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Marc Twinney
Editor responsible for this issue

Correspondence should be addressed to
The Actuary
Society of Actuaries
475 North Martingale Road, Suite 800
Schaumburg, IL 60173-2226

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EDITORIAL

Actuaries serve well as advisors to SSA

by Marc Twinney

As this issue of *The Actuary* goes to press, the current Advisory Council to Social Security is about to publish its report. The report will contain recommendations on ways to improve the long-range financial status of the Old-Age, Survivors, and Disability Insurance (OASDI) program. These recommendations will be submitted to the White House and Congress by Social Security Commissioner Shirley Chater and Secretary of Health and Human Services Donna Shalala.

The 1994-95 council also examined two other areas: 1) the adequacy and equity of OASDI benefits to persons at various income levels, in various family situations, and at various age cohorts; and 2) the roles of the public and private sectors in providing retirement income and how policies in both sectors affect the retirement decisions and economic well-being of individuals.

This Advisory Council to Social Security will be the last of its kind. In the future, a board of seven members, created to manage a new independent system, will have the council's role and the authority to ask for research and recommendations of independent experts. The American Academy of Actuaries and the Society of Actuaries must be ready to respond with the names of members who are willing and able to make the best contribution in actuarial thought in this important dialogue.

Actuaries were well-represented in the two technical panels appointed to advise this council. The Society of Actuaries was helpful in providing lists of actuaries with specific experience needed to round out these panels. Altogether, seven members of the Society of Actuaries were appointed:

- Advisory Council: Marc Twinney, retired from the Ford Motor Company
- Trends and Issues in Retirement Savings Panel: John Haley, Wyatt-Watson Worldwide
- Assumptions and Methods Panel: Howard Young (chair), University of Michigan; Barry Allen, Union Fidelity Life Insurance Company; Robert Myers, former chief actuary of the SSA; Mike Sze, Hewitt Associates; and Larry Wiltse, Buck Consultants

By far, the largest profession represented on the Council and its panels were economists, who filled 18 of the 40 positions. Others represented were four attorneys, three each of business, labor, and demography experts, and one each of political and social science experts.

The large number of economists represented brings up a question for the actuarial profession in the United States. The prominence of economists is related to their importance as advisors to government agencies. In Canada, actuaries have the leading voice in matters such as public pensions reform. (See Paul McCrossan's article in this issue.)

Although actuaries and economists have much in common, such as mathematical and analytical skills, and tend to get along well, there are differences. In council and technical panel discussions, economists thought more in terms of total systems and governmental effects and less about the benefit

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plan and its costs. They were expert in national savings, taxes, annual budgets, and the government debt. They were interested and skilled in theories to maintain adequacy by redistribution for lower-earning workers from middle- and higher-earning workers. And they were knowledgeable about how to use Social Security to solve other governmental problems, such as the deficit. They were less interested or skilled than actuaries in developing plan specifications to provide the best benefits and values at a given contribution ratio.

Recently, in a *New York Times* column by Peter Passell, the economists were criticized as not being very scientific because of their models' failure in predicting the behavioral consequences of government actions. This criticism is related to the demise of the Keynesion theories and to the rise of market theories. To my knowledge, actuarial science has been applauded for the accuracy in its models, especially where the assumptions are well-selected.

The important projections and values in Social Security still come from colleagues in the Office of the Actuary. Their work is done on models and with methods that we could all agree upon. Actuaries and others on the technical panels made suggestions that stochastic projections be added to the traditional analysis. Both technical panel reports are available on the Internet at http://www.ss.gov. The final report will be available there too.

These Assumptions and Methods Panel recommendations are likely to be included in the 1994-95 council's report:

- Research and analytical capabilities in the Social Security Administration should be enhanced, both internally and with outside consultants.
- Private researchers should be granted more access to Social Security data.
- A technical panel of experts should be convened at least every five years to review the assumptions and methodology used to evaluate the financial status of the system.

Of paramount concern to actuaries is the standard that the 1994-95 council used to judge the actuarial condition of the OASDI program. The past standard was to look at a 75-year projection. This time, another requirement was added: the fund flows must be stable at the end of the 75 years. This means that the rates needed to balance the system, starting in 1996, would be 2.4% of payroll, not 2.1% over 75 years as in the 1995 Trustee's report. This increase is related to the year-by-year effect of the dependency ratio that causes the next year added to the forecast not to be as favorable as the year dropped. The dependency ratio is worsening gradually because of improving life expectancy and the low birth rates.

Many alternatives to correct the projected actuarial deficit in the present OASDI program are possible. Drastic measures are not necessary, but prompt action will make the solution easier. For example, adjustments in the growth of benefits can be made gradually over 75 years without decreasing the real dollar benefit for new retirees or present retirees. The country can continue to provide a defined benefit system along its historic lines if it chooses.

Editor's Note: *We welcome Marc Twinney as a new associate editor of* The Actuary. *He takes the place of Mary Hardiman Adams, who served as an associate editor from 1989 through 1995. She filled a special role on the editorial board, keeping readers informed of pension issues while working at Buck Consultants. After her retirement in 1992, she remained an active volunteer for the SOA, the Conference of Consulting Actuaries (past president), the American Academy of Actuaries, and the Actuarial Standards Board. We owe Mary our thanks for her long service and her often provocative editorials.*

Marc Twinney was director of pensions at Ford Motor Company until his retirement in 1995. He is on the Pension Research Council of the Wharton School and is associate editor of its 1996 publication, Positioning Pensions for the 21st Century. *He also has served on the Board of Directors of the Academy and has been active in Washington industry groups since the early days of ERISA.*

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However, many economists point out that the real value trends would also be affected. This is because real values cannot be objectively determined. In fact, historical real values are simply nominal values adjusted by reported inflation. If inflation has been overstated in the past, then the real values have been correspondingly understated. Therefore, if it is assumed that future inflation will be decreased solely due to CPI revision, real values might be correspondingly increased without affecting the nominal value projections.

Wage levels expected and offered, as reflected in the supply and demand for labor, are influenced by productivity estimates. The latter reflect the Gross Domestic Product (GDP) deflator, another inflation measure that also is believed to be overstated. Therefore, if employers, employees, and unions have considered overstated inflation and understated real values in arriving at nominal wages, then revising reporting procedures should adjust both components and have little effect on future nominal values.

Although the same logic may apply

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