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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 Scotish 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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Amendments to Social Security

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The actuarial methodology behind the contribution schedule for old-age, survivors, and disability insurance is a substantial departure from the past.

The methodology employed prior to enactment of the automatic provisions has been based on two static assumptions: (1) that of an unchanging law, and hence an unchanging benefit table, and (2) that of an unchanging level of earnings.

With the enactment of the automatic provisions, the unchanging law assumption is no longer an assumption of static benefits. In the absence of further legislation both the benefit table and the earnings base will rise if, as must be expected, consumer prices and earnings levels rise. Dynamic assumptions as to benefit and earnings levels become appropriate when automatic benefit table and earnings base increases are included in the law.

The actuarial methodology and long-range assumptions behind the new contribution schedule differ from the traditional social security methodology in these three important respects:

(1) The benefit table in the statute is assumed to be adjusted periodically, in accordance with automatic provisions of the new law. For this purpose the CPI is assumed to increase at 2¾% annually.

(2) The level of taxable earnings per covered worker is assumed to increase at the rate of 5% annually. This is equivalent to the assumption that average earnings increase at 5%, and that the earnings base increases (as it would under the automatic provisions) at this same rate.

(3) As a provision against all of the various ways in which the long-range cost estimates may prove to be optimistic, and especially against the possibility that the gain in wages in constant dollar terms may fall below the 2¼% (i.e., 5%-2¾%) per year assumed, a special margin has been built into the cost estimates. This contingency margin is of such size that a CPI increase of 3⅛% (instead of the 2¾% assumed) could be experienced, without inadequacy in the financing, if all other assumptions worked out exactly. Alternatively, it is also of such magnitude that after eight years an additional 3% benefit increase could be enacted without change in the contribution rates, if in fact all assumptions had worked out exactly, and the contingency margin had so far proved to be unneeded.

The resulting costs as a percent of payroll for old-age, survivors, and disability insurance are lower than under the traditional methodology, although the differences are not significant for the near future. These lower projected costs are based on the premise that additional financing will be provided if Congress should enact benefit increases beyond those coming from the automatic provisions.

It is perhaps worthy of comment that the automatic provisions now a part of the law, under realistic assumptions as to the relationship between rates of price and earnings increase, result in average benefits rising slower than average taxable earnings; and hence in some deterioration of the average benefits/earnings ratios. Future legislative action that might be deemed desirable to avoid such deterioration would require additional financing.

Another feature of the OASDI financing is worthy of note. The 1971 Advisory Council on Social Security recommended as a goal that the trust fund assets be maintained at approximately the level of the following year's expected outgo. At the end of 1971 this ratio was very close to 100%, but the enactment of the 20% benefit increase means that the 1972 ratio drops to 84%, not because of any decrease in the fund over 1972, but because of the large increase in the following year's outgo. The contribution schedule in the new legislation is sufficient to provide substantial trust fund growth over the next five years, but it is not sufficient to restore the fund outgo ratio to 100% until about 1990.

The enactment of the new legislation had a very healthy effect on the actuarial status of the Hospital Insurance Trust Fund. The benefits were not changed, but the financing was increased, not only by the two-step increase in the earnings base, but also by an increase in the contribution rate. The actuarial deficit noted in the last Trustee's report was made whole, and the projections for the HI Trust Fund show that within five years the fund will be over 100% of the following year's projected outgo, as compared to less than 50% at the end of 1971.

The new legislation adequately finances the benefits provided by the system. The contribution schedule, devised by the Office of the Actuary and incorporated into law by legislative action, has been tested against the cost estimates calculated in accordance with the new methodology involving dynamic assumptions, and future income and future outgo are in close balance. The new methodology, proposed by the 1971 Advisory Council on Social Security, later adopted by the Office of the Actuary and endorsed by the Boards of Trustees, has now been accepted by Congress.

Although the financing of the system is entirely adequate from a trust fund point of view, and while substantial trust fund growth is expected, the new legislation does have an adverse effect on the unified budget for fiscal 1973. Additional outgo starts in early October, whereas the higher contribution rates are not effective until January 1973; and the effect of the higher earnings base will not be felt until the early part of fiscal 1974. ☐

Social Security Notes

Daniel F. Drennan. *Railroad Retirement Disability Program*, 1937-71, pp. 42. Railroad Retirement Board, Actuarial Study No. 10, June 1972.

This report presents in a concise and highly readable manner a great deal of information on the history and current status of the principal disability retirement program for the nation's railroad workers. The actuarial part of the report includes rates of disability retirement, the mortality experience of disability annuitants, and the latest annuity tables used by the Board. Special attention is called to certain features of the program which have a strong bearing on mortality rates in the first duration since retirement. Finally, there is a comparison with certain other programs including those operating under group insurance contracts.

Free copies of the study may be obtained by writing to the Office of the Chief Actuary, Railroad Retirement Board, Chicago, Il. 60611. ☐