

Commentary

BUFFIN PARTNERS INC.

ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Social Security Issues

Social Security will be an important topic for debate during the 2004 Presidential and Congressional election campaigns. While election campaigns create an atmosphere for diverse opinions to be expressed on various political issues, we feel that Social Security deserves to be discussed against an informed background of impartial and objective analysis. To this end, the American Academy of Actuaries, a Washington-based professional organization, has published a number of Social Security Issue Briefs that are available on its website at <http://www.actuary.org/socsec/index.htm>. The American Academy of Actuaries is a public policy information and communications organization with a mission to serve the public through assisting in the formulation of public policy by providing independent and objective information, analysis and education. The Academy's Issue Briefs cover a number of Social Security topics, including: An Actuarial Perspective on the 2003 Social Security Trustees Report; Assumptions Used to Project Social Security's Financial Condition; Quantitative Measures for Evaluating Social Security Reform Proposals; Automatic Adjustments to Maintain Social Security's Long-Range Actuarial Balance; Raising the Retirement Age for Social Security; Social Security Reform Voluntary or Mandatory Individual Accounts; Social Security Individual Accounts Design Questions; Annuitization of Social Security Individual Accounts.

The issue briefs entitled "An Actuarial Perspective on the 2003 Social Security Trustees Report" and "Assumptions Used to Project Social Security's Financial Condition" provide explanations of how the long-range financial solvency and sustainability of Social Security are evaluated. Together they provide insights into the financial projection methodology and the three alternative projection bases used by

the Trustees. Explanations are given for the fundamental 75-year projection period, the concept of actuarial balance and descriptions of the economic and demographic assumptions utilized for developing the projections of income and outgo.

The issue brief entitled "Quantitative Measures for Evaluating Social Security Reform Proposals" describes a number of measures to provide objective quantitative analysis of reform proposals and explains how these measures may be used to obtain a clear picture of the relative merits of proposals for achieving long-term financial soundness of Social Security. This issue brief recommends that Social Security reform proposals include calculations of financial effects and contain a description of the assumptions used in the calculations, that such assumptions should be internally consistent and, where uncertainty exists as to the appropriate level of a critical assumption, sensitivity analysis or a range of assumptions should be provided. It also recommends that when calculations for competing reform proposals use different sets of assumptions, the effects of the different assumptions should be recognized in evaluating the merits of the competing proposals. The issue brief discusses four specific quantitative measures of actuarial viability and two specific measures of distributional impact.

The issue brief entitled "Automatic Adjustments to Maintain Social Security's Long-Range Actuarial Balance" explores how changes might be made to the payroll tax rate, benefit amounts, retirement age, or a combination of all three elements, on an annual or periodic basis, to maintain the system in long-range actuarial balance.

Four Academy issue briefs address Social Security reform. The first of these, entitled "Raising the Retirement Age for Social Security" examines the potential impact of raising the retirement age, including mov-

ing to age 67 and beyond, in terms of helping to restore long-range solvency and sustainability. Three other issue briefs address various topics related to the potential introduction of Individual Accounts within Social Security. One of the issue briefs is entitled "Social Security Reform: Voluntary or Mandatory Individual Accounts" and the other two in the series are entitled "Social Security Individual Accounts: Design Questions" and "Annuitization of Social Security Individual Accounts." Together these three issue briefs provide an objective overview and analysis of the important considerations to be addressed in the debate over Social Security reform and explore several important policy questions including: Should individual accounts be voluntary or mandatory? Does offering a choice increase overall program costs? Would individuals be sufficiently knowledgeable about both the existing and new plans to make informed decisions? What benefits should individuals receive if they choose to remain in the traditional plan? Could individuals ever change their enrollment decisions? Should the government guarantee the greater of benefits under the traditional and new plans? Should individual accounts be added-on or replace part of the current program? How should the program provide basic benefits? How would payout annuities be designed and administered?

We urge our readers to become better acquainted with the issues that will comprise the Social Security debate during the 2004 election campaigns.

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