

Improving Financial Literacy and Capability: What Works?

The George Washington University School of Business, June 21, 2012



How Financial Advisors Influence Social Security Claiming

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A joint center of the RAND Corporation, Dartmouth College,

Financial advisors have extensive reach and influence

- 334,162 financial advisors in U.S. (2009)¹
- 38% of Americans have a financial advisor (2008)²
- Most financial advisors provide advice and education about Social Security and when to claim benefits
- Key questions: how well do they do and how can their effectiveness be enhanced?

¹Cerrulli Quantitative Update: Advisor Metrics 2010 (http://clients.cerulli.com/Files/pdf/2010-Cerulli_Quant_Update-Advisor_Metrics_Info-Packet.pdf)

²2008 *MoneyTrack* Survey of Consumers by Mathew Greenwald & Associates (www.greenwaldresearch.com)

Older population very reliant on Social Security, yet tend to claim sub-optimally

- Social Security accounts for over half of income of older population¹
- Half of older women receive 75% or more of income from Social Security²
- Three-fifths of women age 75 and over are widowed³
- Sixty-nine percent of workers claim prior to age 65⁴
- Delayed claiming is “best deal in town”
- More effective claiming strategies one of most effective methods for enhancing financial security of older

Americans

¹ Social Security Administration, Income of the Population 55 or Older, 2008 SSA Publication No. 13-11871, Released March 2012, p. 235.

² EBRI estimates from the March 2010 Current Population Survey.

³ Aaron, H.J and M.J. Callan (2011). ‘Who Retires Early,’ Center for Retirement Research, Boston College, Working Paper 2011-10, May 2011, Table 2.

⁴ “Should You Buy an Annuity from Social Security,” Steven Sass, Center for Retirement Research, Boston College, May 2012, No. 12-10, p. 4.

Methodology

- Online survey of 406 financial advisors
 - Selected at random from list provided by Financial Media Group
 - Advisors have:
 - ✦ At least three years of experience
 - ✦ At least \$50,000 of annual income
 - ✦ At least 40% of clients ages 55 and above
 - ✦ Regularly provide advice on retirement
 - ✦ Conducted March/May of 2011

High knowledge of impact of claiming age on benefit levels

How knowledgeable do you feel about the following topic related to Social Security?	Total (n=406)
How Social Security retirement benefits change based on the age one chooses to claim them	%
Very knowledgeable	44
Somewhat knowledgeable	51
Not too knowledgeable	4
Not at all knowledgeable	1

Knowledge of spousal benefits lower

How knowledgeable do you feel about the following topic related to Social Security?	Total (n=406)
How spousal benefits work	%
Very knowledgeable	24
Somewhat knowledgeable	61
Not too knowledgeable	14
Not at all knowledgeable	1

Financial advisors typically discuss the role of Social Security in retirement

With about what percent of your clients approaching retirement do you discuss the role of Social Security in their retirement finances?

**Total
(n=406)
%**

Virtually all of these clients (90% - 100%)

41

A majority of these clients (60% - 89%)

34

About half of these clients (40% - 59%)

13

Some of these clients (10% - 39%)

11

Very few of these clients (0% - 9%)

1

The best age to claim benefits is often discussed

With what proportion of clients do you discuss the following issue related to Social Security?

Total
(n=402)

The best age to claim Social Security benefits

%

With virtually all clients (90% - 100%)

31

60% - 89%

35

40% - 59%

20

10% - 39%

10

With very few (0% - 9%)

3

Two in five advisors conceptualize delayed claiming as a “gamble”

Which one of the following do you think is the best way of describing the decision to delay claiming to clients?	Total (n=406) %
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.	41
The decision to delay claiming is like a gamble. If you live longer than your life expectancy, you will “win” the gamble and get more in Social Security benefits.	38
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.	21

Over half believe Break-Even Analysis is an excellent or very good approach

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)
%**

Excellent

14

Very good

41

Good

34

Fair

9

Poor

2

One in five advisors recommend delayed claiming when delay appears advisable

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)

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

%

Claim as soon as can

28

Claim when stop working

52

Delay as long as can

19

One in five advisors recommend delayed claiming when delay appears advisable

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)

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

%

Claim as soon as can

32

Claim when stop working

48

Delay as long as can

20

Primary company education on Social Security does not get high marks

To what extent do you agree or disagree with the following statement?

Total
(n=406)

My primary company does a good job of providing materials to help educate clients about Social Security

%

Strongly agree (5)

6

4

20

3

36

2

26

Strongly disagree (1)

11

Financial advisors extremely interested in tools and education from the SSA

How interested would you be in receiving the following from the Social Security Administration? (<i>Percent Extremely interested</i>)	Total (n=406) %
Calculators or worksheets to help determine the best age for clients to claim their benefits	71
Calculators or worksheets to use with clients to calculate their benefit amount at different ages	70
General information for clients about how Social Security works	65
Tips of how to address Social Security issues with clients	59
Training for advisors on how to talk to clients about their Social Security benefits	59

Current SSA efforts to educate financial advisors do not get high marks

- 74% believe it would be highly useful for the SSA to provide a section of its website for financial advisors
- Only 32% are aware there is an SSA webpage for advisors
- Only 13% believes the Social Security Administration does a good job of educating financial advisors about how Social Security works

Conclusions

- Financial advisors tend to suggest earlier claiming than most economists consider optimal
- Framing claiming decisions in terms of “break-even ages” and gambles inadvertently encourage sub-optimal claiming ages
- Advisor self-reports of knowledge on spousal benefits suggest need for more education
- Advisors would welcome SSA providing more tools and educational support targeted at advisors

Suggested Next Steps for Research

- Increase effectiveness of Social Security Administration financial advisor webpage and linked materials through research with financial advisors and financial services company marketing and communications executives
- Increase financial advisor knowledge and usage of the Social Security Administration webpage through research with financial services company marketing and communications executives on SSA communications strategies
- Evaluate the revised webpage and linked material through surveys of financial advisors who use the webpage