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EDITORIAL

Issues similar on both sides of the border

by Mike McGuinness

As I sat in sessions at the spring meeting of the Canadian Institute of Actuaries (CIA), held in Toronto on March 10 and 11, I couldn't help noting the overlap between the Canadian issues being addressed and the health care and retirement discussions now flooding the U.S. press. On both sides of the border, our citizens' future in these two areas partially rests on the influence actuaries' recommendations have on the industry and governmental bodies. This responsibility was well articulated at the Toronto meeting by Christopher Daykin, president-elect of the Institute of Actuaries in the United Kingdom. He proposed the ethic that "actuaries turn promises into reality."

The CIA meeting provided stimulating, knowledgeable speakers, much useful discussion, and almost an overload of information. My only disappointment was the low attendance. Presumably in these straitened times, employers and actuaries themselves are reluctant to spend the time and money for actuaries to attend these meetings. If this is the case, it seems to be a very shortsighted point of view.

One of the most encouraging developments announced at the meeting was that Lloyd Axworthy, Canadian human resources minister and a prominent member of the Canadian government, has taken Past President Walt Rugland's advice to "ask an actuary." The CIA is one of the bodies the minister has asked for help in rebuilding Canada's social security network. The CIA will respond by summer.

In this issue, Bill Bluhm's article describes the help American Academy of Actuaries and SOA members have been able to give staff members of the House Energy and Commerce Committee as it starts to draft parts of President Clinton's Health Security Act. Like the work Canadian SOA members will be doing for the Canadian government, this is welcome recognition for the expertise of actuaries.

The keynote speaker at the CIA meeting was Dr. Jane Fulton, an Ottawa professor of health economics. She has managed her time effectively enough to have taught at Harvard and the University of Southern California among other U.S. universities, has advised Hillary Rodham Clinton on health care reform, and has appeared on the Phil Dohahue show. By her own admission, her political views are left-leaning. She buttressed her talk with an impressive array of data and, unlike some keynote speakers I have heard, remembered what audience she was addressing.

Her message was that the Canadian health care system is very good and perceived to be so by the country's population, but that it is not cost effective. In contrast, she said, U.S. citizens perceive the U.S. system to be very poor. A major cause of the excessive cost, she said, was the fee-for-service basis of remunerating health care professionals, especially doctors, with its built-in incentives to over prescribe. Another was tying up acute care beds in hospitals with chronic care patients, especially the elderly, who really needed a different and less costly form of care. Advocating better control of health care provision and greater use of HMO-type organizations, she said costs could be cut dramatically with no real loss in standard of care.

One of her interesting comments was that Canada should export some health services to the United States. Saying that some procedures could be performed just as well and at much lower cost in some Canadian hospitals than in corresponding U.S. hospitals, she advocated that any excess capacity should be made available to any U.S. residents willing to pay for it.

Bruce Cohen, a journalist with *The Financial Post* of Toronto, was another outside speaker providing valuable insight. He appeared on a panel with CIA members Kit Moore and Rob Brown to discuss the publicity the CIA generated for its "Report of the Task Force on [Canadian] Social Security Financing." (Bruce MacDonald discusses the report more fully in the front-page article of this issue.) Cohen said he had found the report most helpful, and he had been pleasantly surprised that the report's press coverage, resulted in mostly informative and well-balanced articles. He stressed that actuaries should never slacken their efforts to inform the public, and they should remember that the average journalist is comfortable describing immediate crises, not long-term, complex questions.

CIA members spent much of the meeting wrestling with their proposed new consolidated standards of practice. A discussion draft was published in February. In presenting the draft, Ken Clark said he hoped the approval process would be complete by January 1, 1996. Judging by the volume of work to be done and its complexity, this may be optimistic.

In this issue, Editor Mike Cowell reports on the responses to the readership survey last November. I echo his request to readers to keep their responses coming.

C/QPP's uncertain future (continued from page 1)

virtually full coverage of the working population, portability of benefits, inflation protection, and low administrative costs.

Comparison with other countries

The report compares the Canadian system to the others in the seven top industrial nations, known as the G-7 countries (United States, Japan, Great Britain, Germany, France, and Italy), plus Australia. Canada's benefit levels usually are somewhat less generous, but about the same as in the United States and Great Britain and much more generous than in Australia. Current contribution rates, however, are much lower than in any of the G-7 countries, all of which have more mature populations than Canada, some with a normal retirement age of 60. The long-term contribution rates in Canada will be comparable to current rates elsewhere.

Rate of return on contributions

The Canadian social security system provides about 45% of the income for elderly single men, about 55% for elderly single women, and about 40% for elderly couples. Private pension plans provide less than 20% of income. Thus, these government plans are an important income source for retired Canadians, with OAS/GIS providing more than C/QPP.

The report considered whether C/QPP was a "good deal" for Canadians. Will Canadians be satisfied with a real rate of return of only 1.5%, when the combined employer/employee contribution rate exceeds 13%? If the employee contribution ignores the employer contribution, as may well occur, the returns will look much better.

The real problem with C/QPP contribution levels is that Canada is one of the most highly taxed countries in the G-7, with a very high deficit. To reduce it requires higher taxes or reduced government spending.

The estimated cost for Medicare, Unemployment Insurance (UI), Workers' Compensation, OAS/GIS, and C/QPP is 18.6% of GNP. Many of these programs' costs will increase as the population ages. At some point the combination of income tax and social security costs may reduce overall economic activity and employment, thereby reducing the tax revenue available.

Future availability

A recent survey indicated that less than 30% of Canadians believed that C/QPP benefits would be available to everyone at retirement. However, 60% expect to rely on social security and private pension plans after retirement. Yet only about 45% of working Canadians are members of private pension plans. Only about 35% contribute to a Registered Retirement Savings Plan, a tax-assisted form of retirement savings. Of this 35%, many are sole proprietors or partners (which include most professionals such as doctors, lawyers, and accountants) who cannot, under Canadian tax laws, establish a pension plan.

Increased contribution rates necessary

Large increases in contribution rates will be necessary to maintain the status quo for C/QPP. The scheduled increases are gradual, and in no one year should be great enough to produce a public outcry. With reduced wage increases, however, they will be much more noticeable than in earlier years. A large increase in UI rates two years ago caused no great outcry; benefit cutbacks resulted in more complaints. With the many objections to the substantial increase in 1994 UI rates, the level of contributions finally may have reached the stage where a tax revolt may be brewing.

The report points out that most social security schemes are financed on a pay-go basis, and it rejects full funding for

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