

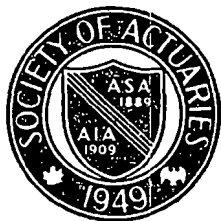


SOCIETY OF ACTUARIES

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INDEX-INDUCED INFLATION

by Geoffrey N. Calvert

Great damage is being done to the U.S. economy as a result of the widespread misunderstanding that the Consumer Price Index measures changes in the cost of living. It does not; but the common belief that it does tragically underlies the practice of CPI indexing (through cost-of-living adjustment clauses) of wage rates applying to tens of millions of workers; also CPI-indexing of Social Security benefits to more than thirty million recipients, and of civil service and other pensions to millions of others. The terms "CPI indexing" and "cost-of-living adjustments" are used interchangeably in many government documents, labor contracts, and reports of all kinds, as though they meant the same thing, but they do not. The fact is that the CPI *overstates* the rise in the cost of living by upwards of 2% annually, and this overadjustment is feeding right back into the inflation. By attempting to compensate for the inflation, and, in doing so, by *overcompensating*, we are accelerating the very condition we are trying to recognize.

How does this overcompensation arise? It arises through (i) measurement of the *wrong thing* by the CPI, (ii) *incomplete* measurement of the cost of the end use to the consumer, and incredibly, (iii) *inclusion of cost but exclusion of benefit* of many products used by the consumer. These points are clearly brought out by the following examples drawn from the work of academic economists Ruggles of Yale and Gordon of Northwestern, and of consulting economist Lee Moore of New York.

(1) Let us start with these statistics on motor tires:

	Price	Life	Cost per mile
1935 4-ply cotton	\$13	7,000 miles	.186 cents
1978 steel belted radial	\$68	40,000 miles	.170 cents

Ignoring the increase in miles delivered by each tire, the CPI tire price index rose 140%, but cost per mile fell by 9%.

(2) The CPI similarly ignores many other changes in quality and performance.

- Modern motor oil goes 5 or 10 times as many miles as the oil of 30 years ago;
- Today's television set lasts longer, uses less electricity, needs fewer repairs, and shows better pictures than 15 years ago;
- A jet plane flies faster, saving time which has value, and is safer;
- A modern razor blade gives more and better shaves.

(3) Similarly many kinds of taxes (other than direct income taxes) flow directly into the CPI, but *all* the government services we receive in return are incredibly omitted!

(4) The CPI movie entertainment index is up 330% since 1948, whereas the cost of equivalent programs on TV is down 80%.

(5) The gasoline excise tax went straight into the CPI, but the superhighway system that we got for it was ignored, and with it all the saving in time, gas, wear and tear, and the improvements in comfort and safety.

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Editorial Support

Jonathan L. Wooley, who is now relinquishing his post as Associate Editor, has been an example to us all in his painstaking and thorough attention to the details that determine the quality of a magazine. Since January 1975 he has watched over the accuracy of words and formulas. Our warmest thanks to Jonathan.

WOMEN IN OUR PROFESSION

by Esther H. Milnes

No doubt about it—there are more women in the actuarial profession these days. That shouldn't be a surprise since more women have been entering the labor force over the last twenty years. Women now make up 41% of the work force, and 1 out of 6 of them is in a profession.

Of course, the actuarial profession has been affected by these changes. For example, at Society meetings we've all noticed increases in the number of women who are FSA's and men who are AP's (accompanying persons). Let's take a closer look at some of these changes. Have women faced the same difficulties in the actuarial profession as in medicine or law? Where do we stand now? How is our track record compared to other professions?

Women in the professional world have been examined in publications from *The Wall Street Journal* to *Redbook*. Women now established in their professions say how difficult it has been to reach these positions. There are many stories of disparate pay, lack of respect, and struggle with prejudice.

Was it any different in the actuarial profession? Probably not. Josephine Beers provided some examples. When she started her career in 1929, the start-

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Welcome

We welcome now the assistance of Geoffrey L. Kischuk, whose eagle eye helps to eradicate errors in copy and in printing.

Women

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ing salaries for college graduates were \$1,300 per year for women and \$1,500 for men. And that difference widened with service and exams passed. Why? Women weren't worth as much to the company since most would leave to marry.

Later in Miss Beers' career a man was hired as her assistant. His salary was 50% greater than hers. Why? He had four mouths to feed when she had only one.

What about responsibility and opportunity? Miss Beers says she was given her fair share—and that she enjoyed her work. She admits though that having a brother in the profession didn't hurt her in that regard.

What's it like for women becoming actuaries today? The blatant salary differentials are gone, but attitudes change more slowly. This assessment in the legal profession sums up the situation for actuaries as well.

"In the larger law firms," says Ann G. Miller, a partner in the San Francisco firm of Lillick, McHose & Charles, "I think the blatant discrimination of 10 years ago has disappeared. What you (a female lawyer) may find is a subtle attitude you're uncomfortable with—a subconscious resistance you can't put your finger on because men aren't yet used to women in business situations. It's their social upbringing. All their lives, they've dealt with women as wives, girl friends and the like: Suddenly they have to face a woman as a hardnosed adversary."⁽¹⁾

Women actuaries have their share of other problems, too. Being mistaken for a secretary is common. And how often have you seen a woman sitting in a session at a Society meeting circled by a

protective barrier of chairs which the men have tactfully avoided taking?

But let's move away from the subjective and take a look at some of the statistics about changes that have already occurred in our profession. Below are some membership figures of the Society of Actuaries. After a long fairly stable period, the percentage of women began to increase. In the 1970's women members quadrupled, while male membership increased only 68 percent. The number of women now taking exams points to further gains ahead.

Membership — Society of Actuaries

Year	Women	Men	Total
1950	33 (3.1%)	1,041	1,074
1960	42 (2.2%)	1,868	1,910
1970	91 (2.6%)	3,453	3,544
1978	357 (5.8%)	5,808	6,165

Source: Society of Actuaries Year Books

How do these changes in the actuarial profession compare with changes in other professions where women have been making gains? Below are some numbers to consider.

The increase in the number of women in the actuarial profession has been dramatic. Of course, there was plenty of room for this. And there is still room for further increase.

What of the future? We'll probably see continuing increases in the women's share of our profession. But these changes won't occur painlessly. Perhaps the greatest conflict facing women actuaries, as in other professions, is between family and career. As societal attitudes change we will see more innovative approaches to this problem. What happens will have a significant impact on our profession and women's role in it. □

Gaining In the Professions—Share of Women Among All Workers

	1960	1977	Increase in Share
Engineers	0.8%	2.7%	238%
Lawyers and Judges	3.5%	9.5%	171%
<u>ACTUARIES</u>	<u>2.2%</u>	<u>5.8%</u>	<u>164%</u>
Life and Physical Scientists	9.2%	15.6%	70%
Accountants	16.5%	27.5%	67%
Architects	2.1%	3.4%	62%
Physicians	6.9%	11.2%	62%
Clerics	2.3%	3.5%	52%
College and University Teachers	23.9%	31.7%	33%
Editors and Reporters	36.6%	44.9%	23%
Social Scientists	25.4%	28.6%	13%
All Vocations	32.8%	40.5%	23%

Sources: Actuarial statistics from Society of Actuaries Year Books. Other professions from U.S. Depts. of Labor & Commerce reported in *U.S. News and World Report*, Sept. 4, 1978.

FIRST LADIES

<u>First Woman Fellow who was:</u>	<u>When</u>	<u>Name</u>
Elected to membership	1895	Emma Warren Cushman*
Admitted by examination	1921	Estella King
Elected to Board of Governors	1950	Helen L. Clark
Sister of a Fellow	1951	Josephine W. Beers
Daughter of a Member	1969	Daphne (Deas) Bartlett
Elected Treasurer	1974	Anna M. Rappaport
Daughter of a Fellow	1976	Esther (Hook) Milnes & Sheila (Moorhead) Kelley
Elected Vice-President	1978	Barbara J. Lautzenheiser

All of which is subject to corrections and additions, which will be welcomed.

* A biographical note on this pioneer will grace our next issue.

⁽¹⁾Drinkhall, Jim, "Ladies of the Bar," *The Wall Street Journal*, May 31, 1978, p. 40, col. 2.