

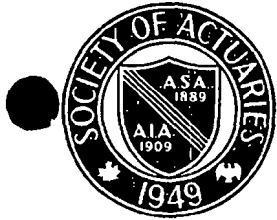


SOCIETY OF ACTUARIES

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# The Actuary

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## MID-1972 AMENDMENTS TO THE SOCIAL SECURITY ACT

by C. L. Trowbridge

A few but very important changes in the Social Security System were enacted at mid-year in Public Law 92-336. (This Law was primarily directed to the extension of the national debt ceiling.)

The only change in the benefit structure with immediate impact is a general benefit increase of 20%, effective for the month of September 1972, payments of which are first made in early October. Eventually benefits will be further affected by two other important provisions: (1) the increase in the earnings base to \$10,800 in 1973 and to \$12,000 in 1974—as compared with \$9,000 in effect in 1972, and (2) the so-called “automatic” provisions, under which (in the absence of legislative action) the benefit table is periodically increased in step with the Consumer Price Index, and the earnings base is concurrently increased in step with average earnings levels.

Of particular actuarial interest are the changes made in the financing of the system. The combined employer-employee contribution rate for old-age, survivors, disability, and hospital insurance combined was increased from 10.4% in 1972 to 11.0% for 1973 through 1985, with only slightly higher rates for the period 1986-2010. (The rate was scheduled to rise to 11.3% in 1973 and eventually to 12.1% with a \$9,000 base, under the 1971 Amendments.) The new legislation calls for a substantially higher rate beginning in 2011, to reflect the demographic effect of the post-World War II baby boom reaching retirement age at about that time.

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## COMMITTEES

*Editor's Note: This is the third report on the operations of the Society's Committees. Mrs. Rappaport is Chairman of the Fields of Activity Committee.*

by Anna Maria Rappaport

The Year Book defines the function of the Fields of Activity Committee as follows:

“This Committee advises and assists the Program Committee in the design, planning, and presentation of the programs at meetings of the Society. It also examines the adequacy and attractiveness of Society activities to the members and makes recommendations to the Board of Governors.”

The major activity of the Fields of Activity Committee for the last few years has been planning for Society meetings. The Committee membership has been chosen to represent the various activities and interests within Society membership thus covering the interests of the entire membership.

### Objectives of the Committee with Respect to Meetings

1. To evaluate meetings. Comments are collected from the Committee and represent their feelings, and the feelings of others whom they talk to. The Committee is sort of a “grass roots” data collection agency. Included in these evaluations are comments about the format of meetings, use of outside speakers, social activities, success of workshops, etc.
2. To provide a basic source of ideas for future meetings. The Committee is polled with respect to meeting format, social events and topics for workshops and concurrent sessions, and questioned about individuals who have been suggested as outside

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## THE NATURAL RESERVE CONTROVERSY—A BRITISH VIEW

by Anthony P. Limb, F.I.A.

*Editor's Note: We welcome this contribution from across the Atlantic. Mr. Limb is a Joint Secretary of the Scottish Life Assurance Company.*

The author has recently returned from a visit to the United States and Canada during the course of which he had the privilege of meeting a number of actuaries practising in North America and discussing with them common problems and differences of approach. Apart from this experience he has however little knowledge of actuarial practices in North America, and while wishing to acknowledge with gratitude the assistance he received from these actuaries whom he met he readily acknowledges that there may be mis-understandings in his grasp of the situation. For that he alone is responsible.

The methods employed to evaluate the liabilities of a Life Office, and to present the results for public scrutiny, are of prime interest to actuaries and have always been a fertile source of discussion and disagreement. They are also the field in which there is the greatest need for the actuary to display skill, judgment, and responsibility. In Britain at the present time the subject of valuation presentation and approach is, and has for some time been, of concern for at least two reasons. In the first place, a policy of investment in equities and property, which may be pursued in Britain without regulatory interference and has been adopted by a number of Life Offices to the extent of between say 40 and 60% of their assets, has produced large capital appreciation, both realized and unrealized. This capital appreciation

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## Book Review

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This question was the subject of a panel discussion at a recent meeting of the Society of Actuaries. Some actuaries have opted for greater disclosure in actuarial reports, not only as a substitute for "guidelines" but also as a road to better understanding of pensions on the part of the public, perhaps minimizing the need for restrictive regulation. This reviewer infers support by the author of this book for the principle of more adequate disclosure in valuation reports and possibly in pension funding matters generally. The author's position relative to the education of plan sponsors on matters of gain and loss suggests such a stance. Mr. Berin certainly is aware of objections to expanded reports which critics have raised. He cites the usual arguments—"not understood by, or of too little interest to, employers," "too time consuming and expensive," and so on. He dismisses these arguments in the case of the gain and loss analysis.

If it is practicable and constructive to communicate a gain and loss analysis, one might ask whether it is not also practicable to disclose other, conceptually simpler, items in order to contribute to better public understanding. Computerized valuations have introduced a brand new ball game in the informational field. Expanding reported details would be time consuming to a degree. Yet, if limited to items which the actuary knows to be available and *meaningful*, it could be less time consuming to program a computer to provide the information than to compile reams of virtually meaningless reports designed by well intentioned public servants—which seems to be the direction in which we are heading. As for making things understandable (even interesting!) to clients, the challenge this presents is hardly new. Mr. Berin points out most consultants *are* consultants because of that challenge.

A clarification might be in order on page 87 of the book, where the author advises against double-valuations "as a regular procedure" (i.e., valuations based on the plan's regular assumptions and funding method, as well as on alternate assumptions and method). We suspect he had in mind discouraging somewhat arbitrary changes in valuation bases on the part of employers who want "the best of all possible worlds" from year to year if shown too many alternatives.

We are confident he did not intend a proscription against providing plan sponsors with meaningful information relative to such matters as "benefit security of plan participants by class," "status of funding *vis-a-vis* 'close out' rates available from insurance companies," "tests of fund yields needed to overcome inflationary pay increases," and a variety of information which may be found useful in particular situations.

The author might someday wish to consider expanding *The Fundamentals of Pension Mathematics* to a more comprehensive, self-sufficient text, a "bible" of actuarial techniques and procedures for pension plan valuations.

Berin's book is timely, and one can feel greater confidence in the pension actuary of tomorrow if he has been brought up on such a training diet.

Setting aside minor flaws which could be corrected by simple editorial changes, Mr. Berin's book renders a substantial service to actuaries—hopefully to those of long standing as well as to the students who will be representing our profession in the future. □

## Committees

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- speakers, etc. The Committee welcomes suggestions and comments from all Society members.
3. To provide a source for suggested workshop leaders and panelists. The list polled for workshop leaders and panelists also includes individuals who are not on the Committee. In addition to the Fields of Activity Committee members, a number of other Society members are asked to suggest program participants.
  4. To assist the Program Committee in planning the meeting, and in recruiting the panelists and workshop leaders.

## How the Committee Functions

The Committee is polled by mail both for meeting evaluations and for suggestions about future meetings. (Suggestions are also welcomed on any topic and need not relate to meetings).

A designated Committee member collects all suggestions and collates them. The Chairman and Co-Chairman of the

Committee, and usually three other Committee members, become part of the working group of the Program Committee for a given Society meeting, and work together with the Society Vice Presidents responsible for the meeting.

## How a Society Meeting is Planned

The Fields of Activity Committee collects evaluations of past meetings, together with suggestions for the current meeting and submits these to the Working Group of the Program Committee for the particular meeting. The Working Group is composed of two Society Vice Presidents, the Executive Director of the Society, the Fields of Activity Committee representatives, and a local arrangements representative. On the basis of the ideas submitted, the Program Committee prepares the program. The program is balanced to include topics of interest to various segments of the membership. "Hot" current topics are included and topics which were very popular at recent meetings may be repeated.

The program outline is then mailed to the Fields of Activity Committee and to a number of other Society members for suggestions as to participants. A list of suggested persons is compiled and the Working Group meets to select panelists and workshop leaders from this list. The Fields of Activity Committee is responsible for getting in touch with the moderators and workshop chairmen who in turn get in touch with the panelists and the co-chairmen. The moderators and the chairmen develop the final program content and the finished program is sent to the Society's office for distribution.

The Committee welcomes comments on past meetings and suggestions for future programs. These should be sent to Mrs. Rappaport or to the Vice-Chairman, Richard S. Robertson. □

## Natural Reserve

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basis, whilst at the same time retaining the traditional presentation on the bases within the statutory limits need not necessarily lead to the extreme situation described in this article. He has been concerned only to point out the danger which seem to him to exist should any significant weakening of valuation bases take place, and to contrast these with the slender and possibly transient advantages of such a course. □