



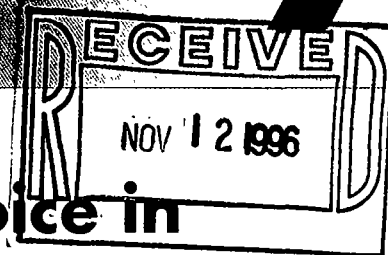
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## Why actuaries have a real voice in Canada's Social Security issues

by Bruce D. Schobel

In May and June, the Society of Actuaries sponsored two seminars entitled "Myth vs. Reality: Social Security and Private Plans." The first seminar, held in Toronto, focused on the Canada/Quebec Pension Plans (C/QPP) and the financing problems that they currently face. The second seminar, in Washington, D.C., focused on the U.S. Old-Age, Survivors, and Disability Insurance (OASDI) program and its future problems. I participated in both seminars and was interested in the differences between the U.S. and Canadian policymaking processes, which is the focus of this article.

### Recent scale-backs

Expanding a social insurance program is relatively easy for politicians to do. Scaling back a program is much more controversial and difficult. In recent years, the U.S. program has been scaled back several times, most notably in 1983. Each law was quite difficult to design and pass, though the changes were necessary. In 1983, in particular, Congress and the President locked themselves into irreconcilable positions. A special National Commission on Social Security Reform developed a compromise, which became law just in time to avert the program's bankruptcy.

Canada has already begun scaling back its Old-Age Security program, with the "claw-back" provision affecting high-income recipients.

The C/QPP are next in line; without changes, they will soon run out of money. Canada's economic and demographic problems are similar to those of the United States but are more severe and becoming evident sooner, primarily because the C/QPP are not as well-funded as the OASDI program.

In May, the Canadian Institute of Actuaries (CIA) released the *Report of the Task Force on the Future of the Canada/Quebec Pension Plans*. The task force, consisting of eight CIA members, recommended a set of changes, many of which would affect the program's funding basis. While this plan, centered around the notion of "smart funding," has yet to be enacted into law, the Canadian government is seriously considering it. (Very simply stated, "smart funding" requires more funding of the plans when real interest rates are high and less when real interest rates are low.)

### Actuaries should be heard

The roles of actuaries in these program redesigns differ considerably between the two countries. U.S. actuaries literally struggle to make our voices heard above the political din. Our success has been only modest. Even when politicians seek expert advice in this area, they are at least as likely to turn to economists as to actuaries.

Involvement of actuaries in U.S. government positions is often

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## Canada's Social Security issues (continued from page 1)

constrained to "number crunching" instead of giving policy advice. Many of these actuaries actually prefer to limit their involvement to estimating the financial effects of others' proposals. The American Academy of Actuaries comments on the financial status of the OASDI program and submits testimony at appropriate times, but the Academy would be the first to admit that its views do not always receive special consideration, even when the issues are actuarial in nature.

In marked contrast, Canadian politicians have requested the assistance of the CIA on several occasions. It has eagerly participated in policymaking at this level, most recently with its task force report. Canadian politicians actually appear to be uncomfortable moving forward without actuarial involvement. (Of course, seeking advice and following it can be two different things.)

### U.S. political system vs. Canadian system

The different political systems in the two countries probably account for some of the differences in approach. The two major U.S. political parties have become increasingly adversarial over the years, making bipartisan action on most issues more difficult. Also, parts of the legislative and executive branches of government are often controlled by different parties (the case in 1983, for example, and the case today).

With Congressional elections held every two years, the possibility of power shifting from one party to the other always exists. Congressional districts are so large (about 600,000 people each) that few citizens know their representatives personally.

Finally, elections are largely influenced by increasingly negative mass media political advertising. In this rancorous atmosphere, nobody is in a hurry to take action that could be regarded negatively by a substantial portion of the voting population. Often they postpone action until every possibility for delay has been exhausted.

Actuaries look into the future as a matter of course. Many treat virtually certain future events as if they were happening today and prefer to act accordingly. Therefore, the involvement of actuaries is not conducive to the delays toward which the political process is inclined.

My comments on the Canadian political system are based only on second-hand information. With that caveat, I believe Canada's parliamentary system is less rancorous and, by design, does not have the problems caused by split control between the executive and the legislative branches as in the United States. Voters know their Members of Parliament and can discuss important issues with the candidates face-to-face before voting. Political advertising is not permitted to be so easily slanted. (Canada does not have a law like the U.S. Constitution's First Amendment.) In Canada, action is highly prized. In fact, failure to take action in the face of obvious developing problems would likely be regarded as irresponsible.

Knowing that appropriate action is expected, Canadian politicians seek the best advice that they can get — and then act on it, or at least act. I can't explain why Canadian actuaries aren't competing more with economists. Maybe a lot of Canadian economists went south to the United States, where people hang on economists' every word.

Finally, and this is important, changing a social insurance program in Canada requires an exceptional degree of compromise, because two-thirds of the provinces must agree.

I am not suggesting that the United States should be more like Canada in every way. For example, to have Canada's ratio of population to representatives, the United States would need a Congress ten times its present size. I also wouldn't recommend repeal of the First Amendment. Queen Elizabeth is unlikely to appear on redesigned U.S. currency. Still, it was very refreshing to see actuaries specifically invited to participate in social

security policymaking and taken seriously. I believe that the problems facing the U.S. program would be solved better — and certainly sooner — if actuaries played a larger role.

**Bruce D. Schobel is corporate vice president and actuary, New York Life Insurance Co. He serves on the SOA Committee on Social Security — Retirement and Disability Income.**

*Bruce MacDonald, The Actuary's Canadian assistant editor, adds the following comments.*

Canadians may be surprised by this author's favorable comparison of our parliament with the American legislature and the suggestion that our parties are less rancorous, as well as by the impression that our politicians take action promptly. But then, Canadians do not regard their country as favorably as the rest of the world does. We're always surprised when United Nations surveys reveal Canada to be the best place in the world to live.

## A tribute (continued from page 3)

These words of gratitude won't put money in your pocket, but I suspect most, if not all, of you who contribute time and energy to any organization do so for reasons other than financial gain. I hope my "Thank You" will mean something to our volunteers. If you know someone who is a volunteer, and most of us do, say "Thank You" — in person if you can, or in a note. But say it now. Don't wait; "someday" may be too late.

**Editors note:** *As this issue went to press, the SOA learned of the death of SOA 1970-71 President Edwin B. Lancaster, FSA 1949. His obituary will appear in a later issue.*