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FERTILITY FADE FUELS FICA FLAP

by David M. Lipkin

The actuarial profession became unusually visible in a discussion of appropriate assumptions for OASDI cost estimates during the December 10th, 1982 meeeting of the National Commission on Social Security Reform.

"Current Population Reports" issued by the Bureau of the Census two months previously (Series P-25, No. 922) had revealed that its demographers were revising their long-term fertility estimates downward. And the Commission's Executive Director, Robert J. Myers, had directed attention to a *Washington Post* article reporting that the Social Security actuaries were thinking of decreasing their fertility assumptions for the 1983 Trustees Report. The long-term 1.8% deficit, on which the Commission was building its recommendations, would hold water only if the higher fertility assumptions of the 1982 Trustees Report were employed. Myers explained that a change in this assumption from 2.1 (children per woman who lives through the child-bearing ages) to 1.9, along with other changes in assumptions being considered, would lift the deficit forecast all the way from 1.8% to 2.5% of covered payroll.

This revelation shocked some Commission members; several expressed frustration at not knowing which figures to believe. And the political sensitivity of the matter increased their irritation, their acceptance of the 1.8% imbalance having already been widely publicized.

Robert M. Ball, a former Commissioner of Social Security, pointing to the recent upward trend in fertility, doubted that the assumptions ought to be lowered. Robert A. Beck, Prudential's Chairman, remarked that "in private business we pay for using wrong assumptions", and said that the worst that might happen

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CENSUS OF PRE-1889 ACTUARIES IN NORTH AMERICA

In April 1839—50 years before the Actuarial Society was organized—there were on this continent just three actuaries, viz. John F. James and Sears C. Walker in Philadelphia, and William Bard in New York. These three were the survivors of a group of seven actuaries who had pre-1839 experience; the other four were Robert Patterson, Jacob Shoemaker, Jr., and Joseph Roberts, Jr., of Philadelphia, and Nathaniel I. Bowditch of Boston.

At this stage in the "19th Century Actuaries Project" (see our April issue, pp. 4-5) we are reasonably well able to justify the following record of actuaries by number, as well as by name, through the half-century from 1839 to 1889:

Number of Actuaries, 1839		3
1840 - 1849:	Entered	10
	Died	0
Number of Actuaries, 1849		13
1850 - 1859:	Entered	9
	Died	−5
Number of Actuaries, 1859		17
1860 - 1869:	Entered	22
	Died	−2
Number of Actuaries, 1869		37
Net Additions, 1870—April 1889		42
Number of Actuaries, April 1889		79

At this point we are unable to arrive at a satisfactory estimate of the numbers who entered and departed from our profession in the decades of the 1870's and 1880's. We think we are close to knowing all the names, but haven't yet managed

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THERE'S A NEW STUDY ON REPLACEMENTS

by Deborah Adler Poppel, Associate Editor

Can you answer these questions about replacements of individual life policies?

1. What percent of households that drop a policy replace it?

   a) 22% b) 36% c) 50% d) 74%

2. Of all whole life policies that are replaced, what percent are replaced by term?

   a) 20% b) 33% c) 50% d) 70%

3. What percent of replacements are reported to have been initiated by agents?

   a) 20% b) 33% c) 50% d) 75%

If you answered "b" to all three questions, either you're an expert on replacement or you've read LIMRA's report titled "Replacement — The Consumer's Point Of View". This report, sponsored by LIMRA, MDRT, and ACLI, is part of LIMRA's series on "Consumer Experiences in the Marketplace"; it gives the responses of about 3,000 households (out of 100,000 initially surveyed) that had dropped a life insurance policy during 1979. Of these respondents, 36% replaced the dropped policy; this study defines a replacement as a policy that the household bought with the intention of replacing a dropped policy.

The study shows whether the replacement was internal (same company) or external, and the extent of an agent's involvement. Policy size, policy age, policy type, and other variables are also analyzed, as are the reason stated for dropping a policy.

If you'd like a copy of the report, ask LIMRA for it. It may make you question some of your prior notions about replacements. □

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GUEST EDITORIAL

ACTUARIES IN THE COMMUNITY

by Wilfred A. Kraegel
Past Chairman, Committee on Futurism

The actuary is a professional—of that we haven't the slightest doubt. But where does professionalism begin and end? Is it circumscribed by our office walls? Is it just the work for which we are paid directly? Or, does it include the reading we take home? The conferences we attend? Our continuing education and other growth experiences? Then, how about community service?

We needn't stretch the limits far to see how closely integrated and intertwined are the concepts of professionalism and community service. Let's see how these relate to each other.

1. The professional's aim is to render service to society which in its turn rewards that professional financially. The community provides many opportunities for useful service, though generally its rewards are more psychic than monetary.
2. The professional, through many years, develops skills, both direct and peripheral, that are of value in many dimensions of community life.
3. The accomplished professional is able to take the long view, hold the broad perspective. The well-being of the community is a vital part of that view and that perspective, for without it the professional's work lacks meaning and utility.

Demands on an actuary's time, though, are many. When it becomes difficult to juggle these satisfactorily, too often it's community service that suffers most.

To those willing to give time to community service, many excellent opportunities present themselves, such as:

- Reading about, and discussing, current and future-oriented issues, so one can become a better informed citizen and voter, in whatever capacity.
- Becoming involved in volunteer activities for which actuarial background is especially helpful, e.g., a board of pensions of a non-profit group, or a demographic projection for school planning.
- Offering service to non-profit organizations that require help with their management or systems.
- Running for elective office in school districts, municipalities, states, or even national posts.

Actuarial students will usually have found the examinations too time-consuming to permit even considering such professional or community service in major degree. But with Fellowship comes a new ordering of one's time. Especially then, but no matter when, it can be revealing and beneficial to take stock of how we parcel ourselves out to all those exciting facets of life.

Part of us belongs to the community. We need it and it needs us!

TEMPLE'S PART 1 MANUAL

A new Part 1 Manual, composed by its Actuarial Science people, may be bought by sending $20. to Prof. W. G. Glendenning, Dept. of Insurance & Risk, Temple University, Philadelphia PA 19122.

Fertility Fade

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if a higher long-term deficit were aimed for would be a build-up of the trust funds.

Senator John Heinz (R.-Pa.) summed up the controversy and the sense of irritation at actuaries in general, when he said, "I hope the actuar(ies) . . . recognize that if they're going to change anything in the middle of things, particularly if they don't have a really good reason for doing it, they (will cause) confusion in the country at large".

Robert J. Myers voiced three reasons for doubting the necessity for re-setting the Commission's target:

1. Re-evaluating just one actuarial assumption isn't right; changes in other assumptions might take the deficit in either direction.
2. The actuaries in SSA were merely considering new fertility assumptions; to anticipate reversal of the trend that had been upward since 1977 would be somewhat speculative.
3. Changing actuarial cost estimates while the legislative process is in mid-stream creates difficulties and confusion. Over-reaction to the revised census assumption seems unwarranted.

Commission members added that so-called fail-safe and other stabilizing devices they were studying would help to take care of shortfalls.

Mr. Myers had considered it his duty to draw this matter to the members' attention so that they would have the opportunity to deal with it if they felt it necessary.

Epilogue

The Social Security actuaries did lower fertility assumption II-B to 2.0. This, along with changes in the unemployment assumption and provision for loss from opting-out raised the long-term deficit forecast from 1.80% to 2.09% of covered payroll. The remedial legislation that resulted from the Commission's recommendations brought this down to less than .03%, a noteworthy accomplishment. □