Summary of Panel Discussion on Implications of Increasing Life Spans for the Private Sector

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In addition to the paper presentations, a session at the symposium was devoted to a discussion on the implications of an aging society by a panel of distinguished experts. The panel, moderated by Jack Paddon, a member of the organizing committee of the symposium, included Dr. Peter Heller, a deputy director with the International Monetary Fund; Anna Rappaport, a recently retired worldwide partner and principal of Mercer Human Resource Consulting; and Dr. Robert Gleeson, medical director of the Northwestern Mutual Life Insurance Company.

Societal and Governmental Implications

Dr. Heller opened the discussion with comments on emerging global societal issues related to longevity trends. Dr. Heller remarked humorously that he had been given "a very small topic to discuss" in his allotted time. Of course, the issues are vast and far-reaching and represent the potential for enormous change.

Starting with the worldwide governmental impact, Dr. Heller envisions a reevaluation of the programs that represent the traditional fiscal burdens of governments. The catalyst for this reevaluation will be that governments simply no longer will be able to afford what they did in the past. This type of reevaluation might lead to proposals similar to the Bush administration's current proposed reform of Social Security or other entitlement program restructuring. Throughout this reexamination process it will be important that governments take a macroview and consider the interdependencies of all of their programs.

As a by-product of this reexamination, shifts in the labor market can be expected. With probable reduced government support, workers more frequently will defer retirement, and the employer-employee relationship will need to adjust. Inevitably there will be a practical limit as to how long workers can continue to be actively employed, and workers will need to balance this against their own frailties. Will we see 85-year-old counter workers at McDonald's, or will there be other forces (societal, biological, etc.) that cause the elderly to withdraw from the labor market at earlier ages?

Given these changes, the structure of the economy most likely will need to realign as the proportion of elderly in the population grows. Clearly there will be a much higher demand for health-care services and need for health-care workers. Where will these additional workers and caretakers come from? Will there be a rise in immigration to cover these needs? If so, which economies will be the winners and losers? Concurrently there will need to be a governmental evaluation of how to ration care and allocate limited resources. This is a dilemma with which governments have begun to grapple but for which they have not formulated any universally effective solutions.

Dr. Heller then turned to the impact of an increase in the number of elderly voters. With these voters usually turning out in great numbers at the polls, a different set of political pressures can be anticipated. Politicians and governments will be driven to rethink their agendas to appeal to these voters to retain their offices. Their level of involvement in the needs of these voters will clearly need to be elevated.

Next Dr. Heller highlighted his views on the genesis of a conflicting role for governments and how they will respond. Essentially governments will struggle to balance their desire for disengagement with the genuine needs of their elderly constituents. As a consequence of increased life expectancy, welfare and other income programs will be required to ensure the provision of basic necessities. Confronted with these related issues, governments will be forced to decide whether to disregard increasing numbers of destitute elderly, or they will need to reenergize their welfare and entitlement programs. Dr. Heller cited an example of this in the United Kingdom, where a minimal pension system has been supplanted by a welfare system.

In conclusion, Dr. Heller remarked that developing future public policy in light of the uncertainty of how these longevity and aging trends will play out is enormously challenging. Setting fiscal policy and developing related programs will be extremely sensitive to the magnitude of changes in life expectancy and population morbidity. Emerging markets, such as India and China, that now have minimal social obligations will be in an even greater quandary trying to determine not only what their level of involvement should be in light of this uncertainty, but also how to avoid the mistakes of industrialized nations. Finally, previous solutions such as prefunding will likely fall short, as it will become more and more difficult to ask the working population to give up a greater portion of its output for the elderly. Consequently, innovative, well-thought-out solutions will be critical to meet the upcoming challenges and determine the best trade-offs.

Retirement System Implications

Ms. Rappaport began her remarks by elaborating on a theme introduced by Dr. Heller: the importance of the retirement expectations of the elderly population. For example, a proposed solution to Social Security solvency issues is to raise significantly the minimum age at which retirees receive benefits. However, this delay in benefits clashes with the retiree population's expectations ingrained over years of employment, and many experts have pronounced such solutions to be politically impossible.

Given the impact of retiree expectations, the definition of "what is retirement," according to Ms. Rappaport, becomes a central issue in defining and meeting these expectations. Traditionally retirement was thought of as a full-time departure from employment. Recently there has been a blurring of this previously held definition of retirement in that more and more retirees are working part time, consulting with their former employers or beginning second careers. This recent development in how workers phase into retirement coupled with long-held worker expectations of retirement has a tendency to complicate the debate over viable, long-term solutions.

At the same time, workers do not always voluntarily leave the work force and, as a result, retire earlier than planned. For instance, health problems, family responsibilities and job eliminations are frequently cited reasons for workers retiring earlier than expected. Overall Ms. Rappaport sees this evolution of how retirement is defined and when it is initiated as crucial for the approaches to developing future retiree financial products and security systems.

Women More Impacted than Men

Ms. Rappaport highlighted the fact that issues related to the very old largely affect women. Women live longer than men and form the vast majority of the very old population. In a presentation of their paper, "High Age Implications of Postretirement Risks," that occurred earlier in symposium, Ms. Rappaport and her coauthor, Monica Dragut, noted that many of the very old female population are widowed and are likely to need various forms of support. Women living alone are also the most likely to be at the poverty level in old age.

Retirement systems usually provide a higher level of benefits for men versus women because of the typical difference between them in employment and earnings histories. On average, women work fewer years in the paid labor force and have lower wages. At the same time they bear much more than half of the family care-giving responsibility. Although family benefits in Social Security and joint and survivor benefits in private pensions provide partial protection, many older women are left with inadequate support.

Private-Sector Financial Products Implications

Continuing on from Ms. Rappaport's views on the drivers of future financial product development, Dr. Gleeson prefaced his remarks with a dramatic representation of why the issue of increased longevity is of such import. During the lifetime of Christ approximately 2,000 years ago, according to historical records, life expectancy was just

22 years. Around 1,900 years later, in 1880, German chancellor Otto von Bismarck declared 65 years old as the age of retirement when life expectancy was only approximately 47 years. At that time only 2 percent of the population lived until 65 and then, on average, just two years thereafter. Since Bismarck's declaration, little more than a century later, life expectancy has increased astonishingly by almost 30 years!

Clearly, Dr. Gleeson noted, this rapid expansion in life expectancy raises profound questions for the public and private sectors. Are the systems and policies previously put into place years ago still valid, and how will they need to be changed for the future? What should the response be to the combined impact of the upcoming baby boom retirement blip with continued life expectancy advances?

Dr. Gleeson pointed out three primary components that are crucial for the challenges to living to advanced ages: (1) strong social support systems, (2) good health, and (3) dependable financial resources. The complexity of this third component lies in planning for the provision of these resources for potentially 35, or even 40, years after retirement. This requires a much more sophisticated approach than, for instance, determining how to allocate savings among a portfolio of mutual funds.

Dr. Gleeson concluded with the observation that actuaries have a unique role in determining the optimal solutions for this type of long-term planning. With their background in both mortality risk and financial instruments, actuaries will be called upon to help lead the efforts to meet these challenges.

Conclusion

Despite the wide range of views expressed and inherent uncertainty, one message from the panelists was consistent: Educating the public on these issues will be of major importance.