

what the public really wants

on Retirement and Social Security

by ruy teixeira

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The economy has not delivered strong wage growth or adequate savings opportunities in recent years for average Americans, resulting in widespread economic anxiety and insecurity. Not surprisingly, then, one particular area of anxiety is retirement. Polling data consistently show that not having enough money for retirement is at the top of Americans' economic concerns.

Unfortunately, little has been done in recent years to address Americans' insecurities about retirement. Indeed, the only move ostensibly directed at those insecurities—Bush's 2005 plan to partially privatize Social Security—failed miserably because the public perceived, quite rightly, that such a move would actually exacerbate, not resolve, their retirement woes.

But the public remains receptive to measures that would actually increase their retirement security. In fact, the data show that Americans understand quite clearly what should and should not be done to secure their retirement savings. Hopefully, in 2008 and beyond, politicians will start introducing measures that could accomplish that goal.

Americans' Views on Retirement Security

Financial worries about retirement are at the top of Americans' economic concerns. In a January 2006 Pew Research Center poll, 71 percent were very or somewhat concerned about not having enough money for retirement, slightly higher than the number concerned about being able to afford necessary health care for family members (68 percent), and much higher than the number concerned about losing their job or getting a pay cut (44 percent).

Similarly, in an April 2007 Gallup poll, 56 percent said they are very or moderately worried about not having enough money for retirement, more than any other economic

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worry Gallup tested, including covering unexpected medical costs, maintaining one's current standard of living, and paying rent, mortgage, and other housing costs. Even a majority of those in upper-middle income or wealthy households (\$75,000 or more) said they were worried about their retirement income.

Most recently, in a September 2007, Gallup poll, respondents were asked this open-ended question: "Thinking further ahead into the future, what, if anything, worries you most about your personal financial situation in the long term?" Once again, Americans were more likely to cite retirement savings/income as a long-term financial worry than any other economic concern.

Financial Worries About Retirement

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Gallup Poll- April 2007

The April, 2007 Gallup poll also indicated that only around half (53 percent) of non-retirees expect to have enough money to live comfortably in their retirement. That's down from 59 percent in polls conducted in 2002, 2003, and 2004.

As these public worries mount, driven partly by the fact that fewer and fewer employers offer pension plans with specific benefits (known as defined-benefit plans) that workers can count on, Americans' reliance on private retirement

savings has only increased.

In the April 2007 Gallup poll, 52 percent of non-retirees pointed to their 401(k) defined-contribution plans, Individual Retirement Accounts, Keogh plans for the self-employed, or other retirement savings accounts as a major source of income in their retirement. That compares to 31 percent who cited a traditional defined-benefit company pension plan as a major source of retirement income, 30 percent who believed the equity built up in their home would be a major source, 27 percent who mentioned Social Security, 24 percent who mentioned individual stock or stock mutual fund investments, 23 percent who cited other savings (such as a regular savings account or CDs), and 21 percent who mentioned part-time work.

But that reliance on private savings is not matched by "money in the bank." In the 2007 Retirement Confidence Survey conducted by the Employee Benefit Research Institute, almost half of current workers (48 percent) report having less than \$25,000 in household savings and investments (excluding the value of their home or any defined-benefit plan).

Another 10 percent report having savings of between \$25,000 and \$50,000, meaning that a solid 58 percent majority of working Americans have under \$50,000 in savings to support their retirement. Add in those with \$50,000 to \$100,000 in savings (13 percent) and you get an overwhelming majority of American workers (71 percent) who have less than \$100,000 in savings.

Even among those nearing retirement—55 years of age and older—a majority (51 percent) still report savings below that level. And a sizeable minority (40 percent) report savings below \$50,000. Considering that most Americans (58 percent) estimate the amount of savings they need for retirement at well over \$250,000—a figure far beyond what most

Americans actually have—there is clearly a huge mismatch between actual and needed retirement savings.

Savings and Investments of Current Workers

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2007 Retirement Confidence Survey

Americans' Views on Social Security

Amid all this insecurity about retirement, there is one program that has remained steady over the years, provides a guaranteed benefit, and is universally available: Social Security. It is also the program that Bush famously tried to “fix” in 2005 through a partial privatization scheme that would have reduced the guaranteed benefit and allowed workers to invest part of their payroll taxes for Social Security in the stock market.

By definition the president’s privatization scheme would have increased risk for workers at the very time they were seeking more security in their retirement finances. Not

surprisingly, that turned out to be a very difficult sale to the public.

Indeed, the more Bush talked about his plan, the more unpopular it became. Data collected over the course of Bush’s campaign to pass his Social Security plan tell the story and, in the process, sketch the basic contours of Americans’ views on Social Security.

First, consider these data from February 2005 surveys conducted near the beginning of Bush's Social Security campaign for *The Washington Post*, the Kaiser Family Foundation, and Harvard University. Only about a quarter (27 percent) of respondents said that Social Security is in a crisis, 46 percent said that Social Security has major problems but is not in a crisis, and the rest said that the program has minor problems or no problems. Note that the "crisis" figure in this question was actually substantially lower than it was in the late 1990s, when it reached as high as 36 percent. Thus, the endless discussion in the press, eagerly promoted by the Bush administration, about Social Security's imminent bankruptcy apparently failed to panic the public.

Major Sources of Financial Support in Retirement

52 percent list 401(k) defined contribution plans, Individual Retirement Accounts, and Keogh plans for the self-employed as their major source for retirement savings

31 percent cited company pension plans that pay guaranteed retirement benefits.

30 percent believed the equity built up in their home would be a major source.

27 percent mentioned social security.

Gallup Poll- April 2007

The public only supported two ways of fixing Social Security's future financial problems. The survey found majority support for alternate wordings about benefit cuts for the wealthy: "reducing the rate of growth in benefits for wealthy retirees only" (60 percent), and "cutting guaranteed benefits for wealthy retirees only" (54 percent).

But that's not what Bush proposed to do. He proposed to cut everybody's benefits, which got quite a different reception. "Reducing the rate of growth in benefits for future retirees" received only 30-percent support from those surveyed, and "cutting guaranteed benefits for future retirees" received just 13 percent support.

No matter whether the accounts in the president's plan were referred to as "private" or "personal," they got about the same middling level of support in the abstract (that is, without any mention of tradeoffs or costs). But that 54 percent-to-57 percent majority support dropped to a dead-even 46 percent-to-46 percent split once Bush's name was associated with the plan, and dropped much further when some of the plan's tradeoffs and costs were mentioned.

This drop can be seen in two ways. First, follow-up queries to the general question of support for private/personal accounts showed sharp drops in support for these accounts when costs/tradeoffs were mentioned. Specifically, support dropped to 34 percent when it was pointed out that those who open accounts but make poor investment decisions would wind up with lower benefits than under the current system. Support dropped to 29 percent if respondents were told that the inclusion of private/personal accounts in the plan would not by itself solve Social Security's financial problems; and dropped to 22 percent if told the government would have to borrow \$700 billion or more to set up these accounts.

Second, a question that mentioned both the stock market option for Social Security contributions and changes in guaranteed benefits yielded majority opposition. People were opposed, by 52 percent to 43 percent, if the change in guaranteed benefits was referred to as "reducing the rate of growth in benefits," and were opposed by an overwhelming 66 percent to 30 percent if the change in benefits was simply referred to as "cutting guaranteed benefits."

Finally, just 9 percent believed that creating private/personal accounts would, by itself, solve Social Security's financial problems. And slightly more people believed young people would wind up with less money under a personal accounts system (35 percent) than believed they would wind up with more money if these accounts were available (33 percent). Another 24 percent believed that young people would do about the same under a personal-accounts system as under the current system. That meant there was a 59 percent-to-35 percent majority against the idea young people would gain with a personal accounts system.

And here are data from a June, 2005 CBS/New York Times survey conducted at the end of Bush's Social Security campaign. By that time, Bush's approval rating on Social Security was down to a shockingly low 25 percent, with 62 percent disapproval (20 percent vs. 65 percent among independents). Even among Republicans, he could only muster a 52 percent approval rating on this issue. And the public overwhelmingly said it was uneasy (66 percent), rather than confident (27 percent), about Bush's ability to make the right decisions concerning Social Security.

Bush's Social Security Campaign

By more than **three to one (45 percent to 13 percent)**, people said the more they heard about the Bush administration's Social Security proposals the less they liked them.

By a **61 percent-to-30 percent margin**, the public believed Bush's changes to Social Security would make people worse off, not better off.

June 2005 CBS/New York Times survey

By more than three to one (45 percent to 13 percent), people said the more they heard about the Bush administration's Social Security proposals, the less they liked them. Another 37 percent said hearing more about the proposals hadn't changed their original opinion.

Two versions of Bush's proposal polled in the 2005 CBS/New York Times survey (neither of which mentioned Bush's name because that tended to further depress support) were rejected as bad ideas. The first version, which simply mentioned investing part of Social Security taxes to boost retirement savings but with exposure to more risk, was rejected by a 51 percent-to-45 percent margin. The second version, which added language about "a small number of authorized investment funds," was rejected even more soundly, 56 percent to 35 percent.

When the CBS/New York Times survey posited a cut in guaranteed benefits or large government borrowing to establish the new program, support fell even more sharply. Those favoring these two approaches fell to anemic levels of 22 percent and 12 percent, respectively.

People basically didn't believe Bush's proposal would do them or the country much good. In fact, they were much more likely to believe it would be harmful. Just 25 percent believed his proposal would improve the financial situation of the Social Security system, compared to 36 percent who believed it would make that situation worse. And by an overwhelming 61 percent-to-30 percent margin, the public believed Bush's changes to Social Security would make people worse off, not better off. That included a 54 percent-to-35 percent margin even among those who believed his changes will mostly affect young people.

People were also skeptical that most Americans would make profits from investing a portion of their Social Security payroll taxes. Just 18 percent expected this to happen compared with 46 percent who expected most Americans to suffer losses. And to the extent anyone would benefit from Bush's changes, people strongly believed high-income

people (56 percent), rather than middle-income people (21 percent) would be the primary beneficiaries.

Nor did throwing Bush's progressive indexing-of-benefits idea into the mix change opinions much. This idea—having future Social Security benefits grow more slowly for those making \$20,000 or more than they do now—was decisively rejected by a 61 percent to 31 percent margin.

Moving Forward

Of course, none of this is to say that the public doesn't see the need for change. For example, polls consistently show that the public doubts Social Security will have the money available to provide them with the benefits they expect in their retirement. In the 2005 CBS/NYT poll, 51 percent doubted this, compared with just 31 percent who thought they would get the benefits they expected. But the public clearly does not want

this problem addressed by privatization schemes that inject more individual risk into the system.

Tax-free Retirement Savings

82 percent of voters said they supported tax-free retirement savings options separate from Social Security as a way of strengthening the system—higher than for any other idea proposed.

January 2005 Hart Research poll.

They also do not want the retirement age raised in order to stabilize Social Security by delaying the payment of benefits. In the same poll, the public was asked: "If it were necessary to keep the Social Security program paying benefits as it does now, would you favor or oppose raising the age at which a person can retire and receive full Social Security benefits?" This proposal was soundly rejected by a 67 percent-to-30 percent

margin.

But a proposal to raise the cap on income subject to Social Security taxation received support that was almost as lopsided. The public was asked: "Currently, people pay Social Security taxes only on the first \$90,000 of their annual income [that threshold now stands at \$97,500]. If it were necessary to keep the Social Security program paying benefits as it does now, would you favor or oppose increasing the amount of income that is subject to Social Security taxes?" This query elicited 63 percent support compared to 30 percent opposition.

More broadly, Americans are looking for options that supplement rather than replace Social Security to enhance their retirement security. In a January 2005 Hart Research poll,

82 percent of voters said they supported tax-free retirement savings options separate from Social Security as a way of strengthening the system. This percentage of support was higher than for any other idea on reforming the system presented to respondents in the poll.

This suggests that proposals for a universal 401(k) pension plan, which has been advocated by the Center for American Progress, The Century Foundation, and other progressive organizations, would meet a very friendly reception among the nation's voters. Under such a plan, all Americans would have access to a 401(k) plan that was completely portable and not tied to any job. These plans also typically provide some matching contributions from the government for low-income savers.

The privatization of Social Security was decisively rejected by the public once they understood what such a scheme entailed. Yet the public intuitively understands the benefits and strengths of pension plans that supplement Social Security. Perhaps the time has come to introduce universal 401(k) plans to the American public.