

WRITTEN REMARKS BY FRED KILBOURNE
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AMERICAN ACADEMY OF ACTUARIES

Thank you, Bill Bluhm, American Academy of Actuaries, and Jarvis Farley, for this great honor that you have bestowed upon me.

I worked most closely with Jarvis late in his life when we were both members, and he was chairman, of the Specialty Committee of the Actuarial Standards Board. I had previously consulted him when I wrote my presidential address, entitled *Social Insurance and the Casualty Actuary*, which I delivered at the 1983 annual meeting of the Casualty Actuarial Society. The CAS was established in 1914 for the primary purpose of providing a solid actuarial foundation for the new field of social insurance, and the early CAS Proceedings had several dozen papers on various aspects of that field. With the exception of the original social insurance line of workers compensation, however, subsequent Proceedings fell silent on the subject. Thus it was that I contacted Jarvis to discuss his then-40-year-old paper entitled *An Approach to a Philosophy of Social Insurance*.

I intend to focus my remarks today on the upcoming actuarial collapse of the country, the associated collapse of the reputation of the actuarial profession and whether there's anything we can do to prevent those collapses. I will buttress these calamitous conclusions with quotations from Franklin Roosevelt, Vladimir Lenin, Mao Tse-Tung, William Bluhm, Jarvis Farley and, of course, the latest recipient of the Jarvis Farley Award.

The actuarial collapse of a structure is more insidious than is collapse that is "sudden and accidental", to use an erstwhile insurance term. It's more akin to collapse from termite damage rather than from earthquake or windstorm. The structure that is the United States of America looks sound, but it is riddled with damage from termites, and cannot continue to stand for the long term without remediation in the short term.

Consider the excess of promises over provision in our national economy, including all levels of government and the private sector as well. An example of a *promise* is your Social Security pension, against which there is *provision* in the form of future payroll taxes plus an oxymoronic "trust fund" of a couple of trillion dollars. The present value of the excess of such promises over all corresponding provision (including the "trust fund assets", even though they have been stolen and spent), for all current holders of Social Security cards, is roughly \$10 trillion, which is about the same as the so-called national debt. The corresponding excess for Medicare is several times larger, and the aggregate excess of promises over provision, in our national economy, is estimated to be \$75 trillion. Let's call this our Real National Debt. This is more than five years of gross national product, so we are bankrupt, fiscally no less than morally. Actuarial collapse is here, and actual collapse is nigh, unless we can repair the termite damage and stop the chewing.

Before we can even hope to eradicate the termites, however, we must identify them. They are the past and present several generations of politicians, whose monument to themselves is

a \$75 trillion termite mound of debt that will enslave the next several generations as surely as two plus two doesn't equal five. A natural question is why these politicians would engage in such egregious acts of fiscal child abuse, effectively selling out their country for the votes of the actuarially ignorant. The answer is their lust for power, an aphrodisiac beside which the love of money is but a meager coin. President Franklin Roosevelt said, referring to his programs, "We have created powers which in other hands would be dangerous." Jarvis Farley went on to say, in his paper on social insurance, "All history shows that eventually power does change hands, and concentration of power is itself an attraction to men who may abuse that power." He continued, "Any such concentration of power in Washington might work passably as long as those who held the power were honest, able, and intelligent men, but would be disastrous if the power came even for a short time into the hands of stupid, selfish, or unscrupulous men. We find it hard to believe that in the long run such men would never reach Washington." These men, and not a few such women, have not only reached Washington – they run it!

This indictment of our political class transcends politics. The Democrats may be more to blame than the Republicans, but that is less than faint praise for the supposedly-Grand Old Party. The current administration made a pass at addressing the lesser problem of Social Security, but failed and went on to develop a Medicare drug benefit that has added about \$10 trillion to the RND. In the process of manufacturing that nail for our national coffin, they even tried to silence their own Medicare Chief Actuary, our own Rick Foster. These politicians that I am celebrating in these remarks are generally not stupid, in the sense that they really expect two plus two to equal five. Most are selfish, like the rest of us, and some escalate that to greed, such as my erstwhile Congressman, Duke Cunningham, aka Inmate #94405-198 at the US Penitentiary at Tucson. The big problem, however, is that the majority of them are unscrupulous, so blinded by their lust for power that they are willing to sell out their own children, or at least yours and mine. Their claims of noble motives do not stand up to actuarial scrutiny. It may be compassionate to help those less able to help themselves by means of your own money, or even by means of honestly-computed taxes. It is not compassionate to finance your programs by stealth, selling into unsustainable debt those *least* able to help themselves, the children of America, and their children, if any. The conclusion that these hypocrites are unscrupulous, and indeed that they lack the very virtue they claim to hold most dear, is inescapable in light of the \$75 trillion termite mound that fills this room and every home and business in the country. That the mound is nearly invisible is largely because of the politician's collaborators and enablers in the media, but that's another story.

I must report to you, however, that the situation is much worse than I have portrayed. Since the termite mound is a present value, it grows without being fed, merely by the passage of time. But the mound is being fed, if you'll permit me to mix my metaphors, by the concerted ongoing actions of the majority of our politicians, and certainly by the threatened actions of most of the candidates for the really big power position headquartered here in town. Listen to them trying to outdo one other in promises, see if you can find any real corresponding provision, and fear for your country. Social Security is off the table and out the door, even though that massive chunk of the RND could be solved, as can be seen by visiting the Academy's website (www.actuary.org) and playing the excellent Social Security Game to be found there. The much larger and less tractable Medicare problem is sometimes mentioned

by these POTUS-wannabes, but usually as part of their program to increase government control of healthcare and thereby, somehow, to ameliorate or solve the actuarial problem of healthcare financing. Or not.

Before we swallow the “government-as-fiscal-savior” snake oil, however, we should remember that Jarvis told us, 65 years ago, that “a decision on any proposal for government control of medicine requires recognition of the certainty of increased cost.” Empirical support for his assertion is provided by the fact that healthcare costs averaged less than 5% of GNP during the first two-thirds of the 20th Century but then, following passage of Medicare and Medicaid legislation, began its upward march toward the current level of 15% or more. It’s true that government can control its direct healthcare expenditures to some extent merely by making patients wait in line for medical services, with queue-barging allowed only for those with sufficient political influence. It can also reduce its costs by making some procedures or delivery methods illegal, but the 15% of GNP figure will go up, not down, for two reasons. The first is that expanded medical services will be promised to more people, or the votes won’t be there to be bought. The second is the inevitable medical black market. You may have decided today not to buy illegal drugs that are readily available within a mile of this room, and perhaps a generation ago you decided not to have a back-alley abortion at the same location. But will you continue to avoid the inevitable and certainly available black market a generation from now when you’re told that you must wait a year to have your hip replaced, or that you’re too old to have it replaced, ever? Jarvis was right, of course.

The question must be asked as to whether the public deserves the politicians they have voted into power, and therefore the memorial termite mound that those politicians have constructed. My answer is that the public is innocent by reason of actuarial ignorance. The actuarial profession will not get off so easily, however, when the mound begins to totter and the public looks around for someone to blame. Consider what would have been the reputation of the medical profession if they had neglected to tell us that smoking can kill you. It’s true that those few among us who have devoted their careers to social insurance have generally done a fine actuarial job, and have made the most of their few opportunities to call attention to the chewings and droppings of the insects. Haeworth Robertson comes to mind. It’s also true that the Academy and its staff and volunteers have done a lot of work, much of it very good, in trying to alert the public to the actuarial crisis that is unfolding. The Social Security Game comes to mind. But the Academy is constrained by its charter and its geography to be not only objective but also polite. I’ve read a lot of Academy reports, but not once have I heard them refer to their neighbors here in town as insects, even when there’s no other word that does the job.

So, as asked in the title of Lenin’s famous book, *What is to be Done?* His answer, by the way, was to “put an end to the third period,” otherwise known as the moderate socialists. I believe that much of our answer will come from the Academy, especially under our new President, who recently said “we believe the profession has an obligation to speak out, where the public interest is not being served due to a lack of actuarial information,” and who went on to announce a new public interest committee to address the public’s interest in all Academy areas, including the new core area of advocating on behalf of the public. I applaud this new emphasis by the Academy, but suggest that even more is required of us as individual

actuaries if there is to be any realistic hope of pest control in this town. With 300 million people in the country, each of us 15,000 actuaries needs to provide a basic actuarial education to 20,000 members of the public if we are to succeed.

The question has been raised as to whether the voices of thousands of actuaries will become a cacophony that will further confuse the public. We may not all sing the same song, but I think we will harmonize as to the essentials. Specifically, among those of you who are moved to come up with your own estimate of the Real National Debt, I predict that a large majority will be within one-third of my \$75 trillion estimate, which supports at both ends of the range the conclusion of actuarial collapse. As for any differences among us, I turn for support to Chairman Mao's Hundred Flowers Campaign, launched under the slogan "Let a hundred flowers bloom, let the hundred schools of thought contend". Although I have no proof that our own Chairman Bill was influenced by this campaign, he did refer to us as "a profession of smart, headstrong, determined, often highly individualistic people, who are utterly convinced of the rightness of their various positions. These differing positions create conflict. We always thought that was a bad thing. It's not. It's perfect".

So, again, What is to be done? You may be surprised, and perhaps relieved, to learn that I don't propose the wholesale beheading or even fumigation of the political class. What I do propose is that each of you do enough research to come up with your own estimate of the Real National Debt (which I predict will be quantitatively but not qualitatively different from my own), and your own outline of proposed pest control actions, and that you then take every opportunity to educate as many of your 20,000 members of the public as you can reach. Should you wish to commune with other concerned actuaries as you do your research or reaching-out, visit www.concernedactuaries.com where you will find, well, other concerned actuaries. You will also find a link to a speech by David Walker, Comptroller of the US and head of the General Accounting Office, and, most importantly, a man who understands well what we're talking about, and has a platform to say so.

It may seem daunting to become a social insurance expert overnight, but that's not what is required. You merely need to learn enough about the subject to help educate your actuarially-ignorant neighbor. Remember that you're an actuary, who knows full well that two plus two will never equal five, even if you wait and pray, which others may not know. My own efforts in heeding this advice may be illustrative. I'm no social insurance expert and, apart of a lot of workers compensation and a few unemployment insurance jobs, have never worked in the field. I did learn enough, however, to write a letter to the Los Angeles Times, in 1964, complaining about the looming "trillion-dollar" (which they changed to "huge") deficit in our national social insurance scheme. 33 years later I wrote a letter to the San Diego Union-Tribune, which resulted in an op-ed piece in which I said that balancing the Medicare deficit will require each of us effectively to pay for five cars that we will never drive, but that will be driven by others, selected by the government. I was even driven to poetry several decades ago, when I wrote: Higgledey, piggledey, Senator Kennedy, promises everything voters may wish; but, if his programs are unactuarial, can he provide with two loaves and five fish? My efforts obviously have not solved the problem. Perhaps yours will. I wish you the best of luck in whatever pitiful remnant of the future remains.

