Minority Opinion

I am writing this because I am concerned that many of those advocating abandoning or massively altering the present Social Security system make the insincere argument that it grossly discriminates against African-Americans.

They justify this by calculations made for an average participant, an average derived from statistics for all participants, and then applying racial mortality differentials. This approach fails to take into account the fact that the Social Security benefit formula is weighted toward low-income wage earners, where African-Americans are more concentrated.

A more scientific approach would be to analyze the effect of racial mortality differentials within income classes. Using what statistics I could find and extending by reasonable extrapolation, I have attempted such an analysis.

My method was to divide a cohort of males born in 1990 into four groups, low- and high-income whites and low- and high-income African-Americans. I used mortality data from Social Security actuarial studies 107 and 113 and wage data from the Statistical Abstract of the United States.

My results show that retirement benefits as a percentage of covered wages will be 14.0 percent for African-Americans and 15.8 percent for whites. The return ratio for African-Americans is about 90 percent of that for whites. This does not seem to constitute startling mistreatment. In any event, I do not think every social program should be judged on the criterion that it treats all subgroups exactly equally.

ROBERT J. RANDALL
NORWALK, CONN.

Nice Work if You Can Get It

For more than 15 years I have operated a service evaluating cash value life insurance policies, initially under the auspices of the National Insurance Consumer Organization, then the Consumer Federation of America (www.consumerfed.org). In that time I've applied the Linton Yield analysis to what must be approaching 10,000 illustrations. I suppose the low fees might disqualify my work from the rubric of "Personal Actuary" ("Getting Personal," March/April, 2000), but surely it is in the spirit of Jack Bragg's conception. If there is an actuary who has a similar record, it must be that he or she would agree that our work has low visibility. It is extraordinarily difficult to market a service like this at low cost.

It is also quite challenging to deal with the array of policies that one receives, many of which have riders that complicate finding a starting point. While the illustrations are quite good as a general matter, it is frequently impossible to identify rider pricing from them. Nor are rider costs always separated in annual reports of flexible premium policies. Many insurers could do a better job at this, but incentives to do so are low.

Although the general idea of a rate-of-return analysis is probably understood by my customers, the Linton Yield technique is rarely comprehended in any complete way. The solution to this is to make specific recommendations—Do what I say. This seems to work fairly well but is frequently not so easy.

Cash value policies are a complete mystery to most consumers, so there is a vast market that needs help. Whether a significant number of them will part with enough money to supply a living wage to a personal actuary is a good question.

JAMES H. HUNT
CONCORD, N.H.

Smoking Mad

I read Steven Sullivan's article, "Courting Disaster" (November/December 1999), with utter contempt and disgust. For years big business has managed to hire scientists to distort the truth about science for what they have thought has been their best interest. There are clearly two sides to every argument, one of which has merit and the other, empty rhetoric. On the "we need to worry about global warming" side the entire scientific community and all valid research. On the other are business interests saying, "We don't know enough," as though that somehow justifies continuing to pollute the environment. The other argument, that it will cost money to do something about it, is equally appalling, mindless, irrelevant, and fallacious. Perhaps they should reword the pro-business argument as "we'll make more money now and ignore the future costs." What's so troublesome is that the article seems to give each side equal credence.

Unfortunately, the pro-business side has always used this "we don't know" argument with the same moronic vigilance used by anti-evolution religious idiots, and it's always been incredibly costly in the long run. DDT is a prime example, and although birds and other animals are still dying today from drinking water contaminated by DDT more than 20 years ago, you'll still hear pro-business people saying that it was taken off the shelf too soon.

The most disturbing thing about the whole conflict between business and science is that, in the long run, science will always win. The business people, through their self-convincing, specious rhetoric, reap what they sow. For years the tobacco industry claimed science couldn't prove cigarettes caused cancer. Now the industry is being sued, justifiably, for hundreds of billions of dollars. By having a policy of inaction based on insufficient evidence, they are hoist with their own petard.

Now as an actuary, I would have expected the insurance industry to be proactive and not wait around until absolutely necessary to take any action. Yet it waited at least 20 years longer than it should have to start distinguishing mortality tables based on smoking status.

The natural disasters of the 1990s cost reinsurers billions of dollars, and the cost of liability for pollution-related medical care will probably be enormous over the decades to come. It should be crystal clear that the costs of pollution far outweigh the short-term benefits. Being pro-business should really mean being pro-environment, especially from an insurance industry standpoint. The insurance industry should have learned its lesson from the smoking debacle, so why isn't the Academy knocking on doors in Washington, pushing for a safer, cheaper (in terms of insurance costs) tomorrow?

I guess there's not enough evidence yet.

THOMAS J. LEIBOWITZ
WALNUT CREEK, CALIF.

Correction: In the "Software-at-a-Glance" chart on Page 63 of the software directory, March/April 2000, the Lewis & Ellis entry incorrectly listed details as being on page 75 of that issue. The correct page was 72. We regret the error and any inconvenience it may have caused.