SOCIETY OF ACTUARIES

Article from:

The Actuary

March 1980 – Volume 14, No. 3

CPI INDEXING OF SOCIAL SECURITY BENEFITS

by Milton P. Glanz

Since the aged and the working population have different consumption patterns, it has been suggested that Social Security retirement benefits should be adjusted according to a special cost-of-living index other than the familiar CPI. The merit of this suggestion depends on whether these two indices may be expected to move at substantially different paces.

The Bureau of Labor Statistics doesn't prepare a special price index for the retired but does make a yearly estimate of a budget for a retired couple of moderate means. One important element therein that is treated differently from the general CPI is housing; rental costs are taken at the contracted rent, and it is assumed that homeowners make no mortgage payments. Here is a historical comparison.

COMPARISON OF CPI WITH RETIRED COUPLES BUDGET

			Average Annual Change from given year to 1978	
Year	*General CPI*	*Couple's Budget*	*General CPI*	*Couple's Budget*
1971	121.3	$4,776	7.0%	7.3%
1972	125.5	4,969	7.7	7.9
1973	133.1	5,414	8.0	7.7
1974	147.7	6,041	7.2	6.8
1975	161.2	6,465	6.6	6.7
1976	170.5	6,738	7.0	7.9
1977	181.5	7,198	7.7	9.0
1978	195.4	7,846	—	—

Cost of living in 1978 increased 7.7% over 1977 according to the general CPI, but 9.0% in the couple's budget. This is a significant difference, but it tends to narrow as the measurement period lengthens. Over the whole 1971-78 period the average annual differential was only 0.3%, i.e., 7.0% versus 7.3%.

These figures suggest that developing and maintaining a special index is not justifiable, but some may say that since we have a measure of living costs of retired people there is no excuse for not using it. Our own preference is to stick to the general CPI while keeping an eye on the budget figures in case the rates of change begin to diverge.

Geoffrey Calvert has pointed out (January issue, page 1) that the CPI is an index for almost a fixed market basket, not truly reflecting the changing cost of a fixed living standard. His excellent analysis identifies several important divergences between CPI and a true cost of living, and correctly concludes that elimination or reduction of these divergences would generally lower the CPI increases, at least under recent conditions.

My belief is that increases in the cost of living for the elderly will generally not exceed increases in the present CPI. This is partly because I agree with Mr. Calvert that a true index would show lower increases than does CPI; many of the divergences apply to the retired couple's budget as well as to CPI. Also because I expect better control of increases in medical and hospital expenses that are such a large component of the retired couple's budget. □

CORRECTION TO "FIRST LADIES" (January issue)

The line, Sister of a Fellow, should have been two lines, viz.

Sister of a Female Fellow	1928	Marian R. Albright
Sister of a Male Fellow	1951	Josephine W. Beers

Thanks to James P. Larkin and Fred H. Edwards who pointed out that Marian Albright's sister, Lucile M. Albright, had achieved Fellowship two years earlier (1926).

BOOK REVIEW

Actuarial Phases of Marketing Operations — Individual Life and Health, Society of Actuaries Study Note 69-201-79. Published jointly by the Society and Life Insurance Marketing and Research Association. Edited by Elizabeth Tovian. $10.00, obtainable from LIMRA.

by A. David Pelletier

"Nowhere in the range of actuaries' responsibilities does the need for sound personal judgement arise to a greater extent than in their contribution to marketing operations." This rather sweeping opening statement of the Study Note may not bring universal agreement, but there's no question that this compilation does a sound job in helping prepare the actuarial student for these responsibilities.

This is a retitled revision of the 25-year-old Study Note, *Actuarial Phases of Agency Problems,* first written in 1954 by Daton Gilbert and Milton J. Goldberg, and later twice revised by E. J. Moorhead. Elizabeth Tovian of LIMRA has coordinated this latest expansion and revision.

The Note contains 18 chapters and 10 appendices, covering marketing operations and objectives, compensation and financing of field personnel, marketing expenses and Section 213 limitations, health insurance marketing, and such diverse topics as market research, products, competition, quality business, training, promotion, and public relations.

No doubt partly because of LIMRA's involvement, the Market Research chapter has been improved and expanded. So has the Products chapter, reflecting the diversity of today's products; Section 79 products, cost-of-living policies, deposit term, adjustable life, and "new money" flexible-payment annuities. The good list of criteria for new product development that opens this chapter covers points that may seem obvious but often are forgotten.

The Competition chapter now explores policy cost comparison methods and disclosures. Elsewhere, welcome additions to the material on field compensation and costs are a brief chapter on compensation of combination company field forces, and an expanded section on field office operating costs.

Appraisal of Changes from Previous Editions

This revision incorporates several positive features:

(Continued on page 8)