

RECORD

SCENARIOS FOR THE 1980'S

Discussion Note

- Theme: Individual Life Insurance & Annuities in the 1980's
The Effect of Changing Outside Forces on Product
Design, Pricing & Distribution Systems.
- Perspective: Three Scenarios of the business environment in the
1980's.
- Objectives: The presentations should accomplish the following:
- (1) Recognize and reflect the basic concepts
of futurism, i.e.,
 - (a) understand today's reality,
 - (b) study the future effects of current
decisions,
 - (c) identify inter-relationships
and impacts of outside influences;
 - (2) Identify the general direction of individual
life and annuity business; and
 - (3) Paint a picture of what our business will look
like by the end of the decade.

The following three scenarios, developed by James O'Toole, describe alternative business environments of the next decade. In order to make the scenarios specific and interesting, they are written specifically for the United States. However, with relatively minor changes they can be applied to Canada, provided the underlying philosophies and value systems driving each scenario are maintained.

While it is highly unlikely that the future will develop exactly as described in any of these scenarios, such ideologically consistent cases are useful in clarifying some of the broader economic and political developments that are likely to impact the life insurance industry in the 1980's. After reading the scenarios, you might want to analyze each of them separately in light of the following questions.

1. What is the likelihood of such a scenario coming about? That is, without insisting that everything described will occur, what is the probability of developments similar to those described?
2. What precursor conditions could enhance or inhibit the occurrence of the developments described? That is, what would be the most likely chain of events leading to this future?

3. What are the likely effects of the developments in each scenario on
 - . The national economy?
 - . The life insurance industry?
 - . Your company?
4. Given the events described, what would be an appropriate corporate strategy for a life insurance company?
5. What can the life insurance industry do to influence the course of events described?

HIGH INFLATION SCENARIO

It is 1986, the seventh straight year of double-digit inflation in the United States. During this period, the nation has not held to a consistent economic policy for more than six quarters running. Nevertheless, a great many changes have occurred in government/corporate relations, including:

Economic Policy

- * In order to protect the dollar, the U.S. now greatly restricts the export of capital.
- * The tax laws have been changed to limit home mortgage deductions to \$7,500 per year.
- * The entire income tax structure has been indexed.
- * Federal legislation mandates percentage wage increases for all workers equal to the rate of inflation (wage indexing).
- * A quota has been set on the amount of oil that can be imported.
- * Accounting rules have been changed to reflect current-value.

Regulatory Arena

- * Most barriers to the private use of class action suits in the federal courts have been eliminated.
- * Consumerists have established a communications network capable of conducting a national referendum within a day, and are using the system to influence regulatory legislation.
- * The McCarren-Ferguson exemption of the insurance industry from federal regulation has been repealed.
- * The FTC has required full cost disclosure of the insurance industry.
- * In most states, all publicly held corporations are required to have community and consumerist board members.

Social Welfare Legislation

- * National health insurance has been enacted (a compromise mix of public/private insurance, with increased regulation of the diminished private sector).
- * Federal standards are placed on corporate data banks containing information about customers and employees.

Union Activities

- * There have been growing trends toward unionism, particularly among white collar workers and middle managers.

- * Most unions have opted to take their pension funds out of stock market and to loan the money to their members as first mortgages.

Social Trends Affecting Business

- * In 1986, 12% of all Americans are over age 65 (up from 10% in 1975). Dependency ratio of retired persons to workers is 1:3 (up from 1:9 when Social Security was enacted).
- * Health breakthroughs promise to increase the average life span by five years (over the expectancy in 1976) by the end of the 1980's.
- * Yankelovich's "entitlement-consciousness" is increasing. There is a growing social expectation of, and reliance on, the government and employers to provide for individual security and welfare in the future.
- * Relatedly, "present-mindedness" increases and there is less saving, investment planning for the future.

INCENTIVE AND INVESTMENT SCENARIO

It is 1986, and the U.S. is in the third year of its New Economic Policy. The nation is adhering closely to the principles of the policy, which has been identified as "Incentive and Investment". In pursuit of this policy the formerly-adversarial relationship of government to business has been transmuted into one of cooperation. This has occurred in order to protect domestic industry from inroads by companies from Japan, Germany and Scandinavia (and other countries where governments actively support their industries in international trade competition). Under this policy, inflation has dropped from 12% in 1982 to 5%.

Economic Policy

- * Official U.S. policy is to eliminate trade deficits primarily through encouraging exports. To this end, the U.S. has established a national development corporation (similar to those found a decade earlier in Japan, and Britain) designed primarily to support R&D of products for export.
- * The U.S. has ended the double taxation of corporate profits by eliminating the corporate income tax, and all capital gains taxes have been eliminated.
- * The general tax bite has been reduced as the result of a Constitutional Amendment limiting federal expenditures to no more than 35% of the GNP, and as a result of the fact that most states have also enacted spending limits.
- * The Fed has announced that the money supply will be allowed to grow at a steady 5% rate (no higher or lower) for a period of seven years.

Regulatory Arena

- * Domestically, the government has altered its role from detailed regulator-by-numbers to that of a broad goal setter, leaving industry with the flexibility regarding how and when it will meet those goals. For example, government now taxes industrial pollutants instead of issuing rigid, arbitrary standards and all

environmental, drug and safety standards have been rewritten to specify acceptable levels of risk, in place of old, inflexible and unrealistic "zero risk" standards. And OSHA now levies fines only for accidents that actually occur instead of for violations of safety standards.

- * Competition is now encouraged in all areas of the economy. For example, almost all states now allow banks to sell life and other forms of insurance - and insurance companies are permitted to provide certain banking services.

Social Welfare Legislation

- * Federal spending has been reduced somewhat as a result of the requirements that Medicare and Medicaid patients must pay a greater percentage of their own health care bills.
- * A national health insurance plan has been adopted. It consists mainly of the requirement that all employers provide private catastrophic insurance for all their employees and their dependents.
- * Age of eligibility for Social Security has been raised to 70.

Union Activity

- * Union exemptions from anti-trust laws have been repealed.

Social Trends Affecting Business

- * In 1986, 12% of all Americans are over age 65 (up from 10% in 1975). Dependence ratio of retired persons to workers is 1:3 (up from 1:9 when Social Security was enacted).
- * Health breakthroughs promise to increase the average life span by five years (over the expectancy in 1976) by the end of the 1980's.
- * The "entitlements-consciousness" of the 1970's has given way to the new "rugged individualism" marked by self-sufficiency and individual independence.
- * Americans have become future-oriented, saving and investing like the Japanese in the 1970's.

SOCIAL DEMOCRACY SCENARIO

It is 1986, and the U.S. is in the third year of its New Economic Policy under President Howard Metzenbaum. The nation is adhering closely to the principles of the policy which has been described as "Scandinavian Social Democracy". The goal is to bring to all Americans the high standard of living, quality of life and social and economic security that Germans and Scandinavians enjoy. The central tool of the policy is a form of national planning through which production goals are set in consultation with business for such major industries as energy and primary materials. Under this policy, inflation has dropped from 12% in 1982 to 5%.

Economic Policy

- * The government subsidizes domestic, alternative energy industries, including solar, thermal, coal gasification and liquefaction.
- * Congress has legislated a value-added tax, and repealed the deferral and foreign tax credit provisions on corporate income

earned abroad. Other tax policies approximate those found in Scandinavia in 1980.

- * Permanent wage and price controls have been enacted.

Regulatory Arena

- * Environmental standards have been stiffened.
- * There is a new Consumer Agency with sweeping power, including jurisdiction over the marketing of all forms of insurance. However, the individual states still regulate insurance companies for solvency.
- * Congress has enacted comprehensive no-fault principles for all personal and product liability claims.
- * California, Connecticut, New York, New Jersey and Illinois have all enacted tough anti-trust laws: any business that has 25% or more of the total market in the state for more than three years must be broken up.

Social Welfare Legislation

- * Current welfare/unemployment insurance/public jobs programs are scrapped in favor of a program in which every individual who cannot find a job is given one with a private employer. Borrowing the notion of "assigned risk", every corporation is assigned a number of slots for which they have to provide jobs for a pool of hard-core unemployables.
- * Congress has legislated that all private pensions must be portable. To this end, it created the National Pension Corporation, to which workers have the legal option of directing their own and employer contributions.
- * National health insurance has been enacted, with the government as the only insurer. All hospitals have been nationalized or taken over by state government.
- * The regulation of worker's compensation has been federalized.
- * Mandatory retirement has been banned.

Union Activities

- * AFL-CIO, the U.A.W. and the teamsters have merged, and have thrown their collective weight behind the new American Labor Party (like the British Labour Party).
- * Unions routinely bargain for seats on corporate boards and direct their pension funds into "socially-useful" investments.
- * Congress has moved forcefully to make "worker capitalist" a reality. Corporations are no longer allowed to close any facility unless they first offer to sell it to their employees at a fair price; and mutual savings and loans, banks and insurance companies are now controlled by a partnership of worker-owners and customer-owners.

Social Trends Affecting Business

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DISCUSSION NOTE—GENERAL SESSION

- * Total contributions to Social Security as a percentage of wages and salaries reached 21% (up from 13% in 1980).
- * "Voluntary Simplicity" becomes the dominant social value of America (i.e., small becomes beautiful and conspicuous consumption is abandoned for effort to increase the "quality of life").