Article from:

The Actuary

February 1997 – Volume 31, No. 2

Impact of an aging population focus of Bowles Symposium

by James C. Hickman

We grow older. This is true for each of us as individuals and for the economically developed nations of the world. This reality and the societal changes it brings were the basis of the 1996 Bowles Symposium, "The Old Age Crisis: Actuarial Opportunities," September 26-27, 1996, at Georgia State University, Atlanta.

This was the second symposium honoring Thomas P. Bowles. In addition to a successful business career, Bowles, founder of Tillinghast, served the actuarial profession as president of both the Society of Actuaries and the American Academy of Actuaries. A travel grant from the Society of Actuaries Foundation provided some funds for graduate students and faculty members in fields related to actuarial science to participate.

Variety of perspectives presented

The worldwide flood of political discussion on the budget-busting potential of entitlement programs provided an overture for the symposium. Social Security reform received an appropriate amount of discussion. The symposium, however, also explored the old-age crisis from several perspectives.

Among the topics addressed was the need for new mathematical tools to design and manage the financial security systems that will be needed by a large generation (likely to have less family support than earlier ones) followed by a smaller generation. Bruce Jones, assistant professor at the University of Western Ontario, illustrated a multiple state stochastic model, using data for a continuing care retirement community. Models of this type seem appropriate for systems where members move among various levels of care. Jim Robinson, associate scientist at the University of Wisconsin, followed a similar path, using data from long-term care insurance. His model differed, in part because the status of the beneficiaries was known only at periodic times.

Mike Cowell, vice president and corporate affairs actuary of UNUM Life Insurance, took a "novel" approach to the theme. His novella, *Cyberbug,* traces the life of Bill Wainwright, an actuary born in the Midwest, well into the 21st century. The life of the main character is influenced by technological changes, political realignments, and shifting family values, as well as his own aging and that of his family and his world. Participants found this nontraditional contribution a delightful change from the conventional program.

Rick Foster, chief actuary of the Health Care Financing Administration, graphically displayed the salient features of the 1996 Trustees' Report on Hospital Insurance and Supplemental Medical Insurance. The impending fiscal problems of these systems cannot be attributed primarily to the aging of the population, but point to the need to modify the health care system before the baby boom generation further strains it.

Anna Rappaport, managing director of William M. Mercer's Chicago office, examined the changing employer-employee relationship and its interactions with the aging demographic profiles. She explained cash balance pension plans, which offer varying degrees of flexibility, as a possible prototype of employee benefit adaptations compelled by new realities.

Social Security topics

Six contributions focused on Social Security.

Bob Myers, former chief actuary of the Social Security Administration, analyzed the proposals of the Social Security Advisory Council, though it had not been formally published at the time of the symposium. He foresees a stormy political reception for the proposals to allocate part of the payroll tax to individual accounts, partly because of the impact on the federal budget deficit of any diversion of the payroll tax. He suggested a blended program of increased payroll taxes, higher retirement ages, and a modest program of individual retirement accounts for all except the lowest-paid workers.

Bruce Schobel, corporate vice president and actuary of New York Life Insurance, also analyzed the Advisory Council proposals. He and Rich Burkhauser, economics professor at Syracuse University, also discussed using normal retirement age as a policy tool. Burkhauser supported shifting the distribution of retirement ages upward. He presented statistics indicating that the decline in workforce participation rates by men ages 63 to 65 in the United States has been halted by messages already sent by the phased increase in the normal retirement age from 65 to 67. His statistics also showed that most of those who retire before age 65 are physically able to work longer. Schobel approved of proper actuarial decrements for early retirements, but said that pushing the earliest age of retirement upward would be an unwarranted intrusion of the government. Schobel also demonstrated how the higher retirement age and changes of employment practices within families will reduce the relative importance of Social Security as a source of retirement income in the future. For example, families in which both spouses work could see lower Social Security benefits. The progressive benefit formula applied to each spouse's wages could result in lower income than when benefits are based on one earner with a dependent spouse.

Rob Brown, professor at the University of Waterloo, developed a set of characteristics necessary to a program that prefunds social security to provide real economic relief to a nation when the ratio of the number of retired persons to the number of employed persons rises. Participants got a distinct impression that, in this imperfect world, it would be difficult to develop a funding program with the needed characteristics.

Howard Young, adjunct professor at the University of Michigan, viewed Social Security not as an isolated government program but as a component of a society-wide model. He illustrated how a modest increase in productivity would reduce the strain on the nation as the baby boomers retire.

Andrew Young, an actuary in the U.K. Government Actuary's Office, traced the story of the U.K. retirement system. Their system has a basic benefit independent of wage history and a second benefit that is related to past wages. Also, individuals or groups can contract out of the wage-related system. With three components to adjust, the outlook seemed optimistic that the U.K. was making the adaptations needed for the next century.

Wealth of information

The symposium participants left Atlanta feeling that although interesting years are ahead for actuaries, models and ideas are available to manage the old-age crisis. The 1996 Bowles symposium presented a wealth of information that can help actuaries in their work. Those not able to attend can read the papers presented in a monograph to be published later this year as part of the SOA's Monograph Series.

As holder of the 1996 Thomas P. Bowles Chair, James C. Hickman served as chair of the symposium. He is a member of the SOA Committee on Health Benefit Systems Professional Education and Development. He is emeritus professor and dean of the University of Wisconsin School of Business in Madison, Wisconsin.

Pan American actuarial congress set for May in Argentina

The Pan American Congress of Actuaries and the III Argentine Congress of Actuaries will be held in Buenos Aires May 21-23, 1997. The program will focus on four major areas:

- Insurance and reinsurance
- Social security institutions
- Investment and financing
- Professionalism and professional conduct

Simultaneous translation will be provided in the three languages of the Congress: Spanish, Portuguese, and English.

All Society of Actuaries members are encouraged to attend. Several SOA members took advantage of a valuable opportunity to meet actuaries from Latin America by attending the August 1996 Congress in Brazil, and a similar delegation is expected for the 1997 Congress.

General details about the Congress are available from Linden Cole at the Society office (847 / 706-3595; fax: 847 / 706-3599; e-mail: lcole@soa.org). For more information, visit the Web site http: / / www.cpcecf.org.ar or contact: Simon Abel Groll, Consejo Profesional de Ciencias, Economicas de le Capital Federal, Viamonte 1549, (1055) Buenos Aires, Argentina (phone: 54-54-1 / 812-9292; fax: 54-1 / 812-9124; e-mail: cpcecf@cpcecf.org.ar).

Enrollment applications are due March 31, 1997.