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1971 ADVISORY COUNCIL REPORT ON SOCIAL SECURITY

by Charles A. Siegfried

Attention is called to the Report of the most recent Advisory Council which was released by the Secretary of HEW on April 4, 1971. It deals with matters that should be of interest and concern to all citizens, and especially to actuaries and students of social insurance.

So far, the newspaper articles and press releases covering the Report have been general in nature and have, perhaps unintentionally, emphasized "newsworthy" rather than fundamental issues. For example, the *New York Times* headline relating to release of the Report was "Broader Medicare Urged by U.S. Advisory Council." As a member of this Council, I found it somewhat ironic that the word "urged" was used by the headline writer for a recommendation that the Council advanced with unusual caution and with much less than unanimous assent. As is often the case, it is desirable, perhaps even necessary, that one personally review the whole of any report of this kind in order to make a fair evaluation. Such is recommended here. The use of the word "broader" in the headline certainly conveys the expansive nature of numerous proposals recommended by a majority of the Council.

Although the cost of the recommendations proposed by the majority may be characterized in various ways, a fairly descriptive picture is given by saying that it represents an increase of about 30 per cent over the level of the program as it stood at the end of 1970. This seemed to several Council members to be a dangerously big upward jump.

Some Council members, while acknowledging the severity of this cost impact, sought to mitigate its effect by recommending that one-third of the cost of the

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NATIONAL HEALTH

Report of the 1970 National Health Forum Meeting the Crisis in Health Care Services in Our Communities, National Health Council Inc., New York, 210 pp.

by John C. Angle

Most of the *Report* of the 1970 National Health Forum is given over to the formal papers and prepared commentaries thereon that served to stimulate discussion at the Forum. The papers themselves amount to statements by proponents of what were perceived to be three alternatives in the financing of health care and three alternatives in the organization of health care.

A reader will find his time rewarded in reading Editor Harry Milt's 25-page summary of the conclusions reached in discussion groups and by panelists. For instance, the poor saw the "health care crisis" as existing in the difficulty they experienced in obtaining medical care of any sort. Another expression of the same theme was the statement "that to speak of health care as a 'right' is an empty promise because we are in no position to deliver to those who claim this right."

The discussions tended to proceed rapidly to the practical implications of each proposal. No proposal received a consensus: group practice plans and foundation plans, while fitting middle class needs, were said to be of limited usefulness in reaching other segments of society.

The diversity of viewpoints impressed this participant and led to my observations which appear on page D-11 of *TSA* Volume XXII.

It is instructive that both the National Health-Care Act proposed by Representative Burluson of Texas and President Nixon's health care program place major emphasis on increasing the supply of health services. □

GAAPosis

by A. C. Webster

The Exposure Draft of the American Institute of Certified Public Accountants on *Audits of Life Insurance Companies* has not apparently had among actuaries the wide circulation it deserves, judging by the relatively few responses to Robert Winters' letter in the February issue of *The Actuary*. This is a most important document because it affects not only the accounting practices of life insurance companies but also the status of the actuarial profession.

Most members of the Society are well aware that over the last few years there has been among financial analysts and investors a request for a form of annual statement which would give more information to the public as to the earnings of life insurance companies. The N.A.I.C. convention statement is designed quite properly to assure solvency, since the interests of the policyholders in any company, stock or mutual, should be the first concern of the supervisory authorities.

The C.P.A.'s have been concerned with the problem of finding a different form of statement and have been studying the matter for some time. The Life Insurance Association of America and the American Life Convention some time ago appointed a Joint Committee to work with the accountants. The Chairman of this Committee on Financial Reporting Principles is Jarvis Farley, Chairman of the Board of the Massachusetts Indemnity and Life Insurance Company. As one solution to the need for a different statement this Committee suggested the use of Natural Reserves. The Committee did not consider this the *only* solution but it was adopted as *the* solution by the A.I.C.P.A. Committee and is so designated in the Exposure Draft.

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plan, according to Mrs. Lynton, "accomplishes nothing—he simply would give 12 pots a stir." The plan will also "raise the cost of care unless facilities are increased," she added. She noted that medical care costs were already way out of line with other costs such as housing. The insurance companies should look at the organization of care, "not just what to pay for." When Medicare was being formulated the industry insisted on the insurance model for payment under Medicare and "it only considered formulas to make payments rather than looking at the whole picture." In her opinion, the industry thus shares the responsibility for continued inflation of health care costs.

Other Factors

- *On employment:* Valid jobs are needed, not just make-work jobs. Mrs. Lynton, who is the author of *New Career Potentials in Health*, stated that the proper organization of the health care industry would open up a very large number of such valid jobs. Other fruitful areas for job development include recreation, day care centers, and environmental services. All the primary human service areas are at present understaffed.

- *On the future of the insurance industry:* Despite the great importance of insurance and the current large market, Mrs. Lynton sees a diminishing future market. Unemployed persons are not able to buy individual coverage and are not covered, of course, under any commercial group arrangement. Increasing unemployment worsens this situation. Inflation has the effect of pushing more and more middle income males out of the insurance market. Low-wage earners already can afford to buy little or no coverage.

Mrs. Lynton did point out that the insurance industry already had done much valuable research and hoped that such research could make a vital contribution to the solution of some of our trying social problems.

DEATHS

Robert N. Griswold

Advisory Council*(Continued from page 1)*

Medicare part of the program be supported from general tax revenues. This one-third is estimated by the office of the Actuary to total \$8.2 billion in 1975 and will likely increase. A few members appeared to accept this increased level of general revenue support for the Medicare portion as a kind of safeguard against the introduction of general revenue financing for cash benefits, but several other members indicated support for general revenue financing for all types of benefits.

Some Council members felt that significant, reasonable, improvements could be introduced into the program without resorting to either general revenue financing or the recommended substantial increases in the taxable wage base and its further increases through automatic escalation provisions.

Those readers of *The Actuary* who delve further into the Report will not only learn of the many other liberalizations the majority of the members currently recommends, but will also see clear indication of continuing pressures for even greater liberalizations in the years ahead.

The Report points up several troublesome issues confronting the United States. What should be the relative roles of private endeavor and the Social Security program, especially at a time when all indications point toward the need for huge capital investments for homes and industry? Can our national welfare programs be restructured and better coordinated with Social Security? How best can we solve the complex problems of delivery and financing of health care? Should the Social Security program, originally conceived as a floor of protection, be encouraged to expand? Such is the nature of the issues which seem truly to be raised by this Report.

I would hope the Report will stimulate the kind of lively debate these far-reaching issues require if truly constructive action is to be taken. In particular, among actuaries the recommended changes in the assumptions and method-

GAAPosis*(Continued from page 1)*

After the publication of the Draft a Joint Actuarial Committee was appointed under the Chairmanship of Robert C. Winters (*The Actuary*, December 1970). This Committee has concerned itself mainly with the accounting and actuarial recommendations in the proposed audit guide and has been working with the two existing Committees, one from the A.I.C.P.A. and the other the ALC-LIAA Joint Committee. Yet a fourth committee has been called into being, one appointed by the National Association of Insurance Commissioners. The supervisory authorities are concerned about the validity of any statements of any life insurance company whether or not these be in the form of the Convention Blank.

The suggested Audit Guide makes no requirement that any items of an actuarial nature, including the Natural Reserves, be certified to by a qualified actuary. There are suggestions that actuarial assistance may be required, but the final decision as to the validity of the actuarial figures is to be made by the accountant. This is in effect a transfer of actuarial responsibility to a professional untrained in this particular area. This professional question is a matter for the American Academy of Actuaries who will submit a comment to the Institute before the May 15 deadline.

The Academy has been in close touch with the other committees and T. P. Bowles, Jr. submitted a statement to the N.A.I.C. Committee on behalf of the Academy and the Joint Actuarial Committee. This statement asked the N.A.I.C. to recommend to state regulatory bodies that a qualified actuary be required to sign the convention statement and also that any actuarial items in any public financial statement be certified to by a qualified actuary.

The committees representing the industry and the actuarial bodies are still very active and are still open for suggestions to help meet this problem.

ology for making cost estimates of the Social Security program provide an area where they can lend their expertise in critical judgment.

(Note: Copies of the report may be obtained from Distribution Liaison Officer, GL-2, East Building, S.S. Administration, Baltimore, Md. 21235).