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EDITORIAL

SWALLOWING HARD

RELEASE of the package of recommendations by the National Commission on Social Security Reform places a responsibility on the shoulders of actuaries—particularly the many among us who consider ourselves well qualified to express opinions on this subject (see page 1 of this newsletter's October 1982 issue—that we must now take pains to discharge.

That responsibility is to spread the word. To see that citizens within our reach know what the recommendations are. To explain what they signify, and what their effects are likely to be. Most of all, to make sure that people recognize the chaos that impends if the Congress fails to enact them promptly into legislation.

The recommendations doubtless disappoint many of us. We may think them a sorry reflection of the word "Reform" in the Commission's title. We may deplore how much of their $169 billion is to come from the deficit-ridden U.S. Treasury rather than from genuine cutting back of swollen benefits or payroll tax increases that aren't cushioned by ingenious offsets. We may disapprove of the hardships that deferral of cost-of-living increases will visit upon those genuinely dependent upon their social security income. We may regret missed opportunities for making needed improvements in the system's benefit and tax structures.

But surely we agree that the package is the best, indeed the only, remedy that can be promptly given to this sick patient. Hence we must help to have the available medicine administered.

The last time actuaries were invited to get out and explain social security to the public, the results were less than a credit to our sense of community obligation. Will we do better this time?

The immediate task is to swallow hard (Commission Chairman Greenspan's apt expression), and to do whatever we can to encourage passage of the essential legislation. After that, we can and should examine, through Society and Club meetings, the much more that needs to be done.

E.J.M.

MAIL ALERT

Transactions, Vol. XXXIII should have reached you. If it hasn't, tell the Society office.

Purchase Accounting

(*Continued from page 1*)

sumptions and discounts future profits either at the rate being earned on the assets being purchased or else at a higher rate that allows for the investment risk and perhaps a profit margin. The first two of these approaches produce net liabilities only; the third produces a gross liability offset by the estimated value of the business in force.

These three categories reflect rational differences of opinion that have been recorded for many years in actuarial literature. The first reflects a preference for profit to be expressed as a percentage of premium revenue. The second favors use of conservative assumptions without definition of specific profit margins. The third is adopted by actuaries who prefer to view these matters in terms of the rate of return on investment. Thus, among actuaries, variances of opinion about purchase accounting are really no different from traditional preferences in our preminum and reserve calculations. The author's personal preference is for the third category, because of its similarities with the appraisal of value process, its consistency with historical GAAP considerations, and its perceived acceptability to accountants.

A Proposal

Why shouldn't any one of these three methods be permitted as a solution to the present purchase GAAP dilemma? This would leave just such issues as the extent to which margins for adverse deviations are required, and the distribution of financial figures between the left- and right-hand sides of the balance sheet, to be settled with our accounting breathren.

This proposal doesn't pretend to cover many questions that arise. All it does is to suggest that a range of acceptable solutions exists. No matter which approach is used, the actuary must develop earnings projections for comparison with prior experience and to assure that management's expectations will be realistic. □