



**Social Security**

*Benefits America!*

# SOCIAL SECURITY BULLETIN

Vol. 70, No. 3, 2010

*Celebrating the 75th Anniversary of the Social Security Act*

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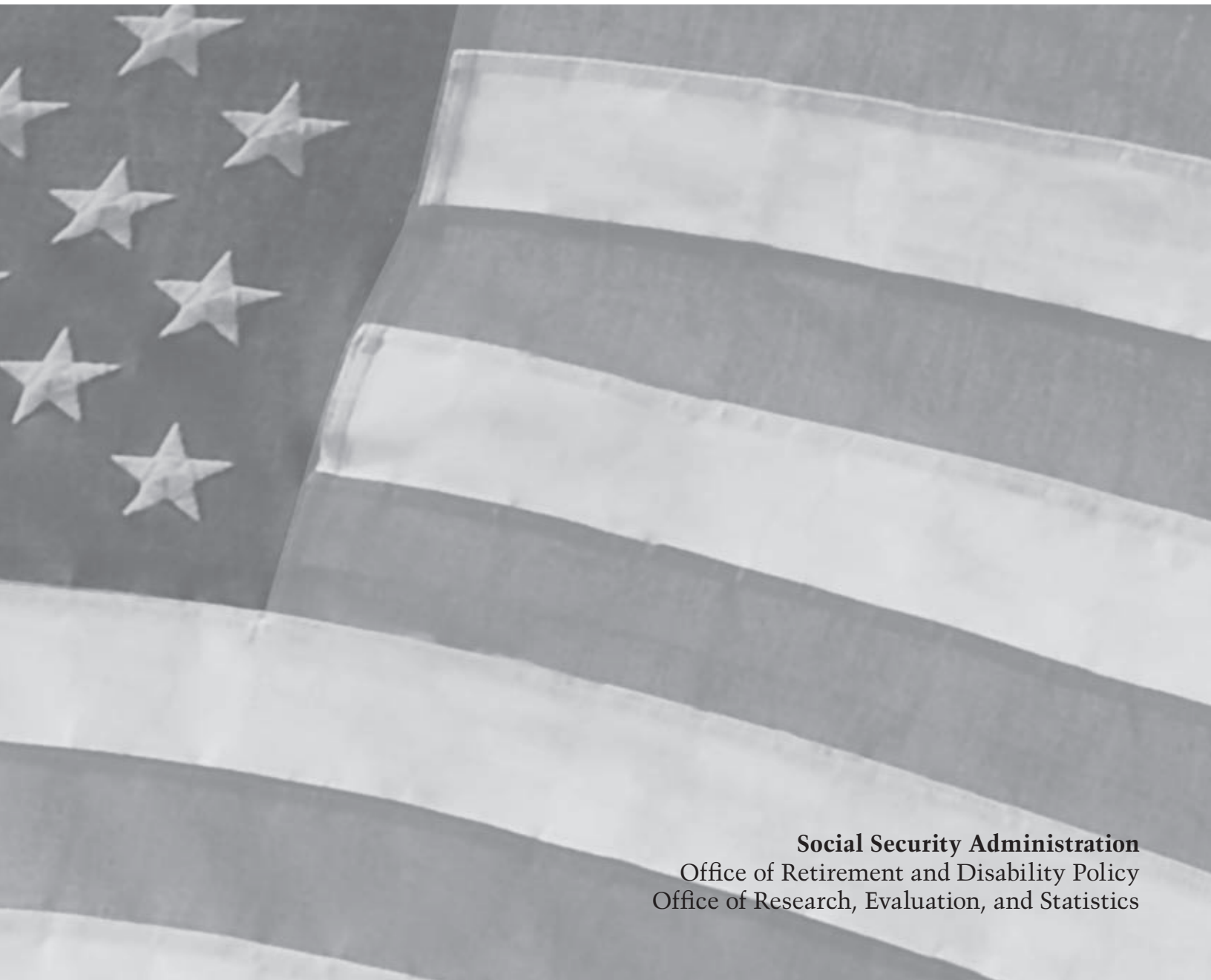
**“Perspectives” Editor**

Michael Leonesio

# SOCIAL SECURITY BULLETIN

Vol. 70, No. 3, 2010

*Celebrating the 75th Anniversary of the Social Security Act*



**Social Security Administration**  
Office of Retirement and Disability Policy  
Office of Research, Evaluation, and Statistics



THE WHITE HOUSE  
WASHINGTON

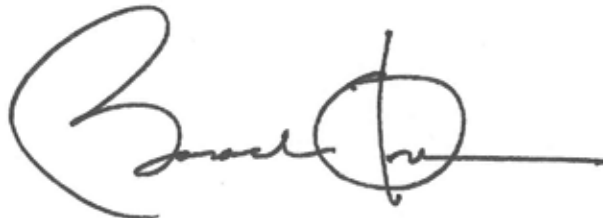
June 29, 2010

On August 14, 1935, President Franklin D. Roosevelt signed into law the Social Security Act to protect ordinary Americans “against the loss of a job and against poverty-ridden old age.” Our Nation was entrenched in the Great Depression. Unemployment neared 20 percent, and millions of Americans struggled to provide for themselves and their families. In the midst of all this, the Social Security Act brought hope to some of our most vulnerable citizens, giving elderly Americans income security and bringing us closer to President Roosevelt’s vision of a Nation free from want or fear.

As our country recovers from one of the greatest economic challenges since that time, we are grateful for President Roosevelt’s perseverance, and for the countless public servants whose efforts produced the Social Security program we know today. Social Security remains a safety net for seniors and a source of resilience for all Americans. Since 1935, it has been expanded to include dependent and survivor benefits, disability insurance, and guaranteed medical insurance for seniors through Medicare. It is a lasting promise that we can retire with dignity and peace of mind, that workers who become disabled can support themselves, and that families who suffer the loss of a loved one will not live in poverty.

On the 75th anniversary of the Social Security Act, let us ensure this program continues to preserve its original purpose in the 21st century. Together, we can give our children and our grandchildren the same protections we have cherished for decades, and in doing so, lead our Nation to a brighter day.

I thank the Social Security Administration and its many dedicated employees for their legacy of service to the American people. Please accept my best wishes as you mark this important milestone.

A handwritten signature in black ink, appearing to be "Barack Obama", written in a cursive style. The signature is positioned at the bottom of the page.



*Benefits America!*

## MESSAGE FROM THE COMMISSIONER

*August 14, 2010, marks the 75th anniversary of the signing of the Social Security Act into law. We have prepared a special issue of the Social Security Bulletin to commemorate this milestone. In this issue, several of our employees have contributed articles that reflect on Social Security's rich history and importance as a financial safety net for millions of Americans.*

In the first article, Larry DeWitt, SSA's historian, describes the historical background and major legislative developments of the U.S. Social Security program. In the second article, Carolyn Puckett, from the Office of Research, Evaluation, and Statistics, documents the many administrative challenges that the agency has faced. Carolyn's article covers efforts to modernize, restructure, and improve processes; cope with staff reductions; and comply with court decisions. Next, Dalmer Hoskins, from the Office of Research, Evaluation, and Statistics and formerly the Secretary General of the International Social Security Association, provides an international perspective. David Weaver, the Deputy Associate Commissioner for Retirement Policy, follows with an article about widows under Social Security. David's article examines the adequacy of these benefits and the economic well-being of this group. In the final article, Stephen Goss, SSA's Chief Actuary, examines the future financial status of the Social Security program.

I hope you enjoy reading this issue of the *Bulletin*. I encourage you to learn more about Social Security by visiting our History Page at <http://www.socialsecurity.gov/history/>.

Michael J. Astrue  
Commissioner of Social Security

# SOCIAL SECURITY BULLETIN

Volume 70 • Number 3 • 2010

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## Articles

**1      **The Development of Social Security in America****

*by Larry DeWitt*

This article examines the origins and legislative development of the U.S. Social Security program over its 75-year history. It traces the major amendments adopted over the decades and provides a summary assessment of the impact and importance of Social Security as a central pillar of the U.S. social welfare system.

**27     **Administering Social Security: Challenges Yesterday and Today****

*by Carolyn Puckett*

During its 75-year history, the Social Security Administration (SSA) has faced many administrative challenges. This article depicts some of those challenges—involving legislative demands, staffing and workloads, infrastructure and technology, logistics and procedures, emergency response operations, and other matters—and the steps that SSA has taken to deal with them.

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Among the social security systems of industrialized countries, has the U.S. Old-Age, Survivors, and Disability Insurance program followed a unique historical path? This article finds that the historical development of the U.S. Social Security system follows closely in many respects the model provided by older social insurance systems, particularly that of Germany. However, certain aspects of the U.S. Social Security experience stand out as exceptional from an international perspective, including the persistent rejection of general revenue financing, the significance attributed to long-range (75-year) projections, and the relative generosity of dependents' benefits.

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This article provides policymakers with context for understanding past and future policy discussions regarding Social Security widow benefits. Using data from household surveys, projections from a microsimulation model, and recent research, it examines three types of benefits—those for aged widows, widows caring for children, and disabled widows.

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*by Stephen C. Goss*

This article describes four concepts—solvency, sustainability, shortfalls, and solutions—as they apply to the financial status of the Social Security program as well as how Social Security financing fits in the general federal budget. The little-understood basis for future projected shortfalls is explained and detailed in relation to the possible solutions.

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# THE DEVELOPMENT OF SOCIAL SECURITY IN AMERICA

by Larry DeWitt\*

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*This article examines the historical origins and legislative development of the U.S. Social Security program. Focusing on the contributory social insurance program introduced in title II of the Social Security Act of 1935, the article traces the major amendments to the original program and provides an up-to-date description of the major provisions of the system. The article concludes with a brief overview of the debate over the future of the program, and it provides a summary assessment of the impact and importance of Social Security as a central pillar of the U.S. social welfare system.*

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## **Conceptual Foundations and Historical Precedents**

This section provides a high-level overview of the historical background and developments leading up to the establishment of the Social Security system in the United States.

### **The Origins of Social Insurance**

*Economic security* is a universal human problem, encompassing the ways in which an individual or a family provides for some assurance of income when an individual is either too old or too disabled to work, when a family breadwinner dies, or when a worker faces involuntary unemployment (in more modern times).

All societies throughout human history have had to come to terms with this problem in some way. The various strategies for addressing this problem rely on a mix of individual and collective efforts. Some strategies are mostly individual (such as accruing savings and investments); others are more collective (such as relying on help from family, fraternal organizations and unions, religious groups, charities, and social welfare programs); and some strategies are a mix of both (such as the use of various forms of insurance to reduce economic risk).

The *insurance principle* is the strategy of minimizing an individual's economic risk by contributing to a fund from which benefits can be paid when an insured

individual suffers a loss (such as a fire that destroys the home). This is private insurance. The modern practice of private insurance dates at least back to the seventeenth century with the founding in 1696 of Lloyds of London. In America, Benjamin Franklin founded one of the earliest insurance companies in 1752. Historically, private insurance was mainly a way that the prosperous protected their assets—principally real property. The idea of insuring against common economic “hazards and vicissitudes of life” (to use President Franklin Roosevelt’s phrase) really only arose in the late nineteenth century in the form of *social insurance*.

Social insurance provides a method for addressing the problem of economic security in the context of modern industrial societies. The concept of social insurance is that individuals contribute to a central

#### **Selected Abbreviations**

CES	Committee on Economic Security
COLA	cost-of-living adjustment
FRA	full retirement age
GAO	General Accounting Office (now known as the Government Accountability Office)
RET	retirement earnings test
SSA	Social Security Administration
SSI	Supplemental Security Income

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\* Larry DeWitt is a public historian with the Office of Publications and Logistics Management, Social Security Administration.

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fund managed by governments, and this fund is then used to provide income to individuals when they become unable to support themselves through their own labors. Social insurance differs from private insurance in that governments employ elements of social policy beyond strict actuarial principles, with an emphasis on the social adequacy of benefits as well as concerns of strict equity for participants. Thus, in the U.S. Social Security system, for example, benefits are weighted such that those persons with lower past earnings receive a proportionately higher benefit than those with higher earnings; this is one way in which the system provides progressivity in its benefits. Such elements of social policy would generally not be permissible in private insurance plans.

The need for social insurance became manifest with the coming of the Industrial Revolution. Earlier forms of economic security reflected the nature of preindustrial societies. In preindustrial America, most people lived on the land (and could thus provide their own subsistence, if little else); they were self-employed

as farmers, laborers, or craftsmen, and they lived in extended families that provided the main form of economic security for family members who could not work. For example, in 1880, America was still 72 percent rural and only 28 percent urban. In only 50 years, that portrait changed; in 1930, we were 56 percent urban and only 44 percent rural (Bureau of the Census 1961).<sup>1</sup>

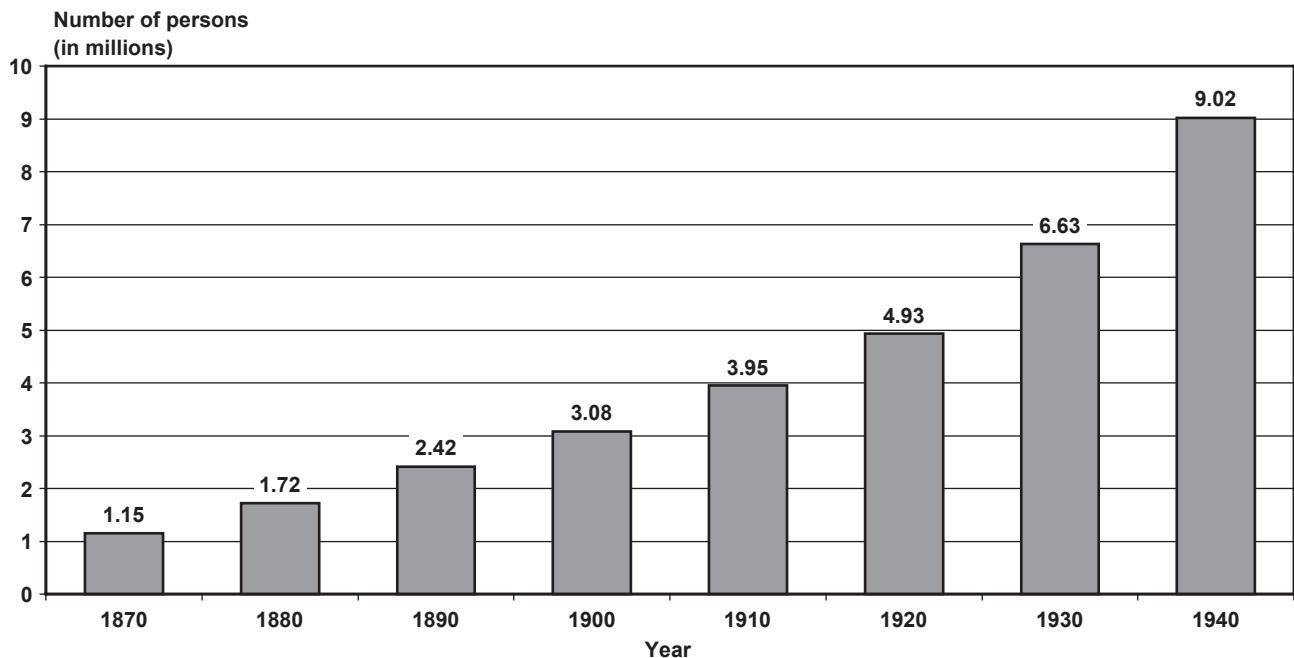
“ The year 1920 was a historical tipping-point. For the first time in our nation’s history, more people were living in cities than on farms. ”

*Historical Statistics of the United States: Colonial Times to 1957*

The problem of economic security in old age was not as pressing in preindustrial America because life expectancy was short. A typical American male born in 1850 had a life expectancy at birth of only 38 years (a female, only 2 years longer).<sup>2</sup> But with the dawning of the twentieth century, a revolution in public sanitation, health care, and general living standards produced a growing population of Americans living into old age (see Chart 1).

Thus, the shift from preindustrial to industrialized societies undermined traditional strategies for providing economic security and created a need for new forms of social provision.

**Chart 1.**  
**Growth in U.S. population aged 65 or older, selected years 1870–1940**



SOURCE: *Historical Statistics of the United States: Colonial Times to 1957*, part 1, series A 199–134, p. 15, Bureau of the Census.

## **Civil War Pensions**

The only substantial precedent for federal social insurance was the system of *Civil War pensions*. The federal government began paying benefits to Union veterans and their surviving families almost from the start of the war (Bureau of the Census 1975).<sup>3</sup>

In 1893, the peak-cost year, Civil War pensions accounted for 41.5 percent of the federal budget. Not coincidentally, the federal budget that year changed from a surplus of over \$2 million in 1892 to a deficit of over \$61 million in 1893 (the first deficit since the end of the Civil War).<sup>4</sup> (For comparison, the Social Security system was about 22 percent of the federal budget in 2008.)

By the end of the nineteenth century, the Civil War pension system had become a *de facto* social insurance program—paying retirement, disability, and survivors benefits—albeit for a limited (and vanishing) cohort of the American population.<sup>5</sup> Surprisingly, Civil War pension benefits were still being paid until 2003. In that year, the last surviving widow of a Civil War veteran died at age 94.<sup>6</sup>

## **The European Models**

By the time America adopted its first national social insurance plan in 1935, there were already more than 20 nations around the world with operating social insurance systems (Liu 2001). The first Social Security retirement system was put in place in Germany in 1889. Six years earlier, Germany adopted a workers' compensation program and health insurance for workers. Great Britain instituted disability benefits and health insurance in 1911 and old-age benefits in 1925. These European systems, especially the German system, were to a considerable degree models for the American system. Many of the European systems, however, drew contributions from the government as well as from workers and their employers. This was a precedent America did not adopt.

## **America on the Eve of Social Security**

Because social insurance began in Europe decades before it crossed the Atlantic to our shores, there was time for the development of American expertise on the subject. Among the notable academic experts were Henry Seager, professor at Columbia University, who authored the first American book on social insurance, and Barbara Armstrong, professor at the University of California at Los Angeles (Seager 1910; Armstrong

1932). Two social insurance advocates stand out: Isaac Rubinow and Abraham Epstein (Rubinow 1913 and 1934; A. Epstein 1936; P. Epstein 2006).<sup>7</sup>

In addition to these advocates for a European style social insurance system, there were related developments at the state level in America before 1935. Wisconsin, for instance, enacted the first workers' compensation program in 1911 and the first state unemployment insurance program in 1934.<sup>8</sup>

Throughout the first two decades of the twentieth century, there was a concerted movement for Mothers Pensions (the forerunner of what we would come to know as Aid to Families with Dependent Children). The first Mothers Pensions program appeared in 1911; 40 of the 48 states had such programs by 1920. However, the monthly stipends were modest and varied tremendously from state to state—from a high of \$69.41 in Massachusetts to a low of \$4.33 in Arkansas (Skocpol 1992, 466 and 472).

The *state old-age pension* movement was the most active form of social welfare before Social Security. This movement was an attempt to persuade state legislatures to adopt needs-based pensions for the elderly. Lobbying for old-age pensions was well organized and was supported by a number of prominent civic organizations, such as the Fraternal Order of Eagles. State welfare pensions for the elderly were practically nonexistent before 1930, but a spurt of pension legislation was passed in the years immediately preceding passage of the Social Security Act, so that 30 states had some form of old-age pension program by 1935. Although old-age pensions were widespread, they were generally inadequate and ineffective. Only about 3 percent of the elderly were actually receiving benefits under these state plans, and the average benefit amount was about 65 cents per day (\$19.50 per month).

## **The Great Depression and Economic Security**

Although the Depression that began in 1929 affected virtually everyone in America, the elderly were especially hard hit. Older workers tended to be the first to lose their jobs and the last to be rehired during economically difficult times. In the pre-Social Security era, almost no one had any reliable cash-generating form of retirement security. Fewer than 10 percent of workers in America had any kind of private pension plan through their work. Retirement as an expected and ordinary phase of a life well lived—as we experience it today—was virtually unknown among working

class Americans before the arrival of Social Security. The majority of the nonworking elderly lived in some form of economic dependency, lacking sufficient income to be self-supporting.<sup>9</sup>

This extreme economic climate of the 1930s saw a proliferation of “pension movements,” most of which were dubious and almost certainly unworkable. The most well known of these radical pension movements was the Townsend Plan. It promised every American aged 60 or older a retirement benefit of \$200 per month—at a time when the average income of working Americans was about \$100 a month (Amenta 2006). Huey Long, senator from Louisiana, offered his Share the Wealth plan; Father Charles Coughlin, the radio priest, advanced his Union for Social Justice; and the novelist Upton Sinclair promoted the End Poverty in California plan.<sup>10</sup> Millions of desperate seniors joined efforts to make these schemes national policy. As the clamor for old-age pensions rose, President Roosevelt decided that the government needed to come forward with some realistic and workable form of old-age pension. He told Frances Perkins, his secretary of labor, “We have to have it. The Congress can’t stand the pressure of the Townsend Plan unless we have a real old-age insurance system...” (Perkins 1946, 294).

However, the Great Depression is not the *reason* for having a Social Security system; the reason is the problem of economic security in a modern industrialized society. The Depression was the *triggering event* that finally persuaded Americans to adopt a social insurance system.

### ***Crafting the American Variety of Social Insurance***

Historians typically divide the years of the Franklin Roosevelt presidency into a “First New Deal” and a “Second New Deal.”<sup>11</sup> The First New Deal (1933–1934) was the period of “relief and recovery” from the immediate impacts of the Depression. The Second New Deal (1935–1937) was the period of “reform,” in which the administration sought to introduce longer-lasting changes to the nation’s political economy. The Social Security Act of 1935 is the defining initiative and starting point of this Second New Deal. It was also President Roosevelt’s proudest domestic accomplishment as president (Perkins 1946, 301).

To craft this unprecedented new form of federal social provision, President Roosevelt appointed a special panel—the Committee on Economic Security (CES)—to study the existing systems around the world, to analyze the problem of economic security in the United States, and to design a social insurance system “suited to American purposes.” The CES was chaired by Secretary of Labor Perkins, who was clearly the most important figure in this early pioneering effort (DeWitt 2009).

The CES began its work in June 1934, and by the end of the year, the committee had completed its major studies and designed a legislative proposal, which the president submitted to Congress in January 1935.<sup>12</sup>

### ***The Social Security Act of 1935: A Cornerstone***

The proposed Economic Security Act was submitted to Congress on January 17, 1935.<sup>13</sup> Hearings were held in the House Ways and Means Committee and the Senate Finance Committee throughout January and February. The bill was debated in the two houses for a total of 18 days, and it was signed into law on August 14, 1935.<sup>14</sup> The legislation that now is thought of simply as “Social Security” was in fact an omnibus bill containing seven different programs (Table 1).

Much of the debate and interest in the Congress concerned the Old-Age Assistance and Unemployment Insurance programs (Titles I and III of the act). Most members of Congress paid scant attention to the Title II program, even though history would prove it to be the most significant provision of the law.

The main debate over the Social Security program involved two issues: (1) the program’s financing, in particular, the role of the reserve fund; and (2) the question of whether participation might be made voluntary for certain employers.

On the financing issue, President Roosevelt insisted that the program be self-supporting, in the sense that all of its financing must come from its dedicated payroll taxes and not from general government revenues. He viewed the idea of using general revenues as tantamount to a “blank check” that would allow lawmakers to engage in unbridled spending, and he feared it would inevitably lead to unfunded

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“ The one almost all-embracing measure of security is an assured income. A program of economic security... must provide safeguards against all of the hazards leading to destitution and dependency. ”

Report of the CES to Congress

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**Table 1.**  
**Programs in the Social Security Act of 1935**

Title	Program	Description
I	Old-Age Assistance	Federal financial support and oversight of state-based welfare programs for the elderly
II	Federal Old-Age Benefits	The Social Security program
III	Unemployment Insurance	National unemployment insurance, with federal funding and state administration
IV	Aid to Dependent Children	State-based welfare for needy children (what would come to be called AFDC)
V	Grants to States for Maternal and Child Welfare	Federal funding of state programs for expectant mothers and newborns
VI	Public Health Work	Federal funding of state public health programs
X	Aid to the Blind	Federal funding of state programs to aid the blind

SOURCE: <http://www.socialsecurity.gov/history/35actinx.html>.

future deficits. By tying expenditures to a dedicated revenue source, the program could never spend more than it could accrue through payroll taxation.

However, there are a couple of well-known problems with the start-up of all pension schemes. Typically, pension system costs are lowest in the early days when few participants have retired and much higher later on when more people qualify for benefits. Funding a pension system on a current-cost basis thus would impose significantly higher taxes on future cohorts of beneficiaries. To offset this tendency, the CES planners proposed using a large reserve fund that could be used to generate investment income thereby meeting a portion of future program costs. The concept of the Social Security reserve was thus created. Out of an abundance of caution, the reserve fund could only be invested in government securities or “in obligations guaranteed as to both principal and interest by the United States.” As enacted, the Social Security Act created a reserve that was then estimated to reach \$47 billion by 1980 (DeWitt 2007).<sup>15</sup>

“ This law, too, represents a cornerstone in a structure which is being built but is by no means complete. ”

President Roosevelt on signing the 1935 Act

Congressional opponents of the reserve believed that the reserve was unworkable. These members made two arguments: (1) Congress would spend the money in the reserve for purposes of which opponents might not approve, and (2) the idea of government bonds as a repository of genuine economic value was dubious. Thus, the Republican members of the Ways and Means Committee dissented from passage of the law. Most members of Congress, however, gave no indication of sharing these concerns, and the law was adopted with an overwhelmingly bipartisan vote in both houses of Congress (DeWitt, Béland, and Berkowitz 2008, 527).

The second problem with the start-up of pension systems is that early program participants do not typically have the opportunity to work long enough to qualify for an adequate benefit amount—if their benefit is computed on strictly actuarial grounds. Therefore, most pension systems (in both the government and private sectors) usually make some special allowance in the form of a subsidy to early participants. Benefits to the earliest cohorts of Social Security beneficiaries were in fact subsidized in this way.

This kind of subsidy is a foundational principle of the Social Security system: Benefits should be both *adequate* and *equitable*. “Adequate” means that the benefits should be generous enough to provide real economic security to the beneficiaries; “equitable” means that the benefits should be related in some way to the level of contributions that a participant has made to the system (for example, higher contributions should result in higher benefits). Some policies seek to address the adequacy factor of this principle, and others seek to address the program’s equity; policymaking in Social Security is often a question of seeking the best balance between these two factors.

The issue regarding voluntary participation focused on those few establishments that had existing company pension programs. An amendment introduced by Senator Clark (D-MO) proposed that any firm having a plan that was at least as generous as the proposed government plan be allowed to opt out of participation. This issue held up the bill for a month as the conference between the two houses was stymied by the Clark amendment. Finally, the sponsors of the amendment dropped the provision and the bill went to the president for his signature.<sup>16</sup>

The illustration below is a composite photograph constructed from several of the images taken at the signing ceremony.

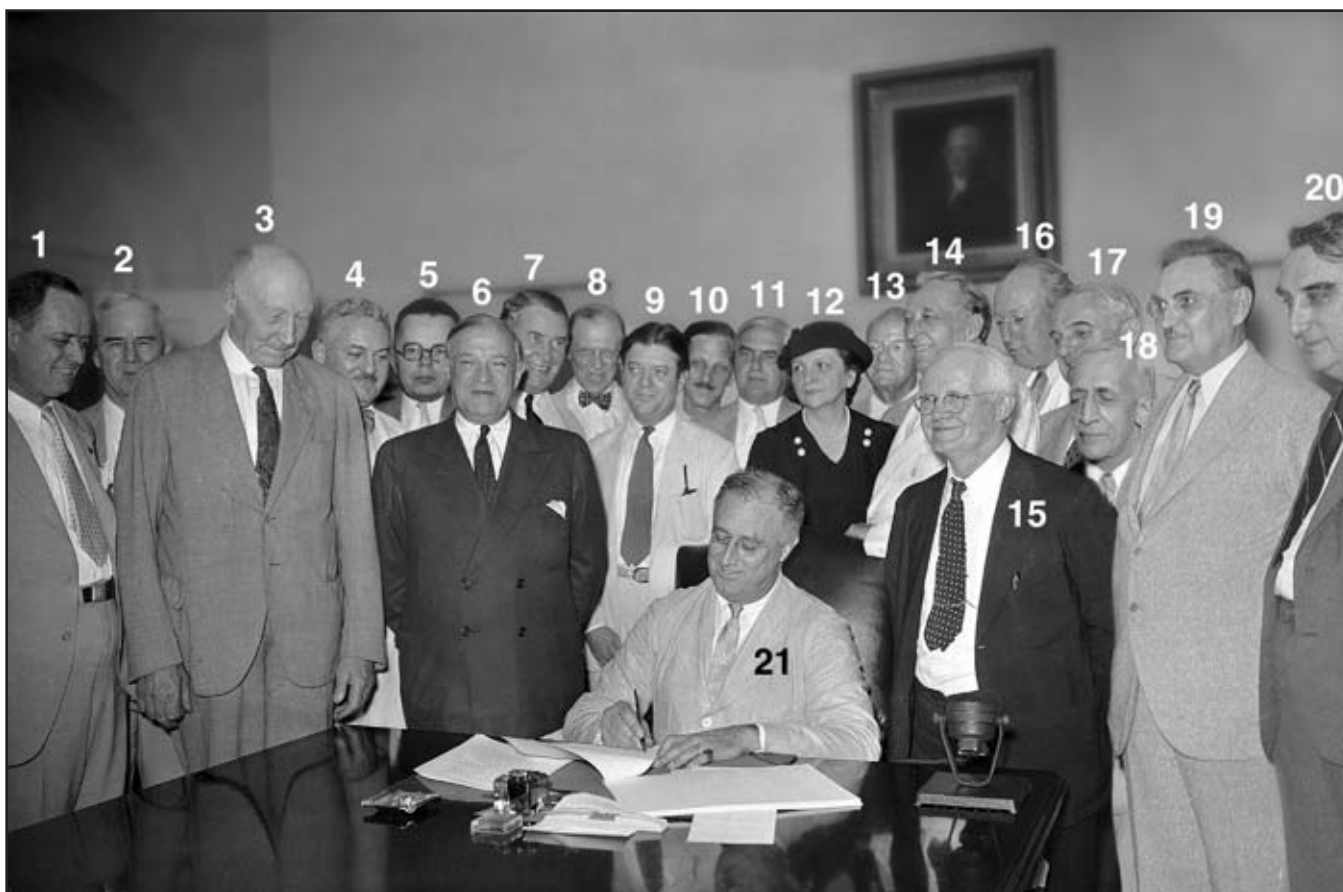
The original program was designed to pay *retirement benefits* only at age 65 and only to the covered worker, himself or herself. The selection of age 65 was a pragmatic “rule-of-thumb” decision based on two factors. First, about half of the state old-age pension systems then in operation in the United States used age 65. Second, the CES actuaries performed calculations with various ages to determine the cost impacts of setting the retirement age at various levels, and age 65 provided a reasonable actuarial balance in the system. (In 1935, remaining life expectancy at age 65 was approximately 12 years for men and 14 years for women.)<sup>17</sup>

There was an “absolute” retirement test for receipt of benefits, based on the social insurance principle that benefits were a partial replacement of wages lost

because of the cessation of work. Thus, for any month in which a beneficiary worked and earned any amount of money whatsoever, he or she was ineligible for a Social Security retirement benefit for that month.

Benefits were computed based on the *total cumulative wages* that a worker had in covered employment. Thus, the more years in covered employment, the higher the eventual benefit amount (other things being equal). The benefit formula also contained the “social weighting” (or progressivity) aspect that persists to this day, in which workers with lower earnings levels receive a proportionately higher benefit, relative to their prior earnings, than workers with high wages. This process addresses the adequacy half of the equity/adequacy dyad, and it is one way in which social insurance diverges from private insurance.

*Coverage* was quite limited. Slightly more than half the workers in the economy were participants in



Those present at the signing ceremony are as follows: 1. Rep. Jere Cooper (D-TN); 2. Rep. Claude Fuller (D-AR); 3. Rep. Robert Doughton (D-NC); 4. Rep. Frank Buck (D-CA); 5. Rep. John Boehne, Jr. (D-IN); 6. Sen. Robert Wagner (D-NY); 7. Sen. Alben Barkley (D-KY); 8. unknown individual; 9. Sen. Robert LaFollette, Jr., (PROG-WI); 10. Rep. John Dingell, Sr. (D-MI); 11. Sen. Augustine Lonergan (D-CT); 12. Secretary of Labor Frances Perkins; 13. Rep. Frank Crowther (R-NY); 14. Sen. William H. King (D-UT); 15. Rep. David J. Lewis (D-MD); 16. Sen. Byron Patton “Pat” Harrison (D-MS); 17. Sen. Joseph Guffey (D-PA); 18. Sen. Edward Costigan (D-CO); 19. Rep. Samuel B. Hill (D-WA); 20. Rep. Fred Vinson (D-KY); and 21. President Franklin D. Roosevelt.  
SSA History Museum & Archives.

the original program. Coverage under the program was by occupational category, with most covered workers employed in “commerce and industry.” Among the excluded groups were the self-employed, government employees, persons already age 65, the military, professionals (doctors, lawyers, etc.), employees of nonprofit organizations, and agricultural and domestic workers.<sup>18</sup>

*Financing* was to be generated from a payroll tax imposed equally on employers and employees (with no government contribution). The tax rate was initially set at 1 percent on each party, with scheduled increases every 3 years, to an eventual rate of 3 percent each by 1949. Payroll taxes were to begin in January 1937, and the first benefits were to be payable for January 1942. The wage base (the amount of earnings subject to the tax) was set at \$3,000. This level was sufficient to include 92 percent of all wages paid to the covered groups. Stated another way, about 97 percent of all covered workers had their entire earnings subject to the tax (SSA 2010).<sup>19</sup>

### ***Building on the Cornerstone***

The Social Security system with which we are familiar today is far different from the one created in 1935. In each of the three major policymaking areas (coverage, benefits, and financing), the program has undergone a slow but dramatic evolution.

Coverage was initially very limited. Only slightly more than half the workers in the economy were participants in the program under the 1935 law. Today we could describe Social Security’s coverage as nearly universal, with about 93 percent of all workers participating in the program. Benefits were initially paid only to retirees and only to the individual worker, himself or herself. There were no other types of benefits and no benefits for dependent family members. Benefits were also far from generous. Financing has always been an issue. Although some aspects of this matter were decisively settled in 1935, others have continued to be sources of ongoing policy contention and political debate. Social Security has evolved over the past 75 years principally through the form of a dozen or so major legislative enactments. In broad terms, the period from 1935 through 1972 is the *expansionary period* for the program, and the period since 1972 has been a period of *policy retrenchment*.<sup>20</sup> The major Social Security legislation is highlighted in Table 2.<sup>21</sup>

### ***The First Social Security Payments***

The Social Security Act of 1935 set the start payroll taxes in 1937 and the start of monthly benefits in 1942. This was a kind of “vesting period,” in which a minimum amount of work would be required to qualify for monthly benefits. This period also allowed time to build some level of reserves in the program’s account before payments began flowing to beneficiaries.

The vesting period arrangement presented a conundrum: How should the program treat those workers who turn age 65 during this period, or who die before January 1942? These individuals would have contributed something to the system, and it was thought that they should receive some return for their contributions. Thus, the original program paid two types of one-time, lump-sum benefits in the 1937–1939 period. A person attaining age 65 during this time would be entitled to a one-time payment equal to 3.5 percent of his or her covered earnings; and the estate of a deceased worker would receive a “death benefit” computed in the same way. Because the payroll tax in these years was only 1 percent for workers, this would mean a substantial “return” on their payroll taxes.

The first person to take advantage of these benefits—and thus the first Social Security payment ever made—was a Cleveland, Ohio streetcar motorman named Ernest Ackerman. Ackerman worked one day under Social Security—January 1, 1937. His wage for that day was \$5. He dutifully paid his payroll tax of one nickel and he received a one-time check from Social Security for 17 cents.<sup>22</sup>

In the 1937–1939 period, more than 441,000 people received Social Security benefits totaling over \$25 million (see Table 3). Of the total monies paid to beneficiaries during this period, 39 percent was for so-called “life cases” (like Ackerman), and 61 percent went for “death benefits.”

### ***The Amendments of 1939***

Even before monthly benefits were due to start in 1942, the Social Security Act of 1935 was changed in quite fundamental ways by major legislative amendments in 1939. This legislation emerged from the work of an advisory council jointly formed in 1938 by the Senate Finance Committee and the Social Security Board. Conservative members of the Finance Committee (especially Arthur Vandenberg, R-MI) wanted to use the council to revisit the debate over the reserve, while the Social Security Board (especially Arthur

**Table 2.**  
**Major Social Security legislation**

Law	Date enacted	Major features
The Social Security Act	August 14, 1935	Established individual retirement benefits.
The 1939 amendments	August 10, 1939	Added dependents and survivors benefits and made benefits more generous for early participants. Financing at issue.
The 1950 amendments	August 28, 1950	Adjusted, on a major scale, coverage and financing. Increased benefits for the first time. Provided for gratuitous wage credits for military service.
Legislation in 1952	July 18, 1952	Raised benefits; liberalized retirement test and expanded gratuitous wage credits for military service.
Legislation in 1954	September 1, 1954	Extended coverage. Disability “freeze.”
The 1956 amendments	August 1, 1956	Added cash disability benefits at age 50. Early retirement for women.
The 1958 amendments	August 28, 1958	Added benefits for dependents of disabled beneficiaries.
The 1960 amendments	September 13, 1960	Disability benefits at any age.
The 1961 amendments	June 30, 1961	Established early retirement for men. Liberalized eligibility requirements for other categories.
The 1967 amendments	January 2, 1968	Added disabled widow(er)s benefits.
The 1972 Debt-Ceiling Bill	July 1, 1972	Added automatic annual cost-of-living adjustments.
The 1977 amendments	December 20, 1977	Raised taxes and scaled back benefits. Long-range solvency at issue.
The 1980 amendments	June 9, 1980	Tightened disability eligibility rules.
Omnibus Budget Reconciliation Act of 1981	August 13, 1981	Eliminated student benefits after high school.
The 1983 amendments	April 20, 1983	Raised taxes and scaled back benefits. Long-range and short-range solvency at issue.
Omnibus Budget Reconciliation Act of 1993	August 10, 1993	Raised taxable portion of Social Security benefits from 50 percent to 85 percent.
Senior Citizens Freedom to Work Act of 2000	April 7, 2000	Eliminated the retirement earnings test for those at the full retirement age.

SOURCE: Congressional Research Service (CRS) Report RL30920, *Major Decisions in the House and Senate on Social Security, 1935–2009*.

Altmeyer, its chairman) wanted to use the council to promote expansion of the benefits beyond the basic individual retirement program codified in the 1935 act. In the end, both groups got some of what they wanted. The legislation advanced the start of monthly benefits from 1942 to 1940; it added dependents benefits; and it replaced the system of one-time death payments with regular monthly *survivors benefits*.

Advancing the start of monthly benefits from 1942 to 1940 meant that the first Social Security monthly benefit would be paid in January 1940. By chance, the first person to become a monthly Social Security

beneficiary was a retired legal secretary from Ludlow, Vermont—Ida May Fuller. Fuller retired in November 1939 at age 65 and received the first-ever monthly Social Security benefit on January 31, 1940. Her monthly check was for \$22.54.

The amendments of 1939 provided benefits for wives and widows (but no corresponding benefits for men) and also for dependent children. The wife of a retired worker and each minor child could receive a benefit equal to half the covered worker’s benefit, and widows could receive 75 percent of the worker’s benefit (all for no additional payroll taxes).<sup>23</sup>



**Table 3.**  
**Number of Social Security beneficiaries and payment amounts, 1937–1939**

Year	Beneficiaries	Payments (\$ in millions)
1937	53,236	1,278,000
1938	213,670	10,478,000
1939	174,839	13,896,000
Total	441,745	25,652,000

SOURCE: SSA (1940, Table 5, p. 47 and Table 15, p. 34).

This was a major expansion of the program. Indeed, one might well say that this was the “second start” of Social Security in America. The 1939 legislation changed the basic nature of the program from that of a retirement program for an individual worker, to a *family-based* social insurance system (based on the then-current model of the family, in which the man was the breadwinner with a nonworking wife who cared for the minor children).

The 1939 law also made benefits to early program participants significantly higher than under the original law, although benefits were lowered for later participants. And it made benefits for married couples higher than those for single workers, by virtue of the addition of dependents benefits. In addition, benefits for single workers were lowered somewhat from their 1935 values. Thus, early program participants and married couples benefited from the changes in 1939, while single persons and later participants had their benefits reduced. This combination of policy changes was a principal way in which the actuarial balance of the system was to be maintained.

These policies considerably increased the cost of the program in the near term. This pleased the opponents of the large reserve because it immediately reduced the size of the reserve. It was claimed that in the long run the changes were revenue neutral, and thus it is unclear what real change the amendments made in the long-range financing of the system. However, this claim for revenue neutrality was not well documented at the time, and it has now come under considerable doubt (DeWitt 2007).

The 1939 legislation also introduced the trust fund for the first time as a formal legal device to serve as the asset repository for Social Security surpluses. (Under the 1935 law, Social Security’s funds were more literally a bookkeeping entry in the Treasury Department’s general accounts.)

A smaller, but important, change was also introduced in 1939. Under the 1935 law, benefits were computed based on the *total cumulative wages* a worker had under covered employment. Thus, a long-time covered worker would receive a higher monthly benefit than one who worked less time under the program—even if they both had the same level of wages. So, for example, if “worker A” worked 20 years under Social Security and earned \$20,000 a year and “worker B” worked 30 years at \$20,000 a year, worker B would receive a higher benefit because his or her cumulative wages would be greater than that of the other worker—even though they were both earning \$20,000 a year.<sup>24</sup>

As part of the refinancing in the amendments of 1939, benefits were shifted from this cumulative basis to that of *average monthly wages*. One effect of this change would be that everyone who had the same average monthly wage would receive the same benefit amount, regardless of how many years they were covered under Social Security. The intent here was to make benefits more adequate by insuring that persons with the same earnings level would receive the same benefit. (Keep in mind that in these early years, the benefits were still viewed as replacement of income lost because of cessation of work. So the idea is that persons earning at a given level need the same level of income replacement, regardless of how long they have been covered by the program.) However, to maintain some equity for long-time program participants, a 1 percent *increment* was added to the benefit formula for each year of program participation. Thus, a long-time participant would still receive a higher monthly benefit than a short-time one, even if they both earned the same average wages. (Here again, we see the attempt to balance adequacy and equity.)

The 1939 legislation also introduced the first modification of the retirement test. Under this relaxed provision, a retirement benefit was payable for any month in which the beneficiary earned less than \$15 (any earnings over this limit produced a zero benefit for that month). This was the beginning of a gradual erosion of the requirement that a beneficiary be fully retired to receive a retirement benefit, a process that would culminate in the elimination of the retirement earnings test (RET) in 2000 for those at or above the full retirement age (FRA).

### ***The 1940s: A Decade of Start/Stop Tax Policy***

The decade of the 1940s was in most respects a quiescent period for Social Security policymaking: No new categories of benefits were added, no significant

expansions of coverage occurred, the value of benefits was not increased (there were no cost-of-living adjustments (COLAs) in these early days), and the tax rates were not raised during the entire decade.<sup>25</sup> This last nonevent (no tax rate increase) was, however, a significant anomaly.

The 1935 law set a schedule of tax increases beginning in 1939. Tax rates were scheduled to rise four times between 1935 and 1950. These periodic increases were necessary in order to meet President Roosevelt’s demand that the system be self-supporting, and they were the basis on which the actuarial estimates were derived. However, as part of the trade-offs in the amendments of 1939, the first rate increase (in 1940) was cancelled. Then with the coming of World War II, the program’s finances were dramatically altered. With virtually full employment in the wartime economy, more payroll taxes began flowing into the system than the actuaries originally anticipated, and retirement claims dropped significantly. The net result was that the trust fund began running a higher balance than was previously projected. This led to the Congress enacting a series of tax rate “freezes,” which voided the tax schedule in the law. Each time a new tax rate approached, the Congress would void the increase with the expectation that the normal schedule would resume at the next step in the schedule—but this expectation was never met.

In all, eight separate legislative acts froze taxes at their 1935 level all the way to 1950 (see Table 4). The

**Table 4.**  
**Projected versus actual Social Security tax rates**  
**(employee and employer rates combined),**  
**1937–1950**

Year	1935 law	Actual rates
1937	2.0	2.0
1938	2.0	2.0
1939	2.0	2.0
1940	3.0	2.0
1941	3.0	2.0
1942	3.0	2.0
1943	4.0	2.0
1944	4.0	2.0
1945	4.0	2.0
1946	5.0	2.0
1947	5.0	2.0
1948	5.0	2.0
1949	6.0	2.0
1950	6.0	3.0

SOURCE: Author’s compilation.

result of these rate freezes was unclear at the time (the Congress focused only on the short-run consequences), but it is probable that the effect of these taxing policies produced the first long-range actuarial deficits in the program (DeWitt 2007).

### **The Amendments of 1950**

There were three particular features of the program before 1950 that were the source of discontent among advocates and beneficiaries: (1) the program had no provision for periodic benefit increases, (2) benefit levels overall were quite low, and (3) the program only covered about half the workers in the economy. There was also continuing debate over the size and role of the trust fund and the long-range status of the program’s finances.

The low level of benefits was of particular concern. Even by 1950, the average state old-age welfare benefit was higher than the average Social Security retirement benefit, and the number of persons receiving welfare-type, old-age benefits was greater than the number receiving Social Security retirement benefits. (The average Social Security retirement benefit at the end of 1947 was only \$25 per month for a single person (DeWitt, Béland, and Berkowitz (2008, 162).)

Moreover, because the law made no provision for any kind of benefit increases, whatever amount beneficiaries were awarded in their first monthly payment was the benefit they could expect for the rest of their lives. So, for example, Ida May Fuller (discussed earlier) lived to be 100 years old and thus collected checks for 35 years. Imagine, then, the effect of 35 years of inflation on the purchasing power of her \$22.54 benefit.

The 1950 legislation (like the 1939 legislation) emerged out of the recommendations of an advisory council.<sup>26</sup> The most dramatic provision in the new law raised the level of Social Security benefits for all beneficiaries an average of 77 percent. Although this was not, strictly speaking, a COLA (but rather an effort to raise the overall level of benefits), it did establish a precedent for the idea that benefits should be raised periodically. However, the precedent also meant that benefits were not raised automatically, but only when a special act of Congress was undertaken to do so. Thus, for many years afterwards, benefit increases would remain spotty, until automatic COLAs began in 1975.

The match between the pre-1975 benefit increases and the actual rate of inflation was far from perfect. In some years, benefits were increased more than

inflation, and in other years they were increased less, or not at all. This mismatch was particularly large in the run-up to automatic COLAs in the early 1970s. In 1972, for example, benefits were increased by 20 percent, while inflation had only risen by 1.3 percent from the year before. Cumulatively, during this period, benefits increased 391 percent, while inflation only increased 252 percent from 1940 through 1974 (see Table 5).

The question of the program’s *coverage* of occupational categories was also of central concern in the 1950 legislation. Up to this point, coverage had not changed significantly since 1935, and at least two-fifths of the workers in the economy were still excluded from the program. The Social Security Advisory Council explicitly recommended that the Congress adopt the goal of universal coverage, stating “The basic protection afforded by the contributory social insurance system under the Social Security Act should be available to all who are dependent on income from work.”<sup>27</sup>

The Congress adopted a large part of the council’s recommendation, bringing 10 million additional workers under coverage. The main groups brought under coverage were most self-employed workers and domestic and agricultural workers. Employees of state and local governments were given the option of voluntary coverage, as were employees of nonprofit institutions (subject to certain conditions).

The coverage rules, however, were complex and marked the beginning of a policymaking process for coverage that involved complicated special rules for various occupational groups.<sup>28</sup> Nevertheless, we could say that in the amendments of 1950, the program was put on a glide path toward universal coverage (see Chart 2).

The 1950 legislation also addressed the issue of the program’s financing. Tax rates were increased for the first time, and the program’s long-range solvency was assessed; the financing was set such that the program could be certified by the actuaries as being in long-range actuarial balance.<sup>29</sup> This part of the legislation effectively ended the debate over the role of the reserve, and it established the precedent that major changes to the program must be assessed for their long-range impact on program financing (DeWitt 2007).

The role of the 1 percent “increment” introduced in 1939 was to insure that long-time program participants would receive proportionately higher benefits than

**Table 5.**  
**Social Security benefit increases compared with inflation, 1940–1974 (in percent)**

Calendar year	Increase in benefits	Actual increase in inflation <sup>a</sup>
1940	Base year	...
1941	None	5
1942	None	11
1943	None	6
1944	None	2
1945	None	2
1946	None	8
1947	None	14
1948	None	8
1949	None	-1
1950	77.0	1
1951	None	8
1952	12.5	2
1953	None	1
1954	13.0	1
1955	None	0
1956	None	1
1957	None	3
1958	None	3
1959	7.0	1
1960	None	2
1961	None	1
1962	None	1
1963	None	1
1964	None	1
1965	7.0	2
1966	None	3
1967	None	3
1968	13.0	4
1969	None	5
1970	15.0	6
1971	10.0	4
1972	20.0	3
1973	None	6
1974	11.0	11
<b>1940–1974<sup>b</sup></b>	<b>391.0</b>	<b>252</b>

SOURCE: Bureau of Labor Statistics data. Calculations by the author.

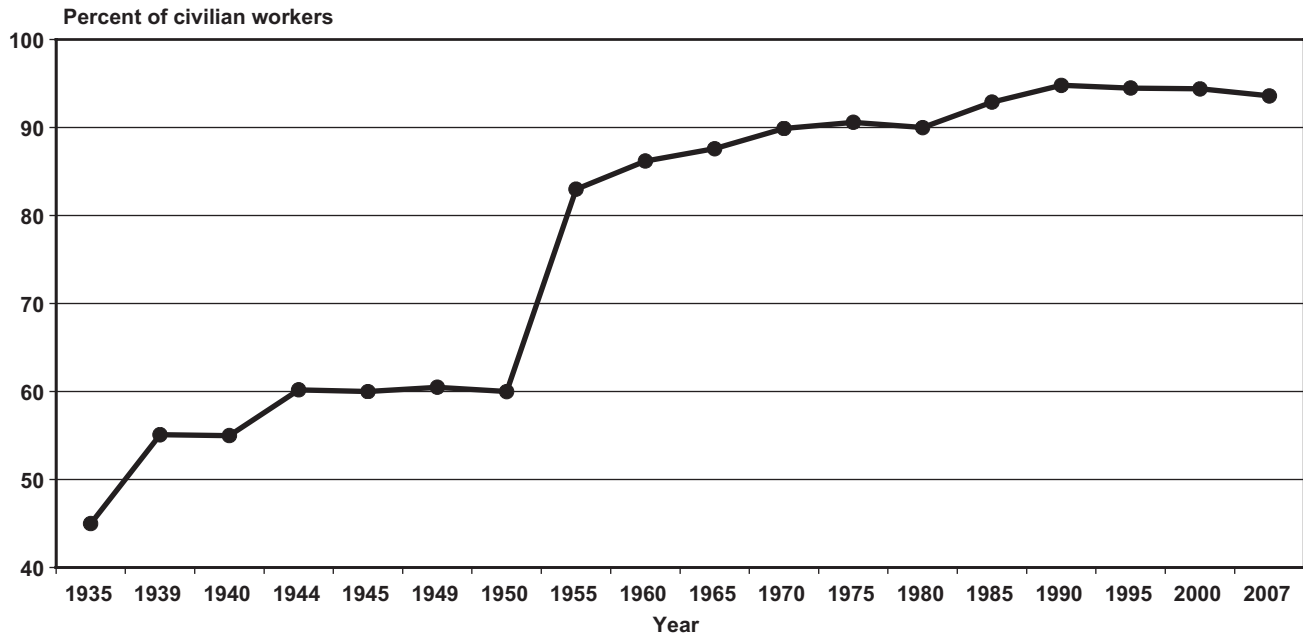
NOTE: ... = not applicable.

a. Based on Consumer Price Index for Urban Wage Earners and Clerical Workers, nonseasonally adjusted annual averages.

b. Cumulative averages.

workers who just barely met the coverage requirements. However, as part of the financing adjustments of 1950, the increment was eliminated to pay for a portion of the increase in benefit levels. (That is, future

**Chart 2.**  
**Growth in Social Security coverage, selected years 1935–2007**



SOURCE: House Ways and Means Committee 2008 Green Book, Table 1-46, p. 1–106.

benefits were lowered for long-time participants so that benefits could be increased immediately.)

Up to this time, members of the military were not covered by Social Security and therefore did not pay Social Security taxes (and could not earn credits toward an eventual benefit). The 1950 law introduced the principle of gratuitous wage credits for military service—which was treated as covered work, even though no payroll taxes were assessed to finance the credits. The combination of these changes was so significant that the 1950 law has traditionally been known within Social Security policy as the “new start” to the program.<sup>30</sup>

**1952 and 1954: Small Policy Adjustments and Steady Program Growth**

The amendments of 1952 raised benefits by 12.5 percent, surprisingly soon after the major boost of 1950. They also raised the “earnings test” limits by 50 percent and expanded the gratuitous wage credits for military service.

The 1954 amendments produced a major expansion of coverage—bringing an additional 10 million

workers into the system. This law extended coverage to most remaining uncovered farm workers, self-employed professionals, and state and local government employees (on a voluntary group basis). Benefits were also increased an additional 13 percent.

“ It may be no exaggeration to say that the 1950 Amendments really saved the concept of contributory social insurance in this country. ”

Robert M. Ball

Perhaps the most significant change in 1952 was one that did not happen. Much of the debate over the legislation concerned a proposal for a “disability freeze.” The idea here is to eliminate from the computation of a worker’s benefit any years in which the

worker had little or no earnings because he or she was disabled. Including years of little or no earnings effectively lowers any eventual retirement benefits, or, in certain cases, prevents the worker from achieving insured status at all. The “freeze” was thus designed to prevent these adverse impacts on retirement benefits. Because federal involvement in any aspect of disability policy was strongly opposed by key interest groups, the Congress ultimately enacted an unusual statute that created a freeze, but which had an expiration date before its effective date. Even so, it was an acknowledgment—at least in principle—of the policy logic of a disability freeze,

which would subsequently be enacted 2 years later in the amendments of 1954.

Disability—unlike the attainment of retirement age or the death of a wage-earner—inevitably involves some degree of judgment in assessing eligibility. It is difficult to determine whether someone is too disabled to work, and hence it is possible that unqualified individuals might become eligible for these benefits. This problem of the inherent difficulty in making a disability determination was part of a concern about whether the costs of such coverage can be meaningfully predicted and controlled. Concerns over the potential costs of disability coverage slowed the addition of these benefits in Social Security.<sup>31</sup>

What is most significant about the disability freeze—from an administrative perspective—is that it required the same process for making a disability determination as would be required for determining eligibility for cash disability benefits. Thus, the entire bureaucratic apparatus and the basic policy structure of a disability program were all put in place starting in 1954, even though we think of disability benefits as having arrived in 1956.

### ***The Coming of Disability Benefits***

The *freeze* legislation of 1954 paved the way for the introduction of cash benefits in 1956 (and provided some degree of reassurance that the administrative challenges of a disability program were manageable). Even so, there was significant disagreement regarding disability benefits and whether they should be added to the program. The legislation was in fact adopted by what was, in effect, a single vote in the Congress (DeWitt, Béland, and Berkowitz 2008, 14–15).

The initial disability program was limited in scope (reflecting the worries about costs). It paid benefits only to those insured workers aged 50–64 and offered nothing for the dependents of those workers. And the law introduced a special type of insured-status rule for disability: *fully insured*, with 20 out of the last 40 quarters worked, and *currently insured*, with 6 out of the last 13 quarters worked).<sup>32</sup> There was a 6-month waiting period before benefits could be paid, and there was no retroactivity. To fully fund the new benefits, tax rates were raised a combined 0.5 percentage points, and a separate disability trust fund was created.

Disability benefits were liberalized in 1958 by extending them to the dependents of a disabled worker, eliminating the currently insured rule, and

permitting up to 12 months of retroactivity with an application. These benefits were liberalized again in 1960 by extending the primary benefit to disabled workers of any age. This quick liberalization was due to the disability program not being as problematic as some had expected.

In addition to creating the disability program, the 1956 legislation contained additional policy changes.

- Coverage was expanded to members of the military, to previously excluded self-employed professionals, and, optionally, to police and firefighters in state or local retirement systems.
- Early retirement at age 62 was made available to women (but not men); special rules were adopted permitting women to become insured with fewer quarters of coverage than men, allowing women to average their earnings over a shorter period than men in order to increase their benefit amount.

### ***The 1960s: Small Policy Adjustments and Steady Program Growth***

In addition to the disability liberalization, in 1960 the children's survivor benefit was raised from 50 percent to 75 percent of the workers primary insurance amount. In 1961, men were granted the option of early retirement, insured status and RET rules were relaxed, and the minimum benefit was increased by 21 percent.

The amendments of 1965 (which created the Medicare program) also liberalized the definition of disability by changing the original definition from “of long continued and indefinite duration” to “12 months or longer or expected to result in death.” This legislation also lowered the eligibility age for widows from 62 to 60, extended children's benefits to age 21 if a full-time student, provided benefits to divorced wives and widows if they had been married at least 20 years, and reduced the insured-status requirements for persons attaining age 72 before 1969.

Legislation in 1966 granted eligibility to the special age-72 class, even if they had never contributed to Social Security. (These were known as “Prouty benefits,” named after the Senator who introduced the provision, Winston Lewis Prouty, R-VT.)

The 1967 amendments provided disabled widows and disabled (dependent) widowers benefits at age 50. On one hand, the definition of disability was tightened to stipulate that disability meant the inability to engage in any substantial gainful activity existing in the national economy, and not just in the local area. (This was consistent with original congressional

intent, which had been broadened by court decisions.) On the other hand, the insured-status requirement for disabled workers aged 31 or younger was relaxed. Additional gratuitous wage credits were granted to the military, and ministers were brought into coverage, unless they opted out on grounds of conscience or religious principles.

### ***Financing During the 1950s and 1960s***

From the end of World War II up until the early 1970s, overall wages in the economy tended to increase about 2 percent per year above prices. This natural wage growth meant that, other things being equal, the Social Security system would see additional income because of these higher wage levels. However, the actuarial estimates used in Social Security were based on an assumption of static wage and price levels because there were no automatic adjustments in the program for either benefit increases that were due to inflation or increases in the wage base as a result of economic growth. Because both benefit increases and changes in the wage base were the result of irregular congressional actions, the actuaries used current law as the basis for their projections.

But, because wages did in fact grow faster than prices—and because price adjustments were irregular—from time to time the Congress would find itself in the happy position of having more money in the program than had been projected in previous actuarial estimates. Thus, it became possible to increase benefits without fully commensurate increases in tax rates or the wage base. (These increases were sometimes coupled with expansions of coverage, which paid part of the costs associated with the benefit increases.) This process was employed several times during the two-decade period from 1950 through 1960, as shown in Table 6.

### ***The Amendments of 1972: The Last Major Expansion***

There were two major bills enacted in 1972, which together, greatly expanded the program; this legislation marked the approximate end of the expansionary period in Social Security policymaking.

The first was a simple bill to raise the limit on the national debt. In the Senate, a rider was attached to the debt-limit bill creating the automatic annual COLA procedure beginning in 1975. This was a huge policy change that was adopted in a surprisingly casual manner, although it had been debated for several years, and

**Table 6.**  
**Benefit increases compared with tax rates and the wage base, selected years 1952–1972**

Year	Benefit increases (%)	Tax rate <sup>a</sup> (%)	Wage base (\$)
1952	12.50	Unchanged	Unchanged
1954	13.00	+ 0.5 (each)	Unchanged
1959	7.00	+ 0.25 (each)	+ 600 (annual)
1965	7.00	Unchanged <sup>b</sup>	Unchanged <sup>b</sup>
1968	13.00	-0.10	+ 1,200 (annual)
1970	15.00	Unchanged	Unchanged
1971	10.00	0.40	Unchanged
1972	20.00	Unchanged	+ 1,200 (annual)

SOURCE: SSA (2010, Table 2.A3, pp. 2.4–2.5).

a. Does not include Medicare or self-employment tax rates.

b. Rate was unchanged in 1965, but was increased 0.2 percent in 1966, and the wage base was raised \$1,800 as part of same legislation.

the Nixon administration was in support of the idea (DeWitt, Béland, and Berkowitz (2008, 267–281). The fact that Social Security benefits are raised whenever there is price inflation in the economy is a major aspect of their value and is a significant contributor to overall program costs. Not only was an “automatic” mechanism introduced to raise benefits along with prices, but the wage base and the annual exempt amounts under the RET were also put on an automatic basis, tied to the rise in average wages (also beginning in 1975).

Subsequent legislation in late 1972 provided additional expansions of the program, which included introducing delayed retirement credits to raise the benefits of workers who postponed filing for Social Security, a new special minimum benefit for workers with low lifetime earnings, benefits for dependent grandchildren, benefits to widowers at age 60, Medicare coverage after 2 years of receiving disability benefits, a reduced disability waiting period from 6 to 5 months, and disability benefits for children disabled before attaining age 22. (The legislation also created the Supplemental Security Income (SSI) program.)

### ***The 1977 Amendments: The Beginning of Retrenchment***

By the mid-1970s, there were serious financing problems evident in the Social Security program. This was due principally to the adverse economic conditions of the mid-1970s (“stagflation”). The Social Security actuaries reported in 1973 that for the first time, the

program was no longer in long-range actuarial balance, and there were difficulties projected in the near term as well. In fact, during the 1975–1981 period, the program was in annual deficit, and assets of the trust funds had to be redeemed to make up the shortfalls.<sup>33</sup> The projected long-range deficits would continue for a decade (until the major legislation of 1983).<sup>34</sup>

Moreover, a major flaw was present in the 1972 legislation that created the “automatics” for price and wage adjustments. This technical flaw had the effect of greatly inflating benefits far beyond the intent of Congress and the traditional expected rates of income replacement. This too had to be addressed in the 1977 legislation. The 1977 amendments were principally targeted toward the issue of program financing.

To correct the indexing error, the adjustments for prices and wages were “decoupled” (DeWitt, Béland, and Berkowitz 2008, 285–287 and 298–323). The practical effect of decoupling was to lower benefits, and the change was applied only to new beneficiaries. To further soften the impact of this reduction, the Congress devised a 5-year phase-in period, during which time benefits were gradually reduced such that they would be at the proper level for those beneficiaries retiring 5 years from the effective date of the decoupling. This attempt at “softening the blow” backfired as those in the phase-down group saw themselves as victims of an unfair “notch” in benefits.<sup>35</sup>

In addition to the decoupling, the 1977 legislation further addressed the financing issue with a combination of tax increases and benefit reductions. On the revenue side, the law set up a schedule of rate increases such that by 1990, the tax rate would be 6.2 percent (this is still the current rate). Also the wage base was increased in an ad hoc manner beyond the increases authorized in the 1972 law (a total increase of \$12,000 in three steps). The automatic provision would then start again from this higher wage base.

On the benefit side, there were three additional provisions *reducing* benefits: (1) the initial minimum benefit was frozen at \$122 per month, (2) benefits for spouses and surviving spouses were offset by an amount related to any government pension that spouses received based on their own work not covered by Social Security (the Government Pension Offset), and (3) the RET was shifted from a monthly to an annual basis.

Also on the benefit side, there were three provisions *increasing* benefits: (1) the exempt amount under the

RET was increased in an ad hoc adjustment by raising it for 5 years for those retirees aged 65 or older, (2) the duration of marriage requirement for divorced and surviving divorced spouses was cut in half—from 20 years to 10, and (3) the value of delayed retirement credits was increased.

The net savings from these changes (expressed as a percent of payroll)<sup>36</sup> follow:

- Decoupling: + 4.79 percent of payroll
- Additional benefit changes: + 0.18 percent of payroll
- Tax changes: + 1.78 percent of payroll

In other words, 26 percent of the savings came from tax increases and 74 percent from benefit cuts. The impact on overall financing was to reduce the long-range deficit from 8.20 percent of payroll to 1.46 percent of payroll (SSA 1977). The amendments were said to have restored solvency to the program for the next 50 years, rather than the full 75 years that had traditionally been used as the projection period. Clearly, the long-term financing issues had not been fully resolved by the 1977 legislation.

### ***The Disability Legislation of the 1980s***

The Disability Insurance program came under renewed scrutiny during the first half of the 1980s. Throughout the 1970s, disability incidence rates were steadily rising. This led to concern in the Congress and in the Carter administration that disability costs were soaring out of control.

Around the same time, the General Accounting Office (GAO 1978) conducted a very small study of disabled SSI recipients and found that perhaps as many as 24 percent were no longer disabled. An internal study by the Social Security Administration (SSA 1981) found that about 18 percent of the expenditures for the Social Security disability program was being paid to beneficiaries who were no longer disabled (DeWitt, Béland, and Berkowitz 2008, 369–374).<sup>37</sup> Thus, in 1980, major disability legislation was enacted in an effort to control costs in the program, to review those already receiving benefits, and to remove those who no longer qualified as disabled. The legislation mandated that the reviews begin by January 1982, and it projected savings from the reviews of about \$10 million over 5 years. A follow-up study by GAO (1981) sampled Social Security disability beneficiaries and suggested that as many as 20 percent were no longer disabled, costing the program \$2 billion a year.

Upon taking office in early 1981, the Reagan administration decided to accelerate the review process, as this was now projected to be a significant source of budget savings. The reviews began in July 1981 and rather quickly ran into serious political controversy and to public outcries in opposition to the reviews.<sup>38</sup> Among other problems, the reviews required only an examination of existing medical records, not face-to-face contact with the beneficiary. This led to isolated instances of obviously disabled individuals having their benefits stopped—incidents that were given wide publicity in the media. Also, the initial round of reviews was targeted to those classes of beneficiaries most likely to have recovered. This seemingly sensible idea led to much higher initial cessation rates than Congress or the public expected, which led in turn to charges that SSA was engaging in a wholesale “purge” of disability beneficiaries.<sup>39</sup>

SSA also adopted a number of policy positions in the reviews that proved highly problematic. For example, cessations were processed without requiring proof of medical improvement.<sup>40</sup> Also, when faced with multiple nonsevere impairments, SSA did not consider the combined effect of the impairments.<sup>41</sup> Massive litigation ensued in the federal courts, virtually swamping the court system.<sup>42</sup> These lawsuits led to decisions overturning various SSA policies, which prompted the agency to adopt a very controversial practice of issuing formal rulings of “nonacquiescence” with certain court decisions.<sup>43</sup> Because of their opposition to SSA’s policies, the governors of nine states (comprising 28 percent of the national workload) issued executive orders stopping their state agencies from processing any disability review cases.<sup>44</sup>

The controversies around the disability reviews became so great that the Congress enacted the Disability Benefits Reform Act of 1984 to restrain the activities set in motion by the 1980 legislation. Key provisions of the act, as highlighted in Collins and Erfle (1985), follow:

- A finding of medical improvement (or other related changes) was necessary to cease disability benefits;
- The combined effect of multiple nonsevere impairments must be considered in disability determinations;
- SSA was required to promulgate new mental impairment rules, reopen all cases of prior cessations involving mental impairments, and reevaluate them under the revised rules;

- SSA was given explicit authority to federalize any state agency making Social Security disability decisions that refused to comply with federal regulations; and
- A “sense of Congress” was expressed stating that nonacquiescence was an invalid legal posture, and if SSA elected to continue this practice, then it was obligated to seek a definitive U.S. Supreme Court review of the constitutionality of the procedure. (SSA dropped the practice.)

This legislation established the current policy context under which the disability program continues to operate.

### ***The Amendments of 1983: The Modern Form of the Program***

As mentioned, the Social Security program was running annual deficits beginning in 1975, and the assets of the trust funds were being drawn down to make up the shortfalls. Moreover, the stress on the program’s financing worsened considerably, even after the financing changes of 1977 that improved the long-term position of Social Security. But the short term continued to be problematic. Indeed, the amendments of 1983 were signed into law in April, at which time the trust funds were projected to be entirely depleted in August. Thus, trust fund exhaustion and the attendant benefit “default” were only 4 months away.<sup>45</sup>

Initially, the 1977 effort seemed successful. The 1978 and 1979 *Annual Reports of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* indicated a dramatically improved situation. But the poor economy continued to undermine the program’s solvency. In 1980, price inflation hit 13.5 percent, while wage growth declined by 4.9 percent—producing a double blow to the program’s financing by simultaneously increasing costs as revenues declined. By the time the 1980 *Trustees Report* was released, the trustees were calling for stop-gap financing changes.<sup>46</sup> In the 1981 *Trustees Report*, more dramatic action was urged.

In May 1981, the Reagan administration proposed a package of policies designed to address the financing problems. Some aspects of this package were seen as quite drastic, especially an immediate 38 percent cut in early retirement benefits. Within days, the Senate passed a “sense of the Senate” resolution by 96 to 0, essentially rejecting the administration’s proposals.



Following this failed effort, President Reagan appointed a bipartisan commission—the National Commission on Social Security Reform, also known as the “Greenspan Commission”—to study the program’s financing and make recommendations to the Congress for legislation to address the financing problems. After some considerable difficulty (Light 1985 and 1994), the commission produced a consensus final report that made 16 proposals for both long-term and short-term policy changes. Four of the commission’s recommendations increased costs slightly (mainly to make benefits more generous for women), and 12 proposals lowered costs fairly significantly. However, the commission was unable to agree on the final increment of desired savings, leaving 0.58 percent of payroll of the long-term deficit unresolved.<sup>47</sup>

The Congress basically adopted the commission’s recommendations without much modification and closed the remaining long-range gap by increasing the FRA from age 65 to 67. President Reagan signed the bill into law on April 20, 1983.

The following items are among the key provisions of the final law, as highlighted in Svahn and Ross (1983).

- Extended coverage to all new employees of the federal government and to employees of nonprofit organizations. States were prohibited from opting out of Social Security if they previously had opted in.
- Shifted the payment date of the annual COLA from July to January (meaning no COLA was paid in 1983).
- Raised the FRA from age 65 to 67, on a phased basis beginning in 2000.
- Introduced the Windfall Elimination Provision, drastically reducing Social Security benefits for individuals receiving a pension from employment not covered by Social Security (principally government employees).
- Advanced the implementation of the tax rate schedule from the 1977 law (but did not change the top rate).
- Increased the self-employment tax rate to twice that of the individual rate (previously it had been lower than the combined employee/employer rate).
- Included up to one-half of Social Security benefits as taxable income, with the proceeds to flow back

“ This bill demonstrates for all time our nation’s ironclad commitment to Social Security. ”

President Reagan on signing the bill

into the Social Security trust funds.

- Made the operations of the Social Security trust funds “off-budget” starting in 1993.

The actuarial assessment of the 1983 legislation was that it

closed both the short-term and the long-term financing gaps. The annual *Trustees Reports* for 1984 through 1987 showed the program to be in close long-range actuarial balance.<sup>48</sup> Of the policy changes made in 1983, approximately 52 percent of the savings in the short run came from taxes, 34 percent from benefit changes, and 15 percent from the changes in coverage (Svahn and Ross 1983).<sup>49</sup> In the long run, the proportion was approximately 41 percent from taxes, 38 percent from various changes in benefits (including the increase in the retirement age), and 21 percent from coverage changes (Svahn and Ross 1983).<sup>50</sup> (The increase in the retirement age accounted for 34 percent of the total net savings produced by the 1983 legislation and was about 90 percent of the savings from benefit changes (Table 7).) The 1983 law produced the current policy form of the program. Major policy innovations were introduced in the law (taxation of benefits, increase in the retirement age, coverage of federal employees, etc.) that still characterize the program to the present day. Most importantly, the financing arrangements made in 1983 have driven the program’s dynamics ever since (see the discussion in the section—The Debate over the Program’s Future).

**Table 7.**  
**Short-range and long-range savings from the amendments of 1983<sup>a</sup>**

Amendment changes	Short-range, 1983–1989 (\$ in billions)	Long-range, 1983–2057 (expressed as a % of payroll)
Tax changes	85.5	+ 0.86
Benefit changes	55.7	+ 0.79
Raise retirement age	0	+ 0.71
Coverage changes	25.0	+ 0.44
Total	166.2	+ 2.09

SOURCE: *Social Security Bulletin*, 46(7): July 1983, Table 1, p. 42 and Table 4, p. 44.

a. Figures are projections as of July 1983.

## **Post-1983 Developments**

The 1983 amendments were the last major Social Security legislation of the twentieth century. Indeed, no comprehensive changes have been made to the program in the years since. There have, however, been a few important “single-issue” pieces of legislation.

**Legislation in the 1990s.** The Omnibus Budget Reconciliation Act of 1993 raised the percentage of Social Security benefits subject to federal taxation from 50 percent to 85 percent (subject to certain thresholds).

The Contract with America Advancement Act of 1996 prohibited the receipt of Social Security or SSI disability benefits if drug addiction or alcoholism was material to the person’s disability.

The Ticket to Work and Work Incentives Improvement Act of 1999 created the Ticket to Work and Self-Sufficiency Program, which provides disability beneficiaries with a voucher they may use to obtain vocational rehabilitation services, employment services, and other support services, with the goal of returning disabled individuals to paid work.

**Ending the retirement test.** As previously noted, the original Social Security Act of 1935 had an absolute prohibition on work for retirement beneficiaries, as benefits were social insurance, replacing income lost as a result of retirement. Social Security benefits were not *pensions*, which are paid when the pensioner reaches a certain age.

This prohibition was first relaxed in the 1939 amendments when the concept was introduced of allowing a certain amount of earnings before benefits ceased. This became the first RET. The beneficiary population would much prefer to have their retirement benefits and their work income as well. So relaxing the RET was always popular with the public and was an easy way for Congress to liberalize the program without any attendant political push-back. In fact, from 1939 through 1982, the RET was liberalized in this way 21 times (SSA 2010).<sup>51</sup>

In 2000, this process reached its conclusion for beneficiaries at or beyond the FRA when the Senior Citizens Freedom to Work Act was enacted into law. Demonstrating the political popularity of this form of liberalization, the bill passed the two houses of Congress on a combined vote of 522 to 0.

Under the provisions of this law, there is no RET for individuals who have reached their FRA. Such persons may continue to work full time and receive a full Social Security retirement benefit. For those

beneficiaries who have not yet reached their FRA, there continues to be a RET of the familiar form. However, because the exempt amounts in the RET are now raised automatically each year with wage growth, the test for these beneficiaries has already been relaxed nine times since the passage of the 2000 legislation.<sup>52</sup>

The passage of the Senior Citizens Freedom to Work Act of 2000 is the major exception to the generalization that the post-1972 period is one of retrenchment in Social Security policymaking.<sup>53</sup> At the time, the estimated cost of the repeal of the RET was \$23 billion in the short term, but was projected to be “negligible” in the long term.<sup>54</sup> For an analysis of the actual effects, see Song and Manchester (2007).

## ***The Debate over the Program’s Future***

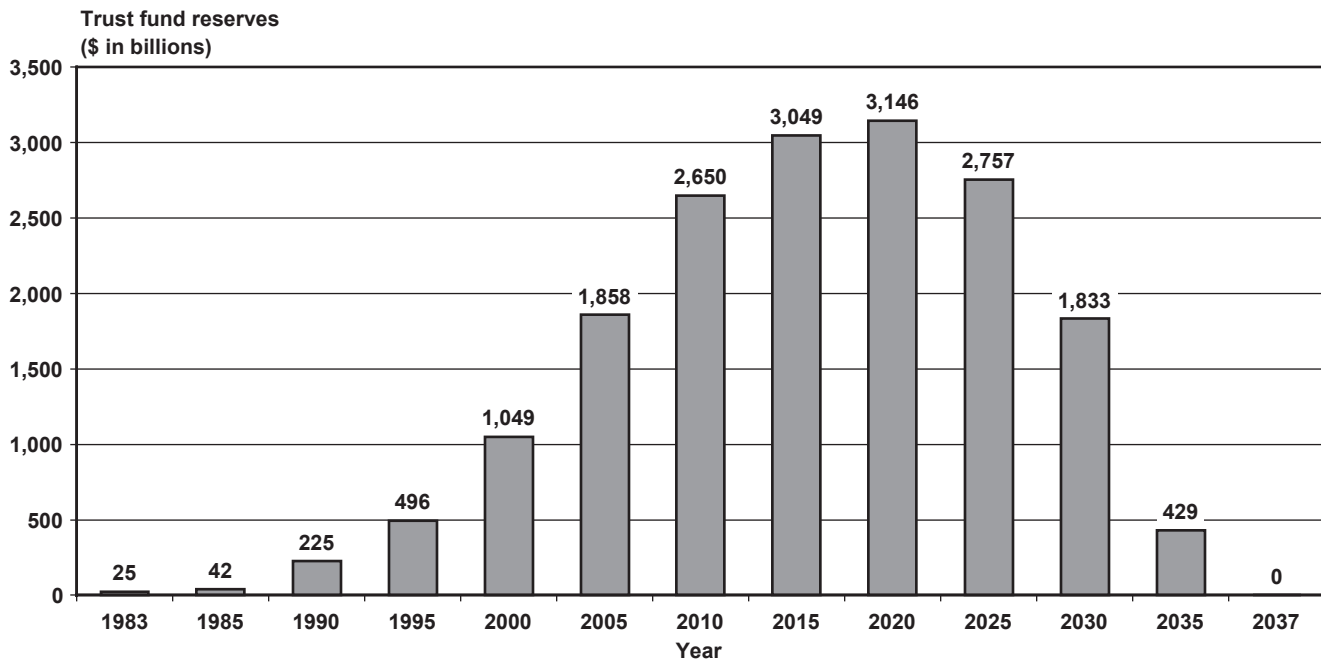
The amendments of 1983 established the general policy structure of the current Social Security program and, in particular, its current financing structure. The direct and dramatic result of the financing structure in the 1983 law was a massive buildup in the size of the trust fund reserves.

Historically, the Social Security trust funds have never been either fully funded or on a strict pay-as-you-go (PAYGO) basis. Rather, the trust funds have always contained what former SSA Chief Actuary, Robert J. Myers, characterized as a “partial reserve.” We can conceptualize these two extremes (a fully funded system and a PAYGO system) as the end poles of a continuum. Over the decades, major legislation has tended to move the placement of the reserve in one direction or the other. Both the 1977 and the 1983 amendments shifted program policy noticeably away from the PAYGO end and significantly toward the fully funded end of this continuum (Myers 1993, 385–392).

The design of the 1983 financing scheme produced a large buildup of the reserve in the near term so that this source of investment income might help defray future costs when the “baby boom” generation began to move into beneficiary status.<sup>55</sup> The effect of this approach to program funding can clearly be seen in Chart 3.

Although the amendments of 1983 restored long-range solvency to the program, by the time the *1988 Trustees Report* was released, the program showed signs of financing shortfalls, and when the next annual report became available, it was no longer in long-range close actuarial balance—a condition which persists to the present day.

**Chart 3.**  
**Trust fund reserves: Actual and projected, selected years 1983–2037**



SOURCE: *Annual Trustees Report, 2009*, Table V1.A4 and Table V1.F7.

In the *2009 Trustees Report*, the projected 75-year actuarial deficit in the program was estimated at 2 percent of taxable payroll. In dollar terms, this means the program has a 75-year shortfall of approximately \$5.3 trillion (in present value). Stated another way, after the trust funds are depleted (projected to be so in 2037), payroll tax revenues will be sufficient to pay only 76 cents of each dollar of promised benefits. This report was 1 of 21 consecutive, yearly reports in which the trustees reported that the program was not in long-range actuarial balance. These unfavorable annual reports are the principal framing constraint on policymaking and are the drivers of the idea that the program requires some form of policy intervention.<sup>56</sup>

The debate over Social Security’s financing and policy “reform” began in a highly visible way with the work of the 1994–1996 Social Security Advisory Council. This final statutorily chartered advisory council issued its report in January 1997.<sup>57</sup> The council was charged with a comprehensive review of the Social Security program and with addressing the long-range financing issue. However, the members of the council were unable to achieve consensus on any set of recommendations and instead split into three factions, each advancing a different approach to Social Security reform.

The *maintain benefits* faction advocated retaining the traditional program and restoring solvency through a combination of relatively modest changes in tax, benefits, and investment policies. The *personal security accounts* faction proposed cutting benefits and diverting 5 percentage points of the 6.2 percent payroll tax paid by employees away from the trust funds to establish individually owned private equity investment accounts, in lieu of full traditional Social Security benefits. The third faction, advocating *individual accounts*, proposed creating similar individual equity accounts by imposing a new 1.6 percent payroll tax on top of the existing 6.2 percent Federal Insurance Contributions Act tax.<sup>58</sup> None of these sets of recommendations resulted in legislative action.

During the Clinton administration, the president raised the issue of Social Security reform, principally in rhetorical form. In his 1998 State of Union address, President Clinton called upon the political process to “save Social Security first.” As the federal government was then on the verge of its first budget surplus in 30 years, the president’s proposal was that any surplus in the budget be used first to pay down a portion of the outstanding government debt, thereby indirectly benefiting Social Security in the sense of positioning the government to better meet its future obligations to the

program. In the spring of 1999, the president proposed the more specific idea that any interest savings from the reduced debt be directly credited to the Social Security trust funds. Other than these two ideas, the Clinton administration advanced no comprehensive Social Security reform proposal, although the president did succeed in putting the issue on the presidential agenda.

Shortly after taking office in 2001, President George W. Bush established a commission to study the future of the program and to propose ways in which the system might be changed through the introduction of individual personal accounts, similar to the proposal made by the personal security accounts faction of the 1994–1996 Social Security Advisory Council. The commission issued its final report in December 2001, although no legislative action occurred on the recommendations.<sup>59</sup>

Following his reelection in 2004, President Bush announced that reforming Social Security would be a top priority of his second term, and he launched a major campaign with this purpose. Throughout the first half of 2005, the president and his top advisers travelled around the country holding town hall meetings to generate support for his reform proposals. Numerous bills were introduced in Congress advocating various reform approaches. Ultimately, no significant legislative action occurred on either the president’s proposals or the various bills (DeWitt, Béland, and Berkowitz 2008, chapter 9).

At this point in time, President Barack Obama has apparently decided that Social Security reform should be approached in the context of the overall federal budget and the problem of the growing deficits and debt. To this end, on February 18, 2010, he announced the creation of a new commission—the National Commission on Fiscal Responsibility and Reform. This commission is tasked with reviewing the entire federal budget—including Social Security and the other “entitlement” programs—and making recommendations to Congress for legislative action. The report of the Obama Commission is due in December 2010.<sup>60</sup>

### **The Growth of Social Security**

The Social Security system is, arguably, the most successful government social insurance program in the nation’s history. Its growth and impact has certainly been immense.

In dollar terms, to date, the Social Security program has paid out more than \$11 trillion to almost 213 million people (see Table 8).<sup>61</sup> The amount of money

**Table 8.**  
**Growth of Social Security, selected years**  
**1937–2008**

Year	Number of beneficiaries <sup>a</sup>	Benefit payments <sup>b</sup> (\$ in thousands)
1937	<sup>c</sup> 53236	1,278
1938	<sup>c</sup> 213,670	10,478
1939	<sup>c</sup> 174,839	13,896
1940	222,488	35,000
1950	3,477,243	961,000
1960	14,844,589	11,245,000
1970	26,228,629	31,863,000
1980	35,584,955	120,511,000
1990	39,832,125	247,796,000
1995	43,387,259	332,553,000
1996	43,736,836	347,088,000
1997	43,971,086	361,970,000
1998	44,245,731	374,990,000
1999	44,595,624	385,768,000
2000	45,414,794	407,644,000
2001	45,877,506	431,949,000
2002	46,444,317	453,746,000
2003	47,038,486	470,778,000
2004	47,687,693	493,263,000
2005	48,434,436	520,748,000
2006	49,122,624	546,238,000
2007	49,864,838	584,939,000
2008	50,898,244	615,344,000

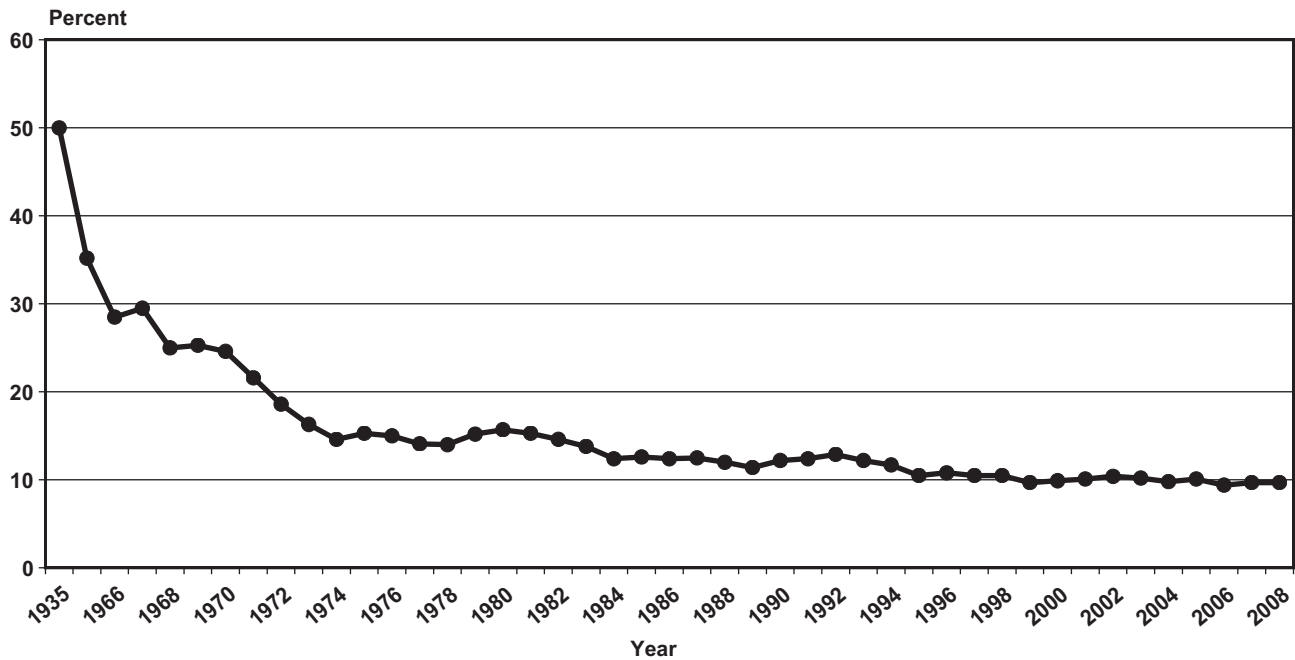
SOURCE: *Annual Statistical Supplement to the Social Security Bulletin*, 2009 (SSA 2010).

- a. As of the end of the calendar year. *Supplement* Table 5.A4, pp. 5.25–5.26.
- b. Benefit payments only. Excludes administrative expenses and transfers. *Supplement* Table 4.A1, pp. 4.1–4.2 and Table 4.A3, pp. 4.5–4.6.
- c. Recipients of one-time, lump-sum payments.

coming into the Social Security system each year (over \$805 billion in 2008) is larger than the gross domestic product of all but the 16 richest nations in the world.<sup>62</sup> For most of the past 20 years, the Social Security program has been the largest single function in the federal government’s budget.<sup>63</sup> The Social Security system today accounts for almost 5 percent of America’s total gross domestic product.<sup>64</sup>

In terms of its impact on beneficiaries, Social Security has dramatically reduced poverty among the elderly (see Chart 4). On the eve of the program’s creation, the CES estimated that the majority of seniors in America lived in some form of economic dependency. By the time that official measures of poverty were developed, poverty among the elderly (in 1959) was

**Chart 4.**  
**Poverty among the elderly, selected years 1935–2008**



SOURCE: Historical Poverty Tables—People, Table 3, Bureau of the Census.

still at 35 percent. By the end of the twentieth century, poverty among the elderly was less than 10 percent. Today, an estimated one-third of seniors rely on Social Security for 90 percent or more of their retirement income; two-thirds rely on it for the majority of their income.<sup>65</sup>

Clearly, Social Security has been central to America’s way of life over the past 75 years. The program’s future—along with its history—therefore ought to be of crucial concern to all Americans.

## Notes

*Acknowledgments:* The author wishes to thank the several reviewers for the *Bulletin* for their helpful comments and, in particular, Joni Lavery for her assistance with the tables and charts in the article.

<sup>1</sup> For more information, see *Historical Statistics of the United States: Colonial Times to 1957*, series A 34–50, p. 9.

<sup>2</sup> Life expectancy at birth was low principally because of high rates of infant mortality, which began to be remedied in the closing decades of the nineteenth century. In any event, the number of elderly persons in America grew dramatically beginning around this time, as is illustrated in Chart 1 (Bureau of the Census 1961). For related data, see *Historical Statistics of the United States: Colonial Times to 1957*, series B 76–91, p. 24; and series B 92–100, p. 25.

<sup>3</sup> In February 1862, the first pensions were paid, to soldiers disabled in the conflict. If a soldier was killed, his widow received the pension amount that he would have received had he been disabled rather than killed. In the Dependent Pension Act of 1890, the program was considerably liberalized such that any veteran who was disabled for any reason (including old-age and nonwar-related maladies) could receive a disability pension, and the widow of any such veteran could receive a survivors benefit. (Confederate veterans were not eligible for the federal pensions, although in later years some former Confederate states began paying state pensions to Confederate veterans and their survivors.)

<sup>4</sup> This \$63 million swing from one year to the next was because eligibility for the program was significantly liberalized in the Dependent Pension Act of 1890. This law permitted elderly veterans to qualify as disabled pensioners even if they suffered no war-related injuries. Before this law was passed, living veterans could only qualify for benefits if they were disabled because of injuries sustained while in the service. The law, in effect, treated old age as a qualifying disability (Bureau of the Census 1975). For related data, see *Historical Statistics of the United States: Colonial Times to 1970*, part 2, series Y 335–338, pp. 1104 and 1114).

<sup>5</sup> The Civil War pension system is also the origin of the term “red tape,” used to describe onerous procedures. The documents containing the pension records were wrapped in red tape, and wading through such records came to be synonymous with annoying bureaucratic procedures.

<sup>6</sup> In the early decades of the twentieth century, there were still quite a few Civil War veterans alive, most in their eighties and nineties. A practice developed of young women marrying these elderly veterans and thus becoming eligible for a Civil War pension when their husbands died. The last surviving beneficiary—Gertrude Janeway—married her husband in 1927 when she was age 18 and he was age 81.

<sup>7</sup> President Roosevelt read and admired Rubinow's (1934) book on social insurance.

<sup>8</sup> The Wisconsin unemployment insurance scheme never went into effect, as it was made moot by the adoption of national unemployment insurance in the Social Security Act.

<sup>9</sup> It should be noted that there were no available national statistics on poverty among the elderly in this early time period. The CES summarized a number of state-level studies on the issue, the mode of which tended to cluster around the 50 percent level (SSA 1937, 149–154).

<sup>10</sup> For related data, see <http://www.socialsecurity.gov/history/briefhistory3.html>.

<sup>11</sup> And sometimes a “Third New Deal” is identified as part of the Roosevelt presidency, beginning in 1937, at which time the New Deal entered a period of retrenchment (Jeffries 1996).

<sup>12</sup> The full CES report, legislative proposal, and other supporting materials are available at <http://www.socialsecurity.gov/history/reports/ces/cesbasic.html>.

<sup>13</sup> For an explanation of how the final bill came to be known as the Social Security Act, see Research Note #24: Origins of the Term “Social Security,” available at <http://www.socialsecurity.gov/history/termorigin.html>.

<sup>14</sup> The full text of President Roosevelt's signing statement is available at <http://www.socialsecurity.gov/history/fdrstmts.html#signing>.

<sup>15</sup> This was a staggering sum in the 1930s. It was eight times more than all the money then in circulation in the U.S. economy. For the original actuarial estimates underlying the program, see DeWitt, Béland, and Berkowitz (2008, 78–81).

<sup>16</sup> For a detailed discussion of the Clark Amendment, see Research Note #9: The Clark Amendment to the 1935 Social Security Act, available at <http://www.socialsecurity.gov/history/clarkamend.html>.

<sup>17</sup> These life expectancy figures have increased only modestly since 1935. In 2004 they stood at 17 years for men and 20 years for women (National Center for Health Statistics 2007, Table 11, pp. 30–31).

<sup>18</sup> A widespread myth has arisen concerning the exclusion of this last group. As it happens, the majority of workers in the agricultural and domestics categories were African Americans and/or women. This has led some to assume that racial and sex bias was the motive for the exclusion of these workers. Actually, what happened is that the original administration proposal included these workers, but

the Internal Revenue Service—worried about the administrative difficulties involved in collecting payroll taxes from these types of workers—persuaded the Secretary of the Treasury, Henry Morgenthau Jr., to lobby Congress to forgo coverage of domestic and agricultural employment. There is no empirical evidence in the historical record for any other motive in the exclusion from coverage of agricultural and domestic workers (Davies and Derthick 1997).

<sup>19</sup> For more information, see the *Annual Statistical Supplement to the Social Security Bulletin, 2009*, Table 4.B1, pp. 4.12–4.13 and Table 4.B4, pp. 4.18–4.19 (SSA 2010).

<sup>20</sup> Of course throughout both periods, the program expanded in the sense of a growing number of beneficiaries and an increasing cost. What these periods refer to is whether the predominant *policies* adopted tended to be more or less generous to beneficiaries and more or less costly to taxpayers. Expansions of coverage, liberalization of eligibility rules, and the raising of benefits would be considered expansionary. Raising taxes, restrictive eligibility rules, and elimination of benefits would be considered retrenchments. Most legislation has some of each type of policy change, but this distinction strives to characterize the predominant policy direction of a given piece of legislation.

<sup>21</sup> Also see *Summary of Major Changes in the Social Security Cash Benefits Program: 1935–1996*, Congressional Research Service (CRS) Report for Congress, December 20, 1996, available at <http://www.socialsecurity.gov/history/pdf/crs9436.pdf>.

<sup>22</sup> Strictly speaking, Ackerman's status as the first beneficiary is more symbolic than actual. The first batch of claims processed to payment contained about 20 claims, one of which was Ackerman's. It is impossible to say which of these 20 claims was processed first. Although Ackerman may not have filed the first claim processed in the eyes of history, he certainly was first in the art of self-promotion. Immediately after filing his claim at the Social Security office, Ackerman marched down to his local newspaper office, gave them a photo of himself, and announced that he was the first person in America to have filed for Social Security. The story ran in the local Cleveland papers and was subsequently picked up in other papers around the country. Thus, Ernest Ackerman became identified as the first Social Security beneficiary.

<sup>23</sup> Technically, the benefits are based on the covered worker's primary insurance amount, which is the base benefit before any reductions, such as the reduction in benefits taken before reaching the full retirement age (FRA). Also, the benefits for the family are subject to a limit for the maximum a family can collect.

<sup>24</sup> Conversely, if both workers had the same total cumulative wages, then both would get the identical benefit amount, even if one of them had much higher annual wages than the other.

<sup>25</sup> There were some minor shifts in coverage, involving such occupational groups as newspaper vendors, but at the end of the day, there was no net increase in coverage (Berkowitz and DeWitt 2009, 72–75).

<sup>26</sup> The Social Security Advisory Council's full report is available at <http://www.socialsecurity.gov/history/reports/48advisegen.html>. (Future Social Security Commissioner, Robert Ball, was the executive director of the 1948–1949 Advisory Council and, more than any other single individual, was responsible for the policy recommendations in the council's report.)

<sup>27</sup> See DeWitt, Béland, and Berkowitz (2008, 164) for further discussion.

<sup>28</sup> For more information, see the *Annual Statistical Supplement to the Social Security Bulletin, 2008*, Table 2.A1, pp. 2.1–2.2 (SSA 2009).

<sup>29</sup> The long-range estimation period in 1950 was 40 years. This period has varied from as little as 35 years to as much as 80 years. Since 1965, a standard long-range period of 75 years has been used.

<sup>30</sup> For many years after 1950, Social Security claims representatives had to perform two payment computations for each new claim: an “old start” computation, using only earnings before 1950, and a “new start” computation, using only earnings from 1950 forward. The claimant was then awarded whichever computation yielded the higher benefit.

<sup>31</sup> In part because of the tradition of federalism, and especially because of the Eisenhower administration's view that disability ought to be tied closely to state-run rehabilitation services, responsibility for making the disability determinations was assigned to state agencies under agreements with the federal government. I have also suggested elsewhere (DeWitt 1997) that there is an even earlier precedent, at least administratively, for the later appearance of Social Security disability benefits—the temporary disability program for civilian war workers, run by the Social Security Board during World War II.

<sup>32</sup> The insured status requirement is a way of saying that a person must work a minimum amount of time in employment covered by Social Security before they can qualify for a benefit. In the retirement program, this requirement was generally that a person had to work for 20 calendar quarters out of the 40 calendar quarters before retirement. Obviously, in the case of disability, a person might not be able to work for this length of time, therefore establishing the need for a special insured-status rule for disability cases.

<sup>33</sup> See <http://www.socialsecurity.gov/history/tftable.html>.

<sup>34</sup> See Research Note #14: Key Data From Annual Trust Fund Reports, available at <http://www.socialsecurity.gov/history/trustchart.html>.

<sup>35</sup> The notch was largely a fiction, constructed by comparing the benefits of persons who retired during the phase-in years with the benefits of those who retired before the decoupling, while simultaneously failing to compare

these benefits with those of later retirees (whose benefits were lower than for those in the notch). Had there been no phase in, there would still have been a drop in benefits (a sudden one), and perhaps those affected would then have complained that they had “fallen off a cliff.” Refer to DeWitt, Béland, and Berkowitz (2008, 323–326) for more information.

<sup>36</sup> The concept of a percentage of taxable payroll is one traditional measure of Social Security's financing. It is a simplified way of referring to large quantities of money, without having to specify the large numbers involved. So, for example, to say that some factor is 5 percent of payroll, is to say that it is equivalent to the amount of money that would result if the total payroll subject to Social Security taxes were multiplied by 5 percent.

<sup>37</sup> Both GAO and SSA studies had serious limitations, and it was never likely that such high percentages of nondisabled beneficiaries were going to be discovered in a systematic review of the rolls.

<sup>38</sup> For a detailed analysis of the administrative and policy events surrounding the disability reviews, see Derthick (1990).

<sup>39</sup> The Congress and the public had been conditioned by the GAO studies to expect something like a 20 percent cessation rate, based on the idea that this proportion of the beneficiary population was no longer disabled. However, because of the targeting, the initial cessation rate in the first 2 years of the reviews was 45 percent (DeWitt, Béland, and Berkowitz 2008, 416.).

<sup>40</sup> The absence of a medical improvement standard meant that persons previously found disabled—whose medical condition had not changed—might be dropped from the disability rolls upon review. This led to the impression that somehow SSA had “changed the rules in midstream” and was thus unfairly terminating some beneficiaries. Numerous court cases were decided against the agency on this point.

<sup>41</sup> SSA took the position that the initial step in the sequential evaluation procedure (determining whether the claimant suffered from a severe impairment) was a “gate-keeper” decision. That is, those failing to have at least one severe impairment were dropped from any further consideration of their case. Thus, a person with numerous nonsevere impairments could not qualify as disabled. To many, this seemed to defy common sense.

<sup>42</sup> Typical volumes of SSA-related court cases had been around 2,000–3,000 per year. In fiscal year 1983 alone, 23,690 new cases were filed. By the end of that year, the federal courts had a backlog of SSA litigation in excess of 37,000 cases. As late as 1985, the federal courts still had a backlog of over 49,000 cases, over 100 of which were large class-action suits.

<sup>43</sup> SSA applied the court's ruling to the specific class of litigants involved in the specific case, but refused to

consider the court's ruling to overturn the agency's policy. SSA not only refused to adopt the circuit court ruling as a national precedent, it even refused to accept that a circuit court ruling was binding on other cases within the same judicial circuit. This meant that SSA would only apply the ruling in a given case to the particular litigants in that case and would relitigate the same issue over and over again.

<sup>44</sup> In all, 17 states refused to follow SSA's rules in processing the disability reviews.

<sup>45</sup> It is not entirely certain what the situation would be in such an unprecedented circumstance, but it seems that benefits would be automatically reduced to a level commensurate with tax income (Swendiman and Nicola 2010).

<sup>46</sup> Initially, the trustees only called for interfund borrowing from the Medicare Trust Fund to be authorized, believing this would be sufficient to get the Social Security program through the short-term crisis.

<sup>47</sup> The full text of the commission's report is available at <http://www.socialsecurity.gov/history/reports/gspan.html>.

<sup>48</sup> Technically, the trust funds are considered to be in "close actuarial balance" if program income over the valuation period is within 95 to 105 percent of program costs. Thus, the projections might show a very small deficit over the valuation period, and the system would still be considered to be in actuarial balance.

<sup>49</sup> Author's categorizations and calculations using Table 1 of Svahn and Ross (1983, 42). Policy changes listed sum to more than 100 percent because of rounding.

<sup>50</sup> Author's categorizations and calculations using Table 4 of Svahn and Ross (1983, 44).

<sup>51</sup> For more information see the *Annual Statistical Supplement to the Social Security Bulletin, 2009*, Table 2.A29, pp. 2.57–2.58. (This figure combines the provisions for those who have attained FRA and those who have not. It does not count automatic increases in the exempt amounts as liberalizations.)

<sup>52</sup> There was no increase in the exempt amounts in 2010. Even though the exempt amounts are linked to increases in wages rather than prices and even though wages did increase in the prior year, a special rule in the law prohibits an increase in the wage base or the exempt amounts when there is no increase in the COLA. Because price increases were negative in the prior year, there was no COLA in 2010 (for the first time since the automatic COLA adjustments went into effect in 1975) and hence no increase in the exempt amounts.

<sup>53</sup> There was of course a major expansion of Medicare in 2003 with the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act. This was the largest single expansion of the federal social insurance system since the original enactment of Medicare in 1965. There have also been a handful of minor changes in Social Security law since 2000. A brief summary of these addi-

tional changes are available at <http://www.socialsecurity.gov/history/briefhistory3.html>.

<sup>54</sup> See *Repeal of the Retirement Earnings Test—Congressional Debates*, available at <http://www.socialsecurity.gov/history/senateret.html>.

<sup>55</sup> There is some uncertainty over just how intentional this strategy was at the time of the 1983 legislation. The report of the Greenspan Commission does not specifically make this argument, but commission member Robert Ball indicated that the key members of the commission understood perfectly well that this pattern of a massive near-term buildup and a later draw-down would occur. See the Oral History Collection: Interview #5, by Robert M. Ball, available at <http://www.socialsecurity.gov/history/orals/ball5.html>.

<sup>56</sup> It is important to note that although tax rates, the wage base, and benefit provisions and coverage are the major policy drivers of program financing, there are a host of additional demographic and economic factors involved in Social Security's actuarial estimates. Indeed, the estimation models used by the actuaries contain no fewer than 24 global factors, any one of which can alter the program's finances.

<sup>57</sup> The statutory Social Security Advisory Councils were replaced in 1995 by the creation of the permanent Social Security Advisory Board, as part of the 1994 legislation that established the Social Security Administration as an independent agency within the federal government.

<sup>58</sup> The full report of the 1994–1996 Social Security Advisory Council is available at <http://www.socialsecurity.gov/history/reports/adccouncil/index.html>.

<sup>59</sup> The background on the Bush Commission and its full reports are available at <http://www.socialsecurity.gov/history/reports/pcsss/pcsss.html>.

<sup>60</sup> The announcement of the Obama Commission is available at <http://www.whitehouse.gov/the-press-office/remarks-president-establishing-national-commission-fiscal-responsibility-and-reform>, and the text of the president's executive order is available at <http://www.whitehouse.gov/the-press-office/executive-order-national-commission-fiscal-responsibility-and-reform>.

<sup>61</sup> The total number of beneficiaries is the number of *benefit awards* made each year, as given in Table 6.A1 of the *Annual Statistical Supplement to the Social Security Bulletin, 2009*, pp. 6.1–6.2 (SSA 2010) and from Table 3 of this article. The total benefit payment figure is the author's calculation using Table 4.A1, pp. 4.1–4.2 and Table 4.A3, pp. 4.5–4.6 of the *Supplement* (SSA 2010).

<sup>62</sup> World Bank data, available at <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf>.

<sup>63</sup> See the *2011 President's Budget*, Historical Tables, Table 3.1, 52–55, available at <http://www.whitehouse.gov/omb/budget/historicals/>.

<sup>64</sup> For more information, see the *Summary of the 2009 Annual Social Security and Medicare Trust Fund Reports*,



available at <http://www.socialsecurity.gov/OACT/TRSUM/tr09summary.pdf>.

<sup>65</sup> *Fast Facts and Figures About Social Security, 2009*, available at [http://www.socialsecurity.gov/policy/docs/chartbooks/fast\\_facts/2009/fast\\_facts09.html#agedpop](http://www.socialsecurity.gov/policy/docs/chartbooks/fast_facts/2009/fast_facts09.html#agedpop).

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# ADMINISTERING SOCIAL SECURITY: CHALLENGES YESTERDAY AND TODAY

by Carolyn Puckett\*

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*In 2010, the Social Security Administration (SSA) celebrates the 75th anniversary of the passage of the Social Security Act. In those 75 years, SSA has been responsible for programs providing unemployment insurance, child welfare, and supervision of credit unions, among other duties. This article focuses on the administration of the Old-Age, Survivors, and Disability Insurance program, although it also covers some of the other major programs SSA has been tasked with administering over the years—in particular, Medicare, Black Lung benefits, and Supplemental Security Income. The article depicts some of the challenges that have accompanied administering these programs and the steps that SSA has taken to meet those challenges. Whether implementing complex legislation in short timeframes or coping with natural disasters, SSA has found innovative ways to overcome problems and has evolved to meet society's changing needs.*

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## Introduction

They said it couldn't be done. In 1935, the Social Security Board, predecessor of the Social Security Administration (SSA), started to plan the implementation of the Social Security Act. Board administrators contacted European experts who were experienced with such programs. The experts replied that it was impossible to maintain a system for tracking individuals' earnings histories of the scope proposed for the United States (McKinley and Frase 1970, 20–21; SSA 1997a; SSA 1964a). Despite these pessimistic assessments, the Board persevered, and the Social Security program was successfully launched 75 years ago this month—and while the agency may have stumbled a few times during its 75-year history, it is still on its feet and getting the benefit payments out via the Treasury Department every month. In fact, SSA has never missed a month of sending the payments out on time.

SSA is an efficient agency with very low administrative costs of 0.9 percent of total expenditures (Board of Trustees 2009). Agency employees have a very well-defined sense of the agency's mission, and SSA constantly strives to improve its service to the public.

Today, SSA faces many challenges. Nearly 80 million baby boomers will file for retirement benefits over the next 20 years, an average of 10,000 per day (SSA 2008e). The agency was already struggling with a backlog of disability claim hearings when the 2008 recession hit. The recession compounded the agency's problems because the number of individuals filing for retirement and disability benefits increased.<sup>1</sup> In addition, some states furloughed the SSA-funded state employees who make disability determinations for Social Security claimants. Keeping abreast of the latest technology on a restricted budget has also been

### Selected Abbreviations

ALJ	administrative law judge
AWR	annual wage reporting
BDI	Bureau of Disability Insurance
BDP	Bureau of Data Processing
BL	black lung
BOAI	Bureau of Old-Age Insurance
BOASI	Bureau of Old-Age and Survivors Insurance

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### Selected Abbreviations—Continued

CDR	Continuing Disability Review
CMS	Centers for Medicare and Medicaid Services
DA&A	drug addiction and alcoholism
DAO	Division of Accounting Operations
DDO	Division of Disability Operations
DDS	Disability Determination Services
DI	Disability Insurance
DOC	data operating center
DOL	Department of Labor
EIN	employer identification number
FSA	Federal Security Agency
FY	fiscal year
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
HI	Hospital Insurance
IBM	International Business Machines
IRS	Internal Revenue Service
LIS	low-income subsidy
MCS	Modernized Claims System
OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
P.L.	Public Law
PSC	program service center
RRB	Railroad Retirement Board
SMI	Supplementary Medical Insurance
SSA	Social Security Administration
SSI	Supplementary Security Income
SSN	Social Security number

a problem. The agency is exploring solutions, such as deploying Internet-based applications that enable claimants and third-party helpers to file applications for benefits and take certain postentitlement actions themselves, freeing SSA employees for other tasks.

Nevertheless, in reviewing the *SSA Annual Reports to Congress* over the past 75 years, one is struck by the frequency with which the section on administering the programs starts out with a sentence such as “SSA has had a very challenging year.” Reviewing some of the major challenges that SSA has faced over the years, and how SSA has met them, seems appropriate as the agency prepares to meet its current challenges.

Over the past 75 years, SSA’s responsibilities have involved programs as wide-ranging as unemployment insurance, child welfare, and credit union supervision, among others. This article deals largely with administering the Old-Age, Survivors, and Disability Insurance (OASDI) program. Over the years, SSA has been tasked with administering other major programs in addition to OASDI—in particular, Medicare, Black Lung benefits, and Supplemental Security Income (SSI). This article also covers the challenges of administering those programs.

The article is not comprehensive—space constraints do not permit an exhaustive account of the many challenges the agency has faced. Also, of necessity, descriptions of legislative provisions and program policy rules are somewhat generalized. This article is meant to give the reader some sense of the scope of the programs that SSA administers and of the challenges that arise in administering such programs.

### 1930s

President Franklin Roosevelt signed the Social Security Act on August 14, 1935, establishing a three-person Social Security Board to administer a program of old-age retirement benefits based on a person’s earnings history. The collection of payroll taxes was to begin on January 1, 1937, and the Board had to be prepared to keep records of the earnings on which those taxes were paid. So, the Board had less than 17 months to set up a recordkeeping system unparalleled in history. This would be a daunting task even if everything went smoothly, which of course it did not.

The first challenge the new agency faced was the absence of a budget. Senator Huey Long (D-LA) staged a filibuster on the closing day of the Senate session while the last deficiency appropriation bill, which included the Social Security item, was still pending. The session closed without an appropriation (Altmeyer 1966, 44). Given its deadline, the Social Security Board could not wait until the next legislative session to begin its work. The solution was to have the Federal Emergency Relief Administration,<sup>2</sup> which had funded the President’s Committee on Economic Security as a research project, set up another research project to develop ways and means of putting the Social Security Act into operation. Also, as the National Recovery Act had been declared unconstitutional in May 1935, the National Industrial Recovery Administration was liquidating and was “only too glad” to transfer office equipment and personnel to the Social Security Board (Altmeyer 1966, 44).



First meeting of the Social Security Board, September 14, 1935. Left to right: Arthur Altmeyer; Board Chairman John G. Winant; and Vincent Miles. SSA History Museum & Archives.

### ***Building the Structure***

The original structure of Social Security operations, created in December 1935, included three operating bureaus: Public Assistance, Unemployment Compensation, and Old-Age Benefits. The Bureau of Old-Age Benefits was responsible for Title II of the Social Security Act, providing for an old-age retirement benefit. Its functions included maintaining wage records, supervising field offices, examining and approving claims, and developing actuarial estimates. There were also five service bureaus: Accounts and Audits, Business Management, Research and Statistics, General Counsel, and Informational Service (Davis 1950, 53; SSA n.d. c).

Hiring workers to supplement the staff inherited from other agencies was another challenge. The Supreme Court declared the Agricultural Adjustment Act unconstitutional on January 7, 1936, calling into question whether Social Security would survive a legal challenge and discouraging job applications. Furthermore, a civil service register of eligible applicants was not yet available. The Board made extensive use of an exception to the requirement to hire from the register—an expert and attorney exemption clause—in order to make timely hires and circumvent salary restrictions. The Civil Service Commission limited to about 100 the number of field officers who could be hired under the expert clause, and friction soon developed when the Commission started questioning the Board’s proposed classifications of workers. The Board also faced pressure from Congressmen to

accept political appointments. Although a few compromises were made, the Board generally held fast against hiring those deemed unqualified (McKinley and Frase 1970).

Hiring for the Bureau of Old-Age Benefits was particularly hampered; as late as March 15, 1936, the Bureau had only five employees, including the director and his assistant. By June 30, 1936, the Board had hired 677 employees for its central office in Washington and only 71 for the field. It would be December 2, 1936, before the Civil Service Commission delivered a civil service register for the Bureau of Old-Age Benefits to use (McKinley and Frase 1970).

By December 2, 1935, the Board had established a Field Organization Committee to study problems and recommend ways to establish regional and field offices of the Bureau of Old-Age Benefits (Davis 1950, 117). The Field Organization Committee recommended locations for 12 regional offices, but the Board sometimes made “capricious and unfortunate changes” either to ward off or to satisfy pressure from senators, the White House, or Board members themselves (Davis 1950, 63; McKinley and Frase 1970, 96–102). The same was true for field office locations, with Congressmen appearing before the Board to plead the cause of specific cities (Zwintscher 1952, 70). In fact, when the Board temporarily decided to cancel one Senator’s home town as a field office location and also resisted hiring an unqualified protégé of his, the incensed Senator attached an amendment to the Board’s 1937 appropriations limiting the salary of those hired under the Board’s expert clause and cutting by 5 percent the salary of the Board executive who told the Senator “no” (McKinley and Frase 1970, 88).

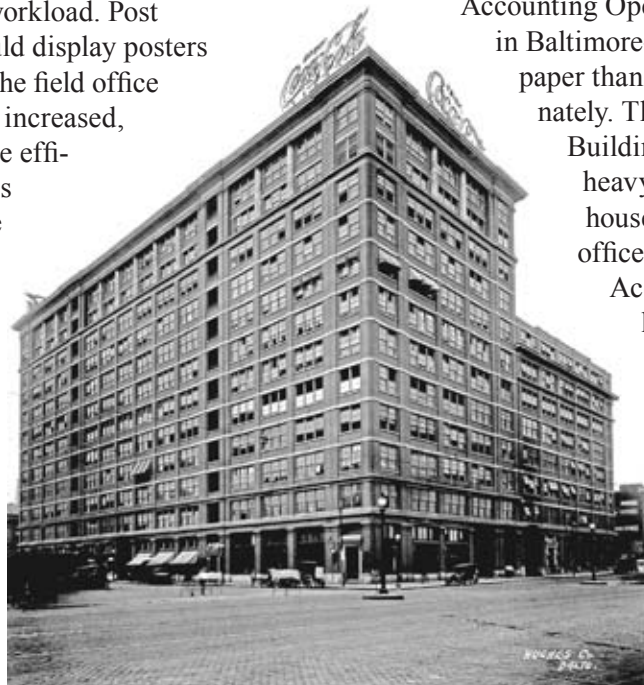
In its first report of January 29, 1936, the Field Organization Committee proposed at least one “district office” per state, located in state capitals, with additional district offices based on workload. The district offices were to have primary and secondary offices (later called branch offices) under them. District offices were to report to Washington, with the Bureau’s regional representative to be responsible only for inspection and training functions. However, by July 1936, the regional representatives were given full supervisory authority over all the offices in their regions (Davis 1950, 125–126).

On April 6, 1937, the Board abandoned the concept of district and branch offices in favor of “field offices,” all equally under the authority of the regional representative, but varying in size and staff according to “compensable load,” presumably meaning the

estimated number of covered workers (Davis 1950, 126). The Board established an eight-level field-office classification system. A class I field office's compensable load was 500,000, and the office manager's salary was \$5,600; a class VIII office handled a compensable load of 26,000, and the manager's salary was \$2,300 (Zwintscher 1952).

In deciding on the location and geographic boundaries of the field offices, a number of factors were considered, such as convenience to the public, uniform distribution of workloads, population patterns, trading zone<sup>3</sup> boundaries, and administrative manageability (SSA 1965, 31). The Bureau opened its first district office on October 14, 1936, in Austin, Texas. When the newly appointed manager entered the musty space on the ground floor of an abandoned post office building, the equipment consisted of some dilapidated desks and chairs left behind when the post office moved out (SSA 1960b, 26). Finding equipment for the new field offices would prove to be a continuing problem.

Each field office established "itinerant stations" (today called contact stations) in remote communities whose residents could not travel to the field office without difficulty. The field office would arrange to use free space at another agency's facility to meet with the public. Often the space would amount to little more than a desk and a chair. A field employee would visit each station on a weekly, biweekly, or monthly schedule, depending on the workload. Post offices in these locations would display posters announcing the next visit of the field office representative. As workloads increased, the Board decided it was more efficient to station representatives permanently in some of these locations than to send a representative intermittently or to convert the stations to full-fledged field offices, so it opened some of them as 1- or 2-person branch offices (equivalent to today's resident stations), with minimal records, under the supervision of the territory's field office manager (Davis 1950, 126–127; Zwintscher 1952, 95–96).



The Candler Building in Baltimore, MD. SSA's first operational headquarters.  
*SSA History Museum & Archives.*

In 1937, the Bureau of Old-Age Benefits was renamed the Bureau of Old-Age Insurance (BOAI). In turn, BOAI was renamed the Bureau of Old-Age and Survivors Insurance (BOASI) when the president signed the Amendments to Title II of the Social Security Act on August 10, 1939. In 1940, the Bureau added a Control Division to handle the increased claims resulting from the 1939 amendments. Finally, BOASI established a Training Section in the Director's Office to take over the complete training program, a part of which had previously been handled by the Social Security Board (SSA n.d. c).

### ***Finding Office Space***

Finding space for the growing agency was a major problem. The Board set up in temporary sites in Washington and split staff among multiple locations. Frequent moves and multiple locations became such a problem that Frank Bane, the Board's Executive Director, remarked that he would be quite willing to set up in a barn if he could have everyone under the same roof (McKinley and Frase 1970, 25).

It was impossible to find the kind of space in Washington that was going to be needed for the huge (and heavy) task of maintaining paper records on all Social Security number (SSN) holders and covered wage earners in the United States. Fortunately, the Board was able to find "suitable" space for its Accounting Operations close to the wharves in Baltimore—suitable more for the paper than for the employees, unfortunately. The space was in the Candler Building, a warehouse made for heavy industry that had formerly housed a Coca-Cola plant. The offices occupied by the Division of Accounting Operations (DAO) had wooden floors on top of cement, with sand in between. Employees often complained of the sand fleas (SSA 1997a). There was no air conditioning. The temperatures ranged from scorching hot in summer to freezing in winter (Simmons 1977, 12). As one Bureau employee later reported:

It was a huge factory, really. It was hot in the summer, we had the huge floor fans, which blew papers around. It didn't give us much comfort from those fans. And in the wintertime we used to sit at our cardpunch machines with our coats on and gloves because it was so cold. Then there was some company that made some kind of medication or something, the odor was horrible. They had big black bugs. I guess they came from the water. The girls used to be afraid of them, I would squash them. They made really a good sound. And another time I remember as we were sitting at our cardpunch machines, we were throwing paper clips at rats, and I mean they were rats. I remember one time the men were trying to get a rat down from the pipes that ran across the ceiling, and we watched them try to get that rat down. Then the mice, too, were doing damage, they were eating up all the data, the tabulations, etc. (SSA 1996d).

The employees worked at unfinished wooden tables whose rough lumber ran splinters into the workers' hands and arms (Altmeyer 1966, 72). Ringing bells told employees when to take their ten minute break in the morning and in the afternoon and when to go to lunch. Those wanting to smoke retired to the rest rooms to avoid sending the place up in flames (SSA 1996d). As this was during the Great Depression, people were glad to have a job even under these working conditions.

### **Issuing SSNs**

The first step in accomplishing "the impossible" was to decide how to keep track of the earnings histories of every covered worker in the United States. A number of schemes were considered. One was a stamp system, as was used in some European countries. In this scheme, the employer would issue stamps to each employee based on the employee's earnings. The employee was to keep the stamps in a book and turn them in to the Social Security Board upon attaining age 65. In the end, however, the Board decided on the 9-digit SSN—so well known today—to identify each worker, in combination with an Employer Identification Number (EIN) to identify each employer (McKinley and Frase 1970).

The Board then had to figure out how to get an anticipated 22 million workers and 3.5 million employers registered by January 1, 1937, when the payroll tax

would take effect. The plan was to set up a nationwide system of field offices to deal directly with the public, issuing numbers and taking claims; but as of September 30, 1936, the Bureau of Old-Age Benefits had only 164 employees. So, the Board turned to the Post Office Department for assistance (McKinley and Frase 1970, 309; Wyatt and Wandel 1937, 42).

The registration process was largely directed by the local postmasters. The first task was for mail carriers to make lists of employers on their routes. Their effort resulted in a list of 2.4 million employers (McKinley and Frase 1970). Beginning November 16, 1936, the post offices sent Form SS-4, Application for an EIN, to employers based on the lists they had compiled earlier that month. Along with information about the business establishment, the SS-4 asked for the number of workers employed. The mail carriers collected the completed SS-4s a week or two later. Based on the SS-4 information, the post offices delivered a supply of Forms SS-5, Application for an Account Number, to the employers the following week for distribution to employees (McKinley and Frase 1970, 368).

Employees were permitted to return the completed SS-5 applications either to the employer, to any labor organization of which the employee was a member, to the letter carrier, or to the post office by hand or via mail (Wyatt and Wandel 1937, 54). Of the 45,000 post offices then in existence, 1,017 first class offices were designated as "typing centers" to assign the SSNs, along with 57 "central accounting" post offices to assign SSNs for the second, third, and fourth class post offices within their area (McKinley and Frase 1970, 368). The Social Security Board supplied these centers with Office Record Form OA-702, in blocks of 1,000, with the account number preprinted. For each registrant, postal employees typed the information from the SS-5 onto the prenumbered OA-702 in duplicate. The employee's name was typed onto a detachable portion of the OA-702, which was then returned to the employee—this was the Social Security card. The post office mailed the completed Social Security cards to the employer, unless the employee had brought the SS-5 to the post office and waited in person for the typed card (Wyatt and Wandel 1937).

An active public information program was instituted to reach employers and employees through trade, labor, civil, veterans', and educational organizations (Pogge 1952, 5). The Board established an Informational Service in January 1936 to supervise public relations. The Board assumed that the American people would be unfamiliar with major concepts of



Postal carriers delivering SS-5 application forms on the first day of the SSN enumeration effort.  
*SSA History Museum & Archives.*

social insurance, and the very complexity of the law necessitated a large-scale plan of popular education prior to registering employers and employees. This period coincided with the 1936 presidential campaign, and the Board was concerned about the potential for misconception and hostility toward the program (Wyatt and Wandel 1937, 30–31).

At midyear, the Informational Service prepared the publicity campaign to encourage employers and workers to complete the application forms, but they did not plan to distribute the material until after the November 3 election. However, the Board accelerated the publicity release after a September speech in which the Republican presidential candidate, Alf Landon, criticized the program in a manner the Board considered seriously misleading. Also that year, many employers, in conjunction with the Landon campaign, began stuffing payroll envelopes with leaflets designed to undermine support for the nascent program. The Social Security Board was so alarmed that Chairman John G. Winant—a top Republican politician—resigned in order to campaign in defense of the Social Security Act. In addition, in October 1936 the Board released a film called “We the People and Social Security” along with a 4-page pamphlet entitled “Security in Your Old Age.” It is estimated that some 4 million people saw the film, and nearly 8 million of the pamphlets were distributed by Election Day (McKinley and Frase 1970, 357–358).

On November 6, the campaign to encourage employers and employees to register began. A series of press releases outlined the procedure for assigning SSNs and carried sample Forms SS-4 and SS-5, as

well as a Social Security card specimen. The campaign included three releases on old-age benefits in 24 languages distributed to the country’s foreign language press. The Associated Press, the United Press, the Hearst newspaper chain, and many individual papers ran series of articles on old-age benefits and registration for weeks at a time. During the November and December initial registration period, there were also 12 nationwide radio broadcasts by well-known individuals and a host of local broadcasts arranged by the 56 skeletal field offices then in place. Over 3 million posters were distributed, 50 million more pamphlets were dispersed, and three additional newsreel trailers were shown to some 42 million people (McKinley and Frase 1970, 364–366). In addition, the Informational Service enlisted the help of thousands of kids from the National Youth Administration to “go out to the hedgerows and by ways, the gates of feebly stirring industrial plants, business offices, and billboards” to post some 3 million placards (Swift 1960, 11).

The publicity campaign and the Post Office Department’s efforts produced over 22 million completed applications as of December 22, 1936, 28 days after the initial distribution of employee applications (Wyatt and Wandel 1937, 62). During the first 4 months of the registration campaign, nearly 26 million SSNs and more than 2.6 million EINs were assigned (Corson 1938, 3). By June 1937, the Bureau had received about 30.3 million applications for SSNs (Pogge 1952, 5).

In November 1936 the Board assigned headquarters staff to 56 Bureau field offices, covering all but one of the cities where the Post Office Department had set up its “central accounting” offices. These 56 Bureau offices primarily answered questions and directed applicants to the post offices (McKinley and Frase 1970), but they were also busy working out procedures and methods with the Post Office Department and the Bureau of Internal Revenue. The field employees made extensive employer contacts—as many as 50 in a single day by some accounts. Phones rang all day with questions (SSA 1952b).

The Board twice had to ask the Post Office Department to extend its handling of the SSN applications, first through March 1937 and then through June 1937, before the Bureau could take over. During this time, Bureau employees often were stationed in the post offices to assist with typing the SSN applications (SSA 1952b). Effective July 1937, Bureau field offices—still numbering only 175 with 1,702 total employees—finally took over the enumeration workload from the post offices (Zwintscher 1952, 90; SSA 1965, 25). By



that time, some 35 million SSNs had been issued at a cost of \$5.7 million (SSA 1990, 1; McKinley and Frase 1970, 372). Still, the job was not finished. In July 1937 alone, Bureau field offices issued some 1.9 million additional SSNs (McKinley and Frase 1970, 368–373). Even with field office employees working evenings and Saturdays and with “managers and assistant managers, anyone who was available, pounding away at typewriters,” the Bureau had to set up additional typing centers in its 12 regional offices to help with the workload (SSA 1965, 32; SSA 1952b).

### ***Maintaining the SSNs***

The post offices, and subsequently the Bureau’s field offices, sent the completed SS-5 and the corresponding OA-702 forms in blocks of 500 to the Bureau’s Records Office in Baltimore’s Candler Building, where the SSN master files were to be kept. The local offices kept carbon copies of the OA-702 to use should an individual request a replacement card (Wyatt and Wandel 1937, 58).

The Baltimore DAO officially opened on November 9, 1936, with 18 employees. It was vital to staff the office immediately. At the time, a hiring “apportionment” was in effect that required the Bureau to recruit a certain proportion of employees from each state. As a result, employees came from all parts of the country. It was thought that the central operation in the Candler building was temporary, and that the work would soon be dispersed to the 12 regions, so recruitment from distant states was logical (SSA 1952b). However, actual operations would reveal that decentralization was not really feasible.

The personnel office received 20 applications for every person hired. Because this was during the Great Depression, applicants for what were basically clerical jobs sometimes had amazing qualifications, including many PhDs and Phi Beta Kappas. On a single day—December 7, 1936—some 940 employees entered on duty. That morning the new arrivals lined down the stairways and out around the building. As each hire had to complete three or four copies of the personnel forms, it took until 5 a.m. to process them all. The personnel office was “a three-ring circus”—operating with one thin book of rules, regulations, and instructions, officers just learned as they went along (SSA 1952b; SSA 1960a, 32).

In November and December 1936, thousands of mail bags containing the completed forms OA-702 and SS-5 began arriving at the Candler Building to be coded and checked for accuracy. Here the Bureau

installed a “great battery” of International Business Machines (IBM) equipment and deployed over 2,300 machine workers and checkers to handle the applications as quickly as they came in (McKinley and Frase 1970). The Baltimore Records Office used a nine-step process to create a permanent master record and to establish an earnings record for each individual. One hundred applications and office record cards, numbered consecutively, were sent through each operation together with a control unit of nine cards (one for each step). The appropriate control card was removed at the end of a step and sent to a control file to track the status of each block (McKinley and Frase 1970, 375).

When the Records Office received the Form SS-5 and the accompanying OA-702 from the local offices, different clerks working independently converted the two sets of information into numerical codes that could be transferred to punch cards. The first group of employees keyed information from the SS-5 into a master punch card for each individual. A tabulating machine used this master punch card to set up a numerical register of accounts stored in huge loose-leaf books. These volumes contained the SSN, name, and date of birth of each number holder. Each page contained 100 SSNs in numerical order. From these volumes, employees could learn the name and identifying information of an SSN’s owner in a fraction of the time that would be required to locate the master punch card (Wyatt and Wandel 1937, 120–121). The master punch card was also used in the earnings-posting operation to establish an earnings ledger for each individual.

A second group of employees independently keyed the same information coded from the OA-702 to create an actuarial punch card (Fay and Wasserman 1938, 25). The actuarial punch card was created for actuarial and statistical purposes and was also used to set up the “visible index.” Later known as the National Employee Index Flexoline File, or simply Flexoline, the visible index consisted of strips of thin bamboo covered with paper, 3/16 of an inch wide by 9 inches long—one for each SSN issued—set in a steel panel. The strips were inserted into the frame one by one, with some employees filing as many as 300 strips an hour. Each strip began with a 3-digit entry based on the Russell Soundex System (in which all surnames having the same basic consonants are grouped together), followed by the individual’s surname, given name, middle initial, and SSN. The strips were mechanically prepared from the actuarial punch card and manually posted on the panel, sorted by the first letter of the surname and within each letter by phonetic code, then in each



A close-up view of the visible index (Flexoline).  
SSA History Museum & Archives.

code group by the first seven letters of the first name, middle initial, year and month of birth, and SSN. Up to 1,600 panels were then hung on each rack (Staruch 1978, 29). Reportedly, experienced clerks were able to find any name and its corresponding account number in less than 60 seconds. In addition, the SS-5s were filmed on 16 millimeter, nonflammable film strips. In June 1938, officials bragged “This film is so compact that the entire file of 40 million photographed SS-5s is stored in 10 ordinary letter-size file cabinets” (Fay and Wasserman 1938, 25).

Keeping all these records was a huge storage problem. Before very long, it was necessary to stack the filing cabinets in two levels, with employees using rolling ladders to look into the upper bank (SSA 1997a). By September 28, 1951, the Flexoline contained over 129 million strips and was projected to increase at the rate of approximately 5 million per year. The index occupied approximately 36,000 square feet of floor space, one city block long on one side of the floor and one-third block long on each end of the floor (SSA 1952a).

### **Keeping Wage Records**

The Bureau used a punch card technology that was relatively simple compared with today’s computer capabilities, but in the 1930s much of the machinery

SSA used was truly innovative. Keeping a record of each individual’s lifetime earnings was an unprecedented task, and the technology to support this Herculean effort did not even exist—the Board had to work with private industry to create the needed technology (OTA 1986, 94).

Punch cards were a little longer and narrower than postcards, and about the same stiffness. The relative position of holes punched in a card represented numbers and letters. After punching, the cards were sent through a series of special machines that used electrical circuits to permit sorting in any desired order, producing duplicates, printing the information represented by the punched holes, tabulating or summarizing the information, and checking duplicate cards to ascertain that they matched the originals (Wyatt and Wandel 1937, 119).

DAO prepared a punch card showing the employee’s name, SSN, and the amount of earnings on the basis of each quarterly report. This card was checked against the corresponding master card to make certain that the name and SSN matched. If they matched, the card was run through an alphabetic accounting machine with the ledger sheet of the same individual. The machine read the amount represented by the punched holes and printed this amount on the ledger. Once a year, the quarterly earning cards for each employee were summarized to one card via a tabulator with a punch attachment, and the summary annual wage information was posted to the ledger account (Wyatt and Wandel 1937, 123).

The Board had to decide whether its records should be centralized in a single location. An expert hired by the Board strongly recommended that the records be kept in the 12 regional offices, but Bureau executives questioned the wisdom of that approach. A compromise was reached: A pilot project kept all the records in Baltimore’s Candler Building, but broke them into 12 sets based on the regional designations. It was soon evident that the regional approach would not work. Workers continuously migrated from one part of the country to another, and large employers paid their taxes and filed wage reports centrally for employees all over the country. Regionally maintained records would have required a continual workload transferring volumes of records between regions and maintaining special controls to keep track of the transfers. Therefore, early in 1939, a central mechanized section was set up to maintain all wage records. Subsequently, all the related files and records were combined and centralized (Altmeyer 1966, 86).

By 1938, DAO had about 500 employees using 222 card punch machines and 70 card sorters. Each day, DAO recorded about 715,000 accounts, with each card-punch operator keying in some 2,000 workers' wage reports (SSA 1992b, 15). By 1940, the Bureau had also implemented a system for posting employee accounts on a cyclical basis so that a continuous process used a relatively stable number of employees and equipment (Pogge 1952, 5–6). The Bureau's cost of maintaining a worker's account was only about 20 cents a year (Altmeyer 1966, 87).

An early crisis took form as the “John Doe” problem. Many employers reported earnings without providing a worker's name or SSN. The first report from the Bureau of Internal Revenue did not contain SSNs for about 12 percent of the wage items—and this rapidly increased in subsequent reports. The BOAI dubbed reports without SSNs “John Does” (Altmeyer 1966, 123). The Bureau quickly established procedures to contact employers for the identification information, and the “John Doe” rate decreased substantially, to 2.5 percent as early as 1939 (Pogge 1952, 5). A series of articles by Drew Pearson, a muckraking journalist of the period, repeatedly raised alarms about the John Doe problem and eroded some public confidence in the program (SSA 1967a; Altmeyer 1966, 123). However, by the time the Pearson articles were published, SSA figures showed that John Does were less than 1 percent of total wage reports, suggesting the articles reflected political differences rather than administrative inefficiency (OTA 1986, 95). Nevertheless, the Bureau would continue to receive incorrect names or SSNs on employer wage reports, and determining the correct identification information—and educating employers about the importance of supplying correct information—remained a large task into the 1950s (Pogge 1952, 5).

The Bureau also had to deal with “delinquent employers” who failed to report their worker's wages. Field offices would check the yellow pages in the telephone directory and the city directory against EIN files in an effort to find employers who were not reporting (SSA 1955a). The offices also got lists of employers to contact from state unemployment offices (SSA 1975b).

### ***Processing Lump-Sum Claims***

In addition to making certain every covered worker had an SSN and every employer had an EIN, the Social Security Board had to determine policy and procedures for processing claims. Monthly old-age benefits were not scheduled to begin until January 1942, but

workers who turned age 65 before that date—or the survivors or estates of deceased workers—were able to claim a one-time payout in lieu of monthly benefits. The Board's General Counsel also interpreted Section 205 of the Social Security Act as requiring the Board to act as the administrator for the estates of persons whose death payments would amount to less than \$500. In some states, this might entail finding and paying off any creditors before paying relatives (McKinley and Frase 1970, 310–311). One former SSA Dallas Regional Commissioner recalled how complex Louisiana inheritance laws were and how tedious it was to find 15 to 20 relatives entitled to a share of lump-sum payments, frequently as small as \$1 (SSA 1985b, 16).

The earliest a lump-sum payment claim could be filed was January 1, 1937, but the Board did not have the forms ready until February 5, after the procedures had been reviewed by the Comptroller General (McKinley and Frase 1970). Once they received the approved procedures, field personnel were not happy with complicated and expensive requirements, such as notarizing certain information, and feared a negative public reaction (Wyatt and Wandel 1937, 132).

At first, it was uncertain whether the claims clerks (today called claims representatives) could assist applicants. The General Accounting Office (GAO) took the position that a long-standing federal statute prohibited federal officials from assisting citizens in the prosecution of claims against the government. However, the Board argued that in this case the claimant had a statutory right to a specific benefit based on contributions into the old-age insurance system. Therefore, these were of a different character than usual claims against the government, which were payable out of general revenues. GAO relented, deciding that “it was not required to object.” Once its role was settled, the Bureau impressed on its employees the importance of assisting claimants with their applications to make certain they received the benefits to which they were entitled and understood their rights and duties (Altmeyer 1966, 55). Some field office employees actively tracked down workers who had turned age 65 to notify them of their eligibility to claim benefits. Some even contacted funeral homes for information to help obtain claims for those who died after January 1, 1937 (SSA 1975b).

The manager of a local Bureau field office reviewed the claims forms and substantiating evidence (such as proof of age if the date of birth differed from that in Board records), affixed a transmittal form, and then forwarded the claims by way of the regional office to the Director of BOAI. The Director immediately

transferred the forms to the Adjudication Operations Section of the Technical and Control Division. At the same time, the field office claims clerk sent a request to Baltimore's DAO to send earnings information to the Washington adjudication office (SSA 1974a). In the Washington office, a grade 5 employee in one of the four geographically based claims control units would associate the earnings information with the claim. If needed, additional information was requested from the field office. When he or she had everything needed, the employee would decide to allow or disallow the claim. The material would then go to a grade 7 reviewer who examined the claim and its substantiating evidence, determined the amount of the benefit, certified the approved claim for payment to the Treasury Department, and sent the claimant a notice (SSA 1974a).

Instructional material for processing claims was developed as work progressed. The original Social Security Act was less than six pages long, and the Board had to supplement the act with many rules and procedures for conducting its business. The first instruction on claims policy was Social Security Board Administrative Order No. 24. It included a page-and-a-half, single-spaced list of general principles for taking applications and ensuring confidentiality (McKinley and Frase 1970, 378).

The first claim was filed by a Cleveland motorman named Ernest Ackerman, who retired 1 day after the Social Security program began. During his 1 day of work under the program, his employer withheld a nickel in payroll taxes from Ackerman's pay. Ackerman received a lump-sum payment of 17 cents. During this period, the average payment was \$58.06, and the smallest payment was 5 cents (SSA 1995a, 8).

In 1937 alone, the Bureau received between 70,000 and 80,000 claims for lump-sum benefits (Pogge 1952, 5; Altmeyer 1966, 86). At one point, the claims in Washington were "piled on top of file cabinets 3 feet deep." However, the Bureau soon dug itself out, and was able to assure the 1939 Advisory Council that it could handle the workload associated with moving the date when insured workers could begin receiving monthly benefits forward from 1942 to January 1, 1940 (SSA 1967a).

### **Training Employees**

SSA's first Commissioner, Arthur Altmeyer, identified training as one of the keys to setting up a highly efficient administration in a very short time. Pervading all the training was an effort to instill in each employee his or her "affirmative responsibility for carrying out

the provision of the Social Security Act" (Altmeyer 1966, 53).

The first training efforts were made as early as March 1936 when appointments to the field began. The Bureau of Research and Statistics, aided by the Field Organization Committee, improvised the initial training activities. The offices of the several Bureaus, and social insurance authorities outside the Board, conducted the training. The training generally had two components.

A 2-week basic training course emphasized the general economic background of the act. An analysis of the act's various provisions was provided for all employees above a certain grade (Wyatt and Wandel 1937, 26–27). Field staff had to be experts not only on the old-age benefits program but also on other aspects of the act, as the public had difficulty differentiating between the various parts of the program. After classes, the students' evenings in the hotel room were filled with homework and study (SSA 1965, 32).

BOAI supplemented the basic course with a 3-week technical course for its own personnel. This course stressed the Bureau's operating procedures for tasks such as keeping wage records, adjudicating benefit claims, and assigning SSNs, as well as practical details of office management, personnel, and procurement regulations. BOAI provided special after-hours instruction for lower-grade employees and for those who had originally been unable to take the basic training course. By 1937, a full-time training staff was in place, and the Board integrated all of its training activities in a special training division within the Bureau of Business Management (Wyatt and Wandel 1937, 26–27).

Early Social Security Board employees later recalled their training experience with enthusiasm. They credit this early training with imbuing employees, from top executives to clericals, with a fierce loyalty to the Social Security program and a belief in the social philosophy it represented. They absorbed the lesson that they were working for the people who paid into the Social Security trust funds, and that these people deserved their courtesy, attention, and concern (SSA 1975a).

The Board put great stock in the importance of training and devoted considerable funds to the process, but this did not translate into money for the employees, who were expected to pay for their transportation to Washington and be reimbursed later. The Board paid neither a salary check nor a per diem for the training period (SSA 1975b).

## 1940s

Viewing Social Security strictly from a program perspective, one might conclude that not much happened during the 1940s. However, from an administrative standpoint, it was a very active decade, starting with implementing the 1939 Amendments to the Social Security Act. Also in 1939, the President's Reorganization Plan Number 1 established the Federal Security Agency (FSA). The Social Security Board became a part of FSA and was no longer an independent agency. The FSA encompassed the Social Security Board, the Public Health Service, the Office of Education, the Civilian Conservation Corps, and the U.S. Employment Service. The objective was to bring together agencies whose major purposes were to "promote social and economic security, educational opportunity, and the health of the citizens of the Nation" (FSA 1948, v).

The process of issuing SSNs and establishing earnings histories continued apace. By the end of January 1940, DAO had established almost 49.6 million worker accounts, plus more than 1.8 million Railroad Retirement Board (RRB) employee account numbers. By April 1940, the wage records kept in Baltimore had been converted from a regional to a national basis—a transition that required 28 months to complete. By July 1940, Bureau personnel totaled 8,744, with about half in DAO, about 3,000 in the field, and the rest in D.C. (SSA 1950).

### Implementing the 1939 Amendments

Signed into law on August 10, the 1939 amendments advanced the start date for monthly benefits from January 1942 to January 1940 and added benefits for dependents and survivors of retired beneficiaries. The Bureau, now renamed the Bureau of Old Age and Survivor's Insurance (BOASI), took immediate action, mailing letters to all individuals who had filed for the lump-sum payment at age 65 to alert them to their potential eligibility for monthly benefits. DAO sent transcripts of wage records for workers who

attained age 65 from 1937 through 1940 to servicing field offices to enable staff to advise claimants of their possible benefits (Pogge 1952, 6). By April 1940, 63 more field offices were opened, including some 1-person branch offices (today known as resident stations), bringing the total number of field offices to 460. In addition, 1,296 itinerant stations (today known as contact stations) were established to assist the field offices (SSA 1965, 33).

The 1939 amendments markedly changed the nature of the field offices' functions. In addition to issuing SSNs and contacting employers about wage filings, they now served large numbers of people arriving to file claims for monthly benefits. To reflect the changing nature of the job, claims clerks were renamed claims assistants (SSA 1965, 32). Even so, the field offices still only completed the applications and gathered documentary evidence; before September 1941, they did not formally determine whether benefits were payable.

In the first year of administering monthly benefits, BOASI awarded benefits to about 250,000 individuals. On January 31, 1940, Ida M. Fuller became the first person to receive an old-age monthly benefit check, in the amount of \$22.54. She had paid \$24.75 in Social Security taxes between 1937 and 1939 on an income of \$2,484 (SSA n.d. b). By the end of 1941, a total of 372,300 benefits totaling about \$6.8 million

in monthly payments were in force (Pogge 1952, 6–7). The numbers may not seem high, but they signify enormous effort in the era before electronic processing devices (Altmeyer 1966, 119). These claims brought with them many policy and procedural issues to resolve, such as when a widow has a child in her care, and whether tips and traveling expenses are "wages" under the act. BOASI also had to negotiate with the Bureau of Internal Revenue on definitions. For instance, there was a large "twilight" area in which it was difficult to determine whether a worker was an employee under the act. There were no precedents



A poster informing the public about the 1939 amendments.

SSA History Museum & Archives.

to follow, and complete information with which to resolve questions was lacking.

Eventually, as experience accumulated, BOASI developed its *Claims Manual* of operating instructions for making entitlement determinations and processing claims (Pogge 1952, 6). The first *Claims Manual* was a slim 35 pages. The Bureau had so much trouble getting the manual printed that a mimeographed version was sent out in advance (Davis 1950, 221). It was April 1940 before the printed version arrived (SSA 1950). The *Claims Manual* outlined standards and procedures for the development, review, and adjudication of claims. It was not updated very often, so it was supplemented with “adjudication instructions,” copies of which were kept by each claims adjudicator.

A policy group in the Claims Division had written the *Claims Manual*, but legal interpretations were largely made on the fly as cases came up. The claims adjudicators in Washington referred any case with questions about legal interpretations to the unit chief, who would take the case to the head of the Claims Division. The question would then be submitted to the General Counsel for legal opinion. Before long, claims adjudicators all had piles of different kinds of cases on their desks awaiting legal decisions (SSA 1974a).

Administering monthly benefit payments brought the problem of how best to maintain payment records. At the time, the normal accounting practice was to keep a ledger account for each individual. BOASI considered this approach, and even ordered millions of ledgers and posted payments to them for a few months, but it soon was obvious that an unacceptable number of clerks would be required to maintain the individual accounts as the benefit rolls grew. Instead, BOASI determined to use a claims folder system, with a folder set up for each account. All actions affecting payments were filed systematically in the claims folder. BOASI employees could reconstruct the payment history of any beneficiary in a matter of minutes using the claims folder (Pogge 1952, 7).

The Claims Correspondence and Control Section (later known as the Control Division) was responsible for keeping the records. The Section started off with 50 people and was budgeted to increase to 140 with the next fiscal year (FY), but it soon became apparent that over 500 employees would be needed (SSA 1952b).

BOASI also had to devise a way to make available at all times information on which persons were entitled to benefits and which were due a payment each month. The wage records operation also had to find

a way to identify any beneficiaries who earned more than \$14.99 per month, making them ineligible for a payment for that month. BOASI developed a punch card system for controlling the payment status of each beneficiary for each month. This system enabled the Bureau to prepare a monthly statement showing the activity of the beneficiary rolls and to balance this statement against external controls established by the Treasury disbursing office within a few days of the end of the month (Pogge 1952, 6–7; SSA 1952b).

### **Supporting the War Effort**

No sooner was the Social Security Board’s organization in place and its employees trained than another challenge arose. World War II became the nation’s priority, and large numbers of BOASI employees left to join the war effort. Because agencies dealing directly with the war were given priority on hiring, finding replacements for the departing BOASI workers was problematic. The surplus of laborers during the Depression now became a shortage.

Despite its manpower challenges, BOASI supported the war effort in a number of ways. The U.S. government commissioned economic surveys to provide a base for integrating all the nation’s industries into the war effort. With its widespread network of offices and its 3,900 experienced field staff, BOASI took responsibility for conducting the economic surveys. Field assistants (later renamed field representatives) had vast experience visiting employers to resolve wage-reporting problems and determine employer-employee relationships. These BOASI employees were ideal for collecting information on workers’ job duties, the materials they used, the supplies they needed, and whether they had more of certain critical materials (such as steel) than they needed. The surveys went on through the spring, summer, and fall of 1942, and the information was submitted to the War Production Board (Olcott 1981, 14–15; SSA 1975b). The Bureau also provided war agencies with statistical data derived from its wage record operations (Pogge 1952, 8).

Also starting in 1942, BOASI took on a “Civilian War Benefits” program that paid benefits to families of civilian war casualties such as American construction workers in the Pacific islands. Monthly benefits for wives (and a few widows and parents) ranged between \$30 and \$45 depending on the worker’s former wages, with children receiving less. The first payments went out in March 1942, and by December 1942 BOASI was paying \$38,800 a month to

1,467 beneficiaries. This program gave BOASI its first experience handling disability-based benefits. Starting in November 1942, payment went to civilians injured while engaged in civil defense work, such as Civil Air Patrol or the Aircraft Warning Service, or during enemy actions such as the Pearl Harbor attack (Olcott 1981, 14–15). The program also paid benefits to Philippine Island civilians disabled as a result of enemy action (Pogge 1952, 8). Monthly cash benefits ranging from \$10 to \$85 were paid for temporary total disability or permanent disability of at least 30 percent (Altmeyer 1966, 140; DeWitt 1997). BOASI worked with physicians on loan from the Public Health Service to develop procedures and policies (SSA 1996c).

The demand for defense-related office space in the Washington, D.C., area peaked just as a new building intended to house and centralize Social Security's headquarters was completed. BOASI had to go elsewhere. Headquarters staff moved from D.C. to Baltimore on June 1, 1942. The Claims Division and the Control Division, which respectively authorized claims payments and maintained the beneficiary records, were simultaneously merged into a Claims Control Division and decentralized from the D.C. area, moving into "area offices" in Philadelphia, New York, Chicago, San Francisco, and New Orleans (Olcott 1981, 15–16). In 1946, the New Orleans area office was moved to Birmingham, and a sixth area office was opened in Kansas City (SSA 1952b; Davis 1950, 127). The Bureau also set up a DAO branch in Wilkes-Barre, Pennsylvania (Pogge 1952, 8; SSA 1952b).

On September 15, 1941, responsibility for reconciliation of wages, development of claims, and computation of benefit amounts was shifted from the Washington Claims Division to the field offices. However, claims still received a 100-percent review and payment authorization in the Claims Division (SSA n.d. b).

BOASI also looked for ways to eliminate unnecessary work to alleviate the staffing shortage. BOASI

used a special technique known as the "Why survey," in which all Bureau employees participated over several months. In this survey, the Bureau used teams of employees to analyze each operating step that had to be performed and asked "Why do we do this? Why do we do it this way? Why can't it be eliminated?

Why can't it be improved? Why can't it be combined with other operations? What does this step add to the final product?" The Bureau received about 6,600 suggestions from about 2,400 employees, and adopted about a quarter of the suggestions. This effort enabled the Bureau to cope with a staff reduction from about 9,850 to 8,300 even though the workload did not decline (Pogge 1952, 8; Futterman 1960, 20).

### ***Restructuring in the Post-War Period***

On July 16, 1946, the Social Security Board was abolished. In its place, the FSA created the Social Security Administration (SSA), with all of the duties, powers, and functions of the old Board. The old Executive Director's Office became the Office of

the Commissioner of Social Security. Arthur Altmeyer, who had been the Board's chairman, became SSA's first Commissioner.

There were now four "operating" bureaus (actually program bureaus): The Bureau of Public Assistance, the Bureau of Employment Security, a new Children's Bureau, and BOASI. In 1947, BOASI supervised the 12 regional representatives and their staffs, 464 field offices, 6 branch offices, 2,052 itinerant stations, and 13 detached field stations (Davis 1950; FSA 1948).

Major changes occurred in DAO. The old individual ledger sheets that held individuals' earnings histories were replaced by yearly listings prepared by an electrical accounting machine using the annual summary and detail earnings punch cards. In addition, DAO began microfilming records, which not only introduced workyear savings, but also freed up filing equipment and space. Also at this time, responsibility for assigning employer account numbers was transferred to the Bureau of Internal Revenue (Pogge 1952, 9).



This war-era poster used the theme of wartime solidarity to encourage people to help SSA reduce its SSN replacement workload. SSA History Museum & Archives.

## 1950s

The 1950s were a period of growth for SSA, in coverage of additional workers, in new beneficiary entitlements, and in agency employment. While taking on new workloads, SSA also had to deal with inadequate and substandard facilities.

The decade brought many structural changes for SSA. By 1952, there were over 500 field offices (SSA 1952b). On July 19, 1954, the field offices were redesignated “district offices,” although the agency has since continued to refer to both district and branch offices generically as field offices. Area offices were renamed “payment centers” on July 8, 1958. In September 1958, a new payment center was established in Baltimore to handle cash disability payments and the Old-Age and Survivors Insurance (OASI) payments for beneficiaries living in foreign countries (SSA n.d. b).

Meanwhile, SSA became a part of a new agency. On April 11, 1953, President Dwight Eisenhower abolished the FSA and in its place created the Department of Health, Education, and Welfare (HEW).

### **Implementing the 1950 Amendments**

The 1950 Social Security Act Amendments extended coverage under the OASI program to about 10 million more persons effective 1951, including the nonfarm self-employed other than doctors, lawyers, engineers, and members of certain other professional groups; regularly employed domestic and farm workers; a small number of federal employees who were not covered under the civil service retirement program; members of a few very small occupational groups; and workers in Puerto Rico and the Virgin Islands. In addition, voluntary coverage was offered to the 1.5 million people who worked for state and local governments but were not under retirement systems and to about 600,000 employees of nonprofit organizations (Cohen and Myers 1950). The 1950 amendments also liberalized the eligibility requirements, making about 700,000 persons immediately eligible for benefits; increased benefits substantially for about 3 million existing beneficiaries, effective September 1, 1950;

raised the wage base for tax and benefit computation purposes; and provided a new contribution schedule (SSA n.d. b; Pogge 1952, 9). Without question, these were major changes.

Unlike its experience with the 1939 amendments, BOASI had a seasoned and well-trained staff to implement the 1950 legislation. BOASI also began preparing for the legislation early and thoroughly. So, although this legislation contained the most extensive changes in the program’s 15-year history, BOASI was equal to the task (SSA 1952b).

The Bureau used veteran employees to quickly train new employees, adapted work flows and procedures, and launched an extensive information program to reach potential beneficiaries. As workloads peaked, the Bureau shifted regular employees from one operation to another and used overtime rather than hiring temporary employees (Pogge 1952, 9).

The new coverage provisions meant that millions of new employers and employees had to be registered and wage record accounts established. Forms and procedures for nonprofit organizations had to be developed by January 1, 1951, and interpretations of the law had to be settled to provide states with guidance in framing legislation and negotiating coverage agreements. Forms for reporting self-employment did not have to be finalized until January 1, 1952, but Bureau staff had

to work closely with the Bureau of Internal Revenue before then to develop regulations and uniform coverage determinations. An informational booklet with a tear-off coupon for registering household employees was widely distributed, as well as an envelope-style tax return form for reporting household wages. BOASI worked with the Department of Agriculture to distribute information to farm residents (Pogge 1952, 10).

New coverage provisions added new complexity to the program, and additional complexity resulted from legislative provisions to ensure that no one was disadvantaged by changes in program rules.

Consequently, already in the 1950s, as many as 16 or 17 different recomputations might be needed. In response, SSA Commissioner Robert Ball initiated



Social Security’s first recipient of monthly benefits, Ida May Fuller, is shown here receiving her first-ever benefit increase in October 1950. SSA History Museum & Archives.



a “program simplification” project in the Program Analysis Division. The idea was to have a workgroup examine specific program areas and try to simplify the provisions. The workgroup recommendations to simplify the computations would finally be enacted in the 1960 amendments. This project would be just the first of many SSA attempts to find ways of simplifying Social Security programs (SSA 1996e).

In FY 1951, BOASI awarded benefits to 1.4 million persons, more than twice the previous record. The volume of work had tripled since 1941, and soaring postwar inflation tremendously increased operating costs. Nevertheless, efficiencies the Bureau had implemented enabled it to successfully handle the new workload—although claims processing time increased substantially. The recent introduction of electronic accounting machines supported the mechanical calculation of benefit amounts from punch cards containing wage-record information. By 1951, 47 employees were handling the amount of work that had required 100 persons just 10 years earlier (Pogge 1952, 10).

Because a provision in the 1950 amendments brought about a more liberal benefit computation effective July 1, 1952, many claimants waited until then to file for benefits. As a result, the new claims workload increased by 39 percent. Additional amendments on July 18, 1952, increased benefits for the 4.6 million beneficiaries already on the rolls, and these increases had to be reflected in the September benefit checks. In spite of these additional workloads, the incoming Eisenhower Administration sharply curtailed the Bureau’s budgets for the first half of 1953, preventing the Bureau from adding staff to handle the resulting backlogs (OTA 1986, 96).

### ***Implementing the 1954 Amendments***

On September 1, 1954, the Social Security Act was amended to extend OASI coverage to self-employed farmers and workers in specified other professions, additional farm and domestic employees, members of state and local government retirement systems on a voluntary group basis, and individual ministers and members of religious orders through election. Additionally, a disability freeze provision<sup>4</sup> was enacted to protect the benefit rights of disabled persons (SSA n.d. b).

Area offices worked extensive overtime to compute the benefit increases that resulted from the 1954 amendments. SSA employees had to file an accounting machine-produced form indicating the new benefit amount in each beneficiary’s folder. DAO sent employees to each of the six area offices to help. The

Philadelphia Area Office, with about 440 employees, worked 2,000 hours of overtime—equivalent to 250 work days—between January 3 and January 11, 1955, alone (SSA 1955b).

To determine farm coverage, SSA had to formulate a policy for measuring “material participation.”<sup>5</sup> For assistance, SSA turned to the Agricultural Extension Service of the Department of Agriculture and the University of Maryland. SSA policy developers met with county agents and visited farms in the area to speak with actual farm operators about how the program could work. Because Maryland did not represent some farm situations satisfactorily, SSA then expanded its research into Pennsylvania, North Carolina, and Louisiana. Its findings enabled SSA to develop a workable policy (Lowrey 1955, 5). However, covering farmers caused spikes in claims. Once again, the agency temporarily shifted employees to offices where the workloads were the heaviest (SSA 1960a, 34).

In September 1954, the Bureau established the Division of Disability Operations (DDO) to implement the disability freeze. Under a federal-state partnership that exists even today, each state designated an agency to make a determination on disability for applications filed in the local BOASI field offices. The idea behind this state-federal arrangement was to tie the receipt of cash disability benefits more closely to rehabilitation services, which were state functions. Also, Congress did not trust SSA to be strict enough with the medical determinations. SSA paid the state’s administrative costs for making the determinations (SSA 1996c). DDO was responsible for negotiations with the state agencies, reviewing state agency decisions on disability, making original decisions for those cases not yet covered by state agreements, establishing standards and procedures for paying the state agencies, and developing medical guides, policies, and training materials for use by both BOASI and state agency personnel. Frequent amendments liberalizing the program posed additional administrative challenges (Christgau 1955, 16).

District offices were also affected, as they had to interview the applicants, complete a medical history, record their observations, and obtain the medical records. In response to the disability freeze, SSA opened a number of new offices, many of them in medium-sized towns and rural areas (SSA 1960a, 34). DDO provided training for the district offices to ensure they were prepared. In January 1955, the Bureau began taking disability freeze applications. There were no special forms for capturing the medical information;

employees filled out a long narrative, usually six to nine pages (SSA 1995c). The Bureau had to deal with claims not only from the recently disabled but also from those disabled for many years. The Bureau took half a million claims in just the first few months. The workload in the first quarter of 1955 was equal to the workload for a full year in 1946 (SSA 1955c).

To develop its disability determination policy, DDO staff consulted with the Veterans Administration and the RRB, agencies that already had disability programs (SSA 1996c). Gaining the cooperation and support of the medical community was a major challenge. DDO set up a Medical Advisory Committee, which included prominent private-sector medical doctors suggested by the American Medical Association (AMA), to provide advice and recommendations for disability policy and guidelines. When SSA had the Committee's support, it could usually count on support from the AMA (SSA 1979, 23).

### ***Taking on the Social Security Disability Insurance (DI) Program***

On August 1, 1956, the Social Security Act was amended to provide monthly benefits to permanently and totally disabled workers aged 50–64; to pay child's benefits to disabled children aged 18 or older of retired or deceased workers, if their disability began before age 18; and to lower the retirement age to 62 for widows and female parents. In November 1956, retirement benefits also became payable to women at age 62 (SSA n.d. b).

The passage of DI benefits was extremely controversial, with many special interest groups vociferously opposed. Congress and the Eisenhower Administration expressed concerns about potential program costs and encouraged SSA to take a "strict" approach to administering the new benefits. However, constituent complaints about the high disallowance rate prompted Congress to hold high-profile hearings on the disability program in 1958. As a result, some administrative procedures and policies were made less restrictive. In addition, following these hearings, SSA published its disability medical listings<sup>6</sup> for the first time (SSA 2001b).

Use of state agencies to make the disability determination was continued in the 1956 legislation. However, although the state agencies decided whether a person's impairment met the requirements for disability benefit entitlement, DDO reviewed every decision (SSA 1995e).

With increased workloads in the district offices came heavy claims loads in the payment centers. The number of beneficiaries grew from 9.1 million in 1956 to almost 12.5 million in 1958. Although Bureau employment grew from 18,000 in 1956 to 22,500 in 1958, ingenuity and new, more efficient processes were required to cope with the additional work (SSA 1960a, 34).

### ***Trying New Technology***

In the 1950s, the United States entered the computer age, and SSA once more was a leader in adopting new technology. In 1950, the Bureau installed its first "high-speed electronic calculator" for claims processing (FSA 1950, 32). In July 1955, the Bureau acquired an IBM 705 II Data Processing System for posting earnings, computing benefits, and reinstating incorrectly reported earnings items (SSA 1960c; SSA 1964b; SSA n.d. b). On July 1, 1956, the earnings posting operation changed from an 80-column IBM punched card and the IBM 407 Accounting Machine to electronic data processing equipment which stored information on magnetic tape using a binary code. One reel of magnetic tape could hold the information from almost 32,400 punched cards, and the Summary Card File alone had 120 million records to be converted to tape (SSA 1960c, 20–21).

SSA also helped pioneer a microfilm printer that linked computer and microfilm technology (OTA 1986, 99). Until 1958, the Bureau was still using the Flexoline to keep track of SSNs issued. The mammoth file took up a city block of floor space. It was growing at the rate of about 3 million names a year and



SSA employees at the control console of the IBM 705 mainframe computers.  
SSA History Museum & Archives.

required 6,000 additional square feet of space every 12 months. SSA plainly could not continue using the Flexoline file indefinitely. In 1958, the existing National Employee Index was microfilmed. By 1964, the 200 million names in the National Employee Index were contained on 2,005 reels of magnetic tape divided among about 90 “stations,” each equipped with high-speed microfilm readers (SSA 1964b).

## **1960s**

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After responding to the challenges posed by extensive growth in the Social Security program in the 1950s, SSA was poised for additional challenges in the 1960s. The biggest of these was tackling an entirely new program—Medicare.

SSA also underwent a major organizational change. On January 28, 1963, SSA shed many of its former responsibilities when HEW moved the Children’s Bureau and the Bureau of Public Assistance into a new Welfare Administration. SSA’s role would now be essentially identical with that of the now-abolished BOASI, focusing primarily on the retirement, survivors, and disability insurance programs.

In March 1965, further organizational changes at SSA created four program bureaus: The Bureau of Retirement and Survivors Insurance, the Bureau of Disability Insurance (BDI), the Bureau of Health Insurance, and the Bureau of Federal Credit Unions. SSA also created a Bureau of Data Processing and Accounting—later shortened to the Bureau of Data Processing (BDP)—that assumed responsibility for the operational functions of the former DAO (SSA n.d. b).

### ***Maintaining Public Service***

In 1961, the agency’s workforce provided 25,829 “man-years” of service, of which 11,473 were dedicated to processing claims and about 5,000 were spent posting wages. BOASI had 11 regional offices, 584 district offices, and 3,541 contact stations (previously called itinerant stations). Field offices still took claims, developed the evidence, and sent the applications into the seven payment centers for final adjudication and certification of payment to the Treasury Department. More than 35 days typically elapsed between taking an application for benefits and payment certification. Of this time, 6 hours was for BOASI employees’ direct work and the rest was spent physically moving evidentiary documents (Ladd and others 1961; Futterman 1960, 2).

SSA was considered a well-run organization. A report of the 1965 Advisory Council on Social Security stated:

From our own observations and from the evaluation of others, we believe that the huge task of administering the social security program, a task which involves the rights of many millions of people and the payment of billions of dollars a year, is being handled effectively and efficiently.

Administrative costs have been kept down to only 2.2 percent of benefit payments, partly as a consequence of the use of the latest in methods and machinery. This low administrative cost, however, has not been achieved by sacrificing high-quality service to the public. Employees at all levels have combined efficient performance of duties with responsiveness to the public and a friendly and sympathetic concern for the aged, the disabled, and the widows and orphans who are the program’s beneficiaries.

We would like to register our belief that accomplishment of the purpose of the social security program requires that this high quality of administration—nonpartisan and professional—be continued (Advisory Council 1965, 39–40).

SSA employees’ dedication to serving the public would be a factor in successfully handling its next big challenge: implementing the 1965 amendments. As an initial step, the Commissioner in 1965 approved the establishment of branch offices under the direction of the District Office Managers (SSA n.d. b).

### ***Launching Medicare***

The 1965 Amendments to the Social Security Act, enacted July 30, provided hospital insurance (HI) to persons aged 65 or older who were entitled to monthly Social Security retirement benefits, as well as to unentitled individuals who would reach age 65 before 1968 (Medicare Part A). All persons aged 65 or older were also permitted to voluntarily purchase Supplemental Medical Insurance (SMI) for physician’s services (Medicare Part B). Medicare was to go into effect July 1, 1966, giving the agency less than a year to implement the program.

Simultaneously, the agency had to implement changes to the OASDI program. The new law extended eligibility to students, divorced wives, and

widows aged 60 and liberalized the retirement test and the definition of disability. It also instituted a “transitional insured status” for persons who reached age 72 before 1969. In addition, it provided a 7-percent increase in benefits retroactive to January 1, 1965.

Coverage in the voluntary SMI program was to begin July 1, 1966. The enrollment deadline for those aged 65 or older was March 31, 1966. Late enrollment would result in delayed coverage and a premium penalty. Persons attaining age 65 after March 31, 1966, had to enroll during the 3-month period preceding their 65<sup>th</sup> birthday. The SMI premium of \$3 a month was to be deducted from the Social Security benefit check.

The effort required to create the Medicare program while simultaneously implementing the OASDI benefit portion of the 1965 legislation was staggering. First, 19 million potential Medicare beneficiaries had to be identified and contacted to determine their eligibility. SSA staff had to elicit and process SMI enrollment forms. The agency also had to prepare and certify those who would be providing hospital and medical services covered under HI and SMI. SSA had to develop contracts with the intermediaries that would handle reimbursement for hospital services rendered and also with the carriers that would determine “reasonable charges” and handle the reimbursement for SMI services. SSA needed an administrative infrastructure for Medicare, which required hiring and training 9,000 employees, setting up 100 new field offices, coordinating activities with numerous other federal agencies, and developing internal systems capacity. In addition, SSA had to develop Medicare program policy through consultation with other agencies and many interest groups (Ball 1965; Gluck and Reno 2001, iv–v).

Commissioner Robert Ball later attributed the Agency’s success in implementing Medicare to three factors: an existing nationwide organization that was disciplined and experienced in dealing with the public, had high morale, and was eager to do the job; a group of central planners and leaders with enthusiasm, imagination, and quality leadership skills; and an almost complete delegation of authority and responsibility to SSA from higher levels (Gluck and Reno 2001, 9–10).

Shortly after the legislation was signed, SSA mailed a punch-card application form together with an information pamphlet to all Social Security, civil service annuity, and railroad retirement beneficiaries who were within 3 months of their 65<sup>th</sup> birthday or older. SSA also obtained leads from the Internal Revenue Service (IRS, successor to the Bureau of Internal

Revenue), welfare rolls, state and local retirement plan agencies, nursing homes—any source that could provide a list of names and addresses for the elderly. Two follow-up mailings went out to nonrespondents. SSA also hired advocacy groups for seniors to go door-to-door. Even the Forest Service was enlisted to look for people camping out in the woods (SSA 2001b; SSA 1995b).

SSA distributed over 120 million booklets about Medicare and sent a continuous flow of materials to the media, which provided unstinting support throughout the initial enrollment period. Newspapers printed column after column on the new program; radio and television stations presented live and recorded programs explaining the law; and post offices widely displayed posters. The number of news items ran into many hundreds of thousands. District office employees made nearly 90,000 talks, 194,000 radio broadcasts, and 5,000 live television appearances; they also manned 29,500 exhibits (HEW 1966, 21).

To accommodate those wishing to enroll in Medicare, SSA opened 9 additional district offices, 74 branch offices, 12 resident stations, and 21 temporary service centers. By the end of 1965, there were 725 district offices, 82 branch offices, 37 resident stations, 16 service centers, and 3,361 contact stations to serve the public. The new branch offices were located not only in rural areas that were remote from existing district offices, but also in metropolitan areas with large populations of minorities and disadvantaged individuals. In addition, many existing offices were enlarged to accommodate new staff (SSA n.d. a). Still, the offices were overflowing with staff and claimants. Some offices conducted mass interviews, taking 20 to 30 enrollees into the training room, giving each an application, and walking through the questions while enrollees completed the forms (SSA 1995d).

As the March 1966 deadline approached, SSA’s field offices extended their hours for those who still wanted to apply. Some offices stayed open until midnight in the last week or two while others were open on weekends (SSA 1996a). President Lyndon Johnson signed a proclamation designating March 1966 as “National Medicare Enrollment Month.” On April 8, 1966, legislation extended to May 31 the deadline for filing SMI applications, with coverage to take effect July 1, 1966 (SSA n.d. b).

At the same time it was enrolling beneficiaries, SSA had to contact every hospital to certify that it met Medicare requirements and complied with Title VI of the Civil Rights Act. One result of this effort

was the nearly complete desegregation of U.S. hospitals. The agency also had to provide information to every doctor in the country, explaining the program and encouraging them to participate (SSA 2001b).

Planning the operational flow for admitting Medicare patients to hospitals required extensive discussions with insurance companies, hospitals, and other experienced organizations. Procedures for processing physician's bills were needed.

Contracts had to be developed with the organizations that would process and review the bills and send out explanation-of-benefits notices (SSA 1995b).

The effort was not without problems, but SSA succeeded, and Medicare went into effect as scheduled on July 1, 1966. By that date, SSA had enrolled about 19.1 million HI beneficiaries and 17.3 million SMI enrollees (HEW 1966, 10). The agency had enlisted 6,800 hospitals, 4,000 extended care facilities, over 1,800 home health agencies, 2,400 independent laboratories, and 750,000 private physicians as Medicare participants (SSA 1967b, 4–5).

SSA continued to administer Medicare until 1977, when SSA's Bureau of Health Insurance split off to become a new agency, the Health Care Financing Administration—which has since been renamed the Centers for Medicare and Medicaid Services (CMS). The nature of the Medicare-related administrative problems that the Bureau faced until 1977 are beyond the scope of this article, but the sheer size of the Medicare workload affected SSA's ability to administer OASDI.

SSA processed and distributed the retroactive and ongoing OASDI benefit increases mandated by the 1965 legislation accurately and on time, but the new OASDI provisions presented another major workload. The 1965 amendments provided for automatic recalculation of benefits for OASI beneficiaries who had continued to work after entitlement. Extensive planning and preparation were required to identify eligible individuals and to recalculate their benefits; most



The first member of the general public to receive a Medicare card, Mr. Tony Palcaorolla, receives his card in person from, left to right: Social Security Commissioner Robert M. Ball; Secretary of HEW John Gardner; and President Lyndon B. Johnson, September 1, 1965. SSA History Museum & Archives.

recalculations were automated but many were done manually (SSA n.d. a). The seven payment centers were overwhelmed during this period. OASDI awards increased nearly 1.5 million to 4.1 million, not counting 1.1 million lump-sum death payments in FY 1966 (HEW 1966, 17). The following year, the number of initial claims filed more than doubled, to 8.5 million. These new workloads were superimposed on substantial increases in the vol-

ume of work already seen in payment centers over the preceding few years (SSA n.d. a). The payment center work regimen had become antiquated and unwieldy, and was not equal to the new demands (Bowers and Korycki 1970, 28–29; SSA 1996a).

Other agency workloads also increased. In FY 1966, SSA posted 282.5 million earnings items (an increase of 5 million from FY 1965), issued 6.8 million new SSNs (up 1.8 million), and issued 3.5 million replacement Social Security cards (HEW 1966, 17). All the while, Congress was preparing further legislation for 1967.

### ***Coping with More Legislative Changes***

The impact of the 1967 amendments on SSA operations would not be nearly as large as that of the 1965 amendments, but considering the strain on resources brought about by the earlier legislation, the agency once again planned its response in advance.

In the fall of 1966, Commissioner Ball requested all operational elements to evaluate their readiness and to have regular program workloads in the best possible shape by the middle of January 1967. The agency took several courses of action. Overtime hours had been used in implementing the 1965 amendments, and would be used again now. Payment center employees worked nearly a million hours of overtime during FY 1967. Field offices pitched in to help the payment centers. District office claims representatives were detailed to the payment centers in New York, Chicago,

and Philadelphia, where the greatest problems existed. Also, field office personnel worked overtime on Saturdays and Sundays in payment centers. Central office teams were sent to three payment centers in September 1966 to observe operations and returned with suggested improvements (SSA n.d. a).

Workload challenges increased with staff reductions mandated by the Revenue and Expenditure Control Act of 1968, which cut nearly 2,000 full-time positions from SSA's workforce in 2 years, from 52,459 to 50,488, while workloads increased 10 percent. Additionally, President Richard Nixon ordered that total federal employment be reduced by 5 percent and that all agencies reduce the average grade level for employees. The staffing cuts had a noticeable effect on SSA operations. Imbalances developed, especially in clerical jobs, resulting in uneven quality of services provided (OTA 1986, 96; SSA 1969, 16; House Ways and Means Committee 1973, 3).

The decade closed with 1969 amendments requiring a benefit conversion for 24.8 million OASI beneficiaries effective January 1970. Although SSA was able to automate about 97.5 percent of conversions, over 600,000 records still required manual computations. Once again, SSA diverted resources. Benefit increases were sent out by April 1970, as required, but the cost was that other pending workloads rose (SSA 1969, 16–17; SSA 1970, 59).

## **1970s**

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By 1970, SSA had a stellar reputation as an agency that could handle anything demanded of it. However, SSA would stumble in the 1970s as it attempted to implement SSI. With only 14 months to put a whole new program and its computer system in place—just after having implemented Black Lung benefits, another entirely new program—SSA's task was simply too large to carry out without setbacks.

### ***Changing the Claims Process***

Although SSA's productivity improved 16.1 percent between 1967 and 1972, the agency was strained. SSA began to experience its first mass staff losses in the late 1960s, as employees who had started with the agency in the 1930s and 1940s started to retire (House Ways and Means Committee, 1973, 3).

To mitigate the impact of staff losses and to improve efficiency, SSA took steps such as expanding the use of telephone interviews. By the end of 1971, 30 percent of claims and postentitlement changes were

handled by phone (SSA 1971, 8). SSA also started using private organizations such as employers and unions in the preclaims and claims process, enlisting over 3,000 employers. Use of microfiche for beneficiary records was expanded; by mid-FY 1970, all 800 field offices had microfiche readers. SSA also initiated "simultaneous development" of disability claims in field offices and state agencies (SSA 1970). Until 1971, field offices collected all medical evidence before sending a claim to the state agency for a disability determination. Starting in late 1970 and expanding over the next couple of years, field offices collected only the names and addresses of medical sources, and the state agencies obtained evidence. This one change reduced average DI processing days from 93 to 66 and required fewer consultative medical exams (House Ways and Means Committee 1973, 8; SSA 1995e).

The real problems were in the payment centers. In 1973, the centers handled a 20 percent increase in all OASDI benefits, including 4.3 million increases in widow's benefits. Staff overtime increased 56 percent, to 883,000 hours (SSA 1973b, 61). To alleviate payment center backlogs, SSA reduced the number of claims requiring authorizer review. Since 1937, every claim received in field offices had been mailed to another location for payment authorization. Experience had shown that the processes of gathering evidence and making the entitlement decision were so closely related that in most cases, field employees were making the same judgments and decisions as adjudicators. By providing field employees with the earnings record and having them complete the determination form previously executed by the adjudicator, SSA eliminated some handling in the Claims Division. Starting in September 1941, a claims representative in a district office not only took the claim, but also completed an SSA-101 award determination form reflecting the findings of fact and decision, although this did not authorize payment. The claim was then forwarded to a claims authorizer or examiner in the area office (payment center) to make the formal entitlement determination. State agencies made the disability determination (SSA 1966).

In March 1969, SSA authorized field office employees to make payment decisions for certain initial claims under the District Office Final Authorization (DOFA) procedure. Field offices were first authorized to adjudicate selected lump-sum death payment cases. In April 1969, this delegation was expanded to authorize field offices to adjudicate certain OASI claims with computer-generated awards (House Ways

and Means Committee 1973, 7). By FY 1970, field office employees were authorizing 43 percent of initial claims (SSA 1970, 19). In May 1972, SSA began selecting cases for DOFA based on “conspicuous characteristics;” DOFA was used in 67 percent of cases by June 1972, and in 74 percent of cases by 1974 (House Ways and Means Committee 1973, 8; SSA 1974b, 16).

However, even when field office claims representatives were authorized to trigger payments, technological limitations still required manual handling in the payment centers—which by 1976 had been renamed program service centers (PSCs). In 1977, 25 percent of claims required some manual processing. For these cases, field offices still filled out a paper form SSA-101 and sent it to the PSC for keying into the system (Casey 1977, 13). In 1979, 1.8 million of SSA’s 3.7 million Retirement and Survivors Insurance claims still required manual PSC handling to initiate payment.

While the PSCs struggled, BDI was drowning. The PSCs took over additional work from the overwhelmed BDI, assuming jurisdiction for disability claims and records for beneficiaries aged 62 or older. Transferring the folders from BDI to the PSCs began in 1977 and was completed by April 1978. This transfer reduced by over 600,000 the number of records under BDI’s jurisdiction and freed BDI resources to deal with increasingly heavy disability workloads (SSA 1975c, 48).

The 1977 amendments, although not taking effect until 1979, nevertheless brought immediate additional OASI workloads. They created delayed retirement credits (DRCs) for actuarially reduced beneficiaries who continued to work after age 65, increased remarried widow benefits from 50 to 100 percent of the primary insurance amount (PIA), and instituted a special minimum PIA increase from \$9 to \$11.50 per coverage year. These provisions would increase payments to 1.2 million beneficiaries in 1979 (SSA 1980a).

### **Administering Black Lung Benefits**

On December 30, 1969, President Nixon signed the Federal Coal Mine Health and Safety Act, putting the Black Lung (BL) benefits program into place, effective immediately. This legislation authorized monthly cash benefits to coal miners who became totally disabled because of pneumoconiosis (black lung disease), as well as to their dependents and survivors. Congress made SSA responsible for the payment and administration of BL benefit claims filed under Part B rules through December 31, 1973 (with certain exceptions), with the Department of Labor (DOL) to take responsibility for claims filed under Part C thereafter (SSA n.d. b).

SSA was not advised of the legislation until December 9, 1969 (SSA 1995c). BDI staff had to develop a substantial body of policies and procedures to implement the nonmedical provisions of the law and to ensure those provisions were reflected in published regulations. Publication of the regulations was not complete until March 4, 1971 (SSA 1971, 79).

With no retroactivity for benefits payable, coal miners did not wait for regulations and procedures. They began trooping into district offices January 2, 1970. Thirty small field offices in coal mining regions bore the brunt of the workload; five would receive more BL claims during the first 2 weeks of the program than their normal annual receipts for all types of claims. Miners filed some 80,000 claims in January 1970 alone, and 172,000 by July 1, 1970. BL applicants from Appalachia frequently filed for OASDI benefits as well. Once again, SSA kept field offices open evenings and weekends to accommodate the applicants. SSA also brought employees in from other field offices and from the Disability Determination Services (DDSs, formerly known as state agencies) to assist (SSA 1970; SSA 1995c).

For BL claims, as with DI claims, DDSs requested the available medical records. However, the primary resources needed to process the claims were in BDI where the BL claims went for final processing. The decision-making process was very labor intensive. X-rays required two or three readings by examiners who had received special radiology training. Many decisions involved a disability onset or death that had occurred years before. Pressured by a few Congressmen representing coal mining districts, SSA put more and more resources into BL claims, creating a backlog of disability claims. SSA suspended Continuing Disability Reviews (CDRs)<sup>7</sup> for 2 to 3 years to devote resources to the BL claims, a decision that would have serious consequences later (SSA 1995g; SSA 1979, 25).

By May 1972, SSA had taken 366,000 BL claims and made 350,500 decisions, of which only 159,500 were awards. To permit more awards, Congress significantly broadened the eligibility provisions of the 1969 law in the Black Lung Benefits Act of 1972, enacted May 19 (House Ways and Means Committee 1973, 21). Stimulated by the program amendments, miners filing BL claims numbered 192,200 in FY 1973 and 149,000 in FY 1974 (SSA 1973b, 20; House Ways and Means Committee 1974, 25). SSA was also required to reexamine and, in many cases, redevelop all the previously denied claims. In addition, SSA had to handle appeals

for denied claims—8,000 reconsiderations and 3,800 hearings in FY 1973 (SSA 1973b, 23).

In July 1973, responsibility for processing new BL claims (Part C of the BL program) transferred to DOL. However, SSA retained responsibility for the BL beneficiaries who filed before then—a caseload numbering 338,385 miners, their dependents, and survivors as late as September 1983 (House Ways and Means Committee 1974, 3; SSA 1984a, 4). On January 1, 1974, SSA began taking BL claims for DOL on a reimbursable basis (SSA 1974b, 1). By June 1974, SSA was still taking about 4,000 BL claims per week, up from 2,000 before the 1972 amendments (House Ways and Means Committee 1976, 26). SSA took 523,000 BL claims for DOL in FY 1973 and 556,000 in FY 1974 (SSA 1974b, 24). The BL workload did not decline significantly until 1975 (SSA 1975c, 23).

The Federal Mine Safety and Health Act of 1977 further liberalized the program by requiring SSA to review again all the claims it had fully or partially denied. This created another huge workload as SSA had to track down hundreds of thousands of individuals whose claims had been denied according to provisions of earlier amendments.

### ***Implementing SSI***

SSA implemented Medicare so successfully that, a few years later, the agency seemed a logical choice to administer a federal program providing aid for the aged, blind, and disabled with limited income and resources. Such programs had previously been administered by the states with some federal funding.

President Nixon signed the Social Security Amendments of 1972 creating the SSI program on October 30, 1972, only 14 months ahead of the January 1, 1974, effective date. SSA estimated that 3 million people would be converted from the 50 state welfare rolls to SSI. In addition, SSA expected to take in another 3.3 million new applications because the SSI eligibility standards were more generous than many state programs (House Ways and Means Committee 1973, 41). The law also made changes in the OASDI and Medicare programs.

SSA was selected to federalize welfare for adults for a number of reasons: its nationwide network of field offices was already in place, its data processing and recordkeeping system was considered state-of-the-art, and there was overlap between the OASDI and SSI populations. Because of this overlap, it was thought the new program would not unduly burden SSA (SSA

1994a, 5). In fact the programs were fundamentally different. OASDI benefits were based on a worker's earnings history, while SSI payments were based on income and resource limits. In addition, OASDI applicants generally filed a few weeks to 3 months before entitlement, while eligible SSI applicants were entitled to immediate payments upon filing (SSA 1995h).

For SSI, the agency not only had to set up a new program from scratch, as with Medicare, it also had to bring 50 state programs—each of which had different eligibility criteria, standards, and payment levels—into a single system. All of the state records were flawed in some way, and some state recordkeeping systems were extremely lax. Some states still had only paper records. The task of converting the state recipients to SSI was aggravated by the legislation not giving SSA adequate clout for dealing with the states, some of which were openly antagonistic. In addition, SSA was made responsible for administering state programs to supplement SSI for those states that so opted. In effect, SSA had dozens of new needs-based programs to administer rather than just one (SSA 1996b).

SSA set up a new Bureau to develop SSI policy. BDP was tasked with building a new computer system, and the Bureau of District Office Operations was to implement the program. Ten regional planning officers were appointed to work directly with state and county welfare agencies. By June 1973, SSA had established regional cadres, 200 people in all, to negotiate with states. In addition, SSA set up a central office Systems Planning and Development Work Group with representatives from all SSA components to discuss SSI activities and to initiate systems development (SSA 1973b, 5; House Ways and Means Committee 1974, 38; SSA 1996b; SSA 1994a).

Developing SSI policy was more complex than SSA had anticipated, especially in the areas of in-kind support and maintenance, living arrangements, attribution of income of spouses and parents living in the household (“deeming”), eligibility of drug addicts and alcoholics, and state supplementation variations (House Ways and Means Committee 1975, 14). SSA's work was further complicated by legislative changes made after enactment of the 1972 amendments. These changes included blanketing in additional groups of individuals, such as “essential persons;”<sup>8</sup> mandatory state supplementation of certain recipients converted from the state programs; increases in benefit amounts effective January and July 1974, enacted on December 31, 1973; and a requirement to review the disability of all persons added to the state disability assistance



rolls during July–December 1973 (House Ways and Means Committee 1975, 13).

SSA's initial estimate of needing 18,000 additional employees to administer SSI was scaled back to 15,000 by the Nixon Administration. SSA was ultimately authorized to hire an additional 12,000 permanent staff in 1973: 9,000 for SSI and 3,000 for the other programs that SSA administered. SSA opened 159 branch offices and expanded several hundred existing offices in FY 1973 and was authorized to open another 180 branch offices in 1974 (104 to meet SSI needs and 76 for existing needs), bringing the number of field offices to 1,085. SSA also opened seven new teleservice centers (TSCs) in FY 1973 and eight regular TSCs and seven "mini-TSCs" in FY 1974 (SSA 1973b; SSA 1974b, 4; Derthick 1990, 119; SSA 1994b).

Congress' original intent was for SSI to establish a national system with uniform payments and rules, but it soon became evident that this would disadvantage many current recipients in states with higher costs of living and higher welfare payments. In the original legislation, Congress encouraged states to supplement the federal law, but doing so was not mandatory. The 1972 legislation failed to hold individual recipients harmless—that is, nothing required that the state's prior level of payment be maintained.

In the summer of 1973 Congress finally realized that recipients in about half the states would receive less under the federal SSI program than they had under state programs. For instance, some states provided higher welfare payments to account for family members in the recipient's household who were themselves ineligible but were considered essential to the recipient. In July, Congress amended the 1972 law via Public Law (P.L.) 93-66 to cover these "essential persons," which had the effect of increasing the recipient's SSI payment by adding a monetary supplement for each essential person the state had designated. Congress also threatened to withhold Medicaid grants to states unless they protected individuals against harm (Derthick 1990, 74).

SSA was very busy negotiating with the states during 1973. In some states, individual counties (or other jurisdictions) ran their own programs, and SSA had to negotiate separately with each jurisdiction. Rather than creating a uniform set of rules for the state supplementation programs it agreed to administer, SSA accepted numerous variations, such as allowing differences among categories of recipients, up to three zones within a state, and five different living arrangements. SSA agreed to these state variations in hopes

that states would choose federal administration of their supplements, and would choose quickly. However, SSA lacked the bargaining power to induce the states to do so on its terms, and so accepted the state terms. As the number of variations increased, so did the complexity of the computer software, the amount of processing time required, the training needs, and the costs; SSA's administrative control simultaneously decreased. Some states gambled that by delaying decisions to the critical point they could pressure SSA into accepting variations that SSA resisted, and their gamble paid off. It was not until December 18, 1973—only 2 weeks before implementation—that the last of the states made its final decision (Derthick 1990).

Meanwhile, regular staff and some temporary hires at 1,350 state, county, and local welfare offices were filling out the computer input forms used to convert their beneficiaries to SSI (House Ways and Means Committee 1975, 13). Full-scale conversion began in February 1973, and by June 1973 SSA had received 2.8 million computer input records. SSA received an additional 1 million records by December 31, 1973, including about 700,000 new beneficiaries that states added to the rolls in the second half of 1973. There were major problems: The information in many state and county files was out of date, and transcription errors also generated bad data (SSA 1975c, 36; SSA 1984b).

To comply with P.L. 93-66, SSA developed new procedures to gather the required data on essential persons and ineligible spouses. The states submitted information on over 177,000 essential persons and 154,000 ineligible spouses, parents, and children, which SSA screened and added to its records. In November 1973, SSA sent all the records from its Conversion Master Files to the states to be rechecked against the state files to ensure that SSA had records of all state recipients. The states responded with any additions and deletions (SSA 1975c, 37).

Many of the state welfare beneficiaries and essential persons had never been issued an SSN. SSA initially estimated that 800,000 state beneficiaries would need a new SSN, requiring 935 man-years of keypunching operations and 555 clerical man-years to process them—a 70 percent increase in such workloads. SSA set up a keying center in Albuquerque to handle these new demands (SSA 1973b).

BDP checked the SSN in every state conversion case record it received and in the new SSI claims inputs. The Bureau found 745,000 cases in which the state-supplied SSN data could not be verified. SSA

mailed a questionnaire to each of these individuals. The responses provided SSA with correct SSNs or allowed SSA to issue an SSN in 501,000 instances. The states also mailed in new SSN applications (SSA 1975c, 37). In spite of these efforts, when the SSI program began, thousands of SSI records lacked a genuine SSN and had to be controlled under temporary “pseudo-numbers” (9-digit numbers beginning with a “9”).

During 1973, SSA also undertook a public relations effort to inform the public about the program. SSA’s Office of Public Affairs briefed representatives of 128 national organizations and agencies on SSI and issued 45 informational publications. Field offices held 37 exhibits at national conventions and created many new radio and TV spots in the first half of 1973. SSA field offices began taking new applications for SSI on July 2, 1973 (SSA 1973b, 80), and had taken 2.9 million new applications by the end of the year (House Ways and Means Committee 1976, 35).

Still, there were fewer new applicants for SSI than SSA had anticipated. To reach potential applicants, SSA began phase I of “SSI Outreach” in November 1973, with the U.S. Agency on Aging providing \$6 million for advocacy groups to get the word out (House Ways and Means Committee 1975, 9). At one point, SSA had 55,000 volunteers distributing literature and explaining the basic eligibility requirements of SSI. Based on the leads collected by volunteers, SSA had by the end of 1973 contacted 107,000 individuals, of whom 42,000 filed claims for benefits. An additional 250,000 leads had been screened out as ineligible, and about 50,000 leads remained to be contacted.

SSA then began SSI Outreach phase II, sending an information leaflet and questionnaire to 5.2 million OASDI beneficiaries with payment amounts low enough to be within the SSI income limit (SSA 1974b, 5). SSA also put SSI announcements in more than 1,300 newspapers and aired more than 4,000 radio spots. By June 30, 1976, 1.5 million newly eligible persons comprised almost 37 percent of SSI recipients (House Ways and Means Committee 1976, 34).

SSA planned to set the new SSI computer system up in 10 stages (SSA 1973b, 6). Because of the complexity of the SSI program and the many variations of federally administered state supplements, 100 separate software systems with nearly 1 million individual instructions were required, making the new system one of the largest and most complex computer operations in the country at that time (Derthick 1990, 86). Among the requirements were an automated system

to process information, maintain recipients’ records, and calculate monthly benefits; a telecommunications system enabling the 1,400 field offices to send data to centralized computers; and a system for transmitting information needed by states to make state-administered supplemental payments and to determine Medicaid eligibility (Derthick 1990, 29).

From the start, SSA set up the SSI program to enable field offices to adjudicate claims and key in the data that would trigger payment, bypassing PSC authorization and processing. Field office employees converted the information from the paper applications onto a data entry form used by the office teletypist to enter into the SSI system. The system maintained these entries in a “pending” file where they awaited the creation of the payment certification file to be sent to the Treasury Department in December 1973, which enabled timely postal delivery of the January 1974 payments on January 2.

However, programming the new software was hampered by the four 1973 legislative changes and by some states exercising the option of federal administration of state supplements at the eleventh hour. As a result, SSA was still creating code until the last minute and did not have sufficient time to test the new software programs before they went operational (SSA 1975c, 33). When SSI went into effect, some of the systems for executing and updating claims and payments were not functional. On January 2, 1974, SSA issued timely and correct SSI payments to 95 percent of the SSI recipients, but 5 percent did not get paid or were paid an incorrect amount. As late as June 30, 1974, at least 38,418 conversion cases would still remain to be processed (SSA 1975c, 36). To exacerbate problems, the software for recording certain changes (including changes to income or resources that affected payment) was not in place. Changes for conversion cases submitted by states and counties had not been processed. Furthermore, if a critical error caused the rejection of either a conversion record or a new claim input record, there was no way for field employees to correct the bad record. SSA’s computer systems and high-speed communications equipment had failed to perform as well as needed (House Ways and Means Committee 1976, 35).

As a result, when SSI began in January 1974, chaos erupted, particularly in some of the large metropolitan offices—notably New York City, Seattle, and San Francisco. Thousands of people poured into the offices at once. An office would often have all the people it could handle for the day within 15 minutes of opening.

Those arriving later were given a ticket or chit signifying priority status for the following day (SSA 1974b, 4; SSA 1975c, 35–36; Hensley 1994).

New York City was especially hard hit. It was winter, and the temperatures were freezing. SSI recipients with payment problems spilled out of the offices into the biting cold. On January 9, 1974, SSA chartered 22 heated, restroom-equipped buses to provide shelter for the people waiting outside New York City offices. In March, SSA set up 4 temporary New York City interviewing facilities, furnishing them with the needed supplies, equipment, furniture, and 250 employees within 2½ weeks (SSA 1974b, 4; SSA 1975c, 35–36; Hensley 1994).

SSA also set up a procedure for issuing one-time emergency payments. In addition, district offices used “imprest funds” via prepositioned checks to make advance payments up to \$100 to those converted from state rolls who did not get their payments (SSA 1975c, 35). About 600 SSA employees from other field offices, regional offices, the PSCs, and headquarters were temporarily reassigned to field offices with the heaviest SSI workloads. Some PSCs took on part of the OASI workloads from selected field offices. In addition, SSA budgeted for about 233,000 hours of overtime per week during 1974 (SSA 1975c, 35; SSA 1995h; SSA 1994b; Hensley 1994).

The new SSI software was not the only computer system failure. SSA had also created its first online database, providing field employees with access to information on SSI recipients. SSA designed this database assuming a peak load of 20,000 transactions a day. System demand exceeded 60,000 during its first week and would soon reach 80,000. Field office employees queried the SSI database 106,348 times the first week of January, and by February 19, queries had climbed to 1.26 million. As a result of the unexpected volume, the whole system went down for extended periods, and the telecommunications system collapsed. The Bureau of District Office Operations set up an emergency control center with 26 teletypists to take field office requests for payment status information when the telecommunications system was down. At first, the control center employees phoned the information to field offices, but as the volume of emergency requests rose, they teletyped their replies (SSA 1995h; SSA 1984b; SSA 1994b).

SSI conversion “rollback” cases presented yet another workload. In late 1973, Congress became concerned by the hundreds of thousands of new adult welfare recipients that states and counties were adding

to the rolls of those converting to SSI. One result was a provision in December 1973’s P.L. 93-233 to “rollback” cases added to the rolls after June 30, 1973, requiring SSA to make new disability determinations. All “rollback” disability decisions were to be made by March 31, 1974, a deadline SSA failed to meet. By June 30, 1974, SSA had identified 144,000 rollback cases and completed 126,700 determinations, in which 90,000 were found eligible (House Ways and Means Committee 1975, 26–27).

Implementing the drug addiction and alcoholism (DA&A) provisions of SSI legislation also created more work for the agency. Sanctions precluded drug addicts and alcoholics from receiving payment in any month they refused treatment; they were also required to receive payments through a representative payee. In November, the Secretary of HEW approved an SSA recommendation that the sanctions only apply to those entitled to SSI disability benefits *substantially* on the basis of addiction or alcoholism. SSA undertook to review all cases in which DA&A was a factor (except in New York City, where a sample review of the coding showed records were essentially correct). At midyear, SSA directed DDSs to give top priority to this screening and to the preparation of medical determinations for the rollback cases involving DA&A. By the end of FY 1974, the DDSs had processed more than 20,000 of the estimated 27,000 DA&A-involved rollback cases. In addition, SSA worked through HEW with the state vocational rehabilitation agencies to set up treatment and monitoring programs to comply with the DA&A requirements (SSA 1975c, 38).

SSA continued to add new recipients to the SSI rolls even as it sought to straighten out the payments for those already entitled. By June 30, 1974, SSA had taken 1.8 million SSI initial claims, but of these, 293,538 were duplicates or otherwise not countable. More than 953,000 of the initial claims were for disability benefits (House Ways and Means Committee 1975, 25). Only 666,270 of the initial claims had been allowed by June 30, with another 480,420 pending a decision. Conversion cases totaled 3.4 million, of which 38,418 were still not processed as of June 30, 1974. As of that date, there were 3.6 million SSI recipients in current-pay status; by year-end, this number had increased to 4.0 million, and the pending SSI cases had dropped to 335,363 (House Ways and Means Committee 1975, 11).

By FY 1975, there were 4.1 million SSI recipients, up 16.3 percent from FY 1974. In 1975, SSI old-age claims declined 29.4 percent from 1974, but SSI blind

and disabled claims were up 24.3 percent, to 1.2 million (House Ways and Means Committee 1976, 32). To speed payment to needy blind and disabled claimants, SSA implemented a “presumptive disability” decision process for certain impairments, such as blindness, which allowed payments for up to 12 months pending the DDS decision; if the recipient was found not disabled, repayment was not required (House Ways and Means Committee 1975, 26).

Once the initial problems were under control, SSA had to begin SSI eligibility “redeterminations” of all recipients, starting with the state conversion cases. SSA had underestimated the complexity of maintaining the beneficiary rolls for a program based on income and resources. One indication was that this work was initially assigned to GS-6 service representatives rather than GS-10 claims representatives (SSA 1973b, 51). Soon, both claims representatives and service representatives were conducting redetermination interviews to deal with the volume of work involved. Because there was not enough time to conduct the redeterminations during the regular workweek, it was not uncommon to schedule interviews all day Saturday (SSA 1984b). By June 30, 1975, SSA field offices had processed more than 2.1 million conversion redeterminations, with 82.3 percent resulting in no change in eligibility or payment status; about 483,000 cases remained to be reviewed (House Ways and Means Committee 1976, 34).

By FY 1976, SSA had most of the needed postentitlement automated procedures in place and had completed over 15 major enhancements to the basic SSI claims payment system (House Ways and Means Committee 1976, 35). Things were just beginning to normalize.

### ***Coping with the Extended Impact of Implementing SSI***

Just as implementing BL benefits created increases in other workloads and strained agency resources, implementing SSI produced collateral impacts. For the first time since 1963, SSA’s productivity decreased; the 2.5 percent drop was attributed to new employees, extensive training, and new procedures for SSI (SSA 1974b, 3).

In addition to SSI, the 1972 amendments included changes to other SSA programs. Changes to Medicare entitlement rules prompted SSA in 1973 to mail out 1.7 million notices to disabled individuals and contact some 250,000 uninsured individuals regarding an opportunity to file for Medicare premium HI.<sup>9</sup> SSA

alerted another 500,000 individuals to a new opportunity to enroll in SMI. The legislation also established procedures to enroll nonbeneficiaries suffering from end-stage renal disease in Medicare (SSA 1973b, 28). SSA field offices enrolled approximately 9,000 individuals into premium HI in FY 1974 (SSA 1974b, 30).

DI claims also increased by 23.1 percent in FY 1974. Pending claims at field offices were up 86.5 percent, DDS claims went up 53.9 percent, and BDI workloads increased 40.2 percent (House Ways and Means Committee 1975, 23). By the mid-1970s, the disability determination process was under enormous strain. Caseloads were extremely large in all states, delays were lengthy, and both were growing. Centrally issued instructional material was out of date—local offices and DDSs frequently found it necessary to improvise local supplements to the official instructional material (Derthick 1990, 39). BDI was again overwhelmed. In just one week in September 1975, and again in April 1976, BDI used more than 16,000 hours of overtime. In September 1976, BDI used over 17,000 hours overtime weekly (McKenna 1976). In response, SSA curtailed “all of the agency’s disability activities not absolutely essential to prompt processing of the heavy claims workloads” (House Ways and Means Committee 1975, 6). Once again, SSA deferred its CDR workloads, which would later draw criticism from monitoring authorities.

Appeals of denied claims were also a growing workload. In FY 1972, requests for hearings were filed almost twice as fast as they could be handled. This was partially due to the new BL benefit program and also due to attrition of hearing examiners, who in August 1972 were reclassified as Administrative Law Judges (ALJs) (House Ways and Means Committee 1973, 32). SSA responded by hiring additional ALJs and opening 25 new hearing offices in FY 1973 and approving 3 more offices the next year (SSA 1973b, 11; House Ways and Means Committee 1974, 3). Still, by FY 1975, new hearings backlogs had developed. At a Senate hearing, Commissioner James B. Cardwell stated that bringing the hearings backlog down as quickly as possible was “the most urgent business” of SSA (House Ways and Means Committee 1976, 35).

By June 30, 1976, SSA had reduced pending hearings from 111,169 to 89,769. To accomplish this reduction, SSA

- tested a “model hearing office” to streamline the hearing process and increase support staff responsiveness;

- hired 256 staff attorneys, increasing productivity by 25 percent in affected hearing offices;
- established an Administrative Officer position to serve as an office manager; and
- created a Regional Management Officer in each region (House Ways and Means Committee 1977, 43).

In FY 1977, new hearings requests rose 23 percent, from 157,688 the prior year to 193,657 (SSA 1978a, 64). In response, SSA instituted an “informal remand” procedure, in which local field offices screened new hearing requests based on certain characteristics that experience had shown might lead to an allowance. Field offices forwarded these cases to DDSs for review and possible development instead of to the hearing office (House Ways and Means Committee 1977, 16).

SSA also continued to improve its handling of the SSI workload. In 1978 SSA began electronic exchanges of benefit information with the Veterans Administration, RRB, Civil Service Commission (later the Office of Personnel Management), and DOL to detect cases in which SSI recipients failed to report to SSA any benefits they received from these other agencies. The data exchange with the Veterans Administration alone saved \$61 million in annual SSI payments. The agency also began talks with the Department of Defense, IRS, and the states on possible additional data exchanges (SSA 1976, 42; SSA 1978b, 49). SSA would continue to expand its effort to match its computer records with those of federal and state agencies to reduce incorrect SSI program payments over the years. In FY 1990 such matches resulted in estimated program savings of \$144 million at a cost of about \$35 million (SSA 1991, 10).

### **Improving Procedural Instructions**

Recognizing that the process for delivering instructions to the field had deteriorated, SSA set out to make improvements. In November 1975, SSA began developing a unified Program Operations Manual System (POMS) to replace over 240 separate manuals and handbooks. In late 1978 and in 1979, SSA published the first parts of POMS (SSA 1980a).

From these beginnings in the 1970s came significant advances in later years. In 1989, SSA initiated a pilot project to determine if storing POMS on machine-readable media would be a cost-beneficial alternative to the existing paper system (GAO 1989, 32). This would both eliminate the labor-intensive updates to the paper version and provide an electronic

search capability. In 1991, SSA issued its first POMS on CD-ROM. Updates were shipped monthly, but disks were still 6 to 8 weeks out of date when received (SSA 2009b). A GAO report noted that between 1977 and 1993, SSA had implemented over 400 legislative changes to its programs, resulting in “nearly unmanageable” program operational instructions exceeding 40,000 pages (GAO 1993, 13).

The Intranet provided the solution. In 1999, SSA developed a “PolicyNet” site where employees could access all of the agency’s program policy and procedural instructions, including POMS. PolicyNet currently provides over 300,000 Web pages of information available at any time. PolicyNet averages 20 million page views monthly from 70,000 unique visitors. SSA publishes over 4,000 updates annually. A PolicyNet Enhancement Project is now under way to make the site even more user-friendly (SSA 2009b).

### **Processing W-2 Forms: Annual Wage Reporting**

Into the early 1970s, SSA’s process for posting earnings was not much different from that of the early days. Employers still reported their earnings to IRS via Form 941, Employer’s Quarterly Report of Taxable Wages. IRS then sent a record of the wage reports to SSA’s BDP, which microfilmed the reports and filed the films for storage and future reference. BDP also entered employer-identifying information onto punched cards and associated it with employee information. Machine-prepared wage reports, including typewritten reports, went to an optical page reader which electronically scanned the employee information and entered it directly onto magnetic tape. Handwritten reports were keypunched. The tapes then entered a computer operation that balanced the wages on each page against the total wage amount reported (SSA 1973a, 5–10; Casey 1977, 25).

On January 2, 1976, P.L. 94-202 instituted an annual wage reporting (AWR) system effective with reports of wages paid in 1978, excluding state employment (SSA 1976, 55). Annual wages were to be gleaned from the W-2 forms, with an accompanying W-3 summary wage report. Employers sent these forms to SSA for processing rather than to IRS. Once processed, SSA sent the wage report information to IRS on a flow basis. IRS and SSA reconciled the wage reports against the quarterly 941 forms, which employers still filed to pay their quarterly payroll taxes. IRS investigated discrepancies associated with incomplete earnings records.

SSA and IRS agreed to a full-year processing cycle for 1979 and 1980. SSA processed the AWR workload in four locations. Data operating centers (DOCs) in Wilkes-Barre, Albuquerque, and Salinas (California) handled paper reports requiring data entry; BDP's Baltimore facility handled reports filed on magnetic media. For the first time, SSA hired seasonal employees to handle data entry in the DOCs (SSA 1980b, 58).

The switch to AWR brought problems and frustrations for both IRS and SSA. Negotiations between the agencies were hampered by different interpretations of the law based on their differing needs. Equipment problems also complicated AWR. The DOCs' new optical character recognition scanning equipment was not fully operational until March, and the data entry upgrade was not fully operational until June—in both cases, several months later than expected (SSA 1980a).

SSA also had problems controlling the reports. Some were processed twice, resulting in posted earnings of twice the amount actually earned. States were especially prone to double posting as some filed two reports—one under a regular EIN and a second time under a special “69” EIN that state governments used.

It would take years for SSA to straighten out all the problems with AWR. Many of the deficiencies would not be resolved until the Systems Modernization effort in the 1980s. Today, SSA still uses an AWR system.

## **1980s**

The 1980s brought more legislative changes for SSA to implement, beginning with the Disability Amendments of 1980 (discussed below) and the Omnibus Budget Reconciliation Act of 1981, which made major changes to Social Security, SSI, Aid to Families with Dependent Children, and other programs affecting SSA. The changes to the OASDI program included phasing out student payments, stopping young parents' payments when a child reached age 16, limiting the lump-sum death payment, changing the minimum payment, and retaining the earnings test at age 72 through 1982, after which the exempt age would be 70. The legislation also imposed a disability “megacap” offset and introduced a new way of computing SSI payments called retrospective monthly accounting (SSA n.d. b).

### ***Resuming Continuing Disability Reviews (CDRs)***

As early as 1964, there were concerns that SSA was continuing to pay disability benefits to some individuals after they were no longer disabled. Although SSA

had a CDR process at that time, much of the recurring CDR workload was deferred while resources were focused on processing new initial awards and Black Lung applications. The failure to process CDRs continued when SSA had to turn its attention to new SSI disability claims and the SSI conversion rollback (SSA 1995d).

Other factors also contributed to growth in the disability rolls. In the early 1970s, the reversal rate for those filing for reconsideration of a disability claim denial had risen to 30–40 percent and for hearings to about 50 percent (Maldonado 1978). In addition, prior to SSI, BDI reviewed all disability allowances. With the advent of SSI, a 100-percent review was no longer operationally feasible, and it was reduced to a sample performed in special Claims Review Sections located across the nation (SSA 1995f; SSA 1995g).

In 1976, GAO issued a report declaring that people who were no longer disabled were still receiving benefits and that SSA was not taking action to correct the situation. Then a 1979 GAO report severely criticized SSA for not conducting CDRs (SSA 1995f). Meanwhile, an SSA pilot study in the Atlanta and Kansas City regions showed that a small percentage of disability beneficiaries aged 45 or younger in 1979 and first entitled to benefits before 1960 were no longer disabled. Because of this study and the GAO reports, SSA selected a random sample of DI beneficiaries for CDRs to assess criteria for establishing diaries, assumptions about the probability of medical improvement and return to work, and the accuracy of monthly disability payments. SSA ceased working its scheduled CDRs in early 1979 but planned to resume them in 1980 (SSA 1980a).

The Disability Amendments of 1980 and the Omnibus Budget Reconciliation Act of 1981 contained 30 new provisions affecting SSA, one of which required reviewing disability cases. The 1980 amendments directed SSA to commence CDRs on January 1, 1982, and required all cases subject to review to be reviewed every 3 years (Derthick 1990, 75). The law also required SSA to review at least 15 percent of favorable DI determinations on a preeffectuation basis during FY 1981, then 35 percent in FY 1982, and 85 percent from FY 1983 forward (SSA 1982a, 6).

SSA decided to start the reviews early in order to maximize savings and to spread the heavy workload over a longer period (Derthick 1990, 86). These CDRs were “de novo reviews,” in effect reopening the initial decision of whether an individual's impairment met the SSA criteria for disability entitlement (SSA 1995d).

SSA funded a substantial increase in state DDS staffing to complete these reviews. To maximize program savings, SSA developed profiles of those most likely to no longer meet the law's definition of disability, and reviewed those cases first. Beginning March 1981, the agency released 30,000 cases each month to the state DDSs. As of May 1982, more than 30 percent of the profiled beneficiaries were determined to no longer be disabled. SSA notified these people that their benefits were terminating. In FY 1982, DDSs conducted 463,008 reviews and issued decisions in 410,496 cases, finding that 45 percent of the reviewed beneficiaries were not disabled (SSA 1982a, 6; SSA 1983, 6).

Despite expectations that the benefit cessations would be high, the 45-percent rate caused great congressional and public concern. Many Congressmen, the public, and the media considered the rate too high and questioned the accuracy of the review determinations. In response, SSA Commissioner John A. (Jack) Svahn announced in September 1982 that field offices would begin face-to-face beneficiary interviews on CDR cases so that interviewers could better explain the purpose of the review. SSA required the DDSs to provide more detail in their disability determination notices and to obtain all existing medical evidence for the 12 months preceding the review. SSA also doubled the number of cases reviewed (SSA 1983, 6–7; SSA n.d. b).

People with mental impairments, which are challenging to evaluate, were particularly affected by the high termination rates (SSA 1995f). Determinations of disability termination were retroactive, sometimes for as many as 15 years. Unfortunately, these terminations coincided with a White House emphasis on debt collection by all federal agencies. Collecting disability payments that were now deemed erroneous from former beneficiaries became a major piece of SSA's debt management initiative. SSA issued overpayment notices asking for repayment of huge sums of money to people with a history of mental impairments who were no longer receiving a monthly check. A few of these individuals committed suicide, and these tragedies were widely reported on newspaper front pages (SSA 1995f).

Naturally, appeals of the termination determinations were high. Hearings increased rapidly, with a record high of 281,737 in 1981. Pending hearings were soon up 17.4 percent over 1980 and were expected to rise even more in 1982 and 1983. SSA made plans to hire an additional 100 ALJs in FY 1983 and to increase the ratio of support staff to ALJs from 4.5:1 to

5:1. SSA also recognized the need to improve the quality and consistency of the decision process between the hearing offices and the state DDSs (SSA 1982a, 6).

Resistance to SSA's de novo decision process on CDRs built rapidly. SSA's field organization tried to persuade headquarters that holding beneficiaries liable for mistakes SSA had made years earlier in its disability process was not sound policy. The DDSs joined the protest. Eventually, 23 governors declared moratoria on processing CDRs in their states (SSA 1995g). In January 1983, Congress also took action to help beneficiaries whose disability benefits were terminated; P.L. 97-455 permitted, on a temporary basis, beneficiaries contesting the termination of their benefits to have both their benefits and Medicare coverage continued through the hearing phase (SSA n.d. b).

By the end of 1984, all circuits of the U.S. Court system, led by a Ninth Circuit ruling, had ruled that SSA must apply some form of medical improvement standards or a presumption of continuing disability before benefits could be terminated. The Ninth Circuit gave SSA 60 days to mail notices advising all of the nearly 29,000 persons in the circuit's jurisdiction who had been terminated without a finding of medical improvement that they could reapply for benefits (Derthick 1990, 140).

Eventually, the Secretary of Health and Human Services (HHS, as HEW had been renamed in May 1980) instituted a moratorium on additional CDRs. SSA had been conducting between 400,000 and 500,000 scheduled CDRs per year; now the agency conducted CDRs only for individuals who returned to work or reported that their condition had improved (SSA 1995g).

The Disability Benefits Reform Act of 1984 provided that SSA could terminate disability payments only if an individual's impairment had improved. It also mandated SSA to develop new mental health regulations more congruent with current mental health standards and practices (SSA 1995f). SSA established a CDR Task Force to formulate plans for reinstating CDR reviews under the provisions of the 1984 legislation. The task force came up with a plan to prioritize the CDRs based on the likelihood of medical improvement. SSA contracted with the American Psychiatric Association to help rewrite the mental health regulations. After publishing a medical improvement review standard as required by legislation, SSA resumed CDR processing in January 1986. DDSs conducted over 400,000 CDRs in 1988 (SSA 1988, 13). On June 30, 1987, SSA established a Federal DDS at its Baltimore headquarters to serve as a test-bed for changes to

disability policies and procedures and to help process high-priority disability workloads such as CDRs.

In the ensuing years, SSA would submit an annual budget request for the funds needed to conduct CDRs, and every year the White House would cut most of the CDR funding out of the budget proposal. SSA did not receive money targeted for CDRs for several years (SSA 1987, 11; SSA 1995f; SSA 1995g). Predictably, the CDR backlog grew during this period. SSA performed fewer than 100,000 CDRs annually, and was criticized for not meeting its stewardship responsibilities.

Although costs are incurred to process CDRs, SSA estimates that every dollar spent yields at least \$10 in lifetime program savings (SSA 2009e, 19). In the aftermath of events of the 1980s, Congress adopted a 7-year plan in 1996 to eliminate the CDR backlog and increased CDR spending caps for FY 1996–2002. With this funding, SSA eliminated the CDR backlog for DI cases by the end of FY 2000 and for SSI cases by the end of FY 2002. The 7-year plan also called for streamlining the CDR process (SSA 2002b, 4). However, Congress discontinued the extra funding in 2004 (Rust 2008) and the backlog of pending CDRs once again began climbing.

### ***Enumerating Children***

The Tax Reform Act of 1986 required taxpayers to have an SSN for each dependent aged 5 or older claimed on tax returns due after December 31, 1987. As a result, SSA expected its typical annual output of 6 million original SSNs to increase to 9 million during 1987 (SSA 1987). Seizing the challenge, SSA contacted 130,000 schools with 44 million students to solicit applications for SSNs. From October 1986 until May 1988, SSA assigned original numbers to almost 10 million dependents aged 5 to 18 and issued over 7 million replacement Social Security cards (SSA 1988).

So that most future requests for SSNs for children would not require field office visits, SSA devised an automated process called Enumeration at Birth. In a three-state pilot beginning August 1987, the parent of a newborn could request an SSN as part of the State's birth registration process (SSA 1988, 2). Additional states began to participate in July 1988. By the end of 1991, 45 states, the District of Columbia, Puerto Rico, and New York City had signed participation agreements (Long 1993, 83). Today, all states participate, and SSA receives nearly three-quarters of all original SSN applications, and 96 percent of original SSN

applications for newborns, through Enumeration at Birth. About 4 million SSNs are now assigned through the process each year (SSA 2009I).

### ***Creating a Systems Modernization Plan***

During the 1970s, SSA's computer technology deteriorated for a number of reasons. GAO, the General Services Administration, and the Office of Management and Budget pointed out deficiencies in SSA's computer system resulting from long-standing systems planning, management, and operational weaknesses (SSA 1982b, 4).

The system was "held together with rubber bands and chewing gum—cast-off equipment" (SSA 1995e). SSA was buying used computers just to keep operating (SSA 1995h). In 1978, SSA's newest computer was 14 years old. The agency's large-scale production computers were so antiquated that not a single model was still marketed by the manufacturers. Replacement parts were not guaranteed, and maintenance costs were high. SSA missed processing deadlines regularly, even with the machines operating 24 hours a day, 7 days a week. Telecommunications workloads were projected to far exceed the capacity to handle them (SSA 1986, 10).

By the early 1980s, the SSA Data Acquisition and Response System (SSADARS), the network that linked SSA's field facilities with the agency's new National Computer Center via intermediate concentrators in the 6 PSCs and within the Center itself, was handling about 850,000 transactions daily. A second telecommunications system, the Batch Data Transmission system, exchanged batched information between the National Computer Center and several remote sites, such as the PSCs, the DOCs, RRB, Treasury Department, Medicare carriers and intermediaries, and several state welfare agencies. SSADARS and the Batch Data Transmission system facilities could not exchange information with one another. In addition, SSA had several smaller specialized networks. Many of these systems and the telecommunications lines were plagued with problems, outmoded, or of insufficient capacity (SSA 1986, 16).

Inadequate funding was a major factor in the sad state of SSA technology. According to a former SSA executive, the Chair of the House Government Operations Committee, Jack Brooks (D-TX), froze SSA's procurements and refused to allow the agency to buy any technology infrastructure that was not purchased on the open market—even if it would not support any of SSA's existing software applications, and would



require SSA to rewrite all of its software to run on it (the cost of which SSA could not consider in its request) (SSA 1995h).

It's not that SSA's software didn't need rewriting; it was just impossible to rewrite it quickly enough to run on a completely new platform. In 1980, SSA's automated data processing operations comprised 76 different software systems consisting of 1,376 computer programs with over 12 million lines of undocumented instructions written in low-level computer languages (SSA 1986, 6).

In its *Annual Report to Congress for FY 1981*, SSA cited modernizing its data processing systems as its top priority. The agency had drawn up a 5-year modernization plan to replace its outdated system of hardware, software, and storage capacity. The plan included four programs: software engineering, database integration, capacity upgrade, and a data communications utility to replace SSADARS. The cost of moving from "survival mode" to a modern system in 5 years was estimated at \$479 million (SSA 1982b, 5). In March 1982, SSA published its *Systems Modernization Plan: From Survival to State of the Art*. To develop the plan, a team of 35 SSA analysts interviewed over 200 managers and their employees to learn the agency's business processes and its information and computer support requirements. The team also inventoried current system capabilities (SSA 1986, 6).

To procure systems modernization funding, Commissioner Svahn candidly disclosed the critical state of SSA's systems. On Capitol Hill and in the media, Svahn stated that SSA's system was on the verge of collapse, and that timely distribution of benefit checks was at risk. At an April 1983 hearing on SSA systems modernization, Representative J.J. Pickle (D-TX) pointed out that one of the largest companies in his district had 12,000 employees whose earnings had not been posted. Svahn opportunely observed that SSA's computers were on the brink of failing. When the commissioner requested the \$479 million needed for support systems modernization, Congress concurred (SSA 1995d; SSA 1995h).

In the meantime, SSA had migrated many of its data processing operations to a new National Computer Center in 1982, consolidating and reconfiguring existing mainframe processors as part of the move. Also in 1982, SSA acquired two modern large-scale host processors to replace the outdated processors used for data communications. Additionally, SSA installed a new large-scale processor dedicated solely to modernization activities (SSA 1982b, 3). In 1984,

SSA replaced the eight old, low-capacity computers that supported its programmatic workload with four new large-scale mainframes, one of which was used for a program testing network (SSA 1986, 10). By 1990, the National Computer Center had 14 major mainframes supporting a database of 1.3 terabytes, processing about 453 million instructions per second and about 7 million online transactions daily (National Research Council 1990, 2).

Another modernization was the conversion, beginning in 1982, from magnetic tape to direct-access storage devices for the enormous amounts of data the agency collected. At its zenith, SSA's tape library contained nearly 700,000 reels—enough magnetic tape to stretch to the moon and one-third of the way back. Mounting the tapes was very labor intensive. Also, storing the master file records on tape did not support online data retrieval; SSA was creating a duplicate of the master files for operational employees to query (SSA 1986, 21). Direct-access devices, on the other hand, could be queried directly. SSA initially acquired 282 billion characters of high-density disk storage (SSA 1982b, 2), but this soon proved to be not nearly enough. By 1986, SSA had acquired 360 disk drive units with 780 billion characters of storage capacity to house all of SSA's master files and most intermediate files. Backups, and some active files, were still maintained on 250,000 reels of tape (SSA 1986, 22).

As part of Systems Modernization Plan software improvements, SSA set out to modernize its four major business processes: SSN enumeration, annual wage reporting, claims (both OASDI and SSI), and postentitlement workloads (particularly debt management). It also developed software life cycle development standards and methodologies using top-down requirements analysis for these four processes.

In March 1984, SSA put together a team of executives from the critical components—the Offices of Systems, Operations, Program Policy, and Management—to act as a steering committee for the Claims Modernization Project/Field Office Systems Enhancement (CMP/FOSE) project. The Office of Systems set up a Model District Office in the Baltimore headquarters, and the Office of Operations brought in field office employees from across the country to participate in testing the new software system. A model PSC called the Test Processing Module soon followed (Willeford 1985).

CMP/FOSE had multiple aspects. The software initiative produced the Modernized Claims System (MCS), which enabled representatives to enter claims

data directly during an interview. Initially, the data passed to the existing Claims Automated Processing System; by 1990, the data were passed into a completely new back-end processing system. MCS eliminated the need to transfer the paper application information to a computer coding form and then for a teletypist to input the code. MCS also provided online interfaces with some of SSA's databases, for purposes such as checking that the name and SSN matched. MCS also provided a Workload Management System (WMS) to keep track of pending claims and produce management information. Until this time, field offices kept track of claims with the same kind of Flexo-line strips that the Bureau had used in 1937 to keep track of SSNs issued (Willeford 1985).

The hardware component of CMP/FOSE was the Terminal Acquisition Project (TAP). The MCS computer-based application intake required that all field office interviewers be equipped with computer terminals, both at their desks and in special "front-end interviewing" areas set up in some offices in order to increase the privacy of interviews and to protect the confidentiality of beneficiary information. The TAP terminals were "dumb," having no central processing unit; rather, they transferred data via the concentrators to the mainframes in the National Computer Center for processing. Employees could use the terminals not only to take claims, but also to query online databases for prior claims data or to request an online benefit estimate (Willeford 1985).

Support staff such as receptionists, clerical workers, and data review technicians also required computer terminals to assist in claims development and processing. Anticipating resistance from budget monitoring authorities, SSA kept its terminal procurement request low and required support staff to share terminals. However, with all claims information online, this proved to be unworkable. The PSCs and the Office of Disability Operations also needed TAP terminals, both to view the online screens for processing claims for

which the field offices could not trigger payments and to process adjustments to payments (Willeford 1985). By FY 1987, SSA was installing about 1,000 terminals per month. By FY 1988, SSA had installed about 25,500 TAP terminals nationwide (SSA 1988, 17; National Research Council 1990, 13).



In the late 1970s SSA began experimenting with "dumb" computer terminals in the claims process. Here, claims representatives Robert Chudd (left) and Henry Dittamo conduct a mock interview using fairly primitive hardware and software. *OASIS photo.*

Sites for training instructors on the new online claims system also required terminals. Training was a major undertaking. How could SSA give its entire direct-service staff a 2-week training program without closing an office or hindering service delivery? The answer was to use a train-the-trainer approach. Two employees from each

region attended a training class on the new hardware and software in Baltimore. These employees then returned to regional training sites, where they trained two employees from each local office. SSA created a "training region" on its mainframe with an MCS mockup on which employees could practice inputting claims interview information. This was a tremendous aid in training the trainers who fanned out to the 1,400 operational sites to train operational employees. To maintain service to beneficiaries and applicants, an office would train only half of its employees at a time. Also, other field offices would assume responsibility for the office's initial OASDI claims during training (Willeford 1985).

To support the additional terminals, all 1,400 office facilities had to be modified to provide additional space, cooling, data circuits, and cabling. SSA undertook a related effort to install ergonomic, modular furniture and ergonomic chairs in operational offices.

For the first implementation stage, the Office of Operations selected the downtown Baltimore and the York, Pennsylvania field offices to pilot the new software and hardware. SSA also set up pilot processing modules, one in the Office of Disability Operations in Woodlawn, Maryland, and the other in the Mid-Atlantic PSC in Philadelphia (SSA 1985a, 14). These two modules would service most claims taken by the pilot field offices. On March 20, 1985, according to a

schedule made 2 years earlier, SSA took its first claim using MCS in the York office. By early 1986, 20 pilot field offices (2 in each region) and SSA's 8 claims processing centers were handling claims via the new system. At the start of 1987, the first national implementation site, the M Street District Office in Washington, D.C., began processing claims under the new system. By spring 1987, more than 200 field offices were using MCS (SSA 1987, 7). National MCS rollout was complete in 1988.

### ***Undergoing Staff Reductions***

Having campaigned on a platform opposing big government, President Ronald Reagan took steps to reduce the size of the federal workforce in the 1980s. For SSA, this translated into a reduction of 17,000 employees over 6 years beginning in 1984—a loss of 1 out of every 4 employees. Reportedly, the Reagan administration had wanted even larger SSA staff cuts (SSA 1996a). In response, SSA instituted a hiring freeze and shrank from 81,532 employees in 1984 to 66,000 by the end of 1988, during which the operational workloads increased 12.4 percent. As a result, postentitlement review workloads were backlogged both in field offices and the PSCs (National Research Council 1990, 16).

By using attrition to reduce its numbers, SSA created staffing imbalances. In January 1987, SSA implemented a plan to redeploy employees from its headquarters and regional offices to the direct-service operational components, such as field offices, where they were needed to process work (SSA 1988, 8). However, in 1989 GAO reported that these efforts were only minimally effective and “in the absence of a comprehensive work-force plan, staffing imbalances occurred, which led to inefficient operations and ad hoc stop-gap measures to relieve problems” (GAO 1989, 25).

### ***Phoning in for Service, Part I***

SSA's difficulties in processing its postentitlement workloads were complicated by efforts to implement a toll-free phone service that coincided with the staff cuts. In 1987, SSA's toll-free service consisted of 34 local sites working independently. On October 1, 1988, SSA launched the National 800 Number Network to assist the agency in handling both nationwide general inquiries from the public and postentitlement reports from beneficiaries.

SSA created its National 800 Number Network by integrating the existing 34 local sites with three new

teleservice centers in Birmingham, Honolulu, and San Juan. To oversee the new national network, SSA established an 800 Number Control Center in Baltimore. The control center manually balanced call loads coming into the network among the sites that were open. At the startup, the National 800 Number Network provided service to 60 percent of the country, comprising the 50 percent of the public previously covered by the local teleservice centers plus an additional 10 percent of the population who previously paid toll charges to reach SSA offices. The new 800 number service was available each weekday from 7 a.m. to 7 p.m. Initially, automated telephone response units also allowed callers to leave open-ended messages when the call center was closed, to which agents could respond later.

On October 1, 1989, SSA extended 800-number service to all U.S. callers. To help with the additional call volumes, SSA folded some smaller sites into larger ones and opened “mega sites” in Albuquerque, Auburn (Washington), Baltimore, and Birmingham. There were now 36 call center sites, ranging in size from 20 to 500 employees. As with any new venture, the National 800 Number Network suffered some growing pains, and heavy call volumes resulted in high busy signal rates. To help alleviate call congestion, callers were offered telephone response unit service as an alternative to talking to an agent.

SSA's field offices had been taking initial claims over the phone for many years. In FY 1987, SSA expanded this practice to allow teleservice centers to schedule teleclaims for the field offices (SSA 1987, 5). By FY 1988, SSA was taking about half of its claims via telephone. The agency also began to offer appointments for face-to-face field office interviews scheduled via calls to the 800 number or field office (SSA 1988, 6). In 1998, in an effort to help callers file retirement and survivor claims by phone, SSA would pilot “immediate claims-taking units” at several existing call answering sites; full rollout followed in 2000.

### ***1990s***

On March 31, 1995, in a ceremony at its Baltimore Headquarters, SSA once again became an independent agency. On December 14, 1999, the Foster Care Independence Act added a new program for SSA to administer under Title VIII of the Social Security Act. This program provided cash benefits for certain World War II veterans, particularly Filipino veterans. Nevertheless, the agency's primary challenges during the decade would continue to involve SSI and the disability process.

## ***Complying with Sullivan v. Zebley***

In its February 20, 1990, decision on *Sullivan v. Zebley*, a nationwide class action suit, the U.S. Supreme Court held that substantial parts of the SSI regulation on determining disability for children were inconsistent with the Social Security Act. In making a disability decision for an adult, SSA considered not only the impairment but also the applicant's vocational history. As children have no vocational history, SSA had decided in 1973 to prepare special Listings of Impairments for children and to decide each child disability case on the basis of the medical issues alone. In *Zebley*, the Court ruled that by requiring children to meet or equal SSA's Listing of Impairments alone, the agency failed to consider the functional impact of children's impairments, and that SSA should have considered a child's ability to do age-appropriate activities in making its disability determinations (SSA 1991, 22; SSA 1995g).

To comply with *Zebley*, SSA was required to reopen every SSI children's disability denial back to 1980. SSA expected to have to readjudicate about 550,000 retroactive claims, along with an ongoing workload of 135,000 additional cases per year under the new standards (SSA 1991, 26). SSA's Commissioner established an intercomponent work group to implement the *Zebley* decision. Normally, SSA would have to publish new regulations in the Federal Register, request public comments, and wait for the comments before applying the revisions and reevaluating the cases. As this process was expected to take a year, SSA developed an interim standard so as to immediately begin reevaluating cases that were expected to meet the new requirements. SSA processed about 150,000 cases under the interim standard while working on the new regulation (SSA 1995g).

SSA took the *Zebley* ruling as an opportunity to consider other changes in the childhood disability criteria. SSA assembled childhood and pediatric experts to help develop the best criteria for evaluating children. One of the recommendations was an "individualized functional assessment" that focused on behavioral problems as a type of disorder (SSA 1995g).

After soliciting public comments, SSA published the revised final rules for determining disability in children in 1993. These new standards included

- a new step to determine if a child's impairment had more than a minimal effect on his or her ability to function (equivalent to the severity step found in the adult rules),

- a new approach to satisfying the Listing of Impairments for children, called "functional equivalence," and
- an Individualized Functional Assessment for evaluating a child's impairment beyond the medical listings to parallel the vocational steps applied in adult cases and to satisfy the "comparable severity" criterion (Harmon and others 2000).

SSA worked with 150 national organizations to reach approximately 450,000 children whose claims might be affected by the court decision. The agency also placed more than 125,000 posters in English and Spanish in offices of state and local government agencies and nonprofit organizations that provided services to disabled children (SSA 1992a, 20).

SSA processed the readjudications over a period of just over 3 years. Before *Zebley*, SSA's allowance rate for children at the initial claim level was about 40 percent, somewhat higher than the adult rate. Immediately after implementing the new standard, the rate increased to 50–60 percent. Also, because of increased public awareness and agency outreach, the number of children applying for SSI disability tripled, to about 250,000 cases per year. Between 1990 and 1996, the number of SSI child recipients increased from about 350,000 to more than 965,000.

Meanwhile, allegations began to surface that all a child had to do was misbehave in the classroom and SSA would approve the child for SSI payments. Although SSA studies did not support this allegation, the press picked up anecdotal accounts of supposed abuses of the program. National news reports featured stories of "crazy checks" and of children being coached by parents to misbehave in order to qualify for SSI (SSA 1995g; Harmon and others 2000).

In August 1994, the Social Security Independence and Program Improvements Act established a National Commission on Childhood Disability to review the new SSI definition of childhood disability and related issues. The commission's final report in November 1995 contained several recommendations for strengthening the SSI childhood disability program, but no unanimity on whether the definition of disability should be changed. During this period, GAO issued two reports on the post-*Zebley* childhood disability rules, and the National Academy of Social Insurance published a "Report of the Committee on Childhood Disability, Restructuring the SSI Disability Program for Children and Adolescents" in January 1996 (Harmon and others 2000).

Congress responded to the child disability determination controversy by passing new standards as part of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, commonly known as the “Welfare Reform” legislation. This legislation eliminated the “comparable severity standard” and the reference to “maladaptive behavior” in the childhood standards. Instead, the new standard provided that a child is considered disabled only if he or she “has a medically determinable physical or mental impairment which results in marked and severe functional limitations.” Congress required SSA to review the decisions made on childhood disability claims under the post-Zebley standards within 1 year of enactment and to remove children from the rolls if they could not qualify under the new legislatively mandated standards. Congress also required that SSA reevaluate each SSI child’s eligibility under adult disability standards within 1 year of the child attaining age 18 (SSA n.d. b; Harmon and others 2000).

SSA had to identify and then notify the families of children potentially affected by the legislation, who accounted for approximately 288,000 of the 1 million children receiving SSI disability payments. It took until February 1997 for SSA to issue new SSI childhood disability regulations complying with the Welfare Reform legislation. As implementation of the new standards began, SSA identified three areas of concern: the status of children classified with mental retardation, variations among states and categories of impairments in the accuracy of decisions to continue or deny payments, and allegedly difficult-to-understand notices causing confusion about appeal rights (SSA 1997b).

As promised at his 1997 confirmation hearings, new SSA Commissioner Kenneth Apfel’s first act was to order a comprehensive review of SSA’s implementation of the new childhood provisions. His primary concern was to see if the provisions affecting the childhood disability rules had been implemented fairly and to inform the public, Congress, and the president of his findings (Harmon and others 2000). Commissioner Apfel announced the results of his “top to bottom” review of the SSI childhood disability determination process on December 17, 1997. By this time, SSA had completed eligibility redeterminations of about 263,000 of the 288,000 SSI children subject to review under the provisions of the Welfare Reform law. While expressing overall confidence in the quality of the disability determinations, Apfel acknowledged that some problems were found. The Commissioner

directed a new review of approximately 45,000 of the 135,000 cases in which payments had ceased. For those whose payments had ceased and who had not appealed, a second appeal opportunity was offered. In addition, all 15,000 new claims filed since the August 1996 passage of the Welfare Reform changes in the law were to be reviewed again (SSA n.d. b).

On February 18, 1998, SSA sent notices to 86,000 families whose children lost SSI eligibility under the Welfare Reform law. The notices provided a second opportunity to request either an appeal or payment continuation during appeal. Responding to this examination and reexamination of the criteria for finding children eligible for SSI disability payments, SSA once more published revised regulations, now effective January 2, 2001. These rules clarified and expanded factors that had to be considered in evaluating childhood disability and simplified and revised the functional equivalence rules (Harmon and others 2000).

### ***Reassessing SSI for Noncitizens***

For SSA, the 1996 Welfare Reform legislation meant not only a change in the definition of SSI childhood disability but also changes in the SSI eligibility of most noncitizens. Both changes were problematic and required many years of working closely with the advocacy community to agree on implementing regulations and program instructions. Once again, Congress would rethink its initial legislation and change the rules multiple times (Harmon and others 2000).

Prior to the August 1996 legislation, to be eligible for SSI an individual had to be a U.S. citizen or national, a noncitizen lawfully admitted for permanent residence, or a noncitizen who was a permanent resident under color of law. “Permanent resident under color of law” was not a specific immigration status but a court-defined collection of 17 statuses plus a general category that included any noncitizen residing in the United States with the knowledge and permission of the Immigration and Naturalization Service (INS), against whom INS was not taking action to deport. Thus, except for temporary visitors such as students and undocumented noncitizens, most disabled noncitizens legally in the United States could become eligible for SSI if they met the other SSI program requirements (Harmon and others 2000).

As the United States sought to trim the welfare rolls, the SSI eligibility of noncitizens began to be reconsidered. In 1995, GAO reported that the number of legal immigrants in the SSI program had increased dramatically. In 1982, 6 percent of aged SSI recipients

were immigrants, but by 1993 immigrants represented 28 percent of aged SSI recipients. Among disabled SSI recipients, the share who were immigrants had increased from 2 percent to 6 percent. GAO predicted that if the trend continued, the number of immigrants on SSI could reach nearly 2 million by 2000 (Harmon and others 2000).

To reduce these numbers, the Welfare Reform legislation tightened the eligibility criteria for noncitizens. As of the date of enactment, no new noncitizens could be added to the SSI recipient rolls, and all existing noncitizen recipients would be removed from the rolls as of August 1997 unless they met one of the exceptions in the law. To restate a rather complex requirement in simpler terms: To qualify for SSI, not only would a noncitizen have to be a “qualified noncitizen” (a lawful permanent resident or military veteran), the immigrant (or the immigrant’s spouse or parent) also would have to have 40 qualifying quarters (earnings credits) under Social Security. In addition, noncitizens who were granted refugee status or similar humanitarian immigration classifications were limited to 5 years of eligibility, unless they obtained citizenship before the 5 years elapsed (Harmon and others 2000; SSA n.d. b; SSA 2009a, 24).

On February 3, 1997, SSA began mailing notices (including an INS fact sheet on citizenship) to approximately 900,000 noncitizens whose SSI eligibility might be affected by the new criteria. SSA estimated that about 500,000 of these individuals would lose their SSI eligibility (SSA n.d. b). Upon release of the notices, SSA field offices were inundated with distraught noncitizen SSI recipients. Many of the immigrants had been in the United States for many years and had no relatives or other means of support if their SSI payments were to end. SSA took steps to help those who might lose their payments. SSA and INS matched computer records to double-check immigration status so that individuals would not be inadvertently suspended. SSA also set up six “mega-sites” in areas of large noncitizen populations to provide noncitizens with information and to help them obtain proof of their immigration status (Harmon and others 2000).

SSA’s Acting Commissioner, John B. Callahan, began visiting SSA field offices, community centers, and other gatherings of noncitizens to listen to their stories and to assure them that the Clinton Administration was doing everything possible to make sure that individuals would not lose their SSI eligibility. SSA also worked closely with immigration advocacy

groups, states, and local government agencies to assist the immigrants. The situation was dire enough that President Bill Clinton mentioned his concern about the noncitizens’ SSI provisions in his 1997 State of the Union address (Harmon and others 2000).

As a result of negotiations between the administration and Congress, the Balanced Budget Act of 1997 included provisions to restore SSI eligibility for all disabled legal immigrants who were or became disabled and who entered the United States prior to August 23, 1996. It also extended for up to 1 year the period for redetermining the eligibility of certain noncitizens who might ultimately not be eligible for continued payments. In addition, the law extended the period within which refugees and individuals in similar humanitarian immigration classifications had to obtain citizenship from 5 years to 7 years, and added Cuban and Haitian entrants and Amerasians to the categories of noncitizens who could be eligible for SSI for 7 years (SSA n.d. b; Harmon and others 2000).

The Balanced Budget Act of 1997 continued SSI eligibility for nearly 300,000 noncitizens who were receiving SSI as of August 5 and restored potential SSI eligibility for an estimated 75,000 individuals who were lawfully residing in the United States on August 21, 1996, but who had not filed for SSI before then. However, one group of noncitizen SSI recipients was still at risk of losing eligibility because they were not “qualified.” There is no single defining characteristic that identifies this group; they are simply those who, for one reason or another, fell between the cracks of the definition of qualified noncitizens. The legislation extended their eligibility until September 30, 1998 (Harmon and others 2000).

As the date that these noncitizens would lose their SSI payments approached, a concern arose that SSA’s records might not have accurately reflected the current immigration status of some of the individuals. Although SSA had notified all noncitizens on the SSI rolls several times about the changes in the law and urged them to contact their local SSA office, some recipients did not do so. SSA conducted a statistically valid sample survey in 1998 to determine the extent to which SSI records of the “nonqualified” noncitizens accurately reflected their current citizenship or immigration status. The study found that a large percentage of the “nonqualified” noncitizens actually were in an immigration category that would have qualified them, but for a number of reasons, they had not contacted SSA. SSA sent the study results to congressional staff and convinced the appropriate members of Congress

to also “grandfather in” nonqualified noncitizens who had received SSI prior to the enactment of the Welfare Reform Act. The Noncitizen Benefit Clarification and Other Technical Amendments Act of October 1998 permanently extended SSI eligibility to the remaining “nonqualified noncitizens” who were receiving benefits in August 1996 (Harmon and others 2000).

Since the 1990s, a number of additional legislative acts have further modified the provisions for SSI eligibility of noncitizens and have extended the period of eligibility for humanitarian immigrants. Recent legislation has extended benefits to Iraqi or Afghan nationals who served the U.S. government or who acted as translators or interpreters for U.S. armed forces in these countries.

### ***Phoning in for Service, Part II***

In FY 1990, SSA teleservice centers received approximately 53 million calls that were answered by 3,500 representatives (SSA 1991, 10). The service goal for 1991 was modest: All customers would get through to SSA within 24 hours. SSA continued to improve its 800-number service throughout the 1990s, changing how calls were handled and adding new technology to the National 800 Number Network. Improvements included expanding bilingual service to Spanish-speaking callers nationwide and extending service to other languages via an interpreter service. SSA also expanded service for users of Telephone Device for the Deaf systems. Routing changes allowed calls to be sent to the next available agent anywhere in the nation, and improved forecasting tools helped the agency better meet increasing demands for service. SSA also developed the Customer Help and Information Program, a decision-support system to help agents handle calls correctly and consistently.

By 1994, SSA’s service goal was to enable callers to get through within 5 minutes, but demand was still growing; by 1997 demand was so great that for several months the busy signal rate reached 50 percent (GAO 1997, 11). SSA responded by enhancing its network technology and by simplifying the process to allow more calls to be handled at the first point of contact. SSA also looked for more staff to answer the phones. Office of Central Operations employees and PSC employees who handled postentitlement actions were tapped to answer the 800-number calls during spike periods. However, time spent answering the phone was time that these “spike” employees took from processing their traditional workloads. The result was an increase in backlogs in maintaining

beneficiary records and making timely payment changes even as employees increased overtime hours (GAO 1997).

By 1999, even though calls numbered nearly 60 million, SSA was meeting its goal of answering 95 percent of its calls within 5 minutes. Seventy-five percent of callers reported that their transaction was completed on the first call, and 90 percent were pleased with the agent’s courtesy. A quality assessment report showed 95 percent accuracy for answers to questions on payments. However, 3,200 PSC and Office of Central Operations “spike” employees still handled 24.6 percent of the calls, resulting in growing postentitlement backlogs. The access goal of 95 percent of callers getting through within 5 minutes was lowered to 92 percent, as SSA simply lacked the staff numbers to maintain the higher target (Apfel 2000).

As the new millennium arrived, the demand for National 800 Number Network services steadily grew. SSA offered several additional automated services, allowing callers secure access to personal data. Many automated services offered an interactive speech format, enabling callers to provide more information to SSA. To make better use of callers’ time while they waited to speak with an agent, SSA instituted “screen pop” and “screen splash” applications to collect data from callers and match the information to SSA records. In 2008, SSA also added “scheduled voice callback” to the National 800 Number Network, allowing a caller to leave his or her phone number, hang up, and receive an agency callback within a specified time when the network was less busy. The public response to this application has been very favorable.

Today, the National 800 Number Network receives over 82 million calls and handles 67 million transactions a year through agents and automated services. The contributions of over 6,500 teleservice agents have enabled the agency to consistently meet the established goals for caller access and speed of answer. In 2009, the average time to answer calls was just 245 seconds, and the average busy signal rate was down to 8 percent (Astrue 2009).

For its timely and exemplary performance the National 800 Number Network has received several awards, including the Federal Executive Board Award for Innovation in Public Service. The Network has also been rated by Dalbar Financial Services, Inc.—a provider of market research on customer service—as the best 800 number in the nation for courteous, knowledgeable, and efficient service.

## 2000s

While the Social Security program's future was being discussed in the media, SSA employees went about their day-to-day tasks. By 2000, about 100,000 people visited one of SSA's 1,300 field offices and over 240,000 people called the 800 number each workday. Also, SSA processed an average of 20,000 initial claims and held 2,400 hearings each workday, and processed over 250 million earnings items a year. Postentitlement workloads had grown by almost 25 percent over the previous 10 years, from 80 million to 100 million actions, primarily for program integrity activities such as SSI redeterminations and CDRs. The agency spent \$1.7 billion, about one-quarter of its administration budget, on program integrity (Apfel 2000). By 2008, SSA was averaging over 160,000 visitors, processing over 26,500 initial claims, and holding nearly 2,500 hearings per workday (McMahon 2008). In 2009, SSA processed 271 million wage items (SSA 2009e, 7).

During the 2000s, SSA prepared for the onslaught of filings from baby boomers who would begin reaching retirement age in 2008 and had already reached the prime age for claiming disability benefits. At the same time, SSA faced widespread retirements in its own ranks. In 2000, the average age of SSA employees was 46. SSA conducted a "retirement wave" study to predict losses and support workforce planning. Retirements were predicted to peak from 2007 through 2009, causing 4.6 percent staff losses each year. Instead of waiting for the losses to occur, SSA "flattened the wave" with an early retirement program from 1996 through 2000 (Apfel 2000). This program permitted the orderly replacement of older employees with younger ones. In the first half of 2002, SSA was able to hire approximately 18,350 new permanent employees to replace losses (Barnhart 2006).

In 2004, SSA developed its first *Human Capital Plan*, which is now updated annually. SSA also developed a *Future Workforce Transition Plan*. SSA's retirement wave appears to have crested in 2007, when 3,074 employees, 5 percent of the workforce, retired. Still, as of October 1, 2008, 24 percent of SSA's employees were eligible to retire, and by 2018 that figure is projected to climb to 50 percent (SSA 2009f).

### **Improving the Disability Determination Process**

The disability determination process underwent major changes in the 2000s. In the 1990s, SSA had identified the need to reexamine its entire disability process. The number of disability claims filed was continuing

to rise, and the disability workloads, both DI and SSI, were consuming ever-larger portions of the agency's resources. SSA was having significant difficulty providing satisfactory service to its disability applicants.

In 1965, 97 percent of allowances were decided by the state DDS. By the mid-1970s, 40–50 percent of appealed DDS disallowances were overturned at the hearing level, and by 1980, nearly 60 percent were. Why were so many cases denied at the state level being approved at the hearing level? A number of reasons have been suggested. The passage of time between decision and appeal could have brought the worsening of a chronic medical condition. ALJs frequently had additional evidence not available to the DDSs. DDSs followed program rules, as opposed to ALJs, who depended more directly on the law itself. ALJs had face-to-face contact with the claimants; DDS employees did not. At hearings, about 40 percent of claimants were represented by attorneys. Also, DDSs were under pressure to meet productivity goals.

During the 1990s the Clinton Administration launched an effort to reengineer government under the auspices of the National Partnership for Reinventing Government, also known as the National Performance Review. SSA began to look for processes to streamline in 1993, and targeted disability claims. SSA issued its *Plan for a New Disability Claim Process* on September 7, 1994 (SSA n.d. b; Harmon and others 2000).

SSA began testing concepts for reengineering the disability process in 1995. GAO conducted several audits of the disability redesign and was generally critical of both the scope of the initiatives and the pace of progress. In response, SSA completed a major reassessment of redesign initiatives in February 1997 that narrowed the focus to the activities most critical to success, including testing process changes, implementing process unification initiatives, and developing long-term support through other enablers. The remainder of the 1994 plan was basically discarded (Harmon and others 2000).

A related 1990s initiative involved the hearing process. Pending workloads in the Office of Hearings and Appeals (today known as the Office of Disability Adjudication and Review) had more than doubled between 1988 and 1995, and average processing times had risen to 200 days. By 1998, the average processing time was up to 365 days (Apfel 2000). SSA tried a number of initiatives to improve the hearing process: a Senior Attorney program, screening units, decision-writing units, case preparation units, a modular disability



folder, informal remands to the DDS, and additional automation. Office of Hearings and Appeals staff levels increased 12 percent, from 6,020 employees in FY 1995 to 6,791 in FY 1998. Overtime use in processing hearings increased by 61 percent, from 625,000 hours to over 1 million hours, and other SSA components contributed 2,200 work-years toward hearings from 1997 to 1999. In spite of these efforts, average processing time for a hearing case was 314 days in FY 1999 (Harmon and others 2000). In August 1999, SSA responded to a directive from Commissioner Kenneth Apfel by issuing its *Hearing Process Improvement Plan*. The plan's goals were to reduce processing times, increase productivity, and provide better overall service to the public (Apfel 2000).

SSA's fourth and final level for deciding claims is the Appeals Council. Claimants who receive an unfavorable decision at a hearing can request an Appeals Council review. In the 1990s, the Appeals Council was also experiencing difficulties. In 2000, SSA released the *Appeals Council Process Improvement Plan*, which focused on reducing pending workloads and processing times in the short term and on developing an operational structure able to continue delivering high-quality, timely, and efficient case processing for the long term (Apfel 2000).

On November 14, 2001, Jo Anne B. Barnhart was sworn in as the new Commissioner of SSA. The following month, SSA's Inspector General issued a report criticizing the disability process changes, finding that "SSA's initiatives have not resulted in significant improvements to the disability determination process." The agency had failed to meet 10 of its 14 disability-related performance goals for FY 2001—and met none in the hearing and appeals process (SSA 2001a).

In September 2003, Commissioner Barnhart announced a Disability Process Improvement project. Changes included accelerating the transition to electronic recordkeeping, with rollout to begin in January 2004; updating the medical listings of definitions of impairments that SSA finds severe enough for a finding of disability; and improving the hearing and appeals processes (SSA 2003, 16). The agency also established a "Quick Disability Determination" process for DDSs to expedite initial determinations for claimants who are clearly disabled.

The Electronic Disability System (eDIB) is a major initiative that began in the late 1990s and continues today. Its primary objective was to convert all SSA components involved in disability claims adjudication or review to electronic recordkeeping, featuring

an "electronic disability folder" that can store digital images of medical records. A web-based application replaced the paper forms that field offices had used to collect information about a claimant's medical and vocational history. As a result, claimants can now enter information themselves via the Internet. Forms that once were printed and signed by hand are now created and stored in the electronic folder and automatically shared with the DDS systems, eliminating rekeying. Files are no longer physically transferred: Any employee involved in processing a case can access the contents of the electronic folder. Hearing offices can also access the information, and are fully integrated into the electronic processing of disability claims (Gerry 2006).

As of January 31, 2006, all 53 state and U.S. territory DDSs had rolled out the electronic disability folder, and more than half were creating and processing all new cases electronically. By 2006, the electronic folder housed over 36.5 million records and was the world's largest repository of electronic medical records (Gerry 2006).

SSA has also begun testing the collection of electronic medical records from health care providers through the Nationwide Health Information Network (NHIN), a system sponsored by the Department of Health and Human Services and supported by several federal agencies. SSA is the first federal agency to exchange electronic medical records via NHIN as part of SSA's Health Information Technology (HIT) project. At a test site in Virginia that began transmitting electronic records via NHIN in early 2009, processing time was significantly reduced. SSA is also using HIT with a Boston facility where an electronic request for a patient's medical records is sent automatically when a patient from this facility files a claim (SSA 2009e, 18; SSA 2009k). On August 7, 2009, SSA announced it was making \$24 million from American Recovery and Reinvestment Act funds available in contracts to provide the agency with electronic medical records. The awardees will be required to send electronic medical records to SSA, with a patient's authorization, through NHIN (SSA 2009k). In February 2010, SSA awarded nearly \$20 million to 15 entities based on competitive contracts (SSA 2010a).

However, SSA's efforts to improve the disability process have been hindered by inadequate funding. From FY 2001 through FY 2007, Congress appropriated an annual average of \$150 million less than the President requested (Rust 2008). At the same time, workloads continued to grow.

On February 12, 2007, Michael J. Astrue was sworn in as SSA Commissioner. Reducing SSA's growing disability backlogs was his first priority. He quickly reassessed earlier plans to improve the disability process and put his own stamp on SSA's efforts.

From 2001 to 2007, the number of pending hearings had doubled. By May 2007, 738,000 cases were awaiting a hearing decision, and average waiting time was 505 days, the highest in SSA's history (Astrue 2007). Commissioner Astrue directed the agency to focus on processing those claims that had been awaiting a hearing the longest, starting with those pending 1,000 days or more. SSA reduced the number of those cases from 63,700 on October 1, 2006, to 108 by September 30, 2007, and began to work on cases pending 900 days or more (SSA 2007b).

To increase its hearing capacity, SSA also hired additional ALJs, along with support staff to handle the work involved in preparing the cases. Because of litigation and budget cuts, the agency's ALJ workforce by 2008 had declined about 10 percent from a decade earlier, even though the number of cases awaiting a hearing had doubled. During FY 2008, SSA hired 190 new ALJs and eliminated virtually all of the 135,000 cases for aged claimants pending 900 days or more (SSA 2008c). In 2009, SSA hired another 147 ALJs and over 1,000 support staff for the hearing offices. Until these hires were in place, SSA sent volunteers from its field offices to the hearing offices with the largest backlogs to help assemble paper files. SSA dedicated 5,000 overtime hours per month to the effort (Astrue 2007). SSA plans to hire an additional 226 ALJs in FY 2010 and to maintain a ratio of at least 4.5 support staff members per judge. By the end of FY 2010, ALJs should number about 1,450 (Astrue 2009).

In 2009, SSA opened National Hearing Centers in Albuquerque, Chicago, and Baltimore to supplement its Falls Church, Virginia, center. (In July 2010, SSA plans to open its fifth National Hearing Center, in St. Louis.) At these centers, video conferencing equipment<sup>10</sup> has allowed ALJs to hold hearings remotely, with initial efforts focused on the cities where claimants had been waiting the longest. SSA used these centers to issue over 9,000 hearing decisions in FY

2009, and improved average processing times (Astrue 2009). SSA now plans to install video equipment in all hearing rooms to increase hearing capacity. SSA also implemented a Representative Video Project to allow claimant representatives to use their own equipment to participate in hearings from their offices.

SSA has also streamlined the hearing process by reinstating the Attorney Adjudicator program, which authorizes its most experienced attorneys, when appropriate, to decide on the record in favor of claimants without a hearing. In FY 2009, Attorney Adjudicators issued over 36,000 favorable decisions. SSA is testing a new, more sophisticated screening tool to identify even more cases appropriate for senior attorney review (Astrue 2009).

The agency also instituted special Federal Quality Reviewer screening units and a Medical Expert Screening process to help identify cases that can be allowed without

a hearing. In addition, SSA identified cases that were likely to be allowed and electronically transferred them back to the DDSs for further review; the DDSs allowed nearly 15,000 of these claims in FY 2009, eliminating the need for a hearing (Astrue 2009).

On September 20, 2009, Commissioner Astrue announced that for the first time since 1999, the agency had ended the year with fewer disability hearings pending (722,822) than in the prior year (760,813). The agency plans to open 14 new hearing offices and 4 satellite offices by the end of 2010 (SSA 2009j). With continued sufficient funding, SSA aims to eliminate the hearings backlog by 2013 (Astrue 2009).

The Appeals Council has also experienced increased workloads, with an increase of 16 percent in FY 2009 over FY 2008, and an expected additional increase of 12 percent in FY 2010. To deal with pending case increases, SSA has hired 16 new administrative appeals judges, 45 new appeals officers, and almost 200 new paralegals and attorney advisers. Training courses were revamped to shorten the learning curve (Astrue 2009).

SSA also improved the processing of initial disability claims. On September 5, 2007, SSA announced issuance of a final regulation to extend Quick



A new Social Security card design was released in 2007. SSA History Museum & Archives.

Disability Determination to all state DDSs. A gradual nationwide rollout of the Quick Disability Determination process was completed in February 2008 (SSA 2007a; SSA 2008c). Also in 2008, SSA implemented the Compassionate Allowances initiative to quickly identify diseases and other medical conditions that clearly qualify for disability benefits based on minimal objective medical evidence. The initiative was launched on October 27 with 50 conditions listed (25 cancers and 25 rare diseases) (SSA 2008b). Other diseases and conditions were to be considered for future addition to the list of Compassionate Allowances. On February 11, 2010, SSA announced the addition of 38 conditions (including early-onset Alzheimer's disease) to the list, with the consideration of other conditions to continue (SSA 2010b). On January 28, 2009, SSA announced that improvements to the agency's computer modeling system had increased the number of disability claimants receiving expedited approvals to about 4 percent of all disability cases—numbering about 100,000 to 125,000 per year. This effort helped SSA cope with the increase of about 250,000 cases resulting from the economic downturn (SSA 2009i).

SSA also accelerated the update of its medical listings, which are key factors in determining whether an individual qualifies for disability benefits. By the mid-2000s, many of SSA's listings did not accurately reflect advances in the diagnosis and treatment of certain disorders. The Department of Health and Human Services agreed to join SSA on a task force to update the listings. On October 19, 2007, SSA published its revised medical listings for disorders of the digestive system in the Federal Register, the first update to the listings for these types of disorders in more than 20 years. The new rules became effective on December 18, 2007 (SSA n.d. b; Astrue 2007). SSA hopes to update all of its existing listings by the end of FY 2010, and has developed a schedule to ensure all listings are updated as needed in the future (SSA 2009e, 15).

SSA is also developing a new occupational information system to replace the Dictionary of Occupational Titles, created by DOL. SSA has relied on the dictionary to determine whether claimants can do their usual work, or any other work in the U.S. economy. However, the dictionary was last updated in 1991. In 2008, SSA awarded contracts to help evaluate and update occupational information, and established an Occupational Information Development Advisory Panel for advice on creating an occupational information system tailored to its disability policy (SSA 2009e, 15).

The systems for controlling and processing disability claims in DDSs are also due for replacement. Because they are state agencies, each DDS has developed or contracted for the specialized software used in claims processing. In the 1990s, SSA attempted to develop standardized software that could be used in all DDSs, but most states resisted; only a few locations adopted the Modernized Integrated Disability Adjudicative System (MIDAS) that SSA developed for their use. SSA is trying again to develop a common disability case processing system to replace the legacy DDS systems, and hopes to have a state-of-the-art beta system ready for testing in 2011. This software will enhance SSA's ability to move to electronic medical records (Astrue 2009).

SSA's prospects for reducing its disability workloads deteriorated when the nation entered an economic recession in 2008. Claims volumes increased dramatically. Struck by declining revenues, several states began furloughing employees. Some of these states included state DDS employees in the furloughs even though SSA pays their salaries and all DDS operating costs. Commissioner Astrue urged the states to exempt DDS employees and even enlisted Vice President Joe Biden to echo his plea, but some states continued the furloughs nevertheless (SSA 2009c).

### ***Assisting with the Medicare Prescription Drug Program***

Although CMS now administers the Medicare program, SSA continues to provide assistance. For instance, SSA continues to determine individuals' eligibility for Medicare HI and enrolls individuals for Medicare SMI. In addition, SSA assigns the Medicare account number and deducts SMI premiums from OASDI benefits. Since 1998, SSA has also assisted with informing eligible Medicare beneficiaries about the Qualified Medicare Beneficiary (QMB) provision, which pays Medicare premiums for beneficiaries with limited income and resources (SSA n.d. b).

In 2003, SSA assumed another Medicare-related responsibility when the Medicare Prescription Drug, Improvement, and Modernization Act, more commonly known as the Medicare Modernization Act, was enacted. The act created Medicare Part D, a prescription drug program to take effect January 1, 2006. Initial enrollment for Part D ran from November 15, 2005, through May 15, 2006. SSA was tasked with deducting Part D premiums from Social Security payments and administering the low-income subsidy (LIS) program. The LIS or "extra help" program

provided for the federal government to cover all or part of the premium, deductible, and copayment costs for eligible Medicare beneficiaries with limited income and resources. Medicare beneficiaries with Medicaid coverage were deemed entitled to the subsidy.

Once again, the legislation provided little time to prepare for implementation. In this case, timely implementation was complicated by dependence on another agency, CMS, to make policy decisions and publish regulations. An entirely new software application was needed to take and process LIS applications. SSA developed not only an online application, but also a scannable paper application. In collaboration with CMS, SSA assembled focus groups of Medicare beneficiaries and conducted special cognitive tests to assess how well potential applicants understood the application. Design engineers reviewed the application layout. In addition, SSA discussed draft versions of the application with national and local advocacy groups and state Medicaid directors (Disman 2006). SSA hired a contractor to test the scannable version on 2,050 potentially eligible individuals to ensure that it was easy for applicants to use. SSA added new fields to the application after 1 year of use to improve the accuracy of the information (Disman 2007).

With no reliable method for identifying those eligible for the LIS (Government Accountability Office 2007, 7), SSA undertook a massive effort to get the word out to all potential applicants. Outreach efforts began in May 2005. SSA mailed a scannable “Application for Help with Medicare Prescription Drug Plan Costs” to almost 19 million potentially eligible Medicare beneficiaries on a staggered basis between May 27 and August 16, 2005. SSA then hired a contractor to make personal follow-up calls between August 18 and November 5, 2005, to almost 12 million potential applicants who did not respond to the mailing. The contractor found phone numbers for about 9 million of these individuals. Applications were resent to 800,000 of them, and 400,000 of them requested assistance and were referred to the agency. SSA sent follow-up letters in the 5 million instances the contractor could not reach the beneficiary after three attempts (McMahon 2006). In a separate exercise, SSA identified about 1.5 million disability beneficiaries who received a subsidy application mailer but did not file. SSA mailed a special follow-up notice to all of these beneficiaries (Disman 2007).

SSA announced its new Internet application for LIS on June 29, 2005, and began taking applications in July (SSA 2005d). The application received one of the

highest scores ever given to a public or private sector organization by the University of Michigan’s American Customer Satisfaction Index (Disman 2006). As of September, 1,000 people per day were applying over the Internet. By then, SSA’s partners had held over 40,000 Medicare outreach events (SSA 2005b). By May 2006, the number of outreach events was up to 72,000. SSA had received applications from more than 4.9 million beneficiaries, of which almost 850,000 were unnecessary (duplicates or applicant already deemed eligible), and had made determinations on 3.9 million applications, finding 1.7 million eligible. SSA held targeted application-taking events in field offices, mailing personal invitations to beneficiaries who had been identified as potentially eligible but had not yet applied for the subsidy (Disman 2006).

By FY 2007, about 22 percent of new applications were internet filings (Disman 2007). Alternatively, individuals could call SSA’s 800 number to immediately file an application (McMahon 2006). SSA provided extensive training to its teleservice representatives in answering subsidy-related questions. Callers who wished to apply by phone were referred directly to specialized claims-taking employees (Disman 2006).

The outreach activities continued. SSA recontacted anyone who requested that premiums be withheld from Social Security benefits but had failed to return an LIS application. SSA also mentioned LIS in other outgoing notices. In addition, SSA asked tax preparers who deal with Earned Income Tax Credit filers to screen for LIS (McMahon 2006). SSA worked with states that had their own pharmaceutical programs, state health insurance programs, Area Agencies on Aging, local housing authorities, community health clinics, prescription drug plans, and others to identify people with limited income and resources (Disman 2006).

SSA also targeted mailings to beneficiaries with representative payees, beneficiaries who spoke Spanish, Asian-American and African-American households, and beneficiaries aged 79 or older who lived in zip codes with a high percentage of low-income households. SSA mailed 2.5 million subsidy applications to these individuals between June and August 2006. In September 2006, SSA mailed more than 300,000 applications with CMS notices to Medicare beneficiaries who had lost their deemed-eligible status for the subsidy. The agency began to include subsidy applications with the notices sent each month to approximately 125,000 Social Security beneficiaries when

they first become eligible for Medicare. In addition, SSA conducted a special “Mother’s Day” initiative to reach out to caregivers in 2007 (Disman 2007).

By March 2007, about 6.2 million individuals had applied for LIS, and SSA had approved approximately 2.2 million applications (Government Accountability Office 2007, 12–13). As of May 2007, SSA was receiving about 30,000 applications for the LIS every week (Disman 2007).

### ***Surviving Disasters***

With over 1,400 locations, SSA offices are occasionally in the path of disasters affecting both the offices themselves and the populations they serve. Although SSA has had disaster procedures in place since early days, coping with the impact can be traumatic.

Given the poor condition of many of SSA’s earliest locations, fires were an ever-present threat. Some of the SS-5 Application for Account Number data from the late 1930s are missing because some offices burned before the forms could be mailed to Baltimore. Once SSA began taking claims for benefits, a loss of field office records had more drastic consequences. An account of a fire destroying a field office in the Marion Hotel Building in Marion, Indiana, on the evening of January 31, 1956, states:

Aside from the money required to replace the burned equipment, which will jar DFO’s [Division of Field Operations] tight budget somewhat, the major cost of the fire is the loss of 185 pending claims, 7 requests for assistance, 20 recomputation applications, 85 disability freeze applications, and 100 SS-5 applications on which account number cards had been issued. The figures were arrived at by reviewing the regional office copy of the previous week’s report and using staff memory. None of the loss is irreparable but a heavy job of redevelopment faces the Marion staff (SSA 1956, 2).

The office was operating in another location in just 36 hours.

Floods have also caused problems. On June 23, 1972, the Wilkes-Barre DOC, which had just assumed responsibility for card punching and keying operations for the central issuance of SSNs, was closed by flood waters caused by Hurricane Agnes. The facility was back in full operation by the end of July (SSA 1972, 74). In June 1976, flooding hit the Wilkes-Barre facility again, putting it out of operation for 2 weeks. As a

result, SSA opened another DOC in Salinas to provide backup in case of another disaster (SSA 1976, 7).

In early April 1974, tornadoes ripped through 10 midwestern and southern states, claiming more than 300 lives and causing nearly \$1 billion in property damage. One structural casualty was the Nashville DDS office. A tornado tore the roof off of the building, scattering the documents from disability folders and exposing the remaining folders to water damage. SSA employees had to contact thousands of disability applicants to reconstruct their folders (SSA 1973b, 5).

Even microbes have brought SSA facilities low. In September 1991, an individual who worked at the Western PSC in Richmond, California, for a firm under contract to SSA died of Legionnaire’s disease. Concerned about employee health, SSA temporarily closed the PSC and tested the building, which was found to be contaminated with *Legionella* bacteria. Employees were screened for the bacteria and agency operations were relocated while the facility was decontaminated. The building reopened and employees returned in December 1991 (SSA 1992a, 30).

SSA has not been spared the workings of terrorists. On April 19, 1995, Timothy McVeigh exploded a bomb at the Alfred P. Murrah Federal Building in Oklahoma City. An SSA field office was located on the first floor of the building. Sixteen SSA employees were among the 168 people who lost their lives (Harmon and others 2000).

SSA was also affected by the September 11, 2001, terrorist attacks on the World Trade Center in New York City. The New York regional office, three field offices, and a hearing office were all near the World Trade Center and were closed in the aftermath of the attack. The regional office relocated, and the field office employees and hearing workloads were distributed to other locations until they could be reopened. The New York DDS was also affected. The employees were temporarily relocated, and the 15,000 case folders pending at the time of the attack were removed, cleaned, tested, and certified to be contaminant-free (SSA 2001c).

When disaster strikes a community, the agency’s concerns are broader than just setting up shop in a new location. After the 9/11 attack, SSA invoked special emergency procedures to get immediate help to the families of those killed in the World Trade Center, the Pentagon, and the Flight 93 plane crash in Shanksville, Pennsylvania. These procedures were designed to take and pay claims as quickly as possible and included

allowing the payment of survivors' claims using airline manifests or employer records rather than waiting for a death certificate. SSA immediately launched a full-scale outreach effort to locate families of the victims. SSA posted a special Web page with information on applying for benefits and links to various other sites. The agency arranged for public information spots on every major network affiliate in New York City, as well as on independent and Spanish language stations. It distributed press releases and fact sheets to national and local media outlets and advocacy organizations, among others. SSA also worked with the uniformed services and with the 58 employers who lost employees in the World Trade Center for follow-up. In addition, SSA reached out to 60 consulates to ensure that any foreign survivors who might be eligible for benefits were contacted (SSA 2002a, 1–2).

SSA stationed hundreds of employees at the Pier 94 Family Assistance Center and in other crisis centers throughout New York, at the Liberty State Park Family Assistance Center in New Jersey, and at the Pentagon Family Assistance Center. SSA staff was available to serve the families of the victims of the Flight 93 crash in Shanksville and in other locations. Those families could visit any of these sites, any field office, or call the SSA 800 number to file an immediate claim (SSA 2002a, 2–3). As of 2 years later, SSA had processed 5,629 benefit claims from 2,281 families, and was paying ongoing benefits to 3,228 survivors and 498 individuals disabled during the attacks (Szymendera 2005, 5).

A more recent natural disaster, Hurricane Katrina on August 29, 2005, also tested SSA's emergency response capabilities. In Louisiana, more than 400,000 OASDI beneficiaries and 91,000 SSI recipients resided in the counties affected by Hurricane Katrina; in Mississippi, about 127,000 OASDI beneficiaries and 22,000 SSI recipients lived in the areas impacted; and in Alabama, almost 125,000 OASDI beneficiaries and 21,000 SSI recipients were affected (SSA 2005c). Seventy-three SSA field offices and a number of DDSs closed temporarily because of the hurricane. Some were not damaged, but others were flooded or even submerged. By September 8, all but 11 field offices had reopened, many in temporary space. SSA transported six portable buildings to south Louisiana for use as field offices. All affected DDSs were reopened by September 6, 2005 (SSA 2005a). The Electronic Disability System enabled SSA to immediately transfer the 1,500 cases that had been stored electronically in the New Orleans DDS. For the remaining 3,500 cases, SSA

packed the folders in 400 boxes and carted them down 6 flights of stairs guided by flashlight (Barnhart 2006).

SSA opened temporary offices at evacuation centers such as the Houston Astrodome, the Baton Rouge River Center, the Albuquerque Convention Center, the Lubbock Reese Center, and the El Paso and Dallas Convention Centers. In addition, SSA had at least one employee staffing each of more than 50 Federal Emergency Management Agency sites, working 12-hour days and weekends in some cases. Many of the local offices that were still able to operate extended their service hours and remained open throughout the Labor Day weekend. The Dallas Regional Office opened a temporary Field Office Support Unit in its training center to assist with claims. SSA detailed 139 employees from other regions to assist the affected field offices and DDSs assigned extra employees to answer calls to the 800 number. SSA placed special flags on all Katrina-related initial claims to ensure expedited handling and instituted special procedures for establishing identity for beneficiaries without traditional forms of photo identification (SSA 2005a).

In areas where mail service was suspended, SSA and the U.S. Postal Service established Temporary Mail Delivery Stations where beneficiaries could pick up their checks. As of September 8, 2005, 15,000 checks had been delivered at the temporary stations. To ensure that beneficiaries continued to receive their OASDI and SSI payments, SSA also invoked an immediate payment procedure that permitted on-the-spot disbursements to those who could not access their benefit checks. As of September 9, SSA had issued more than 30,000 immediate payments (SSA 2005c). When Louisiana sites began to run short of the Third Party Disposition forms used for the immediate payments and FedEx was unable to assure delivery, SSA set up a relay chain for passing along additional forms from one field office to the next until finally the Lafayette, Louisiana, office delivered them to Baton Rouge (SSA 2005a).

Always cognizant of the possibility of unexpected disaster, SSA has a robust continuance-of-operations plan, and regularly tests its recovery procedures. In January 2009, SSA opened a second data support center in North Carolina that can be used not only for processing its high volume of transactions but also for disaster recovery should Baltimore National Computer Center operations be disrupted. In addition, Congress appropriated \$500 million to build and partially equip a new, modern data center to replace the now-outmoded Baltimore facility (Astrue 2009).

## Today

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New challenges will always arise to replace old ones. Beginning in 2008, the recession caused SSA workloads to spike once again. Even with 800-number and Internet options for public contact, field offices averaged 866,000 visitors per week in 2009. In FY 2009, SSA processed over 175,000 more initial disability claims than anticipated, while some states began to furlough employees in the state-administered DDSs—even though SSA pays the employees' salaries (Astrue 2009). SSA's productivity increased nearly 30 percent from 2005 to 2009 (SSA 2009d, 79), yet employees are struggling to keep up with the work. In 2008, 50 percent of callers to SSA field offices received a busy signal, and 8 percent of those visiting a field office without an appointment—about 3 million visitors—had to wait more than an hour to be seen by staff. Although field offices continue to process initial claims timely, they have been forced to defer processing millions of postentitlement events such as adjusting payments and correcting earnings postings. This is not only unacceptable service, it is also demoralizing to SSA's employees, who care deeply about the level of service they provide (McMahon 2008).

Some help has arrived. In FY 2009, Congress provided SSA with Recovery Act funds to assist with the rising workloads and hearings backlog. SSA's administrative budget also increased. In FY 2009, SSA hired approximately 8,600 new employees, its biggest hiring effort since the SSI program launch 35 years earlier. SSA budgeted for 2,600 more DDS employees, as well. Funds were also used to purchase additional computers, for video conferencing equipment for hearings, and to contract with additional medical providers and networks (Astrue 2009).

Nevertheless, claims workloads are still growing faster than SSA can process them. In FY 2010, SSA expects to receive 1.2 million more claims than in FY 2008. Over 3.3 million disability claims alone are expected, a 27 percent increase over FY 2008. As the workloads grow, 50 percent of SSA's workforce, including 66 percent of its supervisors, will be eligible to retire by the end of 2018 (SSA 2009e, 18).

To handle these additional cases, SSA is experimenting with video service to enable staff in less busy offices to assist offices that may be overwhelmed with visitors, or to contact persons who live in remote areas (Astrue 2009). Also, SSA plans to establish centralized units, similar to the National Hearing Centers, to assist the DDSs. These new units, called Extended

Service Teams, will be located in states that have a history of high quality and productivity and that have the capacity to hire and train additional staff. The teams will be used to quickly take cases from the highest-volume states. In FY 2010, SSA plans to place 280 new employees in Virginia, Arkansas, Oklahoma, and Mississippi. SSA is also expanding case processing capacity in its 10 regional disability units and the Federal Disability Center in Baltimore. SSA is also once again deferring some CDRs so that the DDSs can concentrate on initial claims (Astrue 2009).

SSA also hopes that by providing Internet tools, the public will increasingly be able to help themselves. In December 2008, SSA launched the new version of its online Internet claims process, called iClaim. A marketing campaign starring actress Patty Duke accompanied the launch. The online share of retirement applications increased from 26 percent to 35 percent in less than 1 month, and the online share of disability claims increased from 14 percent to 21 percent. SSA hopes to increase these percentages in 2010 to 38 percent and 25 percent, respectively (Astrue 2009).

In July 2008, SSA updated its Internet-based application for estimating retirement benefits. This version is tied into SSA's earnings records, eliminating the need for the user to manually enter years of earnings information. The Retirement Estimator is interactive, allowing a person to compare different retirement options (SSA 2008a). In November 2008, the American Customer Satisfaction Index for federal Web sites ranked the new online Retirement Estimator as the best in government (SSA 2008d). In its first year of operation, the Retirement Estimator provided over 4 million estimates. In November 2009, the Retirement Estimator was improved to provide benefit estimates for people who had enrolled in Medicare but not yet for Social Security benefits—a cohort numbering about a half million each year. In 2010, SSA will release a Spanish language version (SSA 2009g).

Individuals can use the Internet to find information about SSA-administered programs, locate a Social Security office, or request a Social Security Statement. With a password, beneficiaries may check their benefits, change an address, and start or change direct deposit payments. Beneficiaries may also change their address without a password. In addition, beneficiaries can request a Medicare replacement card, a benefit verification letter, and a replacement Form 1099 using knowledge-based authentication. Businesses can use the Internet to file Form W-2s for employees or verify SSNs.

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## Online Claims & Services

### What You Can Do Online

Updated: July 07, 2010

Expand All | Collapse All

Click on the subject heading or the red arrow to expand or collapse an individual topic.

**Field Office Locator**  
Use your ZIP code to locate the closest Social Security Office.  
Available Weekdays 5 AM - 1 AM  
Saturday 5 AM - 11 PM  
Sunday 8 AM - 10 PM  
Holidays 5 AM - 11 PM

**BENEFIT ELIGIBILITY SCREENING TOOL**  
Use our Benefit Eligibility Screening Tool to find out if you may be eligible for benefits from a program Social Security administers. (Available anytime.)

**What You Can Do Online**

- ▶ Apply for benefits
- ▶ Appeal a decision
- ▶ Do you qualify for benefits?
- ▼ Estimate your future benefits

You can:

- Use our Retirement Estimator for a retirement estimate based on real time access to your earnings record. (The secure log-in requires your name, Social Security number, date & place of birth and mother's maiden name.)
- Find your full retirement age. (Available anytime.)
- Use our benefit planners to calculate your retirement, disability and survivors benefits. (Available anytime.)
- Request a Social Security Statement  
Get your personal earnings report and benefit estimates by mail.  
Extra hours (Eastern Time):  
Weekdays - All day (except 2 AM - 3 AM)
- Block online and automated telephone access to your personal information.  
Extra hours (Eastern Time):  
This service is available on Sunday until 11:30 PM.

▶ If you get Social Security benefits...

▶ If you get Supplemental Security Income (SSI) benefits...

▶ Choose your password or block electronic access

▶ If you have a password...

▶ Services for businesses, governments, payees and third parties

Get email updates when this information changes.  
Note: The "Bookmark" above links to a 3rd party service that is not affiliated with the Social Security Administration. [Disclaimer]

**Online Services Hours of Operation\***  
(All times ET)  
Weekdays 5 AM - 1 AM  
Saturday 5 AM - 11 PM  
Sunday 8 AM - 10 PM

**5 AM - 11 PM on these holidays:**  
New Year's Day  
Independence Day  
Thanksgiving Day  
Christmas Day

**Hours for all other holidays are:**  
5 AM - 1 AM

\*Note: Some online applications have additional "Hours of Operation."

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SSA's acclaimed retirement estimator is one of many online services the agency provides to the public. SSA Web site, <http://www.socialsecurity.gov/onlineservices/>.

Other technology investment plans for 2010 and beyond involve "Disability Direct" to automate the processing of online disability claims, signature proxy alternatives to pen-and-ink or "wet" signatures, voice over Internet protocol telephone networks for the field offices, "click to talk" capability to connect Internet visitors with a teleservice representative, and self-help computers in field office reception areas (SSA 2009e, 17).

## Conclusion

Although SSA has changed in many ways over the years, the root causes of its administrative challenges have remained much the same throughout its existence.

A 1993 GAO report stated:

SSA's ability to carry out its mission is affected by various external factors over which it has little or no control. These include (1) frequent legislative changes that affect program administration; (2) conflicting views between and within the administration and the Congress on how SSA should operate; (3) the need to comply with decisions or requirements of central management agencies, such as the Office of Management

and Budget (OMB); and (4) a high degree of dependence on others, such as states and employers, to provide accurate and timely data needed for program administration (GAO 1993, 13).

SSA has been blessed with a workforce that believes in the agency's mission and sincerely cares about program beneficiaries. These dedicated employees have helped SSA become one of the best agencies in the federal government. In April 2007 and again in May 2009, the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation ranked SSA as one of the top ten "best places to work in the federal government." The rating was based on the results of the Office of Personnel Management's Federal Human Capital Survey, a governmentwide assessment of federal employees' job satisfaction and perceptions of their agency's human capital efforts (SSA 2007c; SSA 2009h).

SSA has overcome many difficult challenges in its 75-year history, and will no doubt weather the current recession as well. SSA has a history of rising to its challenges and evolving to meet society's changing needs. Some may doubt that Social Security will be there for them in the future, but such an absence is highly unlikely. SSA is a survivor.



## Notes

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<sup>1</sup> In May 2009 SSA estimated that in fiscal year 2010, it would process an additional 20,000 retirement claims and 200,000 initial disability claims over the fiscal year 2009 levels (SSA 2009e, 11).

<sup>2</sup> Predecessor of the Works Progress Administration.

<sup>3</sup> A trading zone is the area beyond an urban area whose residents regularly trade with merchants within the urban area.

<sup>4</sup> The disability freeze only excluded the years a person was disabled from the computation of benefits; it did not provide for monthly payments.

<sup>5</sup> Material participation means participation on a regular or substantial basis in the production of farm commodities.

<sup>6</sup> The medical listing of impairments describes examples of common impairments that SSA considers severe enough to keep an adult from doing any gainful activity.

<sup>7</sup> A CDR is a review of a beneficiary's current medical condition to see if it is still disabling.

<sup>8</sup> An essential person was defined as someone who had continuously lived in the qualified individual's home since December 1973, was not eligible for state assistance in December 1973, and had never been eligible for SSI payments as an eligible individual or as an eligible spouse. In addition, state records had to show that, under a state plan in effect for June 1973, the state took that person's needs into account in determining the qualified individual's need for state assistance for December 1973.

<sup>9</sup> Individuals who had not worked sufficiently to qualify for HI could purchase coverage if they were willing to pay the monthly premium. Some states paid the premiums for low-income individuals.

<sup>10</sup> SSA began testing video teleconferencing for hearings with claimants, representatives, or expert witnesses at remote locations in the late 1990s. By 2004, approximately 160 hearings rooms were equipped, and about 8,000 hearings used video teleconferencing (Apfel 2000).

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# U.S. SOCIAL SECURITY AT 75 YEARS: AN INTERNATIONAL PERSPECTIVE

by Dalmer D. Hoskins\*

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*Is the historical development of the Old-Age, Survivors, and Disability Insurance (OASDI) program unique or similar to the development of social security programs in other industrialized countries? The U.S. Social Security program was adopted some 40 to 50 years after those of most Western European nations. The United States thus had the opportunity to choose from a number of models and clearly chose to follow the classic social insurance path of such countries as Austria, France, and Germany, which in 1935 already had considerable experience administering earnings-related, employer/worker-financed old-age pension programs. Although based on the traditional social insurance model, OASDI evolved in certain unique ways, including the rejection over the course of succeeding decades of any reliance on general revenue financing, the importance attached to long-range (75-year) actuarial projections, and the relative generosity of benefits for survivors and dependents.*

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## **Introduction**

The history of the United States is in many ways exceptional, giving rise to an important body of academic research propounding “the American exception.” This notion of exceptionalism is however not so easily applied to its principal national social insurance program, Old-Age, Survivors and Disability Insurance (OASDI). Adopted by Congress in 1935, the Social Security Act was landmark legislation that established not only an old-age insurance program but also mandatory unemployment insurance and funding for state-administered old-age assistance. The United States was a relative latecomer in covering its employed workers with compulsory old-age insurance, and perhaps for this reason it is not surprising that the U.S. program was largely inspired by continental European models, particularly the German example, in the 20 or more years preceding its adoption. The OASDI program today exhibits in many respects the same classic social insurance principles that can be found in several other national old-age insurance systems. However, after 75 years, some features of the OASDI program appear to be particularly characteristic of the U.S. approach to old-age income security.

The discussion that follows singles out three of the more striking characteristics of the U.S. program, compares them with relevant foreign experience, and in conclusion raises the question of whether these characteristics still have significant implications for the program’s future. The discussion begins with a look at the historical context of U.S. Social Security.

## **Origins of U.S. Social Security in an International Context**

Most historians of U.S. Social Security have expressed both wonder and puzzlement as to how a virtually full-blown social insurance program could have been incorporated in the 1935 Social Security Act. The task of the principal drafters working for the Committee on Economic Security, appointed by President Franklin D. Roosevelt in 1934, was indeed a daunting one, but the national debate about the need for a national old-age income security program had been under way for several years, picking up intensity as poverty among the elderly increased dramatically during the Great Depression. In a message to Congress in 1934, Roosevelt served notice that he intended to propose a comprehensive program of social insurance. Roosevelt

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emphasized that it was not “an untried experience” and that “this seeking for a greater measure of welfare and happiness does not indicate a change in values. It is rather a return to values lost in the course of our economic development and expansion” (Altman 2005, 29).

Thus, the United States embarked in 1935 on the road to providing its working population with old-age pensions, following in many respects the social insurance models adopted by Germany in 1889, Belgium in 1900, the Netherlands in 1901, Austria in 1906, France in 1910, Italy and Spain in 1919, and Hungary in 1928 (Social Security Administration 2008). Universal coverage of all wage earners and self-employed persons was not achieved at an early date in these countries; the gradual expansion of programs to cover all categories of workers (such as white-collar workers, clerics, and local government officials) was only completed near the end of the 20<sup>th</sup> century. At their inception, most European old-age insurance programs covered only blue-collar workers, reflecting their governments’ desire for more stability in the labor markets and to fend off the political threat of national socialism and communism. Even today, France, Italy, and Greece have multiple public old-age pension programs, posing a significant obstacle to advancing coherent and unified national pension policies.

Universal old-age assistance programs adopted by Denmark in 1891, Iceland in 1909, and Norway in 1923 attracted little support among Social Security advocates in the United States. Even the noncontributory, means-tested flat-rate pension adopted by the United Kingdom in 1908 seems not to have elicited much enthusiasm on this side of the Atlantic, although the United Kingdom was the leading industrial power of its time and its historic ties with the United States would have meant that American experts closely followed British social security developments. There was a similar lack of enthusiasm regarding the Canadian initiative, which put in place a universal federal old-age assistance program in 1927, and left the United States as the only major industrialized country which had not implemented a public old-age income security program before the Great Depression.

The biographies and autobiographies of proponents of Social Security in the United States reveal that many of them were indeed very well-informed about the history and development of social security in Europe and elsewhere. Two of the activists, Paul H. Douglas and John Winant, authored publications explaining how European social security models could be adopted in the United States. Douglas, who

eventually became a U.S. Senator from Illinois, previously served as an economic advisor to Roosevelt when the latter was governor of New York. Douglas was a front-row player when Social Security was enacted in 1935, and as soon as Roosevelt signed the legislation, he wrote what is no doubt the first history of Social Security, and advocated many of the first amendments, which were adopted in 1937. Prior to 1935, Douglas traveled several times to Europe, collecting information on the German and other European social security systems. Other important reformers included Abraham Epstein and I.M. Rubinow, both of whom had European roots and were considered experts about social security systems abroad.

Major players such as Douglas, Epstein, and Rubinow were influenced in their thinking by the growing strength of the American Association for Labor Legislation (AALL), founded in 1906 and affiliated with the European-based International Association for Labor Legislation. AALL membership grew from a handful to well over 3,000 within a decade, counting among its members such notables as Louis Brandeis, Samuel Gompers, Woodrow Wilson, and Jane Addams. In the decades preceding the adoption of Social Security, the AALL focused primarily on encouraging the states to adopt workers’ compensation, which proved to be a great success, and health insurance, which met with far less success and many more legal obstacles and political opposition. Although not its top priority, the adoption of Social Security was nevertheless part of the AALL strategy, which advocated the view that while workers’ compensation and health insurance could be administered by the states, the mobility of workers required that old-age income security should be a national program as in the European nations (Béland 2005, 54).

It is not surprising that the U.S. reformers felt generally more comfortable with the Bismarckian or German model of social security protection (mandatory social insurance financed from payroll taxes) than with the UK or Nordic approach of universal benefits (often flat-rate benefits subject to a means or earnings test). The consensus from President Roosevelt down to the original members of the Committee on Economic Security was that Social Security should not be compared to the “dole.” In arguing for Social Security, Roosevelt clearly made the distinction between social insurance and social assistance, drawing on the American tradition of individual responsibility and self-reliance as being more consistent with the social insurance approach. Along with



the preference for “earned rights,” another dominant theme that would influence the 75-year development of Social Security was that financing should be based on worker/employer contributions rather than general revenue financing.

Social Security thus became one of the most successful and distinguishing features of the “New Deal” and the post–World War II era. Although the United States was a relative latecomer to the list of industrialized countries with national old-age income security programs, the U.S. program quickly became a model for other countries involved in reconstruction following World War II. Many newly independent and developing countries were influenced by the U.S. Social Security model during this period, notably in Latin America (Bolivia, Columbia, Costa Rica, Dominican Republic, Mexico, and Panama), where national programs were first introduced in the 1940s, and in Asia, particularly in Japan, which reformed its social security laws under American influence. In 1965, Canada added an earnings-related old-age pension program, closely modeled on U.S. precedent, to supplement the universal old-age assistance benefit paid to all resident Canadians since 1927. The Social Security Administration provided significant technical assistance to many countries during the postwar period, providing actuarial services and administrative expertise to the newly established programs.

The United States was, moreover, closely associated with the 1944 “Declaration of Philadelphia” which established new labor standards to be implemented by member states of the International Labor Organization (ILO). In 1952, the ILO adopted Convention 102, which established international social security standards to be adhered to by all ILO member states. Convention 102 is a legal instrument still used today as a set of benchmarks for nations in evaluating their social security legislation. Ironically, the Director General of the ILO at the time of the 1944 Declaration was John G. Winant, the former governor of New Hampshire and the first chairman of the three-man Social Security Board established by the Social Security Act in 1935.

### ***U.S. “Exceptions” in the Development of the OASDI Program***

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Significant academic research has been devoted to explaining the origins of the welfare state and to categorizing countries according to different sets of criteria (universal coverage, means-tested benefits, greater focus on poverty alleviation, financing from

general revenues or from earmarked taxes, generosity of replacement rates, and so on). One of the best-known schools of thought in this respect has been led by Gøsta Esping-Andersen, whose theories spawned a substantial volume of academic literature both in support and in opposition. Originally, Esping-Andersen identified three main streams of the welfare state: the social democratic stream, prevalent in Scandinavia, emphasizing universality and benefit uniformity; the liberal stream,<sup>1</sup> which relies in part on means testing and leaves ample room for the development of employer-sponsored solutions; and lastly, the conservative-corporate stream, prevalent in continental Europe, which permits social insurance programs for health and old age to develop along occupational lines, with each occupational group striving to achieve the best protection possible through collective agreements (Esping-Andersen 1990, 10–33). Esping-Andersen redefined his categorizations of the welfare state several times, but U.S. advocates and critics continued to debate whether his “three worlds of welfare capitalism” could actually be applied to the United States. The problem for the United States (as well as some other countries) was that, if applied too rigidly, elements describing the U.S. system spilled from one category to another. Nevertheless, the value of such exercises in comparative research has been to gain new insights into the particular features of any national system and to ponder the extent to which any national system truly stands apart.

### ***Noteworthy Historical Features of the U.S. Social Security System***

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Although the OASDI program may not be unique among national public pension programs, some features have strongly influenced its historical development and thus may qualify as being particularly characteristic of the U.S. system:

- exclusive reliance on worker/employer contributions to finance the program,
- importance of long-range projections and annual actuarial reporting, and
- traditional and generous approach to spousal and survivors benefits.

Individually, these characteristics are present to varying degrees in other national social security systems; but the combination of these characteristics, and the steady adherence to them during 75 years of program development, have resulted in a national program that is distinctly American.

## ***Reliance on Worker/Employer Contributions***

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From the outset, President Roosevelt and the majority of his advisors in the Committee on Economic Security opposed using general revenues to finance the new Social Security program. As one who had worked in the financial and insurance sector, Roosevelt was convinced of the merits of social insurance over the social assistance approach. He wanted workers to “purchase” their future economic security, instead of depending on the whims of current or future taxpayers. He was also clearly convinced of the merits of using the payroll tax over other forms of financing:

I guess you’re right about the economics, but those taxes were never a problem of economics. They are politics all the way through. We put those payroll contributions there as to give the contributors a legal, moral, and political right to collect pensions...With those taxes in there, no damn politician can ever scrap my Social Security program (Schlesinger 1958, 308–309).

The overwhelming reliance on the payroll tax, known as FICA (Federal Insurance Contribution Act) to American wage earners, has endured throughout the 75 years of Social Security’s history. There have been examples over time of using general revenues to fund certain earmarked benefits, but they represent small amounts in terms of total Social Security expenditures.<sup>2</sup> A more notable exception was introduced in the 1983 reform of Social Security, which provided for the tax imposed on the Social Security benefits of higher-income taxpayers to be returned to the OASDI Trust Funds. This transfer of a federal income tax to the trust funds has not, however, changed the thinking of U.S. policymakers on the issue of payroll-tax financing, which has remained the guiding principle. This mindset may strike some as somewhat ironic, given that a significant amount of the funding for the Medicare program (notably Parts B and D) is derived from general revenues.

The counterargument for at least some general-revenue financing of Social Security began from the very outset. For example, in his 1937 history of Social Security, Douglas argued that the old-age pensions of older workers, who would soon become eligible in spite of their short contribution records, should be paid from general revenues. Proposals to use general-revenue financing resurfaced repeatedly over the decades, including one made by President Carter

in a May 9, 1977, message to Congress in which he recommended using general revenue financing in a countercyclical fashion and transferring revenues from the Medicare Trust Fund to the Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Béland 2005, 145).

The almost exclusive reliance on payroll-tax financing of Social Security places the United States in a different camp from most of the industrialized countries that have long used general-revenue funding to supplement payroll taxes and other earmarked taxes in their social security programs. In France, Germany, and Japan, general revenues fund 30 percent to 50 percent of public pension program expenditures. A simple explanation for this readiness to use general-revenue financing has of course been the reluctance of politicians to raise taxes on workers and employers, fearing (in more recent times) the negative impact on the nation’s ability to compete against other countries in the global marketplace. A second explanation is that other governments have chosen to use the public pension programs for purposes other than merely paying old-age pensions. For example, some countries have experimented with early retirement pensions for unemployed older workers or special pensions for workers unable to meet the eligibility conditions or to qualify only for very low benefits. Other countries have introduced special pension credits for workers who take time out of the labor force to raise children or to care for frail and sick family members. Similarly, several countries provide pension credits to insured persons for periods spent studying for advanced degrees or serving in the military. A striking example from recent history was Germany’s massive infusion of general revenue funds into the national pension system to help cover the cost of bringing East German pensions up to levels comparable with those enjoyed by West German pensioners. Such measures have been judged by policymakers in other countries to be legitimate social objectives and therefore worthy of being financed not from individual worker and employer contributions, but rather from general taxation.

In spite of the readiness to use general-revenue financing for Medicare, American policymakers have not been persuaded by foreign examples or other arguments to use the Social Security program for a variety of other tasks or social objectives, outside of those established early on: to pay old-age and dependents’ benefits. Nor have they been persuaded that turning to greater general-revenue financing was a viable answer to the long-term solvency of the program. Many would

no doubt agree with the simple statement of A. Hae-worth Robertson, the Social Security Administration's chief actuary from 1975 to 1978: "One of the most important drawbacks of general revenue financing as currently practiced is that it seems to facilitate ignoring the future" (Robertson 1981, 67).

### ***The Special Importance of Long-range Projections***

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A strong sense of fiscal responsibility on the part of early policymakers largely explains why long-range actuarial projections have been used in the United States from the beginning. The records show that the actuaries began from an early date to use projections of up to 99 years and even into the indefinite future. Although the long-range projection period fluctuated somewhat over the years, by the 1960s it became standard practice to use 75-year projections with three levels of assumptions (popularly known as optimistic, medium range, and pessimistic). The use of 75-year projections and the issuance by law of an annual actuarial valuation setting out the financial prospects of the OASDI program are taken for granted by almost everyone acquainted with Social Security in the United States.

The use of long-range actuarial projections in public pension programs varies widely among countries, but the United States stands out as one of the very few that uses a projection period as long as 75 years. Our neighbor, Canada, with a comparable public pension program, makes 60-year projections while several European countries, including France, use a 30- to 40-year period. Surprisingly, the country with the oldest public pension program, Germany, is legally obliged to issue an annual report using only 15-year projections. On the other hand, Japan uses long-range projections of over 95 years.

There exists among Social Security specialists in the United States and abroad a general consensus about the importance of issuing periodic reports on the financial situation of public pension systems, which can be compared from year to year or at least over fairly short time frames. For example, the UK Government Actuary is required by law to issue an actuarial report every 5 years, as is the case in Japan; Canadian actuarial reports are due every 3 years. More important than the length of the projection period may be the analysis of year-to-year differences in the various demographic and financial assumptions used in formulating the projections. The transparency of this information and the accountability of those

responsible for the management of Social Security is a given to many American observers, but this is far from the case in many parts of the world. On the contrary, social security actuaries in other countries often do not enjoy a level of independence or respect comparable with that afforded in the United States. Many middle-income countries do not issue regular actuarial reports because they lack statistical information or political will; many smaller countries do not have access to actuaries to do periodic valuations, so there are gaps in reporting that often exceed 10 years. Even in some developed countries, reports on the financial prospects of the public pension system are considered highly sensitive information and are often carefully "managed" by those in power.

Whatever the differences in the way other countries carry out actuarial analyses of their social security systems, it is fair to say that the 75-year projections have become a significant and enduring feature of U.S. Social Security. The *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* gets wide public attention, with most of the media coverage focusing on the 75-year projections, leaving aside that the report also contains 25-year projections for comparison. How has the importance attached to 75-year projections affected policymaking and legislative developments in the OASDI program? Some observers have argued that long-range projections tend to induce complacency among the members of Congress and a reluctance to tackle long-range problems until a crisis occurs. Robert Béland, who has written extensively on Canadian and American social security policies, states that "The amalgam of a short-term political timeframe and long-term actuarial projection is a distinctive characteristic of Social Security policymaking in the United States" (Béland 2005, 144–145).

Béland's assessment may not hold for the entire 75-year history of the program. A review of the legislative record reveals that the Social Security Act was frequently amended over the decades to adjust both tax and benefit rates, add new benefits, and liberalize or restrict eligibility conditions. However, legislative activity has been relatively infrequent since the last major Social Security reform in 1983. Could the heavy reliance on long-range projections be a contributing factor? In European countries and elsewhere, the shorter timeframes used for actuarial projections have perhaps also shortened solvency objectives, prompting lawmakers to more frequently reform and adjust their public pension programs. Shorter actuarial timeframes

have also prompted other countries to introduce more generous benefits and other program liberalizations than could have been justified when taking a longer term view. Social Security experts in the United States and abroad may debate these outcomes, but they would concur that the use of 75-year projections in the United States is very unlikely to be modified for the foreseeable future.

### ***A Unique Approach to Dependents' Benefits***

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It often comes as a surprise to foreign observers that the United States has retained and fostered a rather generous attitude toward family benefits, particularly for spouses and survivors. The trend has been in exactly the opposite direction in many of the world's developed countries, as dependents' benefits have repeatedly been reduced or even eliminated. As a result, one of the continuing and unique features of the current U.S. Social Security system is that it strongly reflects the traditional assumptions about family relations and gender roles that were prevalent at its creation so many decades ago.

Although survivors' benefits were not included in the 1935 legislation, they were quickly added in 1939, even before the first Social Security benefits were paid. It is notable that, practically from the very beginning, Social Security recognized that married couples had an earned entitlement to a higher retirement benefit by means of an additional spousal benefit—which was (and continues to be) equal to 50 percent of the primary insurance amount of the eligible insured person. The focus was therefore squarely on retirement adequacy and protection of the family unit. By enacting a “couples” benefit which would be higher than that of a single earner, the United States moved at an early date away from actuarial equity and a strict relationship between contributions paid and benefits received. The United States has therefore become one of the few countries (another is Belgium) paying a benefit to the spouse of a retired worker. Most social insurance systems have consistently paid only one pension benefit to the retired worker.

The traditional roles of a male lifelong worker married to a female lifelong homemaker have long ago been overtaken by social change, but this view of the family is still clearly reflected in the structure of U.S. Social Security benefits. The United States has therefore carried on a long-standing debate about how to achieve better gender equity in the Social Security law. Most of the debate pivots on the fact that married

women have generally had Social Security protection as dependents of their husbands. Under current law, a married woman can receive a spousal benefit as the dependent wife (or ex-wife) of a covered worker; she can also receive benefits as a covered worker in her own right, but she cannot receive both benefits in full. If she is entitled to both a worker's benefit and a dependent's benefit, she receives an amount equal to the higher of the two benefits. In other words, she receives her worker's benefit plus the amount, if any, by which the spouse's benefit exceeds the worker's benefit (the dual entitlement provision). Naturally, the same provision applies to married (or divorced) men, but it remains infrequently invoked because, on average, husbands still earn higher Social Security entitlements than their wives. Thus, those concerned with equity frequently point out that because benefits are available for spouses who do not work, the lower earner's Social Security contributions in a two-earner married couple usually generate little, if any, additional benefits.

Although Congress has commissioned numerous studies, and public interest groups have invested enormous amounts of energy into finding a solution, the twin goals of the Social Security program—social adequacy and individual equity—remain in occasional opposition. Many married women currently find that the Social Security protection they earn as workers may duplicate, rather than add to, the protection they already have as spouses. Additionally, among two-earner couples, benefits may be higher for those in which one spouse earned all or most of the income than they are for those in which both spouses had comparable earnings, even though their total family earnings are the same. Simultaneously reducing inequities for women workers and providing adequate protection for women with little paid work history would involve striking a new balance between the adequacy and equity objectives of the Social Security program.

The tension between equity and adequacy for men and women has been somewhat differently addressed in many foreign social security systems. First, as noted above, it is rare for the insured worker also to earn a spousal benefit upon retirement. Second, the driving assumption in many developed countries is that women will earn their own individual social security entitlement. The issue of whether their benefit is adequate is naturally of considerable concern, since many women continue to have interrupted work histories, divorce, and earn less than men on average. However, the preferred approach abroad has been to address

pension adequacy for women through mechanisms other than spousal benefits, such as pension credits for periods spent in child rearing and family care and splitting social security entitlements between spouses in the event of divorce. The U.S. approach provides less generous retirement benefits to single workers than most developed countries, but addresses the issue of social adequacy by supplementing the worker's benefit with a larger spouse's benefit (Thompson and Carasso 2002, 137).

The United States' unique approach to family benefits has also carried through to survivors' benefits, in that a U.S. widow or widower is entitled to 100 percent (originally 75 percent) of the insured person's primary insurance amount upon the spouse's death. This is unequalled elsewhere in the world, where survivors' benefits tend historically to be much lower (typically 50–60 percent), and the trend has inexorably been toward reducing entitlements to survivors' benefits. The reduction of survivors' benefits in many countries is undoubtedly related to gender equality developments in the late 20<sup>th</sup> century, as country after country was obliged by law to provide widowers with the same survivors' benefits as widows. This legal obligation proved to be very costly, prompting cuts in benefit entitlement. These cuts have been particularly evident in Central and Eastern European countries (such as Latvia, Lithuania, and Hungary) that no longer automatically pay survivors' benefits unless there are minor children still living in the household. In Germany and France, survivors' benefits are now earnings or means tested. In Japan, prior to the 2007 reform, widows more than 30 years old with no children were entitled to a lifetime survivor's pension; since the reform, they receive the benefit for only 5 years. In Norway and New Zealand, working-age widows are expected to seek employment and are required to participate in employment training and placement programs to be eligible for benefits.

In practically all countries, remarriage results in the termination of survivors' benefits. Again, the United States is more liberal by permitting remarriage after age 60 without any negative impact on benefit entitlement. The United States also provides benefits to dependent parents, a survivors' entitlement that exists in only a handful of other countries, mostly in the developing world. Other countries' efforts to address the adequacy of survivors' benefits have not fully solved the problem; rather they reflect that equity considerations and the desire for women to earn their own Social Security entitlements have profoundly

transformed attitudes toward survivors' benefits during the past 40 years.

It is therefore not surprising that the United States is also an exception regarding benefits for divorced spouses. Divorced spouses were originally entitled to a dependent's benefit (50 percent of former spouse's benefit) only after 20 years of marriage; this was reduced to 10 years in the 1977 Social Security Amendments. There is no limit on the number of divorced spouses who may be entitled through the Social Security entitlement of their former spouse. Moreover, benefits paid to a divorced spouse do not count against the maximum family benefit, which varies from 150 percent to 188 percent of the deceased's primary insurance amount. In most foreign countries, the practice in the event of divorce is either to terminate any rights to a social security benefit through the insurance record of the former spouse or to split the pension entitlements evenly between the partners in accordance with the years of marriage (splitting is mandatory in Canada, Germany, and Switzerland, and also in Japan if only one spouse was employed; otherwise, pension splitting is voluntary as part of the divorce settlement).

The treatment of dependents' benefits reflects the observation of many international social security experts that national social security systems are extremely "path dependent"—that is, they are resistant to bold innovation; any changes tend to be incremental and informed by tradition. Revolutionary reforms in social security provisions have occurred (Chile and possibly Sweden are notable examples), but such fundamental restructurings of social security systems are the exception. Far more common is the slower evolution of programs as they adapt to changing social, economic, and cultural conditions. This has been the case in the United States, especially in the area of dependents' benefits, where the Social Security system reflects certain enduring attitudes toward marriage and family.

### ***Concluding Remarks***

This consideration of certain special and distinctive features of the U.S. Social Security system should not leave the impression that the U.S. program has evolved in an unusual manner when compared with the public pension programs in other developed countries. On the contrary, the commonalities among mature pension systems are in many ways more remarkable than their differences. It seems unlikely that the developed countries of the world will go down radically different reform paths given the path-dependent nature that

has been observed over the many decades of social security development. More likely, countries will make use of “policy transference” in looking for solutions to common problems, adopting changes and innovations that have seemingly worked well in other countries. A striking example of policy transference is the move among many countries toward higher normal retirement ages, of which the United States was among the first in 1983. Many future reforms will be driven by two major and very common preoccupations: the aging of the population and the prospect of inadequate retirement benefits among vulnerable population segments.

The rapid aging of the population in the developed countries of Europe, Asia, and North America will compel social security systems to readjust many of their current provisions, including the earliest age at which insured persons can exit the labor force, the normal retirement age, indexing current-payment pension benefits for changes in the cost of living, and cross-financing between pension benefits and health insurance for pensioners. In response to falling birth rates and a shortage of native-born younger workers to contribute to social security in all developed countries, the role of immigration will be at the forefront of policy discussions. At the same time, the three-pillar approach to financing retirement—public social security pensions, employer-sponsored pension plans, and individual retirement savings vehicles—will need to be reinforced. A more coordinated and integrated approach to national retirement income goals seems both unavoidable and imperative for the future security of older persons.

Countries with developed social security systems will also be keenly aware that reform efforts may adversely affect those members of the population who are lifelong low earners or who experience prolonged unemployment and interrupted work histories, affording them little opportunity to acquire adequate social security entitlements or significant retirement savings. The European Commission estimates that approximately 13 percent of older persons in the European Community currently live below national poverty thresholds; the equivalent figure in the United States is about 10 percent (Zaidi 2010, 12). Economic vulnerability among the elderly is particularly high for widows, immigrants, the disabled, and those older than age 85, most of whom are women. For example, among widowed women aged 65 or older who receive Social Security benefits, the near-poverty rate (defined as income below 150 percent of the official poverty threshold) is nearly 38 percent (Weaver 2010).

Older persons in the developed countries of the world, including the United States, have benefited from decades of progress toward income security. The concern now is how to ensure financial solvency of public schemes without increasing the financial insecurity of future generations of retirees or unduly burdening future generations of contributors. Increased revenues will be needed to finance benefits for larger numbers of retirees, and countries will be faced with deciding whether to readjust existing Social Security payroll tax rates and other sources of revenue. What steps will be needed to ensure that the search for financial solvency does not negatively affect gender equity and social adequacy? What measures of financial solvency will allow politicians and the voting public to better understand the reform choices and to build confidence in the reliability of public pension plans for future generations? The search for solutions to these challenges will undoubtedly oblige countries to look for successful reform models elsewhere, and to address common issues of solvency and adequacy, rather than pursuing divergent reform paths in an increasingly globalized world.

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## Notes

<sup>1</sup> The European use of the term “liberal” denotes business-friendly policies.

<sup>2</sup> One example was introduced by the 1965 Social Security amendments, which granted special protection to individuals aged 72 or older; individuals who had contributed for at least three calendar quarters but could not formally qualify for benefits received a special monthly pension of \$35. The benefit level was subsequently increased and extended to all uncovered individuals aged 72 or older, even those who had never contributed. These special old-age benefits were paid from general revenues.

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# WIDOWS AND SOCIAL SECURITY

by David A. Weaver\*

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*This article provides policymakers with context for understanding past and future policy discussions regarding Social Security widow benefits. Using data from surveys, projections from a microsimulation model, and recent research, it examines three types of benefits—those for aged widows, widows caring for children, and disabled widows. The economic well-being of aged widows has shifted from one of widespread hardship to one in which above-poverty, but still modest, income typically prevails. Many aged widows experience a decline in their standard of living upon widowhood, a pattern which is pronounced among those with limited education. Widows caring for children have been a sizeable beneficiary group historically, but policy changes and demographic trends have sharply reduced the size of this group. Family Social Security benefits ensure a modest level of household income for widows caring for children. Disabled widows differ from the other groups because they are at higher risk for poverty.*

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## Introduction

In a moving letter to President Roosevelt in 1933, Mrs. M. A. Zoller asked for assistance for her 82-year-old widowed mother, writing in part:

She is helpless, suffering from Sugar Diabetes, which has affected her mind. She has to be cared for in the same manner as an infant. She is out of funds completely. Her son whom she used to keep house for is in a hospital in Waco, Texas—no compensation for either himself or her. I am a widow; have spent all my savings in caring for her.<sup>1</sup>

Letters such as this were typical during the 1930s as the public asked elected officials for relief from the material hardship brought on by both the Great Depression and life events outside their control (health problems, job loss, death of a spouse). Though a wide variety of economic security plans were debated during the 1930s, policymakers ultimately produced two landmark pieces of legislation—the 1935 Social Security Act and the 1939 Amendments to the Act—that provided additional and immediate relief to low-income Americans and, for the longer term, a social insurance structure in which the payroll

tax contributions of workers would fund benefits in retirement or upon the death of the wage earner. Many of the programs created over seven decades ago by these two pieces of legislation are easily recognizable even today, including Social Security, federal and state means-tested programs, and unemployment insurance.

Interestingly, the Social Security Act of 1935 provided only limited protection for survivors under the new Social Security program. A lump sum equal to 3.5 percent of total wages could be paid to the estate of a worker in certain cases. However, even before the program became truly operational, this approach

### Selected Abbreviations

CPS	Current Population Survey
DRC	delayed retirement credit
FRA	full retirement age
MINT	Modeling Income in the Near Term
PIA	primary insurance amount
SSA	Social Security Administration
SSI	Supplemental Security Income
WEP	Windfall Elimination Provision

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began to be viewed as inadequate. The 1938 Social Security Advisory Council, using somewhat stark language, wrote:

A haunting fear in the minds of many older men is the possibility, and frequently, the probability, that their widow will be in need after their death. The day of large families and of the farm economy, when aged parents were thereby assured comfort in their declining years, has passed for a large proportion of our population. This change has had particularly devastating effect on the sense of security of the aged women of our country.<sup>2</sup>

Concluding that lump-sum benefits were unlikely to be adequate and likely to be spent by the recipient before her retirement, the advisory council recommended that the program include monthly benefit amounts for two classes of widows: aged widows and widows caring for children. The Social Security Board (the forerunner to the current Social Security Administration (SSA)) agreed with these recommendations on social insurance grounds, noting that most national insurance programs at that time provided for widows and orphans.<sup>3</sup> Congress enacted these changes with the amendments of 1939.

The advent of widow benefits, which continue to this day, was a fundamental development in the history of the program for several reasons. Most directly, they have provided economic security to millions of widows by replacing income lost upon the death of a spouse at a point when the widow herself, because of age or family responsibilities, could not participate in the labor market. Less directly, the discussion over widow and other family benefits was related to important policy discussions under Social Security. For example, to provide meaningful benefits to widowed mothers and surviving children, the benefit computation would need to use average rather than total wages; otherwise, short working careers would translate into low benefits for survivors. This change, enacted in 1939 and applied to benefit computations for other types of benefits, had the effect of making benefit payments more generous in the earlier years of the program. In addition, the expansion of the program by the 1939 amendments to include family benefits was driven in part by debates over the use of reserves or trust funds. Some policymakers were concerned about the buildup of large reserves under the program; providing family benefits would both achieve socially desirable objectives and limit the buildup of a large reserve (Berkowitz 2002). Thus, policy discussions

regarding widow benefits have touched on the main social insurance themes in the program's history: economic security for vulnerable groups, the relatively generous treatment of early participants in the program, and reserve versus pay-as-you-go funding.

Over the years, Congress has added a new type of widow benefit for disabled widows and modified the two original types of benefits by, among other things, making them gender neutral and allowing surviving divorced spouses to be eligible under certain conditions.<sup>4</sup> Nevertheless, policymakers from the 1930s would recognize much of the structure of benefits paid at the start of 2010 and much of the current policy debate surrounding widow benefits. As was the case then, most of the current policy discussions focus on the adequacy of benefits and the related topic of the economic well-being of widows. This article examines these twin themes and provides policymakers context for understanding the history of Social Security widow benefits and the policy discussions likely to occur in the future. To provide context, it uses data from Social Security administrative records and federal household surveys, projections from a microsimulation model, and the recent research literature on widows and Social Security. The next section of the article presents general information on current benefits and beneficiaries, followed by detailed sections on each type of benefit and group of beneficiaries, a policy discussion, and a conclusion.

## ***Background***

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This section describes current program rules for each of the three types of widow benefits. The effects of the rules can then be illustrated by examining data on current widow beneficiaries. Together, the description of program rules and a data profile of widow beneficiaries provide the necessary background for the policy discussions that occur in later sections of the article.

## ***Program Rules***

A comparison of current eligibility requirements and rules that determine monthly benefit amounts for the three types of Social Security widow benefits is presented in Table 1. At the most basic level, the basis for benefits is a condition that could make the widow's employment and earnings problematic, such as advanced age, caring for a young or disabled child, or having a disability. Further, benefits can only be paid if the deceased spouse worked enough in Social Security-covered employment to achieve the required insured status. All types of widow benefits have

**Table 1.**  
**Comparison of current eligibility requirements and rules that determine monthly survivor benefit amounts, by type of widow benefit**

Eligibility and benefit amount determinants	Aged widow	Child-in-care widow	Disabled widow
<b>Eligibility</b>			
Basic	Aged 60 or older	Has a child in care who is under age 16 or disabled	Ages 50–59 and disabled
	Worker died fully insured	Worker died either fully or currently insured	Worker died fully insured
Marital status (general)	Unmarried, or remarried after age 60	Unmarried	Unmarried, or remarried after age 50 and after onset of disability
	If divorced, marriage duration must equal or exceed 10 years	If divorced, marriage does not have to equal or exceed 10 years	If divorced, marriage duration must equal or exceed 10 years
Other factors commonly affecting eligibility	None	None	Disability within 7 years of the worker's death or, if applicable, last receipt of child-in-care benefits
<b>Benefit amounts</b>			
Benefit rate (as percent of PIA)	100 percent	75 percent	71.5 percent
Other factors commonly affecting benefit amounts	Reduced if claimed before the FRA (71.5–100 percent of PIA)	Family maximum (150–187.5 percent of PIA)	None
	Limited to the higher of the amount the deceased worker would receive if alive, or 82.5 percent of PIA	Earnings test	
	Increased if the deceased worker earned DRCs		
	Earnings test		

SOURCE: Author, using *Social Security Handbook*, SSA (2007).

NOTES: Not all eligibility requirements or factors affecting the amount of the monthly benefit are included in the table. Requirements for insured status are complex, but fully insured status can require 40 quarters of covered work, and currently insured status can require 6 quarters of work in the 13 quarters before death. The PIA, sometimes referred to as the basic benefit amount, is based on an average of the deceased worker's earnings in Social Security–covered employment. The FRA is 66 for widows born from 1945 through 1956 and workers born from 1943 through 1954 .

relationship requirements, and some of these requirements are similar across categories: The individual must have been married to the deceased worker and, with some exceptions, be currently unmarried. Other relationship requirements vary across category. For example, aged widows and disabled widows can remarry after meeting the basic eligibility requirements (age, or age and disability) without losing benefits, but child-in-care widows generally cannot. Divorced persons can be eligible for each type of widow benefit,

but the aged and disabled categories have a substantial duration of marriage requirement (10 years or more), whereas the child-in-care widow category does not. Finally, some eligibility requirements are unique for a particular benefit type. For example, for disabled widows the disability must generally have occurred within 7 years of the worker's death (if the widow received child-in-care benefits in the past, the 7-year time limit would be based on when the widow last received those in-care benefits instead of when the worker died).

Monthly benefit amounts are based on a primary insurance amount (PIA), which is determined by an average of the deceased worker's earnings in Social Security–covered employment. The benefit rate applied to the PIA varies by benefit type. So, for example, an aged widow may receive a monthly benefit amount equal to the full PIA, whereas a child-in-care widow or disabled widow may receive 75 percent or 71.5 percent of the PIA, respectively. The monthly benefit amounts can be lower than that indicated by the benefit rate, and the reasons vary by type of benefit. For aged-widow benefits, the most common reasons are the claiming of benefits before the full retirement age (FRA, currently age 66) by the widow or the worker. An aged widow who takes benefits at age 60 receives 71.5 percent of the PIA, with higher benefits paid at later claiming ages (up to 100 percent of the PIA at the FRA or later). Aged-widow benefits are limited if the deceased worker received reduced retirement benefits and are increased if the worker received delayed retirement credits (DRCs). Child-in-care widows, on the other hand, often have benefits reduced because of Social Security's family maximum provisions. Generally, for these child-in-care families, individual benefits are reduced if there is more than one child on the deceased person's work record, with total family benefits being limited to a maximum amount that ranges from 150 percent to 187.5 percent of the PIA.

A widow who is aged 62 or older or disabled may be eligible for a retired-worker or disabled-worker benefit from Social Security that is based on his or her own work in Social Security–covered employment. This will often lead to dual entitlement (that is, the widow is entitled to both a worker benefit and a widow benefit). In dual entitlement cases, the widow receives the worker benefit plus a partial widow benefit. The total benefit, however, is often equal to or approximately equal to the full widow benefit. For purposes of this article, dually entitled widows are included in the statistics for widow beneficiaries and, except as noted otherwise, monthly benefit amounts reflect the total monthly benefit amount. This approach identifies all individuals receiving widow benefits, and the population estimates published here will be higher than those in the *Annual Statistical Supplement to the Social Security Bulletin* (SSA 2010, Table 5.A1), where dually entitled individuals are classified as retired workers.

In some cases, a widow will have a worker benefit that is high enough to prevent even a partial widow benefit from being paid. In these cases, the

demographic definition of a widow will not match the programmatic definition (that is, the person's marital status is widowed, but they receive only a worker benefit from Social Security). Demographic and programmatic definitions will not align in other cases as well (for example, as noted earlier, a remarried person under some circumstances can be a "widow" beneficiary). There is, however, substantial overlap between the demographic and programmatic populations and reasons to study both groups. This article will present tabulations from both SSA's benefit records (generally using a programmatic definition of widow) and survey-based data (using a demographic definition).

The earnings test reduces benefits for persons below the FRA (but not after) when earnings exceed exempt amounts specified in the law. Benefits based on age (for example, those for aged widows) are increased at a later age to account for any months in which they were withheld. Child-in-care widows, on the other hand, do not have benefits increased at a later date if they are withheld because of the earnings test. Except where specifically noted, tables in this article showing current beneficiaries do not include individuals who are entitled to benefits, but who have their benefits withheld because of the earnings test.

A widow with low income and limited assets may receive payments from the Supplemental Security Income (SSI) program in addition to her Social Security benefits, provided the widow is aged 65 or older, or disabled. Because SSA administers the SSI program, its record systems contain information on whether a beneficiary receives SSI. Payments under SSI, however, are separate and are not part of the monthly Social Security benefit amount.

### **Program Profile**

Data on current beneficiaries, by benefit type, can help illustrate the effects of the program rules as well as provide background for detailed discussions in later sections of this article on each benefit type. Tables 2 and 3 present statistics from a 1-in-100 sample of Social Security's benefit records on the characteristics and benefit levels of the current beneficiary populations under study.<sup>5</sup> Some data in SSA's records, such as information on race and sex, do not have an administrative purpose, but rather are gathered for statistical purposes. Race is derived from voluntary reports on the Form SS-5 (Application for a Social Security Card). In addition, because of data limitations, race of the widow is assumed to be the race of the deceased worker.<sup>6</sup>

**Table 2.**  
**Selected characteristics of widows, by benefit type (in percent)**

Characteristic	Aged	Child-in-care	Disabled
Female	97.8	92.5	95.8
Dually entitled	48.8	1.2	46.8
Surviving divorced spouse	9.7	8.9	13.6
Receiving SSI	2.8	2.2	14.5
Black	8.3	13.8	19.8
Number	7,935,700	160,300	239,100

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

NOTE: N = 79,357, 1,603, and 2,391 for aged, child-in-care, and disabled widows, respectively.

Although current program rules are gender neutral, monthly survivor benefits are of crucial importance to women who currently make up 98 percent, 93 percent, and 96 percent of aged, child-in-care, and disabled widows, respectively. Rising female labor force participation has led to large numbers of widows being dually entitled. Nearly half of aged-widow and disabled-widow beneficiaries are dually entitled to a retired-worker or disabled-worker benefit on their own work records.<sup>7</sup> Child-in-care widows are rarely dually entitled because they generally would not meet the disability or age requirements for worker benefits.

Relatively few aged and child-in-care widow beneficiaries receive SSI in addition to their Social Security benefits. Disabled widows, however, have a high rate of SSI receipt, with about 1 in 7 drawing payments from this means-tested program. Relative to the other types of widow beneficiaries, disabled widows are more likely to be black and more likely to qualify

for Social Security survivor benefits on the basis of a marriage that ended in divorce.

Average benefit amounts range, as of December 2009, from a low of \$842 for child-in-care widows to a high of \$1,204 for aged widows. The higher aged-widow benefit reflects the higher benefit rate for aged widows, and the lower child-in-care benefit reflects the effects of the family maximum in limiting individual benefits for some widows with children. Median amounts are similar to the average amounts, but there is substantial variation in monthly benefit amounts as seen by values for the 25<sup>th</sup> and 75<sup>th</sup> percentiles. This latter finding is particularly true for child-in-care widows and disabled widows. For disabled widows, 25 percent have somewhat low benefit amounts (less than \$759), and 25 percent have somewhat high amounts (greater than \$1,336). The 25<sup>th</sup> and 75<sup>th</sup> percentile values for child-in-care widows are \$563 and \$1,108, respectively.

An additional perspective on monthly benefit amounts is given in Table 3 (last column) by comparing the amounts to a standard, namely, the official poverty threshold. For aged and disabled widows, the comparison is of the individual widow's monthly benefit amount to the one-person threshold. For child-in-care widows, the comparison is of the total benefits received by all individuals on the deceased person's work record (including children) to the poverty threshold that corresponds to the number of persons on the work record. Although this comparison does not measure official poverty, which takes into account all sources of income and does not define families based on joint receipt of survivor benefits on a deceased person's work record, it is a useful exercise in assessing the adequacy of benefits and is consistent with general findings in later sections of this article. Social Security benefits are below the poverty threshold for about 22–23 percent of aged and child-in-care widows, and they are below the poverty threshold for about 37 percent of disabled widows.

**Table 3.**  
**Monthly benefit amounts for widows, by benefit type (in dollars)**

Widow benefit type	Average	Median	25th percentile	75th percentile	Below the poverty threshold (percent)
Aged	1,204	1,207	965	1,438	21.5
Child-in-care	842	829	563	1,108	22.5
Disabled	1,048	1,054	759	1,336	36.8

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

NOTES: Dollar amounts for all widows (including child-in-care widows) include only the widow's total benefit amount. For child-in-care widows, the "below the poverty threshold" statistics account for the number of children and their benefit amounts.

## Aged Widows

The policy discussions regarding aged widows in the years following the 1935 Social Security Act centered on two issues: whether to provide monthly benefits to widows and, if so, the appropriate benefit rate. The first of those issues was settled quickly as monthly widow benefits were added to the program with the amendments of 1939. However, the latter issue was the focus of policy discussions that lasted several decades. Those policy discussions produced the current-law framework for aged-widow benefits, resulting in the relatively high benefit rates and monthly benefit amounts reported in the previous section of this article. In addition, the historical policy debate has framed both policy and program discussions about benefit rates in the current period. Finally, the discussions over the benefit rate reflect a general concern of policymakers regarding the economic well-being of aged widows. This underlying concern has also produced several specialized provisions in the law that are nonetheless important to the economic security of a large number of widows.

### **Benefit Rate: Historical Policy Discussions**

The original benefit rate for aged widows was set, by the amendments of 1939, at 75 percent of the basic benefit of the deceased worker, but discussion before the amendments reflected uncertainty about what the appropriate rate should be. Some policymakers believed a widow needed a benefit that equaled that of the deceased worker (100 percent), but others argued that the homemaking skills of women would allow them to get by with a smaller amount. The issue was crystallized by a question posed by Douglas Brown at a 1938 Social Security Advisory Council meeting:

Can a single woman adjust herself to a lower budget on account of the fact that she is used to doing her own housework whereas the man has to go to a restaurant?

Brown was attempting to clarify a preceding discussion on the topic and to call into question the assumptions underlying the rationale for a lower benefit rate for widows, but the council ultimately thought the answer to his question was “yes” (Berkowitz 2002, 24). The policy debates continued for decades and, in 1961, Congress took a step in the direction of equalizing benefit rates of workers and widows when it raised widow benefits to 82.5 percent of the basic benefit of the worker (a 10 percent increase). The debate that began in the 1930s concluded in 1972 when Congress

set the benefit rate for widows at 100 percent of the deceased worker’s basic benefit.

The increases in benefit rates over time were not only influenced by a concern that widows faced expenses that were as high as those of retired workers, but also a concern about whether widow benefits were high enough to prevent poverty or low levels of overall income late in life. Both of these concerns can be seen in the report on the amendments of 1972 by the Senate’s Committee on Finance (1972):

It is the committee’s view that the expenses of a widow living alone are no less than those of a single retired worker, and that there is therefore no reason for paying aged widows less than the amount which would be paid to their husbands as retirement benefits. . . . In addition, surveys of social security beneficiaries have shown that, on the average, women receiving widow’s benefits have less other income than most other beneficiaries. (136)

Information on the economic status of widows in the years immediately leading up to the amendments of 1972 through the current period can be seen in Table 4. Poverty rates for both widows aged 65 or older who receive Social Security and for widows aged 65 or older who do not receive Social Security are shown. The latter group, which includes widows

**Table 4.**  
**Poverty rates for widowed women aged 65 or older, by receipt of Social Security, selected years 1967–2008 (in percent)**

Selected year	Widows receiving Social Security	Widows not receiving Social Security
1967	40.6	40.0
1968	36.7	36.1
1969	37.0	37.2
1970	36.0	41.7
1971	34.9	36.4
1972	29.6	36.9
1973	23.2	40.0
1974	23.0	34.9
1975	22.4	33.9
1985	20.4	35.1
1995	17.7	37.1
2005	14.9	31.2
2008	13.4	32.8

SOURCE: Author’s tabulations using CPS data (see King and others (2009)).

ineligible for benefits because they or their deceased spouses did not work in Social Security–covered employment, is a useful reference group for the purposes of analyzing changes in economic well-being as the result of changes in program provisions.<sup>8</sup>

The concern reflected in the Senate Finance Committee report about widows with too little overall income is borne out in the data. Nearly 30 years after aged-widow benefits were added to the Social Security program, economic hardship was still widespread among older widows: In 1967, 2 out of every 5 aged widows receiving Social Security had income below the official poverty line. By 1973, however, the poverty rate among aged widows receiving Social Security had fallen to just over 23 percent, whereas the poverty rate among aged widows without Social Security remained at its 1967 level of 40 percent.<sup>9</sup>

Poverty has gradually fallen among aged widows receiving Social Security since the 1970s and now stands at 13.4 percent, which exceeds the rate for all aged Social Security beneficiaries (7.8 percent), but is almost identical to the rate for the overall U.S. population (see Table 5).<sup>10</sup> Modest income, however, is still somewhat common with about 38 percent of aged widows on Social Security having income below 150 percent of poverty (the corresponding estimates for all aged beneficiaries and the U.S. population as a whole are 22 percent and 23 percent, respectively). At least to a limited extent, then, the goals of Congress in 1972 have been achieved: Program rules now exist that establish a great deal of parity between the benefit amounts of widows and workers, and monthly benefits are high enough to typically provide at least a modest level of income in old age.

**Table 5.**  
**Poverty and near-poverty rates, selected groups, 2008 (in percent)**

Selected group	Poverty	Less than 150 percent of poverty
Widowed women aged 65 or older receiving Social Security	13.4	37.8
All persons aged 65 or older receiving Social Security	7.8	21.6
U.S. population	13.2	22.6

SOURCE: Author's tabulations using CPS data (see King and others (2009)).

### **Benefit Rate: Current Issues**

The current policy discussion over benefit rates is tied both generally and specifically to the historical debate on the topic. At a general level, as in the past, there is a focus on how much Social Security income an individual “needs” following the death of a spouse. At a specific level, there has been considerable discussion about certain features of the 1972 amendments (and subsequent legislation) that establish a link between the retirement decisions of workers and the benefit amounts received by their widows.

**Equivalent income.** Much of the current debate on how much income a widow needs centers on the implications of equivalence scales, which are used to equate income for families of different sizes. For example, based on equivalence scales used for the official U.S. poverty thresholds, an elderly person living alone would need 79 percent of the income of an elderly couple to have the same standard of living. Note that the poverty equivalence scale does not use a per capita adjustment, which would imply a need for 50 percent of a couple’s income, because a two-person family can take advantage of economies of scale (housing, food, utility). That is, costs will be higher for a two-person family, but not double that of a single person. The basic Social Security benefit of a widow will be below 79 percent of the couple’s basic benefit, which has led to several proposals to guarantee widows (or some subset of widows) a benefit equal to a specified percentage of the couple’s benefit.

Box 1 shows widow benefits as a percent of the couple amount under four scenarios. For a retired-worker and wife beneficiary couple, the widow’s benefit will equal 66 2/3 percent of the couple amount provided the worker and wife claimed benefits at their FRA. If benefits began at age 62, the widow benefit paid upon the husband’s death will be 75 percent of the couple amount. A hypothetical two-earner couple is shown in the second panel (the husband and wife are assumed to have equal earnings in covered employment that led to equal PIAs). In this case, the widow benefit equals 50 percent or 55 percent of the couple amount, depending on whether retired-worker benefits were claimed at the FRA or age 62. Increased labor market participation among women will lead to an increasing percentage of two-earner couples, which will tend to lower the size of benefits received by the widow relative to the couple amount. In contrast, trends toward early retirement could increase

**Box 1.****Widow benefits as a percent of couple benefits, under four hypothetical scenarios****Panel 1: Retired-worker and wife beneficiary couple****Scenario 1: Worker and wife claim benefits at FRA**

Couple benefit = 150 percent of PIA  
 Widow benefit = 100 percent of PIA  
 (66 2/3 percent of couple amount)

**Scenario 2: Worker and wife claim benefits at age 62**

Couple benefit = 110 percent of PIA  
 Widow benefit = 82.5 percent of PIA  
 (75 percent of couple amount)

**Panel 2: Two retired-worker beneficiary couple with equal PIAs****Scenario 3: Workers claim benefits at FRA**

Couple benefit = 200 percent of PIA  
 Widow benefit = 100 percent of PIA  
 (50 percent of couple amount)

**Scenario 4: Workers claim benefits at age 62**

Couple benefit = 150 percent of PIA  
 Widow benefit = 82.5 percent of PIA  
 (55 percent of couple amount)

SOURCE: Author's examples using Social Security benefit computations.

NOTES: Figures are based on FRA of 66 and assume the woman is widowed after her FRA. If claimed at the FRA, retired-worker and spouse benefits are 100 percent and 50 percent of PIA, respectively. If claimed at age 62, the benefits are 75 percent and 35 percent, respectively. The widow benefit rate is 100 percent of PIA but is limited, by law, to the greater of the amount the worker would be receiving if alive, or 82.5 percent of PIA.

the relative size of the widow benefit because early retirement, as shown in examples in Box 1, lowers the couple amount relatively more than it does the widow amount. Ultimately, whether benefits are adequate using the equivalence-scale criteria is an empirical question and will depend on the distribution of actual benefit amounts and the amount of retirement income other than Social Security.

Projections are shown in Table 6 of the ratio of income of the widow to the income of the couple (a few years before widowhood) for three groups of individuals: early baby boomers, late baby boomers, and generation Xers born around 1970.<sup>11</sup> Despite the wide range in birth cohorts—taken together, these birth-year groups will experience widowhood from the current period through roughly the first half of this century—there is little variation in the results by cohort. Counting all sources of income, the typical widow (as measured by the median) can expect to have income that equals about 71–73 percent of the couple income. This is below the equivalence ratio used in the United States for official statistics on income and poverty.<sup>12</sup> However, the median value, which rises slightly for later birth cohorts, is not far from the needed ratio.<sup>13</sup> The table also presents values for the 25<sup>th</sup> and 75<sup>th</sup> percentiles. About three-quarters of widows have income below the equivalence-scale cutoff of 0.79, and about a quarter has income well below the cutoff (the 25<sup>th</sup> percentile values range from 0.61–0.64).

It is useful to decompose the “All-income” results (first two columns in Table 6), as this helps identify which widows tend not to have equivalent income upon the death of a spouse. The second set of columns (All but asset income) in the table show results excluding income from assets.<sup>14</sup> When asset income is excluded, the typical widow no longer has income close to the equivalent amount. These results are similar to those obtained when only Social Security income is examined (third set of columns), which should not be surprising given the importance of Social Security as a regular source of income. An important finding of this article is that, even for late baby boomers and generation Xers, Social Security typically replaces about two-thirds of the couple benefit.

In terms of policy, the results that exclude asset income suggest that changes to Social Security policy would be most effective at achieving equivalent income during widowhood if targeted toward groups with lower socioeconomic status. Using education as a fundamental proxy for socioeconomic status, Table 7 shows results for persons who did not finish high school. In this case, using all sources of income, lower-educated widows, compared with all widows, are less likely to have equivalent income (to that which was available when married). These results are, in some respects, consistent with research by Zick and Holden (2000) who find that the inclusion of income that could be derived from assets tended to make recent widows



**Table 6.**  
**Ratio of income of the widow to income of the couple before widowhood**

Birth-year group	All income		All but asset income		Social Security income	
	Median	25th and 75th percentiles	Median	25th and 75th percentiles	Median	25th and 75th percentiles
1946–1950	0.71	0.61–0.78	0.61	0.52–0.69	0.66	0.58–0.71
1960–1964	0.72	0.64–0.80	0.62	0.55–0.70	0.65	0.58–0.71
1968–1972	0.73	0.64–0.79	0.63	0.55–0.70	0.65	0.58–0.71

SOURCE: Author's tabulations using the MINT model.

NOTES: The ratio needed to have equivalent income is 0.79. Data universe includes early baby boomers, late baby boomers, and generation Xers around 1970. N = 3,411, 5,084, and 4,846 for the 1946–1950, 1960–1964, and 1968–1972 birth-year groups, respectively.

**Table 7.**  
**Ratio of income of the widow to income of the couple before widowhood, among those without a high school diploma**

Birth-year group	All income		All but asset income		Social Security income	
	Median	25th and 75th percentiles	Median	25th and 75th percentiles	Median	25th and 75th percentiles
1946–1950	0.66	0.57–0.74	0.64	0.54–0.71	0.68	0.62–0.73
1960–1964	0.69	0.57–0.76	0.64	0.55–0.72	0.66	0.59–0.74
1968–1972	0.68	0.59–0.75	0.63	0.56–0.70	0.64	0.59–0.72

SOURCE: Author's tabulations using the MINT model.

NOTES: The ratio needed to have equivalent income is 0.79. Data universe includes early baby boomers, late baby boomers, and generation Xers around 1970. N = 386, 934, and 1,321 for the 1946–1950, 1960–1964, and 1968–1972 birth-year groups, respectively.

look more like their married counterparts, but only at the upper parts of the wealth distribution.

**Legacy issues.** The historical debate over benefit rates for widows has not only helped shape the current policy discussions regarding equivalent income, but it has also left a legacy of program provisions that have both policy and nonpolicy implications. To achieve parity of benefit amounts between workers and their widows, Congress not only increased the widow benefit rate to 100 percent of the PIA in 1972, but it also limited the widow's benefit amount if the deceased worker received reduced retirement benefits (a provision referred to as the widow's limit) and, in subsequent legislation, increased the widow amount if the deceased worker earned DRCs. As a result, the retirement decisions of workers are a major factor in the benefit amount ultimately received by their widows. This, in turn, has influenced policy debates such as the debate over whether the earnings test should be repealed at the early retirement age or, as was done in 2000, only at the FRA.<sup>15</sup> It also has influenced discussions in academia, government, and the financial

press over whether married workers fully understand the implications of early retirement.<sup>16</sup> Because of the continuing importance of these program features, this section provides policymakers and others with information on the effects of the widow's limit and DRCs.

**The widow's limit.** Under the amendments of 1972, the widow's benefit is limited to the greater of the amount the deceased worker would be receiving if alive or 82.5 percent of the PIA. The basic intent was to create parity between worker and widow amounts in cases where the worker takes early retirement benefits (the 82.5 percent feature of this provision, however, reflects congressional desire not to have this provision lower benefits below the benefit rate (82.5 percent) that existed before these amendments). Of the approximately 8 million aged-widow beneficiaries currently on the rolls, about 3 million or 37 percent have their benefits reduced because their deceased spouses took early retirement benefits (Table 8). A substantial number of deceased workers, however, were disabled-worker beneficiaries or workers who died before becoming entitled to Social Security benefits, and

**Table 8.**  
**Number and percentage of widows affected by the widow's limit, by deceased-worker status**

Status	Widows	Widows with benefits reduced by widow's limit	Percentage reduced by widow's limit
All widows	7,935,700	2,946,700	37.1
Deceased worker was—			
Disabled or not entitled	3,155,500	109,800	3.5
Retired worker	4,780,200	2,836,900	59.3

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

benefits would not generally be reduced under these circumstances. Also, some individuals who claim widow benefits before the FRA will not reach the limit amount because their age-reduced benefit amounts are already below it. In general, however, the retirement decisions of workers often leave widows with reduced benefits. For cases where the deceased individual was a retired worker, widows have their benefits reduced 59.3 percent of the time because of the limit.

The size of the reduction in benefits is quantified by displaying the difference between the full PIA and the limit amount (see Table 9).<sup>17</sup> Because the limit amount cannot be below 82.5 percent of the PIA, the maximum reduction is 17.5 percent. Average and median dollar reductions are \$174.7 and \$195.7, which on an annual basis translate to the lowering of potential benefits by about \$2,096 and \$2,348, respectively. The average and median percentage reductions in benefits are 13.2 percent and 17.5 percent.<sup>18</sup> Table 9 also provides values for the 25<sup>th</sup> and 75<sup>th</sup> percentiles.

**Delayed retirement credits.** Workers who postpone receipt of benefits past their FRA, or who prior to the repeal of the earnings test at the FRA in 2000 had benefits withheld because of the test, receive DRCs that are inherited by aged-widow beneficiaries, which

**Table 9.**  
**Difference between the full PIA and the widow's limit amount**

Value	Average	Median	25th and 75th percentiles
Dollar	174.7	195.7	98.7–251.5
Percentage	13.2	17.5	8.9–17.5

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

NOTES: The sample is restricted to those affected by the widow's limit. The maximum percentage reduction allowed by law is 17.5 percent.

again helps achieve parity between worker and widow benefit amounts. The number and percentage of aged-widow beneficiaries with inherited DRCs are shown in Table 10, and the value of the DRCs in dollars and as a percentage of the PIA is shown in Table 11.

The effect of DRCs is somewhat modest. About 1 in 7 widows have higher monthly benefit amounts because of DRCs, and the average and median potential increase in basic benefits is about \$898 and \$431,

**Table 10.**  
**Number and percentage of aged-widow beneficiaries with inherited DRCs**

Beneficiary	Widows	Widows with DRCs	Percentage with DRCs
All aged widows	7,935,700	1,216,100	15.3

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

NOTE: The number and percentage of aged widows with DRCs are estimated using the benefit records of deceased spouses and do not include any DRCs inherited by the widow for cases in which the worker died before entitlement.

**Table 11.**  
**Value of the DRCs in dollars and as a percentage of the PIA**

Value	Average	Median	25th and 75th percentiles
Dollar	74.8	35.9	10.1–108.5
Percentage of PIA	4.6	2.5	0.8–6.5

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

NOTES: The sample is restricted to those with DRCs. DRCs are estimated using the benefit records of deceased spouses and applied to the PIA. The estimates do not include any DRCs inherited by the widow for cases in which the worker died before entitlement.

respectively, in annualized terms. Even this modest effect is likely to decline in the future because repeal of the earnings test at the FRA has led to relatively few individuals receiving DRCs. Table 12 shows the percentage of men who have earned any DRCs, by the retired worker's year of birth. Note the clear effect of the repeal of the earnings test on the downward receipt of DRCs. The 1933–1934 birth cohorts were the last cohorts to reach FRA before the test was repealed in 2000, and 16.7 percent of men in these cohorts earned at least one DRC. The figure falls to 2.8 percent for the 1935–1936 cohorts. In addition, there was a scheduled increase in the FRA that affects workers born in 1938 or later. Such individuals will have to delay claiming past the higher age (not age 65) to earn DRCs.<sup>19</sup> Note that the rate applied to DRCs has risen for successive cohorts; for persons born in 1943 or later, the rate will reach 8 percent per year.

### **Benefit Adequacy: Other Program Provisions**

The discussion to this point has focused on benefit rates, but the underlying concern of policymakers regarding the economic well-being of widows has also produced several specialized provisions in the law. Though specialized, these provisions often affect large numbers of widows and, collectively, are part of the reason widows receiving Social Security are no

longer generally characterized by economic hardship (Table 5). Examples of these provisions include the following:

- The early eligibility age for widow benefits is 60 as compared with age 62 for retired workers and spouse beneficiaries.
- The PIA used to compute retired-worker and spouse benefits, but not widow benefits, can be lowered by the Windfall Elimination Provision (WEP) if the worker established eligibility for a pension based on employment not covered by the Social Security program.
- A special PIA computation (the Widow's Indexing or WINDEX computation) is available for a person whose husband died at a relatively young age.<sup>20</sup>
- Aged widows, but generally not spouses, can claim one type of benefit (for example, widow benefits) and then claim another type of benefit later (for example, retired-worker benefits).

The last provision, in particular, is worth discussion because it now affects a large number of widows. It is important to the growing number of women with strong attachments to the workforce and illustrates that programmatic analysis (that is, a focus only on widow benefits at a point in time) misses some of the benefit structure that Congress has provided to individuals who have been widowed.

Widows who are eligible for both a widow benefit and a retired-worker benefit can claim one benefit initially and then claim a higher one at a later date. For example, a widow can claim a widow benefit at age 60 and wait to claim a retired-worker benefit (with DRCs) at age 70. In this case, the widow would be a widow beneficiary initially and then only a retired-worker beneficiary. As another example, a widow might claim only a retired-worker benefit at age 62 and then claim an unreduced widow benefit at the FRA of 66. The widow, in this case, would initially be only a retired-worker beneficiary, but then would become a dually entitled widow beneficiary.

Almost 900,000 retired workers currently on the rolls use to be widow beneficiaries, but had those benefits ended because they claimed higher retirement benefits (Table 13). These individuals were often widowed in midlife, with an average age at widowhood of 54. Their average monthly retired-worker benefit is \$1,201, which is very close to the amount (\$1,204) paid to the 7,935,700 aged-widow beneficiaries currently on the rolls (see Table 3). The retirement-to-widow cases are much less common than widow-to-retirement

**Table 12.**  
**Percentage of men earning any DRCs, by birth-year group**

Birth-year group	Percentage with any DRCs	Annual DRC rate in law
1925–1926	17.3	3.5
1927–1928	17.6	4.0
1929–1930	17.5	4.5
1931–1932	17.0	5.0
<b>1933–1934</b>	<b>16.7</b>	<b>5.5</b>
<b>1935–1936</b>		
<b>(earnings test repealed)</b>	<b>2.8</b>	<b>6.0</b>
1937–1938	3.0	6.5
1939–1940	3.0	7.0
1941–1942	2.4	7.5
1943 or later	a	8.0

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

NOTES: The sample is restricted to men who have a worker benefit in force or who were on the rolls, but have subsequently died. Percentages for men born in 1940 or later may rise slightly as very late claimers come onto the rolls after 2009.

a. Data not shown for persons born in 1943 or later.

**Table 13.**  
**Widows with change in benefit type**

Benefit type	Number	Average benefit amount	Age at widowhood (average)
Widow-to-retirement	886,400	1,201	54
Retirement-to-widow	91,500	1,336	55

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

NOTES: Widow-to-retirement cases are those in which an aged-widow benefit was terminated or suspended and, in the same month, a higher retirement benefit was started. Retirement-to-widow cases are those in which a widow claimed a retired-worker benefit and then later became dually entitled to a widow benefit at or before the FRA.

cases (under 100,000 individuals), but benefits are somewhat higher. These individuals are also often widowed in midlife (average age at widowhood is 55). Thus, the ability to separate benefit receipt affects a large number of individuals widowed at earlier ages and brings their benefit amounts approximately in line with the benefits paid to the overall population of widow beneficiaries.

### **Child-in-Care Widows**

In the early years of the Social Security program, child-in-care widow benefits were more common than aged-widow benefits. Over time, however, they have become a relatively small part of the annual awards made to the total widowed beneficiary population (aged, child-in-care, and disabled). In 1940, child-in-care widows accounted for over 83 percent all awards to widow beneficiaries, but by 2008 this figure had fallen to just over 5 percent. The reasons can be traced to policy choices, improving mortality among men, and striking demographic changes affecting whether mothers of surviving children meet the relationship requirements for child-in-care widow benefits.

Table 14 shows annual awards for child survivors, child-in-care widows, and the total for all types of widow beneficiaries (aged, child-in-care, and disabled) by selected year. Annual awards reflect new claims and thus differ from estimates of the total beneficiary population at a point in time (such as figures in Table 2). Awards increased fairly consistently through the 1970s as Social Security coverage gradually became close to universal and program expansions were legislated. In 1980, over 540,000 orphans and 107,000 child-in-care widows were awarded

**Table 14.**  
**Benefits awarded to child survivors, child-in-care widows, and all widows, by selected years 1940–2008 and benefit type**

Selected year	Children of deceased workers	Child-in-care widows	All widows <sup>a</sup>
1940	51,133	23,260	27,860
1945	120,299	55,108	84,592
1950	97,146	41,101	107,836
1955	198,393	76,018	216,642
1960	241,430	92,607	331,874
1965	451,399	100,005	459,436
1970	591,724	112,377	475,593
1975	591,118	116,224	493,470
1980	540,246	107,809	559,965
1985	332,531	72,241	573,914
1990	303,616	58,060	509,922
1995	306,044	51,645	496,544
2000	297,686	40,491	545,512
2005	314,786	38,248	555,197
2008	329,397	32,717	622,657

SOURCE: Data from SSA (2010, Table 6.A1).

a. All widows include child-in-care widows, aged widows, and disabled widows.

benefits. Child-in-care widows accounted for nearly 20 percent of benefits awarded to all widows in that year. Policy changes enacted in 1981 sharply reduced awards to child survivors and child-in-care widows: Child-in-care widows, effective for entitlements after August 1981, were required to be caring for a child under age 16 (previously under age 18) or disabled, and student benefits were phased out for those attending college. From 1980 through 1985, the number of awards to children of deceased workers and child-in-care widows fell by 38 percent and 33 percent, respectively.

Interestingly, awards to child survivors have stabilized, and the number of awards in 2008 was similar to the figure for 1985. Child-in-care widow awards have continued a marked decline, falling 55 percent from their 1985 levels. The differing trends among these younger survivor beneficiaries, in the presence of policy stability, suggest some demographic factors affecting child-in-care widow awards. Two possibilities are changes in marriage and divorce. To be eligible for child-in-care widow benefits, the survivor must have been married to the worker and must be currently unmarried. In a family structure where a worker and a spouse are married until the death of the

worker, these requirements would naturally be met: The spouse was married to the worker, and upon the death of the worker the spouse would be unmarried. In a family structure where the mother of the children never married the worker or where the mother was married, but divorced the worker and subsequently remarried by the time of the worker's death, these requirements would not be met and only the children would be eligible for benefits. Table 15 provides some data that suggests changing family structure is a plausible, if not proven, partial explanation for the decline in child-in-care widow awards. Note in particular the very rapid and somewhat recent rise in children born to unmarried mothers.

Initial eligibility rules affect the number of awards, but the overall size of the population receiving child-in-care widow benefits is also affected by postentitlement rules on work and remarriage. Table 16 shows the number of child-in-care widows who were not receiving benefits because of the earnings test and the number who would otherwise be eligible but for the fact that remarriage terminated their benefits.<sup>21</sup> Thus, without the earnings test or the termination provision for remarriage, the population receiving child-in-care widow benefits for December 2009 would be larger by 80,300 or 50 percent.

**Table 15.**  
**Percent of births to unmarried women and divorce rate, by selected years 1940–2007**

Selected year	Percent of births to unmarried women	Divorce rate (per 1,000 persons)
1940	3.8	2.0
1945	4.3	3.5
1950	4.0	2.6
1955	4.5	2.3
1960	5.3	2.2
1965	7.7	2.5
1970	10.7	3.5
1975	14.3	4.8
1980	18.4	5.2
1985	22.0	5.0
1990	28.0	4.7
1995	32.2	4.4
2000	33.2	4.0
2005	36.9	3.6
2007	39.7	3.6

SOURCES: Data on births from Ventura (2009). Data on divorce rates from *Monthly Vital Statistics Report*, Vol. 43, No. 9(S), available at [http://www.cdc.gov/nchs/data/mvsvr/supp/mv43\\_09s.pdf](http://www.cdc.gov/nchs/data/mvsvr/supp/mv43_09s.pdf); [http://www.cdc.gov/nchs/nvss/marriage\\_divorce\\_Tables.htm](http://www.cdc.gov/nchs/nvss/marriage_divorce_Tables.htm); and [http://www.cdc.gov/nchs/data/mvsvr/mv45\\_12.pdf](http://www.cdc.gov/nchs/data/mvsvr/mv45_12.pdf).

**Table 16.**  
**Number of child-in-care widows, by benefit status**

Benefit status	Number
Receiving benefits	160,300
Benefits withheld because of the earnings test	28,300
Benefits terminated because of remarriage	52,000

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

NOTE: The 28,300 widows with benefits withheld did not receive any payment for December 2009 because of the earnings test, and the 52,000 widows with benefits terminated would have been entitled for December 2009 had they not remarried.

### **Characteristics of the Current Child-in-Care Widow Population**

If demographic developments have led to the decline in awards for child-in-care widow benefits, the population on the rolls may be quite different than in the past. In an effort to provide policymakers with some information to broadly assess the characteristics of the child-in-care widow population, Table 17 presents tabulations from Social Security's benefit records.

The death of the wage earner typically occurs in middle age: The median age of the worker at death is 42, and at the 25<sup>th</sup> and 75<sup>th</sup> percentiles, the ages are 35

**Table 17.**  
**Child-in-care widows: Characteristics of deceased spouses, widows, and family**

Characteristic	Average	Median	25th and 75th percentiles
<b>Age at worker's death</b>			
Worker	43.0	42.0	35–50
Widow	38.0	38.0	32–45
Youngest child	7.0	6.0	3–10
<b>Current age</b>			
Widow	44.0	44.0	38–51
Youngest child	13.0	13.0	9–15
<b>Family</b>			
Number of children	1.7	1.0	1–2
Family benefit amount (\$)	2,128	2,068	1,418–2,732
Family benefits relative to poverty	1.6	1.6	1.1–2.1

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

NOTE: The sample is restricted to child-in-care widows who were receiving benefits for the month of December 2009.

and 50, respectively. The widow is typically younger at the point of the worker's death: The median age at widowhood is age 38. At the time of death, the youngest child in the family is typically fairly young (median age at time of worker's death is age 6). Table 17 also shows the current age of the widow and the youngest child (median values are at ages 44 and 13, respectively). Zick, Fan, and Chang (2004) find that younger widows were at particular economic risk because the family was often not covered by Medicare, but had large medical expenses that were due to the spouse's death and because the family lost access to the spouse's labor market income. From an income perspective, at least, there is evidence that Social Security benefits are sufficient to prevent very low levels of income for these families. Family benefits tend to be relatively high and, by themselves, prevent poverty-level income for more than 75 percent of these families (see 25<sup>th</sup> percentile in the last row of Table 17). If child-in-care widows have little in the way of income other than Social Security, it is likely that they are generally characterized by income levels that are modest, but not extremely low.<sup>22</sup>

### Disabled Widows

Disabled widow benefits were added to Social Security in 1968, following a recommendation of the 1965 Social Security Advisory Council and a request by President Johnson as part of a set of proposals outlined in a special message to Congress. The advisory council's recommendation and the president's proposal were somewhat general, but Congress legislated a tightly defined benefit structure. Kingson and others (2007) argue that cost considerations and uncertainty about the effects of a new type of benefit were important motivations behind the initial congressional focus on a narrow benefit structure. The initial requirements follow.

- The widow must be at least age 50 (still in place).
- The disability had to occur within 7 years of the husband's death (still in place).
- The benefits were actuarially reduced if claimed before age 60 (repealed in 1983).
- A stricter definition of disability for disabled widows than for disabled workers was required—a widow could not engage in any, as opposed to substantial, gainful activity (repealed in 1990).

Kingson and others (2007) and Veenis (2008) find that the two liberalizations led to higher benefit levels and an increase in the number of disabled widows.

Table 18, using recent data, illustrates the effects of the two liberalizations. Real average widow benefits were nearly 22 percent higher in 1990 than in 1980, reflecting the effects of the 1983 legislation that eliminated, for those on the rolls and future beneficiaries, the additional actuarial reductions applied to benefits received before age 60. SSI receipt among these beneficiaries also fell 5 percentage points during this period. The number of disabled widows declined from 1980 through 1990, approximately doubled from 1990 through 2000, and then grew modestly over the next 8 years. The doubling of the disabled-widow population in the 1990s can be partly attributed to removing the stricter definition of disability (effective in 1991) that had applied to this beneficiary group.

### Economic Status

Weaver (1997), using CPS data exactly matched to Social Security administrative records, finds that disabled-widow beneficiaries had the highest estimated poverty rate (37 percent) of any Social Security beneficiary group. Kingson and others (2007), using public-use CPS data to approximately identify individuals receiving disabled-widow benefits, find that 44 percent had income below poverty.<sup>23</sup> Veenis (2008), using Kingson and others' approximate method of identification and a large sample in the 2005 American Community Survey, finds that 36 percent of disabled-widow beneficiaries were poor. Kingson and others also examine the economic status of disabled widows aged 50–59 who were not receiving Social Security

**Table 18.**  
**Disabled widows: Number, average widow benefit,<sup>a</sup> and SSI receipt, selected years 1980–2008**

Selected year	Number	Benefit (in 2008 dollars)	Percent with SSI
1980	127,580	526.80	<sup>b</sup> 27.9
1990	101,780	641.80	22.9
2000	200,130	658.90	19.4
2008	230,007	683.60	16.0

SOURCE: *Annual Statistical Supplement to the Social Security Bulletin*, various years.

a. Figures in the *Supplement* generally include only the widow benefit. Average total benefits are higher because of dually entitled disabled widows. Benefit amounts from the *Supplement* have been adjusted using the average of the third quarter Consumer Price Index for Urban Wage Earners and Clerical Workers (from base year to 2008).

b. The percentage of disabled widows receiving SSI in 1980 was not available, and the value for 1981 was used.

benefits, a group that contains individuals who are potentially eligible for benefits should disabled-widow benefits be further liberalized (for example, eliminating the requirement that disability occur within 7 years of the worker's death). This group was also characterized by very low income.

Table 19 updates Kingson and other's (2007) results with more recent data (2004–2009, as opposed to 1995–2000), using their methodology for identifying disabled-widow beneficiaries. These updated results tell the same basic story found in those authors' (2007) work: The measured poverty rate for disabled widows is high for both disabled widows receiving Social Security and disabled widows not eligible for Social Security (38.9 percent and 59.1 percent, respectively). Compared with nondisabled widows, both of these groups also have high measured levels of SSI receipt and low levels of education, which reinforces the finding that such widows are part of the low-income population. In addition, both groups of disabled widows have a higher percentage of individuals who report a race of black; notably, an estimated 1 in 3 disabled widows not receiving Social Security is black.

The findings from the survey data are also consistent with program experience. SSI is a means-tested program with strict asset limits and maximum federal payment amounts below the official poverty level. More than 2 in 5 disabled widows are receiving or

have received benefits from the program, and an additional 1 in 20 applied for but were denied SSI (Table 20). Also, disabled widows are frequently widowed or disabled before age 50 (the earliest eligibility age for disabled-widow benefits). Thirty-five percent were widowed before age 50 and nearly half (46 percent) had a disability that started before their 50<sup>th</sup> birthday (figures not shown in table). In short, early widowhood, disability, and frequent experience with a means-tested program suggest a population with a much lower economic status than the general U.S. or Social Security beneficiary populations.

## Discussion

Aged-widow benefits were not included in the original Social Security Act, but over time few groups have received such sustained and often sympathetic consideration by policymakers during the history of the program. The group is noncontroversial for many reasons: The death of a spouse is beyond one's control and is naturally addressed through social insurance mechanisms, and advanced age will often not allow for these widows to financially adjust to the loss of a spouse. Even today, proposals routinely call for increased benefits for aged widows. The policy attention has achieved results: Social Security benefit increases have clearly played a role in the dramatic reductions in poverty among widows.

Today, the economic status of aged widows is not, generally, characterized by deep material hardship, but it is also not characterized by affluence. Poverty rates are above the overall population of Social Security beneficiaries, but about on par with the broader U.S. population. Widows, however, are more likely to have modest income compared with either group. This situation is likely to continue well into the future. Table 21 presents selected results for aged persons in 1992, 2020, and 2040.

**Table 19.**  
**Selected characteristics of disabled widows ages 50–59 receiving and not receiving Social Security, compared with nondisabled widows ages 50–59: 6-year average, 2004–2009 (in percent)**

Characteristic	Disabled widows receiving Social Security	Disabled widows not receiving Social Security	Non-disabled widows
White	72.1	60.6	76.3
Black	23.1	33.7	16.5
No high school diploma	34.8	30.5	14.9
Below poverty	38.9	59.1	14.9
Receiving SSI	19.0	45.3	1.4
N	376	256	3,069

SOURCES: Average values from author's tabulations using CPS data, 2004–2009. See Kingson and others (2007) for methodology and King and others (2009) for data.

**Table 20.**  
**Number and percent of disabled widows with SSI experience**

Status	Number	Percent of all disabled widows
Current SSI recipient	34,700	14.5
Previous SSI recipient	64,100	26.8
SSI formally denied	12,300	5.1

SOURCE: Author's tabulations using a 1 percent sample of Social Security's December 2009 benefit records.

**Table 21.**  
**Economic status of persons at or above the FRA**

Group	Ratio of income to poverty (average)			Percent in absolute poverty			Percent in relative poverty		
	1992	2020	2040	1992	2020	2040	1992	2020	2040
Aged widows	2.13	3.15	3.83	21	11	4	21	25	22
Aged U.S. population	3.14	4.65	5.45	12	6	3	12	13	12

SOURCE: Smith (2002, Table 3.4).

For all aged persons, average projected income equals 5.45 times the poverty level in 2040, but for aged widows, the average value is about 30 percent lower (at 3.83). Absolute poverty rates are higher for widows, but decline for both the overall aged population and for aged widows—a result that is largely driven by the fact that poverty thresholds are adjusted by prices, and income is projected to increase with overall wage growth in the economy. Adjusting the poverty thresholds instead for wage growth yields a poverty measure that reflects well-being of widows relative to the nation’s improved standard of living in future years (relative poverty); here again, widows have lower economic status than the overall older population.

The economic status of widows presents policymakers with some difficult choices: a population of interest whose well-being is neither clearly at a low-income level, nor clearly well off. As an illustration, Favreault, Sammartino, and Steuerle (2002) examine several proposals designed to help low-income beneficiaries and find that increases in survivor benefits (guaranteeing the widow 75 percent of the couple’s benefits) did not target benefit increases to low-income women as well as other options, such as creating different types of new minimum benefits, changing the duration of marriage requirement for divorced benefits, or implementing child care credits. For the 75 percent of the couple’s benefit option, only about 25 percent of the additional benefits reached those in the lowest lifetime earnings quintiles. One potential solution, which has appeared in several proposals, is to restrict benefit increases to low-benefit couples.<sup>24</sup> Such an approach is supported, to some extent, by the MINT analysis in this article (Table 7), in which widows from lower socioeconomic backgrounds were less likely to have income that was near the equivalent level of income in marriage. In addition, the couple’s benefit option could be combined with other changes, such as lower spouse benefits, that would help control

costs and make it more likely that the widow’s income would be equivalent to that of the couple (Favreault 2009).

Another issue, particularly in light of changes in marital patterns, is whether program expansions should be directed at groups that meet particular marital-status requirements. Future retiree populations will have a greater share of never married individuals, a sizeable number of whom will have low income. For example, Tamborini (2007) finds that the percentage of retirees who have never been married is projected to more than double from 2020 through 2060 when they will represent about 10 percent of the retiree population. He also finds that never-married retirees have both high current poverty rates and projected rates for the future. Harrington Meyer, Wolf, and Himes (2006) present evidence that fewer women (especially black women) will likely qualify for survivor (and spouse) benefits because of the rise in the share that never married.

Policymakers concerned about low-income widows could alter aged-widow benefits or implement other options that would reach the widowed population. The percentage of SSI recipients aged 65 or older and the general U.S. population aged 65 or older, by marital status, is shown in Table 22. A large percentage of individuals on the SSI rolls are widows (39.0 percent) because they are a large part of the overall aged population (29.0 percent) and because they have more modest resources. Changes in the SSI program would not exclude other marital-status groups, but would affect a large number of widows. The basic result is not limited to SSI. Some proposed changes to Social Security, such as a new minimum benefit, though not targeted exclusively by marital status, could increase the income of many in the widowed population.<sup>25</sup>

It should be noted that existing law offers married couples and widows the ability to substantially improve economic well-being in retirement. Delaying



**Table 22.**  
**Persons aged 65 or older, by SSI receipt and marital status, 2009 (in percent)**

Group	Widows	Divorced	Separated	Never married	Married
Aged SSI recipient	39.0	18.1	4.4	7.7	30.8
Aged U.S. population	29.0	9.6	1.1	4.2	56.0

SOURCE: Author's tabulations using CPS data (see King and others (2009)).

NOTE: The sample includes men and women aged 65 or older.

claiming of Social Security by workers past the early eligibility age has a sharp upward effect on the income available to their survivors in retirement. Similarly, individuals widowed early in life who have earned benefits in their own right have options under the law that allow them to significantly boost retirement income through delayed claiming of one of the benefits (the retirement or widow benefit). Efforts to educate the public about these options could improve retirement security for widows.

In addition to education, there are reasons to consider and evaluate policy changes to the DRC. At 8 percent per year, the rate is thought to be about actuarially fair for an individual worker (Myers 1993, 99). For a married worker, however, the rate would be more than fair because the increased benefits would be paid while either the worker or the spouse is alive. Also, Benitez-Silva and Yin (2009) find that, among very recent retirees, the small population that receives DRCs has a number of individuals with less robust earnings histories who may be using the DRC provisions as a way of “catching up” or securing an adequate retirement income. Orszag (2001) analyzes proposals to pay DRCs to workers as a lump-sum payment (widows could continue to receive the traditional DRC increment added to monthly benefits upon the death of the worker). He cites evidence indicating that individuals would be more likely to work longer and defer initial age of Social Security benefit receipt if actuarially equivalent lump sums were offered instead of smaller increments added to monthly benefit amounts. Additional work has a large effect on retiree well-being because retirement savings are increased rather than drawn down. Butrica, Smith, and Steuerle (2006) find that an additional 5 years of work would finance a 56 percent higher level of consumption in each year of retirement. One reason to consider DRC proposals is that, with the elimination of the earnings test at the FRA in 2000 and the increase in the FRA itself, relatively few workers and future widows benefit from the current structure of the credits.

Finally, the retirement security of aged widows depends strongly on access to resources in addition to Social Security. The microsimulation results presented in this article indicate that inherited assets (wealth and retirement accounts) are the difference between having approximately equivalent income in widowhood or having a lower standard of living upon the death of a spouse. Whether the wealth projections in the model unfold as projected, the underlying result for purposes of policy and planning are still informative. On the policy front, there have been proposals to expand workplace pensions using automatic enrollment, employer payroll systems, and existing individual retirement account structures (Iwry and John 2009). Such proposals target half the workforce (those not currently participating in an employer-sponsored retirement plan) and may ultimately offer widows greater security through their own retirement accounts or as wealth that is bequeathed them by their spouses.

The economic status of child-in-care widows, in broad terms, quite likely parallels that of aged widows: Social Security benefits prevent material hardship for a large percentage of the population, but the economic effects of widowhood leave overall income at modest levels. The driving policy issue in the future for child-in-care widows may be less about the adequacy of benefit levels (total family benefits are relatively high) and more about underlying program rules on marriage and work. Very large numbers of children in the United States (and many other developed countries) are born out of wedlock, and the mothers of surviving children may increasingly not meet the relationship requirements for child-in-care widow benefits. Policymakers may judge this appropriate (for example, if they believe marriage reflects dependence on the worker and therefore should be the basis for paying a benefit on his or her work record), but over time it will leave an increasing number of families with surviving children in which the head of the household does not receive Social Security. Further, marriage is a requirement for eligibility, but it is also a condition

for termination of benefits. Aged widows and disabled widows can remarry and retain their benefits, but child-in-care widows cannot. Finally, with regard to work decisions, it is useful to note that the earnings test for aged beneficiaries does not reduce lifetime benefits under the program (Biggs 2008), but child-in-care widows face permanent losses in benefits because of the test as their benefits are not recomputed at a later date.

Perhaps more so than with the other two types of widow benefits, disabled-widow benefits were introduced into the system with the clear intent of potentially modifying them over time. As part of the large-scale solvency reforms of 1983, Congress enacted some program liberalizations that affected small but vulnerable groups including disabled widows. The 1983 and 1990 changes to these benefits are instructive as they reflect policymakers' view to create a benefit structure that follows principles applied to the much larger group of disabled beneficiaries (disabled workers). Before the change, disabled-widow benefits were actuarially reduced if claimed before age 60. After 1983, the reductions were removed making the benefit more similar to disabled-worker benefits where no actuarial reductions are applied. In 1990, the benefits were again made similar to the disabled-worker benefit structure by applying the same legal definition of disability for the two types of benefits. If policymakers want to further modify the benefit, changes to the early eligibility age and the current benefit rate are possibilities. Disabled-worker benefits are paid because of disability regardless of age, but disabled-widow benefits are not available before age 50. After the amendments of 1983, the benefit rate for disabled widows was set at 71.5 percent of the PIA, but disabled workers receive a benefit equal to the full PIA.

In addition to making disabled-widow benefits similar to disabled-worker benefits in structure, policy may be active in this area for two other reasons: Proposals are relatively inexpensive (Kingson and others 2007), and the population is characterized by low income. The relative low cost is due to natural limits on the size of the population that is both widowed at young and middle ages and has a severe impairment that will meet the legal definition of disability. In addition, such persons often qualify for other government programs such as SSI, meaning the net increase in costs from a total budget perspective is further limited. Unlike child-in-care and aged widows, the available evidence suggests that material hardship may be somewhat

widespread in the disabled-widow population. Both poverty rates using the official thresholds and program data suggest that this group is of much lower economic status than the U.S. or general Social Security beneficiary populations.

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## **Conclusion**

Although just one personal story during the Depression, Mrs. M. A. Zoller's letter to President Roosevelt in 1933 was revealing. Her situation was desperate, being both a widow caring for her children and a daughter caring for her elderly widowed mother. Within 6 years, the nation had adopted a social insurance structure that would provide monthly benefit amounts for both young widows caring for children and for aged widows. The effects of the new social insurance program would prove to be remarkable. Since the program's inception, more than 28 million widows have been awarded monthly benefits (SSA 2010, Table 6.A1). Eligibility for benefits and subsequent program expansions have led to dramatic declines in poverty among aged widows, which—although not eliminated—has now reached a point where it is roughly on par with the overall U.S. population.

Congress has modified widow benefits several times in the program's history, including adding a new type of benefit for disabled widows in the 1960s. Legislative and policy proposals, even today, frequently include further expansions to Social Security aged-widow benefits. The program, today, however is a mature one, and large-scale liberalizations of aged-widow benefits, such as those that occurred in the 1970s, are less likely because of costs and the improved economic status of older widows. Smaller-scale proposals, such as those that target benefits increases to low-income aged widows, target benefit increases to individuals with limited income regardless of marital status, or that address some of the specific policy concerns of each group of widow beneficiaries (aged, child-in-care, and disabled), may occur on their own or as a part of broader Social Security legislation. Finally, numerous opportunities exist to improve the well-being of widows that go beyond Social Security policy. Efforts to educate the public about key Social Security provisions and how they impact income in both the near term and long term and efforts, through policy or education, to increase retirement savings hold promise in terms of providing widows with economic security late in life.

## Notes

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<sup>1</sup> The full letter and commentary are available at <http://www.socialsecurity.gov/history/lettertoFDR.html>.

<sup>2</sup> The report of the 1938 Social Security Advisory Council is available at: <http://www.socialsecurity.gov/history/reports/38advise.html>.

<sup>3</sup> See <http://www.socialsecurity.gov/history/reports/38ssbadvise.html>.

<sup>4</sup> For ease of exposition, this article will generally use the term widows when referring to widows, widowers, and surviving divorced spouses.

<sup>5</sup> The 1 percent sample of benefit records used for several tables in this article was prepared for the Office of the Chief Actuary at SSA.

<sup>6</sup> Additional information on race data in Social Security records is available in SSA (2010, Table 5.A1).

<sup>7</sup> The trend toward dual entitlement will continue. Estimates by Smith (2002, 73) imply that, in 2040, about 88 percent of aged women receiving survivor benefits will be dually entitled to a worker benefit.

<sup>8</sup> The Current Population Survey (CPS) does not contain detailed information on why a person is not receiving Social Security. However, widows aged 65 or older in the late 1960s and early 1970s (and their deceased spouses) would have been of prime working age when Social Security-covered work was common, but not close to being universal. (See Martin and Weaver (2005, Chart 1.D) for the percent of the civilian workforce covered by Social Security over time.)

<sup>9</sup> The 100 percent benefit rate for widow beneficiaries went into effect in December 1972. In addition, all beneficiaries received general Social Security benefit increases of 15 percent, 10 percent, and 20 percent in January 1970, January 1971, and September 1972, respectively.

<sup>10</sup> Poverty rates from another household survey (the 2008 American Community Survey) are similar: 13.6 percent, 8.5 percent, and 13.2 percent for aged widows with Social Security, all aged persons with Social Security, and the overall U.S. population, respectively. The survey has a larger sample size, and the 2008 version is unaffected by the possible misapplication of disclosure-avoidance techniques that appear to have affected some data for a subset of the CPS—persons aged 65 or older—starting with the 2004 CPS (Alexander, Davern, and Stevenson 2010).

<sup>11</sup> Tabulations are based on the Modeling Income in the Near Term (MINT) microsimulation model (Smith and others 2007). The sample is restricted to women respondents where each member of the couple had Social Security income 3 years before the husband's death. The income

comparison is in inflation-adjusted dollars from 1 year after widowhood to 3 years before widowhood (this time frame is necessary because in the MINT model, asset income is projected to decline starting 27 months before the husband's date of death (see Toder and others (2002, chapter 6)).

<sup>12</sup> Holden and Zick (2000), using Survey of Income and Program Participation data from the 1990s, and Karamcheva and Munnell (2007), using the Health and Retirement Study from 1992–2004, also find that income (adjusted using equivalence scales) drops upon widowhood.

<sup>13</sup> Sevak, Weir, and Willis (2003/2004) find that the effect of widowhood on poverty fell sharply from the 1970s to the 1990s, suggesting there have been improvements over time.

<sup>14</sup> Asset income in MINT is based on the annuity value of financial wealth in the year of analysis. Accumulation and spend down of wealth are modeled in the MINT system, which includes estimating the effect on wealth of a spouse's death. In general, MINT incorporates about a 20 percent reduction in financial wealth, which is based on empirical findings that relate higher expenditures around the time of death (for example, medical expenses). See Toder and others (2002, chapter 6) for additional details.

<sup>15</sup> There was concern that repeal at the early age would prompt workers to claim reduced retirement benefits and ultimately leave widows with too little income (see Gruber and Orszag (1999) and Anzick and Weaver (2000)). Weaver (2001/2002) discusses several policy options that would change the widow's limit.

<sup>16</sup> Sass, Munnell, and Eschtruth (2010) incorporate the widow's limit and DRC program rules in an educational guide to help married men and others make informed retirement decisions.

<sup>17</sup> The full PIA is the amount the widow would receive if the widow's limit did not exist and if she (or he) claimed at the FRA or later. Weaver (2001/2002) shows that the widow's limit can cause widows who would otherwise postpone widow benefits to claim them before the FRA.

<sup>18</sup> Fifty-five percent of the limit-affected widows face the maximum reduction of 17.5 percent.

<sup>19</sup> Song and Manchester (2007) present evidence that the increasing FRA will lead a number of individuals to postpone benefit receipt from age 65 to the higher FRA. DRCs, however, can only be earned from postponing receipt past the FRA.

<sup>20</sup> Lingg (2008) and Chaplain (1999), respectively, offer detailed discussions on the WEP provision and the WIN-DEX computation.

<sup>21</sup> The number of withheld and terminated benefits approximates the effect of the provisions. Some individuals who would lose all of their benefits to the earnings test may simply never apply for benefits (and not be in the benefit records). With regard to those terminated because of remarriage, it is not possible to determine from the benefit records if a child under age 16 or disabled is technically in

the widow's care or whether the widow is still alive. Some evidence suggests this will generally be the case, however: In about 78 percent of the terminated cases, a child who is disabled or under age 16 has the surviving mother or father listed as the representative payee (the person who receives the benefit and manages it on behalf of the child).

<sup>22</sup> Weaver (1997), using survey data matched to Social Security administrative records, finds that child-in-care widow beneficiaries—taking account of all sources of income—had a poverty rate of 15.4 percent. Also, among widows aged 20–59 who report receiving Social Security but who do not report a work disability, about 17 percent have poverty-level income, and about 35 percent have income below 150 percent of poverty (average values from the author's tabulations using public-use CPS data, 2004–2009).

<sup>23</sup> Kingson and others (2007) identify disabled-widow beneficiaries as women aged 50–59 with a marital status of widowed and who report that they have a health problem preventing or limiting work and that they have not worked in the past year because of illness or disability. This is an approximate approach, but should at least identify individuals who are similar to disabled-widow beneficiaries. Several years of data are used because of small sample sizes in the CPS.

<sup>24</sup> See, for example, Entmacher (2009).

<sup>25</sup> Any proposal that targets low-income individuals will most likely reach large numbers of widows. Entmacher (2009) reports that a clear majority (55 percent) of poor women aged 65 or older are widowed.

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# THE FUTURE FINANCIAL STATUS OF THE SOCIAL SECURITY PROGRAM

by Stephen C. Goss\*

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*The concepts of solvency, sustainability, and budget impact are common in discussions of Social Security, but are not well understood. Currently, the Social Security Board of Trustees projects program cost to rise by 2035 so that taxes will be enough to pay for only 75 percent of scheduled benefits. This increase in cost results from population aging, not because we are living longer, but because birth rates dropped from three to two children per woman. Importantly, this shortfall is basically stable after 2035; adjustments to taxes or benefits that offset the effects of the lower birth rate may restore solvency for the Social Security program on a sustainable basis for the foreseeable future. Finally, as Treasury debt securities (trust fund assets) are redeemed in the future, they will just be replaced with public debt. If trust fund assets are exhausted without reform, benefits will necessarily be lowered with no effect on budget deficits.*

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## Introduction

As a result of changes to Social Security enacted in 1983, benefits are now expected to be payable in full on a timely basis until 2037, when the trust fund reserves are projected to become exhausted.<sup>1</sup> At the point where the reserves are used up, continuing taxes are expected to be enough to pay 76 percent of scheduled benefits. Thus, the Congress will need to make changes to the scheduled benefits and revenue sources for the program in the future. The Social Security Board of Trustees project that changes equivalent to an immediate reduction in benefits of about 13 percent, or an immediate increase in the combined payroll tax rate from 12.4 percent to 14.4 percent, or some combination of these changes, would be sufficient to allow full payment of the scheduled benefits for the next 75 years.

Since the inception of the Social Security program in 1935, scheduled benefits have always been paid on a timely basis through a series of modifications in the law that will continue. Social Security provides a basic level of monthly income to workers and their families after the workers have reached old age, become disabled, or died. The program now provides benefits to over 50 million people and is financed with the

payroll taxes from over 150 million workers and their employers. Further modifications of the program are a certainty as the Congress continues to evolve and shape this program, reflecting the desires of each new generation.

This article describes the financial status of the Social Security program, including an analysis of the concepts of solvency and sustainability and the relationship of Social Security to the overall federal unified budget. The future is uncertain in many respects, and based on new information, projections of the financial status of the Social Security program vary somewhat over time. What is virtually certain

### Selected Abbreviations

DI	Disability Insurance
GDP	gross domestic product
HI	Hospital Insurance
NRA	normal retirement age
OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
PAYGO	pay as you go

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is that the benefits that almost all Americans become entitled to and most depend on will be continued into the future with modifications deemed appropriate by their elected representatives in the Congress.

### ***Annual Reports by the Trustees***

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Each year, starting in 1941, the Social Security Board of Trustees has presented a required report on the financial status of the program to the Congress. The board has six members, including the Secretary of the Treasury as the managing trustee, the Secretary of Labor, the Secretary of Health and Human Services, and the Commissioner of Social Security, plus two public trustees appointed by the president and confirmed by the senate.

The Social Security Act requires that the annual report include (1) the financial operations of the trust funds in the most recent past year, (2) the expected financial operations of the trust funds over the next 5 years, and (3) an analysis of the actuarial status of the program. The recent financial operations and the operations projected for the next few years are a finger on the pulse of the program. The actuarial status of the program is intended to provide an early warning of any potential longer-term financial issues or challenges that will be facing the program.

The longer-term analysis of the actuarial status of the Social Security trust funds provides the Congress with an essential early warning of future challenges and provides the time to make desired changes in a careful and thoughtful manner. Although legislative changes may sometimes appear to be decided at the last minute before a crisis, the long advance warning of financial challenges provided by the trustees in the annual reports has always promoted broad consideration of options for change that allow any eventual modification of the law to be based on sound analysis and consideration of a comprehensive view of possible changes and their effects.

Since the last major amendments to the Social Security program were enacted in 1983, the annual reports have presented a succession of developments in the actual experience of the economy and the program benefits that show a need for more change to address the future challenges we face. The *1983 Trustees Report* indicated that the Social Security program was put into “actuarial balance” for the 75-year, long-range projection period. This meant that under the intermediate assumptions used in that report, representing the trustees’ best estimate of future experience at that time, program financing was expected to be sufficient

to pay scheduled benefits in full through 2057.<sup>2</sup> However, that report also indicated that well before 2057, program cost would rise above the annual tax income to the program, requiring redemption of trust fund reserves to pay full benefits. The report also showed that these reserves would be approaching exhaustion in 2057, so that full scheduled benefits would not be payable starting shortly thereafter, without further change to the program. Thus, even at the enactment of the 1983 Amendments to the Social Security Act, it was known that further changes would be needed. The continuing projections in the annual reports since 1983 have borne out this projection and have resulted in extensive consideration of options.

### ***Solvency of the Social Security Program***

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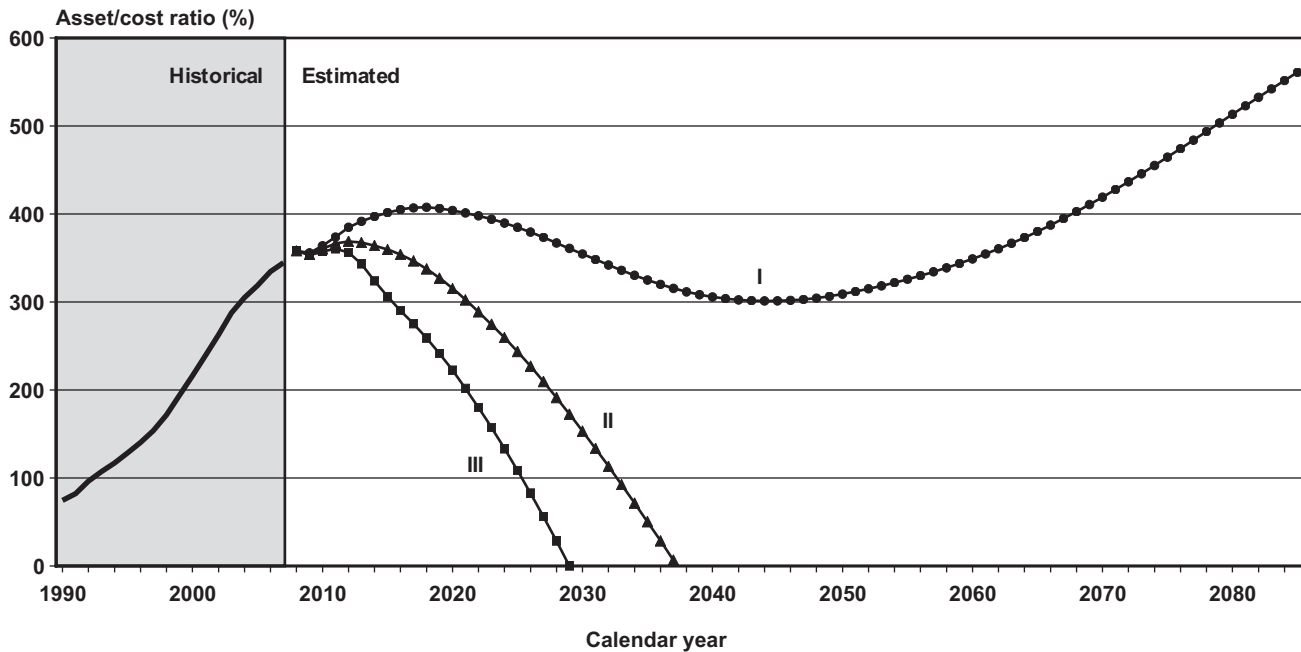
When individuals look at the financial status of the Social Security program, they often ask, “Will I get my benefits?” Assuming no future change in the law, this question can be answered directly by focusing on the “solvency” of the Social Security trust funds. Solvency for the Social Security program is defined as the ability of the trust funds at any point in time to pay the full scheduled benefits in the law on a timely basis.

The two Social Security trust funds, those for Old-Age and Survivors Insurance (OASI) benefits and for Disability Insurance (DI) benefits, are special. Along with the Hospital Insurance (HI) Trust Fund of the Medicare program, the OASI and DI Trust Funds have the important feature that benefits can only be paid to the extent that the trust funds actually have assets to draw on to pay the benefits. Unlike the rest of federal government operations, these three trust fund programs do not have the ability to borrow in order to continue paying benefits when the dedicated taxes and trust fund reserves are not sufficient.<sup>3</sup>

Because the ability of these programs to pay benefits is directly dependent on the availability of assets in their respective trust funds, the existence of assets over time in the future is the critical indicator of solvency. Taken from the *2009 Trustees Report*, Chart 1 shows that under the trustees’ intermediate assumptions (alternative II), the combined assets of the OASI and DI Trust Funds will soon peak at over 350 percent of the annual cost of the program, but will then decline, reaching exhaustion in 2037. The relatively more optimistic assumptions of the low-cost alternative I show solvency for the program throughout the 75-year projection period, while the relatively pessimistic high-cost alternative III assumptions show trust fund exhaustion even sooner than 2037. These



**Chart 1.**  
**Combined OASI and DI Trust Fund assets as a percentage of program cost, 1990–2008, projected under alternative assumptions, 2009–2085**



SOURCE: 2009 Social Security Trustees Report, Figure II.D6 and Table IV.B3.

NOTES: Alternative I = low-cost assumptions; alternative II = intermediate assumptions; alternative III = high-cost assumptions.

alternative sets of assumptions are just one of several ways the trustees illustrate the uncertainty of long-range projections for the future.

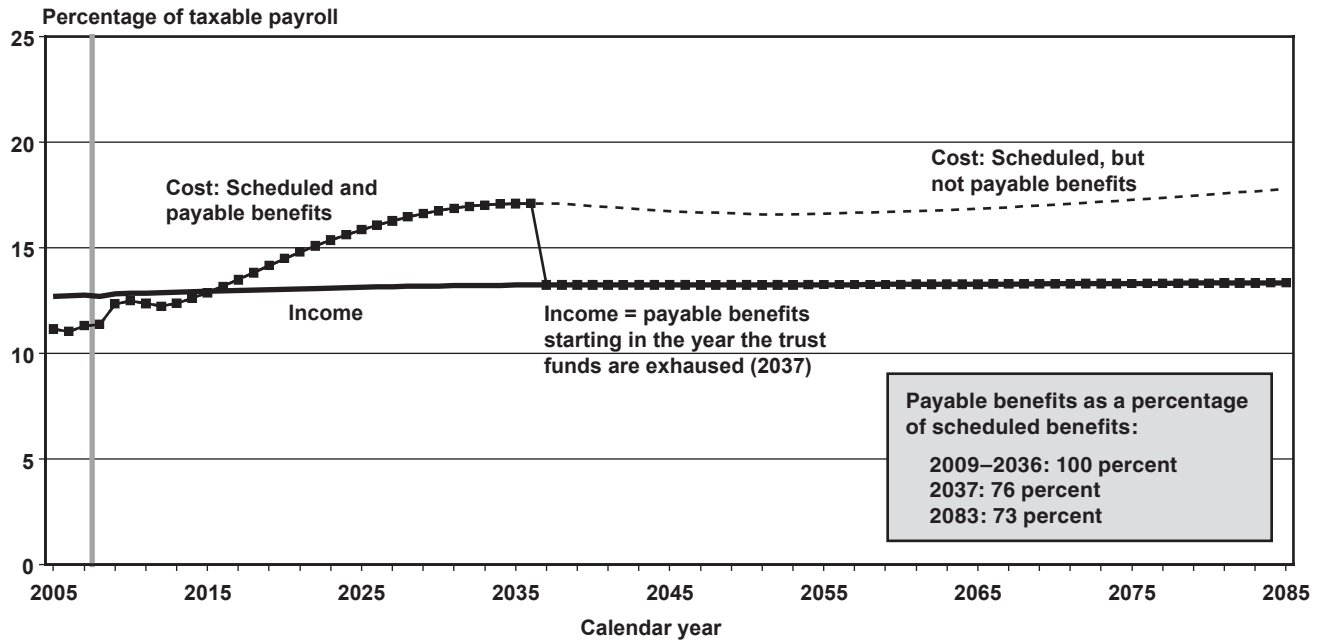
Exhaustion of trust fund assets is projected to occur under the intermediate assumptions because program cost will begin to exceed the tax revenues dedicated to the trust funds in the future, requiring increasing amounts of net redemptions from the trust funds. The assumptions adopted for the 2009 Trustees Report resulted in projected “cash flow” shortfalls for the Old-Age, Survivors, and Disability Insurance (OASDI: OASI and DI combined) program as a whole starting in 2016, when tax revenue alone was first expected to be insufficient to cover the annual cost of the program.<sup>4</sup> Chart 2, taken from the 2009 Trustees Report, illustrates the nature of this relationship between dedicated tax income for the OASDI program and the projected cost of providing scheduled benefits.

Because the combined OASI and DI Trust Funds have accumulated assets of over \$2.5 trillion, the excess of program cost over current tax income will be covered by net redemption of these assets in the coming years. It is only when the reserves in the trust funds are exhausted that timely payment of full scheduled benefits becomes an issue. As shown in the

chart, at the time of projected trust fund exhaustion in 2037, continuing tax revenue is expected to be sufficient to cover 76 percent of the currently scheduled benefits. This precipitous drop in the level of benefits that would be payable in the absence of any legislative action between now and 2037 is the principal and most significant early warning provided in the 2009 Trustees Report.

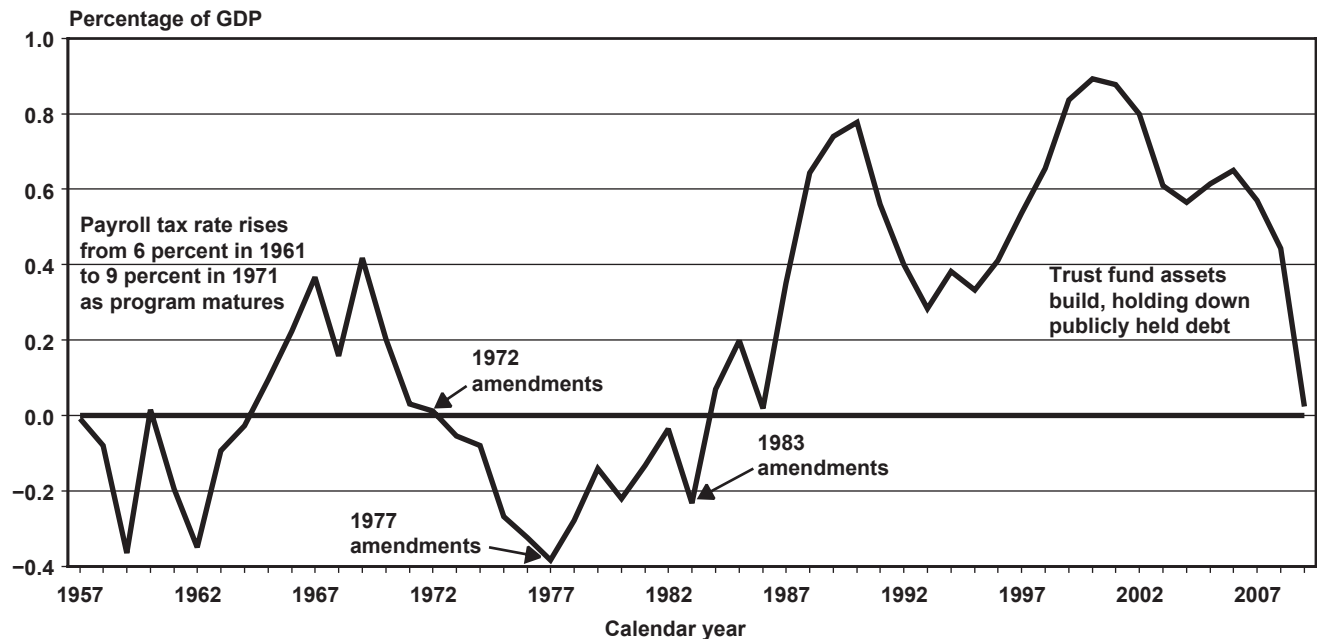
Historically, the OASI and DI Trust Funds have reached times where dedicated tax revenue fell short of the cost of providing benefits and also times where the trust funds have reached the brink of exhaustion of assets. For years 1973 through 1983, the combined OASI and DI Trust Funds were operating with a negative cash flow that was depleting the trust fund reserves toward exhaustion (see Chart 3). The Social Security Amendments of 1977 and 1983 made substantial modifications to the program that reversed the cash flow of the program to positive levels and caused the substantial buildup of assets to the \$2.5 trillion that exists today. The 1977 amendments included a fundamental change in the indexation of benefits from one generation to the next. The 1983 amendments included increases in the normal retirement age (NRA) from 65 to 67 and the introduction of income taxation of

**Chart 2.**  
**OASDI program cost and noninterest income as percentages of taxable payroll, 2005–2008, projected under the intermediate assumptions, 2009–2085**



SOURCE: 2009 Social Security Trustees Report, Figure II.D2 and Table IV.B1.

**Chart 3.**  
**OASDI net cash flows as a percentage of gross domestic product (GDP), 1957–2009**



SOURCE: Social Security Administration, Office of the Chief Actuary.

Social Security benefits with revenue credited to the trust funds.

However, the occurrence of a negative cash flow, when tax revenue alone is insufficient to pay full scheduled benefits, does not necessarily mean that the trust funds are moving toward exhaustion. In fact, in a perfectly pay-as-you-go (PAYGO) financing approach, with the assets in the trust fund maintained consistently at the level of a “contingency reserve” targeted at one year’s cost for the program, the program might well be in a position of having negative cash flow on a permanent basis. This would occur when the interest rate on the trust fund assets is greater than the rate of growth in program cost. In this case, interest on the trust fund assets would be more than enough to grow the assets as fast as program cost, leaving some of the interest available to augment current tax revenue to meet current cost. Under the trustees’ current intermediate assumptions, the long-term average real interest rate is assumed at 2.9 percent, and real growth of OASDI program cost (growth in excess of price inflation) is projected to average about 1.6 percent from 2030 to 2080. Thus, if program modifications are made to maintain a consistent level of trust fund assets in the future, interest on those assets would generally augment current tax income in the payment of scheduled benefits.

A cash flow shortfall, therefore, is only a problem if it is large and persistent enough to cause the trust fund reserves to decline over time toward exhaustion. It is for this reason that past major reforms of the Social Security program, specifically those in 1977 and 1983, occurred as the trust fund asset levels were approaching exhaustion. In fact, by the time of the enactment of the 1983 amendments, the OASI Trust Fund had reached the point where it would have been unable to fully meet benefit payments. Special legislation was enacted to provide temporary borrowing authority by the OASI fund from the DI and HI Trust Funds to assure continued payment of benefits by all programs while the Congress developed and enacted the 1983 amendments.

The 1983 Amendments to the Social Security Act reinforced the importance of advance planning for the program. Many have observed that because the trustees produce long-range projections each year and convey these projections to the Congress and the American people, the financing shortfalls facing the OASDI program are small in comparison with many other countries. All policymakers agree that this substantial advance warning is important for adequate

understanding of the actuarial status and for development of the most appropriate solution to meet the needs and desires of the American people.

With the advance warning afforded by the trustees’ presentation of the actuarial status of the trust funds, we have the opportunity to enact legislation with changes in the program’s scheduled revenues and benefits that need not actually take effect for many years in the future. This approach allows those who will be affected by the changes to have substantial advance warning, allowing them to plan for the changes ahead. It also allows changes to be phased in on a gradual basis so that there will not be sharp breaks in the benefit or tax levels faced by succeeding generations in the future. A prime example of this approach was the increase in the NRA—the age at which retirement benefits may be started with no reduction for early retirement—from 65 to 67, enacted in the 1983 Amendments to the Social Security Act. This change only began to be phased in for individuals reaching age 62 in 2000, 17 years after enactment. The full increase of the NRA to age 67 will not be complete until 2022.

### ***OASI and DI Trust Funds Separately***

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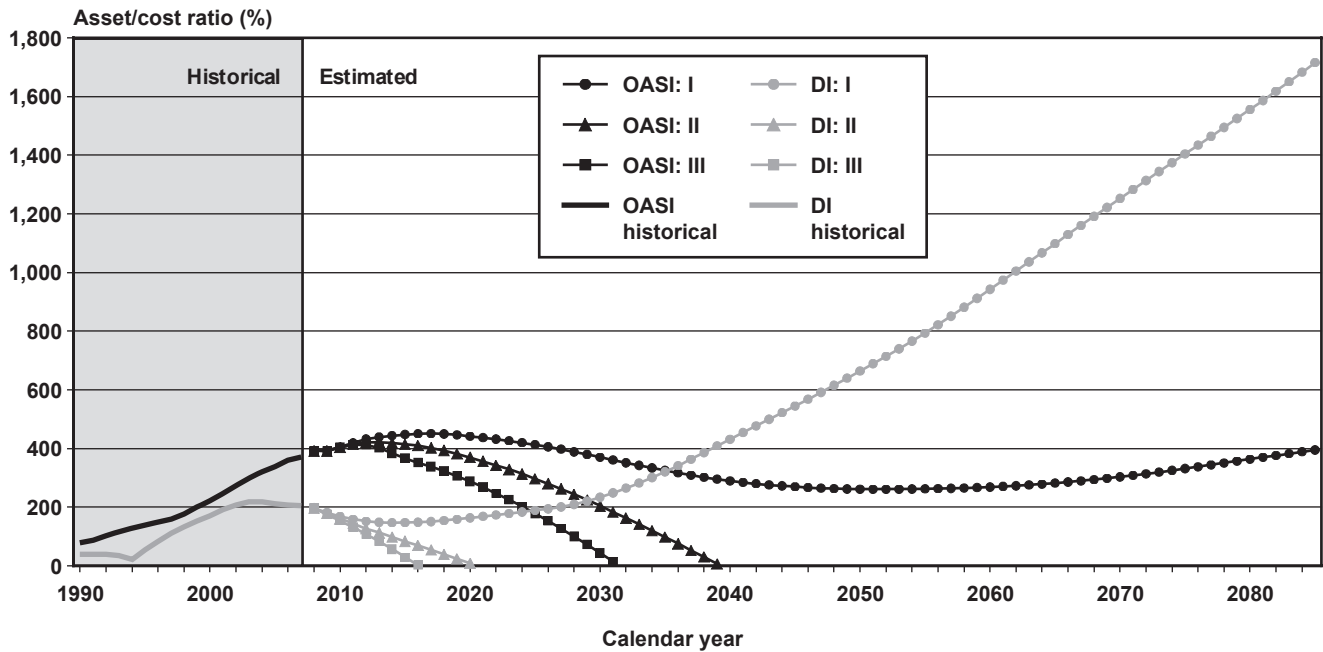
Although the financial status of the Social Security program is most often considered on a combined basis, as though there were just one trust fund, there are in fact two separate trust funds—one for the OASI program and the other for the DI program. Old-age benefits were enacted in 1935 and started to be paid on a monthly basis in 1940. Benefits for disabled workers below the NRA were not enacted into law until 1956. A separate trust fund has been maintained for the DI program ever since that time, in part in recognition of the special nature of disability and a desire to maintain separate focus on the financing of these benefits.

Currently, the DI program is projected to have a less favorable actuarial status than the OASI program. DI Trust Fund exhaustion is projected for 2020 under the trustees’ intermediate assumptions in the *2009 Trustees Report*. Trust fund exhaustion is projected for 2038 for the OASI fund separately. The proximity of the trust fund exhaustion for the DI program requires special attention. Since 1983, DI program cost has risen above expectations to a much greater degree than has OASI program cost. This is not very surprising, as the benefits under the OASI program are far more predictable than those under the DI program.

Taken from the *2009 Trustees Report*, Chart 4 illustrates the different projections for the OASI and DI Trust Funds. In addition to the much sooner projected

**Chart 4.**

**OASI and DI Trust Fund assets as a percentage of program costs, 1990–2008, projected under alternative assumptions, 2009–2085**



SOURCE: 2009 Social Security Trustees Report, Figure IV.B3 and Table IV.B3.

NOTES: Alternative I = low-cost assumptions; alternative II = intermediate assumptions; alternative III = high-cost assumptions.

trust fund exhaustion for the DI program under the intermediate alternative II assumptions, the chart shows the even greater uncertainty around DI cost and actuarial status than for the OASI program.<sup>5</sup>

In 1994, the Congress acted to reallocate a portion of the combined OASDI payroll tax rate from the OASI program to the DI program, in order to avert near-term trust fund exhaustion for the DI program. Then, as now, the OASI program had more favorable actuarial status. Given the possibility that comprehensive reform for the OASDI program might not be completed by 2020, a small reallocation of 0.1 percent to 0.2 percent of the existing 12.4 percent tax rate to the DI fund would again be possible to more nearly equalize the financial status of the OASI and DI Trust Funds. It is for this reason, and because of the simplicity of considering the OASDI program on a unified basis, that most analysis of the actuarial status of the Social Security program is done on a theoretical basis where the two trust funds are considered on a combined basis.

### ***Sustainability of Social Security***

The concept of sustainability for the Social Security program has come to have two separate meanings. The first considers only the simple question of whether

currently scheduled dedicated tax revenue is sufficient to adequately finance currently scheduled benefits in the law, without any modification to the law. The second considers whether the current structure of the program, with a defined benefit reflecting career-average earnings levels and a flat payroll tax up to a specified earnings level, is viable for the future.

The first, simpler concept of financial sustainability under current law is relatively easy to evaluate. As illustrated by the projections under the trustees' intermediate assumptions, modifications of benefits or tax revenue in the future will almost certainly be needed to avoid trust fund exhaustion. In the relatively near term, by 2020, the specific needs of the DI Trust Fund must be addressed. By 2037, the overall projected shortfall of scheduled financing must also be addressed. As indicated in the *2009 Trustees Report*, the 75-year shortfall projected under intermediate assumptions for the OASDI program could be met with benefit reductions equivalent in value to a 13 percent immediate reduction in all benefits, an increase in revenue equivalent to an immediate increase in the combined (employee and employer) payroll tax rate from 12.4 percent to 14.4 percent, or a combination of these two approaches.

The second concept, the sustainability of the current structure of benefits and financing of the OASDI program, is not an issue directly addressed in the trustees report. This consideration is more political in nature, in that it depends on the wants and desires of the American people, as reflected by the actions of their elected representatives in the Congress. It is clear that modifications of the program benefit and tax levels can be made within the current program structure to restore sound financial status. But it is up to each generation to come to a consensus on the tax levels it is willing to pay and the benefit levels it wants to receive. Even the form of benefits and mode of financing, historically defined as monthly benefits financed generally on a PAYGO basis, are open to consideration by the American people and future Congresses.

The trustees report does, however, provide insight into the sustainability of currently scheduled benefits by providing a comparison of program cost and scheduled tax revenues, expressed as percentages of the total output of goods and services in the United States—our gross domestic product (GDP).

Projected OASDI cost is expected to rise from about 4.5 percent of GDP since 1990, to about 6 percent of GDP over the next 20 years, and to roughly stabilize at that level thereafter (see Chart 5). Although an increase in the cost of the program from 4.5 to

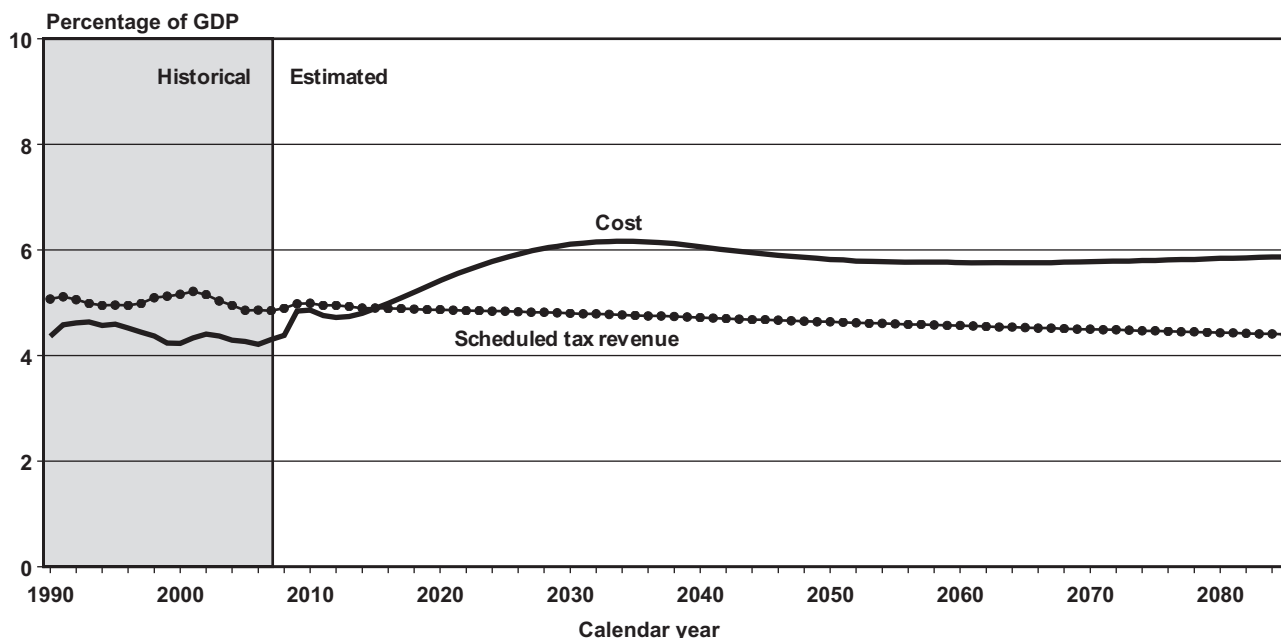
6 percent of GDP is substantial, the fact that the increase is not projected to continue after this “level shift” is important. Chart 5 focuses on the question of whether the level of benefits scheduled in current law should be maintained for future generations, at the price of higher taxes, or whether scheduled benefits should be reduced to levels affordable with the current taxes in the law.

The Federal Accounting Standards Advisory Board has recently established new standards requiring reporting on the sustainability of all federal programs as a part of the *Consolidated Financial Report of the United States Government*. In this context, consideration of the OASDI program must be on the basis of cost and income as a percent of GDP, in order to compare with and combine with other programs.

### ***A Range of Financial Measures***

The financial status of the OASDI program can be considered in numerous ways. As indicated earlier, the most fundamental consideration is whether scheduled benefits will be payable on a timely basis (solvency) as indicated by having positive trust fund reserve levels. Trust fund exhaustion, which is currently projected to occur for OASDI during 2037, would mean a precipitous drop in the level of benefits that could be paid. Thus, a projected date of trust fund exhaustion

**Chart 5.**  
**OASDI program cost and noninterest income as percentages of GDP, 1990–2008, projected under the intermediate assumptions, 2009–2085**



SOURCE: 2009 Social Security Trustees Report, Figure II.D5 and Table VI.F4.

represents the time by which some change must occur. Congress can be expected to act by this time in order to avoid the dire consequences of inaction. A second fundamental consideration mentioned earlier is sustainability of the program on financial and political bases. Sustainability in both senses can be reasonably addressed by considering the share of the total output of the economy (GDP) that will be needed to support the benefits provided by the program.

It is often desired to express in a single number the outcome of a complex process. Historically, a single summary number, referred to as the actuarial balance, has been used as a measure of the financial status of the OASDI program. The actuarial balance expresses the difference between resources available under current law and the cost of providing scheduled benefits under current law, over the next 75 years as a whole. In the *2009 Trustees Report*, under intermediate assumptions, the actuarial balance is negative, indicating a shortfall for the period as a whole equivalent to 2.00 percent of the taxable payroll over the period. While this measure is convenient because of its simplicity, it is of somewhat limited usefulness taken alone. The actuarial balance does not address the timing or trend in shortfalls that are projected on an annual basis over the period. In fact, this 75-year summary measure can only indicate one thing definitively: the level of the trust fund at the end of the 75-year period. If changes were made that resulted in an actuarial balance measured at zero, this would indicate that the trust fund assets at the end of the 75-year period were projected to equal the annual cost of the program at that time. But this summary measure alone would provide no information about whether (1) the trust fund would be solvent throughout the period, or (2) the level of trust fund assets would be rising, stable, or declining toward exhaustion at the end of the period.

The fact that the 1983 amendments were enacted with a projected trust fund level that was declining rapidly at the end of the period toward exhaustion soon thereafter may be attributed at least in part to an overreliance on the single measure of actuarial balance. Since 1983, many additional measures have been developed and have been used widely. One of the best measures has been the concept of “sustainable solvency.”

Sustainable solvency requires both that the trust fund be positive throughout the 75-year projection period and that the level of trust fund reserves at the end of the period be stable or rising as a percentage of the annual cost of the program. When these conditions are met, it can be said that under the assumptions

used, program financing is projected to be adequate for the foreseeable future. This concept was fully developed and in place by the time of the 1994–1996 Social Security Advisory Council and was used by the council as a guide for constructing alternative reforms for the OASDI program. Since that time, the concept of sustainable solvency has been addressed by virtually every comprehensive reform proposal developed by all policymakers. Requiring that proposals meet the requirements of sustainable solvency provides strong assurance that we will not face substantial projected deficits for the OASDI program soon after enactment of the next comprehensive reforms for the program. Numerous comprehensive proposals have been developed by policymakers over the past 15 years and have been scored by the Office of the Chief Actuary.<sup>6</sup>

An additional measure that has been used extensively in recent years is the annual balance between tax income and program cost for the 75<sup>th</sup> year in the long-range projection period. Although the overall shortfall for the period as a whole is shown to be 2.00 percent of taxable payroll, the shortfall is larger in the more distant years, reaching over 4 percent of payroll by 2083. Thus, individual reform provisions can be more fully understood by considering both their effect on the 75-year actuarial balance as a whole and their specific effect on the annual balance for the 75<sup>th</sup> year. Both of these measures are provided for individual provisions scored by the Office of the Chief Actuary.<sup>7</sup>

More recently, significant attention has been paid to additional summary measures such as the 75-year and infinite horizon open group unfunded obligations. An open group unfunded obligation shows the shortfall of revenue to cover all scheduled benefits over the period as a whole. The 75-year unfunded obligation for the OASDI program is shown as \$5.3 trillion in present value in the *2009 Trustees Report*. Taken alone, this value can be easily misinterpreted as being relevant as a shortfall in terms of today’s economy, as if it were an amount that is required today. In fact, this present value amount represents the sum total of shortfalls projected for 2037, after the combined trust fund is projected to become exhausted, through 2083. These shortfalls will be met by providing either additional tax revenue in those years or by reducing benefits over this period from the level currently scheduled. For this reason, the trustees provide the size of this 75-year unfunded obligation as percentages of OASDI taxable payroll (1.9 percent) and of GDP (0.7 percent) over the 75-year period. These percentages provide context for understanding the magnitude of additional tax revenue

that is needed to fully meet the unfunded obligations represented by the currently scheduled benefits.

Over the infinite horizon, the *2009 Trustees Report* indicates that the present value shortfall, or unfunded obligation, for the OASDI program is about \$15.1 trillion, or about 3.4 percent of taxable payroll, and 1.2 percent of GDP over the entire infinite future period. Of course, these values must be considered in the context of the high level of uncertainty that accompanies any projection extending beyond the 75-year, long-range period.

In addition, the *2009 Trustees Report* provides an estimate of the closed group unfunded obligation. This value is highly theoretical in nature, as the closed group unfunded obligation is only truly meaningful for a program that is intended to be “fully advance funded.” A fully advance funded program would have sufficient trust fund assets at any time to eliminate future contributions (payroll taxes) into the system by all current and future workers, with sufficient assets available to still pay all benefits earned to date. For this kind of financing, the closed group unfunded obligation would be expected to be zero or near zero. For a program that has been intentionally financed on a PAYGO basis, however, a large closed group unfunded obligation would be expected. In the *2009*

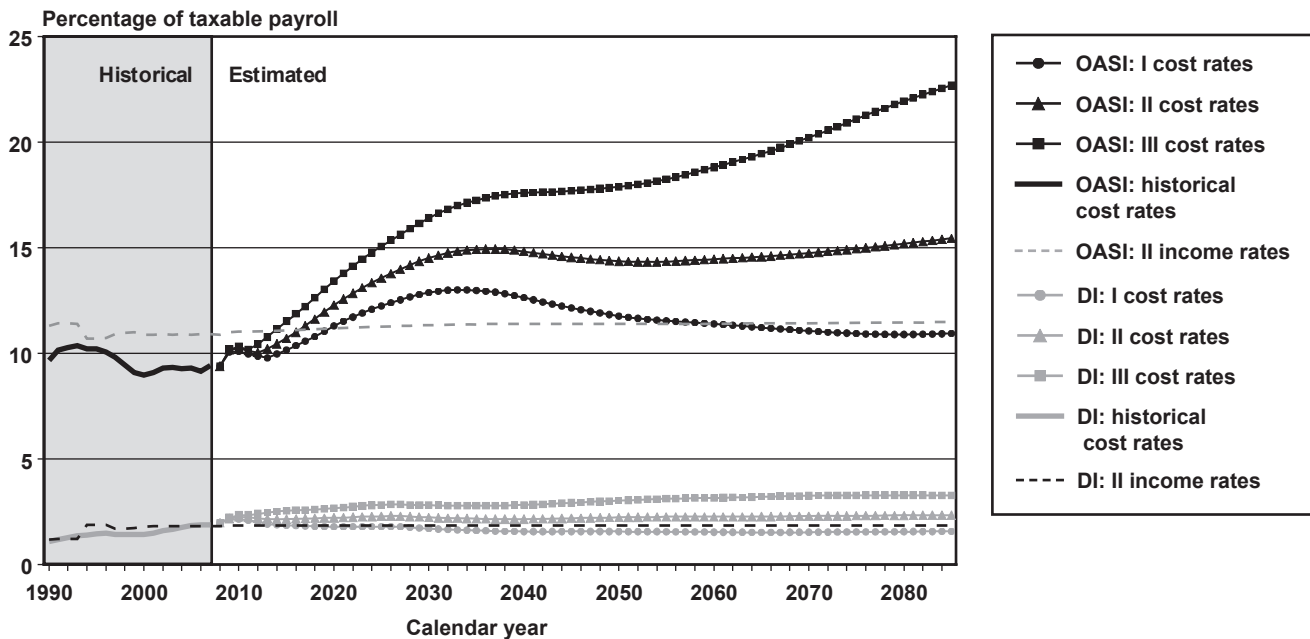
*Trustees Report*, the OASDI closed group unfunded obligation is reported as \$16.3 trillion, or 3.7 percent of taxable payroll, and 1.2 percent of the GDP over the infinite future.

### Uncertainty of the Future

Projections of cost and income for the OASDI program are inherently uncertain. This uncertainty is thought to increase for more extended periods into the future. The trustees attempt to illustrate the nature and extent of uncertainty in the annual reports in several ways. Mentioned earlier are the high-cost and low-cost alternatives to the intermediate sets of assumptions. These alternatives provide scenarios in which the principal assumptions used for projecting the financial status of the program are assumed to collectively differ from the best estimate in either a positive or negative direction. Each parameter is assumed to differ by a plausible amount from the intermediate expectation, so it is unlikely that all parameters will differ in the same direction. As a result, the three alternative projections produce a broad range for the prospects of the program.

The range of cost rates projected for the OASI and DI programs under the three alternatives in the *2009 Trustees Report* are shown in Chart 6. Trust fund levels expressed as a percent of annual program cost

**Chart 6.**  
**OASI and DI program cost and noninterest income as percentages of taxable payroll, 1990–2008, projected under alternative assumptions, 2009–2085**



SOURCE: *2009 Social Security Trustees Report*, Figure IV.B1 and Table IV.B1.

NOTES: Alternative I = low-cost assumptions; alternative II = intermediate assumptions; alternative III = high-cost assumptions.

were presented earlier for the three alternative projections. Projected income rates are shown based on the intermediate alternative II assumptions only, as these rates vary little across the three alternatives.

The trustees report also presents sensitivity analyses showing the effect of variation in individual parameters. These estimates provide a sense of the sensitivity of the long-range financial status of the program to any difference that may evolve in a given parameter from the trustees' intermediate projection.

Finally, the trustees report presents stochastic projections of the potential financial operations of the OASDI program in the future. For these projections, many economic, demographic, and disability-related parameters are allowed to vary randomly through time, creating 5,000 separate possible projection scenarios. The random variation reflects the degree of historical fluctuation in each parameter and is intended to simulate a large number of scenarios that could occur in the future. Results are presented in the report for the future cost and trust fund levels of the program, showing year-by-year the distribution of results from the 5,000 separate projections. The distribution derived from these stochastic projections for the *2009 Trustees Report* is shown in Chart 7. Stochastic results have the advantage of showing an estimated

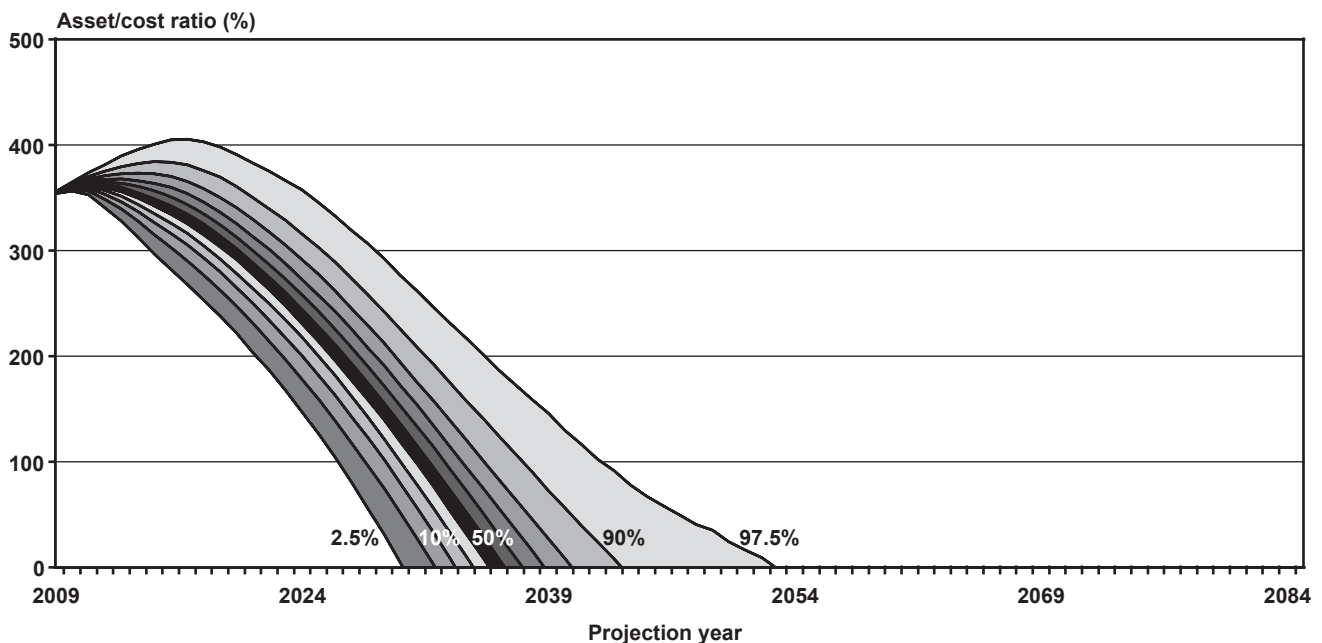
likelihood that actual results will fall within or outside any probability interval. (For example, the 95 percent probability interval falls between the lines in the chart representing the 97.5 percentile and 2.5 percentile outcomes.) It should be noted that lines on this chart do not represent specific individual simulations. Rather, for each line, the value in a year is for the simulation that is at the given percentile in *that specific year*. For any percentile line, the specific simulation from among the 5,000 scenarios will vary from one year to the next.

The stochastic projections suggest a high degree of certainty that the combined OASDI trust fund will become exhausted well before 2083, the end of the 75-year, long-range period. It should be noted, however, that the stochastic projection methodology is still being developed and refined. We believe that further enhancements are likely to broaden the range of uncertainty shown for the trust fund exhaustion date across any probability interval.

### ***Actuarial Status and Budget Scoring***

The requirements in the law for the annual report of the Social Security Board of Trustees are specific on the nature of the analysis that is desired. Although the OASDI program is highly dependent on the trust fund

**Chart 7.**  
**Stochastic projection of OASDI trust fund assets as a percentage of program cost, 2009–2084**



SOURCE: *2009 Social Security Trustees Report*, Figures II.D7 and VI.E1.

NOTE: The values assigned to charted lines are probability percentiles; thus, the 95 percent probability interval, for example, falls between the lines labeled 2.5 percent and 97.5 percent.



assets for solvency, and these assets are held in Treasury securities, the assessment of the actuarial status of the program is separate from direct consideration of implications for the federal government budget.

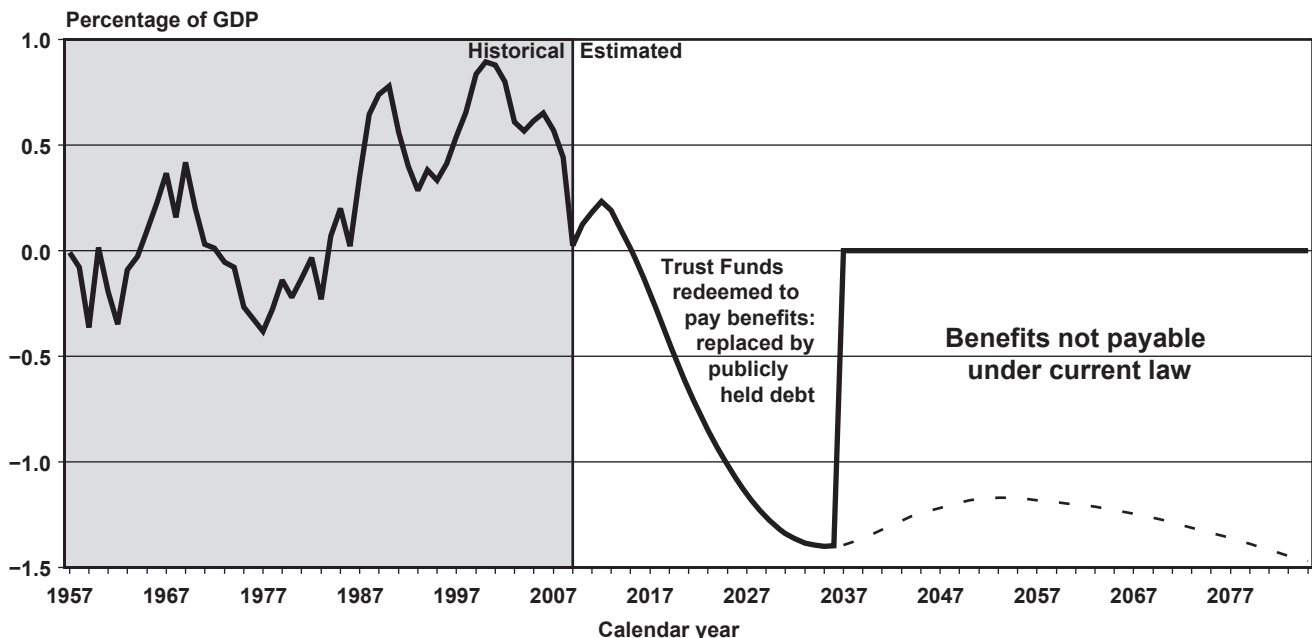
The assets of the trust funds are required to be invested in interest-bearing securities guaranteed as to interest and principal by the full faith and credit of the U.S. government. As a result, all assets are currently invested in nonmarketable special-issue obligations of the Treasury. In scoring assets and liabilities for the federal government as a whole, the trust fund assets are generally assumed to be a wash: an asset for the trust funds, but an equal liability for the General Fund of the Treasury. This is a valid perspective, but it does not lessen the claim that the trust fund assets have for future cash when needed. Trust fund securities have always been redeemed on maturity or when needed, and there is no risk of default on these securities. Moreover, it is reasonable to assume that the financial markets understand that securities held by the trust funds may be redeemed in the future, requiring the Treasury to collect additional taxes, lower other federal spending, or borrow additionally from the public. In fact, the trust fund assets are combined with publicly held debt to compute the total debt subject to limit, which is subject to approval by the Congress. If the redemption of trust fund securities in the future

results in issuance of additional publicly held debt, this would not alter the total federal debt (see Chart 8).

An additional important distinction in trust fund versus budget scoring is the assumption about current law. In the trustees report, careful distinction is made between the cost of the program—reflecting scheduled benefits, and the actual expenditures—reflecting the benefits that would be payable subject to the limits imposed by the inability of the trust funds to borrow. If the trust funds ever become exhausted, expenditures thereafter would be limited to the amount of continuing tax income. It is projected in the *2009 Trustees Report* that only 76 percent of scheduled benefits would be payable and could be paid at the time the trust fund is exhausted in 2037. This limitation not only places an absolute braking force on the spending that is possible by the OASDI program, but also forces Congressional action before exhaustion of the funds.

Budget scoring convention, on the other hand, assumes that full scheduled benefits would continue to be paid on a timely basis even after the fund is exhausted and the continuing tax income is insufficient to finance full scheduled benefits under the law. When considering the potential effects of the OASI, DI, and HI programs on projected unified budget balances, it should be noted that these projections presume changes in the law that would, in effect, allow the trust

**Chart 8.**  
**OASDI net cash flows as a percentage of GDP, 1957–2009, projected under the intermediate assumptions, 2010–2085**



SOURCE: Social Security Administration, Office of the Chief Actuary.

funds to either borrow from the General Fund of the Treasury or to receive transfers from that fund sufficient to continue full payment of scheduled benefits.

### **What is Causing the Financial Status to Show Shortfall?**

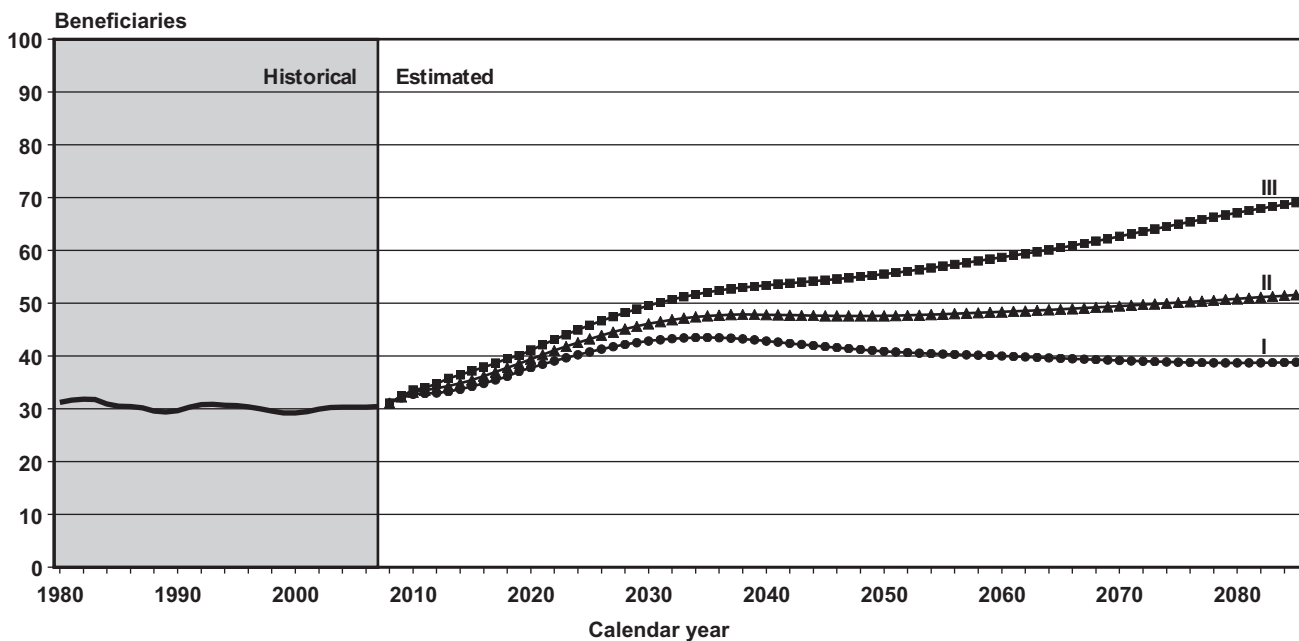
With the current 12.4 percent payroll tax rate, along with additional revenue from federal income taxation of benefits, the OASDI program has been taking in more tax revenue than it has spent providing benefits for more than two decades. However, this favorable cash flow will be changing in the future as the large baby boom generation, born from 1946 through 1965, moves into retirement. The oldest people in this generation have already reached early retirement age (62), and the transfer of this generation from working age to retirement age will continue for the next 20 years. The substantial increase in the cost of the OASDI program from 2010 to 2030, both as a percent of taxable payroll and GDP, is founded in an even more basic shift in our economy: the change in the ratio of beneficiaries to the number of workers.

Chart 9, showing the number of beneficiaries for each 100 OASDI-covered workers, is almost identical in shape and timing to Chart 6, which shows the projected annual cost rates of the program. This should

not be surprising because benefits over time rise at roughly the same rate as the average wage in the workforce. What is notable is that the strong upward shift in both this ratio and in the cost rate is permanent; it does not come back down to a lower level after the large baby boom generation dies off. The permanence of this shift was not caused by the existence of the baby boom generation; instead, the permanent shift was caused by the substantial and apparently permanent drop in birth rates that followed the baby boom births.

Birth rates that averaged over three children per woman during the baby boom period (1946–1965) dropped to just two children per woman by 1970 and have remained at about that level since that time (see Chart 10). Considering even longer historical periods helps in understanding the significance of the drop in birth rates in the United States (Table 1). It may be surprising to see how high birth rates were back in 1875 (over four children per woman) and how much they dropped by 1925 (to three children per woman). Reductions in death rates during infancy and early childhood help explain much of the longer-term decline in birth rates. Before 1900, the probability that a newborn would survive to age 5 or 10 was far below 100 percent. Thus, in order to have a family with a desired number of children surviving to adulthood,

**Chart 9.**  
**Number of OASDI beneficiaries per 100 covered workers, 1980–2008, projected under alternative assumptions, 2009–2085**

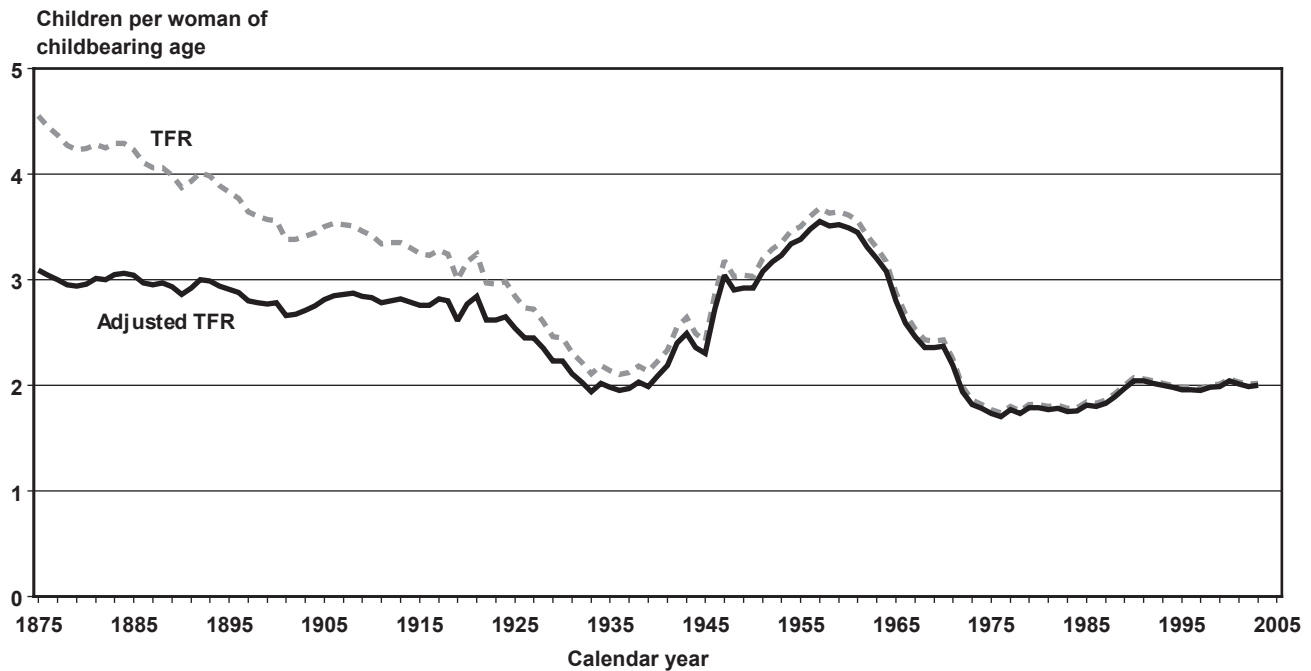


SOURCE: 2009 Social Security Trustees Report, Figure IV.B2 and Table IV.B2.

NOTES: Alternative I = low-cost assumptions; alternative II = intermediate assumptions; alternative III = high-cost assumptions.

**Chart 10.**

**Total U.S. fertility rates with and without adjustment for survival to age 10, 1875–2005**



SOURCE: Social Security Administration, Office of the Chief Actuary.

NOTE: TFR = total fertility rate.

**Table 1.**  
**Annual average total U.S. fertility rates with and without adjustment for survival to age 10, various periods, 1875–2003**

Period	Average TFR	Adjusted TFR
1875–1925	3.67	2.85
1926–1965	2.84	2.69
1966–1990	1.99	1.95
1991–2003	2.01	1.99

SOURCE: Social Security Administration, Office of the Chief Actuary.

NOTE: TFR = total fertility rate.

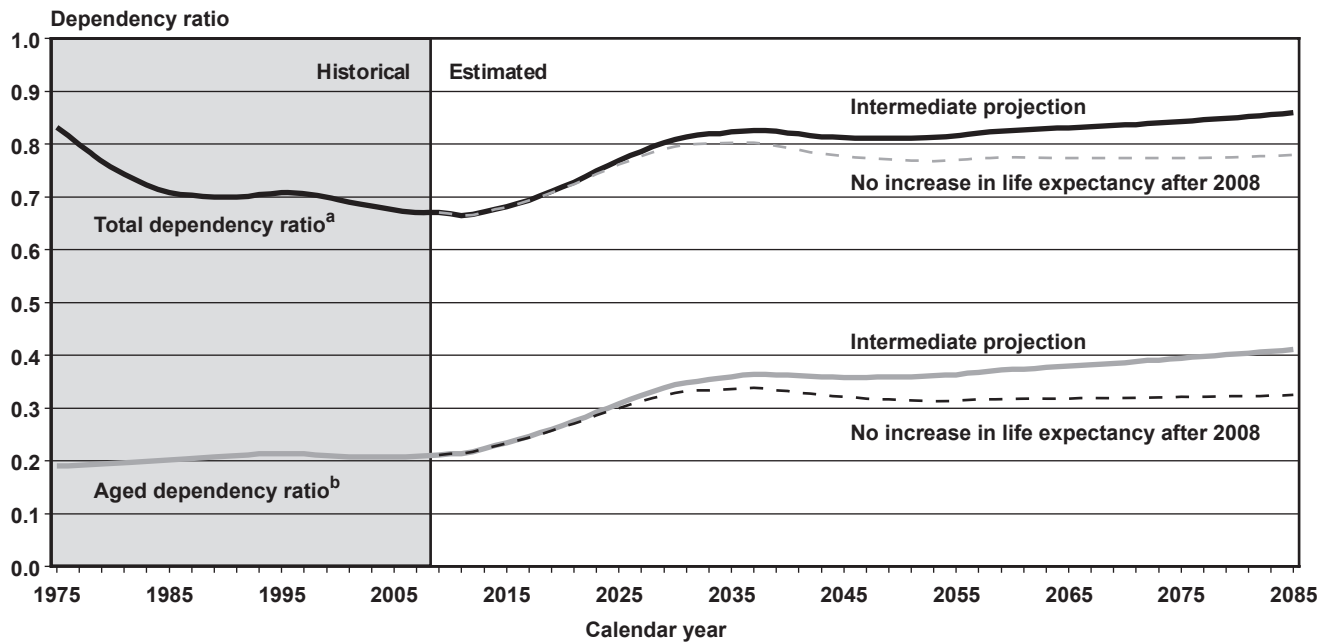
more births were required in the past. Adjusting birth rates to include only those children who survive to age 10<sup>8</sup> results in fairly flat total fertility rates near three children per woman from 1875 through 1925. From 1926 through 1965, this adjusted total fertility rate was still about 2.7 births per woman, on average, including both the temporary low-birth period of the Great Depression and World War II, and the temporary high-birth period after World War II. After 1965, however, the total fertility rate shifted to a new level around two children per woman. It is this apparently permanent shift to lower birth rates in the United

States that is the principal cause of our changing age distribution between 2010 and 2030 and the resulting shift in the ratio of beneficiaries to workers.

Chart 11 demonstrates even more vividly the impact of the changes in birth rates on the age distribution of the population. The aged dependency ratio (ratio of population aged 65 or older to the population at working ages, 20–64) has been almost flat since 1975 and was held down between 1994 and 2010 as the relatively low-birth-rate generations born during the Great Depression and World War II (1929–1945) reached age 65. However, this ratio will rise substantially between 2010 and 2030, reflecting both the attainment of age 65 by the baby boom generation (born 1946 to 1965) and entry into the working ages of low-birth-rate generations (born after 1965) that followed the baby boom. The dashed line in the chart illustrates what the projected dependency ratios would be if we assumed no further improvement in life expectancy after 2008.<sup>9</sup> The chart demonstrates that through 2030, the upward shift in the ratio is almost entirely because of the changing birth rate. The illustration for the total dependency ratio (ratio of the population aged 65 or older or younger than age 20 to the population at working ages, 20–64) tells essentially the same story.

**Chart 11.**

**Total and aged dependency ratios, 1975–2008, projected under alternative life expectancy assumptions, 2009–2085**



SOURCE: 2009 Social Security Trustees Report, Table V.A2 and the Social Security Administration, Office of the Chief Actuary.

NOTE: Projections reflect the intermediate assumptions.

a. Ratio of the population aged 65 or older and under age 20 to the population aged 20–64.

b. Ratio of the population aged 65 or older to the population aged 20–64.

Chart 11 also shows that improving life expectancy after 2008 does begin to produce significant effects on the age distribution of the population after 2030. But the permanent shift in the age distribution between 2010 and 2030 because of lower birth rates remains the dominant factor for the increased Social Security program cost over the next 75 years.

The effect of changes in real wage growth, productivity, labor force participation, price inflation, unemployment rates, and other economic factors all have significant impact on the future cost of Social Security. However, most of these variables, and in particular real average wage growth, affect both the tax income and the benefits of the program—as a result having offsetting effects on the program as a whole. In addition, shifts in these parameters have not been as dramatic as the change in birth rates.

### **Future Changes for the Social Security Program**

One useful way to describe the effect of the change in the aged dependency ratio and the resulting effect on the ratio of beneficiaries to workers is to consider the

implied number of workers per beneficiary. For the past 35 years, there have been about 3.3 workers per beneficiary (consistent with the ratio of 30 beneficiaries per 100 workers). After 2030, the ratio will be two workers per beneficiary (consistent with 50 beneficiaries per 100 workers).

With the average worker benefit currently at about \$1,000 per month, 3.3 workers would need to contribute about \$300 each per month to provide a \$1,000 benefit. But after the population age distribution has shifted to have just two workers per beneficiary, each worker would need to contribute \$500 to provide the same \$1,000 benefit.

Thus, in order to meet increased Social Security costs, substantial change will be needed. The intermediate projections of the 2009 Trustees Report indicate that if we wait to take action until the combined OASDI trust fund becomes exhausted in 2037, benefit reductions of around 25 percent or payroll tax increases of around one-third (a 4 percent increase in addition to the current 12.4 percent rate) will be required. Past legislative changes for Social Security suggest that the next reform is likely to include

a combination of benefit reductions and payroll tax increases.

Because the large shift in the cost of the OASDI program over the next 20 years is not due to increasing life expectancy, it is not clear that increasing the NRA should be the principal approach for restoring long-term solvency. Increasing the unreduced retirement age beyond 67 is one option that may be considered, given that the population may be healthier in the future and able to work to an older average age. However, this raises the question of the adequacy of monthly benefit levels. After the NRA reaches 67, those persons claiming benefits at age 62 will receive only 70 percent of the unreduced benefit level. Further increase in the NRA would decrease the adequacy of monthly benefits at age 62, and at all other ages, even further.

There is no one clear solution to the problem of increased cost for retirees because of fewer workers available to support the retirees, which in turn is caused by lower birth rates. This issue is not specific to Social Security, but also affects Medicare as well as many other private and public retirement income systems. The decline in birth rates has been far more dramatic in Japan and many European countries that are struggling with the effects of aging populations because of declines in birth rates even more severe than in the United States.<sup>10</sup>

A variety of possible changes to the provisions of the Social Security Act have been considered by policymakers and have been scored by the Office of the Chief Actuary. The reader is invited to look through these options, both as individual provisions and comprehensive proposals for improving solvency of the OASDI program.<sup>11</sup>

## Notes

*Acknowledgments:* This article is possible only as a result of the consistent efforts of the Social Security Board of Trustees and their staffs in producing a highly professional and informative report each year. Particular appreciation is extended to Karen Glenn of the Office of the Chief Actuary for her invaluable review and editing of the article. In addition, Michael Leonesio, David Weaver, and Jason Fichtner of the Office of Retirement and Disability Policy provided critical and constructive comments on the draft that contributed substantially to the end product.

<sup>1</sup> These estimates reflect the intermediate assumptions of the Social Security Board of Trustees in their *2009 Annual Trustees Report*. The Congressional Budget Office (CBO)

has been making similar estimates for several years that tend to be somewhat more optimistic than the trustees' estimates principally because CBO assumes faster growth in labor productivity and real earnings levels for the future.

<sup>2</sup> The *1983 Trustees Report* also included low-cost and high-cost projections, providing a range of possibilities and illustrating the uncertainty of these projections. The high-cost projection, referred to as alternative III, showed exhaustion of the combined OASI and DI Trust Funds in 2027.

<sup>3</sup> A very limited amount of short-term borrowing from the General Fund of the Treasury is permitted in the law. Expected tax receipts for a month can be made available at the beginning of the month when this would be needed to allow timely payment of benefits. This advance tax transfer requires repayment to the General fund with interest by the end of the month. Thus, solvency is not effectively extended to any substantial degree by this provision.

<sup>4</sup> However, actual experience since the issuance of the *2009 Trustees Report* now suggests that a slightly deeper recession than previously expected will result in a temporary cash flow shortfall in 2010.

<sup>5</sup> In addition to the uncertainties about economic and population trends, alternatives I and III incorporate assumptions that ultimate disability incidence rates will be 19 percent lower and 21 percent higher, respectively, than the average level over the period 1970 through 2008.

<sup>6</sup> Memoranda for these proposals can be found at <http://www.socialsecurity.gov/OACT/solvency/index.html>.

<sup>7</sup> Available at <http://www.socialsecurity.gov/OACT/solvency/provisions/index.html>.

<sup>8</sup> The probability of survival from birth to age 10 is readily obtainable in the life tables for years starting in 1900, available at <http://www.socialsecurity.gov/OACT/NOTES/s2000s.html>. For the illustration provided here, these probabilities were extrapolated back to 1875, consistent with the trend in decennial census data for the population of the state of Massachusetts.

<sup>9</sup> For this illustration, it is assumed that death rates at all ages remain at the level experienced in 2008 for all future years.

<sup>10</sup> See, for example, <http://www.oecd.org/dataoecd/13/38/16587241.pdf>.

<sup>11</sup> For individual provisions, see <http://www.socialsecurity.gov/OACT/solvency/provisions/index.html>.

For comprehensive proposals, see <http://www.socialsecurity.gov/OACT/solvency/index.html>.

In addition, for detailed projections of the *2009 Trustees Report*, see <http://www.socialsecurity.gov/OACT/TR/2009/index.html>. The full reports for prior years are available at <http://www.socialsecurity.gov/OACT/TR/index.html>.



# OASDI AND SSI SNAPSHOT AND SSI MONTHLY STATISTICS

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Each month, the Social Security Administration's Office of Retirement and Disability Policy posts key statistics about various aspects of the Supplemental Security Income (SSI) program at <http://www.socialsecurity.gov/policy>. The statistics include the number of people who receive benefits, eligibility category, and average monthly payment. This issue presents SSI data for May 2009–May 2010.

The Monthly Statistical Snapshot summarizes information about the Social Security and SSI programs and provides a summary table on the trust funds. Data for May 2010 are given on pages 128–129. Trust fund data for May 2010 are given on page 129. The more detailed SSI tables begin on page 130. Persons wanting detailed monthly OASDI information should visit the Office of the Actuary's Web site at <http://www.socialsecurity.gov/OACT/ProgData/beniesQuery.html>.

## ***Monthly Statistical Snapshot***

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*Table 1. Number of people receiving Social Security, Supplemental Security Income, or both*

*Table 2. Social Security benefits*

*Table 3. Supplemental Security Income recipients*

*Table 4. Operations of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds*

The most current edition of Tables 1–3 will always be available at [http://www.socialsecurity.gov/policy/docs/quickfacts/stat\\_snapshot](http://www.socialsecurity.gov/policy/docs/quickfacts/stat_snapshot). The most current data for the trust funds (Table 4) are available at <http://www.socialsecurity.gov/OACT/ProgData/funds.html>.

**Monthly Statistical Snapshot, May 2010**

**Table 1.**  
**Number of people receiving Social Security, Supplemental Security Income, or both, May 2010**  
**(in thousands)**

Type of beneficiary	Total	Social Security only	SSI only	Both Social Security and SSI
All beneficiaries	58,467	50,667	5,118	2,682
Aged 65 or older	37,807	35,771	892	1,144
Disabled, under age 65 <sup>a</sup>	12,949	7,185	4,226	1,538
Other <sup>b</sup>	7,712	7,712	...	...

SOURCE: Social Security Administration, Master Beneficiary Record, 100 percent data. Social Security Administration, Supplemental Security Record, 100 percent data.

NOTES: Data are for the end of the specified month. Only Social Security beneficiaries in current-payment status are included.  
 ... = not applicable.

- a. Includes children receiving SSI on the basis of their own disability.
- b. Social Security beneficiaries who are neither aged nor disabled (for example, early retirees, young survivors).

CONTACT: Art Kahn (410) 965-0186 or ssi.monthly@ssa.gov for further information.

**Table 2.**  
**Social Security benefits, May 2010**

Type of beneficiary	Beneficiaries		Total monthly benefits (millions of dollars)	Average monthly benefit (dollars)
	Number (thousands)	Percent		
All beneficiaries	53,349	100.0	56,966	1,067.80
Old-Age Insurance				
Retired workers	34,048	63.8	39,809	1,169.20
Spouses	2,333	4.4	1,345	576.50
Children	587	1.1	337	574.40
Survivors Insurance				
Widow(er)s and parents <sup>a</sup>	4,310	8.1	4,756	1,103.70
Widowed mothers and fathers <sup>b</sup>	155	0.3	130	835.10
Children	1,967	3.7	1,476	750.80
Disability Insurance				
Disabled workers	7,967	14.9	8,486	1,065.10
Spouses	160	0.3	46	286.00
Children	1,822	3.4	581	318.80

SOURCE: Social Security Administration, Master Beneficiary Record, 100 percent data.

NOTES: Data are for the end of the specified month. Only beneficiaries in current-payment status are included.

Some Social Security beneficiaries are entitled to more than one type of benefit. In most cases, they are dually entitled to a worker benefit and a higher spouse or widow(er) benefit. If both benefits are financed from the same trust fund, the beneficiary is usually counted only once in the statistics, as a retired-worker or a disabled-worker beneficiary, and the benefit amount recorded is the larger amount associated with the auxiliary benefit. If the benefits are paid from different trust funds the beneficiary is counted twice, and the respective benefit amounts are recorded for each type of benefit.

- a. Includes nondisabled widow(er)s aged 60 or older, disabled widow(er)s aged 50 or older, and dependent parents of deceased workers aged 62 or older.
- b. A widow(er) or surviving divorced parent caring for the entitled child of a deceased worker who is under age 16 or is disabled.

CONTACT: Hazel P. Jenkins (410) 965-0164 or oasdi.monthly@ssa.gov for further information.



**Table 3.**  
**Supplemental Security Income recipients, May 2010**

Age	Recipients		Total payments <sup>a</sup> (millions of dollars)	Average monthly payment <sup>b</sup> (dollars)
	Number (thousands)	Percent		
All recipients	7,800	100.0	4,205	498.60
Under 18	1,222	15.7	769	596.90
18–64	4,542	58.2	2,610	514.80
65 or older	2,036	26.1	825	403.60

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for the end of the specified month.

a. Includes retroactive payments.

b. Excludes retroactive payments.

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**Table 4.**  
**Operations of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds,**  
**May 2010 (in millions of dollars)**

Component	OASI	DI	Combined OASI and DI
<b>Receipts</b>			
Total	46,028	7,831	53,859
Net contributions	45,951	7,804	53,755
Income from taxation of benefits	13	0	14
Net interest	64	26	90
Payments from the general fund	0	0	0
<b>Expenditures</b>			
Total	48,266	10,680	58,946
Benefit payments	48,001	10,441	58,442
Administrative expenses	264	240	504
Transfers to Railroad Retirement	0	0	0
<b>Assets</b>			
At start of month	2,359,710	197,205	2,556,915
Net increase during month	-2,238	-2,850	-5,088
At end of month	2,357,472	194,355	2,551,827

SOURCE: Data on the trust funds were accessed on June 25, 2010, on the Social Security Administration's Office of the Actuary's Web site: <http://www.socialsecurity.gov/OACT/ProgData/funds.html>.

NOTE: Totals may not equal the sum of the components because of rounding.

## Supplemental Security Income, May 2009–May 2010

The SSI Monthly Statistics are also available at [http://www.socialsecurity.gov/policy/docs/statcomps/ssi\\_monthly/index.html](http://www.socialsecurity.gov/policy/docs/statcomps/ssi_monthly/index.html).

### SSI Federally Administered Payments

Table 1. Recipients (by type of payment), total payments, and average monthly payment

Table 2. Recipients, by eligibility category and age

Table 3. Recipients of federal payment only, by eligibility category and age

Table 4. Recipients of federal payment and state supplementation, by eligibility category and age

Table 5. Recipients of state supplementation only, by eligibility category and age

Table 6. Total payments, by eligibility category, age, and source of payment

Table 7. Average monthly payment, by eligibility category, age, and source of payment

### Awards of SSI Federally Administered Payments

Table 8. All awards, by eligibility category and age of awardee

**Table 1.**  
Recipients (by type of payment), total payments, and average monthly payment,  
May 2009–May 2010

Month	Number of recipients				Total payments <sup>a</sup> (thousands of dollars)	Average monthly payment <sup>b</sup> (dollars)
	Total	Federal payment only	Federal payment and state supplementation	State supplementation only		
2009						
May	7,596,745	5,253,853	2,067,978	274,914	4,077,881	500.80
June	7,638,836	5,287,256	2,076,756	274,824	4,157,154	500.20
July	7,618,848	5,281,432	2,074,422	262,994	4,049,965	497.80
August	7,651,360	5,307,020	2,081,537	262,803	4,098,660	498.50
September	7,691,602	5,337,606	2,090,610	263,386	4,182,914	497.50
October	7,682,338	5,330,233	2,088,580	263,525	4,113,205	499.40
November	7,721,905	5,368,216	2,099,323	254,366	4,170,583	498.10
December	7,676,686	5,337,340	2,085,539	253,807	4,120,127	498.80
2010						
January	7,705,071	5,358,655	2,092,282	254,134	4,085,073	498.70
February	7,739,526	5,386,683	2,098,273	254,570	4,128,360	496.70
March	7,776,667	5,417,319	2,105,179	254,169	4,274,831	498.30
April	7,774,363	5,415,628	2,104,004	254,731	4,184,114	499.50
May	7,800,015	5,435,751	2,109,071	255,193	4,205,003	498.60

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for the end of the specified month.

a. Includes retroactive payments.

b. Excludes retroactive payments.

CONTACT: Art Kahn (410) 965-0186 or [ssi.monthly@ssa.gov](mailto:ssi.monthly@ssa.gov) for further information.

**SSI Federally Administered Payments**

**Table 2.**  
**Recipients, by eligibility category and age, May 2009–May 2010**

Month	Total	Eligibility category		Age		
		Aged	Blind and disabled	Under 18	18–64	65 or older
<b>2009</b>						
May	7,596,745	1,199,665	6,397,080	1,173,700	4,389,985	2,033,060
June	7,638,836	1,200,922	6,437,914	1,185,753	4,416,687	2,036,396
July	7,618,848	1,196,190	6,422,658	1,178,932	4,408,897	2,031,019
August	7,651,360	1,198,038	6,453,322	1,189,283	4,426,845	2,035,232
September	7,691,602	1,199,576	6,492,026	1,195,708	4,457,046	2,038,848
October	7,682,338	1,199,260	6,483,078	1,189,467	4,453,509	2,039,362
November	7,721,905	1,196,845	6,525,060	1,204,089	4,479,991	2,037,825
December	7,676,686	1,185,959	6,490,727	1,199,788	4,451,288	2,025,610
<b>2010</b>						
January	7,705,071	1,190,266	6,514,805	1,199,296	4,472,499	2,033,276
February	7,739,526	1,190,016	6,549,510	1,209,641	4,494,957	2,034,928
March	7,776,667	1,188,361	6,588,306	1,215,280	4,527,056	2,034,331
April	7,774,363	1,187,763	6,586,600	1,212,272	4,527,929	2,034,162
May	7,800,015	1,188,088	6,611,927	1,221,863	4,542,049	2,036,103

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for the end of the specified month.

CONTACT: Art Kahn (410) 965-0186 or [ssi.monthly@ssa.gov](mailto:ssi.monthly@ssa.gov) for further information.

**Table 3.**  
**Recipients of federal payment only, by eligibility category and age, May 2009–May 2010**

Month	Total	Eligibility category		Age		
		Aged	Blind and disabled	Under 18	18–64	65 or older
<b>2009</b>						
May	5,253,853	602,826	4,651,027	937,302	3,191,392	1,125,159
June	5,287,256	603,148	4,684,108	947,230	3,213,216	1,126,810
July	5,281,432	602,563	4,678,869	941,735	3,212,379	1,127,318
August	5,307,020	603,370	4,703,650	950,076	3,227,252	1,129,692
September	5,337,606	603,879	4,733,727	954,863	3,251,286	1,131,457
October	5,330,233	603,483	4,726,750	949,858	3,248,892	1,131,483
November	5,368,216	604,365	4,763,851	961,696	3,272,730	1,133,790
December	5,337,340	598,193	4,739,147	958,456	3,252,098	1,126,786
<b>2010</b>						
January	5,358,655	601,117	4,757,538	957,892	3,268,823	1,131,940
February	5,386,683	600,988	4,785,695	966,712	3,287,084	1,132,887
March	5,417,319	599,878	4,817,441	971,340	3,313,675	1,132,304
April	5,415,628	599,330	4,816,298	968,783	3,315,068	1,131,777
May	5,435,751	599,282	4,836,469	976,745	3,326,507	1,132,499

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for the end of the specified month.

CONTACT: Art Kahn (410) 965-0186 or [ssi.monthly@ssa.gov](mailto:ssi.monthly@ssa.gov) for further information.

## SSI Federally Administered Payments

**Table 4.**  
**Recipients of federal payment and state supplementation, by eligibility category and age,**  
**May 2009–May 2010**

Month	Total	Eligibility category		Age		
		Aged	Blind and disabled	Under 18	18–64	65 or older
2009						
May	2,067,978	502,842	1,565,136	234,659	1,061,666	771,653
June	2,076,756	503,900	1,572,856	236,848	1,066,521	773,387
July	2,074,422	503,892	1,570,530	235,596	1,065,209	773,617
August	2,081,537	504,927	1,576,610	237,710	1,068,414	775,413
September	2,090,610	505,832	1,584,778	239,266	1,074,273	777,071
October	2,088,580	506,003	1,582,577	238,030	1,072,970	777,580
November	2,099,323	507,214	1,592,109	240,914	1,078,682	779,727
December	2,085,539	502,433	1,583,106	239,746	1,071,361	774,432
2010						
January	2,092,282	504,173	1,588,109	239,873	1,075,186	777,223
February	2,098,273	504,005	1,594,268	241,413	1,079,151	777,709
March	2,105,179	503,752	1,601,427	242,466	1,084,747	777,966
April	2,104,004	503,713	1,600,291	241,939	1,083,803	778,262
May	2,109,071	503,992	1,605,079	243,614	1,086,242	779,215

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for the end of the specified month.

CONTACT: Art Kahn (410) 965-0186 or [ssi.monthly@ssa.gov](mailto:ssi.monthly@ssa.gov) for further information.

**Table 5.**  
**Recipients of state supplementation only, by eligibility category and age,**  
**May 2009–May 2010**

Month	Total	Eligibility category		Age		
		Aged	Blind and disabled	Under 18	18–64	65 or older
2009						
May	274,914	93,997	180,917	1,739	136,927	136,248
June	274,824	93,874	180,950	1,675	136,950	136,199
July	262,994	89,735	173,259	1,601	131,309	130,084
August	262,803	89,741	173,062	1,497	131,179	130,127
September	263,386	89,865	173,521	1,579	131,487	130,320
October	263,525	89,774	173,751	1,579	131,647	130,299
November	254,366	85,266	169,100	1,479	128,579	124,308
December	253,807	85,333	168,474	1,586	127,829	124,392
2010						
January	254,134	84,976	169,158	1,531	128,490	124,113
February	254,570	85,023	169,547	1,516	128,722	124,332
March	254,169	84,731	169,438	1,474	128,634	124,061
April	254,731	84,720	170,011	1,550	129,058	124,123
May	255,193	84,814	170,379	1,504	129,300	124,389

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for the end of the specified month.

CONTACT: Art Kahn (410) 965-0186 or [ssi.monthly@ssa.gov](mailto:ssi.monthly@ssa.gov) for further information.

**SSI Federally Administered Payments**

**Table 6.**  
**Total payments, by eligibility category, age, and source of payment, May 2009–May 2010**  
**(in thousands of dollars)**

Month	Total	Eligibility category		Age		
		Aged	Blind and disabled	Under 18	18–64	65 or older
<b>All sources</b>						
2009						
May	4,077,881	488,153	3,589,728	738,370	2,504,478	835,033
June	4,157,154	490,264	3,666,889	752,909	2,565,843	838,401
July	4,049,965	481,411	3,568,554	734,333	2,489,436	826,197
August	4,098,660	482,682	3,615,978	747,253	2,522,549	828,858
September	4,182,914	483,759	3,699,155	756,658	2,595,105	831,151
October	4,113,205	482,769	3,630,436	746,096	2,537,059	830,051
November	4,170,583	478,621	3,691,962	761,639	2,584,118	824,826
December	4,120,127	475,505	3,644,622	749,310	2,548,839	821,978
2010						
January	4,085,073	475,166	3,609,906	747,254	2,515,751	822,067
February	4,128,360	474,541	3,653,819	753,953	2,552,017	822,389
March	4,274,831	476,647	3,798,184	778,186	2,670,430	826,215
April	4,184,114	475,045	3,709,068	765,706	2,594,324	824,084
May	4,205,003	475,367	3,729,637	769,404	2,610,191	825,408
<b>Federal payments</b>						
2009						
May	3,735,175	394,849	3,340,327	723,168	2,319,309	692,698
June	3,810,543	396,524	3,414,018	737,431	2,377,672	695,440
July	3,730,693	394,870	3,335,823	720,964	2,315,836	693,893
August	3,777,800	395,886	3,381,914	733,759	2,347,927	696,114
September	3,857,447	396,737	3,460,709	742,811	2,416,630	698,005
October	3,791,682	395,942	3,395,740	732,647	2,361,874	697,160
November	3,859,618	397,861	3,461,757	748,119	2,411,145	700,355
December	3,812,757	395,498	3,417,259	736,024	2,378,352	698,381
2010						
January	3,778,554	395,121	3,383,433	734,090	2,346,108	698,357
February	3,819,297	394,452	3,424,845	740,633	2,380,203	698,461
March	3,960,039	396,317	3,563,722	764,484	2,493,708	701,847
April	3,874,717	395,074	3,479,644	752,347	2,422,234	700,136
May	3,894,414	395,283	3,499,131	755,935	2,437,215	701,264

(Continued)

## SSI Federally Administered Payments

**Table 6.**  
**Total payments, by eligibility category, age, and source of payment, May 2009–May 010**  
**(in thousands of dollars)—Continued**

Month	Total	Eligibility category		Age		
		Aged	Blind and disabled	Under 18	18–64	65 or older
<b>State supplementation</b>						
2009						
May	342,706	93,305	249,401	15,202	185,169	142,335
June	346,611	93,740	252,871	15,478	188,172	142,961
July	319,272	86,541	232,731	13,369	173,600	132,303
August	320,860	86,796	234,064	13,494	174,622	132,744
September	325,467	87,022	238,445	13,847	178,474	133,146
October	321,524	86,827	234,697	13,448	175,185	132,891
November	310,965	80,760	230,205	13,520	172,973	124,471
December	307,370	80,008	227,363	13,286	170,488	123,597
2010						
January	306,519	80,045	226,474	13,165	169,643	123,710
February	309,062	80,089	228,974	13,320	171,815	123,928
March	314,792	80,330	234,462	13,703	176,722	124,368
April	309,396	79,972	229,424	13,358	172,090	123,948
May	310,589	80,084	230,505	13,470	172,976	124,143

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for the end of the specified month and include retroactive payments.

CONTACT: Art Kahn (410) 965-0186 or [ssi.monthly@ssa.gov](mailto:ssi.monthly@ssa.gov) for further information.

**SSI Federally Administered Payments**

**Table 7.**  
**Average monthly payment, by eligibility category, age, and source of payment,**  
**May 2009–May 2010 (in dollars)**

Month	Total	Eligibility category		Age		
		Aged	Blind and disabled	Under 18	18–64	65 or older
<b>All sources</b>						
2009						
May	500.80	404.80	518.80	601.40	516.60	408.70
June	500.20	405.10	517.90	598.10	516.00	408.90
July	497.80	400.80	515.90	596.20	514.20	405.20
August	498.50	400.90	516.60	598.10	514.60	405.30
September	497.50	401.10	515.30	592.50	514.20	405.40
October	499.40	401.30	517.50	600.70	515.30	405.60
November	498.10	397.70	516.50	597.80	514.70	402.60
December	498.80	399.10	517.00	593.10	516.50	404.00
2010						
January	498.70	397.90	517.10	599.90	515.10	403.00
February	496.70	396.80	514.80	592.90	513.40	402.10
March	498.30	398.20	516.40	596.60	514.70	403.20
April	499.50	398.50	517.70	601.60	515.30	403.60
May	498.60	398.50	516.60	596.90	514.80	403.60
<b>Federal payments</b>						
2009						
May	474.80	355.40	496.10	590.20	492.80	363.60
June	474.20	355.60	495.30	587.00	492.20	363.80
July	474.00	355.50	495.10	586.50	492.20	363.70
August	474.80	355.60	495.90	588.40	492.70	363.90
September	473.80	355.80	494.60	582.70	492.30	363.90
October	475.70	355.90	496.80	591.00	493.40	364.10
November	475.60	356.20	496.50	588.20	493.40	364.30
December	476.30	357.90	497.00	583.60	495.30	365.80
2010						
January	476.30	356.50	497.20	590.40	494.00	364.80
February	474.40	355.40	494.90	583.40	492.40	363.90
March	476.10	356.70	496.60	587.20	493.70	365.00
April	477.20	357.00	497.90	592.20	494.30	365.40
May	476.40	357.00	496.90	587.40	493.90	365.50

(Continued)

## SSI Federally Administered Payments

**Table 7.**  
**Average monthly payment, by eligibility category, age, and source of payment,**  
**May 2009–May 2010 (in dollars)—Continued**

Month	Total	Eligibility category		Age		
		Aged	Blind and disabled	Under 18	18–64	65 or older
<b>State supplementation</b>						
2009						
May	139.50	154.80	134.30	59.80	143.40	155.20
June	139.40	154.70	134.10	59.70	143.20	155.10
July	130.40	144.50	125.60	52.30	134.80	145.10
August	130.30	144.50	125.50	52.30	134.80	145.10
September	130.20	144.40	125.40	52.30	134.60	145.10
October	130.30	144.50	125.50	52.30	134.70	145.10
November	124.90	134.80	121.60	51.30	131.30	136.20
December	125.00	135.00	121.60	51.30	131.30	136.30
2010						
January	124.80	134.80	121.50	51.20	131.10	136.10
February	124.60	134.60	121.20	51.10	130.90	136.00
March	124.70	134.70	121.30	51.10	130.90	136.10
April	124.70	134.70	121.30	51.10	130.90	136.10
May	124.50	134.70	121.20	51.00	130.80	136.10

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for the end of the specified month and exclude retroactive payments.

CONTACT: Art Kahn (410) 965-0186 or [ssi.monthly@ssa.gov](mailto:ssi.monthly@ssa.gov) for further information.



## Awards of SSI Federally Administered Payments

**Table 8.**  
**All awards, by eligibility category and age of awardee, May 2009–May 2010**

Month	Total	Eligibility category		Age		
		Aged	Blind and disabled	Under 18	18–64	65 or older
2009						
May	83,702	9,158	74,544	15,863	58,530	9,309
June	91,533	8,362	83,171	18,824	64,212	8,497
July	80,922	8,933	71,989	16,259	55,607	9,056
August	81,089	8,977	72,112	15,960	56,026	9,103
September	97,650	9,128	88,522	19,059	69,326	9,265
October	79,584	8,969	70,615	15,177	55,332	9,075
November	93,329	8,918	84,411	18,226	66,030	9,073
December	77,868	7,941	69,927	15,163	54,632	8,073
2010						
January	70,930	7,739	63,191	13,687	49,383	7,860
February	78,883	8,226	70,657	15,120	55,387	8,376
March	101,179	8,381	92,798	20,342	72,294	8,543
April <sup>a</sup>	84,979	9,220	75,759	16,383	59,234	9,362
May <sup>a</sup>	84,838	8,926	75,912	16,278	59,505	9,055

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for all awards made during the specified month.

a. Preliminary data. In the first 2 months after their release, numbers may be adjusted to reflect returned checks.

CONTACT: Art Kahn (410) 965-0186 or ssi.monthly@ssa.gov for further information.



## PERSPECTIVES—PAPER SUBMISSION GUIDELINES

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To promote the discussion of research questions and policy issues related to Social Security and the economic well being of the aged, the *Bulletin* welcomes submissions from researchers and analysts outside the agency for publication in its Perspectives section.

We are particularly interested in papers that:

- assess the Social Security retirement, survivors, and disability programs and the economic security of the aged;
- evaluate changing economic, demographic, health, and social factors affecting work/retirement decisions and retirement savings;
- consider the uncertainties that individuals and households face in preparing for and during retirement and the tools available to manage such uncertainties; and
- measure the changing characteristics and economic circumstances of SSI beneficiaries.

Papers should be factual and analytical, not polemical. Technical or mathematical exposition is welcome, if relevant, but findings and conclusions must be written in an accessible, nontechnical style. In addition, the relevance of the paper's conclusions to public policy should be explicitly stated.

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### ***Formatting Guidelines***

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To facilitate the editorial process, papers submitted for publication must be prepared in Microsoft Word (**except for tables and charts—see below**) and be formatted as outlined below.

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- **Text**—Papers should average 10,000 words, including the text, the notes, and the references (but excluding the tables and charts). Text is double-spaced, except notes and references, which are double spaced only after each entry. **Do not embed tables or charts into the text. Create separate files (in the formats outlined in “Tables/Charts” below) for the text and statistical material.** Tables should be in one file, with one table per page. Include charts in a separate file, with one chart per page.
- **End Notes**—Number notes consecutively in the text using superscripts. Only use notes for brief substantive comments, not citations. (See the *Chicago Manual of Style* for guidance on the use of citations.) All notes should be grouped together and start on a new page at the end of the paper.
- **References**—Verify each reference carefully; the references must correspond to the citations in the text. The list of references should start on a new page and be listed alphabetically by the last name of the author(s) and then by year, chronologically. Only the first author’s name is inverted. List all authors’ full names and avoid using *et al.* The name of each author and the title of the citation should be exactly as it appears in the original work.
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For specific questions on formatting, use the *Chicago Manual of Style* as a guide for notes, citations, references, and table presentation.

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## *OASDI and SSI Program Rates and Limits, 2010*

### Old-Age, Survivors, and Disability Insurance

Tax Rates for Employers and Employees, Each <sup>a</sup> (percent)	
Social Security	
Old-Age and Survivors Insurance	5.30
Disability Insurance	0.90
Subtotal, Social Security	6.20
Medicare (Hospital Insurance)	1.45
Total	7.65
Maximum Taxable Earnings (dollars)	
Social Security	106,800
Medicare (Hospital Insurance)	No limit
Earnings Required for Work Credits (dollars)	
One Work Credit (One Quarter of Coverage)	1,120
Maximum of Four Credits a Year	4,480
Earnings Test Annual Exempt Amount (dollars)	
Under Full Retirement Age for Entire Year	14,160
For Months Before Reaching Full Retirement Age in Given Year	37,680
Beginning with Month Reaching Full Retirement Age	No limit
Maximum Monthly Social Security Benefit for Workers Retiring at Full Retirement Age (dollars)	
	2,346
Full Retirement Age	66
Cost-of-Living Adjustment (percent)	0.0

a. Self-employed persons pay a total of 15.3 percent—10.6 percent for OASI, 1.8 percent for DI, and 2.9 percent for Medicare.

### Supplemental Security Income

Monthly Federal Payment Standard (dollars)	
Individual	674
Couple	1,011
Cost-of-Living Adjustment (percent)	0.0
Resource Limits (dollars)	
Individual	2,000
Couple	3,000
Monthly Income Exclusions (dollars)	
Earned Income <sup>a</sup>	65
Unearned Income	20
Substantial Gainful Activity (SGA) Level for the Nonblind Disabled (dollars)	
	1,000

a. The earned income exclusion consists of the first \$65 of monthly earnings, plus one-half of remaining earnings.

**Social Security Administration  
Office of Retirement and Disability Policy  
Office of Research, Evaluation, and Statistics  
500 E Street, SW, 8th Floor  
Washington, DC 20254**

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