



SOCIETY OF ACTUARIES

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# The Actuary

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**The Newsletter of the Society of Actuaries**

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## SOCIAL SECURITY AMENDMENTS OF 1977

*Summary of the Conference Agreement on H.R. 9346—The Social Security Amendments of 1977. Committee on Ways and Means, House of Representatives, Washington, D.C. (WMCP: 95-61, 1977), pp. 14.*

by Robert J. Myers

This brief pamphlet, issued on December 15 (just before the debate on the Conference Agreement in both the House and the Senate), is an excellent, authoritative summary of the 1977 Amendments to the Social Security Act. These deal primarily with the OASDI system.

The net result of these amendments, according to the official actuarial cost estimates made by the Social Security Administration, is to substantially restore the financial soundness of OASDI. All cash-flow difficulties are eliminated for at least the next three decades, and the long-range actuarial deficiency (measured over 75 years) is reduced by about 80% (to 1.46% of taxable payroll, from the 8.20% stated in the 1977 Trustees Report).

This pamphlet succinctly describes each of the many changes made by the new legislation. The most important ones are; the new schedules of tax rates and earnings bases; the decoupling of the benefit structure; and the liberalization of the earnings (or retirement) test. Somewhat smaller changes are; the freezing of the regular minimum benefit; the unfreezing of the special minimum benefit; the liberalization of the delayed-retirement credit; a limitation on retroactive benefits; a new method for cost-of-living increases for early retirees; an offset of governmental-employee pensions against OASDI benefits for spouses; and authorization for totalization agreements to be made with other countries.

A number of minor amendments (al-

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## A E R F

The Actuarial and Educational Research Fund (AERF) is interested in your suggestions on projects which you feel need doing. Have you something in mind which is probably beyond the scope of an actuary working in his spare time?

AERF is an organization which was incorporated in June 1976. It is managed by 12 trustees, two from each of six actuarial sponsoring bodies. These are the American Academy of Actuaries, the Canadian Institute of Actuaries, the Casualty Actuarial Society, the Conference of Actuaries in Public Practice, the Fraternal Actuarial Association and the Society of Actuaries.

The purpose of AERF is to advance the knowledge of actuarial science and respond to the needs of the public for education and research in actuarial science by coordinating and/or conducting research and studies, by conducting educational programs, by stimulating the production and dissemination of educational material and by undertaking such other activities as may seem desirable to achieve the stated goals.

AERF expects to act as a catalyst to bring together:

- (1) the project — a worthwhile activity to be done;
- (2) the researcher — a person qualified to do the project, and
- (3) the funds donated by parties interested in having the research done.

At their quarterly meeting in December, the AERF trustees authorized as a project the writing of a text on Loss Distributions, which will be of special, but not exclusive, interest to casualty actuaries. The specifications for the text will be published in the near future and the project will be opened to tender.

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## DEMOCRACY IN THE SOCIETY OF ACTUARIES

by E. J. Moorhead

Those who attended our annual meetings before 1972 no doubt still have lingering recollections of the sometimes dramatic interruptions for successive balloting to choose officers and members of our Board of Governors. A constitutional amendment, adopted in 1971 by a wide majority after ample discussion, replaced on-the-spot balloting by mail elections. Something was lost by that change, but more was gained, including wider participation in our elections and greater use of concurrent sessions and workshops than of the necessarily more formal general sessions.

In the years 1972-1975 the successive Committees on Elections had to develop their own answers to questions created by the new mail ballot system. Each Committee made up its own collective mind on these matters. Finally, upon the authorization of the Board of Governors, the then Society President, C. L. Trowbridge, appointed a Special Committee on the Election Process in May 1975 "to review the manner in which the Society conducts its elections, and to make any recommendations for change that it deems appropriate." Mr. Trowbridge commented, "There is no implication that our systems have not worked well, or that there is urgent necessity for change. There is an implication that the procedures followed by the Election Committee might be better understood."

The Special Committee, consisting of Messrs. Charles W. Jacoby, H. Douglas Lee, Robert J. Myers and Thomas J. Young under my chairmanship, began by gathering questions that seemed to justify consideration in the interests of

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**Letters***(Continued from page 5)*

artificial and an external discipline.

A nation, like an individual or a household, must seek its salvation from within. Without such an internal discipline, any measure taken would offer, at best, a temporary relief.

During the first part of this century Great Britain was a strong proponent of the gold standard. However, when, in the twenties, adhering to it was no longer in her interest, she came off that standard and adopted the gold exchange standard.

Actually, Britain's coming off the gold standard was the first signal that she was living beyond her means. Her politicians, however, would not admit the truth and, instead, portrayed their action as a stroke of financial genius. The move did not really help her for, concomitant with it, she would not exercise the necessary internal discipline.

The problems of our country (Canada) stem from a similar lack of discipline. In my view, World War II was a psychological misfortune for us. Our industries and our economy were not ravaged like those of Europe and, therefore, our postwar generations grew up with the firm belief that the remainder of this century was ours. Not only did we fail to realize that we were extremely wealthy only by comparison with an impoverished Europe, but we also forgot that we owed our wealth to the years of toil and sacrifices of the preceding generations.

For many, here was Nirvana, here was the land of bounty and minimal work. Successive governments, anxious to stay in power, and their bureaucracies, helped foster the myth. All they had to do was to make appropriate noises of anguish and dismay at the state of the economy and then print more money. But truth had to emerge eventually and we now find that we have priced ourselves out of world markets.

Only one solution is clear and straightforward: both as individuals and as a nation we must live within our means.

*Pyar Dossal*

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**Tapes**

*Sir:*

Concurrent Session K "The Reality of Professional Conduct" at the Boston Society of Actuaries Meeting seemed to be extremely well received and drew a number of rave reviews afterward. I was the Recorder at that session and with the help of panelists, Daphne Bartlett, Dale Gustafson and Jim MacGinnite, a slightly edited tape of the session has been prepared. It would provide an excellent program and discussion topic for actuarial clubs and student groups. The tape runs 70 minutes and can be conveniently divided into two or more sessions.

Presented in a role-playing format, this tape offers actuaries at all levels and working for all types of organizations the opportunity to come to grips with a thought-provoking part of their profession. The tape consists of five different dramas presenting hypothetical situations involving possible conflict with the Guides to Professional Conduct of the Society. After each scene, discussion questions are asked and listeners are asked to judge relative guilt or innocence. The final part of the tape is an interview involving a real life professional conduct situation. While low-keyed and unhurried, this interview is quite intense and most provocative.

A copy of this tape together with a written script can be obtained by writing Warren Adams, Director of Education, at the Society office in Chicago.

Comments are invited on the idea of making available to the members tapes of various sessions at the Society meetings. Comments on the content of the present tape are also invited. All comments should be sent to Mr. Adams.

*Thomas E. Dyer*

**AERF**

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Please forward any comments you might have to the Chairman, M. Stanley Hughey, FCAS, Executive Vice President, Kemper Insurance Co., Long Grove, Ill. 60049, or Secretary, John Mereu, FSA, Group Actuary, London Life Insurance Co., 255 Dufferin Ave., London, Ontario N6A 4K1, Canada. □

**On Risk Classification**

*Sir:*

I am somewhat saddened by both Arthur McMurrich's and Robert Randall's comments (*The Actuary*, December 1977) on the politicization of risk classification. The former draws a distinction between "decreased ability to classify risk" and "mandated coverages" and proceeds optimistically, Pollyannishly one might say, to point out the possibility that "society rather than the insurance industry" could ultimately become "our client" since "we as actuaries have . . . our expertise in analyzing 'collective undertakings' of various types." The latter actively applauds "some governmental prohibitions" when they are "wise, proper, justified, and necessary."

That, of course, is precisely the point. Every governmental intrusion into the private economic sector has been justified, or rationalized, by being deemed wise, proper or necessary by one or more of the groups that make up our pluralistic society. And life insurance and private pensions are tempting targets. After all, don't sick people need insurance even more than healthy people? And isn't it good social policy to make it available, by whatever means, at prices they can afford? And old people? Don't they need insurance at least as much as young people? What if they can't afford the high premiums? Isn't it socially justifiable (equitable, as some might say) to have young people absorb a portion of the true cost.

If insurance is to be priced on the basis of social utility rather than the cost of coverage to the group, or when coverage can be mandated by governmental or judicial fiat, there will be no logical reason for the continuation of the private insurance industry. And we won't have society for a client, Mr. McMurrich, no matter how "professional" we are, because society won't give a damn about our professionalism or our expertise. Congress and the bureaucracy will determine the cost of coverage with the same mixture of social theory and political expediency that historically has characterized all governmental programs.

I feel that every actuary should do everything in his or her power to oppose governmental and judicial intervention into the processes of risk classification

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