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# AMERICA

# in Denial

## The Public's View of the Future of Social Security

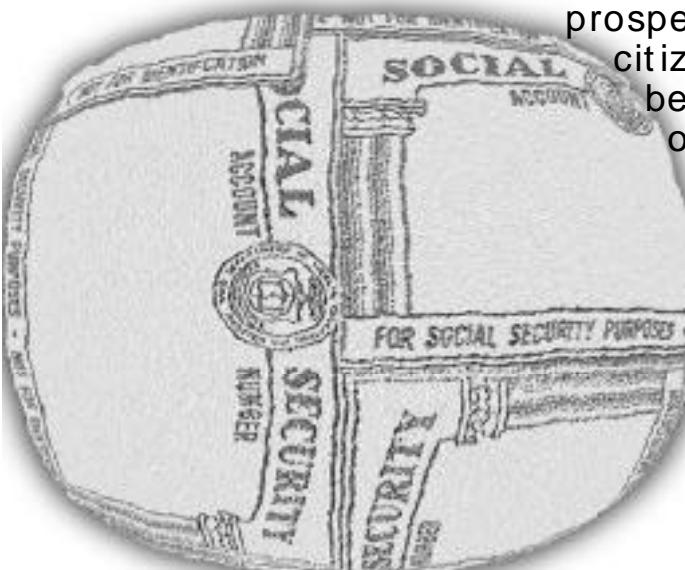


SOCIAL SECURITY IS ONE OF THE MOST POPULAR federal government programs. In the 1996 presidential election, voters listed Social Security and Medicare second only to the economy and jobs as the most important issue in deciding their vote.

Policy experts, national politicians, and opinion leaders have written and spoken extensively about the problems facing the

Social Security trust fund and on their views of its prospects for the future. Ordinary American citizens have not been so voluble. We have been probing their views through an analysis of 11 national surveys conducted during 1997-98, including two of our own.

What we've found is a nation tied up in knots. Americans know that Social Security faces serious financial difficulties. But most also know that they are not saving—and cannot save—ade-



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quately for their own retirement. Their fears could lead to a paralysis on Social Security reform.

### Americans Are Relatively Well Informed

Americans tend not to be well informed about how their government and political system operate. But when it comes to Social Security, they have a pretty fair idea of how things work. Eight in ten Americans know that Social Security is a federal, rather than state or private, program. Almost seven in ten recognize that it is a pay-as-you-go program—that is, that payroll taxes collected from workers today pay benefits for current retirees rather than going into an account to pay their own benefits when they retire.

Most also know the basics of who can receive benefits. Ninety-six percent know that workers who have paid into the program are eligible. Eighty-nine percent know that spouses of such workers are eligible. Seventy percent know that workers who have not paid into the program are not eligible.

Ninety-three percent know that people who retire on Social Security receive different monthly payments, and 79 percent know that a person can work while receiving benefits, but that there is a limit on how much he or she can earn.

Forty-nine percent of Americans know the money in the Social Security trust fund is invested in U.S. government Treasury bonds. But 21 percent think it is kept by the government as cash in the bank, 13 percent think it is invested in private company stocks, and 17

Table 1. AMERICANS' VIEWS ON INDIVIDUAL AND GOVERNMENT INVESTMENT OF SOCIAL SECURITY FUNDS

favor	Percent who each proposal
<b>Individual Investment</b>	
Let workers shift some Social Security tax payments into personal retirement accounts that they would invest on their own.	80
Let workers decide how some of their own Social Security contributions are invested.	71
Let workers have individual accounts and make their own investments with a portion of their Social Security tax payments.	64
Let workers invest a portion of their Social Security taxes in investments like the stock market, getting more money if investments do well, less if they do poorly.	60
Let people invest some of their Social Security tax payments in stock market, with benefits higher or lower than expected depending on stock market's performance.	48
<b>Government Investment</b>	
Invest some Social Security revenues in stock market instead of putting them all in government bonds.	50
Have government invest in private stock market a	46

percent said they did not know. More than two-thirds know that if no action is taken, the trust fund will go bankrupt. One in four expects (incorrectly) the bankruptcy within 10 years. Nearly half realize that it is more distant. In general, the public sees the problem as one for the long-term future, not one that Congress must act on immediately because it is a crisis today.

The public has a fair sense of what is causing Social Security's financial problems. Six in ten attribute them to more people going on Social Security and to having fewer workers to pay Social Security payroll taxes. But two-thirds attribute the problems to the diversion of trust fund money to programs other than Social Security.

### Problems and Proposed

Table 2. GENERATIONAL DIFFERENCES ON SOCIAL SECURITY REFORM  
(Percent)

Respondent's view on Social Security	Age of respondent				
	All	18-34	35-49	50-64	65+
Social Security is in crisis.	31	30	39	31	16
Social Security is not fair to people your age.	40	52	45	27	15
Government should completely redesign Social Security.	All	18-34	35-54	55-64	65+
	31	37	37	16	14
People should have individual accounts and make their own investments with a portion of their Social Security payments.	64	69	71	63	40

### Solutions

Despite knowing the financial difficulties faced by Social Security, most Americans are unwilling to raise taxes or reduce benefits. The only exception is in the case of benefits for higher-income Americans.

Only about four in ten favor increasing Social Security payroll taxes or eliminating the current Social Security payroll tax cutoff, which exempts income over \$68,400 a year. One in four favors increasing taxes on Social Security benefits. Only one in five favors reducing benefits to retirees.

Americans generally oppose raising the Social Security retirement age even if the change is phased in over time: only one in three supports this option. Fewer than four in ten favor increasing the retirement age to 67 earlier than planned.

Support for changing Social Security cost-of-living adjustments is variable, depending on how the change is presented. Slightly more than half favor giv-

ing smaller yearly increases to retirees when the cost of living goes up; but only one in three favors limiting cost-of-living increases in Social Security benefits.

Many Americans are willing to consider affluence testing, but the definition of "affluence" affects the level of support. Two-thirds favor reducing benefits for upper-income people if no income level is specified. But support drops to 50 percent if the income is specified as \$40,000 a year or more. Similarly, only four in ten favor raising the taxes that higher-income retirees pay on their Social Security benefits, but two-thirds favor taxing benefits for those earning \$75,000 a year and up.

### Social Insurance

Americans are divided over whether they want Social Security in the future to act principally as a social insurance program to ensure that elderly people have a minimum income dur-

ing retirement (51 percent) or as a program in which people receive money based on how much they pay into the program (42 percent). The younger and older generations differ substantially in their view. A plurality (48 percent) of adults under age 35 want the program to be based principally on what people pay into it, compared with only 32 percent of those 65 or over.

### Privatization

Americans are beginning to stake out their positions on the issue of privatization and alternative investment strategies for Social Security, but they are not yet completely committed to their current views.

Most Americans do not want Social Security to be completely redesigned. But they do favor some private investment of Social Security funds, so long as it is done by individuals rather than by the government (table 1).

Only one-third of Americans want to see the president and

Congress completely redesign Social Security. A plurality (44 percent) wants to make changes but preserve the program basically as it is, while another 22 percent want to leave the program alone.

Consistent with their belief that money in the trust fund is not being invested wisely, many people are willing to consider privatization or alternative investment strategies for some Social Security funds. Depending on how the question is worded, between 64 percent and 80 percent of Americans favor allowing individuals to invest part of their Social Security tax payments. In one survey, however, more than half of those with opinions on allowing individual investment said they could easily change their minds.

On the specific issue of investing Social Security funds in the stock market, public opinion is fluid and strongly affected by how the process is described. In three recent surveys, support ranged from a low of 48 percent to a high of 60 percent.

If some Social Security tax funds are invested in the stock market, 80 percent of the public would prefer for individuals to invest part of their own portion, and only 14 percent would prefer for the government to make the decisions.

In five of six surveys only about one in three Americans favors having the government invest Social Security revenues in the stock market. But even on the issue of government investment, where the public's views seem so clear, one survey found more than half of those with opinions on the issue saying that they could easily change their mind.

Surveys so far have not investigated why the public does not want the government to make the investments. Perhaps people fear that the government would not invest the money wisely in the marketplace. Or they may not wish to give the government too much power over the private economy.

Significant disparities in how people of different generations view Social Security may affect the debate over privatization (table 2). Younger adults are far more likely than older Americans to believe that the program is in crisis, see the system as unfair, believe that the program should be completely redesigned, and favor private investment

of a portion of Social Security funds.

Seniors, for whom the stock market crash of the 1930s is a vivid memory, are much more leery than other Americans of investing Social Security funds. Far fewer seniors than younger adults favor people having individual accounts and making their own investments with a portion of their Social Security payments. Similarly, seniors show far less support than younger adults for government investment of Social Security funds in the private stock market.



### **Social Security and Americans' Attitudes about Retirement**

The public's reluctance to take action on Social Security is due to more than one cause, but clearly a major reason is that they are as concerned about not being able to save enough for their own retirement as they are about the long-term future of Social Security. Seven out of ten workers report that they are wor-

ried about not having enough private savings for their own retirement. Average citizens are in a quandary, trapped between their fear that there will not be enough funds left in the Social Security system and their concern about not having enough money in their own private savings when they stop working.

Most working Americans know they cannot expect to live comfortably in retirement on Social Security benefits alone. While seven in ten believe that an average retired person needs a yearly income of at least \$20,000 to live comfortably, nearly nine in ten know that the average annual benefit now paid to a retired worker by Social Security is less than that. For someone to live comfortably in retirement, Social Security must be supplemented by private savings, especially if the Social Security benefit is reduced.

People are painfully aware of the gap between what they are now saving privately and what they need to retire comfortably. Working adults report that they are saving half what they think is necessary. In fact, six in ten report that they saved less than \$3,000 for their retirement during the past year. More than half of working adults say they are either not saving for retirement at all (31 percent) or are saving inadequately (26 percent). Strikingly, the figure is almost identical for those aged



50-64, who are closest to retirement.

As to private pensions, which most working adults anticipate as being a larger source of retirement income than Social Security, 45 percent report that they do not participate in an individual or employer-provided private pension or 401(k) plan. Once again, those near retirement are no better off: 44 percent of adults aged 50-64 are not enrolled in such plans.

Poorer Americans are among the most vulnerable. Nearly nine in ten of those earning under \$20,000 a year are either not saving for retirement at all (61 percent) or are saving inadequately (25 percent). Two out of three of those who have yet to begin saving for retirement explain that they do not have anything extra to save for the future, and only one in five adults earning under \$20,000 is participating in a 401(k) or private pension program.

Taken together, these surveys portray a nation in a state of denial. Americans recognize both that Social Security faces serious financial difficulties and that they are not saving enough personally for retirement. But they are unwilling to face up to either issue. "Maybe next year" is the view expressed quite widely in opinion surveys. Surprisingly, even the age group closest to retirement takes the same view ■

#### POLLS USED

The polls cited include the *Time/CNN/Yankelovich Partners* poll of January 8, 1997; the *Princeton Survey Research Associates/Newsday* poll of January 9, 1997; the *NBC News/Wall Street Journal* poll of January 15, 1997; the *Los Angeles Times* poll of February 5, 1997; the *Washington Post/Henry J. Kaiser Family Foundation/Harvard University* poll of March 13, 1997; the *Gallup/CNN/USA Today* poll of June 26, 1997; the *Associated Press/ICR* poll of March 27, 1998; the *Time/CNN/Yankelovich Partners* poll of April 8, 1998; the *NBC News/Wall Street Journal* poll of April 18, 1998; the *American Viewpoint Battleground 1998* poll of April 22, 1998; and the *Harvard University/Chilton* poll of May 6, 1998. Results for all the polls cited may be obtained from the Roper Center for Public