

# History of Social Security 1935-1975

**History is not was but is.**

**--Hemingway**

# Zoom



Mic and Video off



Questions in chat—  
break and end



Thanks to Zoom support  
Scott & Carrie



5-10 minute break  
halfway through

# Health Insurance

A Federal Private Partnership

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# Quick Review

- Long term effort (TR 1912) effort for health insurance
- Truman 5-point goal for health care
  - Hill-Burton Act—hospital buildings
- Eisenhower minor medically needy program
- Elderly hit hardest
  - Less income
  - Greater need for medical care

LBJ signs Medicare  
law with Harry  
Truman in  
Independence, Mo  
7/30/65



# A Three Layer Cake--Financing

Hospital Insurance (A)—payroll taxes

Physician and other costs (B)—premium and general revenues

Needs based medical for categorical eligible—shared state and federal



# Hospital Insurance Trust Fund

- Originally Medicare taxes combined with Social Security (FICA)
    - 1965—3.625% on \$4,800
    - 1966—4.2% on \$6,6000
    - Separated into a separate Trust Fund in 1991
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# Supplemental Medical Insurance-Voluntary

- Responded to allegations of socialized medicine
- Separate Trust Fund
- \$3/month deducted from RSI, RRB, or Civil Service Retirement for over 65
- Uninsured 65-year-olds could pay directly
- States could purchase insurance for welfare recipients
- Federal government matches all premiums from general revenue
- Deductible and copay to prevent overutilization



# Medicare Additional Income

- No limited wage base for Medicare Taxes
- Additional taxes over \$200,000 (2006)
- Part A premium if uninsured
- Part B premiums higher with higher income
- People not covered for title II are covered for Medicare
  - Federal, state and local Government employees
  - Railroad employees
- ✓ (Criteria possibilities for title II funding?)



# Implementation

- 11 months to Implement
  - Part A automatically enrolled
  - Part B must sign-up
  - Medicare card designed and issued
-



First  
Medicare  
Card  
Harry Truman

Almost  
Immediate  
Positive  
Impact

Recruitment of Doctors for  
many underserved areas

Joint Commission for  
Accreditation of Hospitals

Increased training  
programs/students

Increased services available

# Services Available

Type of Service	Agencies Offering	
	March 66	March 67
Physical Therapy	7	45
Occupational Therapy	2	8
Speech Therapy	3	14
Medical Social Work	2	10
Home Health Aides	23	51

# Feds Oversee Private Insurance Processes

- Title II over 65-Eligible for Medicare
- HCFA, now CMS:
  - Sets standards for providers and suppliers
  - Sets standards for Utilization and Quality Peer Review
- Private insurance (contractors)
  - Process claims
  - Enroll providers
  - Reimburse providers and suppliers
  - Audit individual provider costs
  - Establish local coverage determinations

# What are Fiscal Intermediaries and Carriers?

- Medicare contracted with private insurers serving area to process claims
- Able to review local fiscal payment options
- A contract was established for each state
  - Reimbursement review
  - Medical coverage review
- Part A—Fiscal Intermediaries (Blue Cross)
- Part B—Carriers (Blue Shield)

# Life Expectancy at 65

1960


- Men-12.8 years
- Women-15.8 years

2019

- Men 17.9 years
- Women-20.8 years



# Civil Rights and Medicare

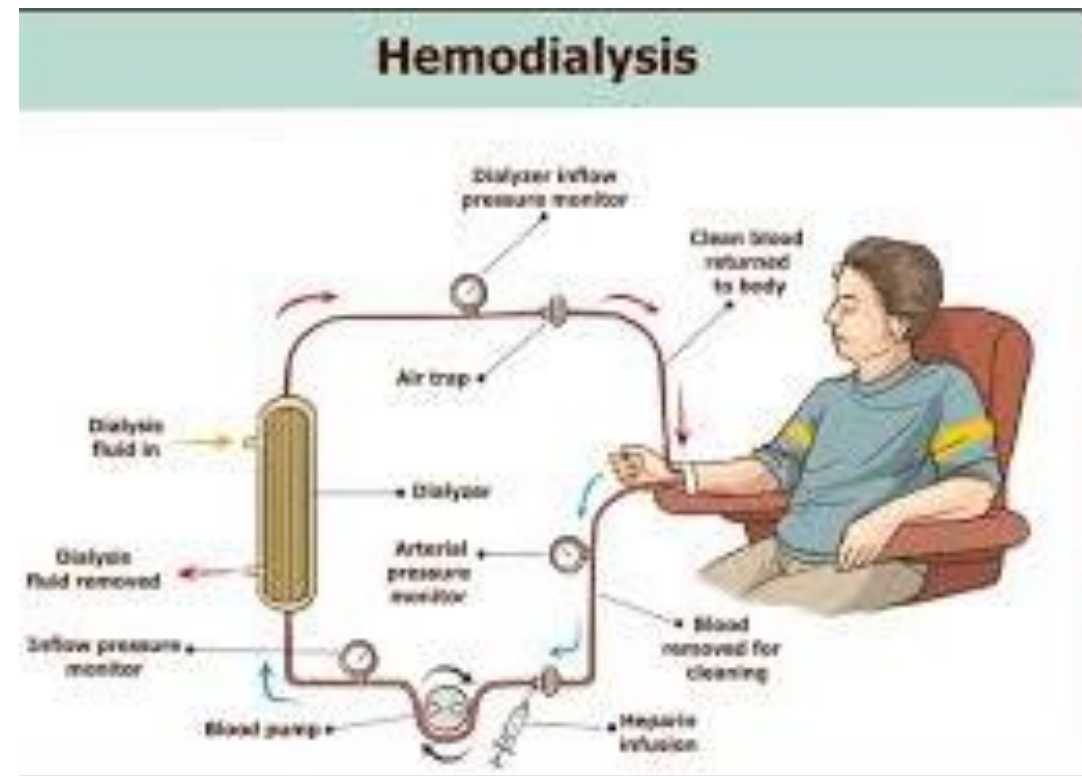
- Title VI of Civil Rights Act
  - Facilities participating in Federal programs must not discriminate
  - Fourth Circuit Court of Appeals supported Medicare requirements
  - Room and ward assignments
  - Admission of physicians to hospital staffs
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## 72 Amendments—Disabled and Catastrophic

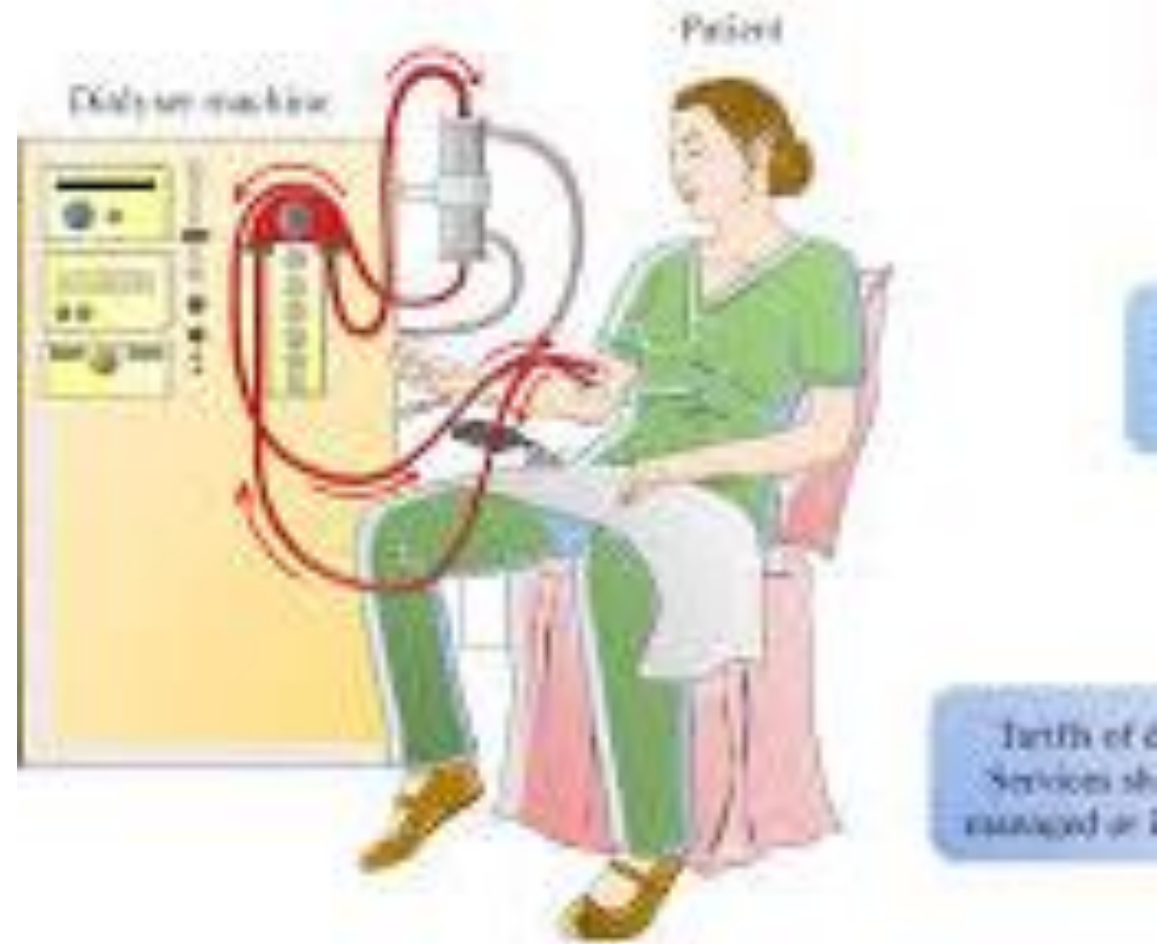
- Major Medicare impact—covers disabled after 24 months
  - Greatly expanded the number of people covered
- Just before passed added End Stage Renal Disease (ESRD)
  - Only recently accepted technology/treatment for dialysis and transplant
  - Estimates of cost uncertain
  - Estimated costs only included under 65

# Bills introduced for Dialysis 1965 to 1972

- Kidney treatment centers growing
- VA established 30 treatment centers
- PHS programs supported
- NIH grants supported
- By 1972 10,000 patients dialyzed



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- 1970 Ted Kennedy discussing National Health Insurance
  - Republicans supported catastrophic health insurance
  - Senate added to Social Security bill later in 1972
    - Originally general funding
    - Added to Medicare politically





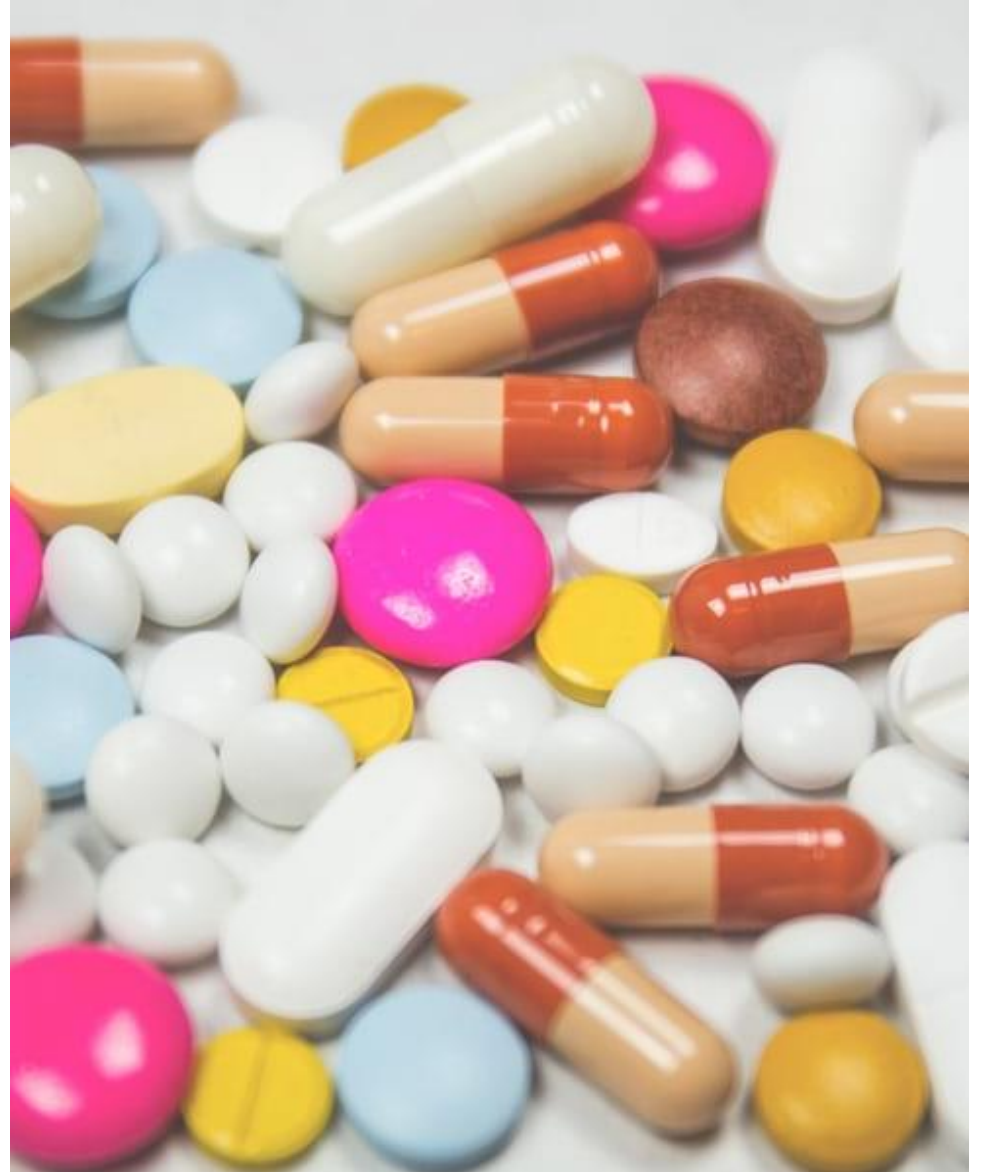
## ESRD implementation

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- Focus—how much payroll tax?
- Needed to be currently insured or auxiliary of currently insured
- Expected national Health Insurance to be enacted in several years
- First approval of catastrophic health insurance

## Additional Coverage

- 1982 hospice care for elderly
- 2001 ALS for all ages covered
- 2003 self-administered prescription drugs
- A number of expansions internal to CMS policy





# Fiscal Changes—MMA of 2003

- Beneficiaries with income less than 150% of the Federal Poverty Level are subsidized under Part D
  - Beneficiaries with higher income pay a larger premium
    - IRS Adjusted Gross, not net
-

# Private Partnership Strengthened

- Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)—Drug Coverage
  - Part C—Medicare Advantage
    - Private insurance that combines with federal A&B
  - Part D—Prescription Drugs
    - some retain insurance through VA, former employer, or union



# Covered population

6/1/66—  
19,000,000

2018—61,500,000

One in three  
Americans are  
covered by title  
XVIII or XIX

# Supplemental Security Income

Welfare Reform

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# Unwillingness of Elderly to Apply for Assistance

## **social insurance**

- Positive Concept of self-help
- Connection with labor market
- Amount determined by
  - Amount earned/taxes paid
  - How long worked

## **public assistance**

- Negative concept of Need
- What does not have
- Inability to maintain self or family
- unstated concept of worthiness/unworthiness

# Design for Dignity

- Approach to “welfare mess”
- Conversion of 3.3 million welfare recipients
  - Complex systems integration
  - Dealing with people felt threatened (employees and recipients)
- Thought 3 million more might be eligible,
  - Many elderly receiving small SS payments
  - Politics on outreach
- Complex state relations/agreements
- Assumptions other categories would be federalized

# Welfare Reform— From State to Federal

- Replaced Federal/State matching grant program (titles I, IV, X and XVI)
- Effective 1/1/74
- Needs based cash assistance to categories:
  - Aged, Blind, or Disabled (including children)
  - With Limited income and resources
- Financed by General Fund
- States must/may supplement
- Linked to Medicaid (title XIX)

# SSA Administered

- National standard requirements for income and resource floor
- Means tested
  - Proof of income/resources
  - Complex decisions on living arrangements
  - SSA data alerts for income sources (i.e., IRS and Earnings Record)
- Objective and Consistent
  - No liens
  - No Family Responsibility
  - No discrimination

# States Retain Many responsibilities

- Social Services—title XX
- Medicaid—title XIX
  - Federal impact on state budgets
  - Issues on who does disability determination for children
- In Virginia:
  - Medicaid state definition of disability beyond SSI
  - Chooses to administer own SSI State supplement

# Economic Security for the elderly

1. Social Security
2. Private/government pension (VA, state, union, employer)
  - A. Employee Retirement Income Security Act of 1974 (ERISA)
    - 1) Administered by Pension Benefit Guarantee Board
    - 2) Pay 800,000 retirees from 5,000 terminated single-employer pension plans
3. Savings, including home ownership
4. SSI



# SSI— Prevent Poverty

- Title XVI—goal: provide basic food, clothing and shelter
  - Many elderly have low benefits
  - Insurance concept not sufficient for part-time or infrequent workers
  - Young disabled low benefit or uninsured
- Title XIX—Parents of disabled children medically needy

# Eligibility Differences

- Title II
  - Replaces income lost because of retirement, disability, or death
  - Relationship to worker/his SSN
  - Social Insurance
  - Lose benefits only if:
    - Recover from disability
    - Auxiliaries have change of status
  - Disability definition work oriented
  - Payment for prior month
- Title XVI
  - Means Tested
  - Paid on own SSN
  - Funded by general revenue
  - Lose benefit if income and resources go above defined levels
  - Disability definition primarily medical
  - Payment 1<sup>st</sup> of month for future month

# Recipients—in Millions

Type of beneficiary	Total	Social Security only	SSI only	Both Social Security and SSI
All beneficiaries	69,781	61,894	5,273	2,613
Aged 65 or older	50,858	48,578	995	1,285
Disabled, under age 65	12,992	7,385	4,278	1,328

# SSA Accounting and Expenditures

Trust Fund and General Revenue

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# SSA Must Account for Programmatic and Administrative Costs

- Benefit Payments
- Cost of administration
  - Purchase of medical records/tests
  - Medical Consultants
  - Office space and equipment
- Employee salaries
- External Requests--charge
  - Freedom of Information Act (size)
  - Administer other programs
    - SSN verifications for authorization to work
    - DMV

# Principal— Must relate to SSA Responsibilities

- Administering Programs
- Provide information to other agencies required by law
- Maintaining Records needed to administer programs
  - Wages
  - SSNs
  - SSI income and resources

# Death Master File

- Created for Administration of Benefits
  - People over 65 or receiving benefits, SSN information
- Contains state death record info (SSA does not own)
- Must make SSA info available under **Freedom of Information Act**
- Dept of Commerce National Technical Information Services
- Sells public file for cost (financial organizations, ancestry)
- Excludes state death record information

# Issues

No Easy Answers

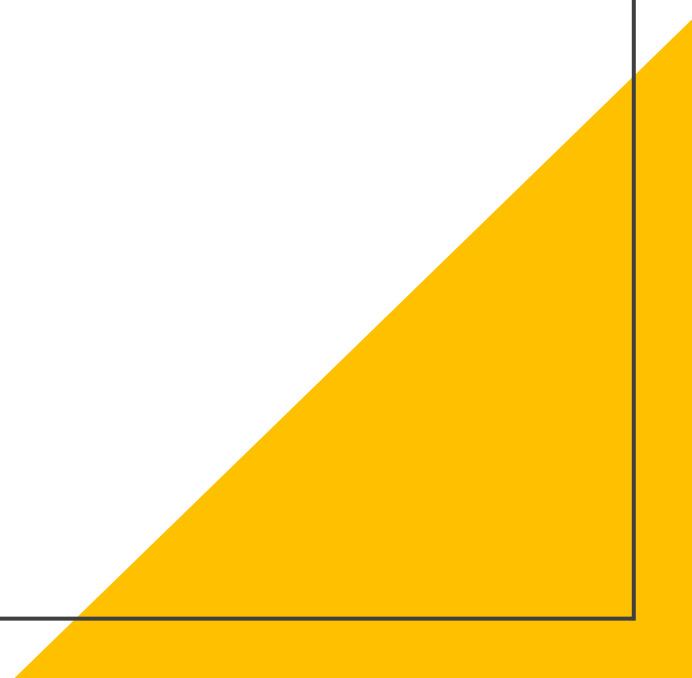
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# Solvency

- OASDI Trustees Report for end of 2019
- RSI Fully funded into 2034
  - Able to pay 76% thereafter
- DI Fully Funded 2065
  - Able to pay 92% thereafter
- HI Fully Funded until 2026
- Lower because of repeal of HI excise tax
- SMI at least 10 years

# Solvency Options

- COL Adjustments
  - Computation of Monthly Benefits, including adjustment for age
  - Benefits for Family Members
  - Payroll Taxes, **including maximum taxable**
  - Expanding Coverage or Earnings
  - Investment in Marketable Securities
  - Taxation of Benefits
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# Fairness

Women/Men's issues

Offset of other pensions

Regressive

Objective nature of disability decision

# Women's Issues

- Women working as full-time members of workforce
  - 1939—25% of workforce (often parttime or irregularly)
    - Insurance concentrated on loss of husband's wages
    - Unfair treatment compared to women who do not work (not workers)
  - 1976—40% of workforce
  - 2019—47% of workforce
  - 2019—54.7% of women and 69.2% of men in workforce
- Multiple marriages and divorces



# Advantages to women as workers

- Can retire with benefits on own without regard to husband
  - Potential Medicare with retirement/disability
  - Children get benefits from deceased/disabled mother
  - Disability benefits—as widow only age 50
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## Two Worker Couples— Solutions?

Have one member pay a premium surcharge to insure spouses and children

Allow FICA refunds for combined payments over a certain amount as do now when more than one employer and pay more than max

To pay both worker and spousal benefits to both would be expensive!

# Notches

- A notch or cliff occurs when legislation or processes have a negative effect on some people based on designated factors such as birth year.
- Almost any change has potential to be a notch
- SSA has been trying for “slopes” rather than notches
  - Increasing full retirement to 67 rather than 65
  - life expectancy gives many more years of benefits

# “The” Notch

- Benefits paid to people born 1917-1921
- 1972 law on annual COL
- Formula flawed—benefits rise faster than COL
- People born 1910-1916 received windfall
- Congress corrected error 1977
- Calculations 1917-1921 used both, paid higher
- 1994 Commission said benefits paid to notch years were equitable

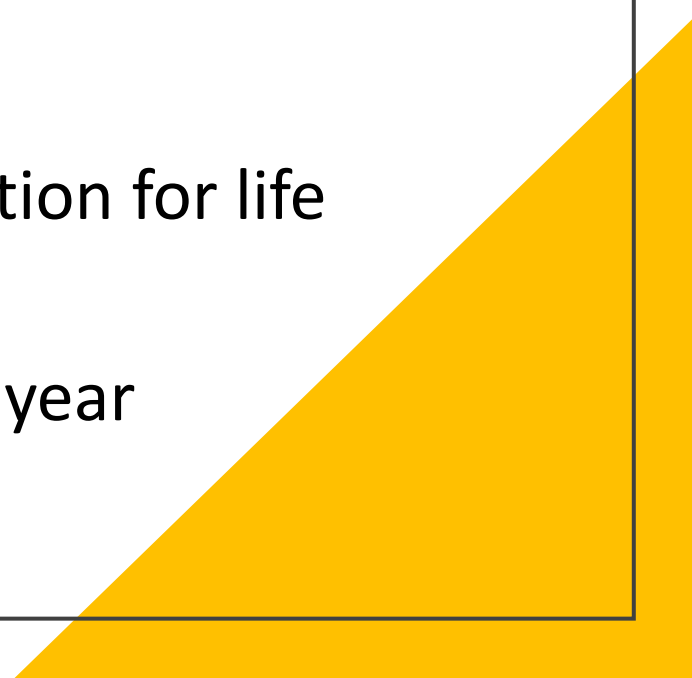




# 2008 notch

- 2008—economic downturn
  - Benefits tied to high 35 years
  - Computation tied to average wage index (AWI)
  - Corrects for changes to wage growth
  - Earnings lower in 2008 resulted in benefits \$1/month lower rest of life for people who turned 60 in 2008 (born 1948)
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# Covid impact—2020 Notch

- 2020 average wage estimated severely down
  - SSA Chief Actuary estimated 9.1%
  - For those turning 60 in 2020 \$119/month reduction for life
  - Options before congress
    - When AWI results in lower benefit, use prior year
    - Legislation pending
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# WEP and GPO

- Government Pension Offset--1977
  - Result of SC decision giving men same auxiliary benefits as women
  - Applies to eligibility as well as receipt
  - Amount of pension will be subtracted from potential SS benefit
  - Federal, state or subdivision of state
  - Excludes Workers Comp and VA benefits
- Windfall Elimination—Phased in 1986 to 1990
  - Eligible for a pension in non-covered employment
  - Revised benefit formula to prevent windfall based on weighting

# Return on Investment

- Nature of Insurance
- Privatization—came close
  - Disability and survivor insurance
  - Full Market Cycle

# Conclusions

How did we get here?

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# Passage of the Social Security Act

- Desperate Times
- Passed Congress with large majority BUT
- Fear of Constitutionality issue
- Commitment of two people
  - Frances Perkins
  - FDR

# Individual Responsibility and Social Need

- Social Insurance Compulsory
- Based on individual payroll taxes
- Personal commitment by earmarked taxes
- Concern for general welfare
- Computation mildly regressive to benefit lower wage earners
- Considers needs of family

# Federal or state/local?

- Church and volunteerism not sufficient in hard times
- Industrialization/wage-based society creates vulnerabilities
- Doesn't remove local involvement
- Consistency
- Portability from job to job, state to state
- Efficiency in numbers (1 or 50 entities)
- Partnership
- Constitutionality may remain an issue





# Future of Social Security

- Solvency
  - Privatization
  - Personal Service/automation
  - Loss of faith by young workers
    - Did Hoover have it right?
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Thank You!