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The Effect of Social Security Information on the Labor Supply and Savings of Older Americans

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How well do people understand their Social Security (SS) retirement benefits? Do they understand not only what their benefit is likely to be when they retire, but also how much their earnings between now and then affect these benefits? And does providing them information about these future benefits affect their current behavior?

Pension information for workers, whether about public or private pension entitlements, necessarily needs to be based on projections of future earnings, which can lead to a tradeoff between providing workers with accurate information and providing them with information that is easy to understand. Giving workers a simple projection based on assumptions about future labor supply may maximize salience of the information, but it does not contain information about how current labor supply decisions map into changes in pension benefits, which is of increasing relevance the further an individual is from planned benefit collection ages. However, if pension information consists of too much detail about how changes in earnings affect pension wealth, workers may ignore it. How to provide accurate and salient retirement information to workers is a question of central importance that has rarely been addressed with large scale, personalized, and naturalistic experimental interventions.

In this paper, we attempt to address this gap in the financial literacy literature and answer the questions posed above by looking at the effects of the largest retirement information program in the United States, the Social Security Statement, on the labor supply of older workers. The statement was phased in from 1994 to 2000 according to worker age. That different-aged workers received the statement in different years generates exogenous cross-cohort differences in the timing of information receipt. Because the exact timing of statement receipt is based on birth month, there is additional within-birth cohort variation. Furthermore, workers receive multiple statements staggered over several years depending on their birth cohort, which allows us to examine how workers respond to updated Social Security wealth information. Prior research on the statement, conducted variously by independent researchers in academia, at the GAO, and at SSA itself, indicates a remarkably high recall of statement receipt, with more than two-thirds of intended recipients remembering receiving a statement from SSA, even up to three years after being

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sent one. More than 90 percent of this population remembered that the statement included personalized benefit projections.

Using SSA earnings records matched with detailed survey data measuring prior SSA expectations and current work behavior, we reconstruct what these individuals would have seen on their statement to determine if individuals were shocked to find a larger or smaller benefit.

Our results indicate that receiving the statement reduced annual hours worked by 119 hours, which is an 11 percent reduction relative to the mean. We find much evidence of heterogeneity, however: The hours reductions come mainly from workers ages 55 to 61 and for those with a second job. There also are large differences in responses across the distribution of prestatement hours worked. Workers who were not working, or who worked few hours, substantially increase their labor supply, while there are declines in hours worked among those who were working full-time prior to statement receipt. We present evidence that these findings are not driven by mean reversion but rather reflect the causal effect of the Social Security statement on labor supply decisions. In addition, we show using HRS questions about expected Social Security benefits that these effects are driven by heterogeneity in prestatement worker knowledge. Workers whose prior Social Security expectations understate their benefit levels decrease hours worked when they receive a statement, while workers who have little knowledge of their benefits or overstate them increase labor supply due to the information treatment. Thus, our results point to large labor supply responses to receiving a Social Security statement that are driven in part by how the statement affects workers' knowledge about their pension wealth. We perform similar analyses for older female workers and find similar patterns of effects, although their magnitudes were much smaller and the estimates were less precise. In contrast to married male workers, female workers showed this pattern of labor supply response to the first statement the household received, regardless of whether it was the wife's or the husband's.

We further explore the effect of updated benefit estimates: The benefit reported on the statement was a projected benefit, based on constant earnings. And once workers received a second statement, with an updated projection based on their new level of work, they shifted their work schedule closer to their prestatement work level. This correction suggests they did not fully understand the nature of the benefit projections on the statement and "overshot" their preferred work-retirement savings balance when receiving the first statement. Finally, we do find evidence of an increase in retirement savings in households once they receive a statement, with this increase concentrated among those who increase their work after receiving their first statement.

Taken together, the results from this analysis suggest that information about public retirement benefits, when provided by the public agency in question, has substantial effects on the labor supply of older, male Americans, whether this information is well-understood or not. Although the Social Security Statement was no longer automatically sent out starting in April 2011, it has been reintroduced as of September 2014. Our analysis sheds light on the essential difficulty of providing clear information without distorting knowledge of the dynamic qualities of pension programs. Specifically, providing a particular point estimate increased accuracy of expected benefits, but it also decreased knowledge of how this benefit can vary as a function of labor supply. These strong reactions to SSA-provided information about future benefits thus present both opportunities and challenges for future communication between SSA and workers.

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