



SOCIETY OF ACTUARIES

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FUNDING RATIOS AS SOCIAL SECURITY TRIGGERING DEVICES

by Robert J. Myers

The Social Security Amendments of 1983—which it's hoped have solved OASDI's short-range financing problems, and will solve the long-range ones reasonably well—contain several triggering devices. Some affect the OASDI program alone, others the Medicare program also.

The provisions involving triggering devices are:

1. Prohibition against making interfund loans between the OASDI Trust Funds and the HI Trust Fund (possible only through 1987) when the balance in the lending fund is relatively low.
2. Mandatory repayment to the HI Trust Fund of any outstanding loans held by the OASDI Trust Funds (which must be done by 1990) when their balances are relatively sizeable—and vice versa.
3. Submission of reports by the Boards of Trustees of the OASDI, HI and SMI Trust Funds whenever any of their fund balances are too low; in such cases the Trustees are to recommend statutory remedies, and to specify the extent to which benefits must be reduced, payroll taxes increased, or both.
4. Basing the automatic cost-of-living adjustment for OASDI benefits for December of a particular year on the lower of (a) the increase in wages (from the second preceding to the preceding calendar year) or (b) the CPI increase (from the third quarter of the preceding year to the third quarter of the current year).

In all instances, the triggering is based on trust-fund ratios that, in general, relate annual outgo to the trust fund balance. In practice, the triggering mechanism is slightly different for each of the four provisions. Table 1 lists their pertinent features for OASDI; Table 2 lists these for the two Medicare funds.

Table 1
CHARACTERISTICS & OPERATION OF PRESCRIBED OASDI TRUST-FUND RATIOS

Purpose of Fund Ratio

Item	Prohibition Against Making Loans to HI Trust Fund	Mandatory Repayment of Loan from HI Trust Fund	Report on Fund Balance Being Inadequate	Triggering of "Lesser of Wage or Price Increases" for COLA ^a
Defined Name in Social Security Act	OASDI trust fund ratio	OASDI trust fund ratio	Balance ratio	OASDI fund ratio
Section of Act	Sec. 1817 (j) (5)	Sec. 201 (1) (3) (B)	Sec. 709	Sec. 215(i) (1) (f)
Periodicity	Monthly	End of Year	Beginning of Year	Beginning of Year
Fund Balance	Total Assets, minus loans from HI Trust Fund (as of end of 2nd preceding month)	Total Assets	Total Assets, minus loans from HI Trust Fund ^c	Total Assets, plus advance tax transfers for January, minus loans from HI Trust Fund ^b
Outgo Base	12 times estimated outgo for month (incl. RR transfer), minus loan repayments, minus any interfund transfer	Estimated total outgo in next year (incl. RR transfer), minus loan repayments and interest thereon, minus any interfund transfer	Same as preceding column	Same as preceding column
Trigger Point (Fund Balance as percent of Outgo Base)	10%	15%	20%	15.0% for 1984-88 COLAs; 20.0% thereafter

^aAlso applies to triggering of the catch-up provision which occurs when the trust-fund ratio exceeds 32.0%.

^bFor the December 1984 COLA only, estimated assets at end of the year, plus advance tax transfers for January 1985 are used (rather than actual assets at beginning of the year, as is done for all later years). Note that this determination is to be made in late September or October of each year (i.e., after CPI for third quarter is known); by then, the "actual" fund balance will be known (except for the December 1984 determination, for which a good estimate of the Dec. 31, 1984 balance can be made), while the year's outgo can be quite accurately estimated.

^cPresumably, advance tax transfers for January and income-tax-on-benefits transfers for January-March will also be included.

Descriptive Notes for this Table are printed below Table 2.

(Continued on page 5)

DEATHS

Robert E. Beard, A.S.A. 1950
Frederick W. Elley, F.S.A. 1959
David G. Stone, F.S.A. 1946
Allan L. Thomson, A.S.A. 1957

HONORING A PAST PRESIDENT

The many admirers of Wendell A. Milliman, who died in 1976, will be pleased to know that there now exists in his alma mater, University of Washington, the

Wendell Alfred Milliman Endowed Fund, to help support outstanding mathematicians in residence there. The fund has been established by our late colleague's sister, Mrs. Grace Milliman Pollock.

Funding Ratios

(Continued from page 4)

Table 2

CHARACTERISTICS & OPERATION OF PRESCRIBED MEDICARE TRUST-FUND RATIOS

Purpose of Fund Ratio

Item	Prohibition Against HI Trust Fund Making Loans to OASDI Trust Funds	Mandatory Repayment of Loan from OASDI Trust Funds	Report on Fund Balance Being Inadequate ^a
Defined Name in Social Security Act	HI Trust Fund ratio	HI Trust Fund ratio	Balance ratio
Section of Act	Sec. 201 (I) (5) (B)	Sec. 1817 (j) (3)	Sec. 709
Periodicity	Monthly	End of Year	Beginning of year
Fund Balance	Total assets, minus loans from OASDI Trust Funds (as of end of 2nd preceding month)	Total assets	Total assets, minus loans from OASDI Trust Funds ^b
Outgo Base	12 times estimated outgo for month (including RR transfer) minus repayment of loans and interest thereon.	Estimated total outgo in next year (including RR transfer), minus repayment of loans	Same as preceding column
Trigger Point (Fund Balance as percent of Outgo Base)	10%	15%	20%

^aApplies to both HI and SMI Trust Funds.^bPresumably, advance tax transfers for January will also be included.

NOTES APPLICABLE TO BOTH TABLE 1 AND TABLE 2:

- (1) All references to fund balance and outgo in Table 1 are for OASI and DI Trust Funds combined.
- (2) All references to years are to calendar years.
- (3) "Loans" include principal and any accrued interest.
- (4) "Total assets" includes loans to other trust funds, and also proceeds of loans from other trust funds.
- (5) "RR Transfer" refers to payment to the Railroad Retirement Account under the applicable financial interchange provisions (payments in the opposite direction during the period being subtracted, but not so as to reduce the result below zero, and with the OASDI Trust Funds being considered as a single fund).
- (6) "Interfund transfer" in Table 1 means transfer, in either direction, between OASI and DI Trust Funds.
- (7) "Advance tax transfers" means transfer, to OASDI Trust Funds in Table 1 and to HI Trust Fund in Table 2, of estimated payroll taxes to be collected in that month from the self-employed and from all employers (and employees) other than state and local governments. Legislation now pending would eliminate such transfers for HI, but not for OASDI.
- (8) "Income-tax-on-benefits" transfers (Table 1) means transfer to OASDI Trust Funds at beginning of each quarter, of estimated accrued income taxes on benefits to be paid in that quarter.

NON-ROUTINE BUSINESS OF BOARD OF GOVERNORS, DECEMBER 1983 TO JANUARY 1984

by Donald S. Grubbs, Jr., Secretary

1. The Board agreed to retain the legal services of Peterson, Ross, Schloerb & Seidel to supplement Alan E. Lazerescu's services.
2. The Board authorized obtaining an expression of interest from Society members in forming a Non-Traditional Marketing Section. (See elsewhere in this issue—Ed.)
3. The Board authorized the Committee on Annuities to issue its report entitled "Final Report: Development of

the 1983 Group Annuity Mortality Table—An Interim Table for Group Annuity Annual Statement Valuation" as an expression of the Committee, and to forward it to the NAIC.

4. The Board requested the Committee on Nonforfeiture and Valuation Mortality Problems—Individual Insurance and Annuities, to investigate use of an objective test to determine the need for a new annuity valuation mortality table and to address problems arising from any application of the Supreme Court's Norris decision to mortality tables used for nonforfeiture and valuation purposes.
5. The Board approved the Final Report of the Committee on Specifications for Monetary Values—1980 CSO Tables and authorized its transmittal to the NAIC.

AN ADDRESS CORRECTION

No, this newsletter is NOT starting to print members' address changes between Yearbooks. But we've learned of a wrong entry in our 1984 Yearbook that, oddly enough, wasn't the member's fault nor was it the Society office's fault, but has caused distress and embarrassment.

So, you would do a kindness if you'd change Thomas A. Bickerstaff's address on page A-13 to read: President, Midatlantic Actuaries & Associates, 100 State Highway 73, Berlin, NJ 08009. Phone (609) 767-2392.

Reminder: When you're sure you have the facts nailed down, use the blue address change card in the Yearbook. It does the job, for the next Yearbooks of SOA, AAA and CAPP, and for office mailings, including *The Actuary*.