

Using Consequence Messaging to Improve Understanding of Social Security

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Individuals are becoming increasingly responsible for their own financial security after retirement. Yet evidence shows that individuals have difficulty understanding complex aspects of retirement planning. The result is that individuals may claim Social Security earlier than is optimal, or utilize annuities far less than is optimal, leading to poor financial security in later life (Benartzi et al., 2011; Poterba et al., 2011).

In this paper, we develop “consequence messaging” – a new behaviorally-motivated communication strategy in which we use vignettes to explain the consequences of decisions to people. The vignettes take the form of written stories or short videos. We study two related areas where consequence messaging could lead to improved understanding and decision-making: valuing annuities and Social Security claiming decisions. We evaluate the impact of consequence messaging by conducting a small-scale (600 respondents between 50 and 60 years of age) randomized controlled trial (RCT) using a representative sample of Americans on the Understanding America Study (UAS) internet panel.

Researchers have begun to document the limitations households face when making decisions affecting financial security at older ages (Lusardi and Mitchell, 2007; 2011) and to evaluate interventions (i.e., financial education) that assist households with these decisions (Heinberg et al., 2014; Lusardi et al., 2014). One solution is to improve communications about complex concepts. To this end, recent work has shown that the way Social Security benefits are framed affects claiming decisions (Brown et al., 2016).

Our recent work suggests that consequence messaging, combined with an engaging format of the message – i.e., short video vignettes – could significantly improve understanding of Social Security and related concepts. (Brown, Kapteyn, Luttmer, Mitchell and Samek, work in progress). However, the written vignette was low-touch, and the benefit was not as large as we

had hoped. Separately, we explored ways of communicating information online, finding that engaging modes such as video vignettes lead to better understanding than written vignettes (Heinberg et al., 2014). There is a gap in the literature about whether consequence messaging will work across a range of decisions, and whether video or written vignettes are the best format for the messaging.

In this paper, we study two related areas where consequence messaging could lead to improved understanding and decision-making: valuing annuities and Social Security claiming decisions. Annuities are invaluable in protecting people against outliving their assets, yet there is little demand for them (Benartzi et al., 2011). One reason is that many people find it difficult to value annuities. In Brown et al. (2017), people were asked to provide a money value for a Social Security monthly benefit increase or a similar-sized decrease in payments, and respondents provided divergent and inconsistent valuations. The conclusion was that consumers do not understand annuities and are not able to value them. Consequence messaging increases understanding by helping people make the link from the decision (annuitizing or not) to the outcome (having a stream of income versus outliving one's savings).

The second related area is Social Security claiming decisions. The consequences of when to claim and when to stop working, are governed by a complex set of rules. We conducted focus groups, which showed that people had difficulty understanding these concepts, and that having enough information was related to increased decision satisfaction (Rabinovich and Samek, work in progress). Related work finds that while many women receive most of their Social Security benefits based on their spouse's earnings history, husbands do not consider spousal outcomes when claiming (Henriques, 2017). Elderly widows are thus poorer than their married counterparts (McGarry and Schoeni, 2005). We test consequence messaging related to claiming

and retirement decision and spousal outcomes.

Our paper addresses three main aims

- **Aim 1:** Evaluate how well respondents understand and make decisions about annuities and Social Security claiming (specifically, the link between claiming age and Social Security benefits, and the individual/family elements that affect benefits).
- **Aim 2:** Investigate the impact of short consequence messages on understanding and decisions related to annuities and Social Security claiming.
- **Aim 3:** Investigate whether the communication mode of consequence messaging – written or video – affects understanding and decisions related to annuities and Social Security claiming.

The following summarizes the experimental set-up:

Sample: N=600, ages 50-60 are invited to participate. Randomly assign subjects to the following 6 groups:

| | Control | Written Message | Video Message |
|------------------------|----------------|------------------------|----------------------|
| Annuities | 100 | 100 | 100 |
| Social Security | 100 | 100 | 100 |

Design:

- Everyone reads short paragraph about annuities/Social Security (depending on treatment)
- Some people either watch or read a consequence message about annuities/Social Security (depending on treatment). There are 2 consequence messages (one for annuities and one for Social Security).
- Everyone receives 2 vignettes (in randomized order) describing a hypothetical person scenario. Respondents are asked to give advice to the person about when to claim SS, or whether to buy an annuity. In one of the vignettes claiming later is clearly better than claiming earlier.
 - *Hypothesis:* we expect people who got the consequence message to be more likely to advise claiming later in the scenario where claiming later is optimal.
- Everyone gets additional questions:
 - True/False questions on financial literacy re: annuities/SS based on what is shown in video.

- **Hypothesis:** people who see video/story perform better on these.
- Importance placed on certain aspects of retirement planning.
 - **Hypothesis:** people who see video/story place more importance on the “consequence” aspect
- Preferences for how to receive information (video, story, mailed)
 - **Hypothesis:** we may observe people who saw a video to be more receptive to them.
- Plans for retirement
 - **Hypothesis:** people seeing video/story more likely to say they will delay claim and/or buy annuity.
- Open-ended question about what they found most helpful in the story.

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