SOCIETY OF ACTUARIES

PENSION SECTION *NEWS*

May 2011, Issue No. 74

IN THIS ISSUE

A VIEW FROM THE PENSION STAFF FELLOW

By Andrew Peterson

Do you remember completing "dot-to-dot" exercises as a kid? Or perhaps you've even done one recently on the kids' menu while waiting for your food to arrive at a family restaurant. Sometimes the pictures were obvious even before starting, while other times it took the work of making the connections before the picture came into focus. I believe that a key role of the staff fellows here at the Society of Actuaries (SOA) is to "connect the dots." This connecting can be both an internal effort within the profession with respect to various committees and research efforts or an external effort where we work with individuals outside the actuarial profession in areas where we have common interests or opportunities to learn from one another.

National Academy of Social Insurance

One such example of "connecting the dots" is the actuarial profession's participation in the annual National Academy of Social Insurance (NASI; NASI.org) conference held each January in Washington, D.C. NASI is "a nonprofit, nonpartisan organization made up of the nation's leading experts on social insurance. Its mission is to promote understanding of how social insurance contributes to economic security and a vibrant economy." NASI has about 1,000 members from various professions who have interest and expertise in social insurance.

Actuaries were involved with NASI from its founding 25 years ago and include a growing group of members. The SOA, the American Academy of Actuaries (AAA) and The Actuarial Foundation have all been involved with NASI over the years. The SOA and AAA provide regular financial assistance for NASI's annual meeting. The Actuarial Foundation has supported the development of some issues briefs, including "When to Take Social Security Benefits: Questions to Consider ," which included advice and review by three actuaries: Joseph Applebaum, Anna Rappaport and Alice Wade.

Involvement with NASI has been an important way for us to "connect the dots" to how academics and policymakers are thinking of the evolution of social insurance systems. This knowledge helps the SOA support our members with research and continuing education programs, building a bridge from what most actuaries do (private insurance and pensions) to social insurance programs.

2011 Annual Conference

NASI held its two-day annual conference at the National Press Club in Washington, D.C. (the standing conference site) on Jan. 27 and 28, 2011. This year's event was titled, "Meeting Today's Challenges in Social Security, Health Reform and Unemployment Insurance." The conference included a mix of topics and speakers including keynote addresses by the Honorable Kathleen Sebelius, U.S. Secretary of Health and Human Services, and Kenneth Feinberg, who is known for administering disaster payout funds, including the Sept. 11 and BP Horizon disaster compensation funds.

What I found most interesting were several sessions that focused on possible Social Security reforms and general retirement security policy. In particular, there was a session that focused on Social Security reforms titled, "Should We Adopt the Social Security Recommendations of the Fiscal Commission Co-Chairs?" Speaking at this session were Charles Blahous, a public trustee of Social Security and Medicare and formerly a Bush administration official; Andy Stern, a fellow at the Georgetown Public Policy Institute and formerly the president of the Service Employees International Union (SEIU); and Janice Gregory, president of NASI. This session focused on the report of the Obama-appointed Fiscal Commission that issued a major report in December 2010 with a whole litany of proposals for long-term deficit reduction.

Also known as the Simpson-Bowles plan, the key Social Security reforms in the proposal include:

1. Make the retirement benefit formula more progressive.
2. Provide an enhanced minimum benefit for low-wage workers.
3. Enhance benefits for the "very old" and longtime disabled.
4. Gradually increase the early and full retirement ages and tie to life expectancy.
5. Give more flexibility in claiming benefits and create a hardship exemption for those who cannot work past age 62.

6. Gradually increase the taxable wage base to cover 90 percent of all wages.

7. Adopt an improved Consumer Price Index (CPI) measure.

8. Cover future state/local employees in Social Security (after 2020).

9. Improve the Social Security Administration's (SSA's) communication to beneficiaries.

10. Begin a broad dialogue on the importance of personal retirement savings.

I had reviewed the key Social Security provisions of the Fiscal Commission's report upon its release and personally thought it was a pretty good proposal. In addition, having heard a fair amount of criticism from both sides of the political spectrum on the proposal, I presumed that it might actually be a reasonable compromise between "progressive" and "conservative" views. Not surprisingly, the panelists found much to debate and disagree about.

Blahous' overall view of the recommendations was that the plan "strikes a reasonable compromise between containing costs and raising revenues to close the shortfall." On the other hand, Stern, who was a member of the Fiscal Commission, argued that there are better alternatives to the Simpson-Bowles plan and that he would prefer to focus on the bigger issue of retirement security (as described in point 10 above) rather than just Social Security. Finally, Gregory argued against any benefit cuts to the current program, pointing to the increasing reliance of individuals on Social Security for retirement security as a reason to avoid cuts. She argued instead that the program could be supported by additional payroll taxes through raising the taxable wage base and/or slowly raising the FICA tax percentages. (All the presentations can be downloaded by clicking here, and the formal agenda and video recordings are available here.)

Both Stern and Gregory argued for the need to focus on a retirement age range, although this seemed to be different than increasing the retirement eligibility ages (as summarized in point 4 above), which is something that has been discussed at length in the actuarial profession.

Commentary and Conclusions

Since this a personal column, I will take the liberty of inserting some personal opinions (that do not reflect an official position of the SOA or any other actuarial organization). I found the presentation by Blahous the most convincing. While I don't profess to be a Social Security expert, it seems to me that any "solution" to the long-term Social Security sustainability questions should include changes on both sides of the "balance sheet." The Simpson-Bowles plan does this by including both increases in contributions by increasing the wage base and decreases in projected benefits through changes in the CPI formula and an additional bend point in the retirement benefit formula (as examples).

Clearly, one's personal political philosophy will drive one's own opinions on where to land when it comes to decisions about what is the "right" answer for issues like Social Security reforms. However, as actuaries, I believe we need to be present in these discussions because we can bring an intellectual integrity to discussions where numbers and statistics are thrown about to make political points. Our presence can help to "connect the dots" between numbers and inform the philosophical discussions, which hopefully results in better long-run policy.

Feel free to shoot me an email with your thoughts (apeterson@soa.org) or start a discussion on our SOA Pension Section subgroup on LinkedIn.com. Also, for another interesting illustration from the NASI meeting of how viewpoint impacts interpretation of statistics, see this discussion link started by Anna Rappaport on our LinkedIn site.

Andrew Peterson, FSA, is staff fellow—Retirement Systems at the Society of Actuaries headquarters in Schaumburg, Ill. He can be reached at apeterson@soa.org.

Actuaries
Risk is Opportunity.℠