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Letters to the Editor

Replacing Impressions with Facts

The long standing motto of the Society of Actuaries, from Ruskin, is "The work of science is to substitute facts for appearances and demonstrations for impressions." In a letter to the editor printed in the January 2006 issue of the *Pension Section News*, David Langer made a number of observations that are, unfortunately, unfounded impressions. I can only hope that David will be more careful in the future.

The principal observation made by David is that the projected 75-year actuarial deficit expressed as a percentage of taxable payroll has increased substantially over the past 20 years or so. In fact, there was no projected deficit, but rather a small surplus projected for the 75-year period 1983-2057 at the time of the last major Social Security Amendments, in 1983. The most recent Trustees Report, for 2005, indicates a projected actuarial deficit of 1.92 percent of taxable payroll for the period 2005-2079.

David indicated that "In reading the trustees' reports, I found no satisfactory explanation for the plunging deficit phenomenon." In fact, the reports include annually a detailed table showing the precise reasons for change from the prior report. The difference between the actuarial balance in the 1983 report and that in the 2005 report is 1.94 percent of taxable payroll, and 70 percent of that difference (1.31 percent of payroll) is due to the simple change in the valuation period over the years. As any careful reader of the reports will know, with each new valuation, another year in the distant future where large negative cash flows are projected is added to the period. The balance of the difference is due to a number of changes in assumptions and methods over the years. These have principally been a reflection of evolving economic and disability trends, and of improvements over the years in methods used for the projections.

The assumptions and methods are reviewed regularly by panels of actuaries, economists and demographers who are the best in the nation outside of the Social Security Administration. The most recent panel was appointed by the Social Security Advisory Board and reported in 2003. They took exception to several of the assumptions used for the report, but interestingly would have made changes that would have roughly self-cancelled, leaving the ultimate actuarial balance essentially unchanged. The report of this and the prior panel may be viewed on the Advisory Board's Web site w*ww.ssab.gov*.

Probably the best measure of the accuracy of past projections of the cost of the Social Security program is to be found in the annual cost expressed as a percentage of taxable payroll. Back in 1983, this cost rate was projected to be 9.90 percent for the year 2005. Due largely to less robust than expected economic growth and higher than expected disability prevalence, the actual cost rate for 2005 turned out to be 11.13 percent, or about 12.5 percent higher than had been projected. Surely the Trustees were not being overly pessimistic in 1983, and neither are they today. The cost rate for the year 2050 is now projected to be 17.64 percent of payroll, or 15.5 percent higher than the 1983 projected cost rate of 15.27 percent of payroll. These facts do not seem to support the impression that there has been a conspiracy to inflate the official projections provided to the Congress each year to assist that body and the American people in understanding the actuarial status of the Social Security program.

David also questioned both the Trustees and my judgment, and integrity, with the example of the projected rates of change in the United States Gross Domestic Product (GDP) for these annual reports. It is true that GDP is projected to grow at a substantially slower rate in the future. Real growth averaged nearly 3.4 percent between 1960 and 2004, but is projected to average only 1.9 percent between 2005 and 2080. However, growth in GDP is basically the combination of growth in employment and growth in economic output per worker (productivity). Over the historical period 1960 to 2004, productivity increased at 1.7 percent per year on average, and it is projected to increase at an average annual rate of 1.6 percent between 2005 and 2080. Not much difference. The basis for slower projected growth in GDP is employment, which grew at an average rate of 1.7 percent since 1960, but is projected to grow at only 0.3 percent per year between 2005 and 2080. Why the slowdown in employment growth? The population at ages 20-64 is projected to grow at less than 0.3 percent per year through 2080 reflecting the low birth rates experienced since 1970, and the expectation that birth rates will stay at about the stable level of the past decade. In this, as in many other cases, a simple extrapolation of the past would be inappropriate.

I am sure that all members of the Pension Section and of the SOA will join me in inviting David to continue thinking critically and speaking out on topics of national importance. However, I would also ask David to be a little more careful in his analysis, and particularly in making accusations about others' judgment and integrity. Impressions and appearances are useful as a starting point in our investigations. But facts and demonstrations must be the fruit of our efforts if we are to contribute in a positive and useful way to the general understanding of the important issues in which we are so fortunate to be involved. ◆

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To the Editor of *Pension Section News*

This letter responds to David Langer's comments regarding Social Security and its financial projections in the January 2006 *Pension Section News*. SSA's actuaries can address—better than I—Mr. Langer's comments regarding the assumptions themselves. I will restrict myself to matters involving the process used to prepare the reports that Mr. Langer criticizes.

Mr. Langer states, "... in the process of accommodating the trustees, the chief actuary [of SSA] has apparently violated two actuarial standards of practice. ..." The irony here is striking, in that Mr. Langer himself risks violating the code of professional conduct in his unwarranted criticism of other actuaries. Mr. Langer has for many years misunderstood the very nature of Social Security's annual Trustees Reports. These are, as clearly indicated by their title, reports of the Board of Trustees, not of the chief actuary. The Board of Trustees has ultimate responsibility under the Social Security Act for selecting the actuarial assumptions and writing the report, which is required by law. In short, it is not an actuarial report at all, even though it presents figures prepared by actuaries.

Of course, as one might expect in the U.S. system of government, checks and balances exist. The Social Security Act has for almost a quarter-century given SSA's chief actuary responsibility for certifying that (1) the Trustees' actuarial assumptions are "reasonable" and (2) the methodology used to prepare the projections is "generally accepted within the actuarial profession." Social Security's Board of Trustees would be very unlikely to issue a report without the chief actuary's required certification— and, in fact, has never done so.

When the chief actuary certifies that the Trustees' assumptions are reasonable, he is not saying that the assumptions are exactly what he might have selected if he had the statutory authority to select the assumptions. "Reasonable" assumptions cover a rather wide range of possibilities. The chief actuary has plenty of opportunity to discuss the selection of assumptions with the Trustees and their staffs, but in the end, they make the final decision, subject to the need for actuarial certification.

The chief actuary can certify that his methods are "generally accepted within the actuarial profession" because he follows ASOP 32, "Social Insurance." That standard of practice was properly exposed and ultimately promulgated by the Actuarial Standards Board, and SSA's chief actuary follows it.

Going beyond the chief actuary's role, Mr. Langer has accused the Board of Trustees (in his words, "all presidential political appointees") of manipulating the actuarial deficits shown in the annual Trustees Reports in order to bolster the case for private accounts. This is strong stuff! But is it true?

Social Security's Board of Trustees has six members: three cabinet secretaries, the commissioner of Social Security and two members of the public who are required by law to be from different political parties. The two "public" Trustees are appointed by the president to four-year terms, subject to Senate confirmation. These are hardly political hacks. One was even an actuary himself: Steve Kellison, the SOA's immediate past president, signed the 1996-2000 Trustees Reports as a public Trustee! Mr. Langer says that the political conspiracy to make Social Security's financial condition look worse than it really is began in 1984 and continues to the present day. That would cover the administrations of three Republican presidents and a Democratic one. Only a very unusual conspiracy could include such a politically diverse group, to say the least! And the 1994-96 Advisory Council on Social Security, which Mr. Langer takes to task, was appointed during the Democratic Clinton Administration. (Incidentally, that advisory council also included an actuary, Marc Twinney, formerly of Ford Motor Company.) To my knowledge, neither President Clinton nor his Board of Trustees ever advocated establishing individual accounts under Social Security, even though a majority of his advisory council did. These facts make Mr. Langer's accusations more than a little hard to believe.

I hope that this additional information helps actuaries to evaluate better the projections shown in Social Security's Trustees Reports and the environment in which they are produced. In my opinion, Mr. Langer's accusations are really quite unwarranted. ◆

From Bruce D. Schobel, FSA