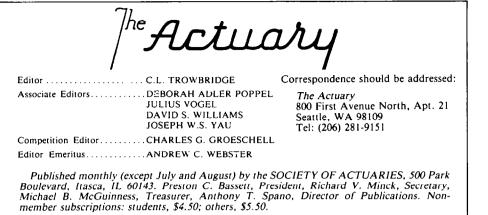


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## EDITORIAL INCOME TAX SIMPLIFICATION

Today's newspapers are full of proposals for income tax simplification. The concept is the coupling of an increase in the tax base with a decrease in tax rates, such that the total of taxes paid by individuals and businesses is not materially affected. Expansion of the tax base is to be accomplished by including several forms of income not now taxable, and by eliminating some deductions.

To taxpayers sick and tired of the many complexities and inequities of the current Internal Revenue Code, income tax simplification may have strong appeal. Objections will come especially from those with a vested interest in one or another of the specific tax preferences targeted for elimination.

The portion of these proposals closest to the heart of the actuarial profession may well be the proposed inclusion within the employee's taxable income of the employer cost for employee benefit plans (EBP). Employer paid life, health, or disability insurance rarely becomes taxable to the employee at any time; and employer-paid retirement or savings plans become taxable only when the benefits become available. Favorable tax treatment has clearly been a driving force, though not the only one, behind the rapid and wide spread of the EBP idea.

The history of the non-taxability of employer contributions to EBPs is in itself of interest. The question of the taxability of group life and health insurance premiums was largely settled at a time when very few dollars were involved, and by Treasury Regulation rather than by legislation. The amounts involved are no longer minor, but the principle, once established, has largely survived. There is better evidence as to Congressional intent as to pension plans, where favorable tax treatment was originally limited to 'qualified' plans. The impact has spread, fueled by arguments of fairness (if some workers can get tax deferral through retirement plans, all should be able to.) We now find Keogh plans, TSAs, 401(k) arrangements, and IRAs. The amounts involved in the deferred taxability of these many retirement or savings arrangements are enormous.

That the employers of actuaries, largely insurance companies and actuarial consulting firms, are generally opposed to the elimination of EBP tax preferences can hardly be viewed as surprising. Organizations active in EBPs can hardly be objective as to this facet of the tax simplification proposals. The argument commonly put forth is that EBPs are in the public interest, but that employers and employees will abandon EBPs in favor of higher cash compensation if the tax preferences disappear.

The question remains, where do actuaries as individuals stand on this controversial matter? Some, believing in the essential rightness of the financial security systems with which actuaries are associated, or fearing that the role of actuaries in society may be curtailed, may join our employers in resisting any proposal taxing those who enjoy EBPs. Others, less personally committed, may take the position that EBPs do not need tax preferences to be viable. Actuaries of this persuasion may welcome the elimination of those pseudo EBPs that exist only because of the peculiarities of income tax law. C.L.T.

## The Health Section

## (Continued from page 1)

on individual health insurance and in support of the E&E Committee's ongoing review and revision of the health content of the examination syllabus.

In addition to the Section's Education Committee, which works through the two subcommittees mentioned, there are four other committees around which the Council has organized the activity of the Section: Communications; Health Care Economics; Ratemaking and Valuation; and Research and Data. There is also a Committee on Elections.

Tangible results in these other areas have been less visible. In some instances, it proved to be no easy task to define exactly what the goals and projects should be. Health care economics sounded like a sufficiently clear area in general, but not so clear in particular, as to specific projects and objectives. Similar difficulties were encountered by the Research and Data Committee. Further, some of the committee projects launched are intricate and long-term assignments, especially some tasks that the Ratemaking and Valuation Committee, chaired by Robert Shapland, now has underway, working through several task forces.

Like the Society as a whole, the activity of the Health Section depends upon dedicated volunteers, with ongoing turnover to bring in new blood. There are many ways in which the Section can serve and benefit its membership and the Society of which it is so proud to be a part. But the members as a whole will not likely get more out of it than they put into it, and keep putting into it. Membership and willingness to participate both are high. The Section has more than 1,200 members. A high fraction of them have expressed eager willingness to participate in the Section's work and many of them are doing so.

So the essential ingredients of continuing and expanding success are there. The ongoing challenge to the Section's Council and committee chairmen, and it will always be so, is to continue tapping this reservoir of talent and energy, with organized diligence. If this continues to be done, the Health Section cannot help but grow steadily in value to its members, to the Society and to the whole public we seek to serve.