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PROPOSAL FOR MANDATORY PENSIONS

by Donald S. Grubbs, Jr.

All of the arguments pro and con on legislative proposals regarding social security and private pension plans are based upon underlying assumptions. The underlying assumption of this article is that every American should retire with an adequate retirement income.

The present three-legged stool of social security, employer retirement programs, and individual saving do provide an adequate retirement income for many people, but they fail for others. We should examine the reasons why.

First, it is unrealistic to assume that individual savings will amount to much for most people. In our society many people are not able to save any significant amount of money. No amount of exhortation or encouragement to people to save will alter this situation. Therefore, an adequate retirement income must be provided by the other two sources, and anything from individual savings will be supplemental to that.

Social Security by itself does not provide an adequate retirement income. This is why most of us are advocates of an employer retirement program to supplement social security.

For some individuals there may not be an adequate supplement to social security from an employer program. There are four principle reasons for this:

1. Some employers, mostly small companies, have no pension plan at all.
2. Some employers have pension plans with benefit formulas too low to provide an adequate retirement income.

Employees change from one job to another prior to becoming eligible for vesting or for early or normal retirement.

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A CANADIAN VIEW OF THE ALTERNATE ROUTE

by E. R. Vogt

As a Canadian deeply involved in and committed to actuarial education in the universities, I have been grappling with the following question. Should the Canadian Institute of Actuaries ask the universities to assume the primary role for the education of actuaries in Canada?

There is little doubt in my mind that if the question posed above were put to the members of the Institute, without further discussion, the vast majority would answer "no". I am equally convinced that there is a growing proportion of the membership of the Institute who either maintain an open mind on the question or who see some merit in it. There are of course a number of very good and some bad reasons why members would answer "no". Some of these reasons are briefly outlined below.

1. We have an excellent system now in the examinations conducted by the Society of Actuaries.
2. It is important to maintain uniform and objective standards. At present we have one high standard for the whole of North America.
3. One of the prime purposes of the Institute is "to establish, promote, and maintain high standards of competence and conduct within the actuarial profession." The Institute might lose control if the universities were brought into the picture.
4. There would almost certainly be a reduction in standards if persons holding university degrees were given substantial credits toward membership in the Institute.

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DISSENT AND REFORM

Book Review

by Stephen N. Steinig

William O. Douglas, *Points of Rebellion*, pp. 97, Vintage Books, New York, 1970, \$1.95.

(Editor's Note: In our May 1968 issue, we invited reviews of books of interest to actuaries, even though their content is outside our usual professional interests. Mr. Steinig has responded with the following review of Justice Douglas's controversial new book. We hope the review will prove as controversial as the book and that our Letters column will be richer by the correspondence stimulated by it.)

As this is written, the cry of "impeach William Douglas" is first being heard. There will be two major pieces of evidence presented against Mr. Douglas, Associate Justice of the Supreme Court: his former position and the associations he had as President of the Albert Parvin Foundation, from which he resigned in May 1969, and a recently published book he authored.

By the time this is read, *Points of Rebellion*, will undoubtedly have extensive news coverage and analysis.

This brief review will not attempt to explore the merits of the case against Justice Douglas, but only the ideas presented in his book.

Points of Rebellion is a short book, easily read in a two-hour sitting. It is a description and explanation of the sense of futility felt by a very large part of America's young and poor and non-white (and shared by millions of other Americans who do not fit these categories), as well as a statement of the consequences of continued indifference to the causes of this futility.

In the first of three sections, "How America Views Dissent," Justice Douglas discusses the various aspects of modern society which are causing infringements on the right of freedom of

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Mandatory Pensions

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4. Some plans are terminated without sufficient funds to provide the benefits accrued.

We all recognize that many employers do have good retirement plans with early vesting and sound funding. I hope that voluntary measures will gradually improve each of the four shortcomings noted above. But serious shortcomings do remain today and even with significant voluntary improvement many people will never receive adequate pensions because of the above four reasons.

To solve these problems, (1) we can have federal legislation requiring every employer to have a retirement plan which solves the four above problems, (2) we can greatly expand social security to solve these problems, or (3) we can do some combination of these.

To solve these problems under the private sector the following requirements must be met:

- Every employer must be required to have a pension plan. The employee of a store with 2 employees has as great a need for pensions as if he were employed by a giant corporation. It would be possible to move towards this goal in a series of steps, making pension plans required first for employers with 100 or more employees, then for those with 25 or more, gradually moving down to the smallest employer. Alternatively the government could establish a second level of Social Security toward which every employer is required to contribute unless the employer maintains a plan with equivalent benefits.
2. The required plans would need to have some minimum level of benefit. Because of practical problems I suggest that the minimum level of benefits be related only to future service. The employer might have a choice of a minimum benefit formula or minimum contribution under a money purchase plan, comparable to the original Pension Benefits Act of Ontario, which was later revised. The absence of any required past service benefits would mean that this proposal would only gradually begin to solve the existing problems. Mini-

Actuarial Meetings

- June 2, Actuaries' Club of New York—Senior Branch—Statler Hilton
- June 3, Fraternal Actuarial Association—Drake Hotel, Chicago
- June 11, Batimore Actuaries Club
- June 11-12, Southeastern Actuaries Club—Hollywood Beach
- June 11-12, Canadian Institute of Actuaries, Ottawa
- June 17, Seattle Actuarial Club
- June 18, Chicago Actuarial Club—Annual golf outing
- June 18, Actuarial Club of Indianapolis
- July 9, Baltimore Actuaries Club

imum required benefits should be based on total compensation, perhaps excluding compensation over some very high limit.

3. The required minimum level of future service benefits would be fully vested for employees who work as little as one year. The employee who shifts jobs every five years has as great a need for an adequate retirement income as the one that stays with one employer for 40 years. Unless his pension is fully vested with every employer, he cannot get an adequate retirement income. Because of the problems of maintaining records on very small vested pensions, employers could purchase an annuity from the government if they wished. The government annuities could be administered jointly with social security, so that when a man's social security benefit becomes payable his various accumulated annuities would be paid automatically.
4. The required minimum level of benefits for future service should be required to be fully funded. Thus there would be no loss with respect to the required minimum pensions because they would be both fully vested and fully funded.

The above suggestions are radical. But I have not heard of any other suggestions, except a great expansion of the social security system, which will solve the four problems above. The problems must be solved. □

International Congress

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4. Problems connected with actuarial treatment of the risk process in an insurance company.

The Organizing Committee for the Congress has indicated that all papers must be in its hands by March 31, 1971. This means that final drafts of all papers by United States and Canadian members of the International Actuarial Association will have to be submitted to the committees on papers of the respective Sections of the Association not later than January 31, 1971. In order to make sure that all papers prepared by United States and Canadian members of the Association meet the conditions laid down by the Organizing Committee and to preclude several papers on essentially the same topic, it is requested that all those desiring to submit papers for the 19th International Congress (1) notify the Secretary of their Section of the Association *not later than July 1, 1970* that they have the intention of writing a paper on a specified topic, and (2) draft a detailed outline of their proposed paper and forward it to the Secretary of their Section of the Association *not later than September 15, 1970*. These notices of intention to write a paper and the outlines of the proposed paper will be referred to special committees on papers.

Application forms for participation in the 19th International Congress of Actuaries as well as additional information concerning the Congress will be distributed to members of the International Actuarial Association sometime in September 1970. The rules of the Oslo Congress provide only for full participation by non-Norwegians; the category of "business" members has been restricted to Norwegians.

On account of the limited physical facilities available for the Oslo Congress, quotas will be imposed on the numbers attending from each country. It is anticipated that authors of papers and those who have been members of the Association for a considerable period of time will be given priority. It is likely that the same situation will prevail at International Actuarial Congresses in the years to come, so that those desiring to attend future Congresses should consider becoming members of the Association at an early date. □