Article from:

The Actuary

June 1974 – Volume 8, No. 6

The Actuary
The Newsletter of the Society of Actuaries
VOLUME 8, No. 6 JUNE, 1974

CHANGES IN UNITED KINGDOM SOCIAL SECURITY AND RETIREMENT PLAN REQUIREMENTS

by Peter A. Friedes and John C. Roberts

On May 7th, Barbara Castle, Secretary of State for Social Services, announced major changes in the details of the Social Security Act - 1973. This Act provided for the following principal features:

(a) The abolition of the Graduated State Pension Scheme.

(b) The introduction of a new supplementary state pension arrangement — the State Reserve Scheme — to replace the Graduated State Pension Scheme.

(c) The introduction of earnings-related contributions for all state pensions.

(d) The introduction of mandatory vested rights in all Occupational Pension Schemes.

In order to contract out of the State Reserve Scheme, it was necessary for certain minimum requirements to be met. The provisions of private plans were to be submitted to the Occupational Pensions Board for approval. This Board would also examine the financing media adopted to ensure that minimum benefits were being securely funded for employees who were to be contracted out of the State Reserve Scheme.

The major changes amended by Barbara Castle are as follows:

- The Graduated State Pension Scheme will terminate as of 5 April, 1975, as stipulated in the Act.
- The State Reserve Scheme will *not* come into effect on 6 April, 1975.

(Continued on page 7)

MINORITY RECRUITMENT

by James C. Harrison

This item is intended to present an updated report on the Minority Recruitment Program of the Society of Actuaries—begun in 1969 by actuaries in the New York Area, and taken over by the Society in 1971.

To date, the main effort has been the Actuarial Summer Institute, conducted each summer, from 1970 on, at Lincoln University, Pennsylvania by Professor James Frankowsky, chairman of Lincoln's mathematics department. The purpose has been to prepare disadvantaged minority mathematics students to pass Part 1, and thus to encourage them to embark in actuarial careers. Ten students have gone on to pass Part 1, and five students have since been employed as actuarial trainees by leading insurers. Three are attending graduate actuarial school at Michigan.

But these results, though significant, represent a pass rate of less than 20%. For this reason, the Subcommittee in charge of the program decided to attempt substantial improvements before continuing the Institute for another year. Recruiting was intensified, employment filling out the summer prior to Institute attendance was obtained, and, most importantly, selection standards were upgraded sharply. The result has been a 1974 class of markedly higher quality, judging from initial testing. Another significant change in approach has been to extend recruiting beyond the predominantly black colleges to most quality colleges in the country with minority enrollment.

A graduate scholarship in actuarial science has been offered, commencing in 1973, and the first award has been made.

(Continued on page 7)

CONSULTING PROBLEMS IN THE INTERNATIONAL CONTEXT

By David L. Hewitt

The fourth conference of the International Association of Consulting Actuaries was held in Amsterdam, May 26 to 30, 1974. Consulting actuaries, as advisers to pension plans and insurance companies, are facing serious and surprisingly similar problems in the countries represented. While many topics were covered, the key areas appeared to be inflation, social security, regulations, relationships with accountants and professional responsibility.

Inflation and Its Relationship to Funding

While past salary growth rates of 7% per annum or less, partly reflecting productivity growth, have been dealt with systematically, current inflation rates in the neighborhood of 15% per annum or more create problems and doubts.

Many private pension plans are based on final average salary. Those which are not still have the moral obligation to update benefits before retirement. All of them have the obligation to update benefits after retirement, and few do by the plan rules as written, instead amending from time to time.

High inflation rates require high funding to anticipate the level of benefits which will ultimately be needed. But at the same time high inflation throws into doubt the value of funding: why pay good currency now to anticipate the need for increased benefits payable in future cheaper currency?

This led to an interesting discussion of whether to fund and to what degree. By the end of the discussion we seem to have gotten back to where most of us were in the first place: funding is needed for employee security, including funding

(Continued on page 8)

●ited Kingdom

(*Continued from page* 1)

- Earnings-related contributions for all state pensions will be introduced as of August 1974 (for employee contributions) and April 1975 (for employer contributions).
- Mandatory vested rights will be required as of 1975 in accordance with the conditions laid down in the Social Security Act - 1973.
- As a result of the government's decision, it will no longer be necessary to make changes in U.K. pension plans to obtain approval from the Occupational Pensions Board for exemption from the State Reserve Scheme.
- Pension plans may still need to be amended if the provisions for vested rights are less generous than those laid down in the Social Security Act - 1973.

This course of action, to be implemented by Order in Council, resolves the uncertainty surrounding the Act that ●llowed the change of Government. As ● next step, the Labour Government intends to publish its proposals for a *new government sponsored pension* in the form of a white paper during the next six months. Enactment of these proposals cannot take place for two or three years.

The Secretary of State recognizes that this delay will result in a loss of pension accrual in some cases and regrets this. Nonetheless, she pointed out that the basic state pension has recently been substantially increased and is now related to the evolution of wages. The government feels that this action will compensate largely for the lack of benefit which might have accrued in the Graduated State Pension Scheme or the proposed State Reserve Scheme.

The uncertain situation that now exists is likely to foster an increase in integrated schemes as being the most practical way for employers to provide a definite benefit level for their employees. However, because the April 5, 1975 ●adline has been removed, there will be ●re time for employers to decide what to do about their U.K. pension plans. This extra time might make it easier for employers to adopt a U.K. program that fits within their long range international policy on employee benefits. □

Society Examinations Seminars
GEORGIA STATE UNIVERSITY

Seminars for Part 4 of the Society Examinations will be held October 7-18; Part 5—October 28-November 10, and Part 7—October 21-25. (Enrollment is limited.)

Complete information can be obtained from:
PROFESSOR ROBERT W. BATTEN
Georgia State University
Department of Insurance
School of Business Administration
33 Gilmer Street S.E.
Atlanta, Georgia 30303
Telephone (404) 658-2725

Recruitment

(*Continued from page* 1)

From the beginning, the program has been supported by contributions from employers, actuarial clubs, and individual actuaries. The supervising Subcommittee believes the changes installed this year are clearly pointing things in the right direction, and so it is hoped that the generous support received in past years will be continued. □

ARCH

The list of contents for the latest issue is given below.

Issue 1974.1

Using Applied Numerical Methods for Graduation by Mathematical Formula—Actuarial Note Joseph R. Brzezinski

Spline Functions in Numerical Analysis T. N. E. Greville

A Critical Look At The Foundations of Credibility Theory Myron H. Margolin

Current Work in Risk Theory: A Personal Assessment Hilary L. Seal

Another Look at Loan Amortization With Step-Rate Amounts of Principal Edward J. Seligman

A Generalized Approach to Exposed-to-Risk Theory G. C. Taylor

Hardy's Formula Via King's Formula G. C. Taylor

Random Variate Generators Robert E. Wheeler

Subscriptions can still be sent to David G. Halmstad, Scientific Time-Sharing Corp., P. O. Box 124, Ridgefield, Conn. 06877. □

SOCIAL SECURITY TRUSTEES' REPORTS

by Francisco Bayo

In this year's Trustees' Reports, recently submitted to the Congress, most attention focuses on the cash benefits program which is projected to have an actuarial deficit of about 3% of taxable payroll, over the 75-year valuation period.

Most of the changes in the actuarial balance as compared to previous estimates are due to new population projections based on significantly lower fertility. The new projections use a total fertility rate of 2.1 children per woman, while the previous projections were based on an average between a low assumption of 2.3 and a high assumption of 2.8. This change has a significant effect on the dependency ratio of aged to working population. However, the bulk of the effect will not be felt in the OASDI program cost until after the turn of the century.

The second most important factor affecting the actuarial imbalance is a change in long-range economic assumptions. Previous estimates were based on annual increases in earnings of 5% and in CPI of 2¾%. The new cost estimates increase the CPI assumption to 3% per year, with higher increases for the early years.

It is indicated that the assets in the cash benefits trust fund amounted to over $44 billion at the beginning of calendar year 1974, and that there is no immediate problem in making benefit payments.

The Supplementary Medical Insurance and Hospital Insurance programs are in sound actuarial condition. The HI program has a slight actuarial surplus of .02% of tax payroll and is accumulating funds faster than previously projected. Therefore, it is suggested that for the next 5-10 years, funds derived from the present contribution schedule could be reallocated among the various programs so that over that period all funds will increase.

However, after this initial reallocation of funds it will be necessary to increase the total contribution rate, particularly after the turn of the century, when the impact of the population change will become most pronounced.

The recently appointed Social Security Advisory Council has been requested to study in particular the future financing of the system. □