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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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## Book Review

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Perhaps the authors could, in the future, also consider further alternatives, e.g. shortening the term of the investments? For example, a five-year mortgage has more responsiveness to inflation than a fifteen-year bond. Perhaps sufficient responsiveness could be achieved simply by shortening investment terms?

The authors provide some worthy initial discussion of some other questions on the agenda of the Canadian Pension Debate, e.g. "portability" of pension benefits. Possibly, in later work they could also take into account the economic implications of (1) early retirement trends, and (2) retirement incomes which, on a net basis are *in excess* of net incomes while working?

Concerning the Canada Pension Plan, the authors have healthy hunches and instincts, but they have yet to follow them up. For example, they state that "the CPP may have had some redistributive effects associated with the start of the program." In fact, currently, only about 10% of any CPP retirement pension now being received has been "paid for" by the CPP contributions made by the recipient and made by his employer on his behalf. The *remaining* 90% is a redistributive *subsidy*. Thus, the CPP gives more *dollars* of subsidy per month to higher-income retired Canadians than it gives to lower-income retired Canadians. This is "upside-down welfare." Perhaps the authors could scratch a little deeper?

Owing to such incompleteness, the book should be read with care—but it certainly should be read by every serious pension debater. It is also to be hoped that the authors will bring still more pension aspects under the scrutiny of their "Economic Analysis," in future books—and soon.

*Editor's note: We are indebted to Ms. Catherine Frost, Editor, Canadian Tax Journal, for permission to reprint this article.* □

## JAHCOGS

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(2) The Committee found that in many cases too many dollars were spent in collecting data; but the required methodological and substantive analyses were often neglected, lessening the value of the data. The Committee also found a need for each agency producing statistics (whether or not this was its primary mission) to have or to have access to professional staff and technical guidance.

(3) In order to encourage wider dissemination and use of data collected at considerable expense, the Committee made a number of recommendations with respect to lowering the cost of printed matter and providing facility for electronic data sources.

(4) Contracting out should be freely permitted, particularly where the agency receives access to expertise or data not readily available otherwise or when a privately developed study is more likely to receive public acceptance. The Committee recognized, however, that lack of qualified agency staff has sometimes led to less than optimum results from contractors in the past and it recommended a comprehensive review of existing policies and procedures for contracting for research and statistical services, including improved means of evaluating proposals and results.

(5) While there has been a tremendous expansion in the number and scope of government requests for information, there has not been a corresponding increase in the forms clearance staff since 1942. The Committee urged the President's Task Force on Reorganization of the Statistical System to give special attention to this area to assure qualified individuals for forms review, reductions in delays and especially the review of individual projects as parts of the broader governmental data gathering programs.

(6) The Committee expressed concern as to the adequacy of the overall planning and coordination of federal statistics activities. The highly decentralized U.S. statistical system can work well only if needs common to many agencies are provided for and important functions

not clearly within the missions of individual agencies are properly performed. For example, there has been a failure to provide regular monitoring of major statistical series and review, revision and updating of their conceptual bases. The Committee also advocated better qualified staffs, access to professional colleagues outside government, and utilization of state of the art techniques.

(7) Rather than weakening the overall statistical structure as by the recent transfer from OMB of the Statistical Policy Division, the Committee called for the creation of general statistical agencies to insure the performance of functions that

(i) involve several agencies but no one agency exclusively.

(ii) require integrated consideration of elements of the economy and society which are in the separate provinces of different agencies,

(iii) are directed more toward broader aspects of the economy and society than toward particular programs and policies, and

(iv) serve the information needs of broader publics than those to which any given agency may be responsible.

In order to further its recommendations and to provide for continued monitoring of the federal statistical system, the Joint Ad Hoc Committee initiated the formation of the Committee of Professional Associations on Federal Statistics, described in the April 1978 issue of *The Actuary*.

Other organizations represented in JAHCOGS were the American Economic Association, American Political Science Association, American Public Health Association, American Sociological Association, American Statistical Association, Federal Statistics Users' Conference, National Association of Business Economists, Population Association of America, and Society of Actuaries.

A limited number of copies of the April 1978 JAHCOGS report are available from the Society's office. □