Harsh Reality: Americans Do Not Understand Social Security

For the past two years, the highest inflation numbers since the 1980s have driven the financial news. That translates to 86% of American adults expressing concern about the impact of inflation on the U.S. economy. At the same time, more than two-thirds of the population have no idea that Social Security is protected against inflation, with cost-of-living adjustments (COLAs)!

These are just some of the results of the 2022 Social Security Study conducted by the Nationwide Retirement Institute®. The study enlisted the opinions of 1,853 adults, split across age cohorts: millennials (ages 27-42), Gen-X (ages 43-58) and Baby Boomers (59+).

Inflation concern is merely a sign of the times but the lack of knowledge about Social Security COLAs reveals a severe need for education about this critical income source. After all, roughly 90% of Americans will collect Social Security benefits at some point in their lifetimes.

The National Retirement Institute's questions were designed to gather data on the public's knowledge level and attitudes regarding Social Security, including the program's fundamental concepts. Questions also covered perceptions of how market volatility, the COVID pandemic, and inflation are affecting Social Security planning.

The responses were eye-opening, indicating opportunities for financial and tax professionals alike to better assist clients by filling the information gaps. Well-conceived contingency plans can lead to informed decisions rather than critical errors. The full report can be found at nationwidefinancial.com/media/pdf/NFM-20936AO.pdf.

Connecting the Missing Dots

When it came to confidence about basic knowledge of Social Security, it appears that those surveyed were more confident than they should have been. More than half of all respondents said they knew exactly how to maximize their Social Security benefits but only 7% could identify the factors that play a critical role in determining a worker's monthly income benefit (work history, age, benefit start date, and marital status).

Moreover, only 13% could correctly identify their full retirement age (FRA), based on their year of birth, and 44% did not know how much their projected monthly income benefits would be. Another 49% had no idea how much of their pre-retirement income they could expect Social Security to replace in retirement.