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Social Security: Summary of Major Changes in the Cash Benefits Program

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Geoffrey Kollmann
Specialist in Social Legislation
Domestic Social Policy Division

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Summary

Title II of the original Social Security Act of 1935 established a national plan designed to provide economic security for the nation's workers. The system of Old-Age Insurance it created provided benefits to individuals who were age 65 or older and who had "earned" retirement benefits through work in jobs covered by the system. Benefits were to be financed by a payroll tax paid by employees and their employers on wages up to a base amount (then $3,000 per year). Monthly benefits were to be based on cumulative wages in covered jobs. The law related the amount of the benefit to the amount of a worker's total wages covered by the program, but the formula was weighted to give a greater return, on payroll taxes paid, to low-wage earners. Before the Old-Age Insurance program was actually in full operation, the 1939 amendments shifted the emphasis of Social Security, from protection of the individual worker to protection of the family, by extending monthly benefits to workers' dependents and survivors. The program now provided Old-Age and Survivors Insurance (OASI).

For most of the history of Social Security in the following decades, changes to the program were ones of expansion. Coverage of workers became nearly universal (the only large groups remaining outside the system being employees of state and local government who have not chosen to join the system and federal workers who were hired before 1984). Congress established the Disability Insurance (DI) program in 1956, and, for aged and disabled Social Security recipients, the Medicare program in 1965. Both these programs were financed in whole or in part by additions to the payroll tax rate, which increased periodically, from 1.0% of pay on employees and employers, each, in the 1937-1949 period, to its present level of 7.65%. The types of recipients eligible for benefits were expanded over the years, and benefit levels were increased periodically. In 1972, legislation provided that, beginning in 1975, benefits would rise by the same percentage as the cost-of-living.

Beginning in the late 1970s, legislative action regarding Social Security became more concentrated on solving persistent financing problems. The OASDI trust funds would have been exhausted in the early 1980s if legislation had not been enacted in 1977 raising taxes and curtailing future benefit growth. In 1983, Congress passed additional major legislation that restored solvency to the OASDI program. Recently, worsening projections of financial shortfalls (in 2023 in the DI program, 2037 in OASI and DI combined) again have refocused attention on the solvency of the program. The most recent enacted legislation has provided increased incentives for disabled recipients to return to work, and has repealed the earnings test for recipients above the full retirement age.

This paper describes only the *major* changes to the OASDI program since 1935. However, information concerning less significant OASDI amendments is also available from the Congressional Research Service (CRS).

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Introduction

The original Social Security Act of 1935 established a national plan to provide economic security for the nation's workers and to enable the states to provide more adequate welfare benefits. Title II of that Act provided old-age benefits to most workers and became known as "Social Security." Title II has been amended many times over the years; it now includes Old-Age, Survivors and Disability Insurance (OASDI), under which cash benefits are paid to retired and disabled workers and their families, and to the survivors of deceased workers.

This paper describes the *major* changes in the OASDI program since 1935. Information concerning other programs under the Social Security Act, such as Supplemental Security Income (SSI), Medicare, Medicaid, unemployment insurance, and social services, is available from the Congressional Research Service (CRS), but is not included in this summary. Information also is available from CRS on less significant OASDI amendments that are omitted from this paper.

The Social Security Act of 1935

The Social Security program is basically a product of the Great Depression. That economic crisis overwhelmed traditional sources of aid for the jobless, aged, widowed, orphaned, and disabled. To help deal with the crisis, a Committee on Economic Security appointed by President Franklin D. Roosevelt recommended that the federal government create a national program that would establish a system of unemployment and old-age benefits and enable the states to provide more adequate welfare benefits. Acting on those recommendations, in 1935, Congress enacted the Social Security Act. In addition to offering states grants for cash relief for the needy aged, the blind, and dependent children, the Act established social insurance programs, financed by payroll taxes, for the unemployed and the aged.

The system of Old-Age Insurance created by Title II of the Act provided benefits to individuals who were age 65 or older if they were "insured" by the program. Individuals were insured if they had worked at least 5 years in jobs covered by the program, and earned total wages of at least $2,000 in those jobs, before they reached age 65. The amount of the benefit was related to the amount of total wages covered by the program, but the formula was weighted to give a greater return, on payroll taxes paid, to low-wage earners. The first benefits were to be paid in 1942. No benefits were to be paid for months in which recipients earned any wages from covered employment (an "earnings test"). If a worker attained age 65 but was ineligible for benefits, or died before reaching age 65, Social Security would pay a lump sum of 3.5% of covered wages (intended to be roughly equivalent to the payroll taxes he had paid plus some interest) to the worker or his estate. For death after age 65, the lump sum was 3.5% of covered wages minus total benefits paid.

Nearly all workers in commerce and industry under age 65, or about 60% of the work force, were required to participate in the Old-Age Insurance program. Principal groups excluded from the program were government workers, railroad employees,[1] the self-employed, farm and domestic workers, and employees of nonprofit organizations.

No direct method of financing old-age benefits was provided in Title II. Rather, Title VIII of the Act levied payroll taxes on the types of employment that provided eligibility for benefits under Title II. Title VIII required that, beginning in 1937, employees covered by the program and their employers each pay a tax of 1% (rising gradually to 3% in 1949 and thereafter) on the employee's first $3,000 of wages. It was hoped that separating the financing from the benefit provisions would help the system withstand early charges that the federal government did not have the constitutional power to levy taxes to pay benefits to individuals.

Nevertheless, an amount equivalent to the taxes collected under Title VIII was appropriated to an Old-Age Reserve Account under Title II from which benefits were to be paid. Surplus funds in the Old-Age Reserve Account were to be invested in U.S. government securities.

1939 Amendments

The 1939 amendments shifted the emphasis of the Old-Age Insurance program from protection of the individual worker to protection of the family. More emphasis was placed on the goal of providing socially adequate benefit payments, and somewhat less emphasis was placed on the principle of individual equity (amount of benefits linked to the amount of taxes paid). The amendments also altered the financing of the program. Major provisions:

- Provided benefits for "dependents" of insured workers based on a set proportion (75% for widows, 50% for others) of the worker's benefit:
    - wife or widow age 65 or older;
    - child under age 16, or under 18 if regularly attending school (student requirement repealed in 1946);
    - widow of any age if caring for an eligible child; and

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[1] Workers in the railroad industry have their own federal retirement system. Subsequent legislation has resulted in the coordination of the two programs so that railroad employees and employers now pay the equivalent of Social Security taxes, and railroad retirees receive benefits which are comparable to Social Security benefits as part of their total retirement pension.

  - totally dependent parent age 65 or older.

- Liberalized benefits for those persons becoming eligible for benefits in the early years of the program:

  - Instead of being based on cumulative lifetime earnings after 1936, benefits were based on average monthly wages (AMW) after 1936 and before the quarter of death or retirement. This shift was based on the concept that, as a social insurance system, Social Security should replace wages lost that formerly provided support for the recipients, rather than merely strictly reflecting the degree to which a person had worked in covered employment. The amount of the benefit was 40% of the first $50 of the AMW plus 10% of the next $200; this amount was then increased by 1% for each year with at least $200 in covered wages. The provision for lump-sum payments of 3.5% of accumulated wages for workers who died before age 65, or attained age 65 but were ineligible for benefits, was repealed;
  - The "quarter of coverage" concept was introduced for achieving the "insured status" necessary in order to be eligible for benefits. A quarter of coverage was a calendar quarter in which an individual was paid at least $50 in wages in covered employment. A worker was "fully insured" for any type of benefits if he had quarters of coverage equal to one-half of the quarters that had elapsed after 1936 (or quarter age 21) and before the quarter of death or age 65, provided he had a minimum of 6 quarters of coverage. A worker with 40 quarters of coverage was fully insured for life. A worker was "currently insured" for survivors benefits if he had at least 6 quarters of coverage out of the 12 calendar quarters immediately preceding his death (changed in 1946 to 6 out of 13 quarters, including the quarter of his death); and
  - The first benefits were to become payable in 1940 instead of 1942.

- Extended coverage to wage earners over age 65.
- Revised the earnings test – benefits remained payable for months in which wages were less than $15.
- Provided a lump-sum death benefit of 6 times the primary insurance amount (PIA) upon the death of insured workers if there were no entitled survivors.
- Established a "minimum benefit" of $10 a month (same as the lowest amount payable, based on cumulative wages, under the old law).
- Replaced the Old-Age Account with a trust fund to which 100% of taxes under the Federal Insurance Contributions Act (FICA – also enacted in 1939) were automatically appropriated to pay benefits and expenses of the program. Title VIII of the Act was repealed (the program had been found constitutional in 1937).

- Postponed the increase in the tax rate, scheduled for 1940, until 1943. (Subsequent amendments during the 1940s kept postponing the increase so that it did not take effect until 1950.)

1950 Amendments

The 1950 amendments substantially expanded the scope of the Old-Age and Survivors Insurance (OASI) program by extending coverage to about 10 million additional workers. The amendments also greatly increased benefit levels, liberalized eligibility requirements, and increased the maximum amount of covered earnings considered for both benefit and tax purposes the "earnings base"). Major provisions:

- Covered regularly employed farm and domestic workers, self-employed workers (except farmers and professionals), federal civilian employees not under a federal civil service retirement system (e.g., temporary employees), Americans employed outside the United States by American employers, and workers in Puerto Rico and the Virgin Islands. Not-for-profit organizations could elect coverage for their employees (except ministers). State and local governments could elect coverage for their employees *not* under public employee retirement systems.
- Provided an average 77% increase in benefits (which almost exactly matched the increase in prices since benefits were first paid in 1940), effective in September 1950. The "minimum benefit" was raised to $20.
- Liberalized the conditions for fully insured status by requiring a person to have quarters of coverage equal to at least one-half the calendar quarters after 1950, instead of after 1936. This change gave newly covered workers the same opportunity to qualify for benefits as workers covered under the original Act by relating the amount of work required to the time a worker could have been expected to have worked after 1950.
- Created a "new start" benefit computation formula, which allowed a worker's average monthly earnings to be figured on the basis of earnings after 1950 rather than 1936, to ensure that newly covered workers received benefits comparable to other covered workers.
- Exempted persons age 75 or over from the earnings test. Also under the earnings test, the amount of monthly earnings permitted before benefits were withheld for that month was increased from $15 to $50.
- Provided free wage credits of $160 a month for military service from September 1940 through July 1947.
- Made benefits payable at any age (i.e., under age 65) to the wife of a retired worker, or to the surviving divorced wife, if caring for an eligible child. The amendments also provided benefits to a dependent husband of a retired or deceased worker at age 65. (Previously only wives were eligible for spousal dependent benefits).
- Changed the lump-sum death benefit to three times the PIA to the survivors or estate of all insured workers. (The 1939 Act provided a lump-sum death benefit only if there were no entitled survivors.)

- Raised payroll taxes, so that the employee/employer share would gradually rise to an ultimate rate of 3.25% in 1970. The tax for the self-employed was set at 1-1/2 times the employee rate.
- Set the earnings base (the maximum yearly amount of earnings on which Social Security taxes are paid and which is creditable for benefits) at $3,600 for 1951 and thereafter.

1952 Amendments

Major provisions of the 1952 amendments:

- Increased benefit levels by 12.5%, effective in September 1952.
- Raised the earnings test limitation from $50 to $75 a month.
- Extended free wage credits of $160 a month for military service from July 1940 through December 1953, instead of September 1940 through July 1947. (The 1956 amendments extended the credit for military service through December 1956.)

1954 Amendments

The 1954 amendments extended coverage to self-employed farmers, most professional self-employed workers, and most homeworkers. The amendments also extended coverage to state and local government employees (except firemen and policemen) who were in positions already covered under a state or local pension plan but only if coverage were agreed to, through a referendum, by a majority of all employees who were members of the pension plan. Ministers also were given a one-time option of electing coverage as self-employed individuals.

The 1954 amendments began the process of protecting the worker against income loss from disability by providing a "freeze" of the disabled worker's earnings record. Under prior law, a worker could become ineligible for retirement or survivor benefits because a period when he had a disability that prevented him from working was included in the elapsed time used in determining his insured status. Even if he remained insured, his benefit would be low because its computation would include years when he had little or no earnings. By "freezing" workers' earnings records and their old-age and survivors insured status during extended periods of total disability, the 1954 amendments prevented those periods of disability from reducing or wiping out retirement and survivor benefits.

Disability was defined as the inability to engage in any substantial gainful activity because of any medically determinable physical or mental impairment that could be expected to result in death or to be of long-continued and indefinite duration. To screen out cases of temporary disability, the amendments limited disability determinations to those illnesses or injuries that had lasted at least 6 months. The law provided that the states would make determinations of disability under agreements with the Secretary of Health, Education and Welfare and would be reimbursed for expenses from the Social Security trust funds.

To limit the disability program to individuals who had worked recently and for a reasonable length of time in covered employment, Congress imposed additional insured status requirements. To qualify for the disability "freeze," a disabled individual had to have at least 6 quarters of coverage during the 13-quarter period that ended with the quarter in which the period of disability began, and 20 quarters of coverage during the 40-quarter period that ended with such quarter.

In addition, the 1954 amendments:

- Increased benefit levels by about 13%, effective in September 1954.
- Reduced from 75 to 72 the age at which benefits would be paid without regard to earnings, and established a uniform annual earnings test for wage-earners and self-employed persons (previously, two separate tests were provided: a monthly test for wage-earners and an annual test for the self-employed). Under the new annual test, 1 month's benefit would be withheld for each $80 of earnings in excess of $1,200, and all types of earnings, not just covered earnings, would be taken into account.
- Raised the earnings base from $3,600 to $4,200 a year, effective in 1955, and the ultimate tax rate to 4.0% for employers and employees, each, effective in 1975.
- Provided a new benefit formula that ignored 4 years of an individual's lowest earnings; 5 years if the workers had 20 quarters of coverage (enacted primarily to overcome the handicap of the late entry into the system of the approximately 10 million workers newly covered by the amendments).
- Limited lump-sum death benefit to a maximum of $255.

1956 Amendments

The 1956 amendments provided monthly benefits, beginning in July 1957, to permanently and totally disabled workers between the ages of 50 and 65 (but not to their dependents). To qualify for disability benefits, the worker had to have been both currently and fully insured and to have had 20 quarters of coverage during the 40-quarter period that ended with the quarter in which the disability began. A waiting period of 6 consecutive months had to elapse before payments could begin. When a recipient also received another federal benefit based on disability, or a workman's compensation benefit, the disability benefit under Social Security was to be reduced by the amount of the other benefit. In addition, the law required recipients to accept rehabilitation services offered by the states. To finance the new benefits, the legislation established a Disability Insurance (DI) trust fund to which an additional .25% of contributions from employers and employees and .375% from the self-employed were allocated, raising the total employee/employer tax rate to 2.25% in 1957 and ultimately to 4.25% in 1975.

The amendments also:

- Provided benefits to a dependent child aged 18 or over of a deceased or retired insured worker if the child became disabled before age 18.
- Extended coverage to members of the uniformed military services, most previously excluded self-employed professionals, additional farm owners and operators, and, by referendum, firemen and policemen in some State and local government retirement plans.
- Made benefits payable to women workers and wives at age 62 instead of age 65, but at a reduced level to take account of the longer period over which they would collect benefits, and to widows and dependent parents (female) at an unreduced rate at age 62.
- Provided a benefit formula that ignored 5 years of an individual's earnings in all cases, and liberalized benefits for women by reducing the amount of Social Security credits needed to be eligible for benefits and by averaging their earnings over a shorter period of time than for men.

1958 Amendments

Major provisions:

- Increased benefits by 7%, effective in January 1959.
- Raised the earnings base from $4,200 to $4,800.
- Made benefits payable to dependents of disabled workers.
- Eliminated currently insured status (6 quarters of coverage in preceding 13 quarters) as requirement for eligibility for disability benefits or for a disability freeze.
- Increased scheduled payroll taxes by .25% on employers and employees each, ultimately rising to 4.5% by 1969.
- Provided that disability benefits could be paid retroactively for 12 months if all other requirements had been met for the earlier months (previously benefits could not be paid for months prior to filing for benefits).
- Eliminated offset of disability benefits for workmen's compensation or other benefits from federal programs.
- Withheld 1 month's benefit under the earnings test for each $100 in excess of yearly earnings of $1,200.

1960 Amendments

Major provisions:

- Allowed disabled workers to qualify for benefits at any age (previously limited to those age 50 and older).
- Liberalized the earnings test; the requirement for withholding a month's benefit for each $100 of earnings above $1,200 was eliminated. Instead, $1 in benefits would be withheld for each $2 in

earnings from $1,200 to $1,500 and $1 in benefits for each $1 in earnings above $1,500.
- Changed the requirements for fully insured status to one quarter of coverage for every 3 calendar quarters between January 1, 1951, and the year in which the worker becomes disabled, reaches retirement age, or dies, instead of one for every 2 quarters.
- Raised surviving child's benefit to 75% of the PIA.

1961 Amendments

Major provisions:

- As had been the case with women since 1956, lowered the age at which male retirees could begin to collect benefits from 65 to 62, but with benefits actuarially reduced to take account of the longer period in which they would collect benefits. Male dependent parents and widowers could collect unreduced benefits at age 62, as had been the case with female dependent parents and widows since 1956.
- Changed the requirement for fully insured status from 1 quarter of coverage for each 3 calendar quarters elapsing after 1950 to 1 quarter for each calendar year (equivalent to one for each 4 calendar quarters after 1950).
- Changed the earnings test to withhold $1 in benefits for each $2 of earnings between $1,200 and $1,700, and $1 in benefits for each $1 in earnings above $1,700. Under previous law, $1 was withheld for every $2 of earnings between $1,200 and $1,500, and $1 in benefits for each $1 in earnings above $1,500.
- Increased the tax on employers and employees by one-eighth of 1% and by three-sixteenths of 1% for the self-employed. The ultimate employee or employer rate would be 4.625% in 1968.
- Raised the minimum benefit from $33 to $40.

1965 Amendments

The 1965 amendments established under Title XVIII of the Social Security Act two related health insurance programs for persons aged 65 and over. Hospital Insurance (HI), or Part A of Medicare, provided basic protection against the costs of hospital and related care, and Supplementary Medical Insurance, or Part B, provided coverage for physicians' services and other related health services. Part A was to be financed by an additional payroll tax, gradually rising to 0.8% on employers and employees, each, and on self-employed individuals, by 1987. Enrollment in Part B was to be voluntary, and Part B was to be financed equally by general revenues and premiums paid by enrollees. Separate trust funds were established for each part of the Medicare program.

In addition, the contribution schedule for OASDI was increased, raising the tax rate on employers and employees from 3.625% to 3.85% and on self-employed persons from 5.4% to 5.8%, beginning in 1966. The total OASDHI tax was set at 4.2% for employers and employees each, and 6.15% for the self-employed. The ultimate OASDHI rate in 1987 was to be 5.65% on employers and employees, each, and 7.8% for the self-employed.

Significant changes made in Title II included a 7% increase in benefits, effective in January 1965. The amendments also:

- Changed the earnings test so that recipients could earn up to $1,500 a year and still get all their benefits. If, however, earnings exceeded $1,500, $1 in benefits would be withheld for each $2 of annual earnings up to $2,700 and for each $1 of earnings thereafter.
- Increased the earnings base from $4,800 to $6,600, beginning in 1966.
- Liberalized the definition of disability: rather than requiring that a worker's disability be of long-continued and indefinite duration, an insured individual was eligible for disability benefits if he or she had been under a disability that could be expected to result in death or that had lasted or could be expected to last for a continuous period of not less than 12 months.
- Reduced disability benefits to workers and their families if benefits plus workmen's compensation exceeded 80% of the worker's previous earnings. (The original offset provision had been repealed in 1958.)
- Enabled widows to elect to receive reduced benefits as early as age 60 instead of age 62.
- Provided "children's" benefits to full-time students aged 18-21 of insured retired, disabled, or deceased workers.
- Provided benefits to divorced wives and widows if they were dependent upon the wage-earner's support and if their marriage had lasted 20 consecutive years or more.
- Provided benefits to persons age 72 before 1969 who had fewer than 6 quarters of coverage under a "transitional insured status" provision. A minimum of 3 quarters of coverage was required. The benefit was $35.00 for an individual and $52.50 for a couple.

1966 Amendments

As part of the Tax Adjustment Act of 1966, Congress provided benefits, to be paid out of general revenue, for people over age 72 who were not insured for Social Security benefits (these became known as Prouty benefits). A person could be entitled to this special payment even with no quarters of coverage if he or she attained age 72 before 1968. Those attaining age 72 after 1967 had to have at least 3 quarters of coverage for each calendar year after 1966 and before the year in which they attained age 72. The benefit amount was the same as for transitional benefits.

1967 Amendments

Major provisions:

- Increased benefit levels by 13%, effective in February 1968.
- Increased the amount a person could earn in a year under the earnings test from $1,500 to $1,680. One dollar in benefits would be withheld for each $2 in earnings between $1,680 and $2,880, and $1 in benefits would be withheld for each $1 in earnings over $2,880 (instead of $2,700 as under the 1965 amendments).
- Provided monthly cash benefits for disabled widows and disabled dependent widowers at reduced rates as early as age 50.
- To counteract unintended liberalizations derived through court decisions, stipulated that the definition of disability includes inability to engage in any substantial gainful activity existing in the national economy regardless of whether such work was available locally. For surviving spouses, however, the definition was stricter – the inability to engage in any gainful activity.
- Made it easier for young workers to be eligible for disability benefits. Instead of needing 20 quarters of coverage in the last 40, workers under age 31 could be insured if they had quarters of coverage in at least half the quarters elapsing since age 21 (minimum of 6 quarters needed), up to the quarter of disability.
- Increased the earnings base from $6,600 to $7,800, beginning in 1968. The tax rates were increased, rising from an ultimate rate of 5.65% in 1987 to 5.9% for employees and employers, each, and from 7.8% to 7.9% for the self-employed.
- Gave additional wage credits of up to $300 a quarter for military service after 1967 (amended in 1972 to be effective in 1957).
- Covered ministers, unless they opted out on grounds of conscience or religious principles.

1969 Amendments

The 1969 amendments increased benefit levels by 15%, effective in January 1970.

1971 Amendments

The 1971 amendments increased benefit levels by 10% effective January 1971, and the earnings base to $9,000, effective January 1972. The tax rate was increased, rising from 5.9 to 6.05% in 1987 for employers and employees, each. The self-employed tax rate was not changed.

1972 Amendments

The 1972 amendments introduced the concept of automatic adjustments or "indexing" to the Social Security system. They provided that, effective in 1975, benefit increases would be tied directly, or indexed, to rises in the cost of living.

Under this new procedure, benefits would be increased automatically each January (through a cost-of-living adjustment, or COLA) when inflation as measured by the Consumer Price Index (CPI) rose 3% or more from the approximate time of the last benefit increase. In addition, effective in 1975, the earnings base and the exempt amount under the earnings test would be adjusted automatically to keep pace with changes in wage levels. The base was increased in the meantime to $10,800 for 1973 and $12,000 for 1974.

Other major 1972 amendments:

- Increased benefit levels by 20% effective in September 1972.
- Increased the annual exempt amount under the earnings test from $1,680 to $2,100. Each $2 in earnings above $2,100 would cause $1 in benefits to be withheld. (The second-stage dollar-for-dollar offset of earnings – $2,880 in the 1967 Act – was removed.)
- Provided a delayed retirement credit effective after 1970 that would increase benefits by one-twelfth of 1% for each month between ages 65 and 72 in which an individual did not collect benefits.
- Provided a special minimum benefit for those who worked in covered employment for many years but at low earnings. Unlike the already existing minimum benefit, the special minimum benefit was to be proportional to the number of years of covered earnings (in excess of 10 and up to 30).
- Provided that, prospectively, men and women would have their retirement benefits computed the same way (phased in to be fully effective in 1975). Before, a man the same age as a woman needed more Social Security credits to qualify for retirement benefits, and, if his earnings were identical to hers, usually received a lower benefit because his earnings were averaged over a longer period.
- Provided benefits for dependent grandchildren.
- Provided reduced benefits for widowers at age 60.
- Improved benefits for disability;

    — Provided Medicare coverage to disability recipients who had been on the rolls for at least 2 years and to persons under age 65 in need of hemodialysis.
    — Reduced the waiting period from 6 to 5 months.
    — Extended childhood disability benefits to children disabled before age 22.

- Raised payroll taxes, effective in 1978, with the employee OASDHI rate to reach an ultimate rate of 7.3% in 2011.

The amendments also created the Supplemental Security Income (SSI) program under Title XVI of the Social Security Act. In 1974, SSI was to replace former federal grants to the states for aiding the needy aged, blind, and disabled with a federal minimum income guarantee. This program was to be financed by general revenues and administered by the Social Security Administration rather than the individual states.

1973 Amendments

The 1973 amendments raised OASDI benefits by 11%. The 11% increase was payable in two steps – 7% for March, April, and May 1974, with the full 11% payable for months after May. This benefit increase was an ad hoc adjustment designed to speed up compensation for higher-than-expected rises in prices that had occurred since the last benefit increase in 1972. The date for implementing automatic benefit increases was delayed from January to June 1975, and future COLAs would also be effective in June.

In addition, the amendments increased the earnings base in 1974 to $13,200, and raised payroll taxes, effective in 1981, with the employee OASDHI rate to reach 7.45% in 2011.

1977 Amendments

In 1973, the Social Security Board of Trustees began to project financial problems for the system in both the near and long term. The financing problem grew worse throughout the mid-seventies.

The near-term problem was caused primarily by adverse economic conditions. Much higher-than-expected inflation caused benefit levels to soar, and aggregate expenditures to do likewise, while lower growth in real wages and higher unemployment caused revenues to grow more slowly.

The long-term problem was caused in part by less favorable demographic trends. For example, based on new population data, the long-term fertility rate assumption was lowered. This reduced the projected number of workers who would contribute to the system in the next century. However, the largest part of the looming deficit (it was estimated in 1977 that costs would outstrip revenues by 75% over the next 75 years) was caused by changes in the underlying assumptions about future economic conditions. Under the 1972 law, future benefit levels were highly dependent upon the future relationship of wage and price growth. As a result, future benefits could be lower or higher than intended, and the prevailing view in the mid-1970s was that they would be much higher than anticipated. In fact, it was projected that if the benefit computation rules were left unchanged, benefits for many individuals retiring in the future would exceed their earnings before retirement.

The 1977 amendments were enacted primarily to alleviate these financing problems. The amendments increased future revenues by raising tax rates and the earnings base, but more significantly, they changed the benefit formula that was raising initial benefits too rapidly. For individuals becoming eligible after 1978, benefits were to be determined by a formula designed to give a stable relationship between one's benefit and preretirement career earnings. This would be accomplished by indexing both the formula for determining initial benefits and a person's earnings to reflect changing wage levels. The change in the computation rules was called "decoupling." These actions improved the forecasts of the financial condition of the program significantly. At the time of enactment, the Social Security actuaries projected that the OASDI trust funds would be solvent for the next 50 years, although by a small margin in the late 1970s and early 1980s.

Major provisions of the 1977 amendments:

- Changed the benefit formula for those reaching age 62, becoming disabled, or dying in 1979 or later. Initial benefits would be computed using a formula that would be indexed to the growth in average wages over the years, so that they would generally maintain pace with the standard of living. To ease transition to the new rules, those attaining age 62 in 1979-1983 could have their benefits computed under the old rules, with some limitations, if they were higher than benefits computed under the new rules.
- Increased tax rates slightly in 1979 and 1980, and more significantly in 1981 and later. The ultimate OASDHI tax rate would be 7.65% on employees and employers, each, in 1990. (Formerly, the rate in 1990 was 6.45%, and the ultimate rate 7.45% in 2011.)
- Increased the earnings base, on an ad hoc basis, to $22,900 in 1979, $25,900 in 1980, and $29,700 in 1981. After 1981, the base would be adjusted automatically to keep up with average wages as under the prior law.
- Increased the delayed retirement credit, for those who do not receive benefits until after age 65, to 3% a year for workers reaching age 62 after 1978 (those subject to the new way of computing benefits).
- Lowered from 72 to 70 the age at which the earnings test no longer applies, effective in 1982.
- Increased, on an ad hoc basis for 5 years, the annual exempt amount in the earnings test for those age 65 and over. (The amount for those under age 65 was not changed but left to continue to be indexed to wage growth.) After 1982, the annual exempt amount for those over age 65 ($6,000 in 1982) would again rise automatically with wage growth.
- Reduced a spouse's and surviving spouse's benefits by the amount of the government pension derived from his or her own work not covered by Social Security.
- Changed the quarter-of-coverage measure so that, beginning in 1978, a worker would receive 1 quarter of coverage (up to 4 per year) for each $250 of annual wages (instead of $50 per quarter). The $250 figure would be increased automatically in future years to take account of increases in average wages.
- Reduced the duration-of-marriage requirement for divorced spouses and surviving divorced spouses from 20 to 10 years.
- "Froze" initial minimum benefit levels – at $122 – so they would not rise in future years (although COLAs would be given recipients once they were on the rolls).

1980 Amendments

Concerned about the rapid growth in expenditures in the Disability Insurance (DI) program, Congress enacted legislation in 1980 designed to control this growth and deal with other issues involved in the administration of the DI program. Major provisions of the amendments:

- Established a limit on disability family benefits; the smaller of 85% of the worker's average indexed monthly earnings or 150% of the worker's basic benefit (known as the primary insurance amount (PIA)). In no case would the limit be less than the PIA.
- Made the number of years of lowest earnings (up to 5) that can be dropped from the computation (averaging) period proportional to the age of the disabled worker. (Previously, all disabled workers could drop 5 years of lowest earnings regardless of age.) The provision also allowed young disabled workers to drop out up to 3 additional years from the computation period, with certain limitations, if in those years they were caring for a young child and not employed.
- Provided Medicare coverage for 36 months after cash benefits cease for workers who are engaging in substantial gainful activity but have not medically recovered.
- Eliminated the 24-month waiting period for Medicare for individuals who were previously entitled to Medicare and become disabled a second time.
- Provided a 15-month "reentitlement" period, following the normal 9-month trial work period, during which a disabled recipient can become automatically reentitled to benefits if a work attempt is unsuccessful.
- Required the Secretary to review the status of a disabled individual, unless the disability is permanent, once every 3 years.

1981 Amendments

In 1981, budgetary pressures led to proposals that various categories of benefits be reduced or eliminated. Major provisions of the Omnibus Budget Reconciliation Act (P.L. 97-35) included:

- Eliminating the minimum benefit for both current and future recipients. (However, the elimination of the minimum benefit for current recipients was repealed before it took effect.)
- Phasing out benefits over the next 4 years for students over age 19 or in postsecondary school.
- Offsetting Social Security disability benefits by the amount of compensation paid by federal, state, and local governments to disabled persons (a "megacap"). The provisions of the megacap offset would be generally similar to, but more inclusive than, those of the workers' compensation offset provision in old law.
- Ending benefit entitlement for the mother or father caring for an entitled child when the child reaches age 16 instead of 18, as under the old law. (The child's benefit would continue to age 18 as under old law.)
- Limiting entitlement to the lump-sum death benefit to an eligible spouse or children. Before, distant relatives, funeral homes, etc., could claim the lump sum in some circumstances.

- Delaying until 1983 lowering to age 70 the age at which earnings test no longer applies (old law would have dropped the age threshold from 72 to 70 in 1982).

Although the 1977 amendments had been projected to keep Social Security solvent for 50 years, but with a fairly thin margin of safety in the early 1980s, the performance of the economy was much worse than expected in the years immediately following enactment, and trust fund reserves continued to decline rapidly. As forecasts of a cash shortfall worsened, stopgap measures were enacted to buy time for Congress to assess the problem. In 1980, revenues were reallocated between the OASI and the DI trust funds for 1980 and 1981. At the end of 1981, authority (P.L. 97-123) was given for the trust funds to borrow from one another (including the HI trust fund), but only until the end of 1982. The borrowing could not exceed the amount needed to assure benefit payments beyond June 1983. At the same time, Congress restored the minimum benefit to current recipients.

1983 Amendments

To resolve OASDI's financing problems President Reagan and congressional leaders formed a bipartisan panel, the National Commission on Social Security Reform. In January 1983, a majority of its members reached agreement on a compromise solution that was estimated to produce enough in additional OASDI income and benefit reductions to solve the short-range financing problem and reduce the OASDI deficit projected over the next 75 years by two-thirds.

In March 1983, Congress incorporated the Commission's recommendations, with some modifications, as well as additional provisions to resolve the remaining long-range deficit, into the 1983 Social Security Amendments. The major provisions of the amendments included:

- A gradual increase in the age of eligibility for full retirement benefits from age 65 to age 66 in 2009 and age 67 in 2027.
- Coverage of federal civilian employees hired after December 31, 1983, and most current executive level political appointees and elected officials (including Members of Congress, the President, and the Vice President) and federal judges, effective January 1984.
- Compulsory coverage of all employees of nonprofit organizations effective in January 1984 and a ban on the termination of coverage of nonprofit organization and state and local government employment after 1982.
- A delay of the June 1983 Social Security COLA to December 1983. All future COLAs would also be effective in December.
- Acceleration of scheduled tax increases for employees and employers, with an offsetting tax credit for employees for 1984; increase in the rates for the self-employed to equal the combined employee/employer rate but with partially offsetting credits and deductions.
- Inclusion of up to 50% of Social Security benefits in the taxable income of higher income recipients and transfer of projected revenues therefrom to the Social Security trust funds. The income

thresholds (adjusted gross income plus one-half of Social Security benefits) were set at $25,000 for single individuals, $32,000 for couples filing jointly, and zero for couples filing separately.

- Liberalization of the earnings test. For those attaining full retirement age in 1990 or later, $1 in benefits would be withheld for every $3 in earnings over the exempt amount. Also beginning in 1990, the delayed retirement credit would be gradually increased from 3% to 8% a year for persons who attain full retirement age between 1990 and 2008.
- Additional provisions that: eliminated "windfall" Social Security benefits for certain workers who also receive pensions from noncovered employment; improved benefits for certain spouses; provided a lump-sum payment to the trust funds for the cost of certain noncontributory military wage credits and for unnegotiated checks; sped up the crediting of tax receipts to the trust funds; and removed OASDI fund operations from the unified budget beginning in FY1993.

1984 Amendments

In 1984, concerns about the economic hardships caused by the loss of benefits resulting from the periodic reviews mandated by the 1980 amendments to the DI program led to legislation that softened the disability review progress. Major provisions of P.L. 98-460:

- Continued benefit payments, with certain limitations, for those under review whose medical condition has not improved;
- Gave authority for continued benefit payments through the Administrative Law Judge decision in cases where a termination of benefits for medical reasons is being appealed.
- Provided a temporary delay of reviews of all mental impairment disabilities until regulations stipulating new medical listings for mental impairments were published;
- Mandated that in cases of multiple impairments, the combined effect of all the impairments must be considered in making disability determinations;
- Required that the Secretary develop demonstration projects on providing face-to-face hearings between the recipient and State agency disability examiners in potential termination cases at the initial decision level;
- Provided temporary guidelines for the evaluation of pain as a disabling factor and directed that a study of the problem of pain be made by a commission appointed by the Secretary;
- Stipulated that regulations develop uniform standards for disability determinations under the Administrative Procedure Act, to be binding at all levels of adjudication;
- Required closer evaluations of the qualifications of representative payees, and annual monitoring of benefit payments made to someone other than a parent or spouse living in the same household with the recipient; and

- Provided that the Secretary federalize disability determinations in a state within 6 months of finding that a state was not in substantial compliance with federal laws and standards.

1985 Legislation

The Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), known as the Gramm-Rudman-Hollings Act, included several measures that altered the budgetary treatment of Social Security. It:

- Accelerated the "off-budget" treatment of Social Security, as prescribed by the Social Security Amendments of 1983, to FY1986 (from FY1993). However, for the purpose of setting out a schedule for eliminating federal budget deficits by FY1991 (amended by subsequent legislation to FY1993), the receipts and expenditures of the Social Security trust funds would be counted in measuring projected budget deficits.
- Required the President to reduce (or sequester) federal expenditures that would otherwise be authorized (using procedures prescribed in the Act), if projected budget deficits exceeded specified levels. However, Social Security benefits (including COLAs) would be exempt from any reduction in expenditures that the President would be required to make. Social Security administrative expenses would not be exempt.
- Restricted Social Security changes in various stages of the congressional budget process. The provision made it out of order for either the House or Senate to take up changes in Social Security as part of a reconciliation bill or reconciliation resolution. Separate votes in each body – suspending or otherwise altering the rules under which the respective bodies operate – would be required to make consideration of any proposed Social Security changes permissible.

1986 Amendments

During 1986, inflation slowed to a rate that made it unlikely that it would reach the 3% threshold necessary to provide a COLA in that year. As part of the Omnibus Budget Reconciliation Act of 1986 (P.L. 99-509), Congress permanently eliminated the 3% requirement, which enabled a 1.3% COLA to be authorized for December 1986.

1987 Amendments

The Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203):

- Extended FICA coverage to military training of inactive reservists, the employer's share of all cash tips, and several other categories of earnings.

- Lengthened from 15 to 36 months the period during which a disability recipient who returns to work may become automatically reentitled to benefits.

1989 Amendments

The Omnibus Budget Reconciliation Act of 1989 (P.L. 101-239):

- Extended benefits to children adopted after the worker became entitled to benefits, regardless of whether the child was dependent on the worker before the worker's entitlement.

1990 Amendments

The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508):

- Made permanent a temporary provision, first enacted in 1984 and subsequently extended, that provides the option for recipients to choose to continue to receive disability and Medicare benefits while their termination is being appealed.
- Liberalized the definition of disability for disabled widow(er)s by making it consistent with that for disabled workers.
- Extended benefits to spouses whose marriage to the worker is otherwise invalid, if the spouse was living with the worker before he or she died or filed for benefits.
- Removed the operation of the trust funds from budget deficit calculations under the Gramm-Rudman-Hollings Act. In addition, the legislation established separate House and Senate procedural safeguards to protect trust fund balances.
- Extended coverage to employees of state and local governments who are not covered by a retirement plan.
- Raised the maximum amount of earnings subject to HI taxes to $125,000, effective in 1991, with raises thereafter indexed to increases in average wages.

1993 Amendments

The Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66):

- Made up to 85% of Social Security benefits subject to the income tax for recipients whose income plus one-half of their benefits exceed $34,000 (single) and $44,000 (couple).
- Eliminated the maximum taxable earnings base for HI, i.e., subjected all earnings to the HI tax, effective in 1994.

1994 Amendments

The Social Security Administrative Reform Act of 1994 (P.L. 103-296):

- Established the Social Security Administration as an independent agency, effective March 31, 1995.
- Restricted DI and SSI benefits payable to drug addicts and alcoholics by creating sanctions for failing to get treatment, limiting their enrollment to 3 years, and requiring that those receiving DI benefits have a representative payee (formerly required only of SSI recipients).

Social Security Domestic Reform Act of 1994 (P.L. 103-387):

- Raised the threshold for Social Security coverage of household employees from remuneration of $50 in wages a quarter to $1,000 a year.
- Reallocated taxes from the OASI fund to the DI fund.

1996 Amendments

The Contract With America Advancement Act of 1996 (P.L. 104-121):

- Raised the annual earnings test exempt amount, for recipients who have attained the full retirement age, over a period of 7 years, reaching $30,000 in 2002.
- Prohibited DI and SSI eligibility to individuals whose disability is based on drug addiction or alcoholism.

1999 Amendments

The Ticket to Work and Work Incentive Act of 1999 (P.L. 106-170):

- Provided disabled recipients with vouchers they can use to purchase rehabilitative services from public or private providers.
- Extended Medicare coverage for up to 4.5 additional years for disabled recipients who work.

2000 Amendments

The senior Citizens Right to Work Act (P.L. 106-182)

- Eliminated the earnings test for recipients who have attained the full retirement age, effective in 2000.

Appendix A. Social Security Financing Schedule: 1935-2000

Act of	Calendar years	Earnings base	Tax rate, employee and employer, each			Maximum employee tax	Tax rate, Self-employed (SE)			Maximum SE tax
			OASDI	HI	Total		OASDI	HI	Total	
1935-47	1937-49	$ 3,000	1.0%	–	1.0%	$ 30.00	–	–	–	–
1947	1950	3,000	1.5	–	1.5	45.00	–	–	–	–
1950	1951-53	3,600	1.5	–	1.5	54.00	2.25%		2.25%	$ 81.00
	1954	3,600	2.0	–	2.0	72.00	3.0	–-	3.0	108.00
1954	1955-56	4,200	2.0	–	2.0	84.00	3.0	–-	3.0	126.00
1956	1957-58	4,200	2.25	–	2.25	94.50	3.375	–-	3.375	141.75
1958	1959	4,800	2.5	–	2.5	120.00	3.75	–	3.75	180.00
1	1960-61	4,800	3.0	–	3.0	144.00	4.5	–	4.5	216.00
1961	1962	4,800	3.125	–	3.125	150.00	4.7	–	4.7	225.60
	1963-65	4,800	3.625	–	3.625	174.00	5.4	–	5.4	259.20
1965	1966	6,600	3.85	.35%	4.2	277.20	5.8	.35%	6.15	405.90
	1967	6,600	3.9	.5	4.4	290.40	5.9	.5	6.4	422.40
1967	1968	7,800	3.8	.6	4.4	343.20	5.8	.6	6.4	499.20
	1969	7,800	4.2	.6	4.8	374.40	6.3	.6	6.9	538.20
1969	1970	7,800	4.2	.6	4.8	374.40	6.3	.6	6.9	538.20
	1971	7,800	4.6	.6	5.2	405.60	6.9	.6	7.5	585.00
1971	1972	9,000	4.6	.6	5.2	468.00	6.9	.6	7.5	675.00
1972	1973	10,800	4.85	1.0	5.85	631.80	7.0	1.0	8.0	874.00
1973	1974	13,200	4.95	.9	5.85	772.20	7.0	.9	7.9	1,042.00
	1975	[a]14,100	4.95	.9	5.85	824.85	7.0	.9	7.9	1,113.90
	1976	[a]15,300	4.95	.9	5.85	895.05	7.0	.9	7.9	1,208.70
	1977	[a]16,500	4.95	.9	5.85	965.25	7.0	.9	7.9	1,303.50
1977	1978	[a]17,700	5.05	1.0	6.05	1,070.85	7.1	1.0	8.1	1,433.70
	1979	22,900	5.08	1.05	6.13	1,403.77	7.05	1.05	8.1	1,854.90
	1980	25,900	5.08	1.05	6.13	1,587.67	7.05	1.05	8.1	2,097.90
	1981	29,700	5.35	1.3	6.65	1,975.05	8.00	1.3	9.3	2,762.10
	1982	[a]32,400	5.40	1.3	6.70	2,170.80	8.05	1.3	9.35	3,029.40
	1983	[a]35,700	5.40	1.3	6.70	2,391.90	8.05	1.3	9.35	3,337.95
1983	1984	[a]37,800	5.70	1.3	[b]7.00	2,532.60	11.4	2.6	[c]14.0	4,271.40
	1985	[a]39,600	5.70	1.35	7.05	2,791.80	11.4	2.7	[c]14.1	4,672.80
	1986	[a]42,000	5.70	1.45	7.15	3,003.00	11.4	2.9	[c]14.3	5,166.00
	1987	[a]43,800	5.70	1.45	7.15	3,131.70	11.4	2.9	[c]14.3	5,387.40
	1988	[a]45,000	6.06	1.45	7.51	3,379.50	12.12	2.9	[c]15.02	5,859.00
	1989	[a]48,000	6.06	1.45	7.51	3,604.80	12.12	2.9	[c]15.02	6,249.60
	1990	[a]51,300	6.20	1.45	7.65	3,924.45	12.4	2.9	15.3	[d]6,553.83
1990	1991	[e]53,400	6.20	1.45	7.65	5,123.70	12.4	2.9	15.3	[f]8,658.38
	1992	[e]55,500	6.20	1.45	7.65	5,328.90	12.4	2.9	15.3	[f]9,005.84
	1993	[e]57,600	6.20	1.45	7.65	5,528.70	12.4	2.9	15.3	[f]9,343.50

Act of	Calendar years	Earnings base	Tax rate, employee and employer, each			Maximum employee tax	Tax rate, Self-employed (SE)			Maximum SE tax
			OASDI	**HI**	**Total**		**OASDI**	**HI**	**Total**	
1993	1994	[e]60,600	6.20	1.45	7.65	[g]	12.4	2.9	15.3	[g]
	1995	[e]61,200	6.20	1.45	7.65	[g]	12.4	2.9	15.3	[g]
	1996	[e]62,700	6.20	1.45	7.65	[g]	12.4	2.9	15.3	[g]
	1997	[e]65,400	6.20	1.45	7.65	[g]	12.4	2.9	15.3	[g]
	1998	[e]68,400	6.20	1.45	7.65	[g]	12.4	2.9	15.3	[g]
	1999	[e]72,600	6.20	1.45	7.65	[g]	12.4	2.9	15.3	[g]
	2000	[e]76,200	6.20	1.45	7.65	[g]	12.4	2.9	15.3	[g]

[a] In accordance with automatic provisions.
[b] Employee received 0.3% income tax credit, reducing his or her rate to 6.7%.
[c] Reflects lower effective tax rate due to income tax credits given the self-employed from 1984 to 1989.
[d] Net of income tax deduction assuming 33% marginal rate.
[e] For OASDI, under automatic provisions. HI base was $125,000 in 1991, $130,200 in 1992, and $135,000 in 1993.
[f] Net of income tax deduction assuming 31% marginal rate.
[g] HI earnings base eliminated.

Appendix B. Social Security Benefit Increases Since 1935

Act of	Date of Enactment	Effective Date	Increase in Benefits
1939	8/10/39	1/40	–
1950	8/28/50	9/50	77.0%
1952	7/18/52	9/52	12.5[a]
1954	9/1/54	9/54	13.0
1958	8/28/58	1/59	7.0[b]
1965	7/30/65	1/65	7.0[c]
1967	1/2/68	2/68	13.0
1969	12/30/69	1/70	15.0
1971	3/17/71	1/71	10.0
1972	7/1/72	9/72	20.0
1973	12/31/73	6/74	11.0[d]
	Automatic	6/75	8.0
	Automatic	6/76	6.4
	Automatic	6/77	5.9
	Automatic	6/78	6.5
	Automatic	6/79	9.9
	Automatic	6/80	14.3
	Automatic	6/81	11.2
	Automatic	6/82	7.4
	Automatic	12/83	3.5
	Automatic	12/84	3.5
	Automatic	12/85	3.1
	Automatic	12/86	1.3
	Automatic	12/87	4.2
	Automatic	12/88	4.0
	Automatic	12/89	4.7
	Automatic	12/90	5.4
	Automatic	12/91	3.7
	Automatic	12/92	3.0
	Automatic	12/93	2.6
	Automatic	12/94	2.8
	Automatic	12/95	2.6
	Automatic	12/96	2.9
	Automatic	12/97	2.1
	Automatic	12/98	1.3
	Automatic	12/99	2.4

[a] Guarantee of 12.5% or $5.00.
[b] Guarantee of 7% or $3.00.
[c] Guarantee of 7% or $4.00.
[d] Payable in 2 steps–7% for March, April, and May 1974, 11% after May.

Appendix C. Major Benefit Categories

Amendment	Type of benefit
	Retired Worker
1935	Retired worker aged 65 and over
1956	Retired woman aged 62-64
1961	Retired man aged 62-64
	Disabled Worker
1956	Disabled worker aged 50-64
1960	Disabled worker under age 65
	Dependents of Retired Worker
Wife	
1939	Wife aged 65 and over
1950	Wife under age 65 caring for eligible child
1956	Wife aged 62-64
Child	
1939	Child under age 18
1965	Full-time student aged 18-21
1956	Disabled child age 18 and over
1981	Student category eliminated, except for high school students under age 19
Husband	
1950	Husband aged 65 and over
1961	Husband aged 62-64
1978*	Husband under age 65 caring for eligible child
Divorced wife	
1965	Divorced wife age 62 and over
Divorced husband	
1976*	Divorced husband aged 62 and over

Amendment	Type of benefit
	Dependents of Disabled Worker
1958	Same as dependents of retired-worker recipient
	Survivors
Widowed mother	
1939	Widowed mother any age caring for eligible child
Widow	
1939	Widow aged 65 and over
1956	Widow aged 62-64
1965	Widow aged 60-61
1965	Divorced wife aged 60 and over
1967	Disabled widow aged 50-59
Widower	
1950	Dependent widower aged 65 and over
1961	Dependent widower aged 62 and over
1967	Disabled widower aged 50-61
1972	Disabled widower aged 50-59
Widowed father	
1975*	Widowed father caring for eligible child
Child	
1939	Child under age 18
1956	Disabled child aged 18 and over
1965	Full-time student aged 18-21
1981	Student category eliminated except for high school students under age 19
Parent	
1939	Dependent parent aged 65 and over
1956	Dependent female parent aged 62-64
1961	Dependent male parent aged 62-64

*Effective date: based on court decisions, not changes in the law. In 1983, the law was changed to reflect the court decisions.

Appendix D. History of Major Employment Covered by Social Security: 1935-2000

Act	Employment covered
1935	All workers in commerce and industry (except railroads) under age 65.
1939	Age restriction eliminated.
1946	Railroad and Social Security earnings combined to determine eligibility for and amount of survivor benefits.
1950	Regularly employed farm and domestic workers. Nonfarm self-employed (except professional groups). Federal civilian employees not under retirement system. Americans employed outside United States by American employer. Puerto Rico and Virgin Islands. At the option of the State, State and local government employees not under retirement system. Nonprofit organizations could elect coverage for their employees (other than ministers).
1951	Railroad workers with less than 10 years of service, for all benefits. (After October 1951, coverage is retroactive to 1937.)
1954	Farm self-employed. Professional self-employed except lawyers, dentists, doctors, and other medical groups. Additional regularly employed farm and domestic workers. Homeworkers. State and local government employees (except firemen and policemen) under retirement system if agreed to by referendum. Ministers could elect coverage.
1956	Members of the uniformed services. Remainder of professional self-employed except doctors. By referendum, firemen and policemen in designated States.
1965	Interns. Self-employed doctors. Tips.
1967	Ministers (unless exemption is claimed on grounds of conscience or religious principles). Firemen under retirement system in all States.
1972	Members of a religious order subject to a vow of poverty.
1983	All federal civilian employees hired after 1983; all employees of nonprofit organizations. Covered state and local government employees prohibited from opting out of Social Security.
1990	Employees of state and local governments not covered under a retirement plan.

Appendix E. Glossary of Frequently Used Social Security Terms

Actuarial reduction – The reduction in a Social Security benefit if taken before the full retirement age (currently age 65). The reduction is permanent and is designed in most cases to provide on the average the same total lifetime benefits that would have been payable if the benefits had not started before age 65.

Annual exempt amount – Amount of earnings a recipient can have in a year and still receive all of his benefits for that year. For recipients under the full retirement age the amount is $10,080 for 2000 and will be automatically adjusted based on increases in general earnings levels in the future. In the year recipients attain the full retirement age the amount is $17,000 in 2000. (See also earnings test and full retirement age.)

Benefit formula – The formula under which Social Security benefits are determined; derived from percentages of average monthly earnings or average indexed monthly earnings.

Cost-of-living adjustment (COLA) – General increases in benefit amounts based on changes in the Consumer Price Index. From 1975 to 1982, they were effective in June of each year. Beginning in 1983, they are effective in December (payable in following January).

Coverage/covered employment – Earnings from work that are generally subject to Social Security taxation; employment in which Social Security taxes are paid and earnings credits toward benefit rights are obtained.

Currently insured – Having earned at least 6 quarters of coverage in the 13-quarter period ending with the quarter in which an individual becomes eligible for retirement benefits, becomes disabled, or dies. Used to determine eligibility for survivors benefits in some cases.

Decoupling – Refers to the benefit formula and benefit computation changes resulting from the 1977 Social Security amendments intended to stabilize initial benefit levels. Generally refers to the separation of the procedures used to determine benefits for future recipients from those that adjust benefits for current recipients.

Delayed retirement credit – A credit due a worker for retirement delayed beyond full retirement age (currently age 65). The credit is measured in terms of the number of months after age 65 up to age 70 in which the worker did not receive retirement benefits. The credit is one-twelfth of 1% per month of the worker's primary insurance amount for workers reaching age 62 before 1979, 1-quarter of 1% per month for workers reaching age 62 after 1978, and will gradually increase from 3% to 8% a year for workers who attain the full retirement age between 1990 and 2008.

Disability Insurance (DI) – The Social Security cash program that provides benefits to replace a portion of earnings lost due to a severe disabling condition that can be expected to last for 12 months or result in death.

Dropout years – The number of years of low earnings in an individual's countable earnings record that may be dropped in determining average monthly or average indexed monthly earnings; usually 5 years are dropped, but in disability cases the number of years excluded (up to 5) is proportional to the age of the worker.

Earnings base – The maximum amount of annual earnings on which employees, employers, and self-employed people pay Social Security taxes and which can be counted in figuring Social Security benefit amounts. The base is $76,200 in 2000 and will be adjusted each year to rise in proportion to average wages.

Earnings test (also called retirement test) – The provision that reduces the benefits of a recipient under the full retirement age by $1 for each $2 of earnings over an annual exempt amount ($10,080 in 2000). No reduction is made for earnings in and after the month the recipient attains the full retirement age. In the year a recipient attains the full retirement age, for months before the month he or she attains that age $1 in benefits is withheld for every $3 in earnings over a different exempt amount ($17,000 in 2000).

Eligibility – Having fulfilled all the conditions specified in the law and regulations for benefit rights, except for filing and approval of the application.

Entitlement – Having fulfilled all the conditions specified in the law and regulations for benefit rights, including the filing and approval of the application.

FICA – Federal Insurance Contributions Act, which requires payments of the payroll tax by employees and their employers.

Fully insured – Having earned at least the minimum number of quarters of coverage required for a worker of a certain age to have insured status; ranges from 6 quarters to 40 quarters – generally the basis upon which a worker establishes benefit rights for himself and his dependents/survivors.

Full retirement age – The age at which one receives retirement benefits that are not reduced for early retirement (see actuarial reduction).

General revenues – Federal funds raised by means other than the payroll tax – mainly funds raised through corporate and individual income taxes – and deposited in the General Fund of the Treasury.

Hospital Insurance (HI) – (Medicare part A) – A program generally financed by the payroll tax which reimburses elderly and disabled individuals for costs incurred as inpatients in hospitals and skilled nursing facilities.

Indexing – Linking elements of the social security program, such as periodic benefit increases, raises in the earnings base, and the factors that determine initial benefit levels, to change in wages or prices.

Insured status – Whether or not a worker's earnings record under covered employment contains earnings over a long enough period of time for him and his dependents or survivors to receive benefits, measured in "quarters of coverage." (See currently and fully insured.)

Lump-sum death benefit – A one-time benefit of $255 paid to an eligible spouse or children of a deceased worker.

Mandatory coverage – Requiring by law that certain work be treated as covered employment or self-employment and be subject to social security taxes. Nearly all work in the private sector is mandatorily covered.

Medicare – The health insurance portion of Social Security, which provides Hospital Insurance (HI) (part A of Medicare), and Supplementary Medical Insurance (part B), for people aged 65 and over and the long-term disabled.

Minimum benefit – The lowest benefit payable (before any reductions or deductions) under the regular insurance provisions to a retired worker, a disabled worker, or a sole survivor. As a result of the 1977 amendments, the minimum benefit was frozen at $122. However, after a person began to get benefits based on the minimum, his benefits were increased for cost-of-living raises. In 1981, the minimum benefit was repealed for newly-eligible recipients, effective in 1982.

Old-Age and Survivors Insurance (OASI) – The basic Social Security program which replaces a portion of earnings lost on account of the retirement or death of an insured worker through monthly benefit payments to the worker, his dependents, or his survivors.

Payroll tax – The Social Security or FICA (or self-employment) tax; a tax on earnings that is paid by both employees and employers at the same rate and by the self-employed up to a certain limit (in 2000 the limit is $76,200 for OASDI, but there is no limit for HI) and provides the primary source of revenue for the Social Security trust funds.

Primary insurance amount (PIA) – An amount generally viewed as "full benefits," i.e., the amount of benefits payable to a worker or on his behalf upon retirement at the full retirement age, disablement or death, used as the starting point for computing reductions and deductions from benefits and to determine benefits for dependents and survivors (expressed as some "percent of PIA"). PIA is derived directly from the benefit formula.

Quarter of coverage – A unit of credit toward obtaining insured status. In 2000, $780 in earnings during the year is needed to obtain a quarter of coverage, with a maximum of four quarters of coverage for earnings of $3,120 or more. Earnings do not need to be earned in a particular calendar quarter in order for that calendar quarter to be credited.

Special age 72 benefits – Special benefits paid primarily from general revenues to a small category of people now over 80 years old who are not insured for regular Social Security benefits, also known as "Prouty" benefits.

Special minimum benefit – A benefit amount payable to certain persons who have worked in covered employment or self-employment for many years at low earnings levels. Used only if higher than the regularly computed benefit.

Substantial gainful activity (SGA) – The part of the definition of disability which precludes entitlement to Disability Insurance (DI) or Supplemental Security Income (SSI) disability benefits when an impaired individual engages in substantial paid work; "substantial" is measured by the amount of wages the worker has earned (currently pegged at $700 or more per month).

Supplementary Medical Insurance (SMI) – (Medicare part B) – A voluntary supplementary program covering the costs of physicians' services and a number of other items and services not covered under the Hospital Insurance (HI) program; financed through premiums paid by enrollees and general revenue contributions to the program.

Survivor benefits – Monthly cash benefits which can be paid to certain survivors of a deceased worker, including a spouse, former spouse, children, and parents.

Student benefits – Monthly cash benefits paid to the child of a retired, disabled, or deceased worker during the time between the child's 18th and 19th birthday; payable only if the child is a full-time student in an elementary or secondary school. (Benefits to postsecondary students were phased out by May 1985.)

Tax rate – The percent of covered earnings (earnings up to the earnings base) deducted from a worker's paycheck as contributions to the Social Security system, with an equal amount paid by employer (except for 1984). The self- employed are subject to a different rate.

Taxable earnings – Earnings subject to the payroll tax; that is, earnings up to the earnings base in jobs covered by the Social Security system.

Transitional benefits – Special benefits paid to a small category of persons now over 90 years old who had earned at least 3 quarters of coverage but who were not otherwise insured for Social Security benefits.

Trust funds – The Old-Age and Survivors Insurance (OASI) trust fund, the Disability Insurance (DI) trust fund, the Hospital Insurance (HI) trust fund, and the Supplementary Medical Insurance (SMI) trust fund, where payroll taxes from employees, employers, the self-employed, and a small amount of general revenues are credited in an account in the Treasury, and which form the authority for the Treasury to pay for benefits and administrative expenses.

Wage indexing – The procedures used to adjust a worker's past earnings to reflect what they would be if earned recently, and to adjust the benefit formula itself so that the initial benefits paid to future retirees will represent the same percentage of preretirement career earnings, regardless of when each successive group of workers reaches retirement age.

Waiting period – The amount of time a disabled worker must wait after his disabling condition begins before entitlement to Disability Insurance (DI) benefits can be started. (The waiting period is 5 full calendar months.)