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Chairperson's Corner: The Social Insurance Environment

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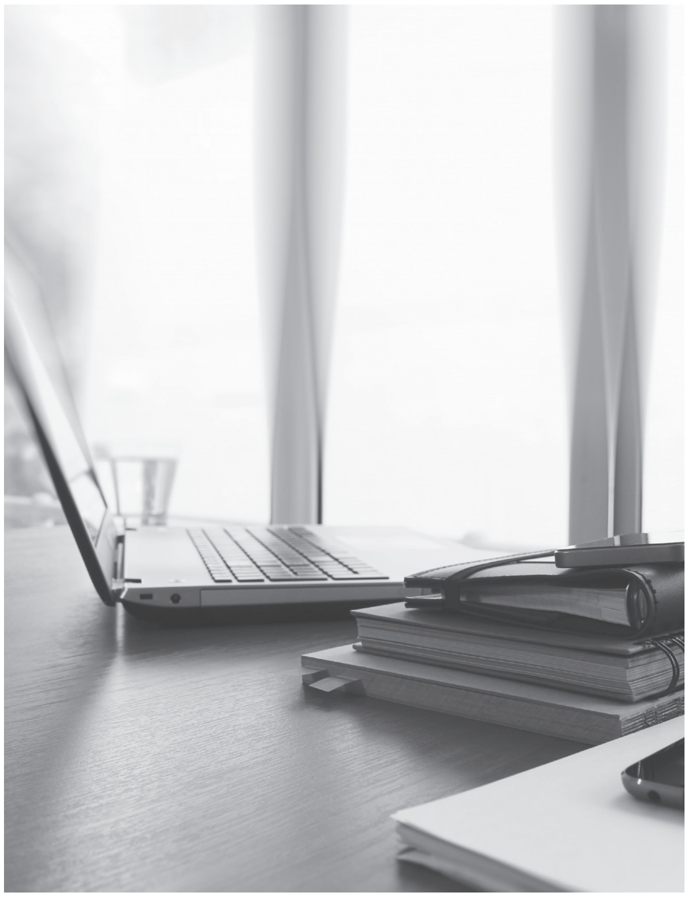

My predecessor as Social Insurance and Public Finance (SIPF) Section chair, Steve Bryson, said the following in his first Chairperson's Corner (March 2017):

> The Social Insurance and Public Finance Section is fairly unique in the universe of SOA sections. Unlike many other sections, our primary focus is not on supporting our members' practices. There's nothing wrong with that, of course, and I certainly don't mean to imply that we are in any respect superior or more important than other SOA sections. But I do appreciate that our *raison d'etre* is to do what we can as actuaries to improve the financial health of our public security systems, and, in the pursuit of that goal, somehow make this planet a better place in which to live.

That excellent beginning led me to think that, not only is our section different, but so is our whole environment. What makes the social insurance and public finance world different from so many other areas in which actuaries work? At some risk of oversimplifying, I summarize my thoughts below, focusing on the United States, but the principles apply just about everywhere:

- In my 44 years of actuarial work—yes, it's been that long!—the private-sector actuarial environment has become increasingly regulated and constricted. After starting my first actuarial job in January 1974, I watched eight months later (on Labor Day) as brand-new President Gerald Ford signed into law long gestating pension legislation known as ERISA. Over the years, as ERISA has been amended countless times, generally expanded in scope, clarified and interpreted by thousands of regulations from multiple Federal agencies, actuaries have seen the range of acceptable assumptions and methods shrink smaller and smaller. Life and health insurance have been somewhat less heavily regulated than pensions, but the direction has been pretty much the same. Actuaries can still innovate, of course, but usually within a tightly confined space defined by a cornucopia of rules written by legislators and their appointed regulators. Sometimes actuaries play a part in developing those rules, but not always, and our influence is almost never as great as we would like it to be. Funds to finance private-sector benefit plans are always limited, and participation is often voluntary and unpredictable. Anti-selection can be a serious problem.
- In contrast, the world of social insurance and public finance is relatively unregulated and subject to fewer risks. That surprises many observers, but it's true. Governments often (even routinely) exempt themselves from various laws and regulations that are imposed on the private sector. Social insurance benefits (such as Social Security and Medicare in the United States) are provided pursuant to laws, rather than binding contracts, and laws can be changed, as the courts have said many times. Future benefits can be reduced as necessary, and governments can impose mandatory taxes if they choose to meet the need for additional financing that way. The Federal Government can even print money! What greater power can there be? Participation in social insurance is generally mandatory or so heavily subsidized that only the foolish opt out. Anti-selection is impossible or just a minor concern. Employers are required to assist in program administration,

withholding social insurance taxes from their employees' paychecks pursuant to rigidly enforced laws. Governments have little or no marketing expenses. Such a different world. And that's hardly a complete list.

But social insurance and public-sector benefit plans have a completely different set of restrictions that create their own kind of risks, and actuaries who work in these areas need to be aware of those. The greatest risks are political in nature, not financial. Take the U.S. Social Security program, as just one example: Its future financial problems have been laid out in great detail by at least 30 consecutive, highly consistent, annual Trustees Reports from both Democratic and Republican administrations. All of them have presented fundamentally the same projections, ignoring inconsequential wiggles. And the solutions to those future problems are just as well understood. Even casual observers can recite a laundry list of potential solutions, from raising taxes (rates and/or the base) to raising the retirement age and so on and so on. Nothing new will be discovered. But the United States seems unable to generate the political will to restore this critical program to close actuarial balance. Legislators just keep deferring the problem, leaving it to their successors. That's a problem itself, as deferral keeps lopping branches off the available tree of options. Some reasonable changes just aren't effective if you make them at the last minute.

As we enter another year of exploring this very different world, I hope that you, section members, will lend your voices and insights to our efforts. Write articles for our newsletter, which you are now reading. Participate in our meeting sessions and webcasts. Invite other actuaries who are unfamiliar with our world to learn more about it. Together, as Steve Bryson said a year ago, we can "somehow make this planet a better place in which to live." I look forward to seeing our progress during 2018. ■

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