



SOCIETY OF ACTUARIES

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News From London

(Continued from page 6)

Medal "in honour of actuarial work of pre-eminent importance."

The July issue of FIASCO contains a letter from an Australian actuary, Mr. John T. Corbett, describing his company's option, included in all policies accepted standard, that permits an annual increase in face amount proportionate to the rise in the consumer price index.

In its annual policy cost comparison article, *The Economist* says this about

non-par whole life policies:

The amount finally paid out . . . is arrived at by the life office's in-house mathematician who peers into the future—the actuary. . . . If his assumptions are cautious or even pessimistic (as they usually are) then at the end of the day, there will be a surplus over the guaranteed sum (as there usually is) that goes into the company's reserves. The policyholders' returns on non-profit policies are puny. . . . As a method of investment with-profit policies are plainly preferable to

non-profit ones.

The Institute's President for the next two years is Mr. Anthony R. N. Ratcliff, F.I.A. 1953. Mr. Ratcliff's interest in North American matters is evidenced by his having been an Associate of the Society since 1965. An American actuary who chatted with him just before he took office readily confirmed FIASCO's appraisal that he has a friendly personality and enjoyable sense of humor. To the extent that a company Chief General Manager may be said to have specialized, his major field has been Pensions. We look forward to a visit from him. □

FINANCIAL CONDITION OF OASDI SYSTEM

by E. J. Moorhead

The 1980 Trustees Report

Readers determined to keep abreast of the condition of, and outlook for, the OASDI system — we hope there are many — can do so by requesting a copy of each of two clearly written and fairly brief documents, viz.,

(1) *Summary of The 1980 Reports On The Social Security Trust Funds*, June 19, 1980, prepared by the Social Security Administration and Health Care Financing Administration. Consisting of only 23 pages—two of which are highlights of highlights, and five others are charts—this gives the major findings and forecasts extracted from the customary three Trustees Reports.

(2) Francisco R. Bayo and Joseph F. Faber, *United States Population Projections for OASDI Cost Estimates*, 1980, Actuarial Study No. 82, Social Security Administration, June 1980. In its 54 pages this presents the population projections used in the 1980 Reports. Separate sections describe assumptions, methods and results; life expectancies and fertility rates are charted.

Copies of these can be had free from Office of the Actuary, Social Security Administration, Baltimore, MD 21235.

The existence of Item 1 above makes it redundant for this newsletter to continue our customary series of annual articles summarizing the Trustees Reports. Instead we shall comment in this space on a few features revealed by the Reports. Only OASDI will be discussed here; Medicare will be saved for later.

How Have Short-Range Estimates Worked Out?

Table 1 herewith undertakes to display how the official estimates of income, disbursements, and changes in fund balances for the years 1980, 1981 and 1982, have been modified through three successive Trustees Reports. Actual results for 1978 and 1979, and 1980 estimates for 1983 and 1984 are shown for comparison.

It can be seen that the annual estimates for 1980 made ever since the 1977 amendments were adopted, have been within a reasonably compact range, but the original estimates for 1981 and 1982 have had to be changed materially in the unfavorable direction. For 1984, the 1980 range of estimates extends all the way from plus \$25 billion to minus \$43 billion, a spread of \$68 billion which seems certain to raise some eyebrows.

OASDI, TABLE 1

Estimates of Financial Condition of Combined Trust Funds
Given In 1978, 1979 and 1980 Trustees Reports
(Figures in billions of dollars)

Calendar Year	Report Year	Income	Disbursements	Net Increase in Funds	Funds Dec. 31
1978	1979, Actual	91.9	96.0	-4.1	31.7
1979	1980, Actual	105.9	107.3	-1.5	30.3
1980	1978, Estimate	119 to 116	119 to 121	0 to -5	29 to 24
	1979, "	121 to 119	121 to 123	0 to -4	31 to 27
	1980, "	121	124	-3	27
1981	1978, Estimate	140 to 134	131 to 134	9 to 0	38 to 24
	1979, "	141 to 139	134 to 139	7 to 0	37 to 26
	1980, "	142 to 138	145 to 149	-3 to -11	24 to 16
82	1978, Estimate	157 to 150	143 to 149	14 to 1	52 to 25
	1979, "	159 to 155	148 to 154	11 to 1	48 to 27
	1980, "	163 to 158	165 to 174	-2 to -16	22 to 0
1983	1980, Estimate	182 to 179	183 to 198	-1 to -19	21 to -18
1984	1980, Estimate	204 to 200	200 to 224	4 to -24	25 to -43

(Continued on page 8)

OASDI

(Continued from page 7)

Assumptions Used For Cost Estimates

The question of what economic and demographic assumptions are appropriate for these estimates was explored last year by a panel of consultants to the 1979 Advisory Council, this panel chaired by Walter Shur, F.S.A. Its recommendations appear in Appendix B to the *Reports Of The 1979 Advisory Council On Social Security* which were admirably reviewed by E. Allen Arnold for Vol. XXXI of the *Transactions*. The assumptions employed by the Trustees in both their 1979 and 1980 Reports were materially influenced by this panel's recommendations.

In Tables 2A and 2B of this article we compare the wage and CPI increase assumptions used in the Trustees Reports before and since release of the Consultant Panel Report, first for one selected near-term year (1983), then for the ultimate values assumed (in the 21st century)—and, likewise, the so-called "aged dependency ratios" for the years 2000 and 2050, that arose from the demographic assumptions. Of course, the changes from the 1978 to the 1980 assumptions were also greatly influenced by what has been happening since 1978.

Particularly striking are (i) the range of CPI increases now forecast for 1983 (Table 2A), and (ii) the extraordinary range, all the way from .270 to .644, of the "aged dependency ratios" for the year 2050 (Table 2B).

The Payroll Tax Increase, January 1981

The system stands at a critical point in its history as the time comes close when the largest and most pervasive payroll tax increase will be effective unless Congress yields to pressures to modify the rates called for in the December 1977 amendments. The 1980 and scheduled 1981 rates and taxable maximum wages are shown below (Table 3).

These large increases place severe stresses upon Congress's determination and voters' willingness to adhere to the visible and disciplinary payroll tax system without resort to general revenue financing or other proffered alternatives.

OASDI, TABLE 2A

Ranges of Annual Wage and CPI Increase Assumptions Given in 1978 Trustees Report, Consultant Panel Report, and 1980 Trustees Report—Calendar Year 1983 and Ultimate Values.

	1978 Trustees Report	Consultant Panel Report	1980 Trustees Report
<i>Values Assumed For Year 1983</i>			
Annual Wage Increase (%)	7.1 to 8.0	10.1 to 6.0	9.3 to 10.9
CPI Increase (%)	4.0 to 6.0	7.0 to 4.0	7.3 to 10.6
Real Wage Increase (%)	3.1 to 2.0	3.1 to 2.0	2.0 to 0.3
<i>Ultimate Values Assumed</i>			
Annual Wage Increase (%)	5.25 to 6.25	10.25 to 3.25	5.25 to 7.25
CPI Increase (%)	3.0 to 5.0	8.0 to 2.0	3.0 to 6.0
Real Wage Increase (%)	2.25 to 1.25	2.25 to 1.25	2.25 to 1.25

OASDI, TABLE 2B

Ranges of "Aged Dependency Ratios" Arising From Demographic Assumptions Used In 1978 Trustees Report, Consultant Panel Report, and 1980 Trustees Report—Calendar Years 2000 and 2050.

Calendar Year 2000	.208	.215	.215 to .242
Calendar Year 2050	.285 to .404	.297 to .507	.270 to .644

*The "Aged Dependency Ratio" is the ratio of the population aged 65 years and over to the population aged 20-64.

OASDI, TABLE 3

	<i>Employees & Employers, each</i>			<i>Self-employed</i>			<i>Taxable Maximum</i>
	<i>OASDI</i>	<i>Medicare</i>	<i>Total</i>	<i>OASDI</i>	<i>Medicare</i>	<i>Total</i>	
1980	5.08%	1.05	6.13	7.05	1.05	8.10	\$25,900
1981	5.35	1.30	6.65	8.00	1.30	9.30	29,700

Actuarial Meetings

- Sept. 9, Chicago Actuarial Club
- Sept. 24, Actuaries Club of Indiana, Kentucky and Ohio
- Oct. 15, Chicago Actuarial Club

SEMINAR FEES

The fee for a 2-Day Society Seminar is \$175.00, not the \$125.00 erroneously stated in our April issue "Non-Routine Business."

Deaths

- Joseph R. Lawrence, F.S.A. 1968
- Rulon Williamson, F.S.A. 1919