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A MESSAGE FROM OUR PRESIDENT

It is obvious that the long-term status of the actuarial profession and its significance in society, as well as the day-to-day functioning of the Society, depend crucially on the dedication of time and energy by the people who serve on Society committees.

I want to use this notice in *The Actuary* to express my appreciation and that of the Board of Governors and the members and students of the Society of Actuaries to those individuals whose volunteer work enables the Society to carry out its mission of service to the actuarial profession and the public.

I wish it were practical for me to write a letter of thanks to each individual listed in the committee roster section of the *Year Book*. However, with close to 850 people involved in committee work on behalf of the Society, this is impossible. The fact that there are so many people involved in this way is surely one of the great strengths of the Society.

Julius Vogel

PROF. POLLARD'S MORBIDITY-MORTALITY TABLE

by Louis Levinson

A "morbidity-mortality table," as conceived by Prof. A. H. Pollard, F.I.A. of Australia, is a multiple-decrement table akin to the familiar combined mortality and disability table. But, while the conventional double decrement table is the result of an investigation that takes account concurrently of the pair of decrements revealed by a single study, the decrements in the morbidity-mortality table come from independent, though doubtless properly comparable, sources.

The morbidity-mortality table has been set forth in Prof. Pollard's paper, *The Interaction Between Morbidity and Mortality*. It was submitted to the Institute of Actuaries this year, and is expected to appear in J.I.A. Vol. 107.

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THE SOCIAL SECURITY DISABILITY AMENDMENTS OF 1980

by Bruce Schobel

On June 9, 1980, President Carter signed into law the Social Security Disability Amendments of 1980. This article covers only the Disability Insurance program changes (there are many others), which fall into two major categories: (1) benefit amounts, and (2) program administration.

Benefits

Under previous law, the five years of lowest indexed earnings were excluded in caculating average indexed monthly earnings (AIME). Consequently, benefits to workers disabled at younger ages were based on a more favorable proportion of their earnings than those to older workers. The 1980 Amendments specify which years are to be excluded, starting

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"PROJECT UPDATE"

by Harvey Halpert

On March 19 the Actuaries Club of New York heard a report by Messrs. Dale R. Gustafson and James J. Murphy on the sweeping change in coverage on old policies that Northwestern Mutual Life, is offering its policyholders.

The Problem

The U.S. 1959 Income Tax Act fails to treat holders of participating policies within a single company evenhandedly in respect of the amounts that must be charged against their dividends to provide for the portion of the tax that is levied against the company's investment income. This is partly because the tax base is the excess of investment income over the policy reserve interest requirement, and partly because the "Menge formula" (10-to-1) rule used for adjusting for differing interest rates within a portfolio of policies develops serious inaccuracies when the difference between earned and reserves interest rates is as large as it has recently become. This injustice among policyholder groups has been specially troublesome in the speakers' company because more than half their policy reserves are on a 2% or a 2¼% interest rate. New policies since January 1978 are valued at 4% interest.

The Solution

It was decided to offer policyholders a choice between (i) having their policy face amount increased, reserves and cash values henceforth to be at 4% interest, or (ii) keeping their present policy just as it has been. The premium would be the same in either event. This means equating the current policy reserve (and the cash value*) for the old face amount

*To keep before-and-after cash values as well as reserves the same, requires special treatment to keep what used to be called the "surrender charge" unchanged.

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Social Security Disability

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with zero years for claimants under age 27, increasing by 1 year for each 5 years of age, reaching the maximum of 5 years at age 47.

A new feature allows workers below age 37 to exclude additional years* in which they were unemployed and there was a child under age 3 living in the same household.

Under previous law, the maximum benefit payable to a disabled worker and his family varied from 150% to 188% of the worker's benefit. The new law lowers this maximum to 85% of the worker's AIME, or 150% of his benefit if less, but never below the worker's benefit.

Administration

One major administrative change is designed to improve the quality of disability determinations made by state agencies. Commencing in 1983, the Social Security Administration must review at least 65% of all state agency allowances. In addition, the Secretary of Health and Human Services is required to specify administrative procedures and set performance standards for state agencies.

Disabled beneficiaries have been required to re-establish periodically their entitlement to benefits if their primary diagnosis is any of thirteen specified impairments from which recovery is considered likely. The 1980 Amendments require that from 1982 all beneficiaries with impairments rated as non-permanent be re-examined at least once every three years.

The 1980 Amendments provide incentives (or remove disincentives) for disabled beneficiaries to return to work, in several ways: (1) a former beneficiary need not wait the usual 24 months for Medicare eligibility, (2) Medicare eligibility is extended for 36 months after a beneficiary returns to work, provided the beneficiary has not medically recovered, and (3) benefits may be continued even after medical recovery if a beneficiary is enrolled in an approved vocational rehabilitation program.

It is estimated that these Amendments will reduce DI program costs by about 10% relatively, although the full effect will not be felt for several years. Most of the provisions affecting benefit calculations apply only to workers who become entitled to benefits for the first time after June 1980. For a fuller explanation of the effects of the new law, please write the Office of the Actuary, Social Security Administration, Suite 700, Altmeyer Building, Baltimore, MD 21235. □

*Total exclusion, regular and additional, is limited to 3 years.

Federal Statistics

Financing America's Unemployment Compensation Program

Reviews the financing problem, identifies major taxation issues, lists policy options and offers recommendations. Available from Lillian Howard UI Service, Employment & Training Admin., 601 D Street, N.W., Room 7000, Washington, DC 20213.

Income of U.S. Population 55 and Over, 1976

Begins a biennial series on incomes of older people. Tabulates major income sources, amounts, and proportions by age, marital status, sex and race. Staff Paper No. 35, SSA Publication 13-11865, single copy free from Publications Staff, Office of Research & Statistics, Social Security Administration, Rm. 1120, Universal North Bldg., 1875 Connecticut Ave., N.W., Washington, DC 20009.

Major Changes in U.S. Age Structure

The age structure in the U.S.A. has been changing significantly. The Census Bureau's latest estimates by age, race and sex show major shifts, specially among young adults and the elderly. A copy of Estimates of the Population of the United States, by Age, Race, and Sex: 1976 to 1979, Series P-25, No. 870, is available for $1.75 from Government Printing Office, Washington, D.C. 20502.

State Population Estimates by Age, 1971-79

Every state saw considerable growth in its young adult and elderly populations in the 1970's. Changes in age distributions were most apparent in regions and states heavily affected by migration. A copy of Estimates of the Population of States, by Age, July 1, 1971 to July 1, 1979, Series P-25, No. 875, is available for $1.00 from G.P.O. at the address above.

U.S. Population Gain Since 1970 Concentrated in California, Texas and Florida

The Bureau of the Census reports that population growth between 1970 and 1979 was concentrated in three states—California, Texas and Florida. Those three accounted for almost 7 million of the country's 16.8 million growth in the decade. A copy of Annual Estimates of the Population of States: July 1, 1970 to 1979 with Components of Change, Series P-25, No. 876, can be had for $1.25 from G.P.O., same address.

MISTREATMENT OF ACTUARIAL COST ESTIMATES FOR MEDICARE

Memo by Robert J. Myers

Ed. Note: Mr. Myers has given a more detailed version of this memorandum to the Commissioner of Social Security and other government officials. A copy of the text is available from him, on request to his Year Book address.

For 45 years the Executive Branch and the Congress have based their planning of the OASDI and Medicare programs on actuarial cost estimates made by qualified actuaries in the Social Security Administration. Those actuaries have always made their estimates in a professional manner, not letting their own views on the desirability of the proposals, or the possible wishes of the policy-planners to have low estimates for changes they favor (or high ones for changes not favored) affect their results. All parties, regardless of their political views, have come to take for granted the integrity of the actuarial cost estimates as bases for legislative decisions.

But, in recent months, actuarial cost estimates for the Medicare program appear to have been misused. Two such instances are summarized here in the hope that publicizing them will decrease the likelihood of future such occurrences.

Case No. 1

The actuarial estimates of the effect of the End-Stage Renal Disease provisions that were aimed at encouraging home dialysis in Public Law 95-292 showed a cost increase of $31 million for fiscal year 1979, followed by appreciable savings later. But in a so-called Fraud, Abuse, and Waste Initiative Package prepared by the Executive Branch in December 1978, Initiative #8 (dealing with this matter) showed a saving of $10 million. This misuse of the estimates was, I understand, rectified and not passed on to Congress; nonetheless, it is an example of undesirable tendencies.

Case No. 2

On Oct. 25, 1979, the Congressional Budget Office submitted to the Senate Committee on Finance cost estimates for H.R. 934, the Medicare-Medicaid Administrative and Reimbursement Reform Act of 1979. The acknowledged basis was a set of figures furnished by the ac-

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