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SOCIO-ECONOMIC ISSUES AFFECTING THE FUTURE OF EMPLOYEE BENEFITS AND THEIR FINANCING

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- Changes in demographics and work force composition
- Trends toward defined contribution and flexible benefits programs
- Lifestyle and attitude changes
- Retiree medical care coverage

MR. ROBERT L. BROWN: We are going to be talking about special economic issues affecting the future of employee benefits and their financing. The nature of this morning's topics brings to mind the joke about the pilot whose plane had just been hit by lightning. The pilot announces to the passengers that he has good news and bad news. The bad news is that all the instruments have been knocked out and he doesn't have a clue about where they are headed. The good news is that they have picked up a strong tail wind and are making excellent time. The reason this joke came to mind is that we're about to enter the twenty-first century and I'm not sure whether we really have a clue as to where we are going. Hopefully, by the time this session is over we will have a better sense of direction. But being actuaries, we will start by looking at where we have been.

Our topics have been split into three discussion parts. First we will review the Canadian situation in the 1980s; then we will consider circumstances in the United States in the 1980s; finally, we will do some gazing into the crystal ball.

MR. FRANK J. BELVEDERE: I have the first duties of discussing Canadian conditions in the 1980s. Now, as an academic and one who does not actively practice in the field of employee benefits, I do this with some fear and trepidation. I feel like the elderly gentleman who, newly arrived in heaven, decides to once again recount his story of surviving the Johnstown Flood. Just as he is about to start, St. Peter politely reminds him that Noah is in the audience. So, that's the position I feel I am in this morning. I'm about to tell YOU experts about the social and economic issues affecting the future of employee benefits and their financing.

As I see things, most important forces shaping the issues of the 1980s arose from rapidly changing demographics. Figure I shows Canada's now familiar baby boom. It lasted from 1952 to 1966 (the years when births in Canada exceeded 380,000 per annum) and was followed by an equally dramatic baby bust. In the fifteen year period, 1952 to 1966, 6 1/4 million Canadians were born so that, in 1966, one-third of Canada's population was aged 14 or under! These baby boomers are now aged 19 to 33.

The second important demographic trend was the rapid rise in the female labor-force participation rate in all age categories. The figures given in Table 1 illustrate the significance of this rise. At the present time, over half of all females aged 20-64 are in the labor force or are looking for work.

TABLE 1

Female Labor-Force Participation Rate (%) by Age Category

Age	1970	1983
15-19	30.0	54.6
20-25	58.9	74.7
25-44	39.0	69.1
45-64	35.9	46.6

These two underlying demographic forces in combination have driven most of what developed in the employment field in the past decade. It is very easy to understand why we have experienced increased levels of unemployment. Since 1970, Canada has had the fastest growing labor force in the industrialized world. But despite that growth, Canada also experienced a rapidly rising rate of unemployment. That high unemployment rate was an inevitable result of the underlying demographics; namely, the entry of the baby boom generation into the labor force with a coincident increase in female labor-force participation.

Unfortunately, not realizing that the underlying cause of the increased unemployment was demographic and not economic, our 1970s governments--in Canada and in the U.S.--attempted to correct the situation with misguided Keynesian economic interventions. The governments of both countries expanded the money supply and increased budget deficits. By overstimulating an already active economy, the second half of stagflation, inflation, was created. When both governments finally shifted to monetarist strategies in the late 1970s, interest rates soared and the economies collapsed. By the end of 1982, Canada's official unemployment rate was 12.8 percent with thousands of other Canadians uncounted as they had given up looking for work. The situation was similar in the U.S.

FIGURE 1

Live Births, 1921 to 1981

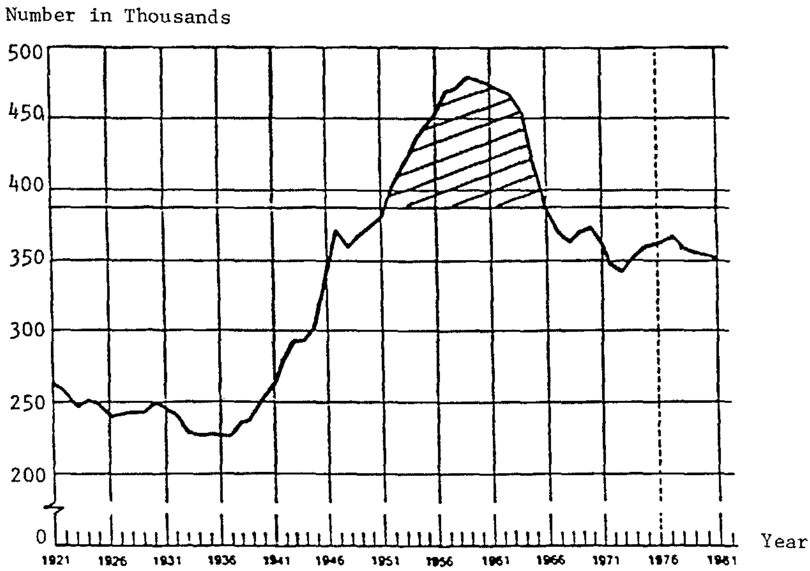
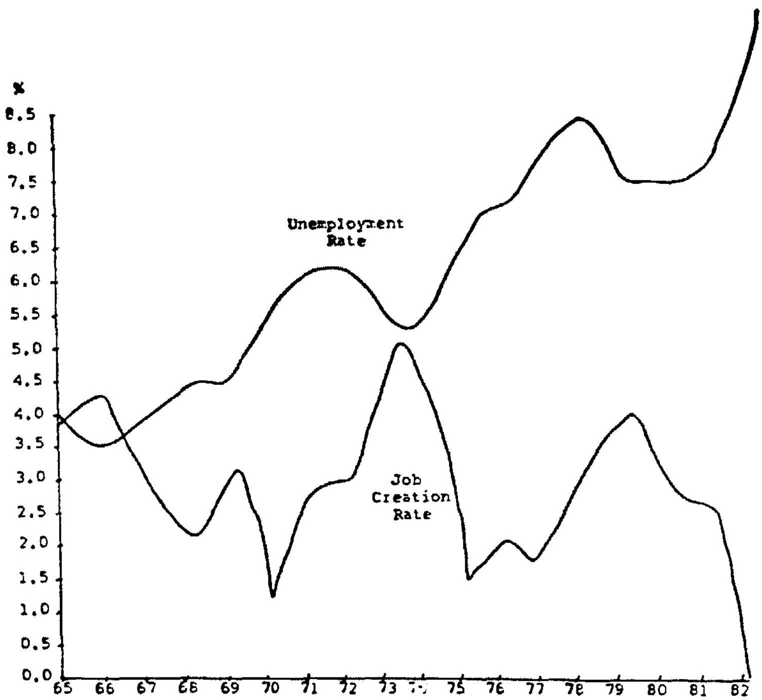


FIGURE 2


%
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65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82
Unemployment Rate
Job Creation Rate

What has been the effect of all of these changes on employee benefit plans? First, Canadians still face high levels of unemployment and underemployment. While our official unemployment rate is now 10.9 percent, it can be shown that if our labor-force participation rate returned to its 1978 pre-recession level, that official unemployment figure today would be 15 percent. Many employers have been reluctant to hire workers back on a full-time basis. Part time and casual employment have become more common as have pay-for-performance contracts. The unions have been weakened significantly, although it is my perception that members of Canadian unions are still stronger and more militant than their brothers in the U.S. Certainly, while significant concessions have been given by organized labor in Canada, they have not given as much as in the U.S. (witness, as an example, the split of the Canadian U.A.W. from its Detroit parent as a result of the two independent Canadian strikes).

Canada now has a labor force that is very young but aging, is more mobile than in the past, is often in part time or casual employment and is more female. We also have a work force that is scarred by the effects of the combination of high unemployment and high inflation and is worried about its own economic security. Its feelings of economic insecurity are heightened as it is daily bombarded with articles that claim that the federal Social Security System is fast approaching bankruptcy. It is not surprising then, that one of the highest profile topics of the past decade has been pension reform.

In the period from 1978 to 1983, Canada had a plethora of pension commissions, conferences and committees. These investigative bodies identified the following basic problem areas:

- Gaps in Coverage

  While the statistics were hotly contested, it was obvious that many Canadians had no private pension coverage whatsoever. Even the Canada/Quebec Pension Plan (C/QPP), which covers 98 percent of the active work force was criticized for doing nothing to help the chronically unemployed or those employed without renumeration (for example, homemakers).

- Portability

  Until recently, the general vesting rule for pension benefits in Canada was age 45 plus ten years of service. Further, even when vested, deferred pension assets were not adjusted to reflect inflation. Hence, mobile workers and workers moving in and out of the work force (to a great extent, females) were heavily penalized.

- Indexation

  Again, this issue is more important for females because of their longer expected lifespan. Indexation became and remains a very volatile issue in Canada. Presently, federal government employees and members of the federal parliament have pension benefits that are fully protected from inflation. Other workers may get ad hoc pension increases, but private sector employers have refused to sign a blank check to cover the cost of indexation. It is interesting to note that just recently, the Public Service Alliance of Canada (the union representing federal civil servants) rejected a new contract that would have dropped the full indexation of their pension benefits.

- Survivor Benefits

  Automatic survivor benefits were not the norm in private plans, and it was felt that they should be.

- Disclosure

  The majority of reports mentioned a need for more disclosure of information to plan participants.

- Age of Entitlement

  Most reports suggested a more flexible attitude toward retirement in both private and public plans. Age 65 is still considered the normal retirement age in Canada and is the sole age of entitlement for the government-sponsored plans; namely Old Age Security (OAS), the C/QPP and the Guaranteed Income Supplement (GIS).

As might be imagined, a variety of solutions and improvements were proposed including expansion of the C/QPP and mandatory employer sponsored plans. In fact, until just recently, little actually happened, although several provincial governments published position papers. I might point out that in Canada, pension benefits come under provincial jurisdiction while income taxation comes under federal, so both levels of government must be involved in benefit programs.

It is clear that most private plan sponsors are in favor of significant pension reform. However, they do not wish to be "the first on the block" to enhance their own plans. Hence, much useful voluntary reform has been delayed until uniform pension-reform legislation is put into place. Several provinces have moved ahead unilaterally with pension-reform legislation, leading to more complex and expensive pension administration. On May 23rd, 1985 the new Progressive Conservative Federal Government brought down its first budget. It addresses many of the issues outlined in my remarks to this point and should set the tone for uniform pension-reform legislation.

On the tax side, the government has significantly modified the private pension environment to provide defined benefit and defined contribution plans with a more level playing field. By 1990, after a transition period, the following tax limits will be in effect. These are only highlights:

- For registered retirement savings plans (RRSP), contributions cannot exceed 18 percent of earnings to a maximum of $15,500.

- For money purchase plans (MPP), the combined employer and employee contributions cannot exceed 18 percent of earnings to a maximum of $15,500.

- For defined benefit plans (DBP), the benefit accrual cannot exceed 2 percent of earnings per year of service and the maximum pension attainable would be $60,025, indexed to the average industrial wage starting in 1991. Employee contributions to DBPs cannot exceed $15,500, but employees who are part of DBP can still make an extra contribution to their individual RRSP up to $2,000. All individuals can carry forward unused RRSP contributions for up to seven years, effective from 1986. Also, all dollar limits will be indexed to the average industrial wage starting in 1991.

The government also announced changes to the Pension Benefits Standards Act. While this act applies only to plans established by federally-regulated industries, it is similar in its thrust to the recent provincial reform legislation and can be expected to function as a model for further provincial legislation. It provides for (and again, I'll only give highlights):

- participation after two years of service.

- full vesting and locking in after two years of participation.

- portability of vested benefits for which the employer must pay at least half the cost or else provide fully-indexed deferred benefits.

- survivor's benefits equal to at least 60 percent of the plan member's pension.

- equal pension benefits for males and females.

While the government did not mention indexation of benefits after retirement for the Pension Benefits Act, it is significant that they have decreased the level of indexation on the Family Allowance and OAS benefits to equal the inflation rate, minus 3 percent. (Due to political pressure, the government has subsequently withdrawn this measure.) The government did not mention any changes in the C/QPP either in cost or benefits. The government did not suggest a method for including homemakers in the C/QPP nor was there any attack on the universality of benefit payments. In Canada, except for the GIS, all of our Social Security benefits are paid without regard to need and are then taxable as income to the recipient. There's been quite a bit of debate on this universality concept because of our large deficits. But, the government seems to believe that is a sacred cow despite polls that have shown otherwise.

Finally, the government suggested no new taxes on employer-paid group benefits. The previous Liberal Party administration had, in November 1981, suggested extending taxation in this area (similar to the U.S. proposal), but dropped this part of the legislation due to public pressure.

Another point of concern for benefit plan designers and actuaries is the issue of discrimination by age and sex. As of April 17, 1985, Section 15 of the Canadian Charter of Rights and Freedom of the new Canadian constitution took effect. This makes it illegal to discriminate based on race, national or ethnic origin, color, religion, sex, age or mental/physical disability. Just how this clause will affect insurance and pension plans is not yet clear. The federal government presently has in place a House Committee on Equality Rights which may clarify many points of contention. However, I would expect that most matters of substance will have to be settled in the courts as has been the case in the U.S. So that's the Canadian scene to date.

MR. THOMAS T. LONERGAN: It's good to be with you here in Quebec City to address this subject. What it really amounts to though is "How to Read a Crystal Ball." I never knew before how useful a Ouija board could be in preparing a speech. My comments will be directed entirely to what has happened, what is happening and what will happen in the U.S. I want to focus on six socio-economic issues:

- Changing Demographics.
- Reassertion of the Individual.
- Cost Containment and Control.
- Consolidation or Reorganization (which I have grouped with Mergers and Acquisitions because they have similar effects).
- The Global Economy.
- Technological Innovation.

Now, the legislative environment in the U.S. is also an issue, one that I will comment on briefly. Just a week ago, President Reagan introduced his Tax Simplification Proposal which has an underlying theme of fairness, uniformity and nondiscrimination. It is a very interesting proposal in that it does reflect governmental attitudes in the U.S. at the present time.

In the area of demographics, the presence of more women in the work force has resulted in a greater number of two-career families and a dramatic increase in the number of single-person households. The U.S. work force is also aging. The baby boom which started in the U.S. in the mid 1940s, immediately after World War II, and lasted until the early 1960s, was followed by the so-called baby bust. As in Canada, these factors have had, and will continue to have, an impact on employee benefits.

Among two-parent households, about two-thirds are also two-income families. Only 15 to 20 percent of total households are comprised of a working male and a nonworking wife. As a result, family spendable income is greater. There is more interest in benefits and time off work is greatly valued. Recently there has been movement toward a concept of "paid time off" which blurs the distinction between vacation, sick leave and personal days off. There will be a continuation of this consolidation of total time off where employees have a greater choice in selecting time away from work. There is also greater participation and interest in child-care programs. The trend toward child-care benefits, either as part of a flexible benefits program or as a program in its own right, will continue.

One in four U.S. families has only one parent at home. This is approximately double the 1970 number. It is estimated that 60 percent of children will live with one parent for some period of time before the age of 18. The typical family of the 1950s and 1960s--a working husband, housewife and two children--represents a shrinking minority. Consequently, greater flexibility is needed in the design of benefit programs. Such plans have grown both in number and scope. In 1980, there was just a handful of flexible benefit plans in place. By 1985, there were well over 200.

The increase in single-person households also encourages what we in the U.S. might call the "ERISAfication of Welfare Plans"--bringing in minimum eligibility requirements, vesting, funding, portability and so forth. We see a little of this in President Reagan's Tax Simplification Proposal, although that document primarily focuses on nondiscrimination rules for welfare plans.

In 1965, the working population in the U.S. was evenly spread among age groups up to 65. However, with the maturation of the baby boomers, one-half of the work force was less than age 35 in 1980. By 1990, over 50 percent of the work force will be between the ages of 25 and 44. This is a significant blip in the demographic chart, similar to the Canada situation. Many companies in the U.S. committed themselves to providing life and medical benefits for retirees, without ever estimating the associated costs or liabilities. Now these companies would really like to cut back on their promises, but there's significant pressure to minimize any such actions. Payments to retirees are considered almost sacred, and recent court decisions have supported the idea that retirees are vested in their benefits. As the baby boom generation matures, there will be more emphasis on these post-retirement coverages, particularly for healthcare.

In the U.S. there's been a strong move away from, and even a revolt against, paternalism. Employers no longer consider themselves responsible for their employees' well being. Rather, a greater recognition is given to the individual. Emphasis is on productivity and performance. At the same time, there is a greater interest on the part of companies in finding out what employees are thinking and in being responsive to employees' perceptions and needs. The environment in the U.S. is a participatory one. A growing realization, both on the part of the employer and the employee, is that there is a need to work together in a joint effort or partnership to effectively deal with the problems of the future. The greater recognition of individual performance and the move away from paternalism have encouraged the design of benefit programs, more closely tied to company profits and growth potential. Elements of these plans are stock options, stock ownership and/or profit sharing.

Nonqualified supplemental retirement plans are also becoming part of the typical retirement program in the U.S. Under these arrangements, benefits can be tied to corporate performance or to individual performance. These programs are also frequently designed to provide benefits in excess of the maximums permitted under the law; that is, to give additional benefits to senior executives with short service or to help recruit and retain key employees. The use of attitude surveys to determine what is on the minds of employees is increasing. For example, surveys have supported the desire of employees to be covered under dental plans, and in more and more cases, employees are getting these.

As I mentioned before, there has been an increasing demand for post-retirement medical coverage. This will intensify with the maturation of the baby boom generation. However, greater awareness of the costs and liabilities (as well as concern for accounting implications) will slow the growth of these benefits. Surveys provide evidence that employees understand the problem of rapidly escalating medical costs, and that they are willing to participate in bringing these costs under control. Companies are supporting physical fitness and wellness programs as a part of the long-range solution to medical-care costs.

More employees are asking for some type of pre-tax savings plans such as the 401(k) arrangement. Companies that haven't yet implemented these plans are exploring how to fit them into their retirement programs. Some after-tax savings plans are being converted to pre-tax plans; 401(k) plans are being introduced as part of the total retirement program; in some cases pure 401(k) plans, with no employer matching contributions are being adopted. It is estimated that 25-30 percent of today's work force in the U.S. is covered under a 401(k) plan of some kind.

The desire of employees to participate in benefit design has supported a shift from defined benefits to defined contribution plans. The latter plans with withdrawal and loan provisions are especially popular. Employees are also beginning to understand the need to participate in their benefit programs. They are making larger contributions, paying more in deductibles and coinsurance. Some believe that flexible benefits can be an effective mechanism in cost shifting, in that they can be made more attractive to both the employees and the employer. Many companies have already started educating employees on cost effective purchasing of medical care and retirement plans. These efforts will intensify and increase in the future.

In the 1970s, it was commonplace for companies to add benefits or to improve existing programs. The 1980s are characterized by a particular emphasis on cost containment and cost control. Not only are benefit improvements less frequent, but there have been benefit reductions. Foreign competition has forced American companies to try to keep their costs fixed and to put an increasing emphasis on productivity. Hard economic conditions have produced reductions in the work force and an overall weakening of the power of unions. Generally, cost containment and control are discussed in the context of medical and retirement costs.

Looking first at medical costs, there has been an increase in employee contributions, especially for dependent coverage. There's been an expansion of Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs). There has been development and use of intervention techniques including hospital preadmission certification, concurrent review and what's called "utilization review." These activities are often conducted by an independent third party. Flexible benefits were first used as a means of increasing employee satisfaction, now they are used as a cost containment measure. This mechanism for cost shifting helps to camouflage benefit decreases. Claim audits have become more commonplace. This includes the payment procedures, amounts and charges. Financing arrangements are being reviewed and fine tuned to maximize efficiency. These are significant changes. Only a short time ago, this area was completely unmonitored and unpoliced.

On the retirement side, pension plans are being fine tuned. In some cases, this means converting from a final average salary plan to a career average salary plan. It could mean cutting back benefits under a final average salary plan to allow a defined contribution plan to be undertaken, and play a greater role in the total retirement program. In some cases, cost control might mean that benefit amounts are tied directly to Social Security through an offset approach, or indirectly through a step-rate approach. Actuarial assumptions and methods are being modified. Greater pressure is being put on the actuary to be less conservative. The spread between interest rates and salary scales is increasing. Five years ago it was .8 percent in energy-related companies. Today it's doubled to 1.6 percent. Defined contribution plans will enjoy continued growth, either as supplements to or as replacements for defined benefit plans. Employer cost control is enhanced because of the transfer of risk to the employee. However, the more liberal payout structure is often regarded as more costly.

In the 1980s we have seen new industries emerge and old ones decline. We have seen an increasing number of company mergers and acquisitions, often occurring across industries. Such events require a complete rethinking of benefit programs, both their value and their cost. When a merger or an acquisition occurs, there's often a need to decrease the work force. This is often dealt with by introducing an early retirement window. For example, employees who meet eligibility requirements can elect to retire over a sixty to ninety day period. Phillips Petroleum was recently cited in the Wall Street Journal for its new early retirement window under which approximately 2,500 employees are eligible. An overall cutback in the number of workers was necessitated by a company reorganization in response to hostile takeover attempts.

The pension plans of acquired companies are often a tempting target for termination in order to pay down the debt associated with the acquisition. Energy companies have had well-funded pension plans. They have a tendency to use more conservative assumptions and methods than might be typical. Texaco, after acquiring Getty, filed to terminate the Getty Pension Plan which had a surplus of $250 million. Mobile acquired Superior Oil and filed to terminate two of Superior's plans with a combined surplus of approximately $30 million. If you review plan terminations, you will find that a large number are related to a reorganization, merger or acquisition. In the U.S. there is continuing debate over whether or not it is appropriate for a company to terminate a plan and use the assets.

There has been and continues to be greater emphasis on maximizing the financing efficiency of both healthcare and retirement plans. On the healthcare side, this includes more self funding of group benefits and tougher negotiations with insurance companies regarding retentions and reserve levels. On the retirement side, this includes the more efficient investment of assets. There is concern about maximizing investment returns while controlling the plan sponsor's degree of risk. Companies are realizing that pension funds need to be managed just like any other division of the company.

Greater interest is being shown in coordinating the design and financing of benefit programs of companies operating in world markets. Long-term planning is becoming more popular--particularly for companies with overseas operations. The challenge is to establish worldwide policies, including benefit policies, that maximize cost efficiencies and simultaneously take proper account of local law and culture.

In the U.S., greater consideration is being given to international investment opportunities. Social investing is an issue being focused in on by many public and religious pension funds. Recently, city and state level political leaders have encouraged their pension funds to divest themselves of holdings in companies doing business in South Africa. It is becoming more common to take this kind of position. Other social issues are also drawing attention in investment decisions. For example, should investments be made in companies which produce military equipment? Should investments be made in companies which damage the environment or have unfair work practices?

In the U.S., employment in manufacturing industries has been exported to other nations. Companies with American-based factories are competing against lower-cost producers with plants in other countries. This has increased the global and competitive marketplace. Foreign competition has forced American companies to fine tune their organizations and bring greater scrutiny to bear on waste and inefficiency. This in turn has shaped the design and financing of benefit programs and will continue to do so.

There is growing computer innovation and usefulness. This has allowed both the development of sophisticated preretirement counseling programs and the administration of complex flexible benefits plans. These technological advances have also influenced the structure of economic opportunities in a manner that creates an actual need for flexible benefits. For example, today's employees are less likely to remain in the same job or profession for life. Their skills are more likely to become obsolete. Their interests are more likely to change. Companies are becoming involved in retraining programs and looking at employment arrangements with individuals who want to continue to work, beyond age 65, either assuming a different position with the same firm or another company.

What about the future? What can we see in the crystal ball for U.S.?

- Continued cost containment pressure is one thing, primarily since the employee will be even better educated as a consumer of healthcare than he is today. There will be a greater sharing of the burden of cost. There will be more flexible benefit plans--not only in the larger companies but in the medium and smaller size companies as well. There will be increased support of wellness by companies also. There will be a greater growth in HMOs and PPOs over the short range. Over the longer range, PPOs will vanish and the HMOs will become a primary source of providing healthcare.

- There will be more savings, stock ownership and profit sharing plans. This includes 401(k) plans, even though President Reagan's Tax Simplification Proposal significantly effects these.

- There will be a review of the role of pension plans. Over the short range, there will continue to be plan terminations. However, the defined benefit plan is here to stay and will continue to be a major part of the retirement program. Greater importance will be placed on efficiency in meeting predetermined retirement income objectives and in funding and control of surplus.

- Greater emphasis will be given to the asset side of the actuarial balance sheet, particularly with respect to setting investment objectives, selecting money managers and monitoring performance.

- There will be continued investment in counseling and educating employees about benefit plans.

- There will be funding of postretirement welfare benefits. This coverage is likely to become primary to Medicare.

- You will see a continued desire on the part of the employer to be responsive to employee needs. More child-care programs will be adopted. Preretirement counseling and retraining programs will become more common. More executives will assume a different position within the company at age 65, instead of retiring. Flexible benefits will grow in popularity.

What else? I believe that there will be higher retirement ages. Right now, two different trends are pulling in different directions. Companies, in some cases, would like to see their employees retire early. Unions would certainly like employees to have the option of early retirement. On the other hand, the Age Discrimination in Employment Act encourages later retirement. I think, on balance, there will be an increase in retirement ages because employees will come to appreciate the need to stay active. And also, as our life expectancy increases, employees will not necessarily want to retire at age 65.

Employee benefits is a dynamic field. A major challenge to those of us who work in it is that it's not enough any more to have expertise in just one subject. We need to be aware of what's going on in related areas so that we can be effective in identifying problems and solutions.

MR. YVES G. GUERARD: My first remark is that the world is changing at a faster rate than ever before. I think that change itself is no longer an issue (everybody accepts it), but the accelerating rate of change is. In mathematical terms, we have to be concerned about the second derivative rather than the first.

For example, nearly fifty centuries passed between the time an Egyptian Pharaoh, mounted on horseback, pursued the Jewish tribes across the Red Sea and the time Napoleon, also on horseback, conquered Europe. However, less than two centuries passed between the time of Napoleon's equestrian conquest and when Montgomery's tanks defeated Rommel's on a North African plain in a contest for world domination. Now, a mere three decades have passed between the time soldiers were armed with tanks and the current predominance of nuclear weapons in military arsenals.

There have also been many socio-economic changes in the past three decades. Inflation is not likely to return to former low levels because of the deficit financing response to ecological problems, third world needs and many other items of public concern that developed in this period. Dramatic changes in demography also occurred. In the U.S., the rate of total population growth has dropped from 1.7 percent in 1960 to a projected 0.6 percent in the year 2000. This, combined with increased life expectancy, has resulted in a pronounced aging of the population and wide swings in fertility patterns, from baby booms to baby bust. There has been a vast increase in female labor-force participation, a greater degree of early retirement, an increase in high technology and information workers and an international division of labor. These factors, in combination, have created a mobile and flexible social environment with new definitions of male and female roles in the family and at work. All of these elements influence the design and funding of benefit programs. Many of those impacts have already been described by Messrs. Belvedere and Lonergan. I will discuss two factors that will dominate plan design for the foreseeable future.

One factor, not readily defined or measured but substantially important in developing future benefit programs is the increased awareness of the high costs of retirement and healthcare benefits for the aged. This awareness is heightened by the debates about the solvency of the Social Security plans in the U.S., Canada and other countries. It's increased by the maturation of public and private employee plans under which bills were authorized years ago and are now coming due. And, it is triggering many reactions. The first is cutbacks on future commitments. These are being brought about by flattening indexation and by applying tests of financial need. Retrenchment, in public employee plans, has sometimes been achieved by cutting benefit payments. This has left the sick on stretchers in hospital corridors. A second, perhaps more recommendable, reaction has been an increase in cost sharing. I think that this will continue as employees seek greater participation in benefit plan decisions. But details of approach aside, cost containment will continue to be a benefit design objective of top priority.

For this reason, like my colleagues here, I foresee changes in the retirement age and in the very concept of retirement. Age has a dramatic affect on the ratio of retirees to the working population. That ratio has ranged from 15-30 percent. Historically, it varies by country (Canada and U.S.) and time period. However, if the average retirement age was pushed to 70, a ratio of 15 percent could be realized in the future. Cost control may also be achieved through a shift to adjustable careers. Cycles could be separated by a drawing down of savings to support training in a new area or the start of a new enterprise. This would lead to an emphasis on savings, on flexible plans and on individual options.

On another front, I expect that there will continue to be pressure for a shift from an income tax to a consumption tax. A complete shift would do away with fiscal regulations which, in turn, would benefit pension plans and support a lifestyle that stresses savings. Money put away in a pension plan or savings account, not being consumed, would escape tax. Some tax-free statuses exist now under fiscal tax preference rules, but are viewed by some people as loopholes to be closed. The consumption tax basis would restore full individual control on spending patterns that savings plans would no longer be tax driven.

The second dominate factor is less readily defined and measured than the first. It is the emerging, stabilized free market economy with internal self-correcting mechanisms. In the next decade we can expect to see less in the way of uniform, compulsory benefit systems. Instead, there will be greater flexibility to accommodate individual preferences. There will be deferred profit sharing plans (DPSP), thrift plans, adjustable retirement plans, etc. The market will permit benefits to be adjusted to changing circumstances of individuals.

MR. BROWN: Thank you very much Mr. Guerard. We now have thirty minutes for audience participation. I'll break the ice and, then the fourteen people who are waiting to ask a question can jump in. I fully share your desire for an individualistic society in the future, and I perceive that to be a liberal society, in my definition of the word liberal. But I also perceive that at this moment, both in Canada and the U.S., there are countervailing forces requiring everyone be painted with the same brush. I am referring to equal rights, a laudable goal that is being misguidedly pursued with uniformity. Can you remark on the apparent juxtaposition of these two trends? Will you lend us some insight on the direction you see? Will we proceed to a truly individual and liberal society?

MR. GUERARD: I think that the world has always been transformed by conflicting forces. That's one of the reasons why the future is uncertain and contains many possibilities. While I believe that we will go in the direction I described, there are certainly forces pushing in the other direction. However, I think that this push to uniformity in equal rights is losing steam. The fact is, there were unfair discriminations. Maybe it was a good shock to have people rethink what they were doing and why they were doing it. But, more and more people are discovering that it's very difficult to achieve equal rights through laws and regulations. The real mover is a change in the attitudes and behaviors of millions of individuals. This is the only way to obtain a lasting result. Any set of laws or regulations that tries to prescribe personal conduct runs into difficulties and conflicts. There are many people, and I include some who are in the women's movement, who question the value of many of the antidiscrimination measures that were imposed through laws. They want to achieve equality, but they want to achieve it on a substantial basis. And, I think that we will see the pendalum return to a better equilibrium position. So, I don't think that all the equal rights efforts were wasted, but I don't think it will continue as it did in the past.

MR. LONERGAN: Mr. Brown used a word that I resist a little bit. The word is "liberal." The way I see the future, it will not necessarily be more liberal or more conservative. I do see more uniformity as a basis of fairness. That is the intent of the U.S. Retirement Equity Act and the tax simplification efforts. We will probably see the uniformity interpretation of nondiscrimination and fairness showing up more in employee benefits and other aspects of our lives. The expression of individuality that I see is the desire to participate in workplace and benefit decisions. This activity is consistent with the fundamental principles of a free enterprise system. I do think we will see a strengthening of those basic principles from the realization that there's no free lunch--society is realizing this with respect to social programs; employees are realizing that they can no longer enjoy a generous array of benefits without having to participate in controlling costs.