

# HISTORY IN THE MAKING:

## SOCIAL SECURITY THEN AND NOW

**S**ocial Security had its start prior to August 14, 1935 when President Roosevelt signed The Social Security Act. Although it was not called Social Security at the time, Civil War Pensions were America's first Social Security program. Over 600,000 soldiers died in the American Civil War, leaving behind hundreds of thousands of widows, orphans, and disabled veterans. The survivors were left in a world that was not well prepared to accommodate such transition.

The Civil War Pension program began during the Civil War, and benefits paid were linked to the disabilities incurred as a direct consequence of military duty. Widows and orphans were eligible to receive pensions equal to what their deceased spouse/father would have received if disabled and not deceased. By 1910, Civil War veterans and their survivors qualified for a system much like Social Security is structured today, a system whereby the disabled, the survivors, and the older-age veterans could receive benefits.

After the Civil War Pension program was created, and prior to the adoption of Social Security in 1935, several movements formed to address the issue of economic security for the disabled, widows and widowers, and those of old age. A brief timeline notes some of the more relevant and interesting movements:

- **The March of Coxe's Army** – Jacob Coxe called on the unemployed throughout the country to join him in a march to Washington (1894) to address economic security issues.
- **Every Man a King** – Huey Long, Governor of Louisiana, created the Share Our Wealth idea (1930s) that would guarantee each family an income of \$5,000 per year and allow those over age 60 to receive an old-age pension. This was in response to the Great Depression, which found America facing its most devastating modern economic crisis.
- **State Old-Age Pensions** – by 1932 there were 17 states that incorporated old-age pension laws. These pension programs were ineffective due to county restrictions and the elderly reluctant to go on “welfare.”
- **The Townsend Movement** – Francis Townsend, a doctor, found himself unemployed with no savings at the age of 66. He created the Townsend Old Age Revolving Pension Plan (1933), which proposed that every citizen over 60 receive \$200 per month.
- **The Social Security Act (1935)** – the official adoption of a social insurance program.
  - In 1940 approximately 222,000 people received monthly Social Security benefits
  - In 2016 over 60 million people received monthly Social Security benefits

Americans have always been good at solving problems. Saving Social Security from insolvency so that the program can continue to provide benefits to those in need will be a great challenge. Like many presidents in the recent past, President Trump has taken a “wait-and-see” approach to addressing the future insolvency of Social Security. Potentially making changes to Social Security has been considered political suicide, in that the necessary change will impact those in the workforce (higher payroll taxes), retirees (decrease in benefits), or both.

Here is an abbreviated list of potential solutions that address the future insolvency of the Social Security trust funds:

- **Change the way the cost-of-living adjustment (COLA) is calculated.** Annual COLAs ensure that those receiving Social Security benefits can maintain their lifestyles as the cost of goods increases with inflation. Currently, the COLA is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Prior to 1972, there were only increases in Social Security when Congress decided there was a need to do so. Now, it is an annual calculation. Proponents of a change in the COLA have introduced using the chained Consumer Price Index approach, which has been said to be a more accurate measure for calculating changes in the cost of living.
- **Increase the payroll tax rate.** The Social Security payroll tax rate is currently 12.4% (employees pay 6.2% and employers pay 6.2%).
- **Increase the cap on taxable wages.** The Social Security payroll tax rate (above) is applied on the first \$127,200 individuals earn each year. Earnings above \$127,200 are not taxed by Social Security.
- **Increase the full retirement age (FRA).** FRA is a term used to determine the age at which an individual can receive his/her “full” amount of promised Social Security retirement benefits. An individual can receive a reduced amount of retirement benefits as early as age 62. For those born between 1947 and 1954, the FRA is age 66. The FRA gradually increases to age 67 for those born between 1955 and 1959 and is a full 67 for those born in 1960 or later.

## TAKEAWAY

At Savant, we view Social Security benefits as an important planning topic and have created a detailed process for helping individuals and families navigate through a somewhat complex area. When preparing for a conversation, we often review a client's potential longevity, other sources of income, their current employment status, and financial planning strategies and how these strategies could impact the decision about claiming Social Security benefits. We implement our experience with software to help identify the best claiming strategies available for the client. It is our dedication to this important topic that has helped lead to insightful conversations and our goal of creating ideal futures.

To learn more about the history of Social Security, visit this website: <https://www.ssa.gov/history/briefhistory3.html>

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