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The Actuary

A history of the future

Tracing the rise of profession's globalization

by Howard J. Bolnick
1998-99 SOA President

Globalization is here. Our business lives and personal lives are being forever altered by its relentless progress. The actuarial profession, too, is somewhat silently being caught up. For most of us, globalization has not yet affected our professional lives. However, this will change dramatically in the next five to 10 years as globalization of the financial services industry changes the very nature of the businesses for which we work, the customers with whom we consult, and the rules by which we practice.

Growth of national actuarial organizations

Actuarial science is in the process of becoming a worldwide profession. The International Actuarial Association (IAA) currently has 61 member organizations representing actuaries in 50 countries.

Actuaries have their intellectual roots in 18th-century development of probability and statistics by formidable thinkers like Daniel and Jacob Bernoulli, Abraham de Moivre, Edmund Halley, and Richard Price (the founding father of actuarial science). These intellectual achievements

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The public's voice

Actuary joins high-profile teleconference on Social Security and women's issues

by Anna M. Rappaport
SOA Immediate Past President

Nearly a year ago, a forum was launched to give the public a neutral avenue through which to express views on the U.S. Social Security program and possible reforms. This nonpartisan, unbiased effort is called "Americans Discuss Social Security," and its sponsor is the Pew Charitable Trust, which supports projects involving citizen participation in important issues.

Its agenda has been aggressive — forums in all 50 states, nationwide forums featuring President Clinton and Vice President Gore, and even a grassroots effort to raise discussion about Social Security among U.S. college students.

An important element of "Americans Discuss Social Security" is a teleconference format, in which panelists or keynote speakers discuss issues before audiences in several states linked by satellite. Each site's audience offers its views through a discussion leader and electronic polling. Callers viewing on cable TV can call the panelists live on the teleconference. While this puts the guest speakers on the "hot seat," it also offers an unusual opportunity — the chance for real dialogue on a national issue between private individuals and the public figures and experts with the greatest influence.

On Jan. 23, I was privileged to participate in a 10-city nationwide teleconference as a representative of the American Academy of Actuaries. The topic was "What Every Woman Should Know About Social Security." Chaired by first lady Hillary Clinton and Rep. Jennifer Dunn (R-Wa.) and moderated by nationally syndicated columnist Jane Bryant Quinn, the four-hour teleconference brought together prominent experts on the topic.

Speakers: women in policy

In their opening remarks, both the first lady and Rep. Dunn offered data indicating that women are more likely to be poor in old age and have lower

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The proposal for a government agency to invest the trust fund in equities is controversial. The proposed level is relatively low, only 21% of the new funds from transfers until equity allocation reaches 14.6% of the entire fund. This allocation improves the long-term actuarial balance. It also helps to defer the estimated date of fund exhaustion for six years, from 2049 to 2055.

This gain in solvency seems small and may be hardly worth the trouble, given Alan Greenspan's adverse reaction within 24 hours of the State of the Union address and all the questions about how this investing would work. Investing the trust fund in equities seems to make sense only if one concludes that Social Security is more important than all the interests and obligations of the other stakeholders—other investors, private markets, governance of private enterprises, and even the people's elected representatives in the regulatory and legislative processes.

The proposal also defers making any of the hard choices in adjusting benefits that are addressed under all three plans or the increase in payroll taxes and Medicare tax under Robert Ball's plan in the advisory council report. For example, the cost of improvement in surviving spouses' benefits, reductions in cost of living, the future benefit accrual, and later retirement ages went untouched. Without these more conventional changes, the administration's proposal will not close the actuarial gap. We are facing large benefit expenditures because of the birth and mortality rates, even beyond the baby boom generation. The benefits climb from today's 11.5% to more than 19% of payroll in the long-range intermediate forecasts. That is a big mountain for a 12.4% payroll tax to climb, however augmented by fund returns and transfers.

The proposal to establish private accounts to be invested individually is encouraging. Its review in these pages will wait until more detail is available.

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retirement benefits than men because of different work histories. Clinton repeated the president's proposals for reforming Social Security, while Dunn encouraged the audience to think about innovative new solutions. Dunn pointed to the low rate of return (2.2%) for young people in Social Security today versus the much higher rates of return in the stock market. In so doing, she did not highlight the value of the death and disability benefits or the redistributive features of the system, but the first panel picked up this point and amplified it.

Two panels were assembled for the event. The first included Cindy Hounsell, Executive Director of WISER (Women's Institute for a Secure Retirement), a nonprofit group devoted to educating women about retirement, and Jane Ross, deputy commissioner for policy, U.S. Social Security Administration. The second panel included Leanne Abdnor, executive director, Alliance for Worker Retirement Security; Heidi Hartmann, director and president, Institute for Women's Policy Research; Eugene Steuerle, senior fellow, Urban Institute; and myself. Unlike others on my panel, I did not take a position on the issues. As an Academy representative, my role was to provide information and implications. I gave a brief explanation of the solvency issues and the operations of the Social Security trust fund. Also, I prepared a paper for distribution before the teleconference ("Social Security Reform Options and Their Implications for Women").

All the panelists and speakers agreed that it's important to understand the differences between men and women with regard to life span, work history, income, and family roles. They also agreed that these issues should be factored into the U.S. Social Security debate, and most felt this hadn't yet happened. Trade-offs are the major barriers to solving Social Security's problems, they said, especially when it comes to women. Politicians seek solutions without losers, but almost by definition, any change that significantly improves the system's financial status is likely to create losers. Tax increases or benefit changes within the system's current framework will have a widely distributed (although very modest) effect on many participants, generally downward; in contrast, structural changes would have a much bigger impact on some participants, resulting in a more dramatic "win-lose" scenario.

Conference speakers and background materials pointed out the greater need for Social Security among elderly women than men:

- Sixty percent of Social Security beneficiaries are women. Most elderly women will eventually be alone.
- For 25% of elderly unmarried women, Social Security is their only form of income.
- Elderly unmarried women get 51% of their income from Social Security, compared to 39% for elderly unmarried men.
- In 1997, the median income for elderly unmarried women was $11,161, compared to $14,769 for men.
- The 1997 poverty rate for divorced elderly women was 22%, compared to 5% for married women and 18% for widows.

Wide views on reforms

Agreement among the panelists ended when the discussion turned to reforms.

At one end of the spectrum was Heidi Hartmann, who indicated she sees no crisis and that major changes in the system are unnecessary and undesirable. Her views are similar those of Robert J. Myers, former chief actuary of the U.S. Social Security

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Anna Rappaport (right) pauses in a backstage conversation with journalist Jane Bryant Quinn.

Administration and still active in the Social Security discussion. On the other side was Leanne Abdnor, who stated strong support for private accounts and concern for the system's future financing. However, she also emphasized the need for solid minimum benefits.

The panel discussed the possibility of outliving benefits, and all seemed to agree that if private accounts are used, joint and survivor annuities should be mandatory. Steuerle focused on the importance of exploring the impact of retirement age increases. Many actuaries have said this is the most logical area to begin reform, particularly with the large increase in life expectancy since Social Security was implemented and the decline in actual retirement ages. The range of views among the panelists was similar to that of the last Advisory Council on Social Security. (Changing retirement ages, an important issue, has been politically unpopular and was not raised often in this teleconference's calls from the public.)

There was also substantial disagreement about whether individual accounts would have a positive or negative effect on women. Women are a very diverse group, so individual situations vary greatly. Individual account deposits reflect individual earnings, and women earn less overall. The current system redistributes funds from higher-income earners to lower-income earners and from single workers and dual-income families to traditional families. These features aren't inherent in an individual account system (unless it's specifically designed to favor lower-income workers). The panelists agreed that the absence of a strong minimum benefit would create serious problems for women. Even assuming a minimum benefit, panelists disagreed about the desirability of individual accounts, a key issue in the Social Security debate.

Family structure makes a difference

The panels focused on issues related to family structure, including:

- Divorce and handling of benefits in divorce. The poverty rates are greatest among elderly divorced women.
- Inequities between single- and dual-income families and problems related to low widow's benefits for dual-income families. Two-income families with equally paid workers have lower widow's benefits.
- Conflict in trying to address the needs of homemakers versus two-earner families. There was significant disagreement over possible solutions.
- Whether universal minimum benefits and some minor patching up of the formula offer solutions to these issues.

A public forum

Questions from callers and the audiences at teleconference sites reflected some of the public's views. The questions indicated that many participants had spent time studying the options. Topics included:

- Concerns about the importance of Social Security for women. This led to questions about whether Social Security will be there for the baby boomers and later generations. Dunn and others observed that if nothing is done, in 2032 — when the trust fund is projected to run out — taxes at the current level will cover 75% of the required benefits. Panelists Hartmann and Steuerle pointed out that with a strong economy, a better ratio of taxes to benefits would strengthen the trust fund. The issue is not whether something will be there but how much.
- How private accounts might operate and their pros and cons. Questions centered on their desirability for different groups, investment choice, what happens to accounts on divorce and death, costs of such programs, and who wins and loses. This is clearly an area of major concern and one on which the generations differ.
- How transition costs would be financed if individual accounts were established.
- The possibility of raising taxes for higher-income earners or cutting benefits for them. Some teleconference site participants suggested combinations of changes involving trade-offs to solve the problem. These combinations showed considerable insights into the issues.
- Why a widow who contributed to Social Security as a worker can't receive both her benefits and that of her spouse. Callers raised the two-earner widow's benefits issue in different ways.

An actuarial voice

These types of forums — gatherings of experts from many disciplines and organizations speaking before a public audience — offer an excellent platform for actuaries. Our value as knowledgeable providers of information and, in some forums, solutions becomes clearly visible.

I strongly urge actuaries to get involved in critical issues. There are many opportunities at local, state, and national levels for actuaries to raise a clear, thoughtful voice. Many issues need such a voice today.

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Her teleconference paper is available on the Academy's Web site (*www.actuary.org*).