

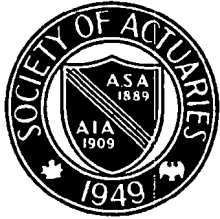


SOCIETY OF ACTUARIES

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# The Actuary

The Newsletter of the Society of Actuaries

VOLUME 9, No. 7

SEPTEMBER, 1975

## A RECORD BIRTH

By Harold F. Philbrick

The birth (or, more appropriately, the conception) of the *Record* was announced in March 1975 issue of *The Actuary* by John C. Angle, Coordinator of Publications. By the time you read this, the first three issues should be in your bookcase or library. Having put the third issue of the *Record* to bed, I felt moved to make a few remarks about this new publication.

I accepted the job of Editor with fingers crossed, knowing that it would be no simple matter to meet the goals of furnishing our membership with a quality product as rapidly as possible following each Society meeting. To reach these goals, I decided to enlist the aid of the Recorder and Moderator for each Concurrent Session. In essence, this meant that I would be relying on 78 members plus two nonmembers (for a session moderated by a Fellow of the Conference of Actuaries in Public Practice) to produce *edited* copy, ready for the printer, for the Concurrent Sessions at the three Spring meetings this year.

With such a large group of assistants, the quality of the end product varied considerably. Some edited ruthlessly to produce articles that excluded duplications and nonrelevant material. Others merely dressed up a transcription of their session, but always adequately for inclusion in the *Record*. Considering the volume of material, the amount of final editing needed was very small. A quick comparison of the three issues will reveal that some improvements have been made. One change was to recognize in the Cincinnati issue the recorders who did a yeomanly job in getting the material together and editing it. I would like to take this opportunity to recognize the

(Continued on page 7)

## Graduate Student Scholarship

The Board of Directors of The Equitable Life Assurance Society of the United States decided to establish a scholarship fund as a tribute to J. Henry Smith who retired on April 1 as Chairman and Chief Executive Officer of the Equitable. Mr. Smith is a Fellow of the Society of Actuaries and a former member of the Board of Governors.

Dr. John T. Fey, Chairman of the Board of the Equitable, acting on behalf of the Board, asked the Society of Actuaries to take over the administration of the scholarship fund, not only selecting the scholarship recipients, but also determining the amount of the annual awards. The Society is honored and pleased to accept this invitation.

The Fund, to be known as the J. Henry Smith Scholarship Fund, will provide scholarships for qualified female and minority graduate students in the field of actuarial science who have a demonstrated need for financial aid. While the fund will be intended primarily to benefit female and minority students, others will be considered in the absence of qualified female and minority candidates.

In announcing the Board's action, Dr. Fey said the scholarship fund is designed as "an appropriate and worthwhile way to recognize J. Henry Smith and in particular his significant contributions to the actuarial profession and deeply felt commitment to equal employment opportunity for all."

Personal gifts from members of the Equitable Board together with a corporate contribution of an equal amount from the Equitable, produced a total of \$7,000 to launch the fund. It is expected that this initial amount will be augmented from time to time by additional con-

(Continued on page 7)

## ADEQUACY

James Schulz, Guy Carrin, Hans Krupp, Manfred Peschke, Elliot Sclar and J. Van Steenberge, *Providing Adequate Retirement Income*, pp. 330, University Press of New England, Hanover, New Hampshire, 1974, \$15.00.

by G. Ashley Cooper

This book proceeds in a series of steps from an analysis of what is meant by "adequate retirement income" through an examination of the social security systems of four countries (Sweden, Germany, Belgium and Canada) to a program of reform for the United States pension system. It would be impossible to find fault with the general concept that "it is time that a broad review of our retirement income maintenance system was undertaken and serious thought given to the requirements of providing adequate retirement income to the future aged." There is no doubt, too, that exploration of the ways in which other countries have approached these problems is worthwhile, since no nation has a monopoly on brains and ingenuity.

However, there is left a feeling of disappointment that the promise was not fulfilled. Moreover, it is difficult to determine the audience for whom the book was intended, since the material is too complex for most laymen, yet too simple for most professionals in the field. The authors are all professors, so it might be supposed that the intended audience is also academic.

The setting of a standard of adequacy is essentially dealt with in two pages only (pp. 40 and 41), which appears to give this subject less space than it deserves. One would have hoped that there could have been fuller treatment of the impact of taxes, the percentage of pre-retirement expenses that are connected with working, the decline of wants and other data that would define more pre-

(Continued on page 7)

## Letters

(Continued from page 6)

CODE ANN. § 56-319, might be persuasive: "(The) annual report shall be made in such form and contain such information as the Commissioner may by regulation from time to time prescribe and require . . ."

When the statutes require compliance with the regulations, and the regulations require compliance with the instructions, you've got statutory authority right down the line. There you have it, John!

Claude Y. Paquin

## Adequacy

(Continued from page 1)

cisely the proper relationship between incomes before and after retirement.

On the other hand, the description of the development of social security in the four countries covered is interesting, informative, and relevant. However, even here, there are troublesome aspects. In the first place, one is left wondering whether the countries were selected by chance or with an eye to proving that U.S. Social Security is "behind the parade," since it happens that three of them (Sweden, Germany and Belgium) have chosen to adopt social security programs far ahead of the "floor of protection" which is the approach followed so far in the United States. Secondly, the treatment of private plans in these countries is very cursory: in the German section they are not mentioned at all, while for Belgium it is stated (quite incorrectly) that "almost nothing is known about the private pension schemes in operation" (p. 149).

The analysis of the foreign benefit programs and their comparison with the United States is performed by a sophisticated simulation system. This is marred by the use of some curious earnings histories assumed for hypothetical employees. For example, the work history given the most prominence (p. 197) provides for a salary of about 82% of national average at age 25, increasing to about 110% of national average in the middle years from age 35 to age 50, then declining to 82% of national average earnings when the employee reaches age 64. Not many actual workers have this career pattern, and it gives rise to some anomalous results in the analysis.

The final section of the book, which proposes a program of reform for the United States, is political rather than rigorously intellectual. Perhaps this is necessary, since the development of a social security program is, quite clearly, a political process. Moreover, it is only too easy to take sides in the controversy, and the authors are no exception. For example, on page 231 it is stated, without any real evidence, that "we feel that the minimum guarantee through social security should be about 55%" (emphasis added). Again, on page 270, it is stated that the social security system "has already proved its superiority and popularity" over private pension plans, and that there is "general agreement that current (social security) benefits are too low." These are subjective judgments, and their reiteration without demonstration makes the book a polemic instead of a theoretical treatise. This view is reinforced by the relative lack of consideration of costs. The impression given is that the only need is to design a satisfactory benefit formula and if the resulting contribution rates are high, then general revenue financing can pick up any balance (p. 271).

At this juncture, the American public has not agreed, as the authors suggest, to a "substantial transfer of income from the working to the retired population" (p. 275, authors' emphasis). Perhaps they should, but the case as presented in this book is, (as the verdict on ambiguous evidence is given in Scotland) "not proven".

## Graduate Student Scholarship

(Continued from page 1)

tributions from friends and associates of Mr. Smith.

As part of the responsibility for the administration of the fund, the Society of Actuaries will receive all contributions for the scholarship program. These are tax deductible. Any individual or organization wishing to contribute may do so by drawing a check to the order of the "Society of Actuaries J. Henry Smith Scholarship Fund" and sending it to the Office of the Society, 208 South La Salle Street, Chicago, Ill. 60604.

## A Record Birth

(Continued from page 1)

following Recorders for their assistance in getting out the Los Angeles and New York issues:

Syed A. Ali, Philip F. Ancona, Gerald A. Anderson, James J. Carey, Charles Carroll, Peter F. Chapman, Thomas R. Corcoran, Charles E. Dean, Jr., Nathan H. Epstein, Edward I. Farb, Judy A. Faucett, Alan H. Fougner, Thomas J. Garabedian, Bernard E. Hartt, Paul W. Janus, William C. Koenig, George Y. Longyear, Marshall H. Lykins, Donald B. Maier, Ronald H. Meredith-Jones, Robert Ronda, Beverly S. Rose, Dennis E. Ryals, Dale R. Schuh, Michael E. Sproule, and Martin Stempel.

I am sure that the quality of the *Record* will improve with time and experience. Its value will be increased when an appropriate indexing system is established. However, its contents will always be dependent on the membership taking time to develop and present worthy, and sometimes weighty, ideas on the topics being discussed.

In the final analysis, the quality of the material in the *Record* will be primarily dependent on the panelists and other program participants furnishing the recorders with good copy not later than seven days after the meeting. Each speaker should review his presentation, not from the standpoint of a talk and an open forum, but from the standpoint of what portion of his remarks should be included in the permanent records of the meeting. In editing for the *Record*, he should ask the question, "Will the inclusion of this material be of significant value to the membership of the Society?"

## To be Continued

(Continued from page 2)

percentiles. A "bodily system" summary is also produced by area. This shows the number of charges and the average conversion factor for each of 15 bodily systems, e.g., the digestive system.

Additional information regarding the Prevailing Health Care Charges System can be obtained from Donald Jones of the HIAA.

The use of this system is not restricted to members of the HIAA.