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BOOK REVIEW

by James L. Clare

J. E. Pesando and S. A. Rea, Jr. *Public and Private Pensions in Canada: An Economic Analysis*, Toronto: for the Ontario Economic Council by the University of Toronto Press, 1977.

For a successful resolution of the current Canadian Pension Debate, input will be needed from many quarters, and many bases will need to be touched. One of the major aspects currently debated is the relationship between (1) the net rate of investment return on pension funds, and (2) the inflation rate. The authors, with skill, clarity, and thoroughness, observe: "To sum up, the empirical results support the tentative conclusion that, *ceteris paribus*, a 1 per cent change in price expectations will produce a corresponding 1 per cent change in nominal interest rates." (The authors, of course, are talking only about moderate rates of inflation—*not* about runaway inflation. Runaway inflation would be extremely hazardous, and almost certainly disastrous, for all pension plans, whether funded or unfunded, and whether public or private).

The authors also realize that there may be time lags, with inflation accelerating first, and real net rates of investment return only making up lost ground afterwards. Thus, they note that ". . . the sharp increase in the experience deficiencies of final earnings plans and (renegotiated) flat benefit plans in recent years is quite predictable. Equally important . . . this trend would be *reversed* if inflation were to slow in years ahead", (emphasis added).

The pension funding problem caused by such timing differences between inflation and investment returns is tentatively tackled by the authors. They offer the exploratory suggestion that, perhaps, "index bonds" would provide a solution.

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1978 SOCIAL SECURITY REPORTS

The Trust Funds

by Francisco R. Bayo

On May 16th, the Social Security Boards of Trustees sent to the Congress the three annual reports (OASDI, HI, and SMI). These reports present cost projections similar to those provided to the Congress last year at the time of enactment of the 1977 Amendments.

The SMI program, which generally covers physicians fees for the aged and the disabled, is in excellent financial condition. Funds at year end were enough to cover incurred expenses plus the required contingency reserve. The premiums promulgated last December are expected to be enough to cover the costs projected for the applicable 12-month period and to build up the reserve.

The HI program, which generally covers physicians fees for the aged and the disabled, is projected to have funds that will remain about level as percent of annual expenditures until 1985. Thereafter, the funds are projected to decline until exhausted in 1990. Over the long-range 25-year period, the program is estimated to have a deficit of 1.12 percent of taxable payroll (based on average costs of 3.86 and average taxes of 2.74).

The OASDI system, which generally covers monthly cash benefits to retired or disabled workers and to their dependents or survivors, is projected to be well financed until the early years of the next century. Although the funds are expected to decline during the next few years due to inadequate taxes, they are projected to increase after 1980 attaining levels of more than twice the annual expenditures by the turn of the century. Thereafter, the funds are projected to decrease until exhausted before the year

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JAHCOGS TO COPAFS

by Robert J. Johansen

This is the second of two articles on the Committee of Professional Associations on Federal Statistics (COPAFS) and the report which gave rise to it. The first article appeared in the April 1978 issue of *The Actuary*. The Joint Ad Hoc Committee on Government Statistics (JAHCOGS), of which the Society was a member in 1977, was convened in 1975 in the belief that (i) the professions which used federal statistics were not responding to the many developments in federal statistics that affected their interests and (ii) the federal statistics system was failing to measure up to standards that professional statisticians felt were necessary and feasible.

While the interests of the constituent associations are varied, all have a common interest in the structure and conduct of the federal statistical systems that produce the statistics used by members of the associations and by government and the public at large. Consequently, the Committee addressed itself to problems in the conduct of the federal statistical system itself rather than the contents of the output of the system. In its final report published in April 1978, JAHCOGS compiled a number of failings in the federal statistical system and made several specific recommendations. The findings and recommendations are summarized briefly as follows.

(1) The report called for expansion of the number of statistical advisory committees to government agencies together with improvement in the effective use of such committees. The present Administration has abolished several of these committees and the Committee noted that, in the past, a number of such committees had not been effectively used by the agencies.

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Social Security and Young Worker

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seem that the general public is not familiar with them. This article certainly is not the place for such a discussion but a few general comments might be in order.

The income replacement ratios that are frequently quoted significantly understate the value of Social Security benefits because they relate benefits to gross wages rather than to take home pay. For example, the true ratio for a married man retiring at age 65 in early 1978 (with a dependent wife at least age 65) is 61.4 percent rather than the 50.2 percent obtained from dividing the maximum benefit of $689.70 by $1,375.

As mentioned earlier, Social Security is really an income redistribution scheme, and not an insurance program in the traditional sense. This being so, there should be no criticism if certain groups do not receive the "value" of their contributions. A worthwhile side benefit not usually mentioned by the critics is that Social Security frees the young worker from the obligation of financial aid to his parents or aged relatives, who, in most cases, will be entitled to benefits on their own work records.

It is not altogether clear that private carriers would be willing to venture into the field of truly dynamic benefits. This would, of course, make the whole discussion of farming out the lucrative part of Social Security coverage pointless and strictly of academic interest.

Let us assume for the moment that farming out is feasible and that Social Security would be transformed into a closed system. An educated guess (based on a 1976 estimate of $4.2 trillion under the 1972 law) would place the actuarial deficiency for a closed system under the 1977 law at about $3 trillion. To amortize such an amount over a period of, say, 30 years would take some 8 percent of the personal income derived from employment and investments. Since this would have to come from taxes in one form or another, how then would the younger worker profit from this situation in the foreseeable future?

Public attitudes being what they are, it can be expected that the 1977 reforms will be short lived and that a good part of the cuts in benefit expectations will be eliminated. Another strong possibility is that government subsidies will replace a part of payroll taxes. While this would certainly not reduce the costs of the program, it would make the situation more palatable to the public and this is, after all, what counts in the mind of the politicians. Should general revenue financing become a reality we may well see a revival of expansionist tendencies with all that the implementation of these tendencies would entail for the economy at large, for individuals, and for private pensions. A good public education effort is needed in this area and it is hoped that the actuarial profession will play a prominent part in such an endeavor. □

SECOND CALL—PAPERS FOR BANFF

by Robert E. Hunstad

The June 7-8, 1979, meeting of the Society of Actuaries to be held at Banff is scheduled as a special topic meeting on Health Insurance.

The Committee on Health and Group Insurance of the Society's Continuing Education Committee has responsibility to assist in the development of the program for this meeting.

Mr. Stephen T. Carter, Chairman of that Committee, has announced that in order to encourage the writing of papers for presentation at this meeting, prizes will be awarded for the two best papers presented.

The first prize will be $300 and the second prize $200. These prizes are being made available by a grant from the Actuarial Education and Research Fund.

The procedure for submitting papers is given in the Year Book. To assure consideration for presentation at the Banff meeting and eligibility for the prize awards, papers should be submitted no later than September 15, 1978. Papers submitted after that date may still be considered for use and for prize awards but have less likelihood of being processed in time.

Any questions may be directed to members of the Health and Group Insurance Committee. They are listed in the Year Book. □

FUTURE OF RISK—A SYMPOSIUM

Sponsored by
Risk Studies Foundation

Risk in the immediate and distant future will be scrutinized by scientists, academicians and the business and insurance communities at a symposium to be held by the Risk Studies Foundation from Monday, September 25 to Wednesday, September 27, at the Waldorf-Astoria Hotel in New York. A not-for-profit adjunct of the Risk and Insurance Management Society, the Risk Studies Foundation was founded in 1975 to research the multifaceted fields of risk and insurance management and interrelated disciplines.

Topics to be discussed in the two-and-one-half day forum are: Energy and Economic Dislocations; Future Prospects For Climate Change, Weather Control and Natural Disasters; International Political Flux; Individual Health Patterns; Centralization and The Future Of Crime.

Registration fee for the meeting, cluding luncheons on September 25 and 26, is $295.00. To register or obtain a descriptive brochure, write Risk Studies Foundation, 205 East 42nd Street, New York, New York 10017. □

Trust Funds

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2030. Because of the large number of children born in the 1950's and 1960's, the cost of the system increases rapidly after the first 50 years and remains relatively high. Over the long-range 75-year period, the system is estimated to have a deficit of 1.40 percent of taxable payroll (based on average costs of 13.55 and average taxes of 12.16).

The Boards of Trustees recommend to the Congress not to consider rolling back the social security tax increases enacted last year until the current Social Security Advisory Council finishes its study of the system.

For free copies of any of the three Trustees Reports, write to: Social Security Administration, Office of the Actuary, Altmeyer Building — Room 707, 6401 Security Boulevard, Baltimore, Maryland 21235. □