

The Perception of Social Security Incentives for Labor Supply and Retirement: The Median Voter Knows More Than You'd Think

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Policy Abstract

The degree to which the Social Security tax distorts labor supply decisions depends in part on the extent to which individuals recognize that future benefits are based on how much they worked. To measure the perceived linkage between labor supply and Social Security benefits, we administer a survey about the Social Security benefit rules to a representative sample of Americans aged 50- 70. We find that the majority of respondents believe that their Social Security benefits increase with labor supply, i.e., that the Social Security benefit rules provide a positive work incentive. The magnitude of this perceived incentive varies across respondents, but people generally cite an incentive that is somewhat greater than the actual figure. We also surveyed people about their understanding of various provisions in the Social Security benefit rules. We find that some of these provisions (e.g., effects of delayed benefit claiming, and rules on widow benefits) are relatively well understood while others (rules on spousal benefits, provisions on which years of earnings are taken into account) are less well understood.

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