FUNDAMENTALS

INVESTMENT COMPANY INSTITUTE RESEARCH IN BRIEF OCTOBER 1996

INVESTMENT COMPANY INSTITUTE 1401 H STREET, NW, SUITE 1200 WASHINGTON, DC 20005 202/326-5800

Public Confidence in the Social Security System

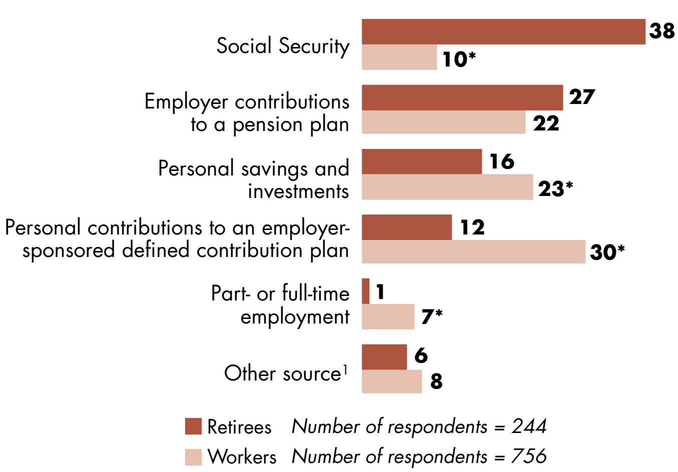
According to a recent survey conducted by the Employee Benefits Research Institute (EBRI) and Mathew Greenwald & Associates[1] on Americans' confidence in their financial security in retirement, the public has little confidence in the ability of the Social Security system to maintain future benefits at today's levels.[2] Although most individuals are not in favor of across-the-board reductions in benefits or increases in taxes, those in the work force today generally favor proposals that give individuals the option to invest a portion of their Social Security contributions.

This issue of *FUNDamentals* presents key findings of the survey relating to the public's views on Social Security, especially Social Security reform.

Figure 1

Most Important Source of Retirement Income, 1996

(percent of respondents)



[1]*Includes inheritances, money from sale or refinancing of home, sale of a business, and support from children or other family members.*

**The response rate of workers differs significantly from that of retirees at the 95 percent confidence level. That is, the differences are unlikely to be the result purely of chance and cannot be attributed solely to differences between the two samples.*

Social Security as a Source of Income

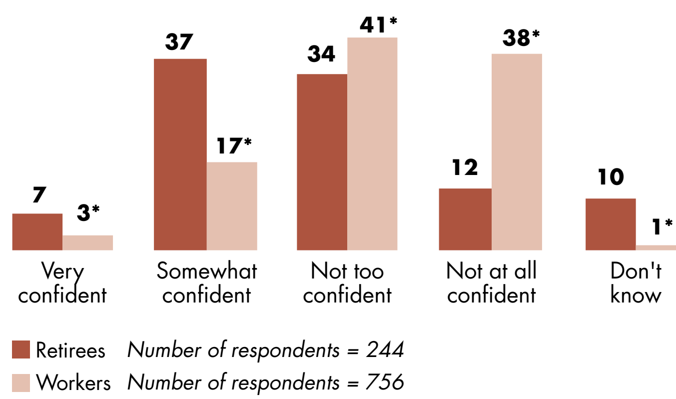
Many of today's retirees rely on Social Security payments for income. Thirty-eight percent indicate that Social Security is their primary source of current income. Only 27 percent of retirees point to employer contributions to a pension plan (defined benefit or defined contribution) as their primary source of retirement income, 16 percent to personal savings and investments, and 12 percent to personal contributions to an employer-sponsored defined contribution plan.

In contrast to retirees, many of today's workers expect to fund their retirement primarily through personal investments or through employer-sponsored retirement plans. Only 10 percent of current workers expect Social Security to be their most important source of future retirement income, while 30 percent list personal pension plan contributions, 23 percent personal investments outside of employer pension plans, and 22 percent employer contributions to a pension plan (Figure 1).

Figure 2

Confidence in Ability of the Social Security System to Provide Future Benefits Equal to Those of Today, 1996

(percent of respondents)



**The response rate of workers differs significantly from that of retirees at the 95 percent confidence level (see explanation in Figure 1).*

[1]The Investment Company Institute was one of nineteen sponsors of the EBRI-Greenwald survey.

[2]The EBRI-Greenwald survey was conducted in July 1996. Random digit dialing was used to obtain a representative sample of 1,000 individuals age 25 or older (margin of error ± 3 percent), of which 756 were workers and 244 were retirees. The wording of some survey questions varied depending on the respondent's retirement status. For example, retirees were asked what their most important source of income was, and workers were asked what they expect would be their most important source of retirement income.

Confidence in the Continuation of Current Social Security Benefit Levels

In addition to current workers' expecting to use their own savings or employer pensions to finance their retirement, the study found that 79 percent have little confidence in the ability of Social Security to maintain benefit levels comparable to those of today. Retirees, however, have a mixed view of the outlook for Social Security benefits. Forty-six percent are not confident that current social security benefit levels can be maintained, while 44 percent expressed some degree of confidence (Figure 2).

Social Security Reform

Americans generally support reform of the Social Security system, approving of some current proposals but opposing others. For example, the majority of workers and retirees reject reform measures that would affect all retirees, such as cutting benefit payments to all future recipients, reducing automatic benefit increases, increasing Social Security payroll taxes for workers, and raising the normal retirement age to 70.

Figure 3

Views on Social Security Reform Proposals, 1996[1]

(percent of respondents strongly or somewhat favoring each proposal)

	Retirees	Workers
Cut future benefit payments for all future recipients.	23	19
Reduce the automatic increases in benefit payments that occur with inflation.	30	34
Increase the existing payroll tax on workers.	31	28
Raise the normal retirement age (which is currently age 65 or 67) for collecting full benefits to 70.	42	27*
Invest some of the trust fund in the private sector stock market as opposed to keeping it all invested in government securities.	50	69*
Cut future benefit payments of retirees with annual incomes over $50,000.	56	63*
Fully tax all Social Security benefits of retirees with annual incomes over $50,000.	67	60*

[1]*The preamble to the question read:* The Social Security Administration estimates that, starting in the year 2019, the amount of money paid out in Social Security benefits will be greater than the amount collected in Social Security taxes. This means, that starting in 2019, the government would have to start using the reserves in the Social Security trust fund to pay beneficiaries. By 2029, this trust fund will be out of money. Given these projections, some people have suggested reforms to the Social Security system aimed at keeping the Social Security system solvent, at least as long as necessary to meet its commitments to all people now working and contributing to Social Security.

Those participating in the survey were asked to indicate their favorability toward seven suggestions, listed above, relating to keeping the Social Security system solvent.

**The response rate of workers differs significantly from that of retirees at the 95 percent confidence level (see explanation in Figure 1).*

Almost 70 percent of workers and half of retirees favor a proposal that would allow some Social Security trust fund assets to be invested in stocks. In addition, the majority of workers and retirees favor reform proposals aimed at fully taxing the Social Security benefits of retirees with incomes exceeding $50,000 and cutting the future benefits of retirees with incomes of over $50,000 (Figure 3).

Individual Investment of Social Security Contributions

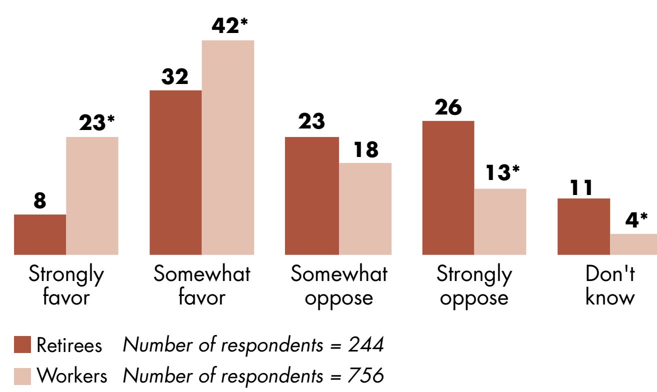
Almost two thirds of today's workers favor a proposal to include an element of individual investment within Social Security. As presented to survey participants, the specific proposal would permit individuals to decide how to invest a portion of the money they pay in Social Security taxes. Upon retirement, individuals would receive a reduced guaranteed Social Security payment, but they would also receive income from the investments they chose. The total of these two sources of income could be higher than the current guaranteed benefits if the individual's investment did well; or lower, if the individual's investment did not do well (see Figure 4 for complete question wording).

In contrast to workers, retirees were split in their views on the individual investment proposal. Forty percent favored the proposal, 49 percent opposed it, and 11 percent had no opinion (Figure 4).

Figure 4

Response to Proposal that Individuals Invest a Portion of Their Social Security Contributions, 1996[1]

(percent of respondents)



[1]*The preamble to the question read:* Currently, all Social Security taxes in excess of those needed to pay current benefits are invested by the government in government bonds. Some people have proposed that individuals be allowed to decide how some of the money they pay in Social Security taxes is invested. Upon retirement, individuals would receive a reduced guaranteed Social Security payment but they would also receive income from the investments they chose. The total of these two sources of money could be higher than the current guaranteed benefits if the individual's investment did well; or lower, if the individual's investment did not do well. How do you feel about this proposal?

**The response rate of workers differs significantly from that of retirees at the 95 percent confidence level (see explanation in Figure 1).*