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STATEMENT
OF
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SOCIAL SECURITY ADMINISTRATION

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss the Social Security Administration's (SSA) initiative to help the American public better prepare for retirement and other important life events and to encourage Americans to save. As the agency responsible for delivering and managing Old-Age, Survivor, and Disability Insurance benefits, we have a longstanding relationship with the American public on the subject of financial security. In 2009, more than 51 million retired or disabled workers, their families, and survivors received over $659 billion in benefit payments. Through our telephone, Internet, and mail services, as well as our 1,300 field offices, we have been educating the American people about our programs for many years. Our agency has a responsibility to help Americans prepare for retirement.

In recognition of that responsibility, our agency 2008-2013 Strategic Plan contains a Special Initiative to Encourage Saving with a focus on helping Americans better prepare for retirement. Commissioner Astrue recognized that this Special Initiative was needed because so many Americans are in danger of having insufficient savings for retirement and other life events. Even before the current Strategic Plan, the Commissioner stressed the importance of financial literacy. During his January 2007 confirmation hearing before the Senate Finance Committee, he told Chairman Baucus that, as Commissioner, he would "… urge people to think hard about their own private savings and retirement plans, and make sure that they understand the role of Social Security in their own personal future."

According to the Employment Benefit Research Institute's 2010 Retirement Confidence Survey, less than half of American workers have estimated how much money they will need to live comfortably during retirement [1]. Since studies show that increased financial awareness can improve attitudes toward saving, expand participation in retirement savings plans, and increase retirement asset accumulation, we see the need to help the public better understand our program and to encourage saving.

Financial literacy is defined by the Government-wide Financial Literacy and Education Commission (FLEC) as "…*the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being (the 2007 FLEC annual report to Congress).*" From our agency's perspective, the American public should have the knowledge and skills to effectively plan their financial resources in conjunction with their entitlement to Social Security. We want Americans to understand that while Social Security is a good foundation for providing income for retirement, it should not be a retiree's only source of income. In addition, young and middle-aged workers need to know the importance of other sources of retirement income and the importance of early planning for retirement. Currently, almost two-thirds of aged beneficiaries rely on Social Security as their main source of income; for over one-third , Social Security provides 90% or more of their income. [2]

[1] EBRI Issue Brief, No. 340, issued March 2010.
[2] Fast Facts & Figures About Social Security, 2009, page 7.

We want to encourage Americans to develop the savings habit early in life. Increases in longevity mean we may spend many years in retirement. The typical 65-year old today can expect to spend about 20 years in retirement, so planning early for a long retirement can help assure those golden years are secure.

We are also striving to address a general lack of awareness and understanding of our programs. For example, only a fraction of Americans know their full retirement age. [3] Knowing the full retirement age is a key factor in deciding when to claim retirement benefits, since benefits are reduced for each month they are taken before full retirement age, and can increase for months that benefits are not taken between full retirement age and age 70. In addition, surveys show that many workers do not understand basic economic principles such as inflation and the power of compound interest.[4] Lack of understanding of these principles is associated with low wealth accumulation and poor ability to control spending and debt. [5]

What We Are Doing to Improve Financial Literacy

In addition to our traditional role of ensuring that the public understands how Social Security benefits fit into the overall retirement picture, we have a responsibility to provide Americans with information about the importance of supplementing Social Security with retirement savings. Our financial literacy initiative includes three major elements: 1) production of the annual *Social Security Statement* (*Statement*); 2) promotion and support for the Retirement Estimator; and 3) our research program.

The annual *Social Security Statement* (http://www.socialsecurity.gov/mystatement/) provides personalized information about retirement, spousal, survivor, and disability benefits (based on a person's lifetime earnings) to help him or her plan for his or her financial future. The Social Security Act requires us to mail the *Statement* to workers and former workers aged 25 and older and workers of any age who request it. We mail *Statements* to about 150 million Americans a year. The *Statement* provides a concise explanation of Social Security benefits based on a person's earnings. Since it comes out each year, people can see how the estimated amount of their future benefits is affected by their current earnings. This information can assist individuals as they plan for retirement. We believe the *Statement* is a helpful financial literacy product.

We introduced two changes to the *Statement* in 2009. First, we reformatted the *Statement* to show the amount of benefits the worker could expect at full retirement age in the most prominent position. This change provides a better balance of the benefits and the trade-offs of early vs. late retirement.

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[3] EBRI's Retirement Confidence Survey (2007).
[4] Financial Industry Regulatory Authority (FINRA) 2009 National Financial Capability Study.
[5] Examples include Lusardi, Annamaria and Olivia S. Mitchell (2006) and Hilgert, Marianne, Jeanne Hogarth and Sondra Beverly (2003).

Second, *Statement* mailings now include a customized insert for workers at different stages in life. One goes to workers 55 and older, focusing on benefit choices for near-retirees (http://www.socialsecurity.gov/mystatement/statsamples.htm). In the second insert, we introduce workers 25-35 years old to disability and survivor's benefits, update them on the future of Social Security, and provide information about how Social Security benefits fit into an overall retirement plan. The insert also describes the importance of saving for the future. In the *Statement*, we also promote www.mymoney.gov, the Financial Literacy and Education Commission website designed to be a trusted source of financial information for the public.

The Online Retirement Estimator (http://www.socialsecurity.gov/estimator/) is another financial literacy product we developed. Deciding when retirement benefits should begin is a personal choice, but we are responsible for explaining the options available to individuals. We developed the online retirement estimator to allow people to see, based on their own earnings record, what their retirement benefit could be using different options for stopping work and different ages for starting retirement benefits. This, too, is a useful and important financial planning tool.

Since its launch in July 2008, this site has become popular with the American public, and is the highest rated online service in the Federal government. Our Spanish-language version of the Online Retirement Estimator, which will be available next year, will be one of the Federal government's first interactive Spanish-language online services.

As a complement to the Estimator, we are also developing an Online Life-Expectancy Calculator - a simple, but important tool to assist the public with retirement planning. Many people substantially underestimate life expectancy, and this new online service will add a measure of accuracy to retirement planning by providing average life expectancies at different ages based on the person's gender and date of birth, and drawing on assumptions provided in the annual Social Security Trustees' report. We hope to have the Calculator available within the next year.

The third major element to our Financial Literacy initiative is our research program. The research program involves designing effective approaches to improve financial literacy, based on an evaluation of what works. Our program supports research by experts outside the agency and fosters collaboration with other Federal agencies with similar goals.

The Financial Literacy Research Consortium (FLRC) is a multidisciplinary research initiative to develop and test innovative educational materials and programs to help Americans plan for a secure retirement and better understand Social Security's programs. The FLRC is supported by funding agreements with Boston College, the RAND Corporation, and the University of Wisconsin-Madison, that began in October 2009.

The FLRC is currently conducting 26 research projects in the area of financial literacy through its three centers, each collaborating with a range of educational, non-profit, and financial services-related organizations. The FLRC will present results from the first year

of the cooperative agreement at its first annual conference in November 2010. Each year, we review program progress both internally and through our Panel of Outside Scholars. Our Outside Scholars are expert representatives from academics, the private sector, and the Federal government who provide the agency and our grantees with input on current work as well as suggestions for future research. Abstracts describing all 26 awarded projects are available online at:
http://www.ssa.gov/retirementpolicy/abstracts.html.

We are also working to expand the minority sample of the Health and Retirement Study (HRS). The HRS is the premier data resource for tracking the health, wealth, and labor force activity of Americans aged 50 and older. The survey, conducted by the University of Michigan through grant support from the National Institute on Aging (NIA), has been ongoing since 1992. However, the minority sample of the HRS is declining due to death and attrition, limiting in-depth analysis of older minorities. Therefore, we entered into an interagency agreement with NIA to support an increase of the sample of minority households in their pre-retirement years. In 2010, the HRS will interview 2,000 additional African-American and Hispanic respondents, born between 1948 and 1959. This will allow for more intensive study of financial literacy in minority populations, providing a greater understanding of how financial literacy knowledge affects saving and retirement decisions.

Financial Literacy and Education Commission (FLEC)

We are also participants in the Government-wide Financial Literacy and Education Commission (FLEC). The FLEC was established by legislation enacted in 2003 to coordinate financial education efforts throughout the Federal government, support the private sector in providing financial literacy programs, and encourage the synchronization of efforts between the public and private sectors. The Commission is chaired by the Secretary of the Treasury and coordinated by the Department of the Treasury's Office of Financial Education. As one of 21 members of the FLEC, we work with other Federal agencies to increase awareness of the importance of financial education and to improve financial literacy.

We are chairing or co-chairing three of the four standing FLEC working groups: National Strategy (co-chair with Treasury); Research and Evaluation; and Communication and Outreach. We are also interacting with FLEC member organizations to coordinate and to eliminate duplication of research efforts.

One of the challenges facing FLEC is the development of measures to evaluate the impact of member agency programs on financial capability and outcomes. The development of evaluation metrics for financial education programs and national measures of financial competency in the population are a critical and complex part of measuring success. We are working to assist Treasury in the development of these measures.

Other Financial Literacy Activities

We participate in America Saves Week, a nation-wide communications campaign that encourages saving. A broad coalition of non-profit, corporate, and government groups participate annually during the last week of February. As part of America Saves Week, this year we issued a special Commissioner Broadcast and a financial literacy electronic newsletter to all 60,000 of our employees emphasizing the importance of saving and planning for their future. We distributed an article about America Saves Week campaign for publication in hometown newspapers across the country. We published a similar article in our online newsletter, *Social Security Update*, and distributed it to advocates and staff on Capitol Hill. The SSA homepage, which receives over a million visits a week, also featured a link to America Saves Week publications and information.

In November 2007, we established the Financial Literacy Advisory Group within SSA to help shepherd, review, and produce several products now in use by the agency. These products include a fact sheet entitled *When to Start Receiving Retirement Benefits*. This fact sheet highlights something important: monthly retirement benefit amounts differ substantially based on when they start. It also provides information on the effects of working in retirement, how the worker's retirement decision can increase or decrease the benefit amount ultimately paid to his or her survivors, and the fact that retirement may last a long time. This fact sheet is available on our website as well as at all of our field offices.

Our network of field offices across the country gives us a presence unlike any other in the Federal government. Our public outreach efforts help workers understand how their savings, other retirement plans, and Social Security benefit claiming options can affect their retirement security and emphasize the importance of planning for retirement. We educate the public about the role of Social Security as one of the foundations of household income not only in retirement, but also in the event of disability or death. We target key audiences of all ages for financial literacy products through our presence at senior citizen fairs, community events and retirement seminars, and routinely provide information to human resources departments of large employers.

Conclusion

The mission statement of Social Security reads: *"Deliver Social Security services that meet the changing needs of the public."* Saving for retirement and understanding how retirement decisions influence Social Security benefit levels are critical parts of retirement planning. However, survey evidence consistently shows that few Americans effectively plan for retirement. Clearly, people need to be better informed. In response, we have expanded our efforts to encourage saving and to explain Social Security programs.

By working together with Congress and other Federal agencies on financial literacy initiatives, we hope to raise the public's awareness and provide useful tools to help them effectively plan for a secure retirement. We are confident that with your support and the support of our stakeholders, we can achieve this goal.

I want to thank the Chairman and members of the Subcommittee for inviting me here today. We appreciate your continued support for the agency and our mission.