



Institute
and Faculty
of Actuaries

B2: Financial Inequality Work Party

Phil Ellis, Yurie Budhu, Andrew Cox, Neil Hilary,
Werner Joubert, Tom Jowett, Andrew Smith

Actuaries & Financial Inequality Work Party

Members attending GIRO 2014:

- Andrew Cox
- Andrew Smith
- Neil Hilary
- Phil Ellis (chair)
- Tom Jowett
- Werner Joubert
- Yurie Budhu

Members not attending:

- Hugh McNeill
- Rob Jarvis
- Tracey Zalk
- Vivian Chiu

Scope for Paper and Workshop

Income and wealth inequality has widened significantly in recent years in the UK and many other countries.

We will consider:

- Various definitions and measures of inequality, historical and recent estimates for the UK and other countries, possible impacts on society
- General theories relevant to inequality
- Actuarial influence
- Individual responsibility, and the suggestions of the work party
- Reviews of various books and articles

We intend to stimulate debate and hope that this will be a lively session.

Global Wealth Inequality

- 85 wealthy individuals



- One London Bus full

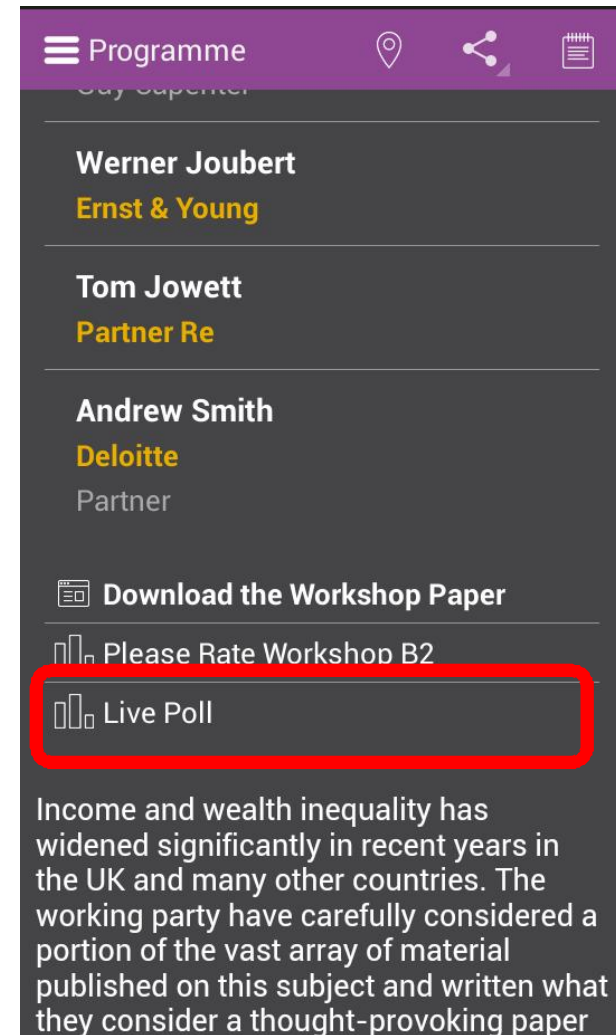
- Half the world population



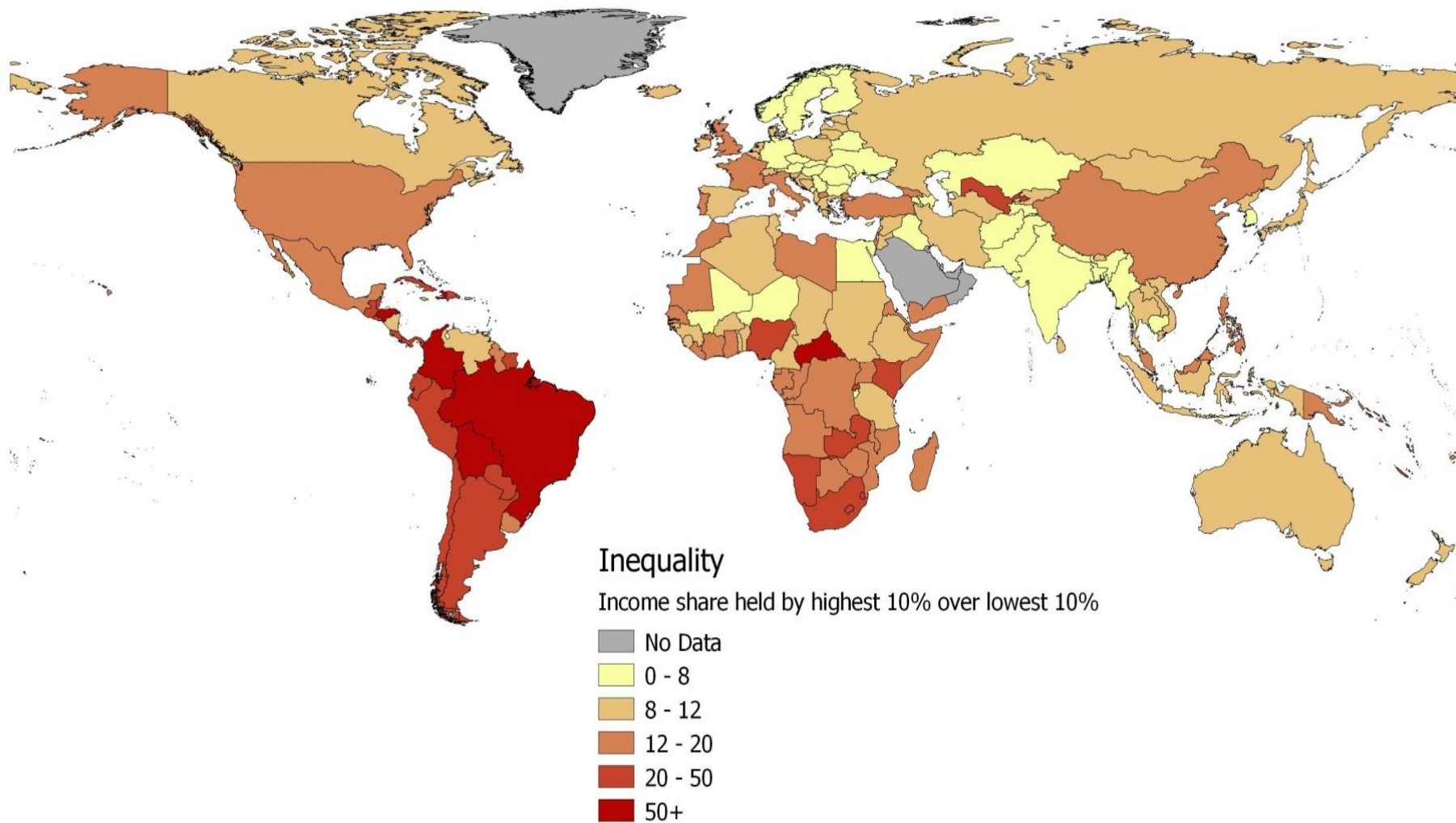
- 114 year queue (1 per second)

What do you think?

- Do you consider yourself to be in the top 1% of wealthiest people in the world?
- On a scale from 0 (perfect equality) to 10 (extreme inequality), what do you think is the UK's rating on wealth inequality?
- How strongly do you agree with “Actuaries can influence the level of financial inequality in society”?

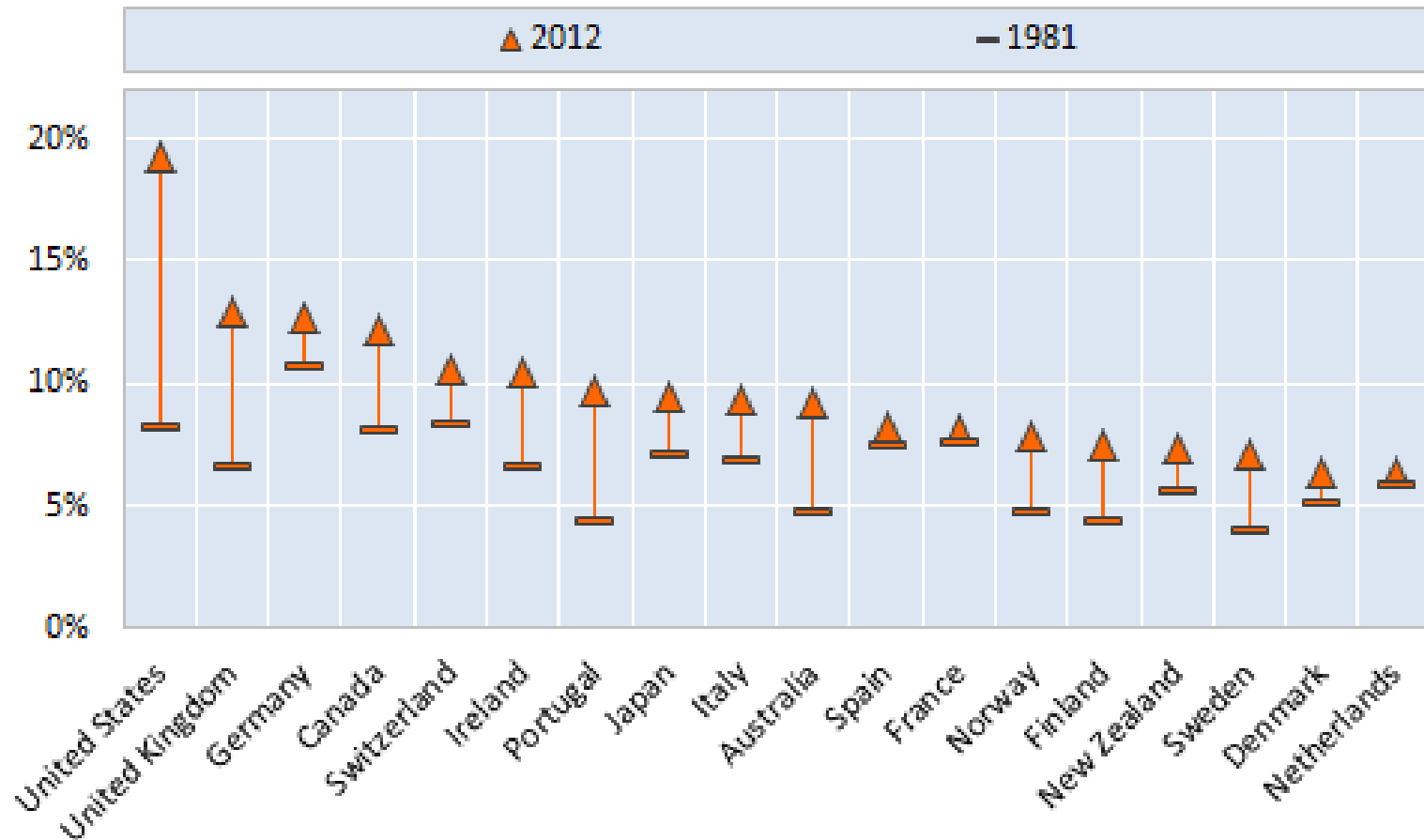


Global Inequality



Income Inequality Increasing

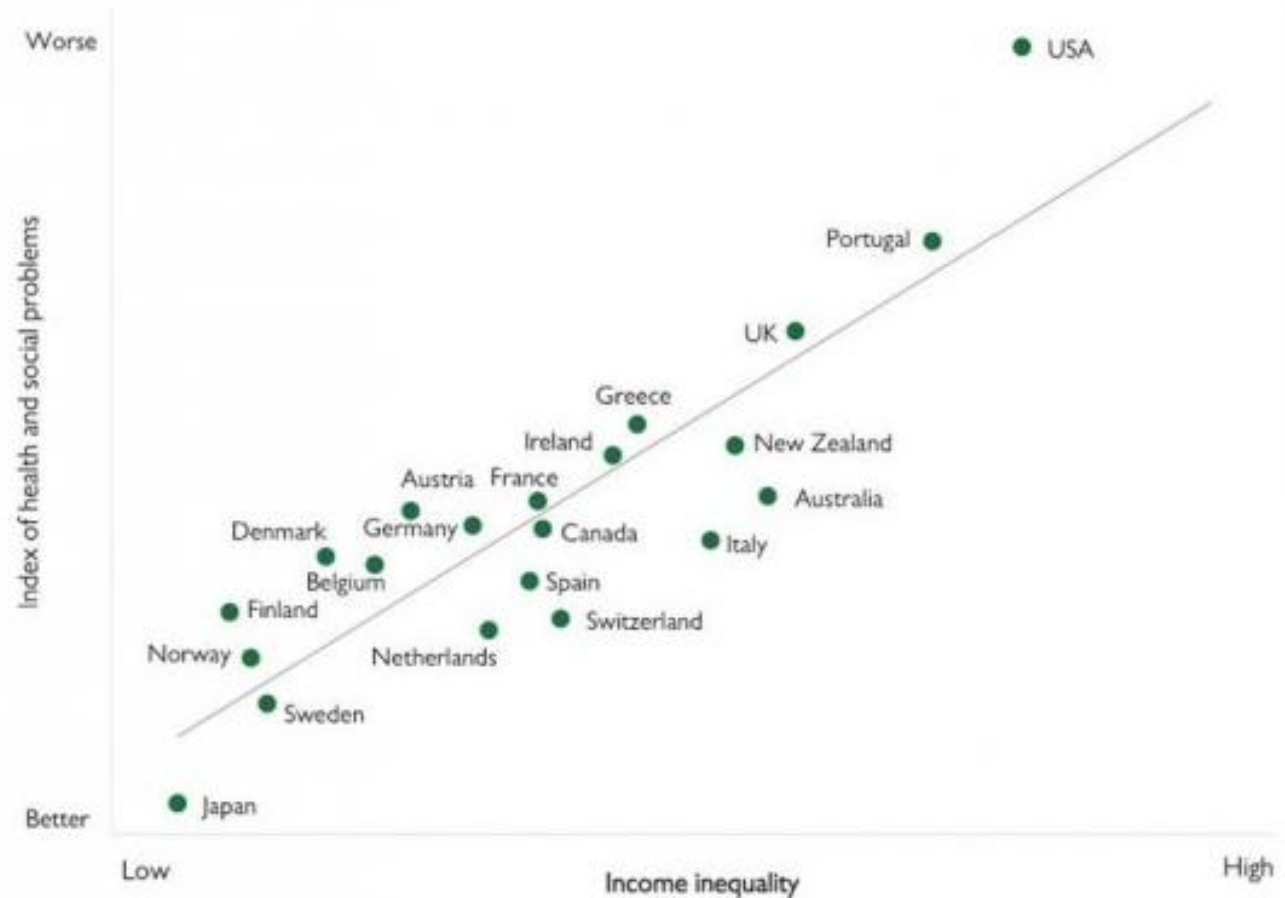
- Share of total pre-tax income to the top 1% in 1981 and 2012



Social Impact of Inequality

Index includes:

- Life expectancy
- Maths and literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Obesity
- Mental illness
- Social mobility



Rent seeking

Never in the field of human economy has so much been given by so many to so few.

Question	Answer
What is it?	Taking more of the cake instead of making the cake bigger – personal return greater than the social return
What are some examples?	Union wage demands, tax avoidance, government subsidies, monopoly profits
Who does it?	Everyone, but not everyone is as good at it
Why are some better at it	Fundamentally asymmetric – transferring wealth from poor to rich involves a lot losing a little to give a few a lot
What areas are actuaries associated with?	Opacity: benefit those with time and resources to understand; Ideology: free market worldview makes implementing protection that much harder

Financial Inequality and Public Policy

	Trickle Up	Trickle Down
Catalyst group	The poor or vulnerable	Entrepreneurs and other business leaders
Trickle mechanism	State provision of education, healthcare, housing, waste disposal	Help entrepreneurs create jobs by cutting red tape.
Typical policies	Government spending, employment rights, environmental protection.	Private initiative, flexible labour market, exploitation of natural resources.
Short term impact on equality	Beneficial	Malign
Counter-arguments	Crowding out. Benefit dependency. Incentives.	Rent-seeking. Externalities.

Why we elect Trickle-down Governments

Influences on Public Thought in relation to inequality.

Source	Impact
Media	Language: “benefit scroungers”, “chavs”, “fat cats”, “rip-off Britain”
Corporate public relations	Fracking, GM crops, alcohol regulation, motorised transport, press freedom, processed foods, data protection, payday loans
Charitable campaigns	Oxfam, Shelter speak out for the poor. Astroturfing – patient groups backed by drug companies, FOREST
Social contact	Friends, family and colleagues. Social acceptability of political views.
Contact with experts	Actuaries have a particular responsibility because we are seen as experts, so any opinions we express on trickle-down or trickle-up may have a wide influence.

Actuaries' Impact on Inequality

Area	Impact
Solvency capital requirements	Bail-outs are a subsidy from taxpayers as a whole to the wealthy. Being capital efficient (i.e. running firms with less capital) increases the risk of bail-outs.
Customer segmentation	Do wealthy customers benefit from lower insurance premiums? What is the impact on the poor of redlining and industry pooling arrangements?
Asset allocation	What kinds of business attract the capital to grow?
Opportunity costs of being an actuary?	What is the most socially valuable use of our skills and energy?

Acting in the public interest

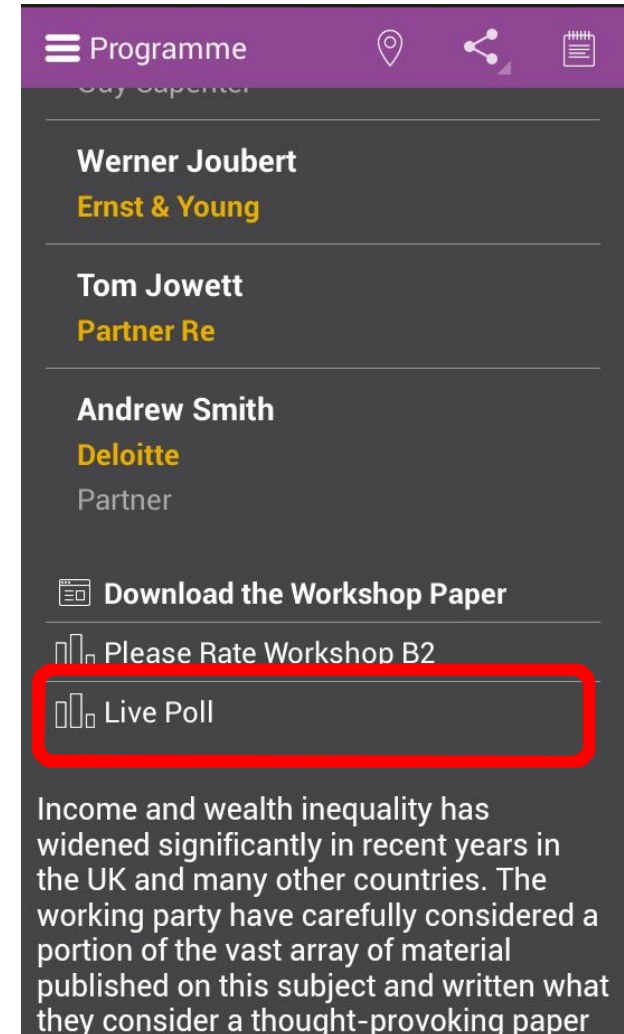
- Be informed
- Talk widely
- Get to know people who are poor
- Find out what worries them
- And how well or badly informed they are on financial issues
- Transfer that knowledge into your workplace

Giving

- This section is intended to be thought-provoking
- Please think about how much you give and whether you can be more generous
- Personal giving is not going to solve the problem, but it does help
- And personal involvement helps us to be informed and to shape our viewpoint
- Giving is fun!

Some average giving questions

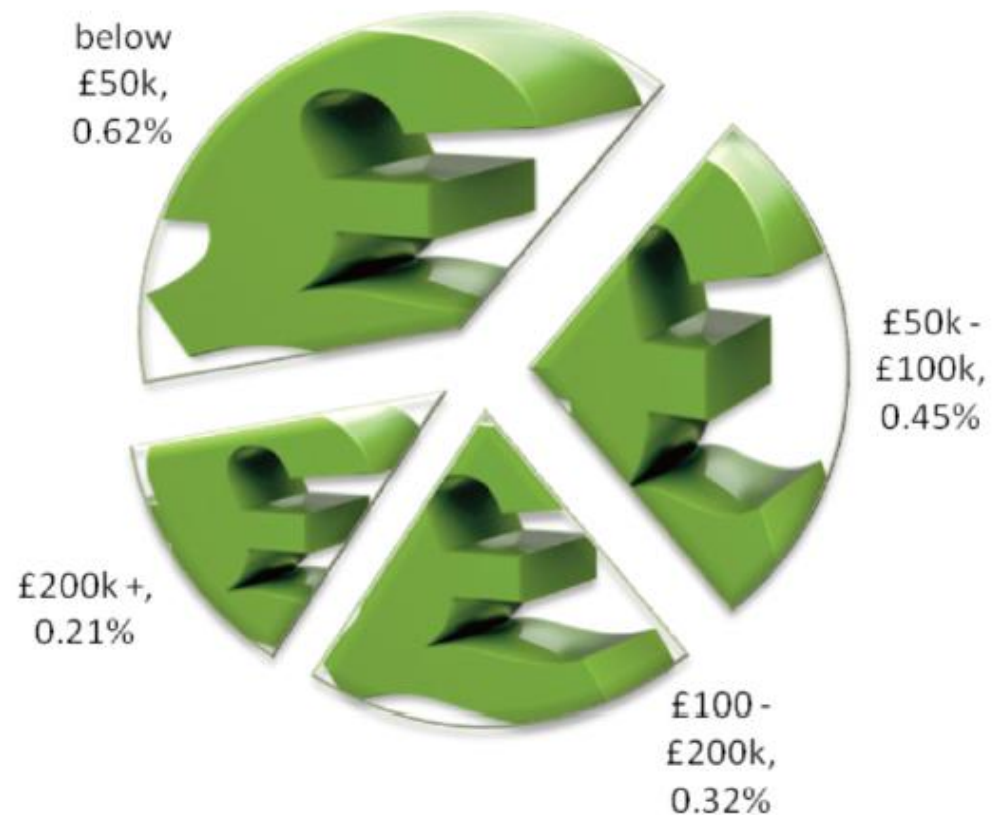
- How much does the average higher rate tax payer give to charity per year?
 - <0.5%
 - 0.5% to 1%
 - 1% to 2%
 - >2%
- As a percentage of gross income how much do Higher Rate Tax Payers give to charity compared to standard rate tax payers?
 - More
 - The same
 - Less



www.dsc.org.uk/PolicyandResearch/Research/main_content/GiftAid.pdf

Average giving by earnings band

- On average, higher rate tax payers give less than half a percent (0.48% in 2003/04) of their pre-tax income to charity via Gift Aid.
- Perversely, the more you earn the lower the percentage you're likely to give!



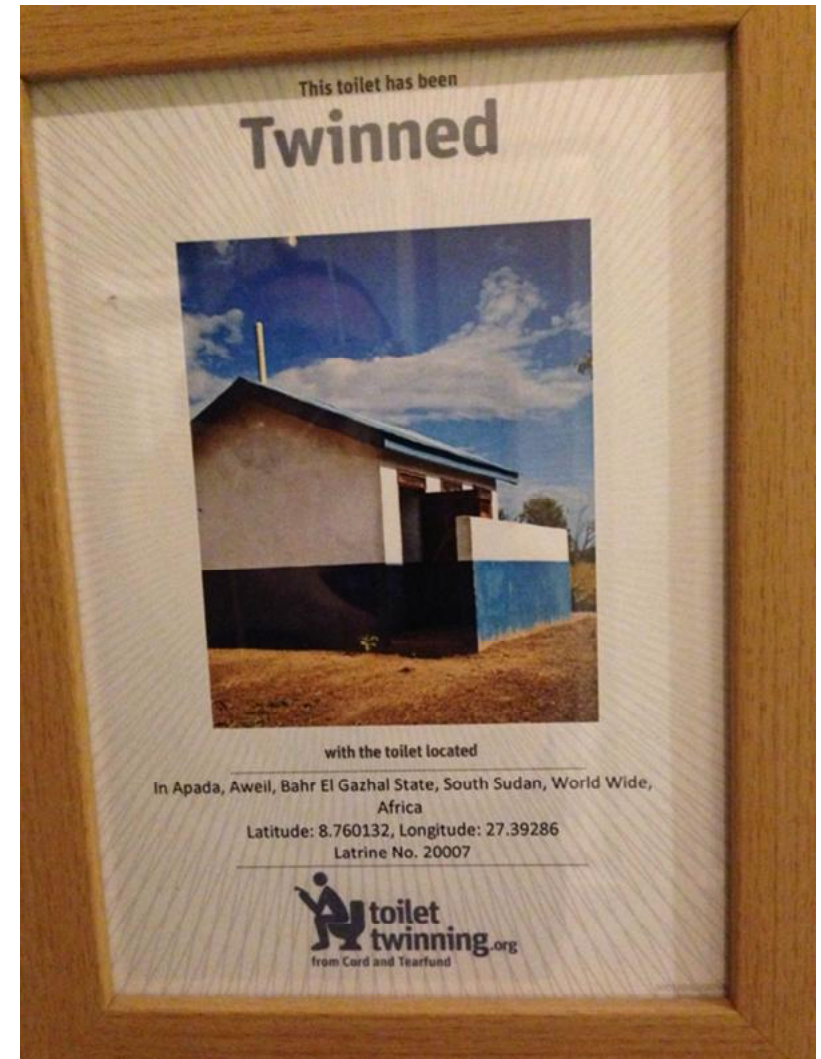
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Individuals can change the world

- William Wilberforce
- George Cadbury
- Arunachalam Muruganantham
- Lewis Hine
- Jane Adams
- Fairtrade Certification
- Bill and Melinda Gates
- Dr. Bindeshwar Pathak
- Alfredo Moser
- They did not act alone, but mobilising others to share their vision they positively changed the lives of countless people.
- A small selection of individuals with very different contributions.

You can change the world too

- I see this picture when I go to the loo
- Many communities lack hygienic sanitation. A small gift can make lives better



You can change the world too

- This is a cataract surgery in a remote rural community in Kenya
- They perform 40 operations a month giving patients back the gift of sight
- Over 250 eye patients are seen each month
- This community hospital is largely funded by individual donations



Use your company matching scheme

- Many companies have a matching scheme
- Often only for one chosen charity
- But giving is still small
- Set yourself a target... maybe 1% more of your salary?
 - Either through a matching scheme or other Gift Aid scheme
- Not going to solve all the problems but we can be part of the solution
 - And will help some specific situations