B2: Financial Inequality Work Party

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

29 September 2014
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 share held by highest 10% over lowest 10%

- No Data
- 0 - 8
- 8 - 12
- 12 - 20
- 20 - 50
- 50+
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.

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

<table>
<thead>
<tr>
<th></th>
<th><strong>Trickle Up</strong></th>
<th><strong>Trickle Down</strong></th>
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<tbody>
<tr>
<td>Catalyst group</td>
<td>The poor or vulnerable</td>
<td>Entrepreneurs and other business leaders</td>
</tr>
<tr>
<td>Trickle mechanism</td>
<td>State provision of education, healthcare, housing, waste disposal</td>
<td>Help entrepreneurs create jobs by cutting red tape.</td>
</tr>
<tr>
<td>Typical policies</td>
<td>Government spending, employment rights, environmental protection.</td>
<td>Private initiative, flexible labour market, exploitation of natural resources.</td>
</tr>
<tr>
<td>Short term impact on equality</td>
<td>Beneficial</td>
<td>Malign</td>
</tr>
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</table>
## Why we elect Trickle-down Governments

### Influences on Public Thought in relation to inequality.

<table>
<thead>
<tr>
<th>Source</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media</td>
<td>“benefit scroungers”, “chavs”, “fat cats”, “rip-off Britain”</td>
</tr>
<tr>
<td>Corporate public relations</td>
<td>Fracking, GM crops, alcohol regulation, motorised transport, press freedom, processed foods, data protection, payday loans</td>
</tr>
<tr>
<td>Charitable campaigns</td>
<td>Oxfam, Shelter speak out for the poor. Astroturfing – patient groups backed by drug companies, FOREST</td>
</tr>
<tr>
<td>Social contact</td>
<td>Friends, family and colleagues. Social acceptability of political views.</td>
</tr>
<tr>
<td>Contact with experts</td>
<td>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.</td>
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## Actuaries’ Impact on Inequality

<table>
<thead>
<tr>
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<th>Impact</th>
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<tbody>
<tr>
<td>Solvency capital requirements</td>
<td>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.</td>
</tr>
<tr>
<td>Customer segmentation</td>
<td>Do wealthy customers benefit from lower insurance premiums? What is the impact on the poor of redlining and industry pooling arrangements?</td>
</tr>
<tr>
<td>Asset allocation</td>
<td>What kinds of business attract the capital to grow?</td>
</tr>
<tr>
<td>Opportunity costs of being an actuary?</td>
<td>What is the most socially valuable use of our skills and energy?</td>
</tr>
</tbody>
</table>
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%
  ● 1% to 2%
  ● 0.5% to 1%
  ● >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

[Website Link]
Average giving by earnings band

• On average, higher rate taxpayers 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!
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