How Does the Social Security Statement Affect Older Adults' Subjective Estimates of Social Security Benefits and Work Decisions?

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In a recent working paper (Seiter and Slavov 2023), my co-author and I used Health and Retirement Study (HRS) data to compare people's subjective expectations of their Social Security claiming age and benefit amount, provided during their 50s and early 60s, with their observed Social Security claiming age and income. We showed that while people have accurate expectations of their claiming age, they underestimate their annual Social Security income by almost $1,896 (11.5 percent) on average. Both accuracy and precision of estimates improve with age, however, and people in their early 60s have a forecast error that is not statistically different from zero. We also find that receipt of one or more Social Security statements reduces the forecast error in annual Social Security income by $344 (2.1 percent). For this research, my co-author and I used unrestricted HRS data, which relies on self-reports of Social Security income and claiming age. Based on an early wave of the HRS, Hurd, Juster, and Smith (2003) showed that self-reports of Social Security income are fairly accurate.

I propose to expand on this work in several ways based on restricted HRS data derived from Social Security earnings and benefit records. First, I can update the work of Hurd, Juster, and Smith (2003) by examining the accuracy of self-reported Social Security income and claiming age in the unrestricted HRS. Second, I can extend my previous work by examining the accuracy of people's anticipated claiming age and income relative to their actual Social Security claiming age and income recorded in the administrative data. Third, I can delve further into exactly how the Social Security statement affects people's subjective expectations. Based on earnings records in the administrative data, I can calculate the projection of each person's Social Security benefit that the Social Security Administration provided in their statement; these projections vary in their accuracy (SSA 2020). I can then investigate whether people's subjective expectations move closer to SSA's projection following statement receipt, as well as how this effect varies with the accuracy of SSA's projection. Fourth, I can extend work by Mastrobuoni (2011) examining the impact that statement receipt has on people's awareness of work incentives in Social Security. For each respondent, I can calculate the effective net Social Security tax rate (which depends on their earnings history and the type of benefit they and their spouse will receive). I can then compute whether either retirement or work effort are more responsive to the effective net tax rate following statement receipt. Finally, I can investigate heterogeneity in all these relationships across race, ethnicity, sex, and income.

References:

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