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LEVIATHAN?

Advisory Council on Social Security, "*Reports of the* 1971 *Advisory Council on Social Security*," Washington, D. C., March 31, 1971, 183 pp.

by Robert J. Myers

This extensive report, required by law to be submitted by Jan. 1, 1971, was completed and released some three months late because of pending legislation in Congress. Even so, the Advisory Council did not have a firm base on which to build, because legislation was then being actively considered by the House Committee on Ways and Means.

The report is, in essence, divided into three separate reports—dealing with Social Security cash benefits, Medicare, and financing—and appended are dissenting statements of several Council members and four appendices. The latter include a report of the Office of the Actuary and the Report of a Panel of Actuaries and Economists who reviewed the cost estimates and the financial policy.

Composition of Council

The 13 members, appointed by the Secretary of HEW, included seven representatives of the general public, three from labor, and three from business. The labor representatives were two high officials of AFL-CIO international unions and the full-time Social Security staff official of the AFL-CIO. The three business members were high-ranking executives of large corporations and, as has been the case in every past Advisory Council, included an actuary (Charles A. Siegfried).

The seven public members were heavily weighted on what might be called the liberal side. Thus, on seeing the initial constitution of the Council, one could safely have predicted in advance that its recommendations would be for a significant expansion of the program.

The Council made a considerable number of recommendations for expanding

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Schools Offering Actuarial Science Courses

A subcommittee of the Public Relations Committee has just completed a survey of schools in the United States and Canada that offer specific courses in actuarial science. The resulting list is published on Page 8 of this issue of *The Actuary*.

The schools listed are those which, as a minimum, offer a course covering part 4 (life contingencies) of the actuarial examinations sponsored by the Society of Actuaries. Many unlisted schools offer courses covering parts 1 to 3 of these examinations. Most schools listed as offering a program for full-time students will also accept students for selected courses on a part-time basis.

Any readers who know of additional schools that offer such courses are asked to inform Russel H. Smith, Jr., Chairman of the subcommittee.

PENSION PLANNING AND THE ENVIRONMENT

by Richard E. Ullman

James C. Hickman's "Input-Output" article in the May issue of *The Actuary* mentioned that pension planning is not limited to securing IRS qualification of plans. Indeed, it is not. In its broadest sense, pension planning is the job of enabling employees to retire and live in a manner reasonably close to that to which they have been accustomed. The income from the plan plus the income from Social Security must generally be sufficient to do the job. Usually, personal savings are not considered in this equation.

But neither is another factor generally considered. And I submit that this factor will be more and more important in

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TO BE CONTINUED

Editor's Note: This is the third of a series of articles from the Committee on Continuing Education. The rule is one article to one subject to give the non-specialist in that subject up-to-date general information and to encourage further research in the subject if the reader is so minded. Comments will be welcomed by the Committee and by the Editor. This article is condensed from a paper presented by the author to the Southeastern Actuaries Club at its June, 1971 *meeting.*

Ulpian's Table

by Walter J. Mays

The origin of life tables may be traced to the lavishness of wealthy Romans in making bequests to parties other than their heirs. To protect the heirs, the Falcidian Law (40 B.C.) provided that a testator must leave a clear fourth of the value of his estate to his heirs free from legacies (gifts) to third parties. These legacies sometimes took the form of life income, and factors corresponding to the expectation of life were established to value them for compliance with the law.

Ulpian's Table is a table of life expectancies dating from about 220 A.D. and attributed to the eminent jurist and praetorian prefect, Domitius Ulpianus. It is preserved in Justinian's *Digest* (Lib. XXXV, Tit.II, lxviii). The cited passage was extracted from the writings of the jurist, Aemilius Macer, a contemporary of Ulpian. Macer first presents Ulpian's Table and then states a cruder method, which he says was the one commonly employed. The latter, for convenience, may be called Macer's Table. Both tables are exhibited on page 6.

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Letters

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Adjusted Earnings

Sir:

As the deadline approaches for comments on the subject of adjusted earnings, it seems appropriate to review the material and arguments once again. The strength of the pro and con arguments would seem to indicate that a good deal of research is needed before any conclusions are reached.

I would suggest, however, that as more actuaries realize the extent of the proposals, there must be a growing concern over the recommendations of the AICPA Committee. Any careful review of the natural reserve system being proposed indicates its severe deficiencies.

May I draw your attention to *Life Insurance Accounting* by Joseph C. Noback, in particular to Chapter 21, *The Importance of Policy Reserves.* He demonstrates financial soundness is directly related to the adequacy of policy reserves. Substantial early year surplus distributions can only lead to insolvency as shown by his Third Company extreme illustration. This, it seems to me, is the real danger of reporting earnings through the natural reserve system.

Joe B. Pharr suggests in his booklet, *The Natural Reserve Concept and Life Insurance Earnings,* that the dollar amount of the earnings is always the same; it is the incidence that differs.

But herein lie the very seeds of self-destruction. By distributing the higher earnings in the early years, the level of profit in future years is actually impaired. To the rejoinder that such surplus need not be distributed, it only needs to be pointed out that the Federal Government through its income tax levies will then be the beneficiary of such surplus retention, and this will, in turn, affect the future level of profit. Contrary to the apparent conclusion of Mr. Pharr's monograph and to Joseph Fafian's statement in his letter in the April issue of *The Actuary*, both the incidence *and* level of earnings must be affected by the reserve method.

Apart from the technical questions involved, however, are the ones raised by Andrew Webster in the April issue of *The Actuary.* He states, and the Exposure Draft of the AICPA Committee clearly delineates, that there is "a transfer of actuarial responsibility to a professional untrained in this particular area." I would draw the reader's attention specifically to pages 55, 60, and 67 of the Exposure Draft. Discussions here must transcend the high plane of objective academic debate and, as actuaries, we should be well aware of what is implied.

In my letter published in *The Actuary* of February, 1971, I expressed reservations as to the appropriateness of the adjusted earnings approach to both mutual and stock companies. After having listened to representatives of auditing firms, after having read the Exposure Draft, and after having discussed the subject with other actuaries, I can only conclude that my concerns have been reinforced and augmented. The insuring public can only be done a disservice, in my opinion, by the adoption of the Committee report.

C. Norman Peacor

Pensions and Environment

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the remaining years of this century. This factor is the best things in life that are "free"—the air, the water, peace and quiet, and pleasant surroundings.

How can pension planning be used to promote a better environment for pensioners? Quite easily—the enormous reservoir of capital built from qualified retirement plans can be used to clean up the environment, to rebuild this country so that pensioners can retire and live out their days in an environment fit for human habitation, to build adequate shelter, to study pollution, to find ways to eliminate it, to reconstruct the urban wastelands, to restore the river systems, to build a balanced transportation system, and to find ways to stabilize population.

This is not being done now. Instead, the private pension system provides the fund for making our Gross National Product ever more gross. Capital that should be used to restore and conserve is used to plunder and waste, to increase our output of junk, to pave over more of our highway-burdened nation, to destroy Alaska, and to dam river after river for electricity.

I submit that our priorities are all mixed up or that we are so myopic that we fail to see the ultimate result of our activities. We try to be conservative in other matters. Why not in the environment? We tell our clients that they should use assumed interest rates of 4% instead of 8%. Why not also tell them that more people mean less happiness for each individual, that more goods mean more pollution.

What part can actuaries play in reversing our race toward oblivion? Shouldn't the profession promote the idea that the traditional virtues of saving and thrift be extended beyond the individual and his traditional economic needs to his environmental needs? Many ideas come to me; I am sure that you can think of others. For example:

Examples

How about making employee contributions to qualified plans tax deductible provided that they go into certain prescribed investments? How about making premiums for cash value life insurance tax deductible on the same terms? How about requiring disclosure of both pension fund and life insurance investments to pension plan participants and life insurance policyholders? This disclosure should include the results of a review by an environmental review board which would give an environmental rating to the investments. How about permitting plan participants and policyholders to initiate class action suits to compel environmentally beneficial investment of funds?

The environmentalists use the phase "internalize" the true cost of an item or a project. The true cost of the automobile's effect on society includes air pollution from exhaust fumes, asbestos, and rubber. It includes superhighway devestation, especially in urban neighborhoods. It includes the pollution resulting from oil production and the physical scar of auto junk heaps. If this true cost were passed on to the consumer, instead of to society at large, there is no doubt that we would have fewer cars and better mass transit.

I submit that the job of adding the dimension of saving the environment to the traditional approaches to cash value life insurance and pension planning is a challenge to and an opportunity for our profession. Especially to younger actuaries, it is a clarion call to integrate our chosen vocations with the needs of human society, of non-human life forms, and of the earth itself. □