



SOCIETY OF ACTUARIES

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ACTUARIAL NOMADS

Among our 8,000 present members there are a few who, having struggled like the rest of us to Fellowship or Associateship, have wound up earning their livings in ways quite unlike yours and mine.

Our Career Encouragement Committee's Subcommittee on Actuarial Opportunities has looked around for members who hold jobs in non-traditional areas. Subcommittee Chairman Gilbert V. I. Fitzhugh reports having discovered 27 of these.

This hunt's purpose was to find out whether there might perhaps be more such opportunities for actuarially trained men and women, whether those who have left the beaten path have found our brand of training useful in what they are doing—and whether our educational system might be adapted so as to become a yet better stepping-stone into diverse fields.

The Subcommittee asked these members what value they now think the actuarial course has been to them, with these results:

Exams Regarded As:

Mostly A Waste of Time	11	responses
A Suitable Path, But Not Uniquely So	9	"
The Preferred Way To Prepare	5	"
Special Cases	2	"

Verdict: "Waste of Time"

Among the eleven who evidently regret having strayed into our examination centers were 5 Fellows. One is now building restaurants for a fast-food chain; the others are a family physician, a farmer, a health care delivery consultant, and a divinity student and part-time preacher. The Associates include a chartered accountant, a systems ana-

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QUESTIONS FOR E & E ?

The Education and Examination Committee is introducing a periodic Question-and-Answer column. To get it started, we hereby solicit questions from readers.

Through this form of communication between the Committee and students, teachers and other interested members, we aim to remove mystique from the examination process.

Please send us questions that are of general interest to students writing any particular exam, to students in general, or to Society members.

We do not promise to answer every question, but we will respond in this column to questions of widespread interest, and we will reply personally to other enquiries. The first column is to appear in April.

Send your questions to: James J. Murphy, Director-Underwriting, Northwestern Mutual Life Insurance Company, Milwaukee WI 53202.

Peter Hepokski

FUNDING FLAT-BENEFIT PENSIONS IN AN INFLATIONARY ERA

by Lawrence N. Bader

The Problem

Consider a company that sponsors a final-pay plan for its salaried employees and a negotiated flat-benefit plan for its hourly-paid workers. Under the former, benefit increases due solely to salary increases are anticipated and pre-funded. But the corresponding increases under the latter take place only through plan amendments, are not anticipated in the funding, and create new unfunded liabilities. If both plans' benefits are held constant in relation to pay, the unfunded liability will gradually disappear under

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1981: A VINTAGE YEAR FOR SOCIAL SECURITY LEGISLATION?

by Dwight K. Bartlett, III

There is reason to expect 1981 to be the biggest year for Social Security legislation since 1977, perhaps even since 1972. Between 1935 and the early 1970's Congress used to love Social Security legislation because of its opportunity to vote more benefits to more people. But Congress has come to loathe this task since it requires difficult choices—increasing revenues, reducing benefits—that inevitably anger a significant portion of the electorate. Witness the extreme difficulty in adopting last year's relatively minor disability insurance amendments.

Congress, in 1981, cannot avoid passing significant legislation to deal with financing. Present projections of the Office of the Actuary indicate that without legislative remedy the OASI Trust Fund will be unable to pay benefits, certainly in 1982 and maybe even in late 1981. Since Congress must do something it may be in a mood to try to do everything this year in the hope that thus it can avoid addressing Social Security financing problems for a while—certainly not in the election years 1982 and 1984.

Several questions are apt to receive serious consideration by Congress in 1981. These include:

(1) *Inter-Fund Borrowing.* This will permit the OASI Fund to borrow from the DI and HI Funds until the higher payroll tax rates scheduled for 1985 come on stream and permit the OASI Fund to recover and the loans to be paid back. This is the most likely of all provisions to be legislated since it requires no tax rate increases and no benefit reduction. Current projections, however, show that this by itself probably won't

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Vintage Year

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avoid exhaustion of the fund some time in the 1980's.

(2) *General Fund Borrowing.* If inter-fund borrowing seems inadequate, many will view general fund borrowing as the next best remedy. Present projections suggest that amounts borrowed from the general fund of the U.S. Treasury to permit continuing benefit payments during the early 1980's can be repaid in the late 1980's, though this is by no means certain. Clearly, general fund borrowing, likely to be recommended by the National Commission on Social Security, remains only a limited solution; the HI Fund is likely to be exhausted in the 1990's, and the OASI and DI Funds, even though combined, will apparently run out of money after the turn of the century.

(3) *General Revenue Financing.* The 1979 Advisory Council recommended that HI be entirely financed from general revenues, and that half the tax rates presently scheduled for HI be added to that for OASDI. The rationale for general revenue financing of HI is that its benefits are not wage-related as are OASDI benefits. The National Commission is likely to recommend somewhat more limited general revenue financing of HI. There remains, though, powerful opposition to any general revenue financing of Social Security on the grounds that the payroll tax mechanism is an important element in deterring undesirable program expansion.

(4) *Raising Normal Retirement Age.* The 1979 Advisory Council recommended serious consideration of promptly enacting an increase in the normal retirement age, to become effective after the turn of the century. Both the National Commission on Social Security and the President's Commission on Pension Policy are likely to make similar recommendations. Most proposals being discussed call for gradual transition from age 65 to normal retirement at age 68, beginning for those reaching 65 around the turn of the century and completing 10-20 years later. The minimum early retirement age, now 62, is likely to be increased simultaneously to 65. This is a long debated change whose time may finally have come.

(5) *Change In Indexing.* There is growing recognition that a cause of short-range financing instability is that OASDI benefit cost grows proportionately to CPI increase, while revenues, except when tax rates change, grow in proportion to growth in covered wages. Historically, wages have grown faster than the CPI, but this has not been the case in the latter part of the 1970's and is unlikely to be so for at least several more years. It has been suggested that some cap be placed on the CPI adjustment for existing beneficiaries.

Perhaps the most palatable proposal politically would be to make the annual adjustment equal to the lesser of the CPI increase or the increase in covered wages per worker in the previous year; there might be a catch-up provision so that when wage growth resumed its traditional pattern of outstripping CPI increase, the lost CPI adjustments would be restored. Such a provision can be rationalized politically on the grounds that beneficiaries are being treated no less generously than current workers in terms of the purchasing power of their benefits.

(6) *Move Toward Universal Coverage.* Federal employees are not covered by Social Security; employees of state, county and local subdivisions and certain non-profit organizations are covered on a voluntary election. Requiring coverage for these groups has been advocated on grounds of equity, also to help meet the program's short-range financing problems. But the lobby opposing this is extremely powerful, particularly with respect to current employees, and the constitutionality of requiring political subdivision employees and the non-profit organization employees to be covered is in question. In my opinion, legislation bringing future Federal employees under Social Security stands a reasonably good chance.

Other possible changes undoubtedly will be discussed this year, but with less likelihood, I think, of being legislated. These include: (1) elimination of the retirement test, (2) switch from wage-indexing to CPI-indexing of wage records and of the PIA benefit formula, and (3) benefit formula changes designed to increase emphasis on individual equity as opposed to social adequacy. An example of (3) is phasing out spouses' benefits whose rationale is that increased

Actuarial Meetings

Feb. 17, Chicago Actuarial Club

Mar. 17, Chicago Actuarial Club

CONGRESS KILLED "FICA-II"

by Robert J. Myers

A few years ago, some management firms began to tout the savings that an employer could make by reducing employees' wages by all or a portion of their Social Security payroll tax and then paying this tax for the employees. This procedure, which had been little used through the years except by householders employing domestic workers, was dubbed "FICA-II."

The catch in this was that although take-home pay was not decreased, OASDI earnings credits would thus be lowered, as also would other potential public benefits, and even in some cases employer-sponsored benefits. A major objection, affecting those not using the plan as well as those using it, was the resulting erosion of Social Security tax receipts, creating eventually a need for higher contributions than would otherwise have been sufficient.

All who testified at a House Ways and Means Committee hearing on this matter in late 1979 recommended that this loophole be eliminated, as also has the Advisory Council on Social Security, the National Commission on Social Security, and President Carter in his January 1980 Budget Address. All agreed that it should continue to be available for domestic workers. Finally, in December 1980, legislation eliminating FICA-II was enacted. Groups permitted to continue using it are:

Domestic and farm workers;
State and local governments, temporarily through 1983 if they had been using the plan on October 1, 1980.

As far as I know, all prominent actuarial consulting firms and many individual actuaries consistently viewed this iniquitous manipulation of Social Security with disapproval.

female work-force participation will cause most spouses ultimately to be insured in their own right based on their own wage records.

For Social Security watchers, 1981 may be a banner year!