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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

Year	General CPI	Couple's Budget	Average Annual Change from given year to 1978	
			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:

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Book Review

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1. It brings the material up to date. Much has happened in the insurance marketplace since the last revision in 1966. For example, the list of new products developed to meet changing needs was becoming hopelessly outdated.

2. There's a noticeable move to get at underlying principles and their rationale. In most chapters, a broad perspective of the topic introduces the detailed instruction.

3. The style has generally become lighter and easier to read. The chapter on New York's Section 213, for example, while hardly the stuff from which best sellers are made, is far less dry than the subject suggests.

4. References to outside works are sprinkled through the text, and a fuller bibliography is provided—perhaps partly because there are now more good outside papers to list. Sources for further reading are given for most subjects.

A few areas where further improvements might have been made are these:

(a) In a note covering so broad a range and one that has been revised so often, some choppiness is inevitable. Re-ordering the chapters from their current scattergun format would aid the reader's comprehension.

(b) Regrettably, in the commendable move towards emphasizing basic principles a few shallower principles have been dropped. For example, Chapter VII lists nine principles of field compensation. Two in the former list, "acceptable to the personnel affected" and "acceptable cost", have been displaced by broader ones such as "must support a clearly articulated strategy and must in turn be integrated with training programs related to that strategy." While cost may fall within a "clearly articulated strategy," it surely warrants separate listing.

(c) Decisions on what stays in the text and what's relegated to the appendices are sometimes debatable. Appendix V, for example, an excellent, concise, summary of factors affecting persistency, deserves a place in the main text. On the other hand (and there's room for disagreement here), some mathematical sections, particularly the McConney-Guest formulas, might better be put into appendices while still specified as required reading. The text would

continue its even flow, and non-actuarial readers would be spared the trauma of encountering formidable algebra.

While the positive features listed here outnumber the negatives by only 4 to 3, this close score isn't indicative of the Note's merit. It is well worth the reading, not only by students but also by others, whether actuaries or not, who undertake marketing responsibilities. □

What Is The Society Doing?

(Continued from page 1)

(1) That a framework be developed for creating special interest Sections out of the existing programs of Continuing Education.

(2) That the Divisions concept *not* be implemented pro tem.

The Board agreed that we should not proceed to implement the Divisions concept, but did authorize creating a "stand-ready" mechanism in case that idea might later prove useful. Thus, in effect, Divisions are set aside. The rest of this article will speak only of Sections.

How Sections May Work In Practice

A Section can evolve out of an existing activity, or by enough members deciding to organize one. The Committee on Research, which conducts conferences and has its own publication (ARCH), is a form of Section. Likewise, the Committee on Futurism and nearly all the Continuing Education Committees already have activities that are, or easily can evolve into, Sections. Sections may in practice be born and grow somewhat as follows:

(1) The Section would be authorized by the Board for operation within some defined specialty area. Operating procedures applicable to all Sections would be established.

(2) Any Society member would be eligible to join, at little, if any, cost. All Sectional activities would be publicized to all Society members.

(3) A Section's scope might embrace any or all of the following:

i. Meetings—special purpose meetings, concurrent sessions with Section themes or joint meetings with other bodies.

ii. Actuarial Research—done by Section subcommittees or commissioned from existing research groups.

iii. Literature—segments of the *Record*, Section publications, or a special interest newsletter.

We Seek Your Views

The Task Force will conduct discussion forums at the Minneapolis and San Diego meetings and at the annual meeting next fall. President Julius Vogel or myself or any Task Force member will be happy to discuss these ideas at an actuarial club meeting. Thoughts are welcomed from any member who cares to write or call us. The Task Force Report of September 1979 will be mailed to any member who requests it from the Chicago office.

We consider the Sections concept exciting. As our profession inevitably becomes more complex, our need for continuing education and professional development is clear. The Society seeks to respond to this need and to make our meetings, services and publications relevant and useful. We look to you to help define those needs and to participate fully in meeting them. □

Federal Statistics

Social and Economic Characteristics of the Older Population: 1978

Series P-23, No. 85, \$2.25 each from General Printing Office.

Income of the population Aged 55 and Older, 1976

The first of a biennial statistical series on incomes of older persons. Contained in *Social Security Bulletin*, Volume 42, No. 7, from GPO, \$1.35.

The Effect of PSROs on Health Care Costs: Current Findings and Future Evaluation

The background paper prepared for the Ways and Means Subcommittee on Oversight. Analyses effectiveness of Professional Standards Review Organizations in controlling cost of health care. Stock No. 052-070-05002-1, \$3.50, GPO.

Health Resources Statistics, 1976-77

Published by National Center for Health Statistics. Presents statistics on health facilities and manpower (by occupation) for the U.S. and by state. Single copies are free from National Center for Health Statistics, Scientific and Technical Information Branch, Room I-57, 3700 East-West Highway, Hyattsville, MD, 20782.

Finances of Employee Retirement Systems of State and Local Governments—1977-1978

Reports on payments to members and investments by kind. Report CF 78, No. 2, 85 cents, Subscriber Services Section (Publications), Bureau of the Census, Washington, DC, 20233. □