

## Actuaries Take the Long View

**T**HE NORTH AMERICAN ACTUARIAL COUNCIL (NAAC) is composed of the presidents and presidents-elect of the nine Canadian, Mexican, and U.S. actuarial organizations, along with their executive directors. NAAC ordinarily meets three times a year on matters of mutual interest. These meetings contribute toward improving interorganizational cooperation within the actuarial profession.

Starting in 2006, NAAC has issued a series of policy statements on important issues facing our profession. The latest NAAC statement, which was issued in February 2008 (see right), focuses on longevity as an important policy issue. The statement expresses a commitment to “educate our members, policymakers, and the general public as to the implications of increasing longevity in order to move it into the forefront of public policy discourse.” The statement calls on the Academy to “facilitate this effort within the U.S.,” in coordination with our colleagues in Canada and Mexico.

Longevity, of course, has been a subject of special interest to actuaries since our profession’s birth. Actuaries have studied longevity longer and more thoroughly than anyone else. As a result of our deep understanding, actuaries are aware of

longevity’s tremendous impact on policy. That impact may be neither understood nor appreciated by most observers.

As life expectancy has increased—a trend that is anticipated to continue—the cost of life insurance, especially term insurance, has dramatically declined, while the cost of annuities has risen. Similarly, defined benefit pension plans, including government-sponsored programs like Social Security, have seen their costs rise because beneficiaries are living longer. Increasing numbers of very old people have driven up the cost of Medicare and other health insurance plans that cover retirees. Even property and casualty insurance is affected by increasing longevity, as older drivers tend to have higher accident rates (although older drivers also tend to drive less).

## ACTUARIES ADVOCATE RAISING SOCIAL SECURITY’S

### Overview

The American Academy of Actuaries believes that the time has come for the United States to address Social Security’s long-term financial soundness. For two decades, Social Security’s trustees have been telling the public—annually—that the system is not in actuarial balance. What does that mean? At some point in the foreseeable future, absent corrective legislation, the program will be unable to pay timely benefits in full.

Over the years, actuaries have evaluated numerous proposals to prevent this from happening. Among the very many options that would alleviate the imbalance, one rises to the top of our list: raising Social Security’s retirement age. As life expectancy increases, the percentage of workers’ lives spent in retirement continues to grow, while the number of working years stays relatively constant. Inevitably, Social Security’s costs will exceed what its scheduled financing will support. This is primarily a demographic problem that demands a demographic solution.

The American Academy of Actuaries is a 16,000-member professional association whose mission is to assist public policymakers by providing objective expertise and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

### Social Security needs a course correction

Our Social Security system, enacted in 1935, has certainly stood the test of time. Having paid benefits to over 100 million retired and disabled workers and their families, Social Security has indisputably had a positive impact on our society. It’s also indisputable, however, that the system has required occasional adjustments to continue functioning well. The last time was in 1983, following a period of slow economic growth and very high inflation that had drained the trust fund. Without the 1983 legislation, timely benefit payments could not have been made starting in July

1983. The law was changed in April, and just in time.

According to Social Security’s 2008 trustees’ report, released in March, the program won’t face a 1983-type crisis for many years, but the program’s cash flow is projected to move into the red in 2017, the first of several critical dates cited by the trustees. While reasonable people can debate the significance of 2017 or even 2041 (the projected date of trust fund exhaustion), the underlying financial picture is not in dispute. Social Security needs a course correction to continue fulfilling its mission.

### Social Security’s retirement age should be raised

Some people believe that concerns about Social Security’s financial soundness are entirely attributable to the baby boomers, who began claiming Social Security retirement benefits just this year, with millions more to come over the next two decades. But the baby boomers are only part of the

In keeping with the intention to move longevity into the forefront of public policy discourse—and consistent with the strategic goal of issuing public-advocacy statements—the Academy in August issued a statement (see below) advocating raising Social Security’s retirement age as part of any package of tax increases and reductions in the growth of benefits. No reasonable proposal to raise retirement age can eliminate by itself Social Security’s long-range actuarial deficit (1.70 percent of taxable payroll, based on the intermediate assumptions of the *2008 OASDI Trustees Report* issued in March), but without some increase in retirement age, the percentage of workers’ lives spent in retirement will continue to grow, while the number of working years remains relatively constant. Social Security’s long-range financial problems are primarily demographic in nature, and a demographic problem demands a demographic solution.

The Academy continues to explore longevity as a driver of public policy and, through its new Public Interest Committee (formed in January as an outgrowth of the new strategic plan), is developing more public-advocacy statements. We welcome your comments and suggestions.

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**BRUCE D. SCHOBEL** is the Academy’s president-elect, past president of the Society of Actuaries, a member of the *Contingencies* Editorial Advisory Board, and vice president and actuary for New York Life Insurance Co. in New York.

## NAAC Statement on the Importance of Longevity as a Public Policy Issue

We, the undersigned leaders of the actuarial profession belonging to NAAC, recognize that:

- ▶ Human life expectancy has been increasing since records have been kept.
- ▶ The financial condition of retirement, health, and many other financial-security and protection arrangements is affected by increasing longevity; this encompasses all actuarial practice areas.
- ▶ Failure to adapt these arrangements to increasing longevity imperils their long-term viability.

Actuaries have been in the forefront of longevity research for well over a century. No other profession is so closely identified with this topic. Actuarial concerns about the implications of failure to adapt need to be communicated to policymakers so that they can appropriately respond to long-term trends.

Accordingly, we will seek to educate our members, policymakers, and the general public as to the implications of increasing longevity in order to move it into the forefront of public policy discourse. We ask the American Academy of Actuaries to facilitate this effort within the U.S. and coordinate with the Canadian Institute of Actuaries and Colegio Nacional de Actuarios, A.C.

## RETIREMENT AGE

problem—and a temporary part. Long after all the baby boomers have departed, Social Security’s income will cover only about three-fourths of its cost. This permanent imbalance is partly attributable to increasing longevity. As beneficiaries live longer, their total expected benefits increase. Without action, Social Security’s income won’t keep pace with these ever-increasing benefit obligations. Social Security’s retirement age is part of the problem. While Social Security’s financial soundness could be restored in many different ways, we believe that any solution package should include increases in the retirement age.

The Social Security Amendments of 1983 raised the normal retirement age from 65 to 67 over three decades. But it’s frozen at 67 for all workers born after 1959. We shouldn’t stop there. Holding the retirement age constant is a certain prescription for future financial problems. Raising it to reflect increasing longevity would contribute to solving those problems.

The American Academy of Actuaries believes that a financially sound Social Security system must accommodate future increases in longevity. The most direct way to do that would be to extend the currently scheduled increases in Social Security’s retirement age. The time to enact this change is now.

### **Social Security’s problems should be addressed now**

Public policymakers sometimes wait until the last minute to take necessary action. But in the case of Social Security, waiting will limit the available options—and tend to force solutions that emphasize sudden changes that are more likely to involve tax increases. The last two times Congress made significant changes to Social Security, in 1977 and 1983, the legislation included near-term and long-term provisions involving both tax increases and reductions in the growth of benefits.

Regardless of the kinds of changes ultimately enacted into law, the sooner poli-

cymakers act, the more options they will have. Tax increases could be phased in more gradually, and reductions in benefit growth could be spread across a much larger population of beneficiaries, making individual reductions relatively smaller and less painful. Enacting legislation sooner would also allow individuals sufficient time to modify their own financial planning—adjusting to changes in Social Security.

The American Academy of Actuaries believes that delay will only make the changes ultimately needed to restore Social Security’s financial soundness less attractive, more painful, and more precipitous. Timely action can make the solutions more acceptable to all concerned.

The Academy is committed to continuing its thought leadership in this area and stands ready to assist policymakers in their efforts to return the Social Security program to long-term financial soundness. For more information, please contact Steve Sullivan, director of communications, at [Sullivan@actuary.org](mailto:Sullivan@actuary.org) or 202/785-7889.