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SOCIAL SECURITY

Providing Useful Information to the Public

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Social Security: Providing Useful Information to the Public

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me here today to discuss information the public should have about Social Security and strategies for providing that information. Social Security touches the lives of virtually all our nation's citizens. Last year, it paid $386 billion in benefits to over 44 million beneficiaries, including aged and disabled workers and their dependents and survivors. Ninety percent of elderly households received Social Security benefits, and 17 percent of such households received no income other than Social Security. Moreover, Social Security collected $460 billion in payroll taxes from over 150 million workers, or 96 percent of the nation's workforce. Currently, 12.4 percent of workers' covered earnings are paid in payroll taxes, divided equally between workers and their employers. Clearly, to help in their personal financial planning, our citizens should know where their Social Security payroll taxes go and what benefits they can expect to receive. In addition, Social Security faces a significant long-term financing shortfall because of the aging of our population and other demographic and economic trends. The public should also have the information it needs to participate in the debate about Social Security's future.

Today I would like to discuss the three broad types of information the public should have about the Social Security program—basic information about program benefits, the current and projected financial status of the Social Security program, and information about proposed changes to the program. For each type of information, I would like to focus on what role the individualized Social Security Statement might play in providing it. My testimony is based on work we have done over the past few years[1] and an assessment of the most recent statement.

In summary, the individualized Social Security Statement currently plays a specific and important role in providing some, but not all, of the information the public needs. First, individuals should have clear and easy to understand information about what benefits they can reasonably expect to receive. This is the specific and primary purpose of the Social Security Statement, which is now sent annually to nearly all working participants. In addition, the statement helps individuals and the Social Security Administration (SSA) ensure that individual earnings records are accurate, which in turn is crucial to providing accurate benefit payments. SSA has recently revised this statement so that it more effectively conveys this

[1]See the list of related GAO products at the end of this statement.

important information. Second, the public should understand the current and projected financial status of the Social Security program. The Social Security Statement now contains a brief disclosure about this, but technical and detailed information about it is more appropriately conveyed through other vehicles, such as the annual Trustees' Report[2] and the federal government's consolidated financial statements. Third, the public should have information to help it evaluate different proposals to restore solvency and make other program changes. However, such information is complex and must be presented in a fair, consistent, and comprehensive way that helps the public weigh and balance the various difficult choices that must be made. This type of information goes beyond estimating benefits and verifying earnings, which is the Social Security Statement's central purpose. Given the difficulties SSA has had in making just this information clear in the statement, adding information on reform proposals would likely make the statement lengthy, more complex, and even more difficult to understand. Doing so could undermine the basic purpose of the statement.

Background

The Social Security trust funds have a projected financial shortfall or funding gap of approximately $3 trillion over the next 75 years. This long-term financing problem is largely a result of greater life expectancy, lower birth rates, and the forthcoming retirement of the baby-boom generation. Social Security is financed primarily on a pay-as-you-go basis, which means that current workers pay current retirees' benefits. Today, there are approximately 3.4 workers for every beneficiary, and by 2030 this number is projected to fall to 2.1. Thus, in the foreseeable future relatively fewer people will be paying into the system and more people will be drawing benefits.

Restoring Social Security's long-term solvency will require some combination of increased revenues and reduced expenditures. Various options are available within the current structure of the program including raising the retirement age, reducing inflation adjustments, increasing payroll tax rates, and investing trust fund reserves in higher-yielding securities. In addition, some proposals would go beyond restoring long-term solvency and would fundamentally alter the program structure by setting up individual retirement savings accounts and requiring workers to contribute to them.

[2] *The 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, Mar. 30, 2000.

Public Should Have Basic Information on Estimated Benefits to Plan Personal Finances

Individuals need basic information on the Social Security program for their personal financial planning. This information includes what benefits workers can expect for themselves, their dependents, and their survivors when they retire, become disabled, or die. In addition, workers should understand that their benefits depend on their average lifetime earnings.[3] Finally, they should also understand that Social Security is meant to be only a foundation of retirement income. Social Security does not guarantee a benefit that meets the poverty threshold. Therefore, if workers know what benefit levels they can expect given their earnings history so far, they can better understand how much to save to meet their retirement income goals.

SSA's individualized Social Security Statement is one of the key vehicles for providing the public with this basic information about Social Security. It provides workers with an important tool for personal financial planning because it provides estimates of potential retirement, disability, and survivor benefits. It also asks statement recipients to check SSA's records of their past earnings. In this way, the statement can help SSA correct errors in agency records and help ensure that benefit payments are correct when workers retire, become disabled, or die. It also explains that Social Security benefits were not intended to be the only source of retirement income and encourages workers to supplement their benefits with a pension, savings, or investments. This statement reaches a very wide audience; starting in this fiscal year, SSA is sending the individualized Social Security Statement annually to almost every U.S. worker aged 25 and older—an estimated 126 million people each year.[4] (The statement can be found on SSA's website at http://www.ssa.gov, where workers can also request personalized statements.)

Because it reaches such a wide audience and is the only direct communication many workers will have with SSA until they retire or become disabled, the statement must communicate simply and clearly. It has not always done this. SSA offered benefit statements to some workers long before this fiscal year, and we reviewed the agency's 1996 version. At

[3]The benefit formula calculates average lifetime earnings after adjusting earnings for inflation and growth in average real wages.

[4]See 42 U.S. C. 1320b-13. SSA must send a statement to those who are 25 years old, have a Social Security number, have wages or earnings from self-employment, are not receiving Social Security benefits, and have a current address obtainable by SSA.

that time, we raised concerns about its usefulness.[5] We reported that although the public felt the statement could be a valuable tool for retirement planning, the statement provided too much information and failed to communicate clearly the information its readers needed to understand SSA's current programs and benefits. We found that the six-page statement was too long for many readers, the purpose was unclear, and the design and organization were not user-friendly. The statement was disorganized—it contained a patchwork of explanations scattered throughout, requiring the reader to flip from one page to another to find needed information. Finally, feedback from the public and SSA staff indicated that readers were confused by several important explanations, such as those describing family benefits and credits needed to be eligible for benefits. We recommended that SSA revise the 1996 version of the statement to improve its layout and design and to simplify explanations. We also recommended that SSA evaluate and test alternative formats for the statement.

Consistent with our recommendations, SSA embarked on a multi-year effort to revise its statement. The agency developed four different prototypes and conducted focus groups to assess layout and presentation preferences and how well the material presented was understood. SSA then conducted a public opinion survey of the four prototypes. Based on this information, SSA chose for its fiscal year 2000 mailing a new four-page layout.

We believe this new statement is much improved. It is shorter, better organized, easier to read, employs good design principles, and in a number of cases, provides simpler explanations. The revised statement more effectively achieves its intended purpose of providing important basic information on the Social Security program as well as individualized information on earnings on record at SSA and estimated benefits. In fact, SSA reports that in a recent survey to measure public understanding of its programs, workers who received the statement have a significantly greater knowledge of the Social Security program than those who did not receive a statement.

Naturally, further improvement is always possible. Working with our communications consultants, we have identified some remaining rough spots. These include:

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[5] *SSA Benefit Statements: Well Received by the Public but Difficult to Comprehend* (GAO/HEHS-97-19, Dec. 5, 1996).

- Clarity of purpose: We believe that SSA could more clearly and quickly spell out the statement's purpose and inform readers that the agency wants them to take some action—that is, check their earnings as listed on the statement and inform SSA of missing or incorrect information.

- Explaining inflation-adjustment of benefit estimates: The statement explains that the estimates are provided in "current dollars." However, readers may not understand what this means for their financial planning. It means that the estimates reflect today's price level, not the price level that will exist when they actually start to receive benefits.

- Some explanations still unclear: Other explanations, such as the one regarding the credits required for benefit eligibility may still leave the reader confused.[6] Also, the revised statement no longer cautions recipients that the estimates are based on their own individual earnings records and may also depend on their spouses' earnings if they have spouses.

SSA's programs are complex, and it is challenging to explain them in simple, straightforward language without providing so much information that it overwhelms the reader. SSA will need to continue to revise and streamline the statement to make it more clear and easy to understand.

Public Should Have Information on Social Security's Current and Projected Financial Status

The public also needs to understand the fundamentals of Social Security financing, including the program's current and projected financial status. Workers should understand that their contributions are not deposited into interest-bearing accounts for each individual but are credited to the Social Security trust funds, which are largely used to pay for current benefits. Under current law, the trust funds must invest any surplus in interest-bearing federal government securities. In addition, workers should understand that though significant surpluses are currently building up the trust funds to help pay future benefits, this situation will deteriorate over time. According to the most recent trustees' intermediate projections, benefit payments will exceed cash revenues in 2015, and the trust funds will be depleted in 2037. At that time, revenues would only be sufficient to pay for roughly 72 percent of promised benefits. Knowing this helps workers to understand that some combination of revenue increases and

[6] Credits are earned by working for employers who pay taxes to the Social Security system. The minimum number of credits needed varies, depending on the type of benefit and the age of the worker.

benefit reductions will be necessary to restore solvency. In turn, workers can better understand how to view their personal benefit estimates.

Some recent proposals to provide information to the public call for the Social Security Statement to more fully disclose Social Security's long-term financial outlook, the status of the trust funds over time, and the effect on SSA's ability to pay future benefits in the absence of changes to the program. In its most recent version of the statement, SSA has added information on this topic. On the first page, as part of the message from the Commissioner, the statement now provides basic information on the demographic reasons for the financing problems and on the future status of the trust funds, including the date that the trust funds will be exhausted. On the page where the benefit estimates are provided, the statement explains that when this date arrives, absent a change in the law, payroll taxes collected will be enough to pay only a portion of the benefits owed.

However, according to our communications experts, the information is somewhat confusing and contradictory, though it could be fixed. The Commissioner's message first reassures readers that "of course" Social Security will "be there" when they retire and then provides the information about the future financing problems and the resulting percentage reduction in benefits. The statement explains that SSA is "working to resolve these issues" and offers a booklet with more information upon request. Overall, the explanation may leave readers wondering how SSA can be sure the program will be there to pay the benefits they are expecting in the future. The status of the trust funds and the need for change can be clarified with minor adjustments in wording. However, the statement does not need to go into excessive or technical detail; not every reader of the statement will need or be interested in this additional detail. If statement recipients want more information, they can request the booklet listed in the statement. This booklet, which is written in simple, straightforward terms for a wide audience, provides additional information on the reasons for the financing shortfall and the difficult choices needed to ensure long-term program stability.

More technical and detailed information on the status of the trust funds is available, however, in a number of vehicles that are used extensively and studied by a more narrow audience of experts and specialists. These include the annual Trustees' Report and the annual Financial Report of the United States Government. To be most effective and useful to the broadest audience, the information in these reports needs to be reliable, consistent, accessible, timely, verifiable, and complete. We have recently noted a problem related to their timing and consistency.[7] The Financial Report uses data from the previous year's Trustees' Report although a new Trustees' report with sometimes significantly different numbers is issued at nearly the same time. The discrepancies between the two reports may cause confusion, which can serve to reduce confidence in and the credibility of the government's annual financial report. Steps should be taken in future years to ensure that the government's Financial Report contains up-to-date information. In addition, given the importance and materiality of this information, the Comptroller General has stated that the time may have come for this information to be subject to audit.

In addition, information on the magnitude of the trust funds' financial gap should focus not only on the next 75 years but also beyond that to help focus on sustainability. The conventional 75-year measure of solvency is highly transient because the 75-year period changes by one year in each successive year's projections. Currently, the years early in the 75-year period have surpluses while the years at the end of the period have large deficits. As a result, changes made to restore solvency only for the current 75-year period will result in future actuarial imbalances almost immediately. Therefore, in addition to examining the 75-year actuarial balance, examining Social Security's percentage of the federal budget, the size of the imbalance in the 75th year, and the trend in the annual balance at that time would help focus attention on the issue of sustainability.

Public Should Have Information to Help It Evaluate Options for Restoring Solvency

To address Social Security's long-term solvency problem, a wide and often confusing variety of proposals have been offered. To participate in the reform debate, the public needs understandable, independent, and objective information that can help it appreciate the difficult choices that the nation faces. We have concluded that three broad criteria help provide balance and structure to evaluating the alternatives. These are 1) the extent to which proposals would achieve sustainable solvency, including how they would affect the federal budget and the economy; 2) the balance of adequacy and equity in the benefits structure; and 3) the feasibility of implementation and administration.[8] Adequacy refers to the level and certainty of benefits, and equity refers to the relationship between the contributions made and benefits received, sometimes referred to as

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[7] *Auditing the Nation's Finances: Fiscal Year 1999 Results Continue to Highlight Major Issues Needing Resolution* (GAO/T-AIMD-00-137, Mar. 31, 2000).

[8] *Social Security:Criteria for Evaluating Social Security Reform Proposals* (GAO/T-HEHS-99-94, Mar. 25, 1999). Also, see the list of related GAO products at the end of this statement.

"money's-worth." No single criterion should be considered in isolation, and taken together these criteria highlight the difficult trade-offs that exist between efforts to achieve solvency and to maintain adequate retirement income for current and future beneficiaries.

Some participants in the reform debate focus especially on individual equity and on one particular measure of equity—the implicit rate of return workers can expect on their Social Security contributions. Accordingly, some recent proposals call for the Social Security Statement to include estimates of the implicit rate of return. However, substantial controversy surrounds applying the concept of rates of return to Social Security.[9] Some analysts argue that rates of return on contributions would be much higher under a new system with individual accounts, and they would like the public to compare its return on Social Security to returns available on market investments. Other analysts contend that the rate of return concept should not be applied to Social Security because it is a social insurance program and is not designed to provide returns on contributions.

In our work on this topic, we have observed that rate of return estimates are inherently very uncertain, especially for specific individuals, because of the many complex factors that affect rates of return. Such factors include how long individuals will live, how much they will earn, and what size families they will have. To be clearly understood, Social Security rate of return estimates need an explanation of how they are calculated and how uncertain the estimates are. Also, instead of making simple comparisons between Social Security and historical market returns, one should make any rate of return comparisons among comprehensive return estimates for specific reform proposals that include all costs and benefits of any individual accounts as well as the Social Security components of the resulting system. In addition, such estimates would not help individuals plan their personal finances because, under current law, they do not have the choice of putting their contributions into alternative investments. Moreover, providing estimates of the implicit rate of return on Social Security contributions could mislead readers to think they have an interest-bearing account under the program, which they do not. Adding rates of return to the Social Security Statement—or for that matter any information that is not directly relevant to the statement's purpose—would make the statement longer and more complex and could undermine

[9] *Social Security: Issues in Comparing Rates of Return with Market Investments* (GAO/HEHS-99-110, Aug. 5, 1999).

its important and specific purpose of providing benefit estimates and verifying earnings records.

Concluding Observations

Given the importance of Social Security to the financial security of most Americans and the value of citizen participation in the difficult reform decisions that lie ahead, the public should have easy and timely access to a wide range of reliable, consistent, and verifiable information. Much of this information is already available; however, questions have been raised about the best vehicles to use to make sure the information is available to as wide an audience as possible. Reasonable people can disagree about the best vehicle, particularly for the more complex or technical information. However, we believe the Social Security Statement is not the right vehicle for this more technical information, such as rates of return. The newly revised statement more successfully meets its purpose of providing basic information to individual workers. Adding the explanations necessary to fairly portray rate of return information would likely increase the statement's length significantly and undermine efforts to shorten and simplify it, thereby running the risk that recipients will not read or fully understand it.

Mr. Chairman, this concludes my prepared statement. At this time, I will be happy to answer any questions you or other Members of the Subcommittee may have.

GAO Contact and Staff Acknowledgments

For information regarding this testimony, please contact Barbara Bovbjerg at (202) 512-7215. Individuals making key contributions to this testimony include Kay Brown, Ken Stockbridge, Elizabeth O'Toole, and Kimberly Granger.

Related GAO Products

Auditing the Nation's Finances: Fiscal Year 1999 Results Continue to Highlight Major Issues Needing Resolution (GAO/T-AIMD-00-137, Mar. 31, 2000).

Social Security Reform: Information on the Archer-Shaw Proposal (GAO/AIMD/HEHS-00-56, Jan. 18, 2000).

Social Security: The President's Proposal (GAO/T-HEHS/AIMD-00-43, Nov. 9, 1999).

Social Security: Evaluating Reform Proposals (GAO/AIMD/HEHS-00-29, Nov. 4, 1999).

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SSA Benefit Estimate Statements: Adding Rate of Return Information May Not Be Appropriate (GAO/HEHS-98-228, Sept. 2, 1998).

Social Security: Different Approaches for Addressing Program Solvency (GAO/HEHS-98-33, July 22, 1998).

Social Security Financing: Implications of Government Stock Investing for the Trust Fund, the Federal Budget, and the Economy (GAO/AIMD/HEHS-98-74, Apr. 22, 1998).

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