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FELLOWS' VIEWS ON SOCIAL SECURITY ASSUMPTIONS

From Benjamin I. Gottlieb in Washington we have his summary of responses to a questionnaire that had been sent to a random sample of 500 Society Fellows with U.S. addresses in our 1981 Year Book. This was a topic by Stephen G. Kellison in the July 1982 Academy Newsletter; we believe actuaries interested in either Social Security or actuaries' economic and demographic prognostications would do well to get a copy from Mr. Gottlieb at his Yearbook address.

Three features of the summary specially struck us:

(1) The gratifyingly high response—500 enquiries, 449 heard from. Our own cynical estimates of our colleagues' inability to handle their mail may warrant revision.

(2) The large proportion of our Fellows who have thought about the subject sufficiently to express their opinions. Only 11% rated themselves not qualified. 25% considered themselves "very well" or "well" qualified; the other 64% placed themselves in "moderately" or "somewhat" qualified classes.

(3) The long-term economic and demographic assumptions that actuaries in 1981 picked as their preferences, e.g.:

Inflation: 4%-7% range, mostly reached after 6 years—81% of replies.

Fertility: 1.7%-2.1% range—88% of replies.

E.J.M.

E. & E. QUIZ

(Answer to Quiz on page 6)

Question: In Spring and Fall 1970, 1,185 students put Part I behind them (180 by the Graduate Record Exam route). How many of these were F.S.A.s no later than 1981 (Spring exams)?

THE U.S. MILITARY RETIREMENT SYSTEM

by Toni S. Husted

Chief Actuary, Department of Defense

The military retirement system is an unfunded non-contributory defined-benefit plan. The Service Secretaries currently approve voluntary non-disability immediate retirement annuities upon credit of at least 20 years of service at any age. There is no vesting before retirement, so only 12% of new entrants ever become eligible for benefits. Retirement annuities are indexed annually to the Consumer Price Index.

On September 30, 1981, there were in the system 2.1 million active duty regular and reserve personnel, 0.9 million selected drill reservists, 1.1 million retired non-disability annuitants, 0.2 million disability annuitants and 73,000 survivor benefit families. Fiscal year (FY) 1981 benefits totalled \$13.7 billion. The most common age at retirement was 43 for officers, 39 for enlistees. Apart from reserve retirees, the average gross monthly annuity in September 1981 for non-disabled officers was \$1,751; non-disabled enlistees averaged \$761 a month.

Valuation, September 30, 1981

Valuation results show an aggregate entry-age normal cost of 47.0% of basic pay. The corresponding figure a year earlier was 46.2%, but this increase arises from a mixture of a regular increase, changes in actuarial assumptions, and tightening of the system, as set forth in the next paragraph.

The pay-as-you-go unfunded liability totalled \$590.4 billion, a \$67.1 billion increase over the previous year. Of this increase, \$15.4 billion arose from changes in our actuarial assumptions; plan deliberalizations reduced the lia-

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"PERSONAL LIFE ASSURANCE—WHAT THE PAST TELLS US"

by Gary Chamberlin,
London Correspondent

Eric Short, F.I.A., actuary and journalist with the London Financial Times, presented his paper under this title to the Students Society of the Institute earlier this year. His conclusion was bleak; he quoted from Hagel:

"What experience and history teach us is this—that people and governments never have learned anything from history or acted on principles deduced from it."

But surely actuaries must be the exception. —else why would more than 100 of us with our guests have turned out to discuss Mr. Short's finding with him? This was his account:

Backing A Horse

For a start, observe the conventional "participating" policies. Suppose that 10 years ago you, a man aged 30, had started paying a £10 monthly premium for a 10-year endowment. What would your proceeds be in 1981? Answer, if you picked the very best company from the field, £1,999. But the average was £1,742, and at worst you would have received little more than £1,500. Conclusion, it *does* matter which horse you choose in the Life Assurance Stakes. And, the longer the race, the more important the choice. At 25 years (same age and premium) endowments yielded in 1981 anything between £5,000 and £10,000. The mean was £7,524, and the standard deviation £1,125.

The paradox, says Mr. Short, is that people who buy policies don't pay enough attention to past results; they look at the brokers' projections which depend on pure assumption as to future bonuses (dividends). If you rank the

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