



SOCIETY OF ACTUARIES

Article from:

Pension Section News

September 2001 – Issue No. 47



Chairperson's Corner

by Bruce Cadenhead

My father often asks me, "When are you actuaries going to fix Social Security?" My first thought is, "That's not my job; there are plenty of other people (actuaries among them) working on that problem." But upon reflection, it's not so easy to shrug off this responsibility. Even if it's not my job, it should certainly be my concern.

When the time comes, I may be lucky enough to be able to afford retirement even without Social Security. Still, the value of my benefit (at least under current law) is pretty significant. Looking beyond my own narrow concerns, to those of family, friends and neighbors, Social Security becomes far more of a concern. Because of its enormous scale, and because so many Americans rely on it to make ends meet, Social Security's financial difficulties are everybody's problem.

When most people think of Social Security, they think of the Old Age and survivor Income Benefits. Medicare, of course, is another important component

continued on page 3

OASDI Trust Fund: Principal Economic and Demographic Assumptions

Editor's Note: The following excerpt is taken from Section V. "Assumptions and Methods Underlying Actuarial Estimates," in the 2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. Copies of the OASDI 2001 Annual Report are available from Cece Enders (410-965-3015).

The future income and outgo of the OASDI program will depend on many economic, demographic, and program-specific factors. Trust fund income will depend on how these factors affect the size and composition of the working population and the level and distribution of earnings. Similarly, trust fund outgo will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits.

Because projections of these facts and their interrelationships are inherently uncertain, estimates are shown in this report on the basis of three plausible sets of assumptions designated as intermediate (alternative II), low cost (alternative I), and high cost (alternative III). The intermediate set, alternative II, represents the Boards' best estimate of the future course of the population and the economy. In terms of the new effect on the status of the OASDI program, the low cost alternative I is the most optimistic, and the high cost alternative III is the most pessimistic.

Although the three sets of economic and demographic assumptions have been developed using the best available information, the resulting estimates should be interpreted with care. The estimates are not intended to be predictions of the future

continued on page 4

In This Issue

	page		page		page
Special Report					
OASDI Trust Fund:		The Changing Retirement Landscape		Capital Market Assumptions — A 2000 Update	
Principal Economic and Demographic Assumptions	1	by Robert L. Clark and Anna M. Rappaport	14	by Timothy C. Burns	28
HI Trust Fund:		401(k) Tax Trap?		Retirement Issues Symposium News Release: August 9, 2001	
Actuarial Methodology and Principal Assumptions	7	by Ho Kuen Ng	20	by Linda Heacox	30
SMI Trust Fund:		Cash Balance Papers		Continuing Professional Education Notice	
Estimates under Alternative II Assumption for Aged and Disabled (Excluding End-Stage Renal Disease) Enrollees	10	by Thomas B. Lowman	22	by the Joint Board for the Enrollment of Actuaries	31
* * *		Dead on Time or Late Again?		"Real" Continuing Education in the "Virtual" World	
Chairperson's Corner		by Gene Kalwarski and Peter Hardcastle	23	by John Riley	32
by Bruce Cadenhead	1	Pension Section Council Minutes — June 15, 2001, San Francisco Hilton Hotel	27	PBGC's Question and Answer Corner	32

Chairperson's Column

continued from page 1

of our social insurance program, with its own financing problems that will have to be addressed. I'm going to focus on the retirement benefits because I'm a pension actuary and because I think the problems are somewhat easier to define. Once we develop a better public understanding of these problems, Medicare's problems should come into clearer focus as well.

As pension actuaries we have the opportunity to play a significant role in the long-term health of Social Security. In particular, we have two things that many others do not have:

- A solid grasp of the economic and demographic trends leading to the program's impending financial difficulties
- Credibility – Social Security is something that people expect us to understand. Our opinions therefore carry some weight.

According to the 2000 annual report from the Social Security trustees, the system is projected to become insolvent by 2037. We are likely to feel the effects of the looming insolvency long before that date. By 2015 payments to beneficiaries are expected to exceed tax revenues. The shortfall will be made up as the government repays money it borrowed from Social Security in earlier years. The money for these repayments will have to come from other revenue sources (i.e., tax revenues or borrowing).

However, focusing on these milestone dates gives the impression that the "crisis" will occur suddenly. In fact we will feel the pinch a little bit more every year. Right now the government's net income from the Social Security system is positive. Each year the net income will shrink a little bit. At some point (2015 under current projections) the cash flow will become negative. Each year thereafter the shortfall will grow a little more. All other things equal, the funds available for other purposes will be squeezed a little more each year. Eventually the squeeze will become too uncomfortable to ignore.

I suspect that most politicians have a basic understanding of the problem and would like to come up with a good long-term solution. The trouble is you can't do

much if you are out of office. In order to stay in office—or get elected in the first place—politicians tend to try to avoid touching Social Security, the so-called "third rail" of American politics. It's easy to attack somebody who proposes a real solution. Any solution involves some combination of an increase in taxes, a reduction in benefits or a decrease in benefit security. As a result, any solution is bound to offend some powerful constituency.

This is where we can add value. Politicians will not lead this debate. They will only follow. If enough voters understand the real issues, politicians will talk about them. We have to muster our best communication skills to help raise the level of public awareness. We can do this in public forums, such as speeches and articles, or in private discussions — educating one voter at a time. Contact your congressional representatives. Find out what they are doing and what you can do to help. Regardless of which approach you favor, a timely solution is critical.

Why bother making the effort? Can we really hope to make enough of an impact? What will happen if we don't? If we fail, the problem will be discussed on a superficial level, with promises of solutions that avoid any real pain, but ignored on a substantive level for as long as possible. At some point, however, we will not be able to ignore the problem any longer. The longer we wait, the more unpleasant the solution. The sooner we can turn the tide, the better. Even if our hard work accelerates change by only a few years, it will be worth the effort. There are many actuaries already leading this effort. Let's add our voices to theirs and be heard.

Fortunately there are a lot of resources to help us educate ourselves and the public (see next column). The American Academy of Actuaries Web site (www.actuary.org) has a lot of useful information. I just played the Social Security Game there, and found it to be a very accessible tool for introducing people to the issues and to the proposed solutions.

Some day, well before 2015, I hope to be able to answer my father's question.

Useful sites:

Here are ten Web sites that may be useful in your quest to inform and educate others on the issues surrounding Social

Security. *This list is not an endorsement of any of these Web sites, nor of the accuracy of any information contained therein. All sites operate independently. Questions regarding the content of these sites should be directed to their respective owners.*



Bruce
Cadenhead

On Social Security

Social Security Online: Understanding Social Security

www.ssa.gov/understanding.htm

The American Institute of Certified Public Accountants: Understanding Social Security

www.aicpa.org/members/socsec.htm

American Academy of Actuaries: Social Security Game

www.actuary.org/socsec.htm

Employee Benefits Research Institute:

Social Security Web site Links

www.ebri.org/SSProject/LINKS.html

BenefitsLink: Social Security Links

www.benefitslink.com/index/socialsecurity/index.shtml

On Public Speaking

Toastmasters International

www.toastmasters.org

Advanced Public Speaking Institute

www.public-speaking.org

On Public Policy

Engineer's Guide to Influencing Public Policy

www.ieeeusa.org/forum/guide/index.html

Write Your Representative

www.house.gov/writerep/

Find Your Senator

www.senate.gov

Bruce Cadenhead, FSA, MAAA, EA, is a Principal of William M. Mercer Inc. in New York, NY. He is chairperson of the Pension Section Council and can be reached at Bruce.Cadenhead@us.wmmercer.com.