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Year-end review and a look ahead at Canada-U.S. Free Trade Agreement

by Laurence E. Coward

The Free Trade Agreement between Canada and the United States was the most important issue facing Canada in 1988 and became the subject of heated controversy. The agreement calls for each country to provide the same "national treatment" for goods imported from the other country as for domestic goods. Thus, although Canada and the United States can differ in their taxes, laws, and safety standards, they must not discriminate against each other's products.

The Free Trade Agreement became the central issue in the federal election of November 21, 1988, which was generally regarded as a type of plebiscite on free trade. The Conservative party under Brian Mulroney won a majority of seats in the House of Commons and promptly proceeded to implement the agreement. Many Canadian industries will be affected, some for the worse, but more, we believe, for the better, during the 10-year transition period. The agreement's effect on our social security system (Old Age Security, Canada/Quebec Pension Plan, Unemployment Insurance, and Medicare) became a matter of debate but is likely to be minimal. Indeed, the growing prosperity anticipated as a result of the agreement will improve the finances of these programs, making the payment of benefits more, rather than less, secure.

Tax reform

Phase 1 of the government's tax reform initiative received Royal Assent

Continued on page 3 column 3

Two reactions to Report on Strengthening the Profession

In an effort to encourage discussion of the recent Report of the Task Force on Strengthening the Profession, The Actuary *presents two viewpoints on the task force recommendations. Allan D. Affleck, writing from his vantage point as an SOA officer, discusses the report's recommendation to increase the public interface role of the American Academy of Actuaries. Eric L. Kranke, former president of the American Society of Pension Actuaries, talks about how his organization would be affected by the proposed joining of ASPA actuaries and the Conference of Actuaries in Public Practice. Next month's* Actuary *will feature two more reactions to the report.*

Strengthening to do what?

by Allan D. Affleck

When the editor of *The Actuary* asked me to write an article about the report of the Task Force on Strengthening the Actuarial Profession, I thought there would be little point in repeating what you can read in the task force analysis and presentation. Instead, I decided to offer my personal perspective on where I think the profession should be heading in the future.

As we consider the task force report, we might all ask ourselves, "Strengthen the profession for what?"

Continued on page 2 column 2

ASPA member speaks out on change

by Eric L. Kranke

First, I want to offer my sincere congratulations to the Task Force. They have effectively dealt with a many faceted situation and have come forth with a realistic proposal.

In reading the task force report, we see words like reorganization, unification, and strengthen. To me, they all mean CHANGE. Many actuaries do not appreciate change, especially if a need to change is not perceived. I am no different. I make a good living, I deal with clients whom

Continued on page 3 column 1

In this issue:

Year-end review and a look ahead at Canada-U.S. Free Trade Agreement
Laurence E. Coward — 1

Two reactions to Report on Strengthening the Profession
Allan D. Affleck and Eric L. Kranke — 1

Significant actions of the Board of Governors
Anthony T. Spano — 4

Pensions viewed from upside down
Charles Barry H. Watson — 5

Editorial: Pension portability
Barnet N. Berin and Eric P. Lofgren — 6

The Fellowship Admission Course
Michael B. McGuinness — 7

Accounting for postemployment benefits other than pensions
Frank Becker — 8

Pension plans of government contractors
Bernard Sacks — 10

Change in election procedure
Harold G. Ingraham, Jr. — 11

Letters to Editor — 13

Actucrossword, Actucrostic — 15,16

Kranke cont'd

I respect, and my future income level is not deemed to be subject to any serious shortfalls, even though I work in the pension area. So, what do I need with change! Why would I want to develop new affiliations, new colleagues, and new methods of dealing with outsiders? I guess my resistance to change is directly proportional to my age and "time in the business." This is a normal reaction, I hope.

But the task force demonstrates the need for the actuarial profession to shed the "noninvolved, egghead" stereotype image that in some ways we richly deserve. Consider our ineffectiveness in the pension area: We have accountants telling us how to calculate and report pension liabilities, government employees telling us proper funding techniques and assumptions, and our legislators making laws that negatively impact the retirement security of millions of Americans.

Yes! We need to change!

However, change is much more easily talked about than accomplished. Actuaries have, as the report points out, developed deep-seated loyalties toward the associations that have served them. Obviously, I believe the one to which I belong has served me best. ASPA came closest to meeting "all" of my needs. I have felt no urge to join the other actuarial organizations...until I read and carefully evaluated the task force report. The report has forced me to take off blinders.

Each actuarial organization will be forced to CHANGE, in accordance with the report. Some, more than others. From ASPA's standpoint, we lose the name that carries a positive connotation with the various government agencies dealing with pensions. Some members feel that the actuaries in ASPA will leave ASPA, and that this will negatively impact the membership in the organization, after the name change. Personally, I do not see this happening. I joined ASPA specifically to gain the experience and association with pension consultants, some of whom also happen to be actuaries. If I chose to join a strictly pension actuarial association – that, most certainly, would not decrease my desire for continuing the consulting association.

We all have some questions to ask ourselves regarding the task force suggestions. Will this change in "organization or association" decrease my facility to have a say in what direction the public interface goes? In what services are offered to pension actuaries? In determining what principles and practices are to be adhered to by pension actuaries? I hope not! Actually, it will be up to me to determine that. It is usually a function of personal involvement. With the new organization, I do not see any great obstacles to anyone who wants to get involved – to get involved.

In fact, this larger association with other actuaries with similar interests extends the limits of my current affiliations. It gives wider latitudes to my learning from the experiences and techniques of other actuaries. Specifically, I expect the association with the actuaries in CAPP to expand my horizons. Perhaps I can offer something to them, also.

One final thought. My 17-year-old high school senior son has exhibited some facility in math. I would be remiss if I did not encourage him to join the "number-one" occupation. I would like to see him have the opportunity to join his actuary colleagues in a single cohesive association respected by outsiders for its professionalism and purpose and appreciated by its members for the services it gives them. I, therefore, consider our current deliberations over strengthening the actuarial profession an important step in preserving future opportunities for the actuaries of the future.

In summary, this CHANGE will be questioned by some actuaries for many valid reasons. Unfortunately, some actuaries will resist any change, however farsighted the reasons for the change may be. It will be up to the leadership of the actuarial organizations in North America to deal effectively with the comments of their constituents. It will require compromise, concessions, and concentration on the objective. I am certain we will all gain from these activities in 1989 and beyond.

Eric L. Kranke, a former President of the American Society of Pension Actuaries, is President, Pension Actuaries, Inc.

Year-end cont'd

on September 13, 1988. This phase, effective on January 1, 1989, reduced personal income taxes for most Canadians by cutting the number of tax brackets to three and reducing the marginal tax rates. In addition, some tax exemptions and deductions were changed to tax credits, which will help low-income taxpayers. Parallel changes will be made in provincial tax legislation. Phase 1 of the tax reform changes is to be accompanied by a federal sales tax, which will be imposed later.

Another package of income tax changes was presented on March 28, 1988, in a paper entitled "Tax Assistance for Retirement Savings." This legislation would set a comprehensive limit on the tax shelter an individual could obtain through registered pension plans, deferred profit-sharing plans, and Registered Retirement Savings Plans (RRSPs). The limit would be equal to 18% of earnings, subject to a dollar maximum that would rise to $15,500 in 1995 and would then be indexed. The value of the benefits earned in a year under a defined-benefit pension plan would be deemed to be nine times the annual pension for service in the year, minus $600; this is known as the Pension Adjustment (PA). Hence an employee may contribute to RRSP an amount equal to the comprehensive limit minus the PA. (There may be further adjustments for employees who terminate employment or for amended pension plans.) It is proposed that taxpayers who do not contribute the maximum allowed for the year to their RRSPs may carry forward the unused contribution room for the next six years.

The maximum annual pension allowed from a Registered Pension Plan under the proposals will be $1,722.22 times the number of years of pensionable service, with no limit on service. This limit will not change until after 1994, when it will be indexed. Thus the maximum pension will be $34,444 a year for 20 years of service or $60,278 for 35 years (indexing ignored). Much attention is being focused on supplementary pensions for the growing number of employees who will be affected by the maximum pension limit.

The government has announced a one-year delay in the income-tax measures relating to retirement

Continued on page 4 column 1

Year-end cont'd

savings. The existing limits will apply in the year 1989, and the limits in the draft legislation will apply in 1990 and thereafter.

Pension reform – Ontario
The Task Force on Inflation Protection in Private Pension Plans, under the chairmanship of Martin Friedland, reported in January 1988. The task force recommended that pensions from defined-benefit pension plans earned for future service should be increased annually after retirement by 75% of the increase in the Consumer Price Index, minus 1%. Such indexing would not be retroactive to pensions earned before the legislation came into force, but inducements would encourage employers to provide future increases in pensions already earned. The Ontario Minister of Financial Institutions announced the government's intention to release draft legislation early in 1989 dealing with pension indexation and other issues. In the meantime, some large unions have been successful in negotiating indexed pensions for their members.

Pension reform – Quebec
The Quebec government intends to amend the Supplemental Pension Plans Act to give effect to the pension reform consensus reached by the various jurisdictions several years ago. Indications are that the vesting of pensions and locking-in of contributions will be required after five years of service (not two years as in Ontario and federal legislation) and further that there will be no requirement on inflation protection.

As a temporary measure a bill has been introduced to limit the ways in which pension plan surplus may be applied. If Quebec's Bill 95 is enacted, then no surplus may revert to the employer until 1990. Upon the winding up of a plan, surplus must be apportioned among all members pro rata to the value of the benefits.

Pension reform – other provinces
Nova Scotia's Pension Benefits Act became effective on January 1, 1988, but New Brunswick's Act is not yet in force. It has been announced that legislation will be introduced in Prince Edward Island. This leaves British Columbia as the only province that has not legislated on the pension rights of employees in the province.

Health care
The rapid growth in the cost of health care has created a problem for provinces that wish to maintain and improve the health care of their citizens. The possibility that many chronic patients using expensive hospital beds could be cared for in other facilities is being explored. Proposals for charges for prescription drugs, doctors' visits, and hospital stays have met with strong opposition. Similarly, workers compensation costs have been soaring, and a move is taking place to end fixed pensions for specified disabilities, replacing them with compensation based on the actual loss of earnings.

Unemployment insurance
In November the federal government announced that the strong position of the Unemployment Insurance Fund would allow an increase in benefits and a 17% reduction in the contribution rates.

Other developments
The Year's Maximum Pensionable Earnings under the Canada/Quebec Pension Plan will be $27,700 in 1989 and the Year's Basic Exemption $2,700. Accordingly employers and employees will each pay contributions up to $525.00 in the year (2.1% of $25,000). The maximum pension for those retiring in 1989 at age 65 will be $556.25 a month, indexed annually.

The standard rate of Old Age Security benefit in January 1989 will be $323.28 indexed quarterly.

The Consumer Price Index rose by 4.1% in the 12 months ending in November 1988 (to 146.1 with 1981 = 100). The prime interest rate was 12.25% at the year end, which means that real interest rates continue high – they have been much higher since 1981 than they were in the previous 30 years.

The political clout of the aging baby boom generation is focusing more attention on pensions. As employees and their unions press for bigger pensions, inflation protection, and earlier retirement, the boom in pension plans can only continue, although we may expect a move toward money purchase plans and new types of retirement arrangements.

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Significant actions of the Board of Governors

January 24, 1989 – Schaumburg, Illinois

1. The Board authorized the Society to participate in a public relations effort centered around the 1989 Centennial Celebration meeting, with the costs to be shared by the several actuarial organizations sponsoring the meeting. The effort is designed to increase the visibility and enhance the role of the actuary.

2. The Board approved an amendment to the Society's By-Laws to provide that a member would not pay dues at the Fellowship level for the calendar year in which the member attains Fellowship.

3. As the first step in a plan to transfer the Secretary and Treasurer functions to two of the Society Vice Presidents, the Board approved a recommendation from the Committee on Elections to extend the term of the current Treasurer for one more year in lieu of holding the contested election that would otherwise have been required this year. Amendments to the Constitution and By-Laws will be necessary to implement this change of responsibility, which is designed to take effect starting with the 1990 Annual Meeting.

4. The Board approved a recommendation from the Committee on Elections that, in the 1989 Society elections, one Board seat be reserved for an individual in the pension area and another Board seat be reserved for an individual in the health area. This action was in accordance with a procedure approved by the Board last year to enable up to three Board seats to be reserved for individuals in areas of interest and/or country of residence deemed to be underrepresented in relation to the total Society membership.

Anthony T. Spano
Secretary