SOCIETY OF ACTUARIES

Article From:

The Actuary

January 1987 – Volume No. 21, Issue No. 1

The Actuary
The Newsletter of the Society of Actuaries
VOL. 21, No. 1 January, 1987

A HALF-CENTURY OF MEMBERSHIP

Six who will join the Half-Century of Fellowship Club during 1987 are:

Clemens G. Arlinghaus
John J. Finelli
Lloyd K. Friedman
Muriel Mudie
Henry F. Rood
R. Arthur Saunders

These are the survivors of the 17 who attained Fellowship (in one of the Society's predecessor organizations) in 1937.

Associates who first qualified in that same year are:

Lincoln C. Cocheu
J. Gordon Fletcher
Richard A. Getman
Humbert J. Graziadei
Leon L. Long
Graham C. Thompson

With the addition of these 12, the half-century of membership clubs total 148 — 105 FSAs and 43 ASAs. These populations are slightly below those of a year ago, indicating that 1986 deaths more than offset the new members.

Other characteristics of these veteran, but mostly retired, members of our profession:

1. The median duration of the membership status is 55, but ranging from 50 to 67. Our most senior members, Bill Barber and Jim Hoskins, became Fellows in 1920.

2. The median age attained during 1987 is 82. Thirty were born before the turn of the century, and will be 88 or older. The eldest is Arthur E. Babbit, now 97 — the youngest, the above-noted R.A. Saunders, a Fellow at the tender age of 24, and not yet 74 today.

3. No less than ⅓ of the 105 Fellows became so in or before the calendar year

(Continued on page 5)

BOOK REVIEW

Demography Through Problems, by Nathan Keyfitz and John A. Beekman. 1984. 136 pages (Springer-Verlag).

Reviewed by Robert L. Brown

Readers should have no need for a lengthy review of the depth of knowledge these two distinguished authors have in the field of Demography. In total, they possess over a century of writing, research, and teaching experience in this field.

The topics covered in this book include: Populations that are not Age-Dependent; The Life Table (much of which is a review to someone having studied Life Contingencies); Use of Stable Theory; Births and Deaths under Stability; Projection and Forecasting; Stochastic Population Models.

In the preface the authors point out that "The book...is an experiment in the teaching of population theory and analysis". Of the 136 pages, only 18 are given over to narrative. The rest of the text consists of a "sequence of problems (338) where each is a self-contained puzzle, and the successful solution of each puts the students in a position to tackle the next, as a means of securing the active participation of the learner and so the mastery of a technical subject".

Whether the book is completely successful in this regard may be open to debate. We have used the text at the University of Waterloo for the last two years and have been totally delighted with it. It is brief but clear and almost without error (I have found only one!).

However, a text that is suitable in a lecture/tutor environment does not necessarily translate perfectly into the correspondence mode of the Society.

And more's the pity. Since the totally

(Continued on page 8)

RECENT SOCIAL SECURITY AND MEDICARE ENACTMENTS

By Robert J. Myers

The massive Tax Reform Act of 1986 and the Omnibus Budget Reconciliation Act (both enacted into law in October) contain a number of significant changes in the OASDI and Medicare programs. Also, in the legislative process a number of significant matters were passed by one body of Congress, but were not agreed to in conference; such matters are sometimes indicative of action which may occur in the future.

The principal effect of the Tax Reform Act on the OASDI program was an indirect one. The lower income tax rates reduce the transfer (of income taxes received on part of SS benefits) to the OASDI funds. The result will be slightly decreased income to these funds, representing 0.07% of taxable payroll on a level-cost basis.

The Tax Reform Act also contains provisions with regard to the coverage of ministers and members of religious orders. Such persons who had previously opted out on grounds of religious principles or conscience are permitted to withdraw their election and be covered in the future. The requirements for newly ordained pastors opting out were tightened.

The Budget Reconciliation legislation contains a number of changes. The major OASDI change was the permanent elimination of the "3% trigger" for providing the cost-of-living adjustments each December, resulting in a 1.3% COLA first payable in early January 1987. Elimination of the trigger requirement also affects the maximum taxable earnings base and the exempt amounts in the retirement test, which increase only when a COLA is granted.

(Continued on page 5)

The Pension Tax Shelter

(Continued from page 4)

non-qualified unfunded deferred compensation plan. In some cases these plans cover broad employee groups and in some key employees negotiate with their employers that part of their compensation currently earned be deferred. Under certain conditions these deferred compensation plans are permitted, though in this situation the employer gets no immediate tax deduction. ERISA limits these programs to a select group of management and highly compensated employees.

Government and other tax exempt employers may adopt deferred compensation plans under Section 457. Such plans are theoretically unfunded, but as a practical matter are very similar to TSAs.

Another development along VPC lines is the currently popular 401(k) plan, little different in principle from the TSA, except that the conditions imposed are somewhat different, and one that can be adopted by most employers. The Internal Revenue Code imposes some rules preventing 401(k) plans from being primarily for the highly paid.

Finally, the IRA, mentioned earlier as the ultimate extension of the "tax-shelter for pensions" idea beyond the corporate employee group, is also the ultimate extension of the concept of getting employer contribution tax treatment for what *surely* are contributions from the benefited individual himself. To take advantage of an IRA no employer financing is required, though if there should be some, that is fine too.

Where we stand today

By now the tax code has become very complicated. As each of these new approaches is developed, special rules and regulations are written, and these tend to be inconsistent. These special provisions accumulate, since none of these various approaches is ever completely abandoned.

The very newest approach to tax-reform, the TRA of 1986, does relatively little to the retirement plan tax-shelter, which remains very much alive and well. Because certain other kinds of tax-shelter were badly hurt by the recent efforts to preserve the tax base, the importance of the retirement plan in the tax planning of the American people may well be increased, even though, as many have noted, the tax rates themselves will be lower.

We must not leave the impression that the new tax law left retirement plans unscathed, because it is clear that there is a certain amount of tightening with respect to some of the forms mentioned. Especially were some of the limits on the maximum amounts of VPC tax deferral reduced (eg 401k and 403b); and the conditions under which a person might defer income via an IRA were made more stringent. For the very messy details, consult your favorite Employee Benefit Plan Newsletter. □

A Half-Century of Membership

(Continued from page 1)

in which they attained age 25.

4. The geographical distribution of present addresses, by state or province, is:

Ontario	26
Florida	22
New York	16
Connecticut	12
New Jersey	11
California	7
Other states	41
Other provinces	11
Foreign	2
Total	148

Note that the Canadian proportion is 25%.

5. There are only three women in this select group, all born before 1900. The most senior in terms of membership is Esther Johnson, FSA 1926.

6. Among the 105 half-century FSAs are 10 past-presidents of the Society, and two past-presidents of the American Institute of Actuaries, one of the predecessor actuarial organizations.

7. Dan Lyons, FSA 1930, was recently recognized by the *Actuarial Review* as a 50-year FCAS. There may be others who are 50-year Fellows in both Societies, but if so we are unaware. □

Recent Social Security And Medicare Enactments

(Continued from page 1)

This legislation also makes clear that the cost of the provision that no beneficiary will receive a decrease in the benefit check, after taking into account the counterbalancing effects of the COLA and SMI premium increase, will be borne by SMI, not OASDI.

In the past there have been times when interest-bearing government obligations have been converted to non-interest bearing book entries, an action of the Treasury to avoid the public debt limit. This "disinvestment" or "delayed investment" issue created quite a stir in 1985. The Budget Reconciliation legislation restores any interest lost to the OASDI funds as a result of not being able to invest all net income at the beginning of October. The basis for depositing the OASDI-HI contributions by state and local governments was also changed, so that these will be transmitted by each entity separately rather than through centralized state agencies. The effect should be to speed up the transfer.

The Budget Reconcilation legislation made a number of changes in the Medicare program, although many of those related to the reimbursement of hospitals and other suppliers which will not be dealt with here. The change that will be most widely felt by beneficiaries is that the initial deductible for HI for 1987 will be less than would have occurred under prior law. This deductible would have been $572, but was lowered to $520. It is interesting to note than an arbitrary increase occurred for 1982; if this had not been made, and there were no decrease in the recent legislation, the result would have been $508. In the future, the deductible amount is to be indexed by changes in the hospital-cost "market basket" index, with adjustment to reflect changes in the case mix. The indexing was formerly done on the basis of the average per-diem cost for inpatient hospital services for the HI insured, but this has produced faulty results for the last two years, because the average duration of hospitalization has decreased significantly, thus causing an artificial rise in the average *daily*

(Continued on page 7)

Recent Social Security And Medicare Enactments

(Continued from page 5)

cost, as the higher costs of the first few days were averaged over a shorter period.

SMI benefit coverage was slightly liberalized by including as a covered expense the services of independent occupational therapists, similar to the previous provision for physical therapists; but SMI benefits were deliberalized slightly by providing that services in Ambulatory Surgical Centers would be subject to the usual cost-sharing.

The procedure for Medicare being secondary to private group insurance was extended to certain of the disabled.

Physician fees recognized under SMI were frozen from July 1984 through April 1986. A small increase was given thereafter to physicians who accepted assignments from all patients, but the freeze extended through 1986 for others. Under the new legislation all physicians receive a 3.2% increase in their recognized charges for 1987, with future changes to be based on the Medicare Economic Index. The result will be that nonparticipating physicians will always have a prevailing charge structure 4% lower than participating physicians; and they can increase their charges to Medicare patients by only 1% in 1987, unless their 1986 charges were less than 115% of the 1986 "recognized" charges.

Now, turning to matters that passed either the House or the Senate but were not enacted, perhaps the most significant dealt with the subject of disinvestment of the assets of OASDI, HI, and SMI Trust Funds. The House, by a vote of 401 to 0, passed a very strict provision that would absolutely have prevented disinvestment (in H.R. 5050, the Social Security Administrative and Investment Reform Act of 1986).

The Senate was about to adopt similar language in other legislation, but had second thoughts when some Senators realized that this could bring about the intolerable situation that OASDI benefit checks would not go out in the event of a congressional hassle over the public debt limit. As a result, the Senate passed a provision permitting disinvestment *only* if this were necessary to pay OASDI benefits in a timely manner and only to the extent necessary to do so (with later complete restoration of the previous status quo as to the investment portfolio and interest income). Neither the House nor the Senate, in the busy closing days of the session, would compromise, and so both measures died.

The same House legislation as the disinvestment provision had extensive language establishing the Social Security Administration as an independent agency, separate from the Department of Health and Human Services. Advocates of this legislation (including the author) believe that this is very desirable, so as to have fewer bureaucratic layers on top of the SSA and to have a bi-partisan Board administering it. Although a number of Senators had previously supported this approach, insufficient time was available for any further action.

The Social Security Amendments of 1983 removed both OASDI and HI from the Unified Budget, beginning with fiscal year 1993. The advocates of this approach (including the author) supported this action on several grounds. First, these programs are supported with their own sources of revenue and did not (and would not) contribute to budget deficits over periods of years. Second, any changes in the programs should be made for program reasons, not budget ones. The operations of OASDI were, by legislation in 1985, removed immediately from the Unified Budget (but are, anomalously, included in the determination of whether the deficit-reduction targets under the Gramm-Rudman-Hollings Act are met). The House-passed budget reconciliation legislation provided for similar treatment for the HI Trust Fund, but this was not agreed to by the Senate.

Beginning in April 1986, all new hires of state and local governments have been compulsorily covered for HI. The Senate adopted a provision in the budget reconciliation legislation that, beginning in 1987, *all* state and local government employees would be so covered. At one point in the legislative maneuvering, the House and Senate conferees agreed on this matter, except that the tax would be phased in; but in the end the provision was deleted from the legislation. □

LETTERS

Two Professions?

Sir:

The October Editorial "Are We Two Professions?" raises a very relevant question at the start of the new "financial services" era.

With all the professions gradually encroaching into each other's territory (except that defined on a statutory basis), small professions like the actuarial profession can ill-afford to split. Surely we need a combined front not only in our own countries, but on a worldwide basis, to survive, to market and to sell ourselves.

We need a simpler and more understandable definition of our skill. Currently we tend to be judged by what we do, e.g. pensions experts, rather than by reference to what we are able to do and what skills we possess.

The actuary puts a value on all the financial aspects of the future whether this be for:

Companies or individuals
Life insurance companies
General insurance companies
Pension funds

(or indeed any organization with the need to assess the worth of a future liability or asset or the financial implications of a given course of action).

Any "risk" can be valued (using actuarial techniques) on this basis.

If an accountant assesses the cost and implications of the past years' results and trading, an actuary assesses the financial impact of the future. This, I submit, is what we should be promoting.

I would be grateful for any views.

W.N. Anderton
Surrey, England

****

Mortality Among Actuaries

Sir:

During recent years I have seen various tabulations in *The Actuary* concerning the membership of the Society of Actuaries and of its two predecessor organizations. These tabulations are nostalgic to me and I believe they are provocative to our most recent members. It must be of interest to the new Fellows admitted to the Society of

(Continued on page 8)