



The Impact of Social Security Terminology on Knowledge and Claiming Intentions

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Motivation

- Financial literacy is crucial for retirement
- Specific knowledge is necessary to make good decisions for retirement
 - Even more as more countries have tended to introduce more choice in pensions (individual accounts, **timing of benefits**)
- Education and information campaigns need to be cognizant of how people process information.
- Seemingly small details in how information is presented can have important consequences



Research Question

- Can changing the terminology used in Social Security communications affect people's decision-making about retirement?



Social Security Retirement Benefits in the US

- Workers in the US and their employers make contributions to Social Security
- A formula determines the PIA based on number of quarters worked and the contribution amounts
- The PIA then determines the monthly retirement benefit at "Full Retirement Age " (Age 66)
- However, the beneficiary can decide to claim early (and have her monthly benefit cut) or claim late to increase her monthly benefit

Social Security Retirement Benefits in the US



- Trade-off of starting earlier versus higher monthly amount
- The earliest a person can claim is 62, the “Early Eligibility Age”
- Delayed claiming (up to age 70) results in increased benefits.
- The SSA explains to beneficiaries that if they claim after their “Full Retirement Age”, the monthly benefits received increase because they earn “Delayed Retirement Credits”
- The age at which people retire does not need to coincide with the age when they claim Social Security Benefits.

Claiming decisions



- The adjustment factor for the increase in benefits used to be actuarially fair, now is better than fair
- Hence, the implied annuity should be very attractive.
- But a large fraction claim too early
- Though the “optimal” claiming age vary from individual to individual, there is research that shows that many **could** and **should** claim later.

Claiming decisions



- The role that the terminology is playing
- Information provided to the public typically uses the terms “Early Eligibility Age”, “Full Retirement Age”, and “Delayed Retirement Credits”

What would happen if we changed these terms?

This is the third phase of a three-part study



- **Phase 1:** short survey - asked whether the terms “Early Eligibility Age”, “Full Retirement Age”, and “Delayed Retirement Credits” are well understood
- **Phase 2:** qualitative interviews with a small number of respondents to explore alternative terminology
- **Phase 3:** experiment to test participants’ responses to and understanding of alternative terminology

This study



Current Terms

- Early Eligibility Age
- Full Retirement Age
- Delayed Retirement Credits



Selected Alternative Terms

- Minimum Benefit Age
- Standard Benefit Age
- Maximum Benefit Age

Experimental Design



- Sample of ~3,400 adults in the Understanding America Study
- Nationally-representative internet panel

Group 1: “Control”

Receives information screens that use the **current terminology**

Group 2: “Treatment”

SIMILAR information screens that use the **alternative terminology**



Information screen example for participants in control group (current terminology)

UnderStandingAmericaStudy

What's the best time to start your Social Security retirement benefits? Here's some information to consider when planning when to claim your benefits.

You can start your Social Security retirement benefits as early as age 62 or as late as age 70. Your monthly benefit amount will be considerably different depending on when you start receiving it.

62 is the **Early Eligibility Age**, the earliest age at which you can claim benefits. If you start claiming at the age of 62, your benefits will be the lowest to which you are entitled.

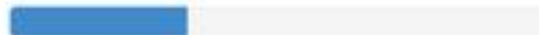
Your monthly benefits will be permanently reduced if you start them any time between age 62 and 67, your **Full Retirement Age**. During this period, your monthly benefit increases about 6.5% per year you delay claiming.

Before you reach your **Full Retirement Age**, your benefits will be withheld if you work and have earnings above a certain amount. However, after you reach your **Full Retirement Age**, your benefits will not be reduced no matter how much you work. If you continue to work, your benefits will increase **as you earn Delayed Retirement Credits**.

If you decide to delay claiming your benefits after you reach your **Full Retirement Age**, your benefit will increase **as you earn Delayed Retirement Credits**. The increase during this period is an average of 6.7% per year.

There is no additional benefit increase after you reach age 70, even if you continue to delay taking benefits.

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Information screen example for participants in treatment group (alternative terminology)



UnderStandingAmericaStudy

What's the best time to start your Social Security retirement benefits? Here's some information to consider when planning when to claim your benefits.

You can start your Social Security retirement benefits as early as age 62 or as late as age 70. Your monthly benefit amount will be considerably different depending on when you start receiving it.

62, **Minimum Benefit Age** claim at that age, your monthly payments will be the lowest to which you are entitled.

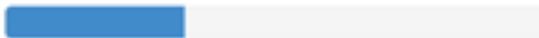
Your monthly benefits will be permanently reduced if you start them any time between age 62 and **67, your Standard Benefit Age**. During this period, your monthly benefit increases about 6.5% per year you delay claiming.

Before you reach your Standard Benefit Age, your benefits will be withheld if you work and have earnings above a certain amount. However, after you reach your Standard Benefit Age, we will compensate you for any months in which part of your benefits were withheld. If you continue to work, your benefits will not be reduced no matter how much you earn.

If you delay claiming your benefits until after your Standard Benefit Age, your benefit will increase. The increase during this period is an average of 8% per year.

There is no additional benefit increase after you reach **70, your Maximum Benefit Age** to delay taking benefits.

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We then collected the following data

1. Claiming and retirement age intentions
2. Recommended claiming age for characters in vignettes
3. Knowledge test
 - Respondents were asked 8 knowledge questions about how Social Security works
4. Asked participants for their preferences over the set of terms



RESULTS

Overview of Results



- Respondents spent **LESS** time reading the information that uses **Alternative Terms**
- **BETTER understanding**, and the difference in knowledge **persists over time**
- **Alternative Terms** lead to different intended claiming ages (**on average later claiming ages**)
- **Later average claiming age recommendations** to characters in the vignettes

Our Treatments are balanced



Characteristics	Current Terms	Alternative Terms	P-value of difference
Age	45.060	44.821	0.546
Male	0.402	0.432	0.079
Less than high school	0.032	0.028	0.453
High School graduate	0.188	0.195	0.644
Some college	0.376	0.384	0.637
College graduate or more	0.403	0.394	0.563
White	0.844	0.860	0.212
Black	0.112	0.095	0.105
Hawaiian/Pacific Islander	0.013	0.009	0.215
American Indian	0.056	0.056	0.915
Hispanic	0.103	0.109	0.585
Currently working	0.825	0.819	0.613
Unemployed (looking)	0.070	0.076	0.535
Retired	0.043	0.043	0.941
Expected Retirement Age	65.85	65.57	0.056
Miss Expected Retir Age	0.198	0.180	0.185
Expected Claim Age (Baseline)	65.826	65.756	0.425
Miss Expected Claim Age	0.508	0.495	0.460
Basic Knowledge SS Index (Baseline)	6.572	6.611	0.472
SS Claim Age Knowledge Index (Baseline)	1.505	1.494	0.834

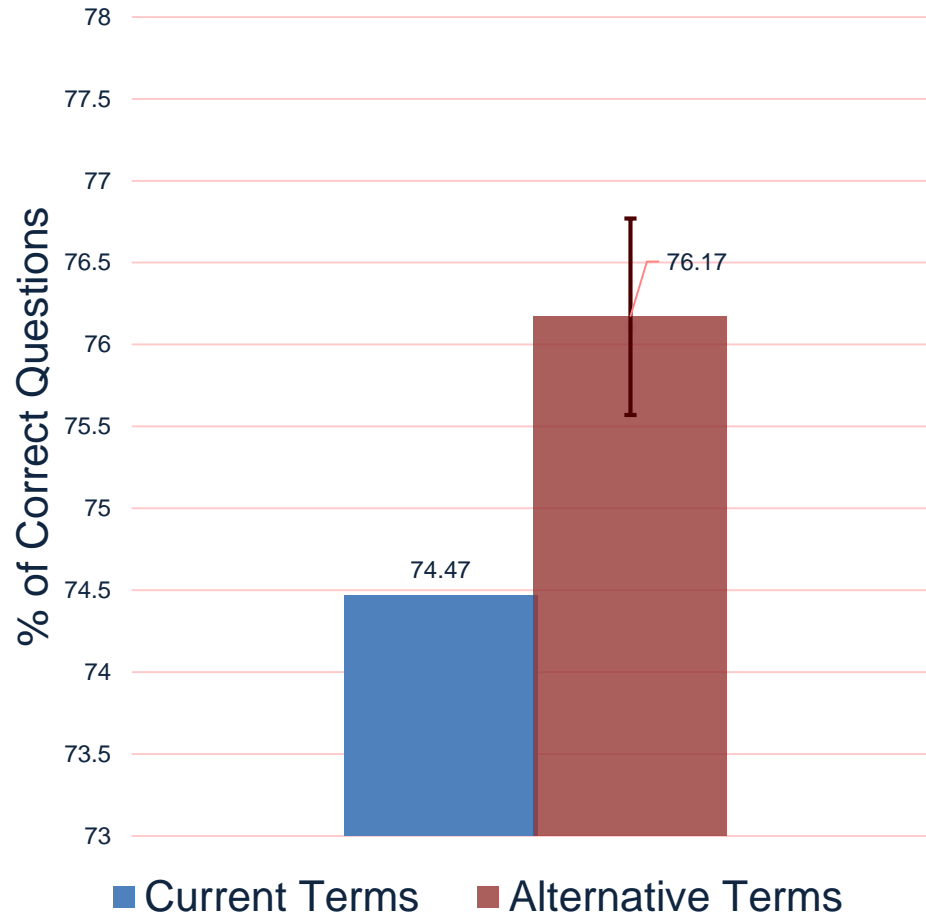


“Alternative Terms” respondents spent less time reading the screens

~ 3 seconds (5%) fewer per information screen than those in the control group

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Alternative terms lead to improved understanding of social security

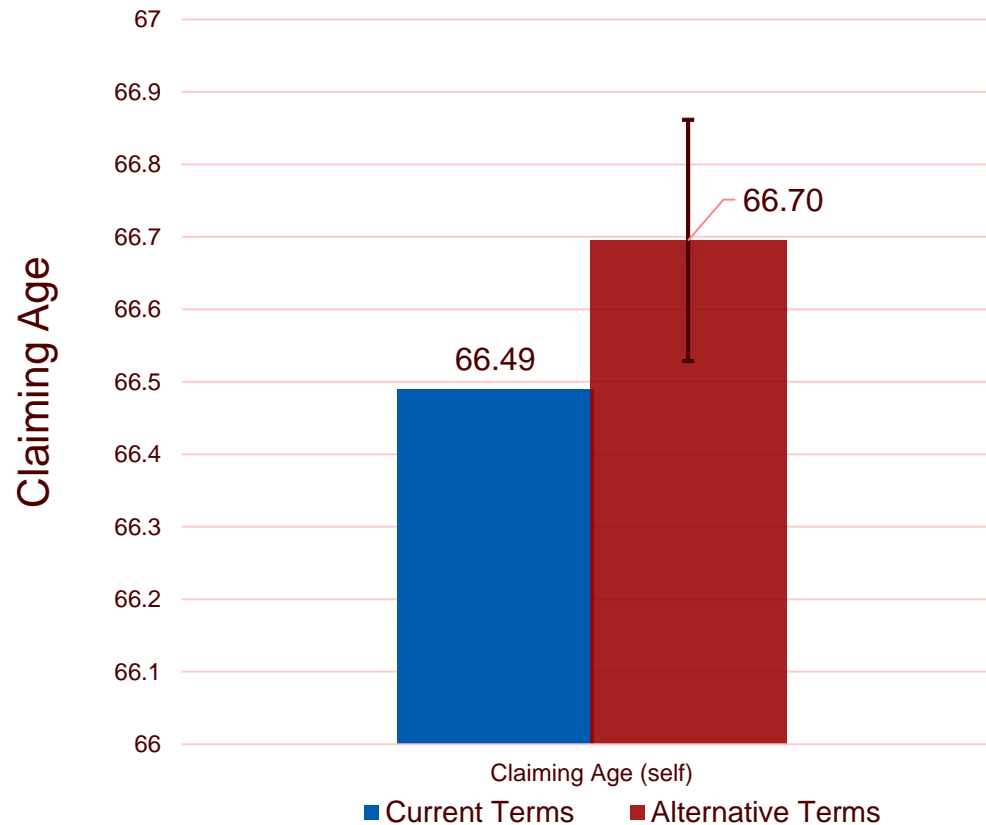




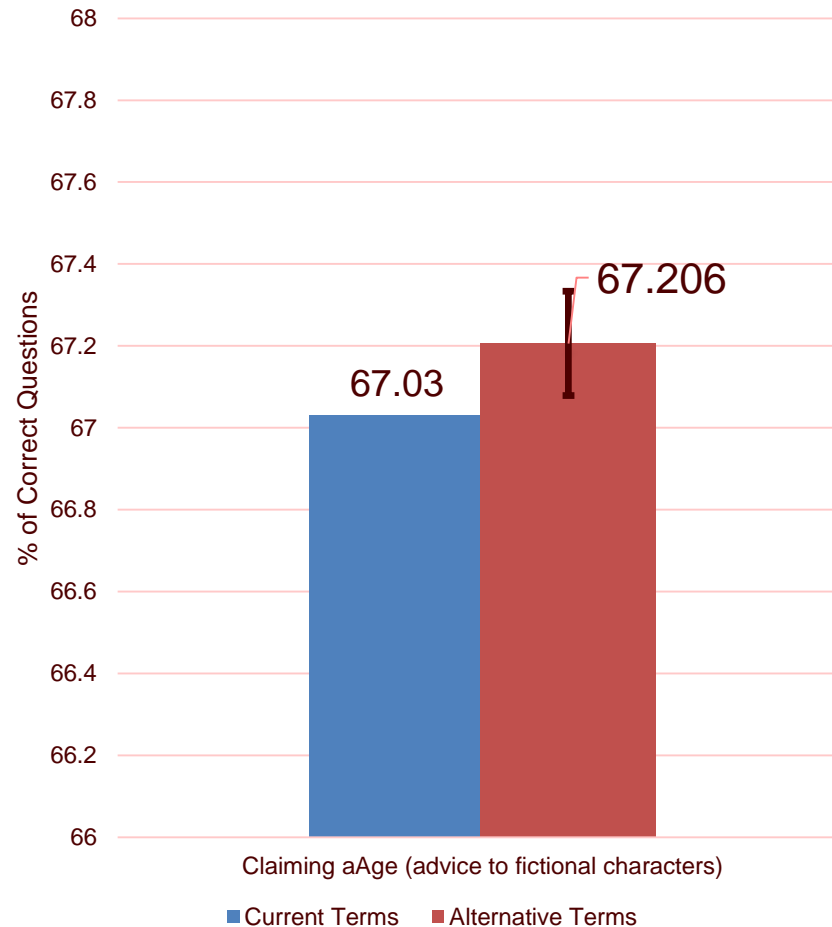
Alternative terms lead to improved understanding of social security

Dependent Variable	Contemporaneous survey
	N=3240
Correct Answers to Test Questions	
Benefits affected by claiming age {T/F}	0.023** (0.010)
Benefits adjusted for inflation {T/F}	-0.002 (0.017)
Benefits have to be claimed at retirement {T/F}	0.024** (0.011)
Benefit amount is the same if claim at 63 or 64 {T/F}	-0.012 (0.015)
Claiming at 69 results in higher monthly benefit{T/F}	0.021 (0.015)
Earliest age for receiving retirement benefits	0.023 (0.015)
Vignette: % increase in benefit for delaying claiming at 63 {multiple option}	0.022 (0.018)
Vignette: claiming and working at 68 {multiple option}	0.050** (0.018)
Proportion correct	0.019*** (0.006)

Alternative terms lead to about a two and a half months later intended claiming age



Alternative terms lead to increased claiming age in advice to fictional characters



Effects by subgroups



- The UAS has a number of bi-annual “Core” Surveys
- Including surveys on cognitive ability and financial literacy



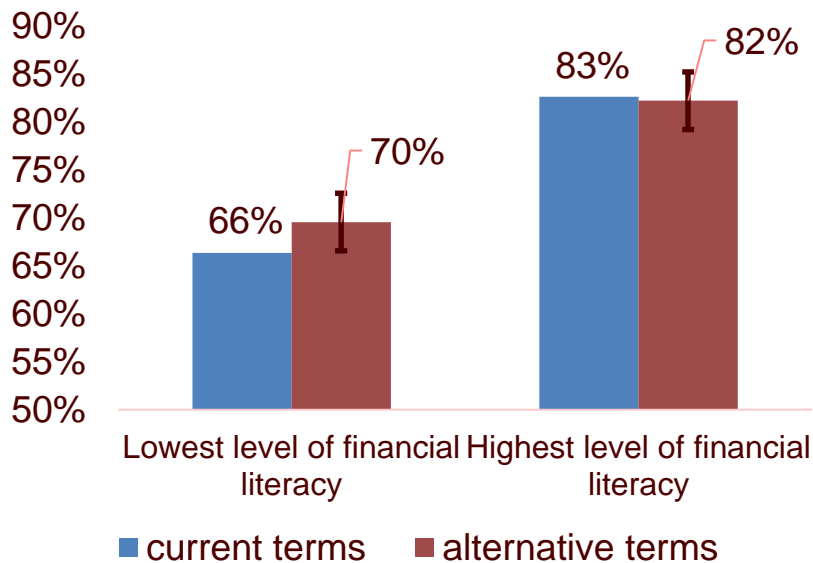
Results by levels of financial literacy

- 14-item financial literacy scale. Includes questions such as:
 - Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: more than \$102, exactly \$102, less than \$102?
 - Normally, which asset described below displays the highest fluctuations over time: savings accounts, bonds or stocks?
 - Is the following statement true?: “Housing prices in the US can never go down. ...”
- Measured **prior** to our experimental survey



However these effects vary by background characteristics, such as financial literacy

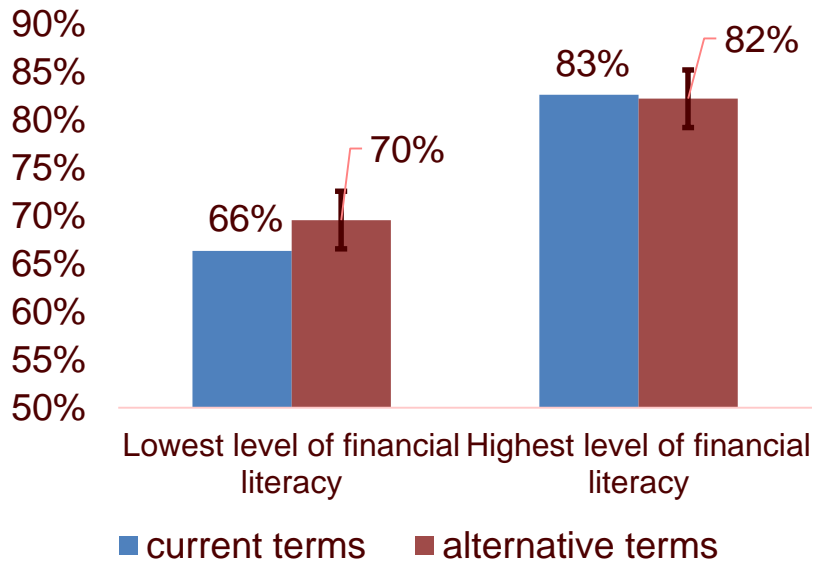
Knowledge Scores



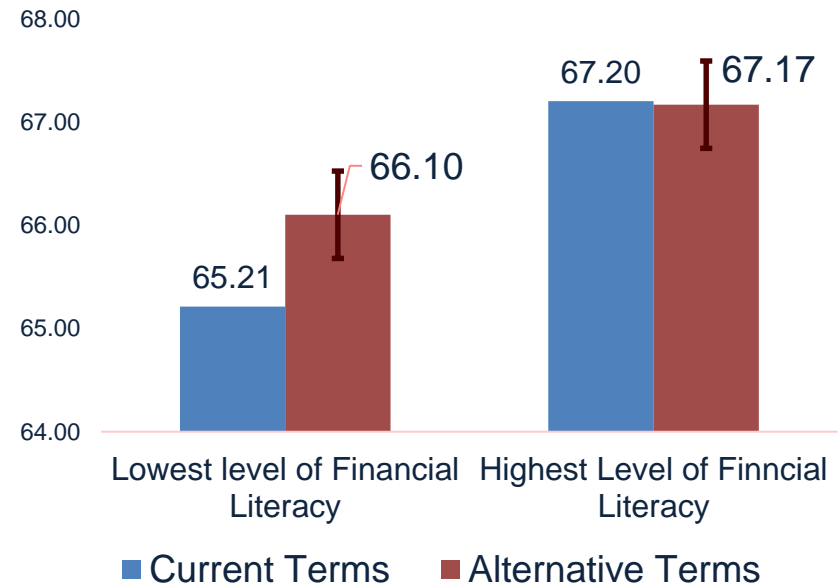


However these effects vary by background characteristics, such as financial literacy

Knowledge Scores



Claiming Age





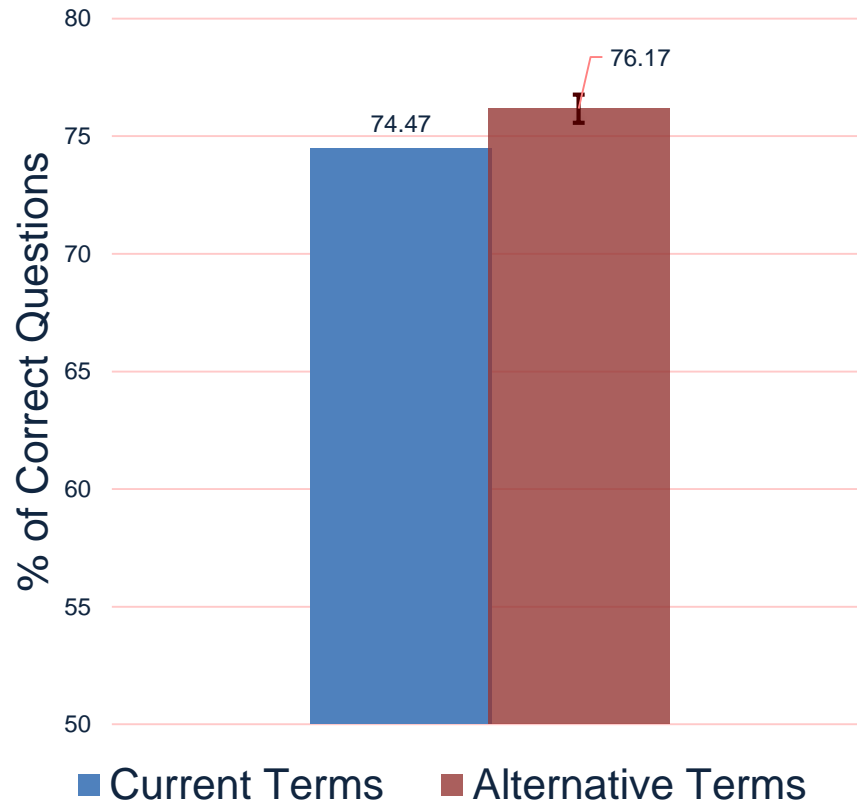
Persistence of effects

- We link our survey to follow-up surveys
- The “What do People Know About Social Security” survey has items that measure knowledge about Social Security programs
- A measure of intended claiming age
- Use the second round of the survey to test the persistence of effects

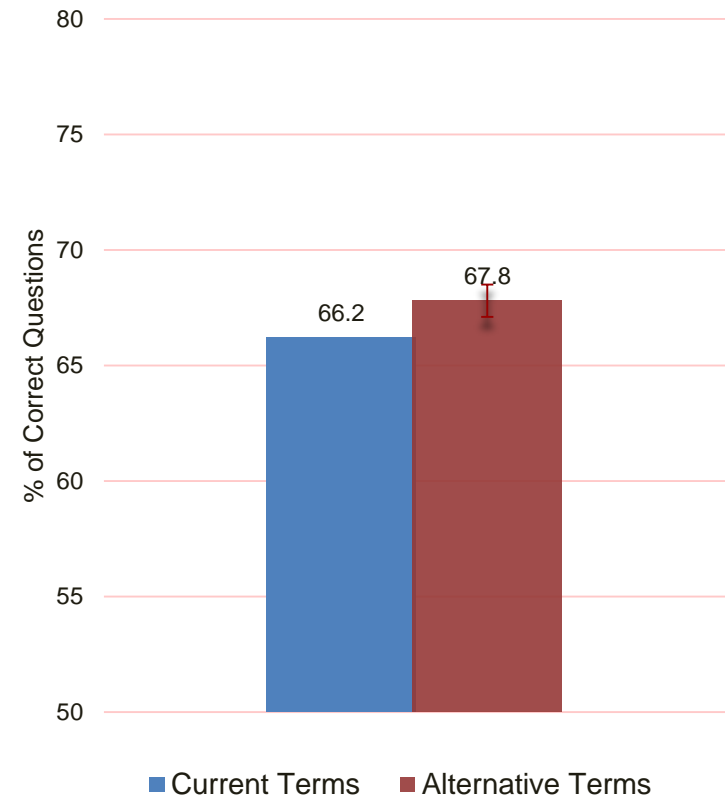
Persistence of Effects on Knowledge



Contemporaneous



Posterior Survey

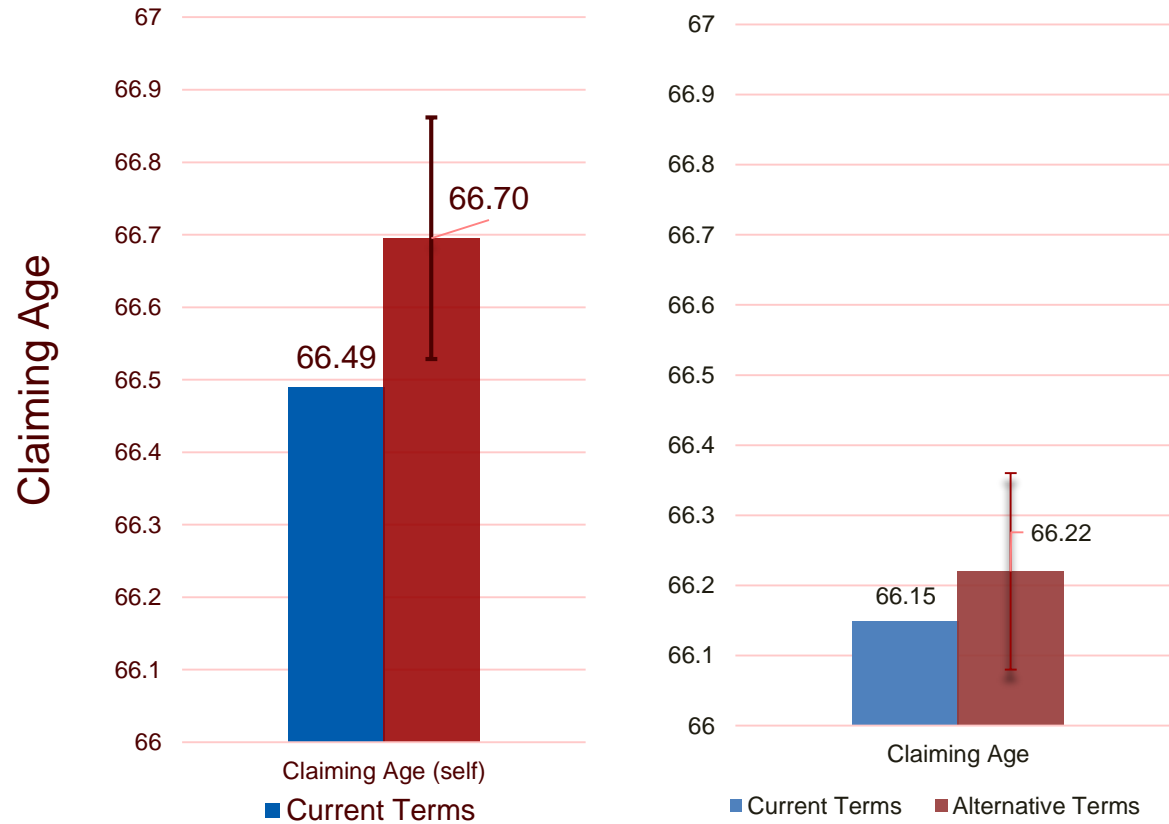


Persistence of Effects on Knowledge

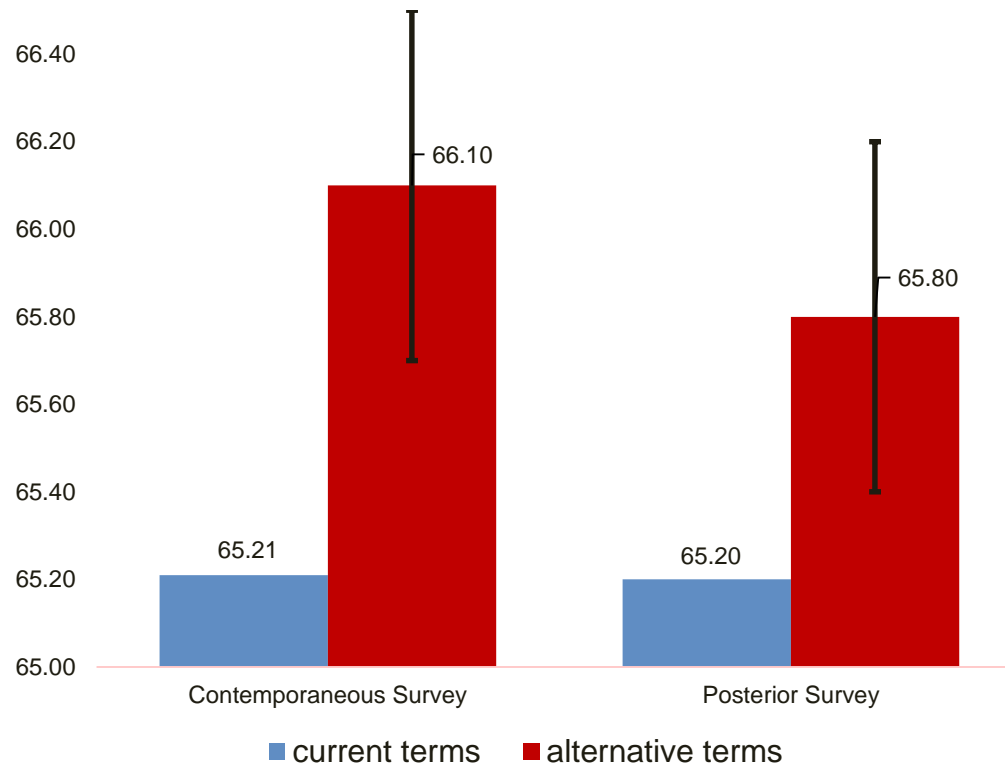


Dependent Variable	Contemporaneous survey	WDPK (posterior)
	N=3240	N=2252
Correct Answers to Test Questions		
Benefits affected by claiming age {T/F}	0.023** (0.010)	0.020* (0.011)
Benefits adjusted for inflation {T/F}	-0.002 (0.017)	-0.017 (0.019)
Benefits have to be claimed at retirement {T/F}	0.024** (0.011)	0.009 (0.014)
Benefit amount is the same if claim at 63 or 64 {T/F}	-0.012 (0.015)	- -
Claiming at 69 results in higher monthly benefit{T/F}	0.021 (0.015)	- -
Earliest age for receiving retirement benefits	0.023 (0.015)	0.007 (0.020)
Vignette: % increase in benefit for delaying claiming at 63 {multiple option}	0.022 (0.018)	0.039* (0.020)
Vignette: claiming and working at 68 {multiple option}	0.050** (0.018)	0.038** (0.020)
Proportion correct	0.019*** (0.006)	0.016** (0.008)

Persistence of Effects on Claiming Age



Persistence of Effects on Claiming Age among those with Low Financial Literacy



Preferences



			All
			%
Preferred term for earliest claiming age (62)			
(1) Early Eligibility Age			39.5
(2) Minimum Benefit Age			60.5
p-value of difference (1) vs (2)			0.000
Preferred term 66-67 age			
(1) Full Retirement Age			48.4
(2) Standard-Benefit Age			51.6
p-value of difference (1) vs (2)			0.059
Clearer statement for later claiming ages			
(1) Statement using Delayed Retirement Credits			9.7
(2) Statement using Maximum Benefit Age			46
(3) Neither			10.8
(4) Both are equally clear			33.5
p-value of difference (1) vs (2)			0.000

Conclusions

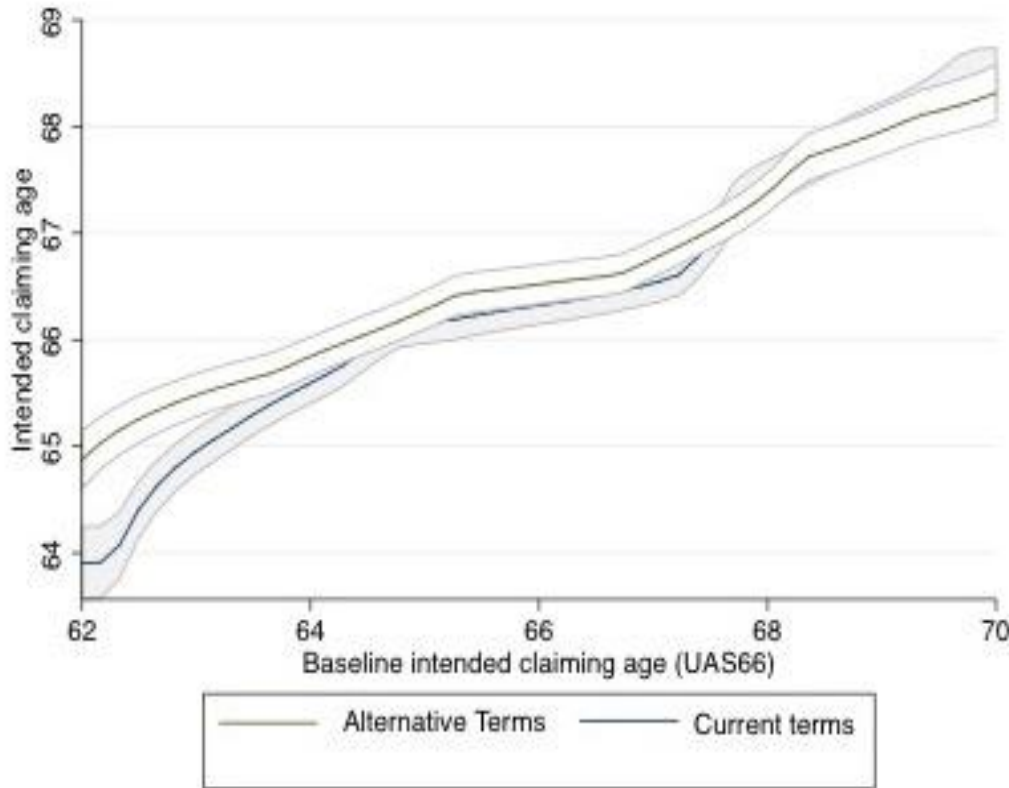


- **A small change in policy can make a difference**
- Clearer terminology can result in better comprehension of the retirement claiming decision
- It can also result in different claiming ages
- Those with low financial literacy may benefit most from these changes



Thank You

Alternative terms lead to changes in expected claiming age



Preferences



	Current terms	Alternative terms	All
	%	%	%
Preferred term for earliest claiming age (62)			
(1) Early Eligibility Age	51.8	27.6	39.5
(2) Minimum Benefit Age	48.2	72.4	60.5
p-value of difference (1) vs (2)	0.191	0.000	0.000
Preferred term 66-67 age			
(1) Full Retirement Age	57.1	40	48.4
(2) Standard-Benefit Age	42.9	60	51.6
p-value of difference (1) vs (2)	0.000	0.000	0.059
Clearer statement for later claiming ages			
(1) Statement using Delayed Retirement Credits	12.4	7.1	9.7
(2) Statement using Maximum Benefit Age	42	49.8	46
(3) Neither	10.4	11.2	10.8
(4) Both are equally clear	35.2	31.9	33.5
p-value of difference (1) vs (2)	0.000	0.000	0.000



Second information treatment

UnderStandingAmericaStudy

Your monthly benefit increases every year you delay claiming Social Security retirement.

You may start receiving benefits as early as age 62, the **Minimum Benefit Age**.

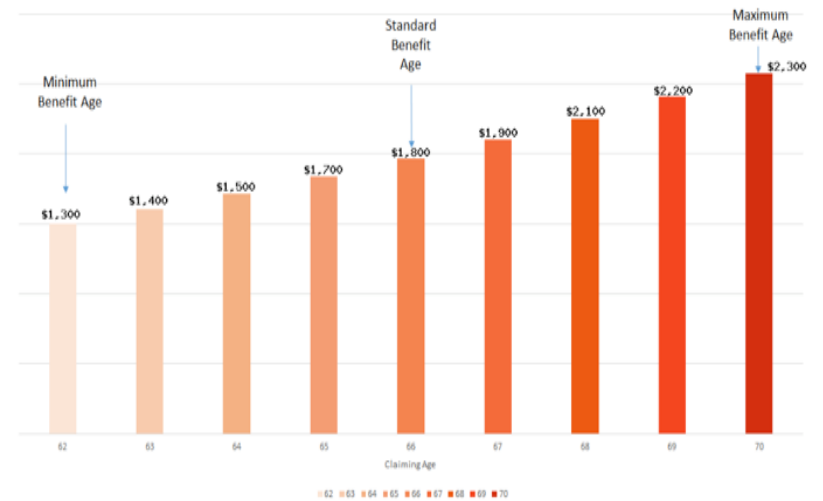
Your monthly benefits will increase by an average of 5 to 6% per year if you delay claiming until you reach age 67, your **Standard Benefit Age**.

If you start receiving benefits *after* you reach your **Standard Benefit Age**, your monthly benefit increases by about 8% per year you delay claiming, until you reach age 70. This is the **Maximum Benefit Age**. After you reach age 70, there are no further increases in your monthly benefit even if you continue to delay claiming.

If you continue working and elect to receive benefits before you reach your **Standard Benefit Age**, your monthly benefit may be reduced if you earn over a certain amount.

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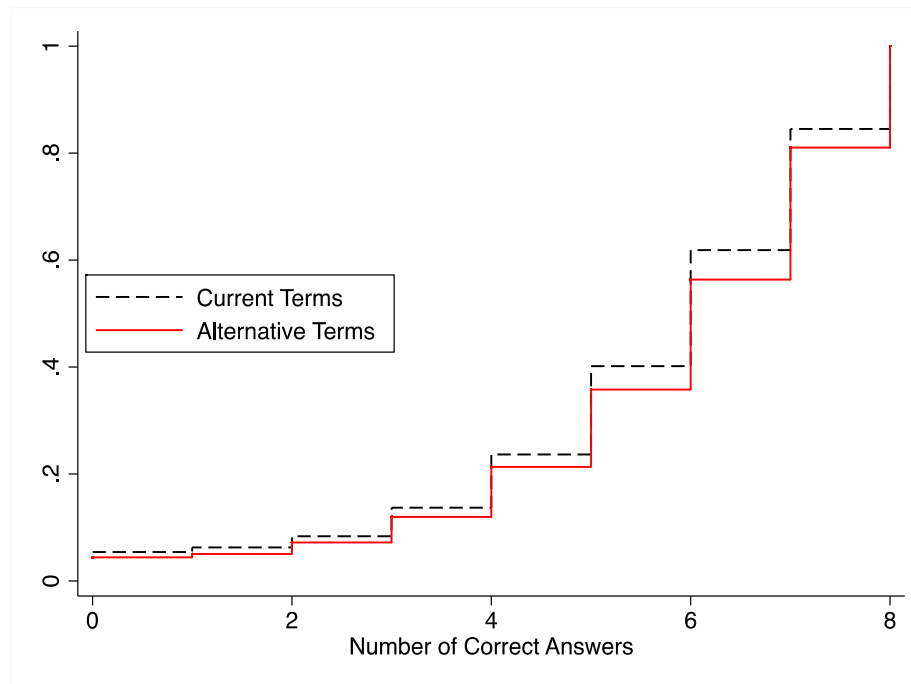
For illustrative purposes, the figure below shows how benefits may vary for an individual who starts claiming at different points in time.



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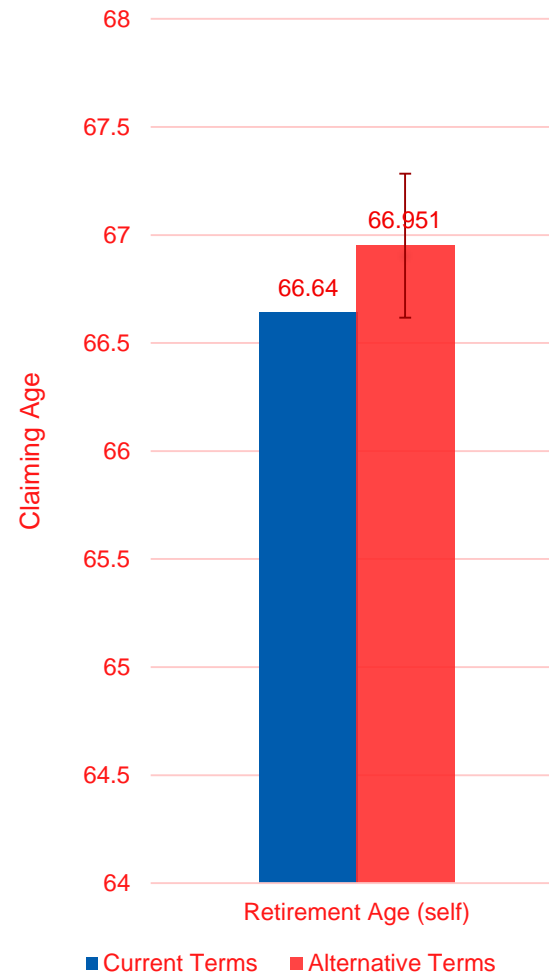


Alternative terms lead to improved understanding of social security

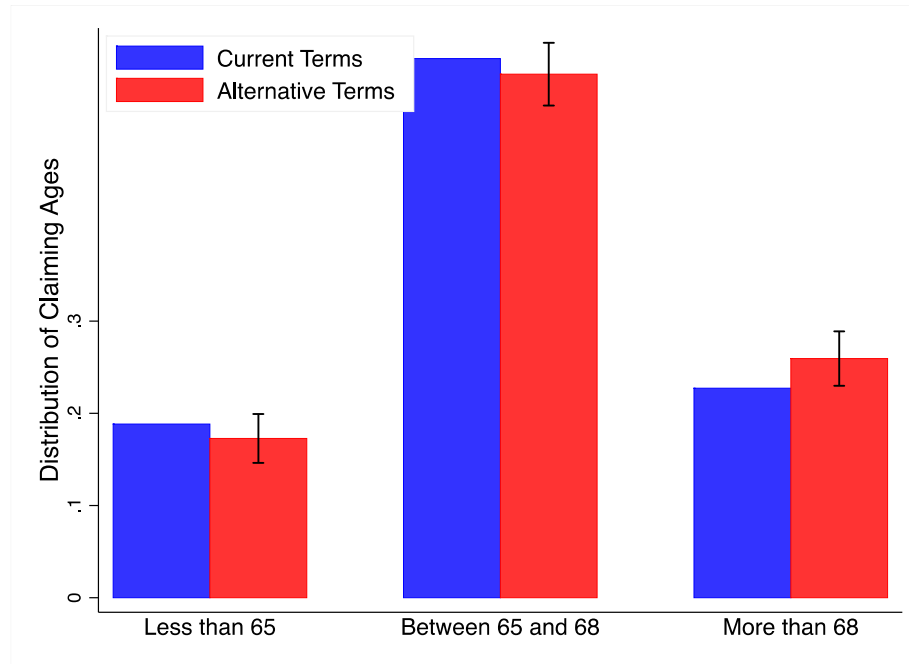


P-value for the Wilcoxon test for equality of distribution equals 0.008, N=3,405

We also find a marginally significant effect on expected retirement age



Alternative terms lead to changes in expected claiming age



The range plots show 95% confidence intervals of the difference across the two groups. P-value of differences equal 0.13, 0.17 and 0.02, respectively, N=3,405.

Persistence of Effects Claiming Intention



- A bit more complicated
- Question in WDPK, the core survey, asks first whether respondent know when they plan to claim
- Then only asks claiming age for those who answer “yes”
- Alternative treatment affects probability of saying “yes” →
SAMPLE SELECTION

Persistence of Effects Claiming Intention



Dependent Variable		WDPK (posterior) (0 to 17 months after experiment)				The “behavioral Survey” (11 months after experiment)
		Does not know intended claiming age	Intended Claiming Age	Does not know spouse intended claiming age	Spouse Intended Claiming Age	Intended Claiming age
All Respondents	Coef	-0.056	0.128	-0.041	0.439	0.084
	s.e.	(0.027)**	(0.181)	(0.034)	(0.268)	(0.107)
	N	1,263	661	813	373	2,586
	R ²	0.096	0.298	0.080	0.159	0.136
Male	Coef	-0.021	-0.040	0.004	0.451	0.265
	s.e.	(0.040)	(0.247)	(0.048)	(0.362)	(0.164)*
	N	551	324	408	199	1,104
	R ²	0.101	0.386	0.059	0.220	0.174
Female	Coef	-0.078	0.175	-0.082	0.311	-0.025
	s.e.	(0.036)**	(0.262)	(0.048)*	(0.407)	(0.141)
	N	712	337	405	174	-0.025
	R ²	0.087	0.247	0.098	0.105	(0.141)