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REPORT OF THE 1979 ADVISORY COUNCIL ON SOCIAL SECURITY

reviewed by Charles A. Siegfried

This was the fifth Advisory Council since such councils were established by law in 1957. Current law provides that "the appointed members shall, to the extent possible, represent organizations of employers and employees in equal numbers, and represent self-employed persons." Because one's view of the Council's findings is affected by one's view of its members' backgrounds and interests, it is important to know who these members were, namely:

Henry J. Aaron (Chairman), Senior Fellow, Brookings Institution
Gardner Ackley, Professor of Political Economy, University of Michigan
Robert M. Ball, Senior Scholar, National Academy of Sciences
Eveline M. Burns, Professor Emeritus of Social Work, Columbia University
Grace Montanez Davis, Deputy Mayor, City of Los Angeles
Mary C. Falvey, Sr. Vice Pres. & Director, Blyth Eastman Dillon & Co.
Melvin A. Glasser, Director, Social Security Dept., United Auto Workers
Velma M. Hill, Vice President, American Federation of Teachers
Morton D. Miller, F.S.A., Vice Chmn. of the Board, Equitable Life Assurance Soc.
Joseph A. Pechman, Director, Economic Studies Program, Brookings Institution
*Jane C. Pfeiffer, former Vice Pres., Communications, IBM.
John W. Porter, President, Eastern Michigan University
*Stanford G. Ross, Attorney, Caplin and Drysdale
Bert Seidman, Director, Dept. of Social Security, AFL-CIO
J. W. Van Gorkom, Chmn. of the Board, Trans Union Corporation

The Council's three major recommendations were:

(1) To change the method by which medicare is financed, from payroll taxes to specifically designated parts of the personal and corporation income taxes, and to alter the schedule of payroll taxes so that old-age, survivors', and disability insurance will have sufficient revenues to pay for benefits for the next 75 years.

(2) To alter the social security benefit formula so that workers with a long history of low wages will receive a benefit sufficient to keep their incomes above official poverty thresholds and so that high-wage workers will be assured a benefit that provides a more generous return on taxes they pay than they receive under current law.

(3) To begin to update the way in which women are treated under social security to take account of the massive increase in female labor force participation and in divorce since the present structure of social security was developed in 1935 and 1939.

Although not surprisingly there are many qualifying and dissenting statements, the Council was "unanimous in one overreaching finding: The Social Security System is the government's most successful social program. It provides basic protection that American workers can supplement with their own savings and private pensions, and it will continue (to do so) for as far ahead as anyone can see. After reviewing the evidence, the Council is unanimously convinced that all current and future Social Security beneficiaries can count on receiving all the benefits to which they are entitled."

*These two resigned, Mr. Ross to become Commissioner of Social Security.

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WHAT IS THE SOCIETY DOING FOR YOU?

A Report from the Task Force on Special Interests

by R. B. Leckie, President-Elect

The Task Force on Special Interests has been active for a year. You have had glimpses of our thinking through last summer's questionnaire, reported in *The Actuary*, December 1979. Now you may be asking what it's all about and what its significance is for you.

I can summarize the Task Force's effort by answering two questions:

(1) What can you, the member, do to enhance your continuing professional development and competence?

(2) What are you entitled to expect from Society programs, publications, research and services, to this same end?

Study of these questions led the Task Force to its concept of Sections and Divisions. Sections can be visualized as a "bottom-up" (i.e., coming from members' interest) need for bringing together actuaries who have a common functional interest. Divisions would be a "top-down" restructuring of the Society's governance so as to recognize major internal groupings such as pensions and insurance.

Your comments in the questionnaires showed clearly that most of you don't want the Society to do anything divisive, either for the profession or the Society. Further, you don't want to lose the flexibility you now have to benefit from the Society's broad services. No compartmentalization. And certainly no specialty qualification. Yet many of you desire more services within your special interests than are now provided.

Task Force Recommendations

The Task Force has made two major recommendations to the Board of Governors:

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Letters

(Continued from page 2)

Whither Actuarial Courses?

Sir:

New masters degree programs in actuarial science have just been announced at the University of Connecticut, the University of Illinois and Ohio State University. Also, the List of U.S. and Canadian Schools offering Actuarial Science Courses continues to lengthen.

Several questions about this increase in actuarial programs come to mind. Will there be sufficient demand for all the qualified graduates of all these programs? Is this the beginning of overkill by graduate schools entering an era of fierce competition for students? Will borderline students be encouraged into a field whose demands exceed their abilities? Will this lead to such a decline in established programs that their important academic-based actuarial research contributions will lessen or terminate? Will the actuarial profession be drawn into accrediting such programs to help prospective students discriminate among them?

The short-run and long-run consequences of the growth in such programs should be considered carefully by the profession.

John E. Morrill

ARTICLE IX OF SOCIETY BY-LAWS AMENDED

Members have received from President Vogel a letter announcing a dues increase. The text of the amendment to Article IX of our By-Laws adopted by the Board of Governors on January 24, 1980 is as follows (material deleted in parentheses, added underscored):

> Section 1. Dues. Except as hereinafter provided, each Fellow or Associate shall pay such dues for each calendar year as may be established by the Board of Governors. If a person is enrolled as a Fellow or Associate on or after October 1st in a calendar year, his first dues in such class of membership shall be payable for the next succeeding calendar year. Dues for a calendar year shall be payable on (June 1st) February 1st or on the date of enrollment as a Fellow or Associate, if such date is after (June 1st) February 1st and before October 1st.

Myles M. Gray, Secretary

Advisory Council Report

(Continued from page 1)

When one reflects on the program's scope and complexity, the problems that beset it, and the diversity of views to be reconciled, one is impressed with such broad scale unanimous reassurance but one wonders whether some more guarded expression might have been more appropriate.

"This Council has operated under the self-imposed restraint of limiting our recommendations to those that can be carried out with little or no cost." This drew qualifying comments from a number of members who favor changes and expansions that would add to the system's costs.

Prevented by space limits from even mentioning all the important topics in this Report and from commenting adequately on the chief recommendations, this reviewer can only try to show that actuaries will find the report well worth reading. It demonstrates in many ways the continuing need for actuarial expertise in the program's operation and development, and the opportunities for significant contributions by individual actuaries. There is much unfinished business to be tackled.

Medicare. The Council, with little time to give to Medicare, recommended that the mandate of future advisory councils be limited to the cash benefits program and that a separate council be appointed periodically to review Medicare and Medicaid. This proposal has disturbing implications. That Medicare benefits are in the form of services makes them no less real than cash benefits; surely all must be considered together in weighing the consequences of their total costs. It is hard to see how basic analyses and decision making are improved by having separate bodies.

Financing. "The Council unanimously finds that the time has come to finance some part of Social Security with non-payroll tax revenues. The majority recommends that the hospital insurance program be financed entirely through earmarked portions of the personal and corporation income taxes and, beginning in 1980, that part of the current hospital insurance payroll tax be diverted to the cash benefits program to guarantee financial soundness, and that the balance of the hospital insurance payroll tax be repealed." This recommendation did not stem from the Council's proposals for changes in the benefit formula. While the "Council recommends a new benefit formula that will increase benefits for long term low wage workers and for high wage workers becoming entitled in the future" and that "the replacement rates that are provided for workers with low, average and high relative wages by its revised formula be maintained in future years", these changes apparently aren't expected to increase future costs significantly. How or why this is possible is not entirely clear.

How to finance the whole program is the most crucial current issue. Though the Council's recommendations have many antecedents they will be viewed with apprehension by those of us who worry about further expansion of the program. The present financing system has effectively focussed attention on vital questions. More comment about possible adverse consequences of the recommended changes upon the public's ability to understand costs and to perceive benefits suitably would have been welcome.

Related to this is a recommendation of a Council majority "that half of Social Security benefits be included in taxable income for Federal income taxes." While there was some strong dissent, both sides seem to have fixed their attention on extreme cases and on theoretical considerations. This reviewer wishes that more consideration had been given to intermediate cases, particularly those of persons without supplementary pensions and with modest personal savings. One fears that taxation of benefits weakens the floor-of-protection concept and works against private incentive to build on that floor.

Women's Benefits. "The Council concluded early that a thorough examination of the treatment of women under Social Security was among its most important tasks . . . The majority finds that some system for the sharing of earnings is the most promising approach." However, "because of the complexity and far-reaching implications of the changes that would occur under earnings sharing, and because some problems remain in all specific plans the Council has seen, the majority is not prepared to endorse a full-scale earnings sharing plan at this time . . . The Council believes that such a fundamental change needs to be carefully considered and thoroughly debated by citizens and interest groups throughout the country. Therefore, we recommend that the Congress and all other interest groups carefully examine the concept of earnings sharing and in particular, the illustrative earnings sharing plan developed for the Council."

This was the first Council to hold hearings around the country so individuals and groups could contribute their views. Evidently, and understandably, the Council perceives a need for more such discussion of women's benefits. Yet, one is struck by the formidable obstacles to sound thinking unless all major competing issues are kept in perspective. Some otherwise reasonable changes in women's benefits would raise costs considerably; hence benefits must be weighed against costs and other alternatives examined, an awesome challenge. Until national consensus emerges it seems unwise to make any change as fundamental as the proposed change in financing.

To avoid completely neglecting other matters that actuaries need to be aware of, we resort now to a tabular format:

Subject	*Nature of Proposal*
Disability	Liberalizes Definition of disability for older workers. Offers ideas for encouraging quick return to work. Reduces waiting period from five to three months.
Universal Coverage	Extends coverage (a) to Federal employees, to be compulsory for just the newly hired or by transfer of credit for all, and (b) obligatory to new employees of state and local governments and non-profit bodies.
Retirement Policy	Urges (narrowly) considering increase in normal retirement age after turn of century. Calls for halt to easing the retirement test.
"Double-Decker" Flat Grants	Rejects these (but discussion is worth thinking about).
Automatic CPI Increase	Changes frequency from yearly to twice yearly.
Minimum Benefit	Phases it out.
Needs of Minorities	Calls for more awareness and sensitivity.

An important appended report by the Council's Panel of Consultants (three actuaries and two economists) is to be reviewed separately in *The Actuary.*

The Report of this Advisory Council reflects an impressive quantity of good thinking, hard work and lucid expression. Yet, even more thinking and weighing of choices out of all this diversity of opinion seems needed before wise legislation can emerge. The Advisory Council system has again proved itself capable of bringing together people with a broad range of insights and interests and supporting them with rich resources of experienced staff and consultants. This process should continue, and ways to make it even more fruitful should be sought. Actuaries will do well to examine this report and to make it our business to discuss these issues among ourselves, and to help others to arrive at the best of many far from easy choices. ☐

FELLOWS VOTE TO AMEND CONSTITUTION

By a margin of 2,083 in favor vs. 112 opposed, the Fellows approved the proposed revision of Article VII of the Constitution, *Resignation and Discipline of Members.*

The requirements of Article IX having been met, these amendments of which Fellows were notified on December 17, 1979, became effective on February 5, 1980.

Myles M. Gray, Secretary

Actuarial Meetings

Mar. 13, Baltimore Actuaries Club

Mar. 18, Chicago Actuarial Club

Mar. 20, Actuarial Club of Indiana

April 9, Chicago Actuarial Club

April 10, Baltimore Actuaries Club

April 22, Actuaries Club of Philadelphia ☐

Part Three Retrospectively

by P.L.H.

Somewhere there's a file box with my yellowed study aids,
And somewhere towards the bottom is Part Three.
In place of all the formulas I use a new H-P
But even so the memories don't fade . . .

Of those big blue books with the bindings shot,
Gone to students' heaven like as not,
Where ghosts of trainees curse their ways
Looking towards that three dollar raise.

I happily remember those times when q's had a's;
We'd carry fourteen digits at the least.
But as a former student I now feel very pleased
With half my signs right half my days.

Ah those big blue books of eternal fact
With their roundoff errors still intact
In the green steel bookcase in the sky.
We all will join them by and by. ☐

SUBSCRIPTIONS

The 500 (non-member) subscribers to *The Actuary* have received renewal bills for 1980 with our February issue. We urge prompt remittance so that there'll be no break in the issues you receive.

Society members may wish to tell students, business librarians, and others interested in keeping in touch with what actuaries are saying and doing, that a subscription costs only $4.50 a year ($3.50 for actuarial students).

Deaths

Waid J. Davidson, Sr., A.S.A. 1927
Norman N. Strom, F.S.A. 1954
Alexander M. Sweeton, A.S.A. 1949

Contributions to the Actuarial Education & Research Fund, 208 *S. LaSalle St., Chicago,* 60604, *in memory of any deceased Society member are acknowledged to the donor and to the member's family.* ☐