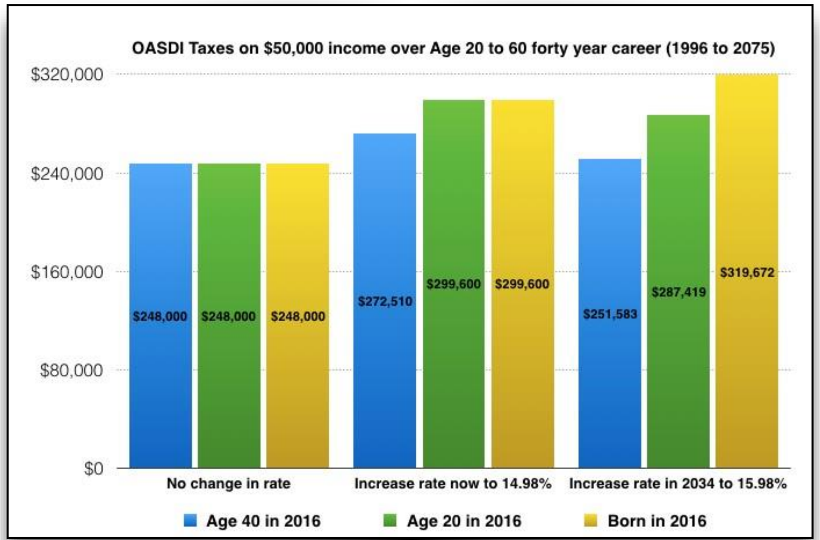

by *Robert D. Shapiro, FSA,*
President, The Shapiro Network

A Dialogue on Public Insurance Programs and Intergenerational Equity

The Issue: Public social insurance programs such as Social Security and Medicare, as well as public pension plans, are financed in part by both present and future beneficiaries. When financial shortfalls are projected or occur, additional financing can be provided by Congress. The additional financing required to pay past obligations to current beneficiaries is ultimately paid for by current and future generations of taxpayers, most of whom are then paying for benefits for current beneficiaries rather than for their own future benefits. Ultimately, this practice of taxing present and future generations to pay for what amount to unfunded benefits for previous generations raises serious questions about the intergenerational fairness or equity of the nation's social insurance programs.

The Proposition: On the assumption that most people believe that there ought to be intergenerational fairness and equity, questions arise regarding what would constitute an appropriate framework for evaluating intergenerational equity, including what principles and related management standards are appropriate to these programs and whether or not it is

<u>Questions for the actuarial community</u>:

1. What is an acceptable (or unacceptable) cost transfer from one generation to the next? How much liability for funding existing promises for the current generation will/ should be passed on to the next generation?

2. If one looks at the first generation of citizens covered by Medicare, what was the unfunded amount of the benefits they will transfer to future generations? What would be the current value of that liability? How should it be "managed over time?

3. What are the comparable figures for Social Security?

4. What are the appropriate principles for "managing" social insurance and public finance programs (e.g., Social Security, Medicare, and public pension plans)? What standards should be established for transferring the liabilities to future generations? How should the management framework of these programs reflect those principles and standards? How are these programs "managed" today?

5. What is "our" actuarial responsibility to assure that all Social Security, Medicare, and public pension plan implied promises are there for future generations?

6. How do we address the contrasting opinions offered by Alicia Munnell, Peter Drucker Professor of Management Sciences at Boston College's Carroll School of Management "Each generation of taxpayers should pay the full cost of the public services it elects to receive." and Paul Krugman, "By neglecting public investment and failing to create jobs, we are doing far more harm to future generations than merely passing along debt. Fiscal policy is indeed a moral issue and we should be ashamed of what we are doing to the next generation's economic prospects. But our sin involves investing too little, not borrowing too much." (Paul Krugman in 2013).

7. Is the generation by generation benefit and contribution information available on public pension plans, Social Security, and Medicare?

8. Are citizen plans like Social Security and Medicare different than employee benefit plans like public pension plans for purposes of intergenerational equity? How? Why?

Other Thoughts: The actuarial view of intergenerational equity inherent in the paragraphs above is not the only way of looking at it. What does one generation owe another? How do we compensate the generation that fought WW2 or, to a lesser extent, the Korean War or Vietnam? How do we compensate for the enormous burden of the arms race that may have protected future generations? Very high taxes and inflation affected the savings of the current retirees. Now we suffer low-interest rates on our savings after paying high rates during our heavy borrowing years. Is this the best way to preserve our system for future generations? While these other views should be acknowledged, we do not think that they in any way negate the validity of the intergenerational equity concerns expressed here. In any event, they are beyond the scope of this paper.