The Actuary

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Dear Editor (continued from page 18)

In addition, under a system of private Social Security accounts, older baby boomers now saving for retirement by plowing large amounts into mutual funds may feel less need to save outside of their individual private Social Security accounts. Savings going into the individual Social Security accounts may replace dollar for dollar decreased savings outside these accounts. To avoid decreased total savings (in both the private and public sectors) under the private accounts plan, you need to raise taxes to pay for privatization. If the real goal is increased savings, we can do that without changing the Social Security system.

Another point is that there is no difference, economically speaking, between a private prefunded universal retirement system and a pay-as-you-go (PAYGO) system. An economy as a whole cannot prefund for its retirement the way an individual can. Today's 40-year-olds can save for retirement by buying stocks and bonds now. In 25 to 30 years, these financial assets will represent claims on the wealth and productive assets in existence then. The food retirees will eat 25 years from now will be produced then, not now. This is true for most items that will be consumed far into the future. Cars, TVs, VCRs, and computers suffer from obsolescence of 25 years or less.

The only way an economy as a whole can save is with continual real investment: physical infrastructure such as airports and telecommunications networks; plants and equipment; human capital (education) and research (knowledge). These are real investments. Financial assets increase an economy's efficiency by coordinating transactions smoothly. They keep track of who owns what and who owes what to whom for the entire economy. All financial assets also appear as liabilities on someone else's balance sheet, while real assets do not.

Therefore, from the perspective of the economy as a whole, the net result of a prefunded private plan is the same as a PAYGO plan. Because these plans decide how to divide the economic pie, the only difference between privatization (except for the savings-retarding effect of private Social Security accounts) and PAYGO schemes is that lower-income retirees in the future will not be protected as well as their counterparts today are.

The only way for society as a whole to prefund is to create a more productive economy than would otherwise exist in 25 or 30 years. That way, the slice of the economic pie for each worker would be much bigger — so much so that even with more retirees per worker, there would be enough Social Security benefits to meet the needs of those working, those finished working (retirees and the disabled), and those yet to begin working (surviving children).

Ting Kwok

IN MEMORIAM

Leonard H. McVity
FSA 1933, MAAA 1965,
FCIA 1974, AIA 1974

Walter C. Woodward
ASA 1968, MAAA 1979

Benjamin T. Holmes, FSA 1930, FCIA 1965, died at the age of 91 on December 2, 1996, in Toronto. He was the 1951-52 president of the Society of Actuaries. As a vice president of the Board of Governors in 1949, he was one of the SOA's first officers after its incorporation earlier that year. He was an active participant in the education of actuaries, serving as an SOA consultant for education and examinations, writing an influential paper that helped reshape the education system in the 1940s, and helping organize Toronto's first actuarial study groups.

Holmes came from a prominent actuarial family. His brother Horace became secretary of Mutual Life of Canada; brother George became president of Manufacturers Life; and sister Janet worked for Confederation Life until she became a missionary in Bolivia. Ben Holmes passed his Fellowship courses at age 24, but had to wait several months to reach age 25, the minimum then required for Fellowship.

He also served the profession as 1946 president of the Canadian Association of Actuaries (predecessor of the Canadian Institute of Actuaries), and chaired the committee advising the Canadian government on founding the Canada Pension Plan. He also was active in the International Congress of Actuaries and the Canadian Life Insurance Officers Association. He retired from his position as vice president and chief actuary, Confederation Life Insurance Association, Toronto, in 1970 after 45 years of service.