



SOCIETY OF ACTUARIES

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THE E. & E. CORNER

Ed. Note: Here are the first returns since the Education & Examination Committee announced its Question and Answer feature in our February issue. All interested—please keep your questions coming! Send them to James J. Murphy at his Year Book address.

Ques.: Is there a formal process to keep texts and study notes current?

Ans.: Yes, and it's constantly evolving. Its most stable element operates in exam question setting and grading. Actuaries from a multitude of experiences use our text material in drafting and reviewing questions; when they find it behind the times, they notify the Education Committee whose responsibility it is to remedy the defect.

That Committee also has the benefit of suggestions from those teaching actuarial courses, students' suggestions, and its own periodic review of the syllabus.

Ques.: Is a new text about to replace Jordan? How will it differ? When will we have it?

Ans.: As announced in The Actuary (October 1978), a new text on actuarial mathematics is being written. It will be in two volumes, building upon the material in Jordan's Life Contingencies.

It will apply contingency theory to individual and group life and health insurance, annuities, pension funding, and computer algorithms used in calculate actuarial values. There will also be elementary applications to casualty insurance and to risk theory. The text will emphasize stochastic approaches (as contrasted to Jordan's deterministic approach); it will be closely integrated with the recent syllabus changes on Parts 1 through 3.

The first five chapters of Vol. 1, on risk theory, will come out this year and will replace the present Risk Theory Study Note for the Spring 1982 Part

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"WHOM SHOULD I HAVE FOR MY ACTUARY?"

Messrs. George Calat, Kenneth T. Clark, Stephen C. Frechtling, Frank L. Griffin, Thomas P. Tierney and Dale H. Yamamoto answered our January Query with ideas for the imaginary advisory pamphlet. In this summary of their letters the symbol "xxx" means "he or she."

Our contributors suggest: (i) that as assurance of competence, xxx be an FSA; (ii) that xxx be personable and tactful—one thinks that in view of our own protestations xxx had better be huggable; (iii) that xxx have management ability, and be accessible easily and, when necessary, quickly; and (iv) that xxx have an established reputation with clients and represent a reputable firm—one recommended the actuary be in a firm of actuaries large enough to encompass experts in related fields, and guarantee a continuous infusion of new ideas and techniques by hiring a steady string of progressive young actuaries.

Two thought xxx should radiate confidence, essential because the client may need to be represented in court or before government officials. Effectiveness as a speaker and as a judge of character was also mentioned in a broader context.

The actuary's affiliation—partnership with a non-actuary or employee status in a public corporation or insurance company—was queried. About the first of these our contributor is neutral, observing that attorneys and physicians prohibit this pattern while accountants permit it to a limited extent. He believes that an actuary should never engage in public practice while in the employ of a corporation unless its stock is owned entirely by its own active employees; and that an insurance company actuary shouldn't assume the role of consultant to its policyholders.) On admittedly rare occasions the actuary might be in the impossible position of representing both parties in a dispute.)

E.J.M.

MORE PROPOSALS FOR CHANGING SOCIAL SECURITY

by Robert J. Myers

The 1977 Amendments to the Social Security Act provided for a one-time National Commission on Social Security with broad mandate to study the OASDI and Medicare programs. It was a nine-member body which included representatives of the private insurance business, beneficiaries and potential beneficiaries, and individuals having special knowledge of these programs; five were named by President Carter and two each by the Senate and House. The Commission could not start work until a majority of its members had been named, which did not occur until January 1979; its report was completed in January 1981.

The following are its major recommendations:

As to OASDI Coverage

- That all new federal, state and local employees after a specified date be covered compulsorily.
- That all present state and local government employees not under a retirement system be covered compulsorily.
- That members of Congress, the President, the Vice President, cabinet members, and the Commissioner of Social Security be covered compulsorily, with full offset of OASDI benefits and taxes against the benefits and contributions under their existing retirement system.
- That all employees of non-profit organizations, except those operated by sects conscientiously opposed to public insurance, be compulsorily covered.
- That the option for state and local governments and non-profit organizations to withdraw from OASDI be eliminated after a one-year grace period.
- That earnings required for coverage be increased to \$600 per year for the self-employed, and to \$150 per quarter for domestic workers and casual labor.

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Book Review

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results, and lastly some technical specifications. Statistical cuts are made between 434 retired and 1,115 non-retired persons; cuts are also taken by groupings—age, income, occupation, educational attainment, and other factors.

These findings merit study. Attitudes toward retirement are only marginally favorable among the non-retired, but somewhat more favorable among the retired. About 58% of the former would like to retire before age 65, but only 41% expect to do so. Among the retired, 33% desired to retire before 65, but 59% did so. Reasons (with some duplications) for retirement cited by the retired were: health (51%), positive feeling about retirement (14%), negative work conditions (14%), mandatory age attained (only 11%), various other (26%). A clear majority of the non-retired expect Social Security to be their major source of retirement income; 75% of the retired have found that to be so.

A majority have a good understanding of our system's major features. They understand that: benefits are based on covered pay; financing is by payroll taxes; there is no means test; and benefits are intended as a supplement to other income (but they believe it should play the larger role of meeting "the basic needs and obligations of retired people"). They know about disability and survivor benefits. But they have less understanding of benefit-indexing and non-inclusion of Federal employees.

Only one in four considers payroll taxes too high for the benefits provided. Higher future taxes are preferred to lower future benefits. Payroll tax financing is preferred to income tax or a national sales tax. But a plurality favors general revenue financing of Medicare over a payroll tax increase.

A majority (61%) of the non-retired "have little confidence that funds will be available to pay their retirement benefits." Yet, 76% oppose ending the system. And the Social Security Administration gets "high marks" for its performance.

This study appears to be generally well done. In today's inflationary environment, however, one must regard all responses about benefit and tax increases as ambiguous.

Comparisons With Other Surveys

Four or five years ago, Prof. Gary W. Eldred reported, in *The Journal of Risk and Insurance*, Vol. XLIV, No. 2, results of his own mail survey covering somewhat the same ground. While his study, which achieved 78% response from 560 persons, was structured quite differently from the National Commission survey, some comparisons are possible. Many of the results are in essential agreement. Eldred found a lower level of understanding and less favorable attitudes toward Social Security in general and payroll taxes in particular. Answers to one of his questions seemed to reveal strong antipathy to the "social tilt" in favor of lower-paid persons. And he found, not surprisingly, overwhelming objection to the retirement test, an issue strangely not really raised in the Commission survey.

On 14 October 1980, the Wall Street Journal in its *Asides* reported a survey of how Americans thought they were making out financially. A majority considered they had their finances under control—yet, 80% of members of Congress thought otherwise. Is there a message here? Legislators searching for various devices to avoid raising payroll taxes should look carefully at the National Commission survey results. Perhaps aversion to payroll tax increases is not so extreme as to justify such maneuverings. □

Reinsurance Text Book

We welcome a book on reinsurance principles by Eli A. Grossman, FSA. Published by Life Office Management Association for its education program, *Life Reinsurance* has sections on such subjects as deciding on retention limits, choosing reinsurers, underwriting, accounting and administrative considerations. On pp. 47-49, the author gives his predictions on reinsurance's future, including this: "Although stop-loss reinsurance will not replace all traditional reinsurance, it will become more popular and eventually will emerge as part of every treaty." Also, "The more sophisticated and ethical reinsurers will prosper and expand, while the others will disappear."

AIDING AND ABETTING

To give us essential help in our search for worthy items, this newsletter has begun to gather round us a corps of reporters. We are happy to announce the following appointments:

| | |
|--------------------|---------------------|
| Stephen R. Gold | California |
| Pamela S. Woodley | New England |
| Edwin E. Hightower | Southwestern U.S.A. |

Our Editorial Board members are patrolling other parts of the continent, but would be delighted to turn over that task to any members who care to volunteer. We expect to swell the above list to at least six or seven.

* * * *

We are pleased also to have the good help of Joseph Yau as proofreader. He succeeds Geoffrey L. Kischuk who served ably in that post until he was transferred away from the New York area.

E.J.M.

The E. & E. Corner

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5B. The rest of Vol. 1 will follow later in 1981 and will probably be on the Fall 1982 Part 5A.

Ques.: Why do results for multiple-choice computer-score exams take 6 to 8 weeks to arrive?

Ans.: Here is a typical timetable for a multiple-choice exam:

First week: Getting answer sheets and booklets to Educational Testing Service (ETS).

Second Week: ETS runs its program and reports back to the Society.

Third Week: Part Chairman reviews these results.

Fourth Week: Part Chairman sets tentative pass mark and reports to E. & E.'s General Officers.

Fifth Week: General Officers decide on pass mark (which may require discussion with joint sponsors).

Sixth Week: Numbers belonging to successful students are given to Society office; pass list is compiled and thoroughly checked.

Seventh Week: Students are notified of their results.

As you can see, there are many steps, easily using up 7 to 8 weeks. We do continually seek ways to speed this program.

J.J.M.