
THE DEVELOPMENT OF SOCIAL SECURITY

THE PROBLEM OF ECONOMIC INSECURITY

Social Security works because it speaks to a universal human need. All people throughout human history have faced the uncertainties brought on by death, disability and old age. Prior to the turn of the 20th century, the majority of people in the United States lived and worked on farms and economic security was provided by the extended family. However, this arrangement changed as America underwent the Industrial Revolution. The extended family and the family farm as sources of economic security became less common. Then, the Great Depression triggered a crisis in the nation's economic life. It was against this backdrop that the Social Security Act emerged.



Frances Perkins

THE SOCIAL SECURITY ACT

On June 8, 1934, President Franklin D. Roosevelt, in a message to the Congress, announced his intention to provide a program for Social Security. Subsequently, the President created by Executive Order the Committee on Economic Security, which was composed of Frances Perkins, Secretary of Labor, Chairwoman; Henry Morgenthau, Jr., Secretary of the Treasury; Henry A. Wallace, Secretary of Agriculture; Homer S. Cummings, Attorney General; and Harry L. Hopkins, Federal Emergency Relief Administrator. The committee was instructed to study the entire problem of economic insecurity and to make recommendations that would serve as the basis for legislative consideration by the Congress.

In early January 1935, the Committee made its report to the President, and on January 17 the President introduced the report to both Houses of Congress for simultaneous consideration. Each House passed its own version, but eventually the differences were resolved and the Social Security Act was signed into law on August 14, 1935. In addition to several provisions for general welfare, the new act created a social insurance program designed to pay retired workers age 65 or older a continuing income after retirement.

IMPLEMENTING THE ACT

One provision of the act established a bipartisan Social Security Board (SSB) composed of three members appointed by the President. The original members

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*First meeting of Social Security Board, 8/23/35.
Left to right: Altmeyer, Winant and Miles.*

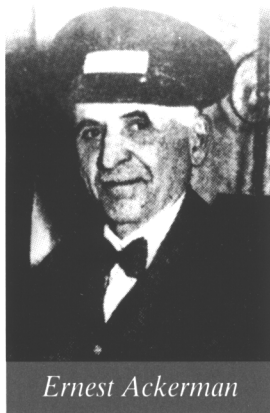
were John G. Winant, Chairman; Arthur J. Altmeyer; and Vincent M. Miles. During the first year, the SSB was faced with the tasks of providing employers, employees and the public with information on how earnings were to be reported, what benefits were available and how they were to be provided. In addition, sites for field installations had to be chosen and personnel to staff these offices had to be selected and trained.

The monumental first task was the need to register employers and workers by January 1, 1937, when workers would begin acquiring credits toward old-age insurance benefits. Since the SSB did not

have the resources available to accomplish this, it contracted with the U.S. Postal Service to distribute the applications, beginning in November 1936. The post offices collected the completed forms, typed the Social Security number (SSN) cards, and returned the cards to the applicants. The applications then were forwarded to the SSB's processing center located in Baltimore, Md., where the numbers were registered and various employment records established. Over 35 million SSN cards were issued through this procedure in 1936-37.

FIRST PAYMENTS

Under the 1935 law, monthly benefits were to start in 1942. From 1937 until 1942, Social Security was to pay benefits to retirees in the form of a single, lump-sum refund payment. The earliest reported applicant for a lump-sum refund was a retired Cleveland motorman named Ernest Ackerman, who retired one day after the Social Security program began. During his one day of participation in the program, a nickel was withheld from Mr. Ackerman's pay for Social Security, and, upon retiring, he received a lump-sum payment of 17 cents. The average lump-sum payment during this period was \$58.06. The smallest payment ever made was for 5 cents.



Ernest Ackerman

1939 AMENDMENTS

The original act provided only retirement benefits, and only to the worker. The 1939 Amendments made a fundamental change in the Social Security program. The amendments added two new categories of benefits: payments to the spouse and minor children of a retired worker (so-called dependents benefits) and survivors benefits paid to the family in the event of the premature death of the

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worker. This change transformed Social Security from a retirement program for individuals into a family-based economic security program. The 1939 Amendments also increased benefit amounts and accelerated the start of monthly benefit payments from 1942 to 1940.



Ida May Fuller

MONTHLY BENEFITS

Payments of monthly benefits began in January 1940. On January 31, 1940, the first monthly retirement check was issued to a retired legal secretary, Ida May Fuller, of Ludlow, Vt., in the amount of \$22.54. Miss Fuller died in January 1975 at the age of 100. During her 35 years as a beneficiary, she received more than \$22,000 in benefits.

1950 AMENDMENTS

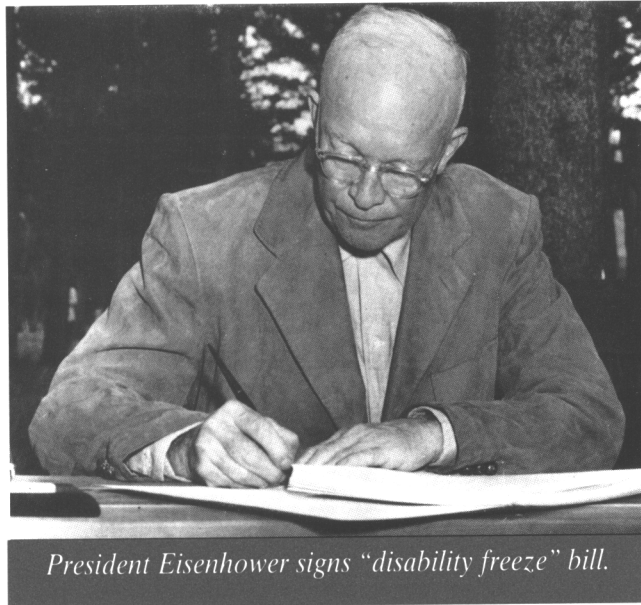
From 1940 until 1950 virtually no changes were made in the Social Security program. Because the program was still in its infancy, Social Security's retirement benefits were very low. In fact, until 1951, the average welfare benefit received under the old-age assistance provisions of the act was higher than the average retirement benefit received under Social Security. Only about 50 percent of America's workers were covered under the program at that time. In 1950 major amendments were enacted. These amendments raised benefits for the first time and placed the program on the road to the virtually universal coverage it has today.

THE STORY OF COLAS

Most people are aware that there are annual increases in Social Security benefits to offset the effects of inflation on fixed incomes. These increases, known as cost-of-living adjustments (COLAs), are such an accepted feature of the program that it is difficult to imagine Social Security without them. But, in fact, when Ida May Fuller received her first \$22.54 benefit payment in January of 1940, this was the amount she could expect to receive for life. It was not until the 1950 Amendments that Congress legislated the first COLA—a 77 percent increase.

From that point on, benefits were increased only when Congress enacted special legislation.

In 1972, the law was changed to provide, beginning in 1975, for automatic annual COLAs based on the annual increase in consumer prices. No longer do beneficiaries have to await a special act of Congress to receive a benefit increase and no longer does inflation drain value from Social Security benefits.



President Eisenhower signs "disability freeze" bill.

DISABILITY BENEFITS

The Social Security Amendments of 1954 initiated a disability insurance program that provided the public with additional coverage against economic insecurity. At first, there was a disability "freeze" of workers' Social Security records during years when they were unable to work. While this measure offered no cash benefits, it did prevent such periods of disability from reducing or wiping out retirement and survivor benefits. On August 1, 1956, the Social Security Act was amended to provide benefits to disabled workers aged 50-65 and disabled adult children. Over the next two years, Congress broadened the scope of the program, permitting disabled workers under age 50 and their dependents to qualify for benefits, and eventually disabled workers at any age could qualify.

MEDICARE & OTHER CHANGES

The decade of the 1960s brought additional changes to the Social Security program. Among the most significant was a provision in the amendments of 1961 lowering the age at which men are first eligible for retirement benefits to 62 (women previously were given this option in 1956).

The most significant change involved the passage of Medicare. Under Medicare, health coverage was extended to Social Security



President Johnson signs Medicare, in the presence of former President Truman.

beneficiaries aged 65 or older (and eventually to those receiving disability benefits as well). Nearly 20 million beneficiaries enrolled in Medicare in the first three years of the program. SSA would continue to have responsibility for all aspects of the Medicare program until a 1977 reorganization created the Health Care Financing Administration (HCFA). HCFA assumed administrative responsibility for Medicare at that time.

SUPPLEMENTAL SECURITY INCOME

In the original 1935 Social Security Act, programs were introduced for needy aged and blind individuals and, in 1950, needy disabled individuals were added. These three programs were known as the “adult categories” and were administered by state and local governments with partial federal funding. Over the years, the state programs became more complex and inconsistent, with as many as 1,350 administrative agencies involved and payments varying more than 300 percent from state to state. In 1969, President Nixon identified a need to reform these and related welfare programs to “bring reason, order, and purpose into a tangle of overlapping programs.” In 1971, Secretary of Health, Education and Welfare Elliot Richardson proposed that SSA assume responsibility for the adult categories. In the Social Security Amendments of 1972, Congress federalized the adult categories by creating the Supplemental Security Income (SSI) program and assigned responsibility for it to SSA.

MAJOR PROGRAM CHANGES SINCE 1980

The Social Security Amendments of 1980 made many changes in the disability program. Most of these changes focused on various work incentive provisions for both Social Security and SSI disability benefits. The 1980 Amendments also required SSA to conduct periodic reviews of current disability beneficiaries to certify their continuing eligibility. This was to become a massive workload and

one that was controversial. By 1983, the reviews had been halted, and in 1984, Congress passed the Disability Benefits Reform Act modifying several aspects of the disability program, including how disability reviews are conducted.

In the early 1980s the Social Security program faced a serious long-term financing crisis. President Ronald Reagan appointed a blue-ribbon panel, known as the Greenspan Commission, to study the financing issues and make recommendations for legislative changes. The final bill, signed into law in 1983, made numerous changes in the Social Security and Medicare programs, including the taxation of Social Security benefits; the first coverage of federal employees; raising the retirement age starting in

2000; and increasing the reserves in the Social Security trust funds.

Under 1994 legislation, the periodic Social Security Advisory Councils were abolished and a permanent seven-member bipartisan Social Security Advisory Board was formed to provide independent advice and counsel on Social Security.

In 1996, legislation changed the rules for qualifying for disability benefits. New applicants for Social Security or SSI disability benefits could no longer be



President Reagan signs 1983 Amendments.

eligible for benefits if drug addiction or alcoholism was a material factor in their disability.

“Welfare reform” legislation, signed by President Clinton in August 1996, terminated SSI eligibility for most non-citizens (this provision was scaled-back in 1997 legislation). Also the eligibility rules for awarding SSI disability benefits to children were tightened.

On December 17, 1999, President Clinton signed the “Ticket to Work and Work Incentives Improvement Act of 1999.” This law provides disability beneficiaries with a voucher they may use to purchase vocational rehabilitation services, employment services and other support services from an employment network of their choice. In addition to allowing beneficiaries to purchase vocational services, the law provides incentive payments to providers for successful rehabilitations in which the beneficiary returns to work. The new provisions also provide a number of safeguards to the beneficiaries to protect their benefits and health. Taken together, the Ticket to Work initiative seeks to shift the emphasis in the disability program away from mere maintenance of benefits more toward rehabilitating the disabled and assisting them in returning to productive work.



President Clinton signs “Ticket to Work” bill at the FDR Memorial in Washington, D.C.

On April 7, 2000, President Clinton signed into law H.R. 5, “The Senior Citizens’ Freedom to Work Act of 2000,” eliminating the Retirement Earnings Test (RET) for beneficiaries at or above Normal Retirement Age (NRA). (The RET still applies to beneficiaries below NRA.) This allowed approximately 900,000 people who were collecting benefits but also working to not have their benefits reduced because of work.



President Clinton signs bill repealing RET.

SOCIAL SECURITY CARDS BY WOOLWORTH

The most misused SSN of all time was 078-05-1120. In 1938, the wallet manufacturer E. H. Ferree Company in Lockport, N.Y., decided to promote its product by showing how a Social Security card would fit into its wallets. A sample



Mrs. Witcher compares her real card with the one issued by Woolworth.

card, used for display purposes, was inserted in each wallet. Company Vice President and Treasurer Douglas Patterson thought it would be a clever idea to use the actual SSN of his secretary, Mrs. Hilda Schrader Witcher.

The wallets were sold by Woolworth stores and other department stores all over the country. Even though the card was only half the size of a real card, was printed all in red, and had the word “specimen” written across the face, many purchasers of the wallet adopted the SSN as their own. In the peak year of 1943, 5,755 people were using Hilda’s number. SSA acted to eliminate the problem by voiding the number and publicizing that it was incorrect to use it. (Mrs. Witcher was given a new number.)

However, the number continued to be used for many years. In all, over 40,000 people reported this as their SSN. As late as 1977, 12 people were found to still be using the SSN “issued by Woolworth.”