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Subcommittee on Social Security

Committee on Ways and Means
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Hearing on

Efforts to Inform the Public on Social Security

Testimony of

Dallas Salisbury
Employee Benefit Research Institute

Washington, DC

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Witness Disclosure Statement,
pursuant to Clause 2(g)(4) of Rule XI of the Rules of the House:

- **The Witness:**
  Dallas Salisbury is president and CEO of the Employee Benefit Research Institute (EBRI), Washington, DC. EBRI is a private, nonprofit, nonpartisan public policy research organization based in Washington, DC. Founded in 1978, its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions on legislative proposals. Salisbury has headed the Institute since its founding in 1978.

- **The Organization:**
  The Education and Research Fund (ERF), established in 1979, performs the charitable, educational, and scientific functions of the Institute. EBRI-ERF is a tax-exempt organization (under IRC Sec. 501(c)(3)) supported by contributions and grants. EBRI-ERF is not a private foundation (as defined by IRC Sec. 509(a)(3)).

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  - Choose to Save™ Education Program
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  - Health Security/Quality Research Program
  - Policy Forums
  - Retirement Confidence Survey Program
  - Retirement Security Research Program
  - Social Security Research Program
  - Education Programs--Policy Forums, Briefings, Round Tables
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    EBRI Issue Briefs, EBRI Notes, EBRI Databook on Employee Benefits, EBRI Health Benefits Databook, Fundamentals of Employee Benefit Programs, Policy Studies

- **Contracts:**
  EBRI does not have any contracts with the federal government.

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STATEMENT BY DALLAS SALISBURY

President and CEO, Employee Benefit Research Institute (EBRI)
Committee on Ways and Means, Subcommittee on Social Security
April 11, 2000

Mr. Chairman, and members of the Committee. I am Dallas Salisbury, President of the Employee Benefit Research Institute (EBRI). EBRI is a non-partisan, non-lobbying research and education organization based here in Washington, DC.

It is my pleasure to appear before you today to discuss efforts to inform the public on Social Security. EBRI published and distributed its first consumer education brochure on Social Security in 1979; its first study of Social Security in 1982; undertook its first public opinion survey on Social Security in 1990, and the most recent in 1999. Our opinion research has made it clear that the public does not have a good understanding of crucial details of Social Security; our publications seek to increase that understanding.

Rating the Social Security Administration

Our surveys show the Social Security Administration was given a "fair" rating by the public in 1990 on how well it kept Americans informed about the program. Two-thirds of respondents in 1990 were not aware that action had been taken to increase the normal retirement age to 67 beginning in 2000. (EBRI-Gallup Survey Number 7, February 1990).

Expected Benefits from Social Security and Support

Our 1994 survey found that 71 percent did not expect (correctly) to get as much out of Social Security as they had paid in; and 46 percent agreed that taxes would have to be raised in the future to pay benefits in the future. (EBRI/Gallup Survey Number 56, April 1994) Our Retirement Confidence Surveys from 1992 through 1998, which have asked a consistent question about confidence in Social Security providing benefits of equal value, have consistently shown one-third to be confident and two-thirds not confident about the future value of their benefits. Yet, the surveys also find that two-thirds voice strong support for the program. Surveys suggest that the public understands that their parents and grandparents rely upon Social Security benefits.

Public Knowledge Gaps

The most significant areas in which public knowledge is lacking relate to how much Social Security will provide in the way of a benefit, and at what age. Surveys consistently support two statements: First, the public is more likely to *over*estimate the amount they will get from Social Security than to *under*estimate it; and, second, few yet know that the normal retirement age—as enacted by Congress—is now in the process of moving up from 65 years and two months to 67. Only 16 percent of respondents in our 1999 Retirement Confidence Survey knew when they would be able to get full benefits; 59 percent cited an age too early; 5 percent an age too late; and 19 percent simply noted that they did not know. (*EBRI Issue Brief* Number 216, December 1999)

The Social Security Benefit Statement

The annual Social Security statement, noted in the press release on this hearing from Chairman Shaw, arrived in the mail for my wife last month. It provided us with an estimate of what benefits would be available to my wife under the current program, at alternative ages, and a full earnings and tax payment history. The earnings and tax payment history was accurate. It focused on the fact that full benefits would be at the age of 66, not 65. And, it focused us on the fact that we will need to save a lot of money to supplement Social Security in order to live as we would like to.

The statement provides important information that will help correct the two most serious areas of low knowledge among the public. First, it gives a clear picture of the Social Security benefit that you might expect to receive. Our work suggests that the vast majority of Americans will be struck by how small the benefit will be, and will be motivated to save. The history of public commentary on Social Security has—unfortunately—been a description of a program that "allows you to retire;" that's unfortunate because far too many Americans have wrongly thought this meant it would provide them with an adequate retirement income, rather than just a base. This may well be a reason that only one-third of those now retired did any assessment of either their expected income or expenses prior to taking the step of retiring, and only 52 percent of workers have yet done so. Hopefully, the statement will serve to increase that number in the future. Second, the statement gives a clear picture of your retirement age options and the benefit implications. This should provide people with an incentive to work longer, an incentive to save more, or both, as the recipient will now know that the normal age for full benefits is above age 65, and moving to 67. For many Americans, this statement may give them the first indication of how little their parents or grandparents are currently living on, since over two-thirds of retirees essentially have Social Security as their only income source.

Should the Statement Provide More Information?

The hearing announcement from Chairman Shaw also raised the question of whether the Social Security statement might provide more information than it now does. I am aware of three areas that have been discussed for additional information.

First—as was endorsed last week by delegates to the Choose to Save® Forum on Retirement Security and Personal Savings—would be the addition of information on where to go for online and print retirement planning assistance. This would include Internet URL's for such resources as the Ballpark Estimate® Retirement Planning Worksheet.

Second would be the addition of "warning" language on the benefit amount, so that the worker knows that taxes may eventually have to be increased in order for the stated benefit to be paid, or that a reduction in the statement benefit may be required if the Congress and the president were not willing to raise the necessary taxes or otherwise appropriate funds. Some have suggested that this "disclosure of risk" should note that current economic projections imply a future reduction of Social Security benefits of up to one-third of stated values. For more than 20 years, EBRI publications have encouraged full and complete disclosure of the nature of pension risk. For private defined benefit and defined contribution pension plans, this relates to disclosure of the risk of lower benefits due to bankruptcy, investment losses, unanticipated increases in life expectancy, etc. For Social Security, this relates to economic risk and insufficient tax revenue due to unanticipated factors such as a quick increase in life expectancy. Disclosure of risk serves to further encourage personal savings and retirement planning.

Third would be the inclusion of an "expected rate of return on taxes paid" number. I have reviewed studies on this subject since the very first report was published in the late 1970's. I am yet to see one that is not misleading, including some comparative research published by EBRI. I allowed EBRI to publish the comparative work on the theory that all the numbers were consistently misleading, but did allow a constrained comparison of the present Social Security design with a number of reform options. I do not believe that including such a "rate of return" number would be a helpful addition to the Social Security statement, as it would not be possible to explain all the ways that it is misleading.

For instance, I noted that my wife received her statement. In theory, it would allow a calculation of her personal return, were the system not an "intra-generational" system. Both of us, however, have living parents who rely on Social Security. Mine are now 86 and 83, and were it not for their income from Social Security, I would be paying part of their living expenses directly. Instead, the taxes I pay to Social Security get mailed to my parents. How can that accurately be factored into my rate of return? Such an individual-by-individual assessment would be very expensive and difficult, if not impossible, without substantial invasion of personal privacy. Disability and survivor benefits in theory can be adjusted for in the rate-of-return calculation when doing analysis on case studies, but to provide a realistic number to each worker would require an individual-by-individual assessment of all of one's family members. Such is the problem that arises in a social insurance program with multiple components and multiple generations, and it makes a simple or objective "rate of return" number impossible to produce or virtually meaningless.

Additional problems can arise in calculation as well. For example, a recent article by the Heritage Foundation attempts to calculate rates of return for stylized individuals from the Social Security Old-Age and Survivors Insurance Program (OASI). Aside from the worthiness of calculating rates of return discussed above, the paper made a crucial economic assumption that immediately leads to a lower rate of return being calculated for all individuals. This crucial assumption is that all payroll tax revenue in excess of benefits paid in each year that has accumulated in the Social Security Trust Fund, and is expected to continue to accumulate there until 2015, is assumed to be never paid out as benefits. Instead, in their calculations, payroll taxes are increased to equal the benefits to be paid in each year after 2014. Under this assumption, approximately $2 trillion is counted as contributions in their report, but none of this revenue is counted as paying Social Security benefits. Therefore, it is quite easy to show small rates of return when $2 trillion are counted as contributions but not as benefits, and instead more contributions are "required" to be raised to pay those benefits that are directly associated with the first $2 trillion in contributions. Consequently, either the revenue that has accumulated or will accumulate in the Trust Fund must be counted as paying benefits—or not counted as contributions—to gain a potentially honest measure of rates of return for the OASI program. I say "potentially" because of broader issues noted previously. If a reader did not carefully examine the assumptions and calculations of the Heritage paper, a seriously incorrect interpretation would be taken away from the report.

Thus, the assumptions used in any model need to be clearly disclosed and understood to allow individuals to correctly evaluate any results emanating from that model. The ability to even attempt to provide such full disclosure on the Social Security statement would turn it into a book, not a statement.

The Trustees Report

EBRI has also published regular reports based upon the reports issued by Trustees of the program. The late 1980s brought the publication of a "summary" report by the Social Security program, which provides a much clearer picture for the public, and that report continues to be improved. Now, www.ssa.gov provides a wealth of information on demand, which can also be obtained in printed form from the agency. Analysts have suggested over time that reporting by the Trustees could be improved with dynamic estimates that presented future possible outcomes as more than just three possible static projections, as is currently done today.

EBRI has supported the development of a model that allows such dynamic analysis, and has published a number of studies based upon that model, which is also now being used by the Social Security Administration, the General Accounting Office, the AARP, and others, to aid in their analysis of the present system and reform proposals. Prior testimony to this committee was based upon our use of the model. Other organizations have developed models as well. Because of their complexity, the most important thing to assure is full disclosure of all assumptions so that model results can be put into context and can be fully evaluated.

Additions to the Trustees Report

The addition of rate of return information has also been suggested for the annual Trustees report. For the reasons previously articulated, I do not believe that this is possible in a form that would inform more than it would mislead.

Conclusion

It has been my pleasure to appear before the Committee today. I offer the Committee the assistance of the Employer Benefit Research Institute and the American Savings Education Council as you continue your work, which is vital to the economic security to all working and retired Americans, and to millions of survivors.