RECORD OF SOCIETY OF ACTUARIES
1994 VOL. 20 NO. 3A

PLANNING FOR FUTURE STATE: FORCES FOR CHANGE IN RETIREMENT SECURITY PART II

Moderators:	PAUL A. GEWIRTZ
	ROBERT W. RYAN
	EDITH WEINER*
Panelists:	MATHEW GREENWALD†
	CAROLYN GRILLO‡
	PATRICIA L. SCAHILL

What impact should these changes have on retirement security planning that is being done today?

MR. ROBERT W. RYAN: This is going to be a free-form session in which someone will be playing Oprah Winfrey out in the audience, sticking a microphone in your face, so don't be surprised when that happens. Our idea here is to get you involved as much as our panelists in our discussion. I'm going to ask Paul Gewirtz, who's the Co-Chairperson of the Futurism Section, to introduce our guests.

MR. PAUL A. GEWIRTZ: At our earlier session, we introduced the groundwork through Edy Weiner's keynote speech. Edy Weiner will be our Oprah. Edy is president of Weiner, Edrich & Brown, which is a leading futurist consulting group.

Her clients have ranged from the U.S. Congress to many of the Fortune 500 companies. Edy has been in the field of issues analysis and strategic planning for more than 20 years. She directed the first industrywide futures research program called the Trend Analysis Program of the American Council of Life Insurance. She's acknowledged as one of the most influential practitioners of social, technological, political, and economic intelligence gathering.

She was the youngest outside woman ever elected to the board of directors of a major financial institution when she joined the board at the Union Mutual Life Insurance Company. In 1975, she chaired a panel for the U.S. Congress on the future of health and welfare. In 1976, she was chosen as one of the ten business leaders to participate in the National Science Foundation Bicentennial Program. She's been a guest lecturer at Wharton, Harvard, Brown, and a number of other universities. Her articles have appeared in numerous publications, including *The Harvard Business Review, The Futurist, and Planning Review.*

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*Ms. Weiner, not a member of the sponsoring organizations, is President of Weiner, Edrich & Brown Incorporated in New York, NY.

†Mr. Greenwald, not a member of the sponsoring organizations, is President of Mathew Greenwald & Associates in Washington D.C.

‡Ms. Grillo, not a member of the sponsoring organizations, is Vice President of Human Resources at American Express Company in New York, NY.

Aside from speaking at several hundred conferences and appearing on a variety of television and radio shows, Edy has conducted a number of seminars for corporate leaders in topics as diverse as the future of Social Security, the underground economy, life extending technologies, and Market Place 2001.

We're going to be conducting this as a talk show, as Bob said, so the panel of thinkers are going to challenge each other and you. Pat Scahill is a principal and senior consulting actuary in Mercer's Baltimore office. Before joining Mercer, Pat served as a vice president and actuary at a Midwestern consulting firm. She's a Fellow of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries, a Member of the Academy, and an Enrolled Actuary. She currently serves as a member of the Society's Board of Governors. She's also a past president of the Baltimore Actuaries Club and the Baltimore Chapter of Workers in Employee Benefits, and has served on several Society of Actuaries and Academy of Actuaries committees.

Carolyn Grillo is vice president of Organizational Effectiveness at the corporate headquarters of American Express. Carolyn is responsible for support to the American Express executive team on strategy formulation to meet the workforce challenges of the 1990s. Carolyn joined American Express in 1987. Before that, she held positions at Chemical Bank and Merrill Lynch. Carolyn is a cum laude graduate of Yale University where she was in the second class to include women freshmen.

Matt Greenwald established his research and consulting company, called Greenwald & Associates, in June 1985. Since then, he has done strategic planning and market research for more than 60 life insurance companies and numerous other organizations. Among his firm's clients are the Prudential, the Met, Northwestern Mutual, Allstate, State Farm, Liberty Mutual, Citibank, American Express, Vanguard, and the U.S. Treasury. Non-financial service clients include Hershey Foods, Philip Morris, American Association of Retired Persons (AARP), the National Geographic Society, and The Smithsonian Institution.

Before starting his business, Matt spent 12 years at the American Council of Life Insurance. From 1977–85, Matt was the ACLI's director of social research and was responsible for programs monitoring public attitudes toward financial service issues, demographic research, and futures research. He has a Ph.D. in sociology from Rutgers and has given many presentations at life insurance and other professional meetings. He's a member of the Market Research Council, which is a group of the country's leading market researchers.

MS. EDITH WEINER: Each of our panelists will begin with a very brief positioning statement. We've asked them to talk about the most important thing that they think is going to challenge retirement planning going forward. Then we're going to open this up and get some lively discussion going, challenging mine, theirs, yours, and everybody's point of view, and see if we can come up with some really good ideas to use after we leave here.

MS. PATRICIA L. SCAHILL: I'm going to give the actuarial position. We all know that Social Security is facing financial problems. Social Security in the future can't serve as the sole source of retirement income.

On the private side, though, between 1976 and 1990, there were 15 major laws enacted affecting pensions. Increased regulation means increased administrative expense. Increased administrative expense means unhappy employers.

I believe that regulation has helped fuel the change from defined-benefit to defined-contribution plans, because it's much easier for employers to shift the administration expense in defined-contribution plans from their pockets to the employees' pockets. Also, with defined-contribution plans, particularly 401(k) plans, employees happily pay a large part of their retirement income without realizing that they're the ones who are making the major contributions to the plan. They're just happy that they're doing pretax deferrals. So the companies are shifting much of the responsibility for our retirement security from themselves to the employees.

In 401(k) plans, very conservative investments have led to lower investment return. Frank Russell's survey indicated that earnings from defined-contribution plans are a third to a half the earnings from defined-benefit plans. Obviously, lower investment earnings means lower retirement income. Also with defined-contribution plans, early retirement isn't as comfortable, although the participants look at the account balance and they say, "Wow, look, gobs of money." Oftentimes the employer will offer subsidized benefits with a defined-benefit plan, and that concept doesn't carry through to a defined-contribution plan.

I think that the combined effect of the legislative change, the shift from defined benefit to defined contribution, and the compounding factors of a smaller pot of money at the end of the rainbow will make retirement less attainable. Lower rates of retirement will increase the competition for jobs down the road as young people are waiting for old people to get out of their way, while old people simply want to put food on the table. That's the actuarial position.

MS. CAROLYN GRILLO: In the 1960s, I had a poster on my wall that said, "Today is the tomorrow you thought about yesterday." I'm just going to make a few points to say that I don't think that's true, not anymore. I think that what's happening is that today, tomorrow, and yesterday are becoming juxtaposed, interposed, and they are switching positions all the time. As we look at the changing nature of work and how employees adapt to that, let me talk about three things.

One, of course, is that we're all living longer. Matt is going to say more about that, but one thing that I want to point out about the fact of longer lifetimes is that one person's retirement could conceivably actually affect up to three generations of that person's family. Let me personalize that a little bit.

My grandmother, who is now 92, retired from a job with a union pension when she was 65. That union pension and Social Security were never planned to fund the kind of at-home care and ultimately nursing home care she was going to need. My mother, who is 67, retired with a corporate pension, much of which is now being used to fund my grandmother's retirement. I, at 42, fully expect that by the time I retire, or would like to have retired under a traditional system, I am going to be funding my mother's retirement. I might point out that this longer life span will differentially affect women because, so far anyway, we're living longer and so far we're also earning less than men.

Second is that I think people will still retire in 20 years, but they won't necessarily do it when we expect them to. Edy said earlier that there may be short spurts of workers going out of the workforce, coming back into the workforce, going out of the workforce. People will want to accumulate wealth and then use it for whatever need, whether that be child care, dependent care, starting their own business, going back to school. So a long, continuous span of employment followed by a somewhat long, continuous span of retirement will not be the pattern of the future. In fact, we're already seeing it in our employees in the present with some more independent decision making.

Finally, and most important from my point of view, is that companies are learning that they are not paying to motivate loyalty. That may even be less than effective from a business point of view. What they're trying to do is pay employees for the expertise and value they can add to the company right now. As we look at the changing nature of work—all the words like delayering, flexible work teams, allegiance to profession and not to company, outsourcing, consulting, joint ventures—what you get is a very short period of allegiance to an employer and people who say, "Pay us for what we know now and what we can contribute now."

I think that the key to that is because technology is changing so much. What you can offer to your company right now may be obsolete in five years. Much like athletes who must get the most out of their current careers because they really can't expect to perform at that level for 20 years, many people in the knowledge economy must actually leverage what they can do right now.

The way I think that has implications for pension planning is the way we're seeing it in current benefits now. You've worked for your current employer for 10 or 15 years, and you've built up seniority and pension credits and benefits. You are recruited away by another company. It will pay you, obviously, and motivate you to come. It will pay you for your level of seniority. It would be unimaginable, I'm sure, for you to then hear, "Oh, and by the way, after you've been with us one year, you'll get one week's vacation. Your service will accrue and you'll work your way back up to the four weeks vacation you just left at your current employer." Most of us would say, "Hello? What planet are you on?" and negotiate an individual arrangement.

That, I believe, is the forerunner of the way everybody will be negotiating everything in a very market-based economy in which, in essence, we'll ask not only for front-loaded vacation plans but front-loaded pension plans. "Let me give you the best I can right now. You give me the best you can, because I cannot depend on your loyalty as an employer and you can't depend on my loyalty as an employee."

MR. MATHEW GREENWALD: I'd like to make a few key assertions. Assertion #1: retirement will be increasingly expensive. In fact, it will be much more expensive in the future than it is now because, as was alluded to earlier, life expectancy at age 65 is going up fast and will go up even faster. It will accelerate. We're doing a better job of dealing with the killers—cancer, heart attack, and stroke—than the cripplers—Alzheimer's, osteoporosis, arthritis, and people living into the sickness years. That's very hard to care for. It's expensive to care for.

Edy pointed to changes of family patterns. Part of the implications of that is there will be less care by children of their elderly parents, fewer parents living with their children, which means that when people in old age get crippled they'll have to buy care at nursing homes or from nurses that they used to get free from their children.

There will be more medical technology. Health care going up to 20% is what we heard earlier. Most health care is for older people, for retired people.

There will be cutbacks in Social Security, the current funder of retirement, and higher lifestyle expectations. Future generations of retirees will simply want more, will want to do more traveling, for example, than past generations.

Assertion #2: don't expect a decrease in the average time in retirement. Edy alluded to burn-out problems and people's transition into retirement earlier and then maybe going back to work. So people have, I think, a desire to retire, as surveys have indicated, well before age 65. There's an increasing global competition for jobs and for work, which will intensify. Older, usually more highly paid people will compete as never before.

Technology is eliminating jobs, especially middle-management jobs, and that trend will increase. There's a changed compact between employee and employer, less loyalty, less of a perceived need to keep the older worker. Even if the average age of retirement goes up, remember that life expectancy is going up faster. We'll have to do a lot with the average age at retirement to keep even, so there will be longer and more costly retirement.

The younger generation is doing a worse job of saving than previous generations. As they are facing a costlier retirement, they're less financially prepared; and for various and sundry reasons they're less likely to be as lucky as previous generations in having a high run-up of housing values, which funded retirement for the currently retired. Also, the movement from defined-benefit to defined-contribution plans means more conservative investments and retirement savings accelerating less than in the past.

Because of changing family patterns, there's less of a perceived need to leave an estate. Right now, many retired people invest conservatively, live off the interest on their principal, and the principal becomes their estate. That is an accident, not a strong desire to leave an estate. People think that their financial responsibilities to their children ended when college was paid for, if not before.

Conclusion: We need to fund a course of retirement with less money. The way to do that is to develop more efficient products that attract funds earlier and use them more efficiently, trying to use in one's lifetime the principal as well and guaranteeing a lifetime income. We need more use of creative products that actuaries can create.

MS. WEINER: Pat, let's say I'm the president of Company XYZ and I want to get some good people working for me. I couldn't care less if the workforce was with me for another year or two or three, because there are plenty of people looking for jobs. I can bring them in anytime I want to. Most of my people are replaceable. In fact, I like it that way.

With the exception of the two or three people who I'm willing to make some kind of a bargain with, as I would a professional athlete, and say I'll front load for you, why would I care? Given what's going on today, why would I, as president of XYZ Company, want my actuaries coming in and telling me what I should and could be doing for my people, as Matt says earlier, when I really don't care?

MS. SCAHILL: We're seeing a lot of that. Employers are more interested in paying for today. Employees, the younger generation in particular, are interested in being paid for today as opposed to saving. The recognition of the need for retirement oftentimes will happen when it's too late. When a person is 40, 45, 50, 55, when they don't have time to save for retirement is when they're going to care.

Certainly, if the employer has a few good people he or she wants to hire, you can do that through a nonqualified plan. You can do that in a separate arrangement and you don't have to provide things for your entire employee base. I do think that's part of the changing focus. Obviously, paternalism is what brought in many defined-benefit plans. The move away from paternalism, the move away from loyalty on the part of employees and employers, has taken us away from that.

I think that only if senior management, in looking forward to their own retirement and feeling uncomfortable, sees the need to provide coverage for all employees, that's the only way I can see that employers will shift their focus back toward taking care of employees in retirement. But why does senior management need to do it! They're certainly part of that small group that can be taken care of on the side.

MS. WEINER: So it's going to be a kind of free-for-all out there?

MS. SCAHILL: I think that it's going to really fuel the retirement crisis. I think the retirement crisis is coming right behind the health care crisis. After we mess up the health care crisis, I don't know what we'll do with the retirement crisis.

MR. GREENWALD: From the employer's side, I think there's going to be a substitution of information for money. I think employers are more and more reluctant to fund retirement through defined-benefit programs and things like that. They want their employees to voluntarily pay for it or to contribute to it. The way to make that effective is to provide advice, information, and motivation to get employees to recognize the need for retirement so they can fund it through various tax-advantaged vehicles.

I think the area for growth is in educational information programs, maybe with entertainment thrown in to make it effective, which will help employees recognize the need to fund their own retirement and get them to do that.

MS. WEINER: Yes, and with a big component of entertainment, because there's no reason for a younger person to really want to take advantage of all this education when it's pretty dull, pretty boring, pretty actuarial, and whatever else we could say about it.

However, you made a statement that younger people are not saving. Yet we see indications that for the first time, when you ask people in their 20s or 30s if they're starting to save some money for their retirement, they say yes. When we go back to our earlier days at the Institute of Life Insurance, you couldn't get anybody under the age of 55 to say that they had thought at all about their retirement. Is something changing here?

MR. GREENWALD: I think something is changing. People think that their retirement money that's gathered in defined-contribution and 401(k) plans is theirs. They have an ownership of it that they didn't have before. People didn't know what was in a defined-benefit plan. They didn't understand it and didn't think it was theirs. Now that they're making investment decisions, they think they're doing something. But I don't think what they're doing is up to the challenge. Personal savings rates are down substantially from what they were even five or six years ago. There's the start of an awareness, I think, but just the start.

MS. WEINER: Does anybody out here want to make a comment or challenge anything?

MR. ETHAN E. KRA: If we try to relate the years after retirement to the working years and want to give the same relationship that Bismarck was doing in his economic model, assuming he had actuaries working for him, we'd have a retirement age for Social Security at about age 74 today. Unless we are willing to own up to that and change the mind-set of our fellow Americans that retirement is not age 65, but is somewhere in the 70s, we will continue to have an ever-growing crisis.

The problem regarding retirement income security is a problem created by Congress. Congress has so totally fouled up the retirement system with one law after another, they've encouraged plan after plan to be terminated. About 15 years ago, I would put in a defined-benefit plan for 20 or 40 people. Today, I'll tell any company with under 500 people it would have to have its head examined to put in a defined-benefit pension plan, because the cost of administering it is so great compared with the benefit delivery. So even if you have a paternalistic employer, Congress has totally ruined the system.

MS. WEINER: So why should employers be in the pension business in any event?

MS. GRILLO: I think there's an interesting social and moral implication. I remember 20 years ago being part of a presentation to a president of a major money center bank about providing child care help for women employees. It wasn't for all parents. It was for women employees. His honest reaction was why would the company want to do that? If women want to come to work, they'll find a way to get babysitters.

Twenty years later, I think that the value proposition of providing family support to men and women who work for a company has come a long way. It's matured in many companies. Many companies see that as enlightened self-interest in order to continue to get the people that they want, and all the people, not just the few whom they want to negotiate for.

I also think that companies should provide a flexible pension environment, help people think about coming in and out of the workforce in a flexible way, help people to think about working into their 70s. But many employees are coming to grips with that faster than many employers. Twenty years from now, I think we'll be having a very different discussion.

MS. WEINER: There's a good point, Carolyn. The issue of the comparison with day care makes a good point. The fact of the matter is that as companies are downsizing and people can work from home a lot more, there is an enormous unemployment and underemployment rate out there; they're really in a buyer's market for jobs. They don't have to offer day care. It's your problem or whatever. We can get 5 very qualified people or 100 very qualified people for this position that we're offering. If you don't like what we offer, too bad, there's somebody who will take it.

We have been through 20 years where there was the projection that in order to get the good people you needed, you had to take some kind of interest in whatever else was affecting their ability to work. We are now at a point where employers could potentially say, "I really don't care. I can have anybody come work here. It's not a day care issue. It's not a pension issue. It's just more of a dispensibility and a decentralization issue. If this is your problem, work from home if you want to work for us."

MS. GRILLO: We see many employees' values changing. Many employees are pushing back and saying, "No, I don't have to work for you." I'm talking about the traditional middle class. Maybe they will trade money for time. Maybe one of us will stay home, for whatever reason. They will ratchet down their expectations of lifestyle and won't come work for you. Do you know what? We believe that will happen more and more as you look at the work-related values of what's been lovingly called Generation X.

MS. WEINER: You're saying I might put out an ad and I might find that eventually nobody I really want is willing to come work for me.

MS. GRILLO: Yes, that's what I'm saying.

FROM THE FLOOR: I was just thinking that it is rather helpful to think of retirement in two parts. One part is when you could be working. You're healthy enough and able and could be doing something useful. The other is where you're incapable of working because you're disabled. I'm defining disabled in a very broad sense. It could be simply old age or the inability to continue working rather than a specific disability.

It seems to me that if we look back at the agricultural type of society, people didn't think so much of the vacation aspect of it. So where we said retirement was irrelevant, actually the family took care of the older person who couldn't work the farm. As time went on in the industrial kind of society, it got harder to tell the person that he couldn't do the job, even though he still couldn't do it, and that's really where the age-65 thing came in. It was easier to say you had become 65 years old than it was to say you could no longer do this administrative job.

Now, as life expectancies got longer, it's almost as if people lucked out on a long vacation. If they manage to avoid getting disabled before they get to age 65, they have a sort of extended vacation during that window between when they turned the right age and when they couldn't have worked anyway. I think we're going back to the farm situations and that extra vacation between when you turned 65 and when you can't work anyway disappears.

You take the vacation when you can during a working lifetime. Then, Social Security can take care of the periods where you're unable to work. But it probably can't provide you with that period of time after retirement, before you're disabled, when what you want to do is take the Alaska cruise. That's probably the kind of thing that's going to disappear.

MS. WEINER: So what we're talking about here is the fact that there may be periods of retirement, or semiretirement, or sabbaticals, whatever, throughout your life, with the expectation that you're not entitled to take a period of vacation time at the end of your life unless you pull down on your own savings. You have to find productive employment or do something until you truly are disabled. It's for you to somehow figure out what you're going to do during all of those predisablement years. How do you feel about that, Matt?

MR. GREENWALD: It's going to be very difficult to get from here to there. People see how their parents lived their lives and look upon that as a model to improve upon. The retired population today is very lucky. They had all kinds of support from the expansion of Social Security.

MS. WEINER: They also had support, as Carolyn said, from their children who are using their retirement income or their nest egg to support people who are currently retired.

MR. GREENWALD: That's right, but the people who are preretired and are going to retire, especially the baby boomers, won't be that lucky but will still want it very much and will still insist upon it. I think telling them you're not going to have a retirement, you're not going to have the time to enjoy the golden years will be very difficult. People want to retire when they're healthy enough to work and healthy enough to enjoy other things.

The age of retirement is not moving up in pace with the increase in life expectancy. I just don't see that as something that employees or that employers want—to have an older workforce—or that employers think that they have to provide or can provide. We might get there, but I think what we're going to have first is a generation of impoverished older people. That's a scenario that doesn't have to be. There's still time, but I don't see the generation saying, "Okay, I can't have a retirement. I can't have what my parents had. I'll continue working." I just don't see it.

MS. WEINER: Well, the baby boomers are most potent in terms of political influence. We talked earlier about majority/minority populations. There are whole populations in which the younger elements are in minority populations and they may not want to support the white majority population that wants to enjoy retirement off their backs. There's going to be a cultural clash and a political numbers clash. It's not going to be easy. I don't know whether we'll see impoverishment or just a lot of political strife.

FROM THE FLOOR: I think that we'll see a trend toward more people downsizing their expectations about work or shifting those expectations to some area of personal interest. For example, a manager may work until age 55 and then may decide to do something entirely different, like have a fishing tackle shop at a resort location where he can use his managerial skills but still enjoy that retirement in a more relaxed setting and maybe lead fishing cruises somewhere out into the islands and this type of thing. He has his vacation in a way, but he's still in a productive capacity.

I think you're going to see more and more people take that type of route. They're going to become entrepreneurs. They're going to have less income and less benefits.

MS. GRILLO: Why wouldn't you assume that you'd have that same manager at age 45 say, "I've had it. My company is downsizing."

MS. WEINER: We talked about that this morning—the burnout. There's very fast and very early burnout: you've experienced everything, you've done everything, you've traveled everywhere, and you've had what you wanted. "What am I sticking around here for? This is just very dull and very boring."

MS. GRILLO: "Further, I want my pension money now. Give it to me and let me play with it, if I choose to. If I need it as a capital investment to open my tackle shop, that's my decision." I think there will be more pressure for that.

MS. SCAHILL: That leads to defined-contribution plans, because that's going to provide the nest egg that will fund the subsequent retirement. Many of the jobs that perhaps all of us are in right now are very unfriendly as we get older. Because of the demands that they place on us, we just don't have the energy to do them. Also, employers aren't that willing to hire the older worker. I think the tackle shop owner could be a good example. I have a feeling we're going to see many more older entrepreneurs.

MS. WEINER: I think we've touched on something interesting here, which is the fact that retirement, disability, and unemployment are all starting to come together. The question is, where are we going to see the financial mechanisms devised, identified, and created that are somehow portable across all three? Right now, we make perhaps what in the future will be a very artificial distinction between the three. Maybe one of the great challenges ahead for us is to design the product that basically sustains someone while he or she is not gainfully employed.

FROM THE FLOOR: So far, we've been talking about people who are lucky enough to have jobs and the people who will be employing them. This morning you were talking about the growing underclass, which I think you said consisted of people who were nonachievers. We used to have a lot of high-paid, low-skill jobs. They've all vanished. These people may be lucky enough to get some low-paid, low-skill jobs.

What worries me is we're going to have a whole group of people passing through the system who may have very little in the way of Social Security and certainly nothing from an employer and nothing from their private savings.

MS. WEINER: The first question is how is society going to maintain them in young age, even before we get to old age? How is society going to maintain everybody as we have all of these draws on Social Security and on our social system's needs? The underclass is not made up of people who are simply underachievers. They have no sense of future and they do want to achieve right now. That is a major distinction. They don't understand that you need to work hard or put aside for the future. They want to get whatever they can today because they don't sense that they have a future.

FROM THE FLOOR: The most successful system we've had is Social Security. I think we will continue to rely on it. Inevitably we'll see that it works and we'll build on it. The alternative of not letting people retire is, as Pat indicated, they'll compete for jobs and drive down wages. I think we'll understand that and we'll put more reliance on Social Security.

MS. WEINER: Is retirement always a question of dollars? We've heard some very interesting commentary and thoughts in the past ten years that there are other ways of looking at how to deal with retirement, such as guaranteed housing or guaranteed access, or other things. Does anybody want to comment on that issue—that if we talk about retirement, we're always talking about a system of funding for dollars? What an unimaginative group of people!

MS. SCAHILL: It is certainly the way our society has evolved. In retirement, we're looking at dollars because we don't have many of the guaranteed services and basic needs provided. If you're going to have an alternative to money in retirement, you've got to provide for the basic needs—food on the table and a place to live.

MS. WEINER: We do have examples in other countries around the world where retirement kicks in with things other than dollars, such as guaranteed housing. In fact, as we move toward a world in which global corporations start to take on some of the prerogatives of nation states, as we talked about earlier, it is really quite possible that these global corporations working in a global labor environment will think very differently about what they want to offer their people around the world and not just peg that in dollar savings, especially when they come from a combination of cultures and countries and different approaches toward retirement.

MR. THOMAS NAFFE RICE: I see a move away from that. Unless I'm wrong, the Japanese are tending to come more toward the American view and away from the paternalism point of view with their corporations.

I don't know that you can substitute something later on for money, especially because we're so in tune with independence, buying our own things, and getting money now that we can understand the concept of money later.

I've seen my parents taking care of us and our kids. Yet we're talking about having to take care of our parents and their parents. When we were agricultural, parents had a lot of kids and so the kids could take care of them. I think it's turning the other way.

I hear that about $7 trillion will pass onto the younger generation and it makes me wonder. What are we going to do with that? Here we are worrying about how we take care of older generations and it sounds like there's going to be all this money flowing down to us. It makes me want to just wait.

MS. WEINER: It certainly makes you want to make your parents feel like you are willing to take care of them so you're sure to inherit that, and it also sets up the opportunity for many more tackle shops.

MR. GREENWALD: There was a comment earlier about Social Security being the most successful of government programs. I believe it is, but it already has been cut back for the middle class. It's taxed at 85%. The age of entitlement for the baby boomers has been raised. This is well before the demographic crisis when the outgo starts exceeding the income, which is going to happen within 25 years.

What I think is going to happen to Social Security is it's going to be maintained, but it will be tilted more on a means-tested program. It's not only the floor of protection but the ceiling of protection.

MS. WEINER: Might we not see a migration over time, to take some of the monies going into Social Security and start directing them into private kinds of programs? People complain about paying Social Security. Minorities are definitely going to complain about being totally left out of the wealth picture of the former generation. They're not sitting there looking to inherit large value in their parent's homes or their parent's saving accounts. Yet they're having to kick an awful lot of their money into the maintenance of the lifestyle of the people who came before them. That doesn't look like a very happy scenario.

MS. SCAHILL: It's going to become means tested, so I'm putting a lot of money in and I'm going to perceive that I'm not going to get much money out. Each individual is probably going to think he or she is going to be one of the ones who's going to have the means and therefore will not get the benefit at retirement. I think it's going to increase some intergenerational conflict. We have enough societal problems, but I think that's going to add to them.

FROM THE FLOOR: I think that once this becomes a means-tested system, the universal support will vanish very quickly. Right now, people perceive it as being fair.

MS. WEINER: They're hoping to get the same thing when they retire.

FROM THE FLOOR: Once the support is gone, politically this thing just becomes another tax.

MS. WEINER: We are a very, very diversified population. We have different economic classes. People save differently. People have worked differently, people have different expectations, people have children, people don't, people are married, people are not, women live very long, women die early, and so on. We talk about *they*. I have a question for our panelists and also for the audience. Who will be hurt the most during the next 20 years by current problems with the retirement system? What kinds of people?

MS. GRILLO: During the next 20 years, I don't see the balance of advantage and power in corporation shifting all that much. I don't see the earnings gaps closing significantly for white men, white women, and people of color. It will be better for white women, but not that much better. When you start talking about what your contributions have been and what your means are, I think that the means will be lower. I don't have confidence that Social Security will pick up the difference.

Is it not possible that we'll see many people choosing to opt out of the formal economy? As we have more people who work as consultants, who work in the changing ebb and flow of teams, don't you think that it's possible that we'll have more people saying, "Just pay me as a consultant. Just pay me in cash. Maybe I'll find a way not to declare this income at all. I'm really going to take this into my own hands." Many people complain about FICA and all the deductions that come out of their paycheck and say all the time in the cafeteria and in the hallway, "Boy, I'd really just rather have this money and be responsible for it."

MS. WEINER: That's why we see a major growth in the underground economy. We touched on that this morning. For those of you who weren't here, the statistics on the underground economy are that it's anywhere from 13–29%, the size of our gross domestic product (GDP) and here in the United States is lower than anywhere else in the world. The fact is that it used to be that people went into the underground economy to conduct illegal business—drugs, prostitution, gambling, pay-offs, bribery, and so forth. Now, an increasing proportion of that underground economy is for people who are conducting legal business, but who are taking their money off the books just for that reason. The accumulation of all of the components of what comes out of their paycheck really doesn't make it viable for them to take their money on the books.

Carolyn mentioned this issue of women. She said white women and women of color. I'm going to basically put this proposition to you. During the next ten years, we are going to really experience a great growth in the female market for financial services. Most financial service institutions, most actuarial work has been born and has grown up in a time when the male population was really the target of interest, the target of understanding, and the target of funding. There are very female-related and female-specific pressures, concerns, risks, and needs along the pace of a lifetime.

For example, there is the fact that it is women who, far more in number than in men, outlive the source of revenue to maintain them into retirement. Many women find that they have to confront retirement. As a matter of fact, I am often amused by the fact that an 80-year-old man who's lost one eye, walks with a cane, lost all of his hair, is totally dull of wit and personality, will still be attended to by several females—the neighbors, the people in his family, other people's friends—if he is single and alone.

Yet a beautiful woman who is very exciting of wit and personality and who is very vibrant is alone at the age of 80. She is not being attended to by many other women or any other men. The fact is that there is a kind of unequal situation as people age in terms of the resources that women can expect to have available to them and the resources that men can expect to have available to them, even in basic, everyday support systems.

Further, when we look at the next 10 years, we see the "damned if you did and damned if you didn't" decade for women. If you are one of those women who decided that you are going to stay home and raise a family and not go to work because you think it is really important to raise a family and pay attention to your children, and now you decide you want to get into the workforce because your children are grown, you can't get in. It's very difficult to get a job, to get anything that's worthwhile, no matter what kind of education you had.

On the other hand, if you are a woman who never had a family because career was very important and you are in that baby boom population and you move up into your 50s, you start to resent the fact that you never had a family, whereas men who are the same age as you are able to have a family. Then you might be someone who decided to stay home forever with your children and never work and when you turn 50, your husband divorces you to live with a younger, more vibrant person who's in the workforce.

You're damned if you did and damned if you didn't. There is no so-called right choice anywhere along the way. Now, given that, it seems to me that many more women are focusing more intensively on their financial self-sufficiency. They don't trust employers to be there. They don't trust husbands to be there. They don't trust children to be there, if they have any at all. If they do, there are fewer. Do you agree that we need to start taking actuarial looks at everything we design with a very different species in mind?

MS. SCAHILL: I certainly agree that women will increasingly become consumers of the financial services and take responsibility for themselves. I'm not convinced that the retirement systems were designed with a man or a woman in mind. I don't know that I agree with the premise that actuaries will have to retool their delivery of services. Frankly, I think their clients will become a different gender. Far more women will be chief financial officers.

MR. GREENWALD: I think women face different risks in retirement than men. They live longer. They have less support because their husbands typically die before they do.

MS. WEINER: Or leave them.

MR. GREENWALD: They're more likely to have financial difficulties in retirement than men are and therefore need specific retirement planning and resources to make up the difference. They're usually the victims more often than males. I think it's changing rather rapidly, but I think typically males made more of the decisions about retirement planning. Maybe that's one reason why the retirement resources might have ended when the man's life did.

MS. WEINER: They died happy. We died poor.

MS. SCAHILL: In thinking of employer-designed or employer-based systems—a defined-benefit plan or a defined-contribution plan—I'm not convinced that they are designed around a man or a woman. I definitely agree that those who are delivering financial planning services need to provide those services differently, because men and women don't have the same needs.

MS. WEINER: I was fascinated to learn a couple of weeks ago, from a panel that I had set up for one of my clients of women who came from all over the world and who were experts in various attitudes of women, that there are communities and countries that are starting to fund retirement homes and housing for their expatriate people for when they retire.

In this country, when Chinese parents are very old, they can go back to China to retire and live in communities that they grew up in with people whom they once knew. The same thing is happening in terms of many Latin countries.

One of the challenges we have in this session, as you look around at each other, is that there is so little diversity in this room. We are talking about financial needs in retirement, of aging, of expectation, of support systems for people who will increasingly populate the companies we work for and the communities we live in. We are talking from a mind-set that is becoming increasingly a minority.

FROM THE FLOOR: I'm wondering why we think we have this social responsibility in the first place to protect everybody from every poor decision they make, whether it be the wrong spouse or the wrong job. Why don't we just let people take their earnings and decide what type of retirement is better for themselves? Why do we feel we have to design a program to fit all these different cultures? Some people have different plans. Why not let them live by their mistakes? Some will succeed and some will fail.

MS. WEINER: The question we're left with is why do we need a retirement system anyway? Why even worry about this? There are five people standing in place for the job you have. If you don't like it, tough, I'll get somebody else. We have no real responsibility. You can save or you can do whatever you want. I don't want the headache of thinking whether you're a male, a female, a Hispanic, an Asian, or whatever. I don't want to know that you're 40, that you're 55, that you're 25. I just want you to come here, work, do your job, and then do whatever you want to do. After that, use your money however you want.

As an employer, I'm calling in my corporate actuary and I'm saying, "Look, we are downsizing. We're cost cutting. We're taking a look at what we're supposed to do for our employees or potential employees during the next five or ten years. I want you to come in and tell me how I really should be designing, doing, and setting up my programs to help me achieve and accomplish. Throw out the things that we did for 100 years. Nobody is doing them anymore. Business isn't what it was 100 years ago. We're moving into this economy where people are working at home. They're working on their own. I'm into joint ventures, strategic alliances. I'm not set up the way I was. I need to compete differently. Service is my issue, not product. Design me something that costs a lot less and that serves the purpose that I need to have service to make sure I can get the best talent I need, when I need it. What do I do?"

MS. GRILLO: I'd say first form a consortium with other companies and with government, look at yourselves as one lump; because in the end, people at the ends of their lives are going to have to be supported. Unless we change our cultural values a lot, we're all going to end up paying for it anyhow. Second, take your piece of it and front load. Pay in some way that makes the employee think that dollar for dollar, for the hour that he or she put in, he is getting something out and is able to control when it is taken out.

MS. WEINER: What I'm basically saying to my new employee or any employee is I'm going to reverse the system of retirement funding. I'm going to give you more in the early years and you're going to vest immediately. The longer you stay with this company, the less of a percentage you actually get, and the whole thing is portable.

MS. SCAHILL: That becomes a very expensive system and it's not an effective way. I think that it's what employees currently want, but it's not an effective way of providing retirement income. It's providing periodic savings during someone's lifetime. You mentioned that we may have little spurts of retirement. If we have that throughout our working lifetime—and maybe some will have a burst of retirement at age 30—then the kind of system that Carolyn just described would work. But if we're still focused on providing retirement at some stage later in life or closer to the end of life, the front-loaded system with immediate vesting isn't effective.

MR. GREENWALD: If I wanted to help my employees retire, I would try to use the money as effectively as possible. Of course, I would encourage them to contribute to keep the cost down, which is important to many employers, and develop 401(k) plans to do that. But I think I'd be tempted to put my contributions into deferred annuities that paid off at some age, let's say 75, because it doesn't take very much money now to provide a system that would say to people, "You just have to work until age 75, because if you live that long this deferred annuity will take care of the rest and some long-term care." At age 40, you could buy a long-term-care product, properly designed, that wouldn't cost that much, but which would take care of long-term care, building up tax deferred or tax free.

I think I would use my money differently to use the insurance mechanism, not to deliver money that people could extract before retirement, but give money that would just go to the survivors who really needed it, who lived a long time, or who got sick or disabled.

MS. GRILLO: Like a tontine?

MR. GREENWALD: Exactly, because I think a tontine is the exactly right approach to deal with retirement. Have everyone fund it to pay for the people who are aged 75 or 85 and older. That's the way you get the efficiency to make it work.

MS. WEINER: But you're saying something else. You're saying basically to use insurance mechanisms as opposed to a savings mechanism. You're saying, as Carolyn said, front load it so that in the earlier, younger years it costs far less to buy the same benefit for when you get older than it does if you happen to be older. So it makes a lot of sense, because an employer's dollar will go a lot farther for the employees who are in their 20s or 30s than the employees who are in their older years. That way you basically provide a package that is a retirement package, but it doesn't have as much of a retirement or pension component to it.

FROM THE FLOOR: Earlier you used the blessed name of Adam Smith. There are labor markets. Rather than simply the panel deciding what is best, we need to elicit from those customers who are served what is best. The elicitation of those values and opinions is our first responsibility. We do not impose it no matter how bright we are through our organizations, professional, labor, and so on. The markets work. Let's let them work.

MS. WEINER: I have to disagree with that. I think that when we're talking about paying now for a reward you may not receive until much later, the market does not work as effectively. This is because there are people who will not make effective or efficient decisions for what has to be done and the rest of the population winds up paying for it.

If you get an immediate payback for what you're paying, the market does work. The longer the extended time between what you have to do for what it's going to return, the market becomes less efficient and you start segregating between those people who are more conservative by nature, more long-term planners by nature, and those who are not. Then you're left with a decision at some point in the future as to whether you're going to take care of those people who made poor decisions.

Now, you could decide politically that you will not; that if they made a lousy decision, that's their problem and you shouldn't have to pay for it. Historically, we have always gone through cycles that present themselves to us this way: Address, redress. Whenever we address a problem, we never go far enough. That leads us to having to redress the problem. Whenever we redress the problem, we always go too far. We seem to be stuck in that cycle no matter what it is we're talking about, for whatever extended period. Address, redress. When we've addressed the problem of retirement, we really don't go far enough. Then when we try to redress it, we muck up the whole thing by going too far.

FROM THE FLOOR: When we design plans for the future, we somehow base our design on assumptions and statistics that we have collected in the past. But things are happening so fast and so unpredictably. As we plan for things now, based on historical data, trends are already changing.

MS. WEINER: I think that the issue is whether we can go forward anymore with the certainty plans. I think the entire pension system was built on the idea of certainty planning, and that's what we're challenging here. That's what the whole morning has been challenging—the ability to use certainty planning. Maybe it requires using some components of insurance in place of a regular savings program. Maybe it requires putting more burden on the employee to figure out some composition of saving or retirement. The issue is how do we go forward and serve companies that need to design incentives, have some concern for social consequences of people retiring at some point without adequate income, when we don't have certainty planning?

Also, I would go back to the issue of how we wind up with trade-offs in the system. You're going to pay for it now, or you're going to pay for it later, but you're going to pay for it somehow. One of the reasons we have a problem with disability income or workmen's compensation is unemployment. Because there are people who don't have enough retirement benefits to retire at age 55, they go onto workmen's compensation and it brings down the state of California or the state of Maine.

The fact is that we are looking once again at the issue of not just retirement funding from the age of 65 on to whatever, but funding for those people who find throughout the course of their life, whenever it occurs and for however long, that they do not have maintenance income or income that supports their expectations.

MR. GREENWALD: I think that actuaries have a wonderful opportunity. Right now, retired people are not maximizing the efficiency of their retirement dollars. As a result, many older people are living in poverty and want, and yet are passing some money onto their children when their real goal is financial independence.

I think there's an increasing need to use the insurance mechanism to attract money early, have it build up tax deferred, and then give it to the people when they really need it and in the right amount. That, I think, requires a new generation of products, education, and marketing that actuaries are in the best position to provide.

MS. WEINER: I think that's an excellent point, that instead of being in the financial services business, savings and investment, to really go back to what actuaries were all about, which is in the risk business and the insuring mechanisms and vehicles.