



University of Pennsylvania
ScholarlyCommons

Wharton Pension Research Council Working
Papers

Wharton Pension Research Council

8-1-2012

How Financial Advisers and Defined Contribution Plan Providers Educate Clients and Participants about Social Security

Mathew Greenwald

Mathew Greenwald & Associates, mathewgreenwald@greenwaldresearch.com

Andrew Biggs

American Enterprise Institute, andrew.biggs@aei.org

Lisa Schneider

Mathew Greenwald & Associates, lisaschneider@greenwaldresearch.com

Follow this and additional works at: https://repository.upenn.edu/prc_papers

 Part of the [Economics Commons](#)

Greenwald, Mathew; Biggs, Andrew; and Schneider, Lisa, "How Financial Advisers and Defined Contribution Plan Providers Educate Clients and Participants about Social Security" (2012). *Wharton Pension Research Council Working Papers*. 147.

https://repository.upenn.edu/prc_papers/147

The published version of this Working Paper may be found in the 2013 publication: *The Market for Retirement Financial Advice*.

This paper is posted at ScholarlyCommons. https://repository.upenn.edu/prc_papers/147

For more information, please contact repository@pobox.upenn.edu.

How Financial Advisers and Defined Contribution Plan Providers Educate Clients and Participants about Social Security

Abstract

American workers have demonstrated relatively low levels of knowledge of how Social Security works. Most claim benefits at age 62, far earlier than many experts believe is optimal. Early claiming has a particularly negative impact on women. A significant proportion of workers use professional financial advisers and most workers participate in a defined contribution plan. Through a survey and in-depth interviews information was collected on how advisers and plan providers counsel clients and participants on Social Security. The results indicate steps that could increase the effectiveness of these channels to provide effective education and advice on Social Security and claiming.

Disciplines

Economics

Comments

The published version of this Working Paper may be found in the 2013 publication: *The Market for Retirement Financial Advice*.

The Market for Retirement Financial Advice

EDITED BY

Olivia S. Mitchell
and Kent Smetters

OXFORD
UNIVERSITY PRESS

OXFORD

UNIVERSITY PRESS

Great Clarendon Street, Oxford, OX2 6DP,
United Kingdom

Oxford University Press is a department of the University of Oxford.
It furthers the University's objective of excellence in research, scholarship,
and education by publishing worldwide. Oxford is a registered trade mark of
Oxford University Press in the UK and in certain other countries

© Pension Research Council, The Wharton School, University of Pennsylvania 2013

The moral rights of the authors have been asserted

First Edition published in 2013

Impression: 1

All rights reserved. No part of this publication may be reproduced, stored in
a retrieval system, or transmitted, in any form or by any means, without the
prior permission in writing of Oxford University Press, or as expressly permitted
by law, by licence or under terms agreed with the appropriate reprographics
rights organization. Enquiries concerning reproduction outside the scope of the
above should be sent to the Rights Department, Oxford University Press, at the
address above

You must not circulate this work in any other form
and you must impose this same condition on any acquirer

Published in the United States of America by Oxford University Press
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data

Data available

Library of Congress Cataloging in Publication Data

Data available

ISBN 978-0-19-968377-2

Printed in Great Britain by
CPI Group (UK) Ltd, Croydon, CR0 4YY

Contents

<i>List of Figures</i>	ix
<i>List of Tables</i>	x
<i>List of Abbreviations</i>	xiii
<i>Notes on Contributors</i>	xv
1. The Market for Retirement Financial Advice: An Introduction <i>Olivia S. Mitchell and Kent Smetters</i>	1
Part I. What Do Financial Advisers Do?	
2. The Market for Financial Advisers <i>John A. Turner and Dana M. Muir</i>	13
3. Explaining Risk to Clients: An Advisory Perspective <i>Paula H. Hogan and Frederick H. Miller</i>	46
4. How Financial Advisers and Defined Contribution Plan Providers Educate Clients and Participants about Social Security <i>Mathew Greenwald, Andrew G. Biggs, and Lisa Schneider</i>	70
5. How Important is Asset Allocation to Americans' Financial Retirement Security? <i>Alicia H. Munnell, Natalia Orlova, and Anthony Webb</i>	89
6. The Evolution of Workplace Advice <i>Christopher L. Jones and Jason S. Scott</i>	107
7. The Role of Guidance in the Annuity Decision-Making Process <i>Kelli Hueler and Anna Rappaport</i>	125
Part II. Measuring Performance and Impact	
8. Evaluating the Impact of Financial Planners <i>Cathleen D. Zick and Robert N. Mayer</i>	153

viii Contents

9. Asking for Help: Survey and Experimental Evidence on Financial Advice and Behavior Change <i>Angela A. Hung and Joanne K. Yoong</i>	182
10. How to Make the Market for Financial Advice Work <i>Andreas Hackethal and Roman Inderst</i>	213
11. Financial Advice: Does It Make a Difference? <i>Michael Finke</i>	229
12. When, Why, and How Do Mutual Fund Investors Use Financial Advisers? <i>Sarah A. Holden</i>	249
Part III. Market and Regulatory Considerations	
13. Harmonizing the Regulation of Financial Advisers <i>Arthur B. Laby</i>	275
14. Regulating Financial Planners: Assessing the Current System and Some Alternatives <i>Jason Bromberg and Alicia P. Cackley</i>	305
<i>End Pages</i>	321
<i>Index</i>	325

Chapter 4

How Financial Advisers and Defined Contribution Plan Providers Educate Clients and Participants about Social Security

Mathew Greenwald, Andrew G. Biggs, and Lisa Schneider

Many experts believe that a number of older workers have not accumulated enough money to enable them to maintain financial security throughout their retirements, especially if they live beyond their life expectancies. One way to enhance retirement financial security would be to better educate people about when to claim Social Security benefits so they can make an informed choice. Sass (2012) has estimated that a worker who delays claiming from age 62 to age 70 will get a 76 percent inflation-adjusted increase in monthly Social Security benefits. Even waiting from age 66 to age 70 will increase, he estimates, inflation-adjusted monthly benefits by 32 percent. Furthermore, the benefits are also adjusted upward by inflation every year. These benefit increases are calculated to be actuarially fair: thus, a person in average health can expect no decrease in the total benefits received over his lifetime. Those in better-than-average health can expect to get more over their lifetimes than is lost by delaying and forsaking benefits. Also, those in poor health can ‘select’ against the Social Security Administration and claim benefits early. Claiming later leads to substantially increased benefits, which would give workers extra protection should they live to a very old age, when they would have the most financial pressure. For the majority of people who have not accumulated enough, an informed decision about when to claim benefits offers an opportunity to substantially enhance financial security in later years.

Currently, many Americans are not well informed about when to claim and, for some, the timing of claiming is likely to be sub-optimal. Two channels are often used to educate workers about Social Security and the optimal time to claim: financial advisers, and defined contribution (DC) plan providers. This chapter examines current practices in terms of how financial advisers and plan participants educate those they serve. We identify some shortcomings and offer suggestions to enhance education and advice.

Background

Social Security benefits are the major source of income for Americans aged 65 and over, especially women. Indeed, 51 percent of women aged 65 and older receive at least three-quarters of their income from Social Security (Employee Benefits Research Institute, 2010). Even with this support, many older people have modest incomes; this is especially pronounced for those aged 85 and older.

New emphasis on benefit claiming strategies

Over half of workers fully covered by the Social Security program (and not already getting disability benefits) claimed their benefits at age 62, the first year of eligibility; 69 percent claimed prior to age 65 (Aaron and Callan, 2011). Many economists and financial planners believe current claiming strategies are sub-optimal (Tacchino et al., 2012). The impact is strongest on women because they live longer than men on average, depend to a larger extent than men on their Social Security income in retirement, and are more likely to end their lives living in or near poverty. Coile et al. (2002) used an expected utility model to measure the welfare gains from delayed claiming and found that delayed claiming is optimal in many cases and often makes a significant difference.

Sass et al. (2007) analyzed Health and Retirement Study data on the impact of claiming age on the expected present value of Social Security benefits for couples who both retired before becoming eligible for Social Security. Typically, advisers suggest that couples can maximize the expected present value of benefits in this circumstance by having the wife claim benefits at age 62 and the husband claim at age 66. Among those surveyed, however, over 90 percent of the husbands claimed benefits at age 62. While such behavior had little impact on the expected present value of benefits while the husband was alive, it reduced by 25 percent the expected present value of the survivor's benefit (which widowed wives receive). The authors reported that '[t]wo factors that could plausibly explain early claiming by married men are ignorance and a caddish disregard for the well-being of the spouse' (Sass et al., 2007: 3). Their empirical results 'produced no evidence to attribute early claiming to caddishness' but 'do provide evidence that financial awareness has an effect' (Sass et al., 2007: 3).

More complex strategies were examined by Munnell et al. (2009), going beyond simple choices regarding the age of claiming. Such strategies include a 'Free Loan' in which individuals would claim benefits and then later repay them, thus resetting their benefits to a higher level. Moreover, the repayment included no interest charges. Responding to increased utilization of this strategy, the Social Security Administration (SSA) in 2011 proposed a

72 The Market for Retirement Financial Advice

regulation allowing individuals only a single repayment and restart of benefits, which must take place within one year of initial claiming.

Another strategy includes the ‘Claim and Suspend’ tactic in which an individual claims benefits but then immediately suspends them. This allows a spouse to claim a spousal benefit while the individual defers claiming, an option not otherwise allowed under Social Security rules. A third strategy, termed ‘Claim Now, Claim More Later,’ allows the high earner in a married couple to claim a spousal benefit based on the lower earning spouse’s record, while delaying his own retired worker benefit. This strategy allows for higher benefits both for the individual employing it as well as for higher survivor benefits for his widow.

Widows’ claiming strategies are examined by Shuart et al. (2010). A surviving spouse who accrued no benefits under her own earnings record receives roughly the same lifetime benefits, in present value terms, regardless of when she claimed. But many widows can claim benefits both under their own earnings record and that of their deceased spouse. The authors found that claiming one type of benefit and then shifting to the second later in retirement tend to maximize lifetime benefits. Yet deciding which benefit to claim first, and when to reclaim, depends on the ratio of the widow’s earned benefit versus the survivors’ benefit for which she is eligible. Enhanced claiming strategies such as these have been adopted by some financial advisers.

Public understanding of Social Security benefit rules

The general public has a low level of understanding of the Social Security system and the impact of claiming on long-term financial well-being. Greenwald et al. (2010) conducted a survey of 2,000 people in 2010 and reported that levels of knowledge about Social Security are ‘disturbingly low.’ Only one-quarter could correctly answer a question about how Social Security benefits are calculated. Forty-three percent did not understand that Social Security benefits can be taxed, and the same proportion did not know that benefits are adjusted for inflation.

Moreover, few people know the relationship between their retirement age, claiming age, and the level of benefit they can receive. While a significant proportion of workers feel they know a lot about the eligibility age for full Social Security retirement benefits, the survey demonstrated poor levels of actual knowledge. One-quarter (25 percent) did not know that benefits can be deferred rather than claiming them at the time of retirement only. Just 29 percent feel ‘very knowledgeable’ about the impact of age the claiming on benefit level and fully 36 percent claimed not to know that their benefit would rise if they delayed claiming.

How Financial Advisers and Providers Educate Clients 73

Similarly, a survey by AARP (Brown, 2012) of individuals aged 52–70 found that many knew that waiting to claim increased monthly benefit amounts, but knowledge of other issues affecting claiming was weak. For instance, only around one-third could correctly identify (within two percentage points) the amount by which benefits increased with delayed claiming. Likewise, only 7 percent could correctly identify the number of working years on which retirement benefits are calculated³⁵, with most believing that benefits were based on the highest earning five or ten years of employment. Similarly, 71 percent of respondents incorrectly believed that a permanent reduction in benefits resulted from the earnings test applied to early retirees who continued to work. In reality, benefits are increased at the full retirement age to compensate for any losses due to the earnings test earlier in retirement.

The importance of financial advice

One of the most effective methods for increasing retiree financial security would be to provide them with financial education and advice to help them make more informed decisions about when to claim Social Security benefits. Two channels are available to both increase Americans' knowledge of Social Security and optimize their Social Security claiming decisions: financial advisers and DC plan providers. Both these channels reach a large segment of Americans, have as a key objective increasing clients' financial security, have a high level of knowledge of financial issues, have access to their clients, and have established a level of trust. There were 334,162 financial advisers in the United States in 2010 (Cerulli Quantitative Update: Advisor Metrics). A 2008 survey found that 38 percent of Americans had a financial adviser (Mathew Greenwald & Associates, 2008). According to the Bureau of Labor Statistics (2010), 37 percent of all workers participated in a DC plan in 2010. Among the key issues concerning financial advisers are the extent to which they advise their clients on Social Security; the sources of information they rely on concerning Social Security; the quality of the advice they currently provide about Social Security and claiming behavior; their interest in receiving more education and information on this subject; and which organizations they would prefer to get this information from. This information could be used to design programs to improve how the financial adviser community provides education and information to their clients and to help them more effectively guide their clients on when to claim Social Security benefits and, hence, how to increase clients' financial security throughout retirement. Among the key issues for retirement plan providers is their degree of interest in educating plan participants

74 The Market for Retirement Financial Advice

on Social Security, and what types of programs would be most effective in allowing them to help participants make informed decisions about when to claim benefits. To gain insight on the role financial advisers play in educating Americans about Social Security and what might be done to increase the capability of advisers to increase the effectiveness of claiming decisions, Greenwald et al. (2011) surveyed 406 financial advisers about Social Security and their role in advising clients on claiming strategies. Among the areas covered were advisers' knowledge of what the SSA provides; their roles in providing information and advice on Social Security to their clients; the prevalence of discussions with clients about Social Security; strategies on claiming Social Security; how they frame the issue; and evaluation and use of information about Social Security.

The survey was conducted online by Mathew Greenwald & Associates. Advisers were first selected at random from a list provided by Financial Media Group (FMG), which maintains the industry's most comprehensive database of licensed life insurance professionals and FINRA- and SEC-licensed professionals in the United States. The advisers surveyed work for a variety of organizations, including national investment companies and 'wirehouses' (such as Merrill Lynch), regional firms (such as LPL), independently owned firms and local firms, banks, and insurance companies.

To qualify for the survey, financial advisers had to have at least three years of experience, \$50,000 of annual personal income from their work as advisers, 40 percent of their clients had to be at least age 55, and they had to regularly provide clients with advice on saving for retirement and managing money in retirement. These criteria were checked in the phone interview: if advisers qualified, they were asked to answer a questionnaire online and received a link to the questionnaire. Data collection took place from March to May 2011.

To obtain greater understanding of the role played by retirement plan providers, Schneider and Greenwald conducted eighteen in-depth interviews: sixteen with executives of leading plan providers, and two with executives in associated businesses. Results of these in-depth interviews and more detail on methodology are presented below, following a discussion of the survey of financial advisers.

Key results: survey of financial advisers

Our analysis confirms that financial advisers consider addressing the issue of Social Security with their clients to be a central and important task. Around nine in ten (88 percent) of advisers believed that it was incumbent on them to educate their clients about how Social Security fit into their

How Financial Advisers and Providers Educate Clients 75

TABLE 4.1 Financial advisers' role in advising clients on Social Security (%)

To what extent do you agree or disagree with the following statement?	Total (n = 406)	Wirehouse (n = 90)	Regional broker/ dealer (n = 91)	Bank representatives (n = 44)	Life insurance agents (n = 91)	Independent financial advisers (n = 90)
<i>Financial advisers should help their clients make informed decisions about their Social Security benefits</i>						
Strongly agree (5)	55	51	57	45	53	63
4	33	38	33	34	31	30
3	10	9	9	14	13	6
2	2	2	1	7	3	1
Strongly disagree (1)	–	–	–	–	–	–
<i>Advising my clients on when to claim Social Security benefits or how Social Security works is not an important part of my practice</i>						
Strongly agree (5)	6	3	5	5	8	8
4	12	12	12	11	12	10
3	20	17	14	25	29	20
2	34	37	37	36	33	29
Strongly disagree (1)	28	31	31	23	19	33

Source: Greenwald et al. (2011).

retirement finances. Independent financial advisers (93 percent) were particularly aware of the responsibility to address Social Security with their clients, especially compared to bank representatives (80 percent). Furthermore, most advisers specifically believed they should help their clients decide when to claim Social Security benefits. Wirehouses and regional broker dealers (68 percent each) were most likely to suggest advising clients about claiming, while life insurance agents (62 percent) were least likely to feel they should do this (see Table 4.1).

Advisers' perceived knowledge of Social Security

Financial advisers felt they were knowledgeable about Social Security and understood several key details about its benefits. Nearly all advisers (93 percent) said they were knowledgeable about how Social Security works, with 22 percent describing themselves as very knowledgeable, and an additional 71 percent saying they were somewhat knowledgeable. Six percent asserted they were not knowledgeable about Social Security, while only 22 percent felt very knowledgeable. Most (71 percent) reported that they were somewhat knowledgeable. Accordingly, while most financial advisers believed they had knowledge of Social Security, most were not expert. Interestingly, life insurance agents (34 percent) were most likely to believe they were very knowledgeable about Social Security.

76 The Market for Retirement Financial Advice

Among all advisers, almost half (44 percent) believed they were very knowledgeable about how retirement benefits rise with age, and only one-quarter (24 percent) stated they were very knowledgeable about how spousal benefits work. The rules of spousal benefits are quite complex so workers are not particularly well informed about this issue. Evidently, there are gaps in advisers' knowledge as well. Most advisers were also under-informed about the Retirement Earnings Test: only one in five (19 percent) felt very knowledgeable about it.

Advisers' role in educating clients

The advisers surveyed strongly believed that helping their clients make decisions about their Social Security benefits was an important part of their role. Moreover, for most clients, Social Security benefits made up a significant portion of their incomes in retirement.

Prevalence of Social Security conversations

Three-quarters of advisers (76 percent) discussed Social Security with most of their clients, including the 41 percent who raised this subject with virtually all of their clients (90–100 percent). In around half the cases, the advisers tended to bring up Social Security, but many times it was the client who brought up the topic. Advisers generally raised the issue of Social Security to clients around a median age of 55. When clients raised the issue, the discussion started later, at a median age of 60.

A frequently discussed topic concerning Social Security was system solvency. Advisers tended to advise their clients that they should count on getting at least some of their scheduled benefits, while only one-third told their clients to count on receiving all of their scheduled benefits. For context, under current law, Social Security is projected to pay scheduled benefits until around 2037, when the program's trust fund is projected to be exhausted. If taxes were not increased thereafter, the program would reduce benefits by approximately 23 percent (SSA, 2011).

More than three out of five advisers (62 percent) talked to most of their clients about strategies for maximizing Social Security benefits. That same proportion (62 percent) said they also addressed the subject of taxation of benefits. Almost that many (57 percent) explained the Retirement Earnings Test to most clients. Fifty-six percent of advisers helped at least three-fifths of their clients estimate their Social Security benefits, but fewer, 46 percent, advised that proportion of clients about how spousal benefits worked.

How Financial Advisers and Providers Educate Clients 77

What do advisers say about claiming?

Three of four financial advisers (75 percent) asserted that they advised clients about claiming Social Security benefits. Independent financial advisers and regional broker dealers were most likely to provide this advice (82 percent each), while bank representatives (67 percent) and life insurance agents (63 percent) were least likely. More specifically, two-thirds (66 percent) advised clients about the best age to claim Social Security benefits: the median age recommended was 66. Four in ten (38 percent) believed most clients claimed too early, half (52 percent) felt clients tended to claim at about the best time, and 3 percent believed delay claiming was preferred. Just 8 percent of financial advisers strongly agreed that their clients made good decisions about when to claim their Social Security benefits and fewer than half (46 percent) believed that clients made good decisions regarding Social Security (see Table 4.2).

Advisers often use, or recommend that their clients obtain, information on Social Security. The source used or recommended most often is the SSA, used or referred by half of advisers (51 percent). Another three in ten (29 percent) used material from their primary company or referred their clients to material from their primary company.

TABLE 4.2 Adviser input on the timing of claiming Social Security benefits (%)

In advising clients about the role of Social Security in their retirement finances, did you . . . ?	Total (n = 402)	Wirehouse (n = 90)	Regional broker/ dealer (n = 91)	Bank repre- sentatives (n = 43)	Life insurance agents (n = 88)	Independent financial advisers (n = 90)
<i>Provide advice on when to claim their Social Security benefits?</i>						
Yes	75	78	82	67	63	82
No	21	19	14	28	35	13
Not sure	3	3	3	5	2	4
<i>With what proportion of clients do you discuss the following specific issue related to Social Security? The best age to claim Social Security benefits</i>						
Virtually all clients (90–100%)	31	32	40	23	26	31
60–89%	35	33	35	35	32	38
40–59%	20	19	14	26	28	18
10–39%	10	10	9	9	11	11
Very few clients (0–9%)	3	6	2	7	2	2

Source: Greenwald et al. (2011).

78 The Market for Retirement Financial Advice

Methods and strategies for deciding when to claim

Almost all advisers believed that a variety of factors should be considered when deciding on an age to claim Social Security benefits. Nine out of ten believed it would be important to take into consideration the availability of guaranteed sources of income (93 percent) along with a client's health. Most thought it was important to consider the level of household assets (90 percent) and desired lifestyles in retirement (91 percent). Six in seven advisers (86 percent) indicated that clients' projected benefit amounts were also an important factor. Eighty-eight percent of advisers suggested it was important to consider whether a client wished to continue working, and four in five placed importance on the spouse's age and health (80 percent rated each as an important consideration). Three in four (76 percent) thought it was important to consider their clients' current tax liability.

Framing the claiming decision

There is strong evidence that the way a decision is described has a meaningful impact on what people decide (Brown et al., 2011). Due to this 'framing impact,' respondents were asked which of three concepts best described their perspectives on potential client decisions to delay claiming: (a) as a gamble, (b) as a way of buying insurance, or (c) as a way to save money. The concept of saving was chosen most often, by two in five (41 percent). However, almost as many, 38 percent, stated that the best way to frame the decision when to claim is like a gamble. There is strong evidence that this type of framing encourages people to claim early, which is often sub-optimal (see Table 4.3).

One approach to determine when Social Security benefits should be claimed uses a 'Break-Even Analysis,' which asks how long it will take for higher benefits earned by delaying claiming to offset benefits that would have been earned by claiming earlier. Indeed, the Break-Even Analysis prompts earlier claiming benefits as noted by Brown et al. (2011). This impact is ascribed to loss aversion: when people learn they will be better off if they live beyond the 'break-even point' but worse off if they die prior to the 'break-even point,' they become concerned about the possibility of loss. Over half of advisers (55 percent) considered 'Break-Even Analysis' to be an excellent or very good way to help clients determine when they should claim their Social Security benefits, and 56 percent of advisers used 'Break-Even Analysis' with at least half their clients. The research conducted by Brown et al. suggests that this approach could lead clients of financial

How Financial Advisers and Providers Educate Clients 79

TABLE 4.3 Adviser framing of the decision of when to claim Social Security benefits (%)

Which one of the following do you think is the best way of describing the decision to delay claiming to clients?	Total (n = 406)	Wirehouse (n = 90)	Regional broker/ dealer (n = 91)	Bank representatives (n = 44)	Life insurance agents (n = 91)	Independent financial advisers (n = 90)
<i>The decision to delay claiming is like saving money. You give up income today in order to receive a larger monthly income later in life</i>	41	39	40	41	35	49
<i>The decision to delay claiming is a gamble. If you live longer than your life expectancy, you will 'win' the gamble and get more in Social Security benefits</i>	38	37	41	41	40	34
<i>The decision to delay claiming is like buying insurance, because delaying will yield a higher monthly income guaranteed for life. This provides greater protection against running out of money in old age</i>	21	24	20	18	25	17

Source: Greenwald et al. (2011).

advisers to claim earlier, even though advisers themselves believe that clients often claimed too early (see Table 4.4).

Advisers in our survey were also asked to consider five hypothetical scenarios of 62-year-olds and select one of three strategies they would be most likely to suggest in each situation. The strategies offered as options were: (a) people should claim Social Security retirement benefits as soon as they can, at age 62, even if they keep working; (b) people should claim Social Security benefits when they stop working full-time at some point after age 62; and (c) people should delay claiming Social Security benefits as long as they can, regardless of when they stop working. In each scenario, the hypothetical 62-year-old had financial assets of at least \$700,000, an amount that clearly provides enough liquidity to delay claiming Social Security benefits for at least a short period of time.

On the basis of the strategies recommended in these hypothetical situations, the client's health appears to be a leading driver in the approach advisers take to determining optimal Social Security claiming ages (Table 4.5). For example, in one case where the hypothetical client's health was excellent, 60 percent of advisers prefer the third strategy (delay as long as possible). But when shown a similar hypothetical client in poor health, six in ten (60 percent) suggested the first approach (claim

80 The Market for Retirement Financial Advice

TABLE 4.4 Adviser evaluation of Break-Even Analysis (%)

How would you rate the Break-Even Analysis as a way to help clients determine when they should claim their Social Security benefits?	Total (n = 406)	Wirehouse (n = 90)	Regional broker/ dealer (n = 91)	Bank represen- tatives (n = 44)	Life insurance agents (n = 91)	Independent financial advisers (n = 90)
Excellent	14	18	18	9	8	16
Very good	41	43	42	34	48	32
Good	34	31	30	45	32	38
Fair	9	7	5	9	10	14
Poor	2	1	5	2	2	–

Source: Greenwald et al. (2011).

as soon as you can). A second factor influencing adviser recommendations for claiming is the client's desired retirement age. For instance, where the hypothetical client was in average or excellent health but stated he wished to stop working at age 62 or 'as soon as possible,' far fewer advisers suggested delaying claiming for as long as possible (20 and 19 percent, respectively) and the largest number recommended the second strategy (stopping work and claiming at the same time). By comparison, in a scenario with a comparable client in average health who indicated that he planned to work until age 66, half of advisers (49 percent) suggested he delay as long as possible, while 44 percent recommended that he retire and claim Social Security benefits at the same time. Taken together, client's health and desires to continue working have a clear impact on what advisers suggest their clients do with regards to claiming Social Security retirement benefits.

Two other aspects of these findings are noteworthy. First, in only one case of the five did a majority of advisers suggest delaying claiming as long as possible, even though in each case the couple or individual had at least \$700,000 of assets, which would appear to give them the ability to delay claiming. This includes the example of the woman in excellent health who was very likely to have a much higher expected present value of benefits by delaying claiming past age 62.

Second, it is clear that many financial experts considered at least two, and probably more, of these recommendations to be sub-optimal. In the case of the man in average health earning more than his wife and intending to retire at age 62 with assets of at least \$800,000, it would clearly be advantageous to the wife if the husband delayed claiming; nevertheless, only 32

How Financial Advisers and Providers Educate Clients 81

TABLE 4.5 Adviser recommendations on when to claim benefits in different scenarios (%)

If the following type of person came to you at age 62 seeking advice about when to claim Social Security benefits, which strategy are you most likely to suggest?	Total (n = 406)	Wirehouse (n = 90)	Regional broker/dealer (n = 91)	Bank representatives (n = 44)	Life insurance agents (n = 91)	Independent financial advisers (n = 90)
<i>A woman in poor health, earning \$100,000 a year, with a retired husband who gets \$2,000 a month from Social Security, and has investable assets of \$700,000</i>						
Strategy 1	60	53	60	66	62	60
Strategy 2	34	38	35	30	33	31
Strategy 3	7	9	4	5	5	9
<i>A man who is in average health, earning \$50,000 a year, with a wife earning \$40,000 a year, who plans on working until age 62, and has investable assets of \$800,000</i>						
Strategy 1	32	32	33	36	34	27
Strategy 2	48	47	49	52	46	46
Strategy 3	20	21	18	11	20	28
<i>An unmarried woman in excellent health, earning \$80,000 a year, who hopes to retire as soon as possible, and has investable assets of \$700,000</i>						
Strategy 1	28	27	23	45	32	23
Strategy 2	52	56	54	36	49	58
Strategy 3	19	18	23	18	19	19
<i>A woman who is in average health, earning \$75,000 a year, with a husband earning \$60,000 a year, who plans to work until age 66, and has investable assets of \$700,000</i>						
Strategy 1	8	9	4	14	7	8
Strategy 2	44	43	47	45	46	38
Strategy 3	49	48	48	41	47	54
<i>A man who is in excellent health, earning \$75,000 a year, with a wife earning \$60,000 a year, who plans to work until age 66, and has investable assets of \$700,000</i>						
Strategy 1	6	10	2	14	5	4
Strategy 2	33	31	42	32	31	31
Strategy 3	60	59	56	55	64	64

Notes: Strategy 1 = Claim as soon as you can; Strategy 2 = Claim when you stop working; Strategy 3 = Delay as long as you can.

Source: Greenwald et al. (2011).

82 The Market for Retirement Financial Advice

percent suggested the husband should claim at age 62 and only 20 percent suggested that the man delay as long as possible. Claiming at 62 would result in a significantly lower survivor benefit for the widow later in life.

Conversely, experts would tend to recommend that a single woman in excellent health delay claiming for as long as she can: this would provide her the greatest protection against longevity risk. In the example given, she had \$700,000, was aged 62, and planned to retire ‘as soon as possible.’ However, 49 percent of the advisers suggested that she delay claiming. In other words, many advisers do not display an understanding of how spousal benefits work. This includes the value of the increase in inflation-adjusted lifetime income gained by each month of delay in claiming benefits, and continuing beyond the covered worker’s life to a spouse that has a lower benefit on her own.

Financial advisers’ use of information

Financial advisers are often critical of the material on Social Security provided to them and their clients: only 26 percent feel that the material their primary company provides for their clients is useful. Moreover, only 13 percent agree with the statement that ‘[t]he Social Security Administration does a good job educating financial professionals about how Social Security works.’ Fifty-one percent disagree with the statement.

Although two in three advisers (65 percent) have visited the basic Social Security website, there is low awareness that Social Security has a website especially for financial planners. Two in five who visited the website rated it excellent or good, but 13 percent felt it was fair or poor. Younger financial advisers—under age 40 (74 percent)—were more likely to visit the SSA site than older advisers, but they were less likely to have a positive opinion of it.

Although financial advisers often used or referred clients to SSA sources, they tended not to give the Social Security website a high rating as a source of information. One in three rated the website excellent or very good (34 percent), while one in five (21 percent) rated it fair or poor.

Two of the most common reasons advisers visit the official Social Security website are to gather general information (28 percent) and to find information on benefits (26 percent). Seventeen percent went to the website for an estimate of benefits or to research spousal benefits, while 10 percent have used the website to check on a specific issue or do research for their clients. Fewer than one in ten reported having accessed the website to stay up-to-date on changes (7 percent), get contact or administrative information (6 percent), research disability or Medicare coverage (5 percent), or to research tax information (3 percent).

Retirement plan provider perspectives

To obtain insights on retirement plan provider views on educating participants about Social Security and how to optimize the use of Social Security benefits, we also conducted in-depth interviews with executives in the nation's leading DC plan provider companies and executives in related companies. Companies were identified from a list of leading DC plan companies, and contacts were recruited using referrals and snowball sampling techniques. In total, eighteen in-depth interviews were conducted, including sixteen with representatives from the nation's largest DC plan providers (by assets under management), and two with industry experts in organizations associated with DC providers (a plan record keeper and an investment advice service provider). Respondents were high-level executives, directors, and managers, many of whom had direct oversight of their company DC plan operations or were responsible for overseeing the content and delivery of educational materials. On average, the telephone interviews lasted about 30 minutes. All but one interview were conducted by Lisa Schneider, a Director of Research at Mathew Greenwald & Associates. The interviews took place between July and September 2011 (Greenwald and Schneider 2011).

Educating on saving

DC retirement plan providers defined their roles as including: (a) encouraging plan participation and boosting contributions at high levels; (b) educating employees about the importance of saving for retirement overall; and (c) helping employees understand the benefits of using tax-advantaged DC plans for retirement savings. Plan providers encourage plan participants to set savings goals and provide information about how much participants need for a financially secure retirement.

All of the plan providers made a variety of tools available to participants, including online calculators and/or worksheets, to help participants make judgments about how much they needed to accumulate by their target retirement dates. The calculators also tended to include Social Security benefits as a factor to be considered in calculating retirement saving needs. Often the calculators allowed participants to enter their own age for claiming benefits, and often participants were advised to go the Social Security website to obtain information about estimated benefit amounts. Nevertheless, in interviews with plan providers, we heard comments of the following sort: 'We frequently reference ssa.gov in our material for more information, but it is extremely difficult to navigate'; and 'We need to help individuals understand the holistic picture. With Social Security being a

84 The Market for Retirement Financial Advice

component of that, anything that can be done to help individuals understand the need to aggregate their sources of income in retirement to get that complete picture and view of it is incredibly powerful.'

All reported having website content on the topic, including articles, content in seminars, and links to the Social Security website. Some providers arranged for representatives from the SSA to participate in webinars and seminars. The input provided by these SSA representatives was considered of high value. Despite all of these educational efforts, most of the plan providers believed that participants still did not have a good understanding of the way the Social Security benefit structure works, what level of benefits they can expect, and how to evaluate the most effective time to claim benefits.

The plan providers who were interviewed offered several suggestions for how they and the SSA should work together. These included the following.

Social Security Optimizer

One respondent asked for an online 'Social Security Optimizer' to help plan representatives work with participants as they figure out the best age for them to claim their Social Security retirement benefits. This material would be given to advisers and plan participant representatives who interact with and educate plan participants. Some participants believe that a publicly available web planner provided by Social Security would likely be accurate due to SSA's access to demographic data and its actuarial and economic expertise.

More effective material

Some plan providers suggested they could help the SSA create more user-friendly content and improve the presentation of the valuable information currently offered online. For instance, they recommended the completion of a Frequently Asked Questions list, and a set of strategies for claiming Social Security, including some for married couples.

Plan providers would like to integrate data with SSA information. This, for example, would permit plan providers to show participants their estimated Social Security retirement benefits (and even spousal benefits), and help provide participants with a much better integrated understanding of how much income they can expect in retirement.

Training of representatives

Several plan providers suggested that the SSA could develop a capacity to train plan provider representatives about Social Security. For instance, it was mentioned that plan representatives and other financial professionals

How Financial Advisers and Providers Educate Clients 85

could become ‘certified’ Social Security experts, especially if that training could be counted toward Continuing Education (CE).

Conclusion

When to claim Social Security retirement benefits is one of the most important, yet least examined, financial decisions that older workers must make. Unmarried individuals must consider how their claiming age affects the balance between present and future benefits, as well as the need to ensure adequate income in old age. Married individuals face additional and even more complex choices including interactions between Social Security retirement, spousal, and survivor benefit formulas. Few individuals are well equipped to analyze these decisions on their own.

Yet until this study, little was known about the specific advice that financial advisers proffer, the criteria advisers use in forming this advice, and how the advice matches up with academic research regarding Social Security and retirement. Put simply, we knew little about what financial advisers say, why they say it, or whether it is likely to be correct. Our survey of over 400 financial advisers gathered information on advisers’ own views of their knowledge levels regarding Social Security claiming decisions, the principal sources they relied on to buttress their knowledge, their views regarding educational resources available through the SSA, and the financial services companies they work with.

We found that most financial advisers regard themselves as at least somewhat knowledgeable regarding the Social Security program, and many take a role in educating their clients regarding Social Security. Yet much of the adviser–client discussion has focused on Social Security’s solvency, an issue that is often in the news but which, in our view, has relatively little practical impact on workers nearing retirement today. Moreover, advisers often frame claiming decisions in terms such as ‘break even ages’ and ‘gamble’ that may inadvertently encourage individuals to claim earlier. This approach ignores the insurance value of a higher Social Security benefit, which protects the individual from the risk of running out of money in old age.

Financial advisers report speaking with their clients regarding practical issues such as how the timing of retirement affects monthly and lifetime benefit amounts. Spousal and survivor benefits are less frequently addressed, and some advisers fail to take a spouse’s health and age into consideration when determining a client’s optimal claiming age. It appears many advisers still approach Social Security claiming as an individual decision rather than a household decision. But clients would be better served if a household approach was utilized.

86 The Market for Retirement Financial Advice

Social Security benefit rules are far more complex than most Americans realize, and it is only in recent years that financial planners and other analysts have begun devising claiming strategies that exploit these rules to the fullest. While to date only a small fraction of claimants has exploited these strategies, the response to the ‘Free Loan’ strategy was sufficiently large that the SSA was prompted to limit its application. This hints that greater use of claiming strategies is likely to be seen in the future.

Financial advisers reported that they utilize the SSA’s website and publications as a tool in assisting their clients. Over half of financial advisers called the SSA a major source of information about Social Security and nine out of ten advisers pointed their clients toward SSA as an additional source of information. Ninety-one percent of advisers said they discussed the Social Security Statement with their clients, and 78 percent review clients’ statements themselves.

Yet financial advisers also believed that the SSA could do a better job of providing financial advice. Only 13 percent of advisers offered positive ratings on SSA’s material for educating financial advisers and only 24 percent agreed that the SSA does a good job of educating the public. Only one-third of advisers were aware that the SSA has a webpage designed especially for financial professionals. Given the new educational material Social Security has produced, outreach to financial advisers could generate greater awareness of resources available both to financial advisers and their clients.

Greater outreach by SSA is especially important given that recent field experiments have shown that modest, low-cost provision of additional information on Social Security could have significant effects on benefit claiming and labor force participation decisions (Liebman et al., 2011). Financial advisers suggested a number of ways in which the SSA could better interact with the financial planning community. Among potential steps for SSA are: greater outreach to notify planners of SSA source materials that could be useful to them; integration of the online Social Security Statement into financial planners’ software used to estimate total retirement income needs; and review and enhancement of SSA’s existing web and print materials in consultation with financial advisers.

All of these steps could potentially increase knowledge of Social Security claiming issues among financial planners and improve the claiming decisions of their clients, at relatively little cost to SSA or the taxpayer.

Our interviews with plan providers indicated an interest in assistance from the SSA to help these plan providers extend more effective retirement planning education and guidance to their participants. While there are surely obstacles to the provision of this assistance, some consideration should be given to how the SSA can use this channel to help workers make more informed decisions about their Social Security benefits.

How Financial Advisers and Providers Educate Clients 87**References**

- Aaron, H. J., and J. M. Callan (2011). 'Who Retires Early?' Center for Retirement Research Working Paper No. 2011–10. Chestnut Hill, MA: Center for Retirement Research, Boston College.
- Brown, J. R., A. Kapteyn, and O. S. Mitchell (2011). 'Framing Effects and Expected Social Security Claiming Behavior,' RAND Working Paper No. WR-854. Santa Monica, CA: RAND.
- Brown, S. K. (2012). 'The Impact of Claiming Age on Monthly Social Security Retirement Benefits: How Knowledgeable Are Future Beneficiaries?' AARP Report. Washington, DC: AARP.
- Bureau of Labor Statistics (BLS) (2010). *National Compensation Survey*. Washington, DC: BLS.
- Cerulli Associates (2010). *Cerulli Quantitative Update: Advisor Metrics 2010*. Boston, MA: Cerulli Associates. http://clients.cerulli.com/Files/pdf/2010-Cerulli_Quant_Update-Advisor_Metrics_Info-Packet.pdf
- Coile, C., P. Diamond, J. Gruber, and A. Jousten (2002). 'Delays in Claiming Social Security Benefits,' *Journal of Public Economics*, 84(3): 357–85.
- Employee Benefit Research Institute (2010). 'Estimates Based on U.S. Census Bureau 2011 Current Population Survey.' Personal communication to the authors from Craig Copeland, EBRI.
- Greenwald, M., and L. Schneider (2011). 'How to Improve Social Security Education: Retirement Plan Providers' Perspectives,' RAND Working Paper No. WR-898-SSA. Santa Monica, CA: RAND.
- A. Kapteyn, O. S. Mitchell, and L. Schneider (2010). 'What Do People Know About Social Security?' RAND Working Paper No. WR-792-SSA. Santa Monica, CA: RAND.
- A. Biggs, and L. Schneider (2011). 'Financial Advisors' Role in Influencing Social Security Claiming,' RAND Working Paper No. WR-894-SSA. Santa Monica, CA: RAND.
- Liebman, J. B., and E. F. P. Luttmer (2011). 'Would People Behave Differently If They Better Understood Social Security? Evidence from a Field Experiment,' NBER Working Paper No. 17287. Cambridge, MA: National Bureau of Economic Research.
- Mathew Greenwald & Associates (2008). *2008 MoneyTrack Survey of Consumers*. Washington, DC: Mathew Greenwald & Associates, Inc.
- Munnell, A. H., S. A. Sass, A. Golub-Sass, and N. Karamcheva (2009). 'Unusual Social Security Claiming Strategies: Costs and Distributional Effects,' Center for Retirement Research Working Paper No. 2009–17. Chestnut Hill, MA: Center for Retirement Research, Boston College.
- Sass, S. A. (2012). 'Should You Buy an Annuity from Social Security?' Center for Retirement Research Working Paper No. 2012–10. Chestnut Hill, MA: Center for Retirement Research, Boston College, pp. 12–60.
- W. Sun, and A. Webb (2007). 'When Should Married Men Claim Social Security Benefits?' Center for Retirement Research Working Paper No. 2008-04. Chestnut Hill, MA: Center for Retirement Research, Boston College, pp. 8.1–8.8.

88 The Market for Retirement Financial Advice

Shuart, A. N., D. A. Weaver, and K. Whitman (2010). 'Widowed Before Retirement: Social Security Benefit Claiming Strategies,' *Journal of Financial Planning*, 23(4): 45–53 April.

Social Security Administration (SSA) (2011). *Trustees Summary of the 2011 Social Security and Medicare Trustees Reports*. Washington, DC: Social Security Administration. <http://www.ssa.gov/OACT/TRSUM/tr11summary.pdf>

Tacchino, K. B., D. Littell, and B. D. Schobel (2012). 'A Decision Framework for Optimizing the Social Security Claiming Age,' *Benefits Quarterly*, Second Quarter 2012: 48.