefits Social Security Should Provide**



ised, compared with young respondents ages 25 to 34, 70 percent of whom are either not too confident or not at all confident that they will receive the Social Security benefits currently scheduled.

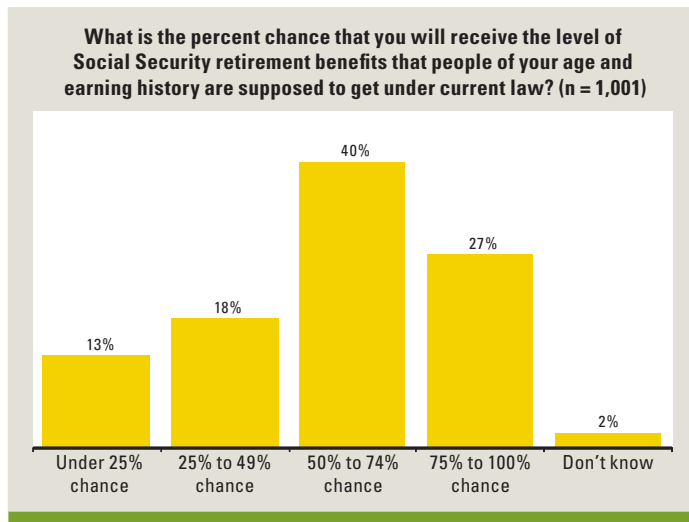
Asked to quantify their likelihood of receiving benefits, only about one in four respondents perceives a 75-percent chance or better of receiving the level of Social Security benefits that people of their age and earning history are scheduled to receive under current law (Figure 4). Again, the belief that one is likely to receive benefits increases with age.

When asked what steps people are taking (if any) to compensate for low Social Security benefits, about half of respondents cited various retirement saving plans or

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accounts (Table 2). Yet, more than a quarter (28 percent) said that they have not taken any steps despite their belief that they might not receive their scheduled benefits. This includes nearly half (48 percent) among those with less than a high school education (compared with 20 percent of those with more education). Only 4 percent of respondents said that they are planning to work longer.

**Figure 4. Likelihood of Receiving Social Security Benefits**



**The Role of the Social Security Administration in Educating the Public**

Respondents place a great deal of trust in the SSA, particularly when they seek information about preparing for retirement. The vast majority of people (89 percent) feel that it is “very important” for the SSA to educate them about how Social Security works, and nearly as many (83 percent) believe that it is very important for the SSA to help people prepare for retirement in general. Although this type of information is available elsewhere, respondents trust the SSA more than any other source for information. One-third say they trust the SSA “very much,”

**Table 2: Reactions to the Belief That Social Security Benefits Will Be Inadequate (%)**

What steps, if any, have you taken in response to your belief that your Social Security benefit might not be adequate to maintain a good standard of living? (Top mentions; among those who expect that Social Security will not be enough; n = 839)	
Have other savings and investments: personal savings, mutual funds, rental property, stocks, annuity, insurance	32
Have a 401(k) or defined contribution	26
Have an IRA	13
Retirement account/plan (unspecified)	10
Pay off debt/spend less/live within means/be more frugal/downsize	5
Will continue to work in retirement/will work part time/find better-paying job/will work and pay into Social Security	4
Planning for retirement/not relying on Social Security	3
Nothing/no steps taken	28

NOTE: IRA = individual retirement account.

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and another half call the SSA “somewhat” trustworthy. By comparison, 16 percent described financial advisers as a source of retirement information they trust “very much,” and only 10 percent placed a high level of trust in non-profit organizations. Banks and investment companies were found very trustworthy by 8 percent of respondents, with the media coming in last with 2 percent.

Many respondents would like guidance from the SSA in additional areas (Table 3). For example, 84 percent of respondents feel that it would be extremely or very valuable for the SSA to provide benefit estimates of claiming at several different ages. About three-quarters indicated that it would be very valuable for the SSA to provide them with information on survivor and disability benefits, the financial health of Social Security, and tools that show

how much respondents should be saving to achieve a secure retirement.

For many respondents, contact with the SSA appears to be limited to the receipt of their annual projected-benefit statement. Nevertheless, many people said that they would welcome a greater range of communication (Figure 5). Annual statements are typically sent via surface

Figure 5. Best Media for Educational Outreach



Table 3: Value of Information the SSA Could Make Available

I am going to read you some of the types of information that the Social Security Administration could make available. Please tell me if you think it would be extremely, very, somewhat, or not at all valuable to you.					
	Extremely Valuable	Very Valuable	Somewhat Valuable	Not at All Valuable	Don't Know
Estimates for how much people will receive from Social Security if they claim at different ages (n = 999)	47	37	14	2	<0.5
Information to help you figure out the best age for you to claim Social Security benefits (n = 999)	46	37	15	2	<0.5
Information about the financial health of the Social Security system (n = 1,001)	44	34	18	4	<0.5
Information on Social Security survivor benefits for surviving spouses and children (among those who are married; n = 623)	41	39	17	3	0
Calculators and worksheets that show how much people should have saved for a financially secure retirement (n = 999)	39	33	22	6	<0.5
Information on Social Security disability benefits (n = 999)	36	35	24	4	<0.5
Calculators and worksheets to help people decide how much they can spend once they retire (n = 1,001)	29	32	27	11	1
A list of reputable organizations that can help you learn more about saving and investing (n = 1,001)	25	35	29	10	1

mail, and nine in ten said that the mail is a good way for SSA to reach them. Following closely, about two-thirds cited the SSA website as a good way to receive information or indicated that the SSA could provide educational information through public service announcements.

### **Policy Implications**

This project shows that many Americans are ill informed about Social Security and do not have the information they need to plan for their retirement. It also reveals that the SSA needs to play a greater—and more-direct—

role in helping educate the public about these matters. Those who were surveyed identified areas where they most need help—information that the SSA and other providers of financial education can use to develop new materials, websites, and tools to create a more-informed citizenry. Finally, the study provides a benchmark for future Financial Literacy Center projects to test the effectiveness of future interventions and for measuring overall changes in financial literacy as the SSA pursues its ambitious campaign to boost Americans' knowledge about retirement security. ●