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Editor . . . . . . ANDREW C. WEBSTER
Associate Editors . . COLIN E. JACK, FREDERIC SELTZER, JONATHAN L. WOOLEY

Correspondence should be addressed: The Actuary, Mail Drop 13-2, 1740 Broadway, New York, N. Y. 10019, Tel: (212) 586-4000

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SOCIAL SECURITY VICTORY?

President Carter has signed into law significant changes in the Social Security system. Considering the possible alternatives the business community did well, as the joint committee accepted the costly proposals.

Without getting into details, the following are the more important decisions:

1. The over-indexing of benefits provided under prior law was revised through a method designed to offset inflation and stabilize replacement ratios.
2. Parity was maintained for both the taxable wage base and the tax rate. The President's original plan proposed removal of all limits on the taxable wage base for employers while the Senate bill called for a much higher tax on employers than on employees.
3. Persons applying for dependents' and survivors' benefits in the future will have their benefits offset if they are also covered by any government pension not under OASDI.
4. The earnings test for retired persons was liberalized but not eliminated.
5. The disability payment offset when workmen's compensation is also received was continued; the Senate bill would have eliminated it.
6. The use of general revenues during periods of high unemployment or for standby loans was rejected.

Nonetheless, this apparent victory is damaging to the insurance industry and leads to further encroachment of the federal government on the insurance business. The taxable wage base applicable to employers and employees alike will rise above $40,000 in the next 10 years with the maximum tax increasing to more than $3,000 per annum for both. This rapid growth in Social Security taxes will lead to higher Social Security benefits which, acting through the design of integrated pension plans, will in turn leave a smaller proportion of the business to the private sector. The substantial level of benefits under the disability and survivorship provisions will also reduce the portion provided by the private insurance market.

When Social Security goes beyond the floor-of-protection level, it damages the private sector and becomes part of the welfare program. The removal of billions of dollars from the private sector damages business competitiveness through increased prices needed to offset these higher costs without productivity gains and by giving greater impetus to inflationary trends. While the private pension system accumulates funds for investment, Social Security acts as a transfer of income from workers to retirees, thus reducing capital formation.

Because the impact of the rise in the taxable wage base and of the increased tax rates is gradual but unrelenting, increased pressures to alleviate the burden will be brought to bear on the Congress. President Carter has already promised tax relief and various Congressmen will be proposing palliative legislation at the next session of Congress. Most commonly mentioned, and probably least objectionable, is the financing out of general revenues of the Medicare part of Social Security and perhaps the Disability part. The problems associated with the Social Security system, as well as with Railroad Retirement, Civil Service Retirement, Military Retirement, Unemployment Insurance, Workmen's Compensation, and local and state pension programs, will increasingly demand the attention of actuaries in the next few years. We should be prepared.

Frederic Seltzer

TO BE CONTINUED

Editor's Note: This article is submitted by the Committee on Health Insurance. Comments will be welcomed by the Committee and by the Editor.

Group Insurance Programs— Special Financing Arrangements

by Steve Carter

The increasing cost of providing medical benefits for employees is forcing many group insurance policyholders to examine their group insurance programs with an eye to possible cost savings. An obvious consideration is to reduce the level of benefits provided by increasing plan deductibles and coinsurance and this is what many smaller policyholders are doing. Requests for medical plans with a $200 or $300 deductible are becoming quite common. Indeed, from strictly a financial point of view, it seems reasonable to argue that if $100 deductible medical plans were appropriate in the late 1960's, then $200 deductible plans should be appropriate today.

For the larger policyholders, a reduction of employee benefits is not normally a practical alternative because of competition, negotiated benefits, etc. Such policyholders appear more interested in special financing arrangements which will reduce state premium taxes and/or allow them more use of reserve monies normally held by an insurance company. Since these arrangements affect the amount of investment income earned by the insurance company, a charge is often made in the retention formula for this loss of income.

Reductions in Reserves

A number of financing arrangements are being used by insurance companies to make reserve monies available to policyholders.

Deferred Premium Approach

One of the most common is a deferred premium approach under which the insurance company will agree to extend the grace period from the traditional 31-day period to either 60 or 90 days. This, in effect, gives the policyholder the use of the reserve funds held by the carrier.

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