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IMPACT OF ECONOMIC AND POPULATION TRENDS ON INSURANCE AND PENSION OPERATIONS

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1. What are current and future trends with regard to:
   (a) Population and mortality.
   (b) Family structure.
   (c) Forms and role of government.
   (d) Economic forces including the saving process, productivity, and inflation.
   (e) Public attitudes.

2. What is the impact of the above on:
   (a) Savings versus protection.
   (b) Individual versus group.
   (c) Public versus private.
   (d) Individual, group, and pension product design.
   (e) Marketing methods and distribution systems.
   (f) Investment policy.

MR. ROBERT H. JORDAN:

CURRENT & FUTURE TRENDS WITH REGARD TO FAMILY STRUCTURE

Six major trends in family structure are:

1. The family - the basic social unit: Families have been and will continue to be a dominating phenomenon in our social structure. To illustrate this in just one way, it may be noted that the rate of marriage per 1,000 unmarried women has been on the rise since at least 1960.

2. More families headed by females: A rising proportion of families have been headed by females, and this trend should continue, as the following statistics indicate:

	1960	1970	1973
White	8.7%	9.1%	9.6%
Non-White	22.4%	26.7%	32.8%

   Included in these figures is the relatively small, but rapidly growing, group of unwed mothers.

3. Children per family has reduced but will stabilize: Over an extended period of time, the number of children per family has gradually reduced from about 3 to about 1.4. There is a chance that this will rise somewhat, as economic conditions prompt optimism on the part of prospective parents about their ability to "afford" more children. However, such a rise probably will not be great because there has been a change in attitude about the "right" number of children to have.

4. Working wives increasing: The proportion of women identified as part of the labor force has risen to 43%. It has been reported that 30% of mothers who have infants and live with their husbands work, and that, of wives with children under six living with their husbands, 33% work. We will see more wives at work, but it is probable that the major part of the increase in working wives has already taken place.

5. Divorce has grown rapidly and will continue on the rise: The concept of permanence of marriage has weakened. But the idea of marriage is still strong, as two-thirds of the divorced remarry. This results in many "joined" families, having children from one or both prior marriages.

6. Increased longevity lengthens married life, affects its role: The average expected lifetime of a marriage is now forty-three years. This means that the concept of companionship (after the children have gone, mainly) will be the theme of the family for a very long time compared to what it has been and longer than the period when its theme is family development and support.

Two other changes that have taken place which merit reporting here are:

7. There has been an increase in the number of children residing with only one parent from 1 in 12 in 1950 to 1 in 6 in 1973. This trend can be expected to continue.

8. There has been a substantial decrease in the number of households having present in them an adult other than the parents (usually a grandparent). Stretching back quite a way, the change has been from 50% of families in 1925 to 4% of today's families.

There was a song about children in the show "Bye Bye Birdie" that plaintively asked,"Why can't they be like we were, perfect in every way? What's the matter with kids today?" This line pretty well states the case of most parents today, and, if it had been known, would have served for the past 1,000 years as well. Interestingly, the complaint can be supported today - data has become available on the recent activities of children which show increased rates of suicide, of violent crimes, of drop-outs, and of offenses against school property. This data suggests that children are in fact behaving somewhat differently than they did back in the good old days. I believe that by tracing back into the family and its operation, we can find the basic causes for these changes in behavior. In that regard, this statement by Urie Bronfenbrenner, Professor of Family Studies at Cornell University, bears consideration: "In terms of such characteristics as the proportion of working mothers, number of adults in the home, single-parent families, or children born out of wedlock, the middle class family of today increasingly resembles the low-income family of the early 1960's."

CURRENT & FUTURE TRENDS WITH REGARD TO PUBLIC ATTITUDES

Eight such trends have been identified:

Americans, more so than Europeans,
demand and expect progress and change

1. We should expect this attitude to continue, although its force may diminish if our economic woes continue.

"Security" is important to those who are employed

2. The most important job-connected goals of relatively young employed adults as revealed in a recent survey were: "security 47%, prosperousness 30%, important 13%, and exciting 10%." This sample was undoubtedly weighted in such a fashion as to produce higher percentages in the latter two categories than would be true in a broader population. In the future, as the population ages, we should expect security to become even more importantly the number one goal of most people.

Small families have become the vogue

3. A majority of people feel that government should try to slow population grow, and that people should limit the size of their families; it is expected that these two feelings will continue to dominate. The trend in family size has been down for some time, caused in part by a change in attitude about what the "right" size of a family should be. We should expect this trend to continue.

The population has become more sophisticated

4. Its financial sophistication can be seen by the increasingly larger percentage who own savings accounts, checking accounts, and common stock; this is a continuing, evolutionary and broad-based trend. Further increases in the general sophistication of the population is indicated by the substantial continued increase in real income and in educational level that is to be expected.

Women's lib will continue

5. There has been an increasing questioning of our existing sexual mores (and overt violation of them) and an increasing interest in women's lib, which will continue; neither, however, turns out to be heavily anti-marriage. Women's lib, while affecting female roles in the family somewhat, is more concerned with reaching equality in other areas -- in education, in occupations, etc.

Consumer attitudes increasingly volatile

6. The trend in consumer attitudes has been down (i.e. more pessimistic) recently, probably attributable heavily to the recent economic situation and to Watergate. Consumer attitudes are volatile and respond quickly to good economics. However, other trends -- the rising levels of real income and education -- suggest that this volatility will increase as consumers increase their sophistication and, with it, their skepticism. This means we are going to be susceptible to more wide swings in the economy, as pessimism among consumers leads to poor economics.

Protestant Ethic dominant

7. The Protestant Ethic (i.e. belief in autonomy and self-reliance, success and achievement, hard work, money and savings) has been the main determinant of public attitudes and will continue to be such. It is self-sustaining because our society rewards success and achievement and because the emerging poor tend to adopt it as their basis of values.

Group and governmental social programs grow

8. There has been some shift towards the attitude that certain things should be done for, or provided for, the individual rather than by the individual. This has appeared in the Trend Analysis Program where consumers have shown a rising belief in the desirability of insurance and pension benefits being provided by employers and the government. The inexorable expansion of Social Security and Welfare programs is another sign of this change which, without doubt, will persist.

IMPACT OF ECONOMIC & POPULATION TRENDS

Before launching into comments that have some flavor of "forecast" about them, I think it may be worthwhile to put into perspective the frame of mind with which such comments are offered. While preparing these remarks, I ran across some notes I had made on "The Report of the Future Outlook Project." Those notes indicated that there were seven "forecasts" made in that study (or which I interpreted as having been made). The box score of realization of these seven forecasts eight years later is:

In four instances, no meaningful action toward the indicated change is visible.

In one instance, the indicated change is in process.

In one instance, a forecast was made, but it was that the status quo would continue.

In one instance, the change that has occurred is the reverse of what was predicted.

Since those forecasts reflected the combined thinking of some eighty of our leading executives, it can be hoped, but it is not to be expected, that the forecasts to be made here today will show a better box score eight years from now.

IMPACT ON "SAVINGS VERSUS PROTECTION" OF CURRENT & FUTURE ECONOMIC & POPULATION TRENDS

As measured by total assets, the life insurance business has endured since the beginning of the Post-World War II era a substantial continuing erosion of its position as a leading savings institution. Some of the factors contributing to this decline have been:

1. A pronounced shift from permanent plans to term plans in ordinary sales, as indicated by these figures:

	1956	1964	1974
Permanent	57%	45%	42%
Term	33%	40%	46%
Mixed	10%	14%	12%

2. A loss of position in the pension area to competing media.

3. A reduction in Ordinary gross premium and reserve levels.

4. The declining attractiveness of the savings-type auxiliary services offered, e.g., dividend accumulations, settlement options not involving life contingencies, and premiums paid in advance.

5. The rapid rise in group insurance.

6. The rapid growth of mutual funds.

The industry has fought back in various ways by:

a. Increasing the flexibility of its pension offerings.

b. Adopting the "investment generation" concept of allocating investment earnings, with attractive interest rates for new deposits under pension contracts.

c. Offering equity investments to corporate clients through separate accounts.

d. Offering equity investments through variable annuities to both group and individual clients.

e. Offering equity investments to all clients by entering the mutual fund business.

f. Offering more attractive returns on certain of the interest-only settlement options.

g. Continuing to urge agents to sell permanent insurance.

Some of the trend factors that lead to an expectation that the movement away from saving through life insurance will continue are:

1. Rising levels of income and education make our buyers more sophisticated. More sophisticated buyers tend to incorporate term insurance into their insurance programs to a greater degree, as they become more aware of and shy away from the savings aspects of permanent insurance.

2. The expansion of group insurance, group pension, and Social Security benefits tends to reduce the sales appeal of "savings at 65" plans.

3. "Money management" mutual funds that border on being savings accounts, which have achieved over $2.5 billions in assets after being in operation only about three years, will become a bigger factor in the savings plans of individuals.

4. Inflation will make it more and more difficult to keep net costs attractive for participating permanent plans.

5. Higher interest rates cause increased rates of taxation of life insurance company interest earnings, creating even more difficulty in meeting the competition of other more flexible savings media.

6. Pressure to pay the same commission rates for term as permanent will lessen resistance to the sale of term.

IMPACT ON "MARKETING METHODS & DISTRIBUTION SYSTEMS" OF ECONOMIC & POPULATION TRENDS

In looking at my notes on the "Future Outlook Project," I was impressed to see that 80% of the participants felt that the agency system as we know it (that is, the system comprised primarily of fully commissioned, essentially independently operating agents - full-timers, PPGA's, independent P & C agents) will continue in operation. Why it was not 100% of the participants, I cannot imagine. Certainly I believe the probability is 100% that our present form of agency organization will be important for an extended period of time.

Most sales of individual insurance are "creative," i.e., the agent has created in the mind of the prospect both an understanding of the desirability of extra coverage and a willingness to act, one or both of which were lacking beforehand. Since substantial outlays are needed to support adequate programs of coverage and there is such a diversity of situations requiring different amounts and plans, it is hard to see that we will ever be able to do without agents.

It seems to me that the area in which this agent system can work effectively has been contracting and expanding both at the same time, and will continue to do so. The contraction is occurring at the lower end of the scale where neither agents nor companies can afford to deal in small policies - the definition of what is "small" must be substantially greater today than it was twenty years ago, and so it must be twenty years from today. In addition, the rapid growth of group insurance, which does not seem to be abating, tends to meet a major part of the needs of the low income segment of the market, further decreasing the need for individual agents in that area.

Expansion in the traditional market will continue to occur because:

1. There will be an increased population available to be sold.
2. An increasing proportion of that population will be identifiable as being in upper income categories.
3. The impact of additional need caused by a continuing and high level of inflation.
4. The growth of "security" as the most important job-oriented attitude of the emerging mature work force.

I do not see a system of salaried agents nor a system of enrollers (working franchises established by others) displacing or seriously intruding on our present system of fully commissioned agents. My reasoning here is more of a practical sort than one of disbelief in the soundness of such systems. In order for such systems to get going in major companies, it would take a complete turnabout on the part of agency executives in their concepts of motivation and in their methods of management, which I do not foresee.

One area where significant change may occur is in the expansion of the "captive" agent concept (where the agent has a significant base income from some source, usually property and casualty business, and is aggressively managed toward real "account" selling of an array of financial products). As I understand it, this has been spectacularly successful in a few instances and the companies involved are major factors in several fields - auto, life, and mutual funds.

Group insurance will continue to produce a significant proportion of new sales of life insurance.

The more adventurous types of distribution, for example, direct response, appear to me to have a future that is only marginal to the main body of our business. They are going to be (have been?) squeezed by rising costs and tougher regulations.

The difficulty of a piece of paper received through the mail or bought at a newsstand serving the "creative" functions of an agent are obvious. However, there will be an expanding area at the lower end of the market which old line companies will be vacating which may serve to feed the continued growth of these marginal types of distribution.

MR. E. ALLEN ARNOLD: The program for Concurrent Session B asks what the impact of demographic, political, social, and economic trends will be on insurance and pensions.

My discussion of pensions will offer conjectures, not answers, based on some logic, a prejudice or two, and a lot of guesswork. My essential prejudice is that our North American economy will be able to support an aged, non-working population. Although I do not have any answers for you now, the consideration of the issues and trends affecting pensions might help us understand how to find the right answers.

My conjectures are that:

- Zero population growth will occur. It will not create an insupportable pension burden.
- The trend in family structure is to fewer children, more working wives, and increased reliance upon child-care centers and schools. Effect upon financing pensions: favorable.
- The role of government in pensions will increase. The result may be partly favorable and partly unfavorable.
- If we are to assume that a pension system of any sort can endure, we must also assume a successful economy. Inflation will be steady but moderate and later may disappear; the factors of production will be rewarded in reasonable proportion to their economic contributions; and savings will occur. The economy will not be an abundant one, but it will be capable of supporting a pension system. Pensions themselves will be a large economic factor.

- Public attitudes will change as our population ages. The growth of pensions will be encouraged.

If these conjectures should become fact, then we would have a modest but adequate pension system covering everybody. It would consist of a combination of Social Security, pre-funded group pensions, and something resembling IRA's. Individual savings would not be a factor other than the savings which creates home-ownership and the IRA's or other tax-sheltered devices for the self-employed. All employers would be required to provide adequate pensions.

An alternative future also consistent with my conjectures would rely entirely on Social Security for pensions. The choice between these alternatives ought to be made on economic, rather than political, grounds.

These conjectures, on balance, are optimistic. Even if they constitute the most probable of the various possibilities, they may not be highly probable. Let us consider why they might be considered to be reasonable possibilities.

Basic Questions

There are four questions affecting the financing and growth of pensions. They are:

1. How much goods and services will be produced annually by a current working generation?

2. How much will the working population yield to non-workers?

3. What is the share which will be allocated to retired people?

4. By which processes will the retired receive their support?

The answers depend upon how demographic, political, and economic trends are resolved in the future. The first three questions, relating to "how much," can be discussed together, while the fourth, relating just to "how," is a separate matter.

How much to Pensioners?

In a super-abundant economy, providing the retired population with adequate or comfortable sustenance is no problem. At some point of lesser abundance, supporting a large group of non-workers becomes difficult.

The relative abundance of our future economy will depend upon two kinds of factors: real factors affecting per-capita supplies and productivity, such as the availability of energy and technology; and an artificial factor, economic climate, which could either improve or impede the efficiency of the economic system. Major influence will be the extent of population growth, both here and abroad, possible restructuring of international economic relationships, our tax and regulatory structure, and federal economic policies.

In these days of declining natural resources, of increasing world population, and of global pollution, the provision of an abundant living to all citizens of the world, or even to those of the United States and Canada in the not-too-distant future, seems unlikely. Let us take an optimistic viewpoint in assuming that our technology will produce adequate sustenance and some comforts for North Americans. We also need to assume that upheavals induced by starvation elsewhere will not destroy the entire world's political and economic stability. Based on these necessary assumptions we potentially can continue to have pension systems in the U.S. and Canada. Without these assumptions, we cannot look forward to much of anything.

We need more than just the technology and a certain minimum level of natural resources for a functioning pension system; we need a functioning economy. Here again we need a dose of optimism in view of the economic difficulties of the 1970's and the inability of our politicians, the Federal Reserve Board and their economic advisors to develop a stable economic climate and to remove structural inefficiencies.

Optimism about the economic system nevertheless may be defensible. Most inflation is politically induced and therefore politically controllable. We should expect that the Federal Reserve Board and even most politicians, when things have settled down, will remember how unpopular 12% inflation was. We should expect steady inflation for some time, but it ought to average less than 5% and seldom exceed 5%.

The public may accept, or even demand, a new economic policy to replace the Employment Act of 1946. We should have learned something from our errors of the last thirty years.

As pension funds grow and pension payments grow, the economic system gets two positive feedbacks - savings for investment and sustained purchasing power to dampen business cycles.

Greater economic stability should accompany increased population stability. Total purchasing power would be more predictable and fluctuations in the number of new job seekers (due to alternating baby booms and busts) should be smaller, helping to abate both unemployment problems and labor shortages.

At some point the economy must stop growing. In spite of conventional economic thought, a no-growth economy, if combined with zero population growth, would not be unhealthy. Its stablity might even be helpful. When government and business recognize that exponential growth is not required for survival, then part of the impetus for booms and busts may disappear.

We have taken an optimistic view here partly because we must do so in order to be able to talk about the future of pensions at all. Yet, upon reflection, it does seem reasonable to expect to have an efficient future economy capable of supporting an adequate pension system.

How much the workers will yield to non-workers then depends, first, upon how much potentially is available to share, second, upon the relative political strength of each group,and, third, upon public attitudes.

The Townsendites and Ham-and-Eggers with their pie-in-the-sky old-age programs attracted a great following (1.5 million Townsendites) during the 1930's. Although they made the front pages and seemed strong politically, they accomplished little. The organizations which in the 1970's constitute "senior power" seem to have sounder and more achievable goals. Senior power already has had significant roles in the development of Social Security and Medicare legislation. We can expect it to become one of the major political forces as the percentage of the total electorate over age 65 climbs from the current 15% to 20% to 25%.

Attitudes toward age can be very important. From World War II until sometime in the 1960's or 1970's our attitudes were very strongly youth oriented; we invested enormous amounts in schools of all kinds and, in the view of some, we pampered our children. If the orientation of society should change to anticipation of retirement and to respect for our older citizens, then we should expect a generous level of support to be provided.

Replacement-level fertility rates are reducing the proportion of children and also indirectly increasing the proportion of dependent older people relative to the work force. Attitudes therefore should change, but, more important, as the support required for children decreases, society will have more resources available to allocate to the retired. In addition, as population growth slows, investments otherwise required to accommodate more people can be applied toward the increasing pension burden.

If the proportion of women in the work force should rise, and there are reasons to believe that it will, the average pension needed per worker will decrease. An employee will need enough pension to support one person rather than two when both marriage partners work. Both the decreasing family size and the smaller number of future entrants into the work force should encourage greater career employment by wives. The increased divorce rates and the increase in numbers of families with the mother the only parent in residence also should be significant. We should see the previous trend toward greater female participation in the work force resume when the current business cycle gets definitely on the upcurve.

Our retired population now constitutes a much greater proportion of the aged than formerly. In 1900 about two out of three older men worked. As recently as 1950, 60% of the males aged sixty-five to sixty-nine were in the work force, as were 39% of those seventy to seventy-four and 19% of those over seventy-four. It is estimated that only a third of the men aged sixty-five to sixty-nine, and only 15% of those older, now are in the work force. The problem of supporting the retired, then, seems to be to transfer money, goods, and services to an increasing percentage of our population.

There are limits, however. The percentage of the population above a given age probably will grow only until about the year 2040, if we reach zero population growth then, and not change much thereafter. Recent research indicates that the possibility of a radically increased lifespan is remote. Without any great mortality improvement, the present 10% or so at age sixty-five and above would increase to 16% by 2040 and should not exceed 17% ever (unless population decreases).

Another potential limit on the proportion of dependent aged would be imposed by the active population if, for any reason, the economic burden of retirement began to become too heavy. An increase in normal retirement age for full benefits would reduce the number who retired before the new normal retirement age and cut their average benefits as well.

If we accept all these conjectures, we can conclude that the future will bring adequate benefits of some sort or other to a much larger aged population. We need now to consider how these benefits might be provided, but first let us look at the present kinds of support.

How the aged now are supported

Our retired population now is supported in the following ways:

- Government payments, such as Supplemental Security Income, Social Security, and government pensions.
- Government subsidies through health insurance, maintenance in old-age homes, food stamps, subsidized housing and transit fares, reduced income and real estate taxes, and other ways.
- Private charity, by means of goods, services, and cash.
- Private pension payments.
- Dividends, rents, and interest on accumulated capital.
- Use of the principal of individual savings.
- Individual annuities.
- Cash payments from families.
- Maintenance in family home.

These kinds of support can be classified by kind of payment (transfer payments, reduction in accumulated savings, and return on capital) and by source of funds (government, employer, family, private charity, and self). Regardless of the kind or source of the various payments, we can view the payments as amounts diverted from the working population to a non-working population. Even the return on capital can be considered to be result of an earlier diversion of income from employees to retirees.

We have in the last 40 years seen an immense growth in the support provided by government and employers, possibly some reduction in individual savings for old age, and virtual elimination of family support in many parts of our population.

In spite of the growth in government-and-employer-paid benefits, cash income for many of the aged still has been very low. The value of the other kinds of support is not determinable, but most of the aged who rely upon such sources as food stamps, family support, and private charity are not likely to be very well off. Home ownership, however, is a real help - half the single aged not living with relatives and 79% of the couples owned their own homes in 1970.

Among Americans aged 65 and older, the following were the distributions of cash income in 1971:

	Couples	Individuals
$10,000 or more	17%	((13%
$ 5,000 to $10,000	32%	(
$ 3,000 to $ 5,000	30%	18%
$ 1,000 to $ 3,000	20%	59%
Less than $ 1,000	1%	10%

The median income for all families per the 1970 Census exceeded $10,000. The median for the aged couples was not quite half that, while 69% of aged individuals received under $3,000.

While Social Security benefits have increased substantially since 1971 and other pensions also have increased, much of the improvement will have been wiped out by inflation.

The increasing percentage of females in the aged population may compound the problem, since the median annual income of older widows and single women is low. The median in 1970 was only $1,900. The numbers of older males and females were close to equal in 1900, but now there are about 40% more females over age 65, and by 1990 older females should outnumber males by about 3 to 2. However, the increased participation of females in the work force should lead to more reasonable incomes for aged females in the future.

Although the aged have many sources of support, we can see that on the whole they are not now supported very well. Government and employers have supplanted much self-support and family support, but the growth of pensions and other support from these sources has not kept pace with need. We can expect the gap to be bridged somehow as society's attitude toward the aged and toward retirement improves and as the political power of the aged increases.

The next question then is, "How will the gap be bridged?" or "How will our aged be supported in the future?"

Future sources of support for the aged

If there is to be any reversal of trends affecting family composition and responsibilities, particularly insofar as the inclusion of aged members in the household is concerned, there is no sign of it. Retirement communities and retirement homes are as popular as ever, and the adult children of the retired are sticking to the nuclear family life-styles which developed during the urbanization and growth in mobility of the last 50 years. Grown children usually reject the direct responsibility for their own parents' support when society expects such adult children to put their own children through college and to keep up with their neighbors and co-workers.

The trend away from aged participation in the work force seems to be a strong and continuing one. Possible counters to this trend are potential increases in normal or mandatory retirement ages and the adoption of flexible retirement ages based on biological rather than chronological aging. Even if this trend should be reversed, though, an increased number of retired individuals still would need support.

Private charity for the aged is not likely to maintain whatever proportion of the aged's support which now prevails. The aged might get as much of the pie each year, but each person's share of that slice of pie would shrink as the aged population grew.

What about individual savings? We have no real evidence that individual savings have declined generally over the long run or as a result of the installation of pension plans. The future might produce a new pattern, if adequate pensions were provided from other sources than individual savings and if a no-growth economy produced lower standards of living. Still, home ownership plus IRA's for the self-employed could be significant.

Having discardedmost alternatives, the future support of the dependent aged will have to come from government or employers or both. The trend toward providing retirement benefits as a right without proof of need will continue;

thus we can expect future government aged support to be primarily pensions paid by Social Security, rather than welfare payments in cash or kind. We have reached the point in this discussion where pensions, paid by either government or employers or by both, have become expected to be the main source of our future aged population's support.

The fundamental question on how to provide pensions relates to pre-funding. This question is an economic question which should not be resolved ideologically. It should not be viewed in terms of "socialistic" Social Security vs "free-enterprise" private pensions, or "humane" Social Security vs "inadequate" or "greedy" private pensions.

The government versus private pensions question really is a separate one which theoretically should be decided after the main question has been resolved. If the funding question should be settled in favor of pay-as-you-go pensions, then the government should provide them since greater assurance of continued payment would exist. Pre-funding best would be accomplished, as is now the case, by employer or employer-union plans, in order to maintain private control of the large amounts of capital in pension funds.

Getting back to economics, pre-funding does require an efficient economic system, and earlier we decided to presume the future existence of such a system. The pre-funding of a major share of the benefits needed to support a greatly expanded population of pensioners would have a profound effect upon the ownership of stocks, bonds,and probably real estate and real estate mortgages. This change in ownership would have its good points and bad points. Its main problem might be that such a great concentration of wealth in pension funds would attract stifling government regulations. An advantage might be a stabilization of the securities markets. The big advantage would be a large reduction in the current charges for pensions to be paid through increased taxes or increased prices for goods and services.

One possible advantage of pay-as-you-go seems to be the non-accumulation of huge amounts of capital in pension funds. Another possible advantage is the potential ability to increase or decrease benefits as required by economic conditions, either current and temporary or presumably permanent.

The pre-funding question really is beyond the scope of the analysis in this discussion. Therefore I shall conjecture that Social Security and pre-funded plans each will pay about half the pensions of the future. A further conjecture is that pre-funded pensions will be compulsory and universal. Adding an earlier conjecture, they also will be adequate, but not necessarily much more than adequate.

We therefore are heading for an adequate, universal pension system, where half the pensions will be pre-funded employer and IRA-type pension and the other half will be provided by Social Security.

In considering current U.S. developments, we can see some support for this view.

First, it appears likely that Congress will restructure Social Security to produce benefits consistent with pay and that such benefits will not be intended to replace a large portion of final pay except for the lower-paid employees.

Second, Congress has enacted ERISA. ERISA may impede the growth of employer-sponsored pension plans for a while, but IRA's may more than make up for such a temporary setback. Since Congress has acted to correct some of the apparent deficiencies of private pensions, it is reasonable to assume that Congress will discover and attack the biggest problem, the lack of coverage for something like half of private employees. When it does, we can expect an even greater blitz of statistics and heart-rending stories than when Congress discovered forfeitures and plan terminations.

Third, senior-power organizations, other private organizations, Federal, State and local government agencies and commissions, and academia all are looking for the best answers to the problems of old age, not the least of which is poverty. The push toward providing better benefits will gather momentum. In view of Social Security's current problems, the reformers' emphasis may shift from Social Security and Medicare to employer and employer-union sponsored plans.

MR. JACK MOORHEAD: I would like to ask Mr. Jordan for the evidence that he has to support his assertion that the population is becoming more sophisticated. I had not had that impression myself and I would like to know how he reaches that conclusion.

MR. JORDAN: I used for that purpose the statistics previously quoted indicating increased use of savings and checking accounts and ownership of common stock. In addition, examination of the population shows that the population is advancing in real income and in educational levels. The concept of increased sophistication of the general population is pretty subtle and perhaps very difficult to grasp as well as we might like. Having two children coming through the education system, I am well aware that the level of education that is provided to younger people today is considerably better than it was in my own day.

MR. RON L.W. TILL: Perhaps I might make a comment on the economic situation in Canada. This will not be in the nature of trying to locate any of Dr. Mendell's icebergs but rather a comment on the temperature of the water. Just last week the Prime Minister announced a very comprehensive program of wage-price guidelines which is intended to be effective over the next three years. He is endeavouring to attack the large and powerful groups in societies which it is suggested have been the main contributors to the inflationary problems, large companies, large unions, and professional groups. These guidelines cover firms with in excess of 500 employees, all firms in the construction industry, professional groups, and the federal public service. In the first year the guidelines limit wages including welfare and fringe benefits to an 8% increase for cost of living plus an extra 2% for productivity and a further 2% provided that it can be shown that this group has fallen behind living-cost increases in recent years. In the next two years, the cost-of-living component is intended to be reduced to 6% and then 4%. Price increases will have to be justified by direct cost increases and, to the extent costs actually decrease or productivity increases faster than cost, then prices should be correspondingly decreased. Corporate dividends are to be frozen for a year.

Now it is very hard to say what the influence of this program is going to be. One of the primary contributors to inflation, as I am sure we are all very much aware, is excessive government spending. The Prime Minister stated that the government would be doing its part by limiting spending; at the same time he also specifically exempted from control the growth of civil services in certain specified areas such as the bureaucracy necessary to administer this program. He also stated that they could not be expected to reduce important government services and programs such as the various income security programs. We have seen some indication that the very large wage demands on the part of large and vocal unions may be taken out of this arena and exempted from the controls, with the result that we will probably be involved in another mail strike in the near distant future. For these reasons, as well as the experience of controls in other countries, I think that the jury is still out as to whether these controls can be expected to be very effective.

I would guess that at the present time there may be some short-term positive implications in the bond market but it may prove of short duration if the controls do not appear effective. Certainly the one-year dividend freeze cannot be expected to have a positive impact on the stock market. As far as the insurance markets are concerned, on a short-term basis one might expect some decrease in the growth of the Group insurance market, particularly in the non-wage-related health benefit fields. Since all fringe benefits are to be taken into account in determining the total increase permissible for these wage packages, one might expect that most unions are going to be looking to emphasize cash increases rather than fringe benefits. The individual market is perhaps a little different. Provided these controls are effective in reducing the level of inflationary expectations, they should have a very positive long-term influence on the individual market. On the other hand, most people will probably perceive an initial strain on disposable income which may limit growth in this market over the short term.

MR. REA B. HAYES: I just have been reading a book by Dennis Gabor called "The Mature Society." One of the points he makes is that with the increase in the proportion of the population having a college or some form of higher education, the true value of that education decreases. He reasons that to try to educate anybody with an IQ of less than 120 in a really hard core subject is practically impossible. Therefore some of the statistics Mr. Jordan may be relying on to indicate an increased sophistication may be vitiated by the point that the value of higher education is not as great as it used to be.

MR. J. CRAIG DAVIDSON: This question of education is one that has always interested me. Is our society getting sufficiently sophisticated to create sufficient challenges to accommodate this high proportion of people with a very advanced education? I know my statistics come off the top of my head, but I believe in a country like India the rate of unemployment among university graduates is very high, and I understand only about 5% of the Ph.D.'s can find employment. I think we may be getting out of balance by going too far in the direction of higher education, or alternatively perhaps we are not going far enough in developing our society to use the knowledge that it has acquired.