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BOOK REVIEWS AND NOTICES

Anna M. Rappaport and Sylvester J. Schieber (eds.), *Demography and Retirement: The Twenty-First Century*, 328 pp., published by Praeger Publishers, Westport, Connecticut, 1993, $55.00.

From the overview: "This book presents the papers and comments from the Pension Research Council's Spring 1991 Symposium. It focuses on those issues related to the age structure of the population and patterns of retirement as well as our ability to anticipate how these might change in the future." There are seven sections after the overview; each section has a paper and between one and three discussions of the paper, with 24 authors represented in total. The organizers of the symposium made an effort to involve a wide variety of participants, so there would be "a rich diversity of perspectives on the issues considered."

The section on demographic change describes the factors involved in projecting the U.S. population into the 21st century. The various authors have minor disagreements over the projected path of some of the factors, but agree that the aged dependency ratio will increase dramatically after 2010 with the retirement of the baby-boom generation.

The following sections deal with the implications of the forecasted demographic change on the workforce and labor markets, social insurance, capital formation, retirement programs, and health among the American population. The last section compares projections for the U.S. with actual and projected international experience. The participants in the symposium must have foreseen the interest in health care that was to blossom in the following years. Although health has its own section, it recurs throughout the discussion. Half of the social insurance section deals with health care, especially for the elderly.

In the section on the workforce and labor markets, the authors go to some effort to show how previous projections of labor force participation rates have been flawed, generally by projecting continuation of then-current trends when those trends were about to change. They describe a more comprehensive model that would (theoretically) be better, but do not actually build such a model. Instead, they consider what such a model might show. Models often produce unexpected results; this reader was left unsatisfied because the authors did not present more concrete results.

The section on social insurance deals with some complex issues, usually successfully. There is widespread misunderstanding about the nature of the Social Security trust funds and whether current workers are actually funding their own retirement. The paper presented by Mr. Schieber repeats a statement by Charles Schultz with which I agree: "The mere accumulation of financial assets in social insurance trust funds does not, of course, mean that one generation is financing its own retirement and relieving the next of any burden." Unfortunately, a few pages later the author is not sufficiently careful when discussing the various patterns of payroll taxes that could fund Social Security; the unstudied reader could come to a conclusion in opposition to the previous quotation.

The section on capital formation discusses models of saving to be used to predict the pattern of savings rates in the 21st century. The authors test them against actual experience during the 1980s and find that none of them do very well. They attempt to account for the reasons the models have difficulties and then project savings rates as best they can. There is also a qualitative discussion about factors that cannot be quantified easily. I was disturbed with the following statement: ". . . the trust fund accumulations . . . represent a powerful government saving program, as households currently alive are being forced to help pay the cost of future benefits." This appears to be in opposition to the previous quotation concerning the nature of the social insurance trust funds; it deserves clarification.

The section on retirement programs contains a lively discussion between Mr. John H. Biggs and Ms. Rappaport. Mr. Biggs sees the defined-contribution form of pension plan emerging as preferable to the defined-benefit plan in the 21st century, for a number of reasons ranging from regulatory excess to attractiveness to certain age groups. Ms. Rappaport agrees that defined-benefit plans will not be appropriate for small employers, but argues that such plans meet large employers' needs much better than defined-contribution plans.

The book raises many more questions than it answers. For instance, what will happen to early retirement patterns? Workers have been retiring earlier, but the trend is slowing. Projections from a decade or two ago have erred by projecting continuation of then-current trends, but what is the correct projection today? It would be helpful to the Social Security program and to the economy in general if people worked longer, but will workers see it that way?

It is necessary to point out the below-average quality of the proofreading throughout the book; there are numerous spelling and grammatical errors (beginning with a misspelling of the Council's name in the preface). There are also distracting inconsistencies in punctuation and table format from section to section. To a degree, these deficiencies could be explained by the understandable tradeoffs involved in getting a book to publication in a timely manner, so that its content is still fresh. In my opinion, however, a few days with a good proofreader would have been time well spent.

In summary, the Pension Research Council and the editors are to be congratulated for bringing important questions and discussions about our future to our attention. There may be few answers now, but we can all help develop the answers over time—particularly if we begin paying attention to the issues today. I must agree with the editors, however, that "we may be stuck with dealing with necessary retirement program adjustments only when there is a greater sense of crisis."

STEVEN F. MCKAY

John D. Reynolds and Robin N. Bischoff, *Health Insurance Answer Book*, Third Edition, and Thomas A. Darold, *Health Insurance Answer Book, 1993 Cumulative Supplement*, 396 pp., published by Panel Publishers, Inc., New York, New York, 1993, $96.00.

Health Insurance Answer Book is intended to provide plan sponsors with the answers to many questions encountered in implementing and maintaining a health care plan. It is written for business professionals, owners of small to medium-size businesses, and their legal and financial advisors. The book is designed to answer questions surrounding such basic health insurance issues as:

- Whom to work with in designing and purchasing a plan
- What benefits to provide
- How much to spend
- How to fund the plan costs
- What cost-control mechanisms to implement
- How to deal with ongoing administration, including government compliance.

The book is divided into 13 chapters that are intended to take the reader from the fundamental concepts of group insurance through the selection and buying process, financing, and administration. These basics are followed by discussions on managing health care costs, alternative approaches to providing health care benefits (for example, HMOs, PPOs, and flexible benefits), some thoughts on current issues of special interest (for example, Medicare and nondiscrimination rules), and finally a detailed discussion of cost-saving strategies. The list of questions in the front of the book helps the reader locate areas of immediate interest, since each question is identified by a question number and the corresponding page number on which it appears. An appendix provides a listing of health insurance resources. An alphabetical glossary is included to help explain health insurance terms, abbreviations, and acronyms.

The book is recommended for students who are new to the field who want a quick introduction to group health insurance benefits. The importance of the book arises from the broad scope of topics covered and the valuable insight that is given into so many health insurance issues from a strategic viewpoint in easy-to-understand language. Even experienced practitioners, however, will find the book useful because of the spectacular array of ideas and issues that are presented on each topic in one easy-to-use source and the clear explanation of many concepts that are useful in communicating with clients.

Unfortunately, any work like this becomes quickly outdated because of the quick pace of new developments in the field. Panel Publishers maintains a subscription service so that the *Answer Book* is updated on a periodic basis with supplements to reflect important changes in the subject matter. It would be useful, especially for students, if the book contained a bibliography of periodicals and other works that could be consulted for late-breaking developments.

While the book attempts to provide accurate and authoritative information on the subject matter covered, some of the answers given are misleading or inaccurate. For this reason, the book should not be used as a substitute for primary source material, such as applicable IRS regulations or FASB accounting statements. For example, the *1993 Cumulative Supplement* states that partnerships cannot have self-insured medical plans even if the partners' premiums are paid with after-tax dollars and must have benefits provided by third-party insurers. In another example, the book states that *FAS 106* applies to retiree health plans with fewer than 500 employees for fiscal years beginning after December 15, 1994. These examples illustrate the dangers of relying exclusively on the *Health Insurance Answer Book* for authoritative information. It should certainly not be used to replace the professional advice of competent employee benefit professionals. In addition, the value of the work would be enhanced if it contained footnotes and a bibliography that cited sources for the information presented so that the student could refer to more in-depth, authoritative materials.

THOMAS J. LIVORSI

Marvin Snyder, *Value of Pensions in Divorce*, Second Edition, 260 pp., published by John Wiley & Sons, Inc., Somerset, New Jersey, 1992, $110.00.

Mr. Snyder has written a fine comprehensive treatise on pension valuations in divorce. The level of the text is geared to the non-actuary, presumably the divorce attorney; however, ample information is provided to be of benefit to the seasoned actuary unfamiliar with divorce work.

The initial chapters of the book cover general pension actuarial concepts. Subsequently, the book moves toward the utilization of actuarial principles in equitable distributions. Mr. Snyder explains how pension assets are used to offset other marital assets in some situations. However, depending on the relative size of the pension asset, the pension benefits may have to be distributed on a deferred basis to the non-employee spouse.

A host of technical issues are raised by the author, such as form of benefit payment, existing nonqualified plans, and entitlement to surplus assets in overfunded plans. Selection of a retirement age assumption and the treatment of vesting status are thoroughly discussed.

The author describes how plan benefit information is typically obtained, including the right to subpoena the plan. Other chapters cover the definition of an Enrolled Actuary, the PBGC, and types of plan termination. Non-ERISA plans such as the Federal Employees Retirement System are reviewed. The significance of ERISA plans is that they have mandated disclosure requirements and afford the option of paying benefits under a Qualified Domestic Relations Order (QDRO).

The text diverges from the more practical issues to explain the significance of taxation and inflation in computing present values. Salary scales are generally not used in divorce valuation except in New Jersey. The future tax status of benefit payments is seldom reflected in divorce valuations, even though it is often offset against nontaxable marital assets. Students of Mr. Jordan will appreciate the author's emphatic denouncement of utilizing an annuity certain over the period of one's life expectancy.

A key concept in the divorce calculation is the coverture fraction. This fraction describes the portion of pension plan service recognized in computing the pension's marital value. In this regard, the valuation date must be properly chosen. The two most common approaches are to use the "current" date or "cutoff" date.

For remarriage, standard practice is not to value it as a contingency. Some QDROs may require its recognition.

The need to have an expert do the calculation is persuasively argued by the author. The many nuances that come to bear in the calculation will sufficiently compel the reader to agree that this is not an area for the amateur.

Following the main body of the text is an outstanding pension terminology section. Multiple appendixes include sample divorce reports, expert witness questions, coverture fraction illustration, and pension disclosure reports. The appendixes will be most beneficial to the actuary new to this type of work.

The book has few shortcomings in its exhaustive treatment of principles and techniques. The author could have expounded upon state statutes and case law. How should the beginning practitioner become familiar with statutory precedence? Varying treatment in community property states also was not discussed.

The author offered few alternatives to valuation on a PBGC basis. In many industries mortality may be such that PBGC rates are inappropriate. Knowledge of the plan's assumptions should be obtained. Also, since PBGC rates are often lagging by three months, a check on current interest rates from an annuity provider or at least an inspection of government bond rates would be advised.

In summary, the author has written a highly informative text that should prove to be a valuable addition to existing actuarial literature.

RICHARD O. GOEHRING