A Brief History

Social Security

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## CONTENTS

### THE DEVELOPMENT OF SOCIAL SECURITY

- A Foundation of Economic Security  
- The Social Security Act  
- Implementing the Act  
- First Payments  
- 1939 Amendments  
- Monthly Benefits  
- 1950 Amendments  
- The Story of COLAs  
- Disability Benefits  
- Medicare & Other Changes  
- The Decade of the 1970s  
- The Decade of the 1980s  
- The Decade of the 1990s  
- The New Millennium  

### THE GROWTH OF SOCIAL SECURITY  

### KEY DATES IN THE HISTORY OF SOCIAL SECURITY  

### AGENCY ORGANIZATIONAL HISTORY  

### SOCIAL SECURITY BOARD MEMBERS  

### SOCIAL SECURITY COMMISSIONERS

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CONTENTS

THE DEVELOPMENT OF SOCIAL SECURITY

A Foundation of Economic Security 2
The Social Security Act 2
Implementing the Act 3
First Payments 5
1939 Amendments 6
Monthly Benefits 6
1950 Amendments 6
The Story of COLAs 7
Disability Benefits 9
Medicare & Other Changes 10
The Decade of the 1970s 11
The Decade of the 1980s 12
The Decade of the 1990s 14
The New Millennium 16

THE GROWTH OF SOCIAL SECURITY 18

KEY DATES IN THE HISTORY OF SOCIAL SECURITY 20

AGENCY ORGANIZATIONAL HISTORY 27
SOCIAL SECURITY BOARD MEMBERS 29
SOCIAL SECURITY COMMISSIONERS 30

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Cover: President Franklin Roosevelt signs the Social Security Act into law.
A FOUNDATION OF ECONOMIC SECURITY

For most of human history, people lived and worked on farms in extended families and this was the foundation of their economic security. However, this changed as the developed world underwent the Industrial Revolution. The extended family and the family farm as sources of economic security became less common as more and more people became wage-earners, working for others. Along with the shift from an agricultural to an industrial economy, Americans moved from farms and small rural communities to larger cities. In 1890, only 28 percent of the U.S. population lived in cities, by 1930 this percentage had exactly doubled, to 56 percent.

In Europe in the late 19th century the idea developed for Social Security as one form of economic security in a modern industrialized world. The world’s first Social Security retirement program was put into effect in Germany in 1889, designed by Germany’s legendary Chancellor, Otto von Bismarck.

In the United States, the Great Depression of the 1930s triggered a crisis in the nation’s economic life. It was against this backdrop that the Social Security Act emerged.

THE SOCIAL SECURITY ACT

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

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

IMPLEMENTING THE ACT

One provision of the Act established a bipartisan Social Security Board (SSB) composed of three members appointed by the President. The original members were John G. Winant, Chairman; Arthur J. Altmeyer; and Vincent M. Miles. (Eventually, SSB would be replaced by the current Social Security Administration, headed by a single Commissioner rather than a board.) In 1935,
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SSB was faced with the task of providing employers, employees and the public with information on how earnings were to be reported, what benefits were available and how they were to be provided. In addition, sites for field installations had to be chosen and personnel to staff these offices had to be selected and trained.

The monumental first job was the need to register employers and workers by January 1, 1937, when workers would begin acquiring credits toward old-age insurance benefits and payroll taxes would start to be collected. Since SSB did not have the resources available to accomplish this, they contracted with the U.S. Post Office to distribute the applications, beginning in November 1936. The post offices collected the completed forms, typed the Social Security number cards, and returned the cards to the applicants. The applications then were forwarded to SSB’s processing center located in Baltimore, Md., where the numbers were registered and various employment records established. Over 35 million Social Security cards were issued through this procedure in 1936-37.

**FIRST PAYMENTS**

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

The first Social Security number was issued to John D. Sweeney, Jr., of New Rochelle, N.Y.

The lowest number ever issued (001-01-0001) was to Grace Dorothy Owen of Concord, N.H.
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MONTHLY BENEFITS
Payment of monthly benefits began in January 1940. On January 31, 1940, the first monthly retirement check was issued to a retired legal secretary, Ida May Fuller, of Ludlow, Vt., in the amount of $22.54. Miss Fuller died in January 1975 at the age of 100. During her 35 years as a beneficiary, she received over $22,000 in benefits.

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

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

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

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Notes: The increase in 3/74 was a special, limited-duration increase; it was effective for only 3/74-5/74. In June 1974 all payment levels reverted to their 2/74 level and the 11 percent increase was permanently applied on this base. The COLA for December 1999 was originally determined as 2.4 percent, however, it was subsequently raised to 2.5 percent. Initially, the automatic COLAs were effective in June each year (and received in the July payment) but a 1983 change in the law shifted the effective date to December (for payments received in January).

DISABILITY BENEFITS

The Social Security Amendments of 1954 initiated a disability insurance program that provided the public with additional coverage against economic insecurity. At first, there was a disability “freeze” of workers’ Social Security records during years when they were unable to work. While this measure offered no cash benefits, it did prevent such periods of disability from reducing or wiping out retirement and survivor benefits. On August 1, 1956, the Social Security Act was amended to provide cash benefits to disabled workers aged 50-65 and disabled adult children. Over the next few years, Congress broadened the scope of the program, permitting the dependents of disabled workers to qualify for benefits, and eventually disabled workers at any age could qualify.
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<table>
<thead>
<tr>
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<th>Percent Increase</th>
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THE DEVELOPMENT OF SOCIAL SECURITY

MEDICARE & OTHER CHANGES

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

The most significant change involved the passage of Medicare. Under Medicare, health coverage was extended to Social Security beneficiaries aged 65 or older (and eventually to those receiving disability benefits as well). Nearly 20 million beneficiaries enrolled in Medicare in the first three years of the program. Social Security would continue to have responsibility for the Medicare program until a 1977 reorganization created the Health Care Financing Administration (HCFA). HCFA assumed administrative responsibility for Medicare at that time. (In 2001, HCFA was renamed the Centers for Medicare & Medicaid Services.)

THE DECADE OF THE 1970s

In addition to the automatic annual COLA provision, the 1972 law also introduced wage-indexing of the initial benefit amount upon retirement, in order to ensure that Social Security benefits keep up with standards of living. These two changes, taken together, introduced the principle of automatic adjustments in Social Security benefits to compensate for both wage and price inflation in the economy.

The 1970s also saw stress on program financing as the adverse economic conditions of that era combined with a maturing program to produce the first period of sustained fiscal imbalance in the system. Amendments enacted in 1977 sought to restore financial balance to the system. The current tax-rate schedule for Social Security was set in these amendments in 1977 (the schedule was slightly modified in 1983).

Supplemental Security Income (SSI) Program

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SSI is a needs-based program for elderly, blind and disabled individuals.

THE DECADE OF THE 1980s

The Social Security Amendments of 1980 made changes in the disability program. Most of these changes focused on various work incentive provisions for both Social Security and SSI disability benefits. The 1980 Amendments also required Social Security to conduct periodic reviews of current disability beneficiaries to certify their continuing eligibility. This became a massive, controversial workload. By 1983, the reviews had been halted, and, in 1984, Congress passed the Disability Benefits Reform Act modifying several aspects of the disability program, including how disability reviews are conducted.

In the early 1980s, the Social Security program faced a serious short-term financing crisis. President Ronald Reagan appointed a blue-ribbon panel, known as the Greenspan Commission, to study the financing issues and make recommendations for legislative changes. The final bill, signed into law in April 1983, made numerous changes in the Social Security program, including the partial taxation of Social Security benefits; the first coverage of federal employees; raising the retirement age gradually starting in 2000; and increasing the reserves in the Social Security trust funds.
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Social Security had its status in the government upgraded when it became an independent agency in the federal government in March 1995. This means the Commissioner of Social Security reports directly to the President. Under the 1994 legislation, the periodic Social Security Advisory Councils were abolished and a permanent seven-member bipartisan Social Security Advisory Board was formed to provide independent advice and counsel on Social Security.

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employment services, and other support services from an employment network of their choice. In addition to allowing beneficiaries to obtain vocational services, the law provides incentive payments to providers for successful rehabilitations in which the beneficiary returns to work. The provisions also provide a number of safeguards to the beneficiaries to protect their benefits and health.

THE NEW MILLENNIUM

On April 7, 2000, President Clinton signed into law H.R. 5, “The Senior Citizens’ Freedom to Work Act of 2000,” eliminating the Retirement Earnings Test for beneficiaries at or above full retirement age. (The test still applies to beneficiaries below the full retirement age.) This allowed approximately 900,000 people who were collecting benefits but also working to not have their benefits reduced because of work. The aim of this bill was to avoid penalizing seniors who choose to work in retirement.

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President Bush introduces the members of his Presidential Commission to Strengthen Social Security.

The report also recommended that “there be a period of [national] discussion ... before legislative action is taken to strengthen and restore sustainability to Social Security.”

At the start of his second term, in his State-of-the-Union address, President Bush emphasized the need to “pass reforms that solve the financial problems of Social Security once and for all.” The President established basic principles to guide reform, including the “guarantee that there is no change for those now retired or nearing retirement” and that “any changes in the system are gradual.” He has pledged to work with Congress to find the most effective combination of reforms to strengthen Social Security for future generations.
THE DEVELOPMENT OF SOCIAL SECURITY

employment services, and other support services from an employment network of their choice. In addition to allowing beneficiaries to obtain vocational services, the law provides incentive payments to providers for successful rehabilitations in which the beneficiary returns to work. The provisions also provide a number of safeguards to the beneficiaries to protect their benefits and health.

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THE GROWTH OF SOCIAL SECURITY

Social Security has grown to become a major facet of modern life. One in six Americans receives a Social Security benefit, and about 98 percent of all workers are in jobs covered by Social Security. From 1940, when slightly more than 222,000 people received monthly Social Security benefits, until today, when more than 47 million people receive such benefits, Social Security has grown steadily. The SSI program, meanwhile, provides income support to more than seven million people.

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PROGRAM GROWTH

<table>
<thead>
<tr>
<th>Year</th>
<th>Social Security Beneficiaries (a)</th>
<th>Dollars (b)</th>
<th>SSI Year</th>
<th>Beneficiaries (c)</th>
<th>Dollars (d)</th>
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10/12/66: President Johnson visited Social Security headquarters to participate in the 15th Annual Honor Awards Ceremony — the only visit by a President.

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12/98: The first-ever White House Conference on Social Security was held in Washington, D.C., on December 8 and 9, 1998.

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11/02/00: Social Security announced the availability of its new online application process for Social Security retirement claims.

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This list summarizes the major organizational changes to the agency over the years:

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The Federal Security Agency Absorbs the Board
On 7/1/39, the Social Security Board lost its independent agency status when the new sub-cabinet level Federal Security Agency was created. The FSA encompassed the SSB, the Public Health Service, the Office of Education, the Civilian Conservation Corps and the U.S. Employment Service.

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Social Security Becomes an Independent Agency
Throughout the years, arguments had been made that Social Security should be returned to independent agency status. This debate was given impetus in 1981 when the National Commission on Social Security recommended that the agency once again become an independent Social Security Board. The 1983 National Commission on Social Security Reform (a.k.a., the Greenspan Commission) again raised this issue and recommended a special study be commissioned of the matter. This special study was completed in 1984, and it outlined several options for making Social Security an independent agency. This led to numerous legislative proposals in the ensuing years and in 1994 the legislation passed both houses of Congress unanimously making Social Security, once again, an independent agency. President Clinton signed the bill on August 15, 1994 (59 years and one day after FDR signed the original Act). The change took effect on March 31, 1995.

SOCIAL SECURITY BOARD MEMBERS

From 1935 until 1946, the Social Security program was the responsibility of a three-person executive group known as the Social Security Board. Although one of the members was designated as the Chairman, all three held equal voting status in the Board’s decision-making. During this 11-year period, six different individuals were members of the Social Security Board.

John G. Winant
Board Chairman
1935-1937

Arthur J. Altmeyer
Member 1935-1937
Chairman 1937-1946

Vincent M. Miles
Member
1935-1937

George E. Bigge
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Mary W. Dewson
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Arthur J. Altmeyer
7/46-4/53

William L. Mitchell*
4/53-11/53

John W. Tramburg
11/53-8/54

Charles I. Schottland
8/54-2/59

William L. Mitchell
2/59-4/62

James B. Cardwell
10/73-12/77

Don I. Wortman*
12/77-10/78

Stanford G. Ross
10/78-1/80

Herbert R. Doggette, Jr.*
1/80-1/80

William J. Driver
1/80-1/81

Herbert R. Doggette, Jr.*
1/81-5/81

Robert M. Ball
4/62-3/73

Arthur E. Hess*
3/73-10/73

John A. Svahn
5/81-9/83

Martha A. McSteen*
9/83-6/86

Dorcas R. Hardy
6/86-8/89
SOCIAL SECURITY COMMISSIONERS

Gwendolyn S. King 8/89-10/92
Louis D. Enoff* 10/92-7/93
Lawrence H. Thompson* 7/93-10/93
Shirley S. Chater 10/93-3/97
John J. Callahan* 3/97-9/97
Kenneth S. Apfel 9/97-1/01
William A. Halter* 1/01-3/01
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Former Social Security Commissioners on the occasion of the unveiling of the new independent-agency logo, March 1995.
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