LIVING TO 100 SYMPOSIUM*

Lake Buena Vista, FL
January 7-8, 2008

Session 1B: Perspectives on a Changing Global Retirement Paradigm Q&A

Presenters: J. Bruce MacDonald, Discussant
Doug Andrews
Prakash Bhattacharya
Brian L. Burnell

JEAN-CLAUDE MENARD: I have three questions—one for each panelist. Doug, just a clarification, you mentioned at the beginning the one over 13 and the one over three and I was too slow to follow you.

DOUG ANDREWS: What I said was one out of 13 of those over 65 had Alzheimer's and one over three of those over 85.

JEAN-CLAUDE MENARD: Over 85? Alzheimer's disease? Okay. And do you have any information how this could evolve over time?

DOUG ANDREWS: In terms of the calculations that I used in the paper, I used these percentages and then used the population projections to calculate my numbers. But I haven't allowed for any improvement in the situation or deterioration of the situation. But I mean one would think that the numbers would get worse, the older the population gets.

JEAN-CLAUDE MENARD: Okay. Thank you. Prakash, I have a question about the slide you have on the assumptions of real yield. I would like to know what your time horizon for these assumptions is, and are they based on the India experience or the worldwide analysis? And my next question to Brian is you mentioned the necessity to increase the normal retirement age with life expectancy and I just want to throw one idea. The earliest to retirement age in the U.S. is 62. For the OASDI in Canada it is 60. What would be your view of instead of moving the normal retirement age to let's say increase the earliest retirement age from 60 to 62 or 63?

PRAKASH BHATTACHARYA: Actually, presently in India, the rate of inflation is hovering around 3-4 percent and the real yield for the government securities that I observed is fluctuating from 6-8 percent. So based on this, I have made the assumption. And whatever I am expecting, it depends upon the economy and the nature at which the government is functioning. So based on this, the real yield will vary, but I'm very much

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optimistic that it will be within this range. Of course, there may be some high yield, but there is a very low possibility of low yield, because all of you are very much aware, that the Indian economy is booming and the stock market is flourishing. So with this stock market, I' m very much optimist to have some 15 percent minimum return for the equity investors. The 15 percent minimum return that I'm expecting and other experience I wish to share with all of you, that in the month of September, our BSE Sensex, (Bombay Stock Exchange Sensitive Index, that was hovering around the figure of 15,000 in the month of October 2007. It has appreciated to a level of 20,000 by the month of January 2008. So it is a very high rate of growth, but this growth cannot be sustained in the long term. But in the year 1978-79, the BSE Sensex started with a figure of 100 and presently it is hovering at around 20,000. So with this, you can get the compounded annual growth rate, CAGR is about 18 percent or 19 percent. So I think that the same trend will continue for the next 20-30 years.

BRIAN BURNELL: I think if there was a gradual increase in that early retirement age under CPP that would get a message across, but I think perhaps done on its own, I'm not sure how it would be received. It was done perhaps as part of a package of doing many things, which package might also include increasing the normal retirement age or somehow make it more attractive for people to wait to later age to start taking their pension out of the Canada pension plan.

ANNA RAPPAPORT: I'm very excited about some of the issues raised in this session, because I do believe that long life and the changes in mortality really are pervasive through our society in terms of they make huge changes in many different ways. This morning we heard about the biology, we heard about private sector kind of business implications, and here we're raising social questions. I'm delighted to see us doing that. We're also here as a group of actuaries and quantitative people, and so I'd like us to think about how we can contribute to what will be a really important debate on some of the issues. I think the issues about assisted suicide and choices about death are critically important. The new forms of housing issues are important. Families are tremendously important and I think in many countries, there will be a bigger shock because of the decline in family support, than anything else. As well as what we're going to talk about in the next session, issues surrounding retirement. So I guess I have a proposal for people to think about which is really, how can we, as actuaries and non-actuaries contribute well to debates on the important issues, many of which are very emotional and there are a lot of different viewpoints on these issues. And it seems to me that debate is important and that what we can think about is trying to help frame the issues in a way that as they're discussed, they have some perspective around them. They've got some data and definition of the issues. One of the challenges is in the United States; we often end up discussing some of these issues in the courts around one case, rather than discussing them in a rational way. So, I'd like to propose for all of us, first of all, I'd like to commend the authors and particularly Doug, but all of you for raising these issues. And I'd like us to think about as actuaries how do we help frame this debate in an important way? Because while our primary work may be around financial products, we can contribute to the social discussion and it is really important to all of us. So thank you.

DOUGLAS ANDERSON: I was very taken by almost my namesake, Doug Andrews's comments and particularly, I think there is a lot of resignation with what you said, going on in the U.K. at the moment. Somebody brought forth a bill in the House of Lords, in the last few years, about assisted suicides and there's a lot of, there appears to be some anecdotal evidence of increased numbers of people going off to Switzerland to the clinics there, to end their days. As a relative youngster, I find it very difficult to get my mind around these issues. And I think we've got to look to our older members of the profession to try and get their input on how to deal with these really tricky mode of dignity issues as you say. So I don't really offer any comment, but I think there's a lot of support for those certain issues to be debated on the European side of the pond as well. But I'd like to come back to some of the things that Brian talked about and just from part of my own education, I'm not sure whether in North America, you have age discrimination laws. You do? Okay. So maybe you've gotten there already, but we've been grappling in the U.K. with how to introduce phased retirement or flexible retirement as we often call it. I find that for many private sector companies, that the age discrimination laws have effectively gotten in the way of introducing sensible flexible retirement policies because it's very difficult to design one which is cost neutral, and which also fits nicely with the age discrimination laws. We also, by way of information, in the U.K. we now have a law which prevents employers forcing anybody into retirement before the age of 65. Individuals themselves, in most cases have the ability to continue working until 75 with their employer. So, if anybody has got any ideas about how you actually make flexible retirement cost neutral and make it work with an age discrimination law background, I'd be most intrigued.

BRIAN BURNELL: I think to some extent we perhaps have the opposite problem in Canada that employers have been permitted in effect to say well you are age 65, you must retire now whether you want to or not. That is changing. Many provinces have now made that against the law, you cannot do that. And others are guardedly moving in that area. I think we'll probably always be there in the end, but I guess in terms of making a flexible retirement program cost neutral, I suppose you're back to actuarial equivalents really, I think is the only way one can do it. And then maybe less attractive, well I guess that's probably all the separate subject of research, is it?

DOUG ANDREWS: Since I had two people commenting on how actuaries could inform the debate, I think we can gather the numbers and do the projections, but ultimately this isn't going to be a debate about numbers, it's too emotional to be that, and so, try to stay cool and calm and reasoned. But one of the other articles that I read, my friends have been giving me these articles, was about Booth Gardner, whose former Washington State Governor, who has Parkinson's Disease, and is leading I guess, the lobby or advocacy now to have the law changed. And I guess they're going to have a vote in 2008, on that and the article comes out very strongly, that you know, he feels very strongly that we'll get it started for medical assisted suicide, but ultimately, he'd like to see it extended to Parkinson's disease, which it won't cover and his son, on the other side, says, you know, very clearly, this is just about my father, you know, having his one last hurrah, and so, you know, we shouldn't let anybody do that and it's the wrong message. So it will be an emotional debate. So all I can ask you to do as actuaries is,

inform yourself and try to keep calm and cool in the debate. I would like to comment though to my almost namesake. I did a Google search on Doug Andrews and it turns out there is a Doug Andrews in Saskatchewan who is a Masters student, whose area of research is euthanasia. So there's another namesake for you. I don't know him.

MIKE COWELL: Since I passed my first actuarial exams in 1958, I'll be celebrating 50 years involvement in this profession and I'm completely retired from practice. So I've met Bruce MacDonald's first criterion. I'm married, my only wife for 44 years this year and since she's not in the audience, but is at the conference, I better be careful about what I say on his other standard. I want to add my thanks to the panelists. You've done a great job. My comments go principally to Doug and Brian. You've talked about government involvement in this whole issue of inadequate preparation, financial preparation for retirement, and your problems in Canada are quite comparable to those in the U.S. and in fact, we're in even worse shape in terms of financial preparation. My questions are: do you have any evidence, statistical or even any good opinions as to whether your government or any government is a net positive or net negative influence on resolving this? That is, getting people to take more personal responsibility for saving for their retirement? Thank you.

DOUG ANDREWS: I mean there certainly have been papers written on this subject that quotes statistics on whether governments are net positive or net negative influences. So yes there is some information. There are people who do generational accounting that probably would argue that in many cases, it's a net negative influence. There are people in tax departments that talk about the great amount of tax expenditures that would argue that it's a net positive influence, so I think it is a matter of opinion. Perhaps I'm an optimist, but I would like to think that a properly developed policy would be a net positive influence.

BRIAN BURNELL: Yeah, I tend to be ill talking about these things. I just get so frustrated seeing things move so slowly on some of these things. And again, I recall numerous occasions the tax department bemoaning the fact that, as Doug said, there's so much money issue becoming...tax dollars being tax sheltered and so forth and I'm not really such that the government got the message on this, to be honest.

ROBERT BROWN: It doesn't matter if the government encourages savings. If they run deficits, they're just wiped out anyway. The best way to increase gross national savings is not to run a deficit. Perhaps there's a country close to home that might want to listen to that message. I was hoping quite sincerely, to pass along the message that I really strongly feel it would be a mistake if India were to create retirement income security through individual account savings. There's so much literature on the countries that went that direction. Chile's now got 38 years of experience. Mexico, Peru, even the World Bank has walked away from the individual account model, and is criticizing their own earlier work in some sense. And there are actuarial reasons for that. At least I believe there are. If an actuary sees risk, then the way actuarial science mitigates risk is to form groups and to form collectives and to share the risk. So, I would rather see a system where you bring your funds in to some kind of super fund, and I would hate to see

a system that has friction in the form of expenses of more than one-half of 1 percent of the cash flow. And you can get to below one-half of 1 percent through a collective. I would hate to see a system where the outcome at retirement would be as broad as in your table, just because someone fell to the vagaries of stocks and bonds and made a mistake on an investment. I would just hate to see the risk placed on the shoulders of the individual. So I'm hoping that whenever the decision is made, that that's not the end result.

PRAKASH BHATTACHARYA : Actually individual accounting system ultimately is very safe. Okay. Why does the individual accounting systems should be there? First of all, one thing is that who is contributing? There must be some record. And that person who is making the contribution, he or she must get the benefit. That is the objective of having the individual accounting system, number one. Next point, that whatever accounting I'm choosing, that whatever money I make in the contribution, I shall be allotted some units, as it is given in case of the mutual funds. So here also, we can make the system, pension fund manager will be allocating the units to that individual contributor. But the fund will go to the fund manager and the fund manager will manage a bulk amount of fund. So here also, the risk will be the fund manager and with his ability to manage. And out of the fund, as I mentioned in the paper, and also as I told earlier, that as the number of options increasing, so they're get fair competition among the fund managers to generate better returns. And this competition will be very stringent that will lead to the well-being of that investors and it is required also, for the growth and development of the economy. Because if those investors, they're getting a hefty return, then they'll have more incentive to save more and more and this savings will ultimately lead to the progress of the economy. So in this way, I expect that that system will function for the growth and development of the Indian economy.