Article from:

The Actuary

December 1982 – Volume 16, No. 10

...ters

(*Continued from page 6*)

It seems that #2 is derived from #1 by the transformation $R/(1-R)$; likewise #5 from #4. #3 is #2 with the rate R of #2 divided by $(1+i)$.

Also it can be demonstrated that #5 rate R is approximately #2 rate R times $(1+i)$. #6 seems an orphan.

A test that is being used by California is to apply the formula used by the Company to a single premium of $112.03910 for the 1958 CSO ALB 4% basis at age 80. The result at the end of a year should be zero as this is the single premium for an assurance of $1000 over twelve months with monthly survival rate one twelfth the power of the annual survival rate p_x. An even distribution of deaths gives a very similar number. At 4½% the number is 111.75565. For age nearest birthday at 4% the number is 107.71559 and at 4½% 107.44286. Rates per thousand to satisfy this test are 10.0724, 10.1749, 10.1417, 10.1072, 10.2104 and 10.1394 for each of the above six methods respectively for the ...B table and 4% interest. An actuary wishing to test his formulae may like to try this test out. Maybe it could be expanded to include premium payments, since it seems that interest may not always be credited for the entire month when payments are received on the due date.

The algebra is interesting; the handling of model premiums and calculations on other than a monthly basis would seem to have a wide range of approaches. The use of the monthly death payments assumption in the test described above may be too liberal and not in conformity with the Standard Laws. Much may be of interest only to the purist, and it is interesting to see how such a simple theory can have such a variety of rate charges. Any comments and discussions will be very welcome.

John T. Gilchrist

ATTENTION ACTUARIAL TRAINING DIRECTORS

...here are significant changes in the ...rt 3 Course of Reading. Please remind all who intend to study for Part 3 to examine carefully the Course of Reading in the 1983 Examinations booklet.

Bernard A. Bartels

HOW MYERS SERVES SOCIAL SECURITY COMMISSION

by David M. Lipkin

(*Ed. Note: This is the second of two articles. The first was in our September issue.*)

This reporter spoke with Robert J. Myers about his role as Executive Director of the National Commission on Social Security Reform.

Myers described two Commission goals: First, to investigate both short and long term financing alternatives for the OASDI system; second, to arrive at consensus recommendations on how to solve its financing problems. He views consensus as essential because possible solutions, which fall into the general categories of raising taxes and reducing future growth of benefits, are likely to be politically distasteful. Remedial legislation can be expected only if bipartisan Congressional agreement, based on bipartisan Commission recommendations, develops.

The Commission's plan of attack has been to explore potential long-term solutions first, on the grounds that anything done to solve them may also help to solve the short-term problems.

Why can this Commission expect to achieve greater success than the various commissions and panels that preceded it? Myers believes that this Commission enjoys two advantages: (1) the financial problems have become urgent, and (2) seven members of Congress who play key roles in enacting legislation are on the Commission. Current laws that allow inter-fund borrowing are purposely temporary, thus tending to force a lasting solution. Anyway, this temporary borrowing would provide adequate financing only till the middle of 1984, when all trust funds (OASI, DI and HI) are projected to be exhausted.

Myers, as Executive Director of the 15-member Commission, does not vote. He and his staff however, provide its members with a steady flow of memoranda giving background on possible solutions in language helpful to the members. Myers, then, is the Commission's actuarial consultant. To function effectively as such, he cannot publicly take sides on the issues under discussion, but he does discuss his private views with Alan Greenspan, the Commission Chairman.

The rest of this article will offer a glimpse of just three topics discussed in Myers' memoranda.

Alternative Method Of Benefit Indexing

One of the main causes of the funds' depletion is recent inflation, as price levels (related to the funds' outgo) rose faster than wage levels (related to their income). One of Myers' first memoranda dealt with the "wage-price differential", which he called "by far the most important economic element in connection with the long-range financing of the OASDI program."

"At times, it has been suggested that it would be highly desirable for the OASDI system to be on a basis such that it is automatically self-adjusted so as to be stable over the years, regardless of changes in economic conditions. In turn such a basis would eliminate the present dependence of the program, as to its financial stability, on the economic assumptions chosen for the actuarial cost estimates and on the resulting experience.

"Such a result was achieved in part in the 1977 Amendments, insofar as the computation of initial benefits is concerned—namely, by the procedure of wage-indexing the earnings record and, at the same time, adjusting the benefit formula according to changes in the general wage level . . .

"A change in the program can be made such that, if it is on a self-adjusting basis, the benefit structure could become completely self-stabilizing. Specifically, what should be done is to provide that the automatic benefit increases no longer be based on the percentage increase in the CPI, but rather on the increase in nationwide wage rates *minus* 1½%, or some other fixed percentage . . . "

Increase In Normal Retirement Age

In contrast to the 'ad hoc' proposals that would gradually raise the normal retirement age (NRA) to 68, Myers provided background on how the NRA might be indexed.

"The proposed methods would increase the NRA only if longevity actually increases. This procedure

(*Continued on page 8*)

Committee on Discipline

(*Continued from page 5*)

with the Society's General Counsel, Alan E. Lazarescu, on all disciplinary cases.

Our Committee operates under a rule of confidentiality which is required by our Constitution in all cases except those resulting in public reprimand, suspension, or expulsion. One purpose is to prevent harm to an innocent person's career through innuendo. Another is to prevent permanent harm to a career from a minor infraction. The Committee has been well impressed by the wisdom of this rule of confidentiality, though the opposite side to that coin is that the Committee's work becomes cloaked in mystery.

What kinds of case come before the Committee? They may be arbitrarily classified as "Business Ethics" or "Alleged Cheating on Exams by Associates". (Cheating by examinees below the Associate level is the E. & E. Committee's province.)

The business ethics cases cover a wide variety of situations, ranging from frivolous to serious. Many are dropped because the matter is not within the Committee's purview, or is withdrawn by the complainant. Comparatively few, but some, cases involve alleged malpractice of actuarial science; these are the ones on which the Committeee can render an especially useful service to the profession.

A final word about the other actuarial bodies on this continent. They all have disciplinary procedures similar to our own. Is there any kind of jointly conceived disciplinary action on a particular case? *No!* Each body must take, and does take, its own independent action. □

Fellows Views

(*Continued from page 1*)

dent or as a member of the Board of Governors. (There is already a ban against repeating as President).

Our Committee has been given three jobs to do, for which see the Report of Non-Routine Business in this issue.

A complete compilation and analysis of the results of this questionnaire, consisting of about 130 pages, is available from the Society office in Chicago for $10 a copy. □

Three Strikes

(*Continued from page 1*)

present, the hurdle he didn't surmount. The opposition came from a group of younger men who had just passed their examinations and were resolutely against anyone bypassing the rigors they had endured.

Evans remained active in the Society, and also in the American Institute in which he'd become a Fellow other than by examination in 1919, a member of the Board of Governors in 1921, and President in 1924.

Strike Three (1928): In the light of Percy Evans' service to the profession, Society President Edward E. Rhodes sent a letter to all Fellows asking whether or not he should be made a Fellow. That informal survey turned up 16 negative votes, more than enough to veto nomination. News of this made Evans decide to get along without Fellowship in the Actuarial Society of America.

Last Laugh (1949): In June 1949 all Fellows of either the Actuarial Society or the American Institute became of equal status as Fellows of the Society of Actuaries. Percy Evans, by then four years into his retirement, must have chuckled about that. □

MYERS HONORED AT OCTOBER ASSEMBLY

A symposium on the theme, "Checks and Balances on Social Security" drew nearly 50 authorities for a day's animated discussion on the campus of the American College in Bryn Mawr, Pa. on October 29th. The event's organizer, Yung-Ping Chen, Ph.D., Research Director of the McCahan Foundation, presided.

The occasion, marking Robert J. Myers' distinguished career dating from U.S. Social Security's early days, opened with a dinner the previous evening, at which many personal anecdotes were told and warm tributes paid. Three generations of the Myers' were present.

Formal papers were discussed and informal presentations made on seven session topics ranging from historical to forecasting. Ten F.S.A.'s participated.

Dr. Chen announced that the papers and discussions will be printed in due course. When they are, this newsletter will tell our readers of their availability and cost. *E.J.M.*

Myers Serves

(*Continued from page 7*)

tends to serve as a stabilizing device insofar as the future costs of the OASDI program are concerned . . .

"The specific procedure . . . can be illustrated by considering what would be done in the initial adjustment. In 1985, when the 1979-81 Life Table will be available, the age would be determined in such table at which there is the same expectation of life as at age 65 in the 1969-71 Life Table (15.0 years). Although the 1979-81 Table is not yet available, a preliminary table for 1980 indicates that the equivalent age is 67.0. Thus, life expectancy at the current NRA increased by 2.0 years. The new normal retirement age would then be the current age (65) plus 50% of the 2.0 years increase in life expectancy, yielding a new normal retirement age of 66."

Automatic Changes In OASDI Tax Rates

". . . (T)he OASDI tax rate for 199- and after, as prescribed under present law would be left unchanged (at 12.4% for the employer and employee combined) until the defined 'adequate fund ratio' (of fund balance to one year's benefit payments) has been built up. This ratio is defined for purposes of illustration as being between 50% and 55%.

"When the fund ratio first equals or exceeds 60.0%, the combined employer-employee tax rate for the next calendar year would be *reduced* by .4%." (Thereafter, the action as to the tax rate for a particular year would be determined by a procedure that Myers described, depending on the direction in which the fund ratio moves.)

These excerpts have but scratched the surface of Myers' memoranda to the Commission. Apparent advice in them reflects not necessarily his personal beliefs, but rather hypotheses on how stabilization might be accomplished. There ample evidence of the respect accorded his actuarial knowledge and judgment, and the solid trust that this Executive Director and actuarial consultant has earned in the eyes of the Commission members. □