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BOOK REVIEW

Book recaps 1991 pension research symposium

by Steven McKay

Demography and Retirement in the 21st Century. Anna M. Rappaport and Sylvester J. Schieber, editors. Published by Praeger Publishers, 88 Post Road West, Westport, Connecticut, 1993. Telephone: 1-800-225-5800. 328 pp.

As stated in the overview: "This book presents the papers and comments from the Pension Research Council's Spring 1991 Symposium. It focuses on those issues related to the age structure of the population and patterns of retirement, as well as our ability to anticipate how these might change in the future."

Each of the seven sections after the overview has a paper and discussions of the paper, with 24 total authors represented. The organizers of the symposium made an effort to involve a wide variety of participants to provide "a rich diversity of perspectives on the issues considered."

The section on demographic change describes the factors involved in projecting the U.S. population into the 21st century. The various authors have minor disagreements over the projected path of some of the factors but agree that the aged dependency ratio will increase dramatically after 2010 with the retirement of the baby boomers.

The following sections deal with the implications of the forecasted demographic change on the workforce and labor markets, social insurance, capital formation, retirement programs, and health among the American population. The last section compares projections for the United States to actual and projected international experience.

The participants in the symposium must have foreseen the interest in health care that was to blossom in the next few years. Although health has its own section, it recurs throughout the discussion. Half the social insurance section deals with health care, especially for the elderly.

In the section on the workforce and labor markets, the authors go to some effort to show how previous projections of labor force participation rates have been flawed, usually by projecting continuation of then-current trends when those trends were about to change. They describe a more comprehensive model that would theoretically be better, but do not actually build such a model. Instead, they consider what such a model might show. Models often produce unexpected results. This reader was left unsatisfied that the authors did not present more concrete results.

The section on social insurance deals with some complex issues, usually successfully. The nature of the Social Security

trust funds is widely misunderstood. The paper presented by Sylvester Schieber repeats a statement by Charles Schultz with which I agree: "The mere accumulation of financial assets in social insurance trust funds does not, of course, mean that one generation is financing its own retirement and relieving the next of any burden." Unfortunately, a few pages later, the author is not sufficiently careful when discussing the various patterns of payroll taxes that could fund Social Security. The unstudied reader could come to an opposite conclusion.

The section on capital formation discusses models of saving to be used to predict the pattern of savings rates in the 21st century. The authors test them against actual experience during the 1980s and find that none of them do very well. They attempt to account for the reasons the models have difficulties and then project savings rates as best they can. There also is a qualitative discussion about factors that cannot be quantified easily. I was disturbed by the following statement: "...The trust fund accumulations ... represent a powerful government saving program, as households currently alive are being forced to help pay the cost of future benefits." This appears to be in opposition to the previous quotation concerning the nature of the social insurance trust funds. *It deserves clarification.*

There is a lively discussion in the section on retirement programs between John H. Biggs and Anna Rappaport. Biggs sees the defined contribution form of pension plan emerging as preferable to the defined benefit plan in the 21st century. Reasons given range from regulatory excess to attractiveness to certain age groups. Rappaport agrees that defined benefit plans will not be appropriate for small employers, but argues that such plans meet large employers' needs much better than defined contribution plans.

The book raises many more questions than it answers. For example, what will happen to early retirement patterns? Workers have been retiring earlier, but the trend is slowing. Projections from a decade or two ago have erred by projecting continuation of then-current trends, but what is the correct projection today? It would be helpful to the Social Security program and to the economy if people worked longer, but will workers see it that way?

It is necessary to point out the below-average quality of the proofreading evident throughout the book, with many spelling and grammatical errors, beginning with a misspelling of the council's name in the preface. There are

also distracting inconsistencies in punctuation and table format from section to section. To a degree, these deficiencies could be explained by the understandable tradeoffs involved in getting a book to publication in a timely manner. In my opinion, however, a few days with a good proofreader would have been time well spent.

In summary, the Pension Research Council and the editors are to be congratulated for presenting important questions and discussions about our future. There may be few answers now, but we can all help develop the answers over time if we begin paying attention to the issues today. I agree with the editors, however, that "we may be stuck with dealing with necessary retirement program adjustments only when there is a greater sense of crisis."

Steven F. McKay is chairperson of the SOA Committee on Review of Literature. He is an actuary with the Social Security Administration in Baltimore, Maryland.

Math Awareness Week has medical theme

The Joint Policy Board for Mathematics has designated April 24-30 as Mathematics Awareness Week. The 1994 theme is "Mathematics and Medicine." Each year, colleges and universities nationwide help promote mathematics activities on their campuses. Others, such as the Public Broadcasting Service and the Smithsonian Institution's National Air and Space Museum in Washington, D.C., have joined in the efforts.

For more information on how you or your organization can get involved in Math Awareness Week, call the Joint Policy Board for Mathematics at 202/234-9570.

SECTION CORNER

Nontraditional Marketing

Richard Bergstrom, chairperson of the Nontraditional Marketing Section Council, is calling 1994 the "Year of Education." Goals are to sponsor a seminar, to improve communications with and encourage feedback from members, and to continue to enhance meeting programs and the newsletter, *NewsDirect*.

The Section offers an "I am nontraditional" T-shirt to newsletter contributors. The Spring 1994 issue of the newsletter includes a preliminary report from the task force assembled to study mortality and persistency experience of direct marketed life and supplemental health contracts. This article, focusing on persistency information, will be followed by a mortality report expected to be released in the newsletter's summer issue. More detailed analysis on persistency and mortality results will be published in the next *Transactions Reports*.

This spring, the Section is concentrating its meeting planning efforts on the San Antonio meeting, June 15-17. One highlight is the USAA Quality Journey, a one-and-a-half-day program limited to 40 participants at USAA's campus. The tour will include a look at USAA's planning, quality assurance, research and development, customer service, and systems. Company culture and keys to success also will be covered.

Product Development

The Product Development Section Council is striving to continue

offering quality programs to members. Efforts in 1994 will focus on:

- *Product Development News* under the direction of new editor, Ed McKernan
- A May 25 seminar in San Francisco on "Insurance Marketing in the '90s." The program will provide unique insights into the marketing plans, decisions, strategies, and thinking that are considered when developing insurance products.
- The Section is planning new formats for some sessions offered at the San Francisco spring meeting. William Freund will speak at the Section luncheon May 17. One of his many professional accomplishments is serving as senior vice president and chief economist of the New York Stock Exchange.

• The Section recently sponsored a project on the implications of proposed changes to the annuity standard nonforfeiture law. The group is looking for input on other topics to pursue.

February 1994 *Product Development News* articles included "Last Survivor Insurance Antiselection" by Craig W. Reynolds, "How to Deal with Changes in the Valuation Interest Rate" by Richard B. Lassow, "Report on the NAIC Life and Health Actuarial Task Force Meeting" by Raymond T. Schlude, and "Variable Annuity Minimum Death Benefits — a Monte Carlo Pricing Approach" by G. Thomas Mitchell.