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The Old-Age Crisis

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Panelists: CHRISTOPHER DAVID DAYKIN
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Summary: Panelists address the problems of aging populations, including research and social security developments, and discuss the wide range of issues. This session allows for an open discussion of wide-ranging viewpoints among both the panelists and the audience to foster awareness of the issues and motivate interest in solving the problems.

Mr. Robert M. Katz: We have four panelists to give rather extensive presentations on very different perspectives on the old-age crisis.

We are going to devote an entire session to comments and questions, and to hear from the experts that we've assembled on the panel. In addition to introducing the panelists and giving you a little sense of the rules, I'd like to state that our objective is to give as much opportunity to the audience to make brief comments if you wish or ask questions, and then give our panel of experts an opportunity to share with us their knowledge and experience as well.

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I am from the World Bank and I'm the moderator, and my sole function in this is to keep comments and questions to a relatively brief period of time, and I'm going to use a technique stolen from the Australian actuaries, which is to be a little abrupt in cutting people off.

Our panelists are in random order in terms of numbers and things like that, but I'm going to introduce them for you. We have two economists and two actuaries. Robert Friedland is director of the National Academy on Aging and he will speak another session at this meeting. Chris Daykin is the government actuary from the U.K. and he flies around the world and deals with many issues like social security reform and pension reform. Dimitri Vittas is from the World Bank. Dimitri is a pension and insurance expert. He also works in capital markets, regulation and so forth, and he has traveled extensively around the world to consult on social security and pension reform. In fact, immediately after this session, he's catching a plane to Kazakhstan and as I got an opportunity to announce to him, they've changed the spelling of Kazakhstan, so he's going to have to change his plane tickets. Anna Rappaport, who of course is the incoming President of the Society of Actuaries (SOA), will share a number of interesting perspectives on what the old-age crisis means.

Some people have indicated an interest in making comments initially, so we're going to spend some time giving audience members a chance to either ask questions from the panel, discuss things, or make brief comments if they wish. We also have a few topics that we can pick up on during the course of the presentation. I am very honored to ask Bob Myers to be the first person to comment.

Mr. Robert J. Myers: I'm a long-time student of social security. Just to start the debate going, because I think we're all entitled to our own opinions but not our own facts, I say this session is misnamed. There is no old-age crisis; certainly not in the U.S. In the U.S., there isn't really a great demographic problem. Our fertility rates, excluding fertility that represents net immigration, is at replacement level. Sure we're going to have a higher proportion of aged, but we've known about that for years; this all can be handled. A crisis, according to the dictionaries that I've consulted, is a catastrophic event that's going to happen very soon. That is just not the case in the U.S.

Too many people in this country and elsewhere think that social security is supposed to be an investment program. It is not. It's intended to be an income-maintenance program. I've also heard that at the previous session, there was a lot of talk about more and more individuals being in favor of having an individual take more responsibilities for their own financial careers and their retirement and so forth, and I don't think that's so. I think the people who say that are those of the

Libertarian philosophy who really believe that everybody should just be concerned with themselves and the devil take the hind most. They don't go along with the biblical injunction, we should be our brother's and sister's keepers. Now by that, I don't mean that everybody should be taken care of by the government. The government is really us, not them, but people should be concerned about other people and I don't think that many of these proposals that are out to privatize or partially privatize social security programs throughout the world are providing income maintenance for the population. I don't believe that most people are interested in investments. I don't believe they're interested in learning about investments. They have a lot of other interests in life, and I think that the government, meaning us, should provide a basic core of economic protection through social security systems.

I think that defined-contribution pension plans just don't do the job. They have a certain role to play. They're a good way to supplement a good, basic social security system or a good defined-benefit plan, but they just don't do the job of providing retirement income. They're a good icing on the cake, but they're not the whole cake. First of all, the great pressure that people put on defined-contribution plans to get their money before they retire and use it for other things may be good or bad, but they're told, “This is your money.” That's the beauty of a defined-contribution plan. It's your money, so they say, “Yes, it is my money. Give it to me now.” Also when they get to retirement, you have the problem of whether you annuitize or not. Either way you have problems. If you annuitize, it's unfair to women because they get lower returns off the same amount of money than do men. It's also unfair to one-worker families when compared to two-worker families. There are all sorts of problems when there are divorces and, if you don't annuitize, then you have the problem that people use up the money quickly. Even if they are prudent about it, they may use it up by living too long.

I predict that in five to ten years, many of these countries that are being coerced by the World Bank are going to be in one horrible mess. I don’t think that the World Bank is planning it that way, but I just think it's going to work out that way; we'll see. Let's have another meeting ten years from now and know what the facts are.

I think that at least in the U.S., we should not cut back on the social security program, cut it in half or more as some people are saying, or put it in an individual account system. However, we should adjust it in a preferred, gradual basis. As Secretary Reich said so correctly, although it appears that the U.S. Social Security Administration (SSA) has a problem more than 30 years hence, this is not certain. The very professional actuaries at the SSA put out a low-cost estimate that is possible, although it's not highly probable, which shows there are no problems.

So it isn't a definite fact that come the year 2029, the system's going to go under. I think that we could perhaps add on top of the Social Security program a mandatory individual account system that's independent of Social Security. I don't think oil and water should mix, and this system should be run completely through the private sector. People should pick mutual funds or banks or things like that. The only proviso I have had on something like that is that none of the people recommending privatization seem to recognize the administrative problems of small accounts. Very low-income people should be left out of the private system because the administrative expenses of running a mutual fund for people who have only say $1,000 or $2,000 of earnings in a year, largely because they're part-time workers, those administrative expenses will just eat up the account because expenses of individual accounts are necessarily high with reporting every three or four months.

In closing I'd say that we've got a sound Social Security system in the U.S. It pays benefits every month to almost 45 million people at one time and almost entirely accurately. The benefits are of a moderate level. People are making out well, so don't throw it away and try something else.

Mr. Dimitri Vittas: I agree on everything that Robert has just said. I'll also tell you that Social Security in the U.S. is a very efficient institution. I don't see why it needs to be downsized. There's one area I don't agree with him and that has to do with the developing countries, on which the World Bank focuses. The question is not whether the new systems would be in trouble ten years from now. The reality is that most of these countries are in a mess right now. The systems they have been running in those countries have been ill advised, they have been very unbalanced, and they need to be reformed. The recommendation we give is to go towards a multi-pillar system, a big system including both social security and privatized funds following the precedent established by Switzerland many decades ago. In my view the Swedes have one of the best-designed first pillars. There are some problems with their second pillar, which they need to rectify. They can learn a little bit from the experience of developing countries. In general, I have no problem agreeing with the main comments Robert Myers made.

Mr. Christopher David Daykin: I also agree in relation to the U.S. position. There is more of an old-age crisis looming in some of the other Organization for Economic Cooperation and Development (OECD) countries. I have in front of me some pictures of old-age dependency ratios. The old-age dependency ratio for Italy, for example, is currently around 20%. That's the number of people over age 65 related to the number between 50 and 64. That number, 20%, is heading for about 55% by the year 2015. That's quite a sizable increase for a country with a very substantial and expensive pay-as-you-go social security system. Currently I think the contribution rate is about 30% of earnings, so about 65–70% of earnings is needed to pay for social security. You might say that's sustainable, but on the other hand, you could say it's going to cost rather a lot of people's gross domestic product (GDP) to support social security at that level.

There are countries that do have significant problems in relation to maintaining social security systems, and one of the reasons for that is that they've set the level of social security at too high a point. Some of these countries are trying to provide replacement income that's something like 75–80% of final salary through a social security system, and I don't believe that's a sensible thing to do. I think consistent also with the World Bank philosophy, social security should provide a basic level of income maintenance to protect the population against the risks of old age, and the real earnings replacement for people on seriously sizable income should be provided through private schemes of various sorts.

Just a comment on the defined contribution and defined-benefit debate. In many countries, the defined-contribution schemes are being promoted because there isn't really the infrastructure to run a defined-benefit scheme. You need to have employers who are committed to that sort of level of cost, and you need experts. Such factors don't exist in all of these countries. There are a lot of problems with the defined-contribution-type plan because they do, in effect, sustain into old age the inequalities of income that arise during the working lifetime. People with interrupted careers end up with lower pensions. People with lower earnings end up with lower pensions, and there's a problem with administrative costs that Bob Myers mentioned. In our defined-contribution plans in the U.K., something like 25–29% of the premium income disappears into ad charges and profits of the insurance companies. That's nearly at that level in Chile. It's much, much lower in Australia though, and they seem to have managed to achieve a very low-cost system in Australia.

There's also a problem with market levels. You can only if you have a defined-contribution plan. You would rather do it on October 24, 1997 than October 28, 1997 because the market value of your assets may have changed a little. It also has serious consequences for economic development because defined-contribution plans encourage short term as an investment and don't encourage long-term thinking about where you're putting your money, and that's quite well documented in Australia.

Mr. Robert B. Friedland: If there is a "crisis," and you must put quotes around it, it is not a financial crisis associated with demographic change. In this country, which is about the only place I know about, I would say there are two issues that belong on the table when we talk about the old-age crisis. One is, we don't pay enough attention to forming a sense of shared values, and a consensus among shared values, about what our expectations are of this time of life in which we're no longer productive in the labor force, and we're no longer reproducing (or full-time parenting). We certainly have a growing array of complex, familiar relationships associated with marriage and divorce and with multiple arrangements and fewer kids. We don't have enough attention paid to how we want to define and find meaning and value in this long period of time in which we've left the labor force, and I think that kind of discussion extends to what we want for our parents and for our kids with respect to social insurance and private insurance.

The second area I think that we don't pay enough attention to with respect to demographic changes is the linkage to productivity. In this country we are having a discussion about fast track and its role in terms of free trade and productivity, but there seems to be less attention to making the long-run investments in early childhood development and the linkage between what happens in the first few years of a child's life and productivity.

If there's a crisis looming, it is in realizing that we're going to have a very large population of people who have left the labor force and who are looking at perhaps their spouse and saying, "What do we do now?" They must find meaning in that and we've not had that discussion early on. We should have had that discussion and established shared values or at least a consensus about what our values and expectations are about responsibilities in retirement as well as productivity. It will have a long-run bearing on the financial consequences, but certainly in the next 30–40 years, there is no financial crisis associated with demographic change here in this country.

Ms. Anna M. Rappaport: I think the discussion that we've had up until now gives us some very good lessons as actuaries. I very much subscribe to the idea of wanting to see what's going on in different places and understanding different models. At the same time, it's very important that we understand the circumstances that make different systems work well in different situations, or what the pre-conditions are for different systems. We must also understand the differences in circumstances. I think Bob's comments were very good comments about the U.S., and as we think about the U.S. and we think about the developing countries, we need to be sure we focus on the differences. It's too easy many times to say, "This worked well here. Let's transplant the idea here." Sometimes we don't think about the fact that it worked well elsewhere because there was a certain amount of sunshine, a certain kind of soil, and a certain amount of rainfall. As we look at these issues as actuaries, we need to be sure that we understand the external environment and the background.

I'd like to comment on the controversy over "the crisis," and think about the issue of challenges. While I agree with Bob, if we're thinking about the social security system and crisis, we don't have a crisis. At the same time, I think we are facing a great deal of change in the demographics of the population. There are some challenges, and I don't want us to be satisfied with saying things are OK. I'd like us to focus on a couple of challenges. One, we must think about the issue of the frail elderly. I've been using the term frail elderly because I'm not quite sure what the right term is. But we need to think about people who need help of one sort or another, where they're going to get it, and what the systems are to provide that help—whether it's what we thought of traditionally as nursing home care or long-term care, whether it's other forms of assistance, and there is this whole continuum. We do not have in place adequate services or ways to provide the services, and we do not have in place adequate financing for that help. I think that is something that actuaries ought to be very concerned about.

There's another issue I'd like to call to your attention. Bob says the system is working well, and I say I'd like to think about the combination of social security and everything we do as individuals and what our employers do. We still have many elderly Americans in poverty and many near poverty. There are certainly more than I would like to see, and many of them are women. The systems that we have don't work as well as they ought to for people in certain family circumstances. I would like us to remember that as being part of the big picture. So I think there are major challenges to us, and while we can say that some pieces of the system have worked relatively well, when we look at the total picture, we need to have change.

I'd also like to focus on the question of individual responsibility from a slightly different perspective. If I think about this in my client base, the people that I've worked with traditionally have been employers. If we think about my generation, (and I think this applies to all of us, but it might be a little bit more true of women than men), we weren't taught as young people to proactively plan for our careers, or to consider what our adult life going to look like? Why is it important to have financial assets? What kinds of moves can I make?

Many of us have been really quite fortunate in the way things worked out for us, and some of us can say we've been quite fortunate. For me, this is because I was smart and planned it well. We were really smart to take actuarial exams and get into a good profession. But we were also really lucky, and because of the way the world is going now, we need to take more responsibility for our lives. That extends to our health; it extends to career planning; it extends to saving and building assets. Regardless of how we handle social security, the issue of individual responsibility is a very important issue, and particularly important because the larger employers that were willing to do a lot for employees are willing to do less today, and they're going to be willing to do even less in the future, so we must not forget about that.

Mr. Joshua David Bank: I have some random, superficial, probably uninformed comments. First of all, with regard to the women's plight in social security, I think I can imagine that they would do worse in a defined-contribution program because it's regressive and they still don't make a lot of money. Are you talking about insufficient working incomes and accumulating them with regressive formulas? I think they would do even worse.

Ms. Rappaport: Think about the person who spends part of his or her time homemaking and taking care of the family and part of his or her time working. That doesn't account for that at all, but the current system doesn't do very well for that either.

From the Floor: My question pertains to comparing the U.S. against the rest of the world I keep sitting in these sessions and saying, what's the big deal? If you stay with the present program, you have to raise the contributions by 2.23%, and if you go to the alternative, you still have to raise them but only by 1.85%. So what's the big deal? Why go through all that mess for 0.5% in total contribution difference? But I think it's good that all this hullabaloo is making us think about it. At least people are aware and will be more willing to not gripe as much when that 1.85% or 2.23% occurs.

Now as far as the rest of the world goes, I think it may sound chauvinistic, but the non-OECD world has a whole different feeling about taxes and complying with things. They would not be in some of the messes they are if their people actually paid taxes or if the companies actually paid the taxes they're supposed to. Changing the system, as we can see in Chile, for instance, isn't really fixing that. If people don't want to pay taxes, they're not going to pay taxes no matter what system you have. I don't know enough about the Canadian system, but isn't the Canada Pension Plan (CPP) not based on earnings, it's more like a flat amount? I'm thinking that there may be some flat amount, which basically in the U.S. there is, through Medicaid or through other welfare programs. But when you're going with earnings-related amounts, if people don't make the contributions or if government's are corrupt, nothing's going to work.

So there again, I don't want to be too pessimistic, but I think that the World Bank's coercion of these other countries and bringing it to their attention causes them to start thinking about the issue. In a contributory system, it's a little easier for the government to come back and say, "Hey, don't look at me, that's what you have in your account."

In Argentina, the courts are full of cases of people claiming their benefits under the old system, and the government really can't prove that they're wrong—that they can really make those contributions and so forth. If you have an account balance, that's easier for them to prove.

Mr. Vittas: I agree with the points just made. Maybe I need to make a correction. In the World Bank, we're not in the business of coercing anyone. We don't have that much power. People exaggerate and even see us as providers of finance. I made the point that we are a marginal lender; we're not the main lender to any of these countries, even the poor countries. As I emphasized, we create awareness. And I repeat the point I made before that the systems they now have around the world in most developing countries are a real mess. There are some countries where they are not yet that messy, but we can see the problems piling up, and they can hit the world ten years from now if they do not act right now.

All we propose is moving to this mixed pillar, multi-pillar structure. In several countries, we prefer that the government allow for corporate grants to be set up alongside the independent grants because, as Chris mentioned before, there seems to be evidence coming up that countries that allow for corporate defined-contribution plans have much lower cost than the Japanese prototype. So there's no reason for us to exit the defined contribution if it can be run properly. There is so much diversity and variety around the world. Different countries have different problems. Again, I made the point that the 34 programs are not identical. We are not in the business of coercing any person. If we were, there would have been far more uniformity in the programs, and there isn't.

Mr. Daykin: I must comment on one aspect of this and that is, the method by which you put together the structure of the package between social security and different other pillars affects only certain aspects of the problem. You still have a demographic situation arising in different parts of the world due to the changing proportions of aged people. If the elderly group is growing relative to the number of working-age people and, in economic terms, if they're going to be supported in old age, there are going to have to be transfers taking place through the economy now that will help to support their income.

In the case of a social security system such as that in the U.S., that's primarily done through direct transfer payments. That is politically rather up front and so there may be advantages in doing it a different way because it avoids Congress having to worry about the specific level of the tax rate. Nevertheless, you still have to make the transfers even if you're doing it through a private system. And when we have a substantially private system, as we do in the U.K., the demographic situation is still going to put enormous pressure on markets as we move into the next century. At the moment, markets are being stoked up by everybody saving for retirement. Masses of money are going into retirement funds of various sorts. By the year 2025, everybody will be taking the money out of those retirement funds, and the market will be nicely stoked down so that one can anticipate much, much lower real rates of return as we move into the next century.

Mr. Bank: I am convinced that many systems around the world are broken. My father worked in Mexico for 25 years and he now collects about $43 a month from its the social security system. Fortunately, he put $15-20,000 in the stock market in Mexico in the 1960s, and has retired completely off of that. Maybe that's a voluntary three-pillar system. I realize most people do not have that kind of disposable income to invest and a forced system does make sense.

Mr. Robert C. Winters: Lest we spend too much time solving the problems of other countries, I'd like to add two challenges to Anna's list. One is the provision of medical care for the elderly population, and the other is the status of our defined-benefit plans for public employees other than at the federal level. The funding of a lot of state, local, and Board of Education defined-benefit retirement plans is a hidden potential tax burden on the future that's not receiving as much attention as it should.

Ms. Rappaport: I have some response too that these are great challenges, and from the issues that Bob raised, I think there's also a real risk in terms of people in some of these state and local plans may lose benefits. If communities go bankrupt and there's no tax base, which may occur in a smaller community if the business base leaves, I think there's tremendous risk. So that's something we all ought to be concerned about as well.

Mr. Friedland: Let me not add to that list of challenges, but let me underscore that point that I probably should have said. There is no old-age crisis, but there are very serious challenges and decisions we're going to have to make, and that's why I think we do need a shared consensus of values to deal with that because we are going to need to make choices. But let me at least provide some backdrop as to where we are in this country.

In terms of income, 40% of the elderly have income that's within 200% of poverty, within the twice-poverty level. The medium income is about $20,000, and the top 20% have incomes of $70,000. The bottom 20% have medium incomes of about $7,000. I think the biggest failing with respect to Social Security, besides some of the unevenness with respect to gender and marital status, is that so many people are so dependent on Social Security. I think the biggest failing is our inability to build on the Social Security base. Over half of the current elderly, the 65-74-year-olds, derive half of their income or more from Social Security and are dependent on it. And 35% of the 75-and-older age bracket depend on Social Security for 90% or more of their income.

In terms of health care, we have made great progress since 1965 in enabling access to health care for elderly. At that time, 35% of the elderly were in poverty. Access among Medicare beneficiaries is essentially similar to access among the employed-insured group, which we would not be able to say 35 years ago. But at the same time, Medicare does not cover long-term care, and does not cover a really chronic illness; Medicare does not cover acute and primary care. Although it's growing, beneficiaries pay on average 21% of their income for acute and primary care. For calibrated care, most of which is covered by Medicare, the rich pay 16% of their income and the poor pay 30% of their income, even though 6.3 million people are on Medicare and Medicaid at the same time.

There is no system that has really emerged for long-term care. It is usually family care. The demographics of how many children there are per in-law or former in-law or parent will create a burden of care from a child. Eighty percent of all lock-in care is provided by a spouse and children, mostly daughters and daughters-in-law. Of the care that is paid for, almost half of it is financed when you declare poverty and throw yourself at the mercy of the state and get assistance from Medicaid. The other half comes out of the pocket of those people who need assistance from paid care givers and/or nursing home care.

So I just wanted to offer some of the facts in terms of the challenge. Medicare does not cover everything. It doesn't cover long-term care, and it has big gaps in terms of income. It is the fastest-growing part of the federal budget. And it is the part of the federal budget that has been used to help finance the deficit reduction between now and 2002.

Mr. Charles G. Bentzin: I'd just like to add to what Anna Marie Rappaport said about the cities and the counties going bankrupt. There is already a city in Arizona, specifically South Tucson, that went bankrupt because they had a punitive damage award because of some alleged sexual assault suit by a policeman. Obviously, this does nothing to help the funding of their pension plan.

From the Floor: I guess being part of the younger generation here, I've always had the philosophy beaten into my head that social security will not be around by the time I retire. I work for a health insurer. We deal with an older population that has been given very generous benefits in the past. I have to contribute towards my own benefits. I've never known what it was like to have free coverage or full coverage for anything. I think one of the problems we do have is more from a political standpoint. Most of the elderly vote, and many people my age I guess don't really vote or get involved in the political process. So how would you guys comment on those types of issues? I agree it's not really a financial problem because I think it's more of a mindset problem or an evolving-issue problem.

Mr. Vittas: Let me make a comment as a non-American here representing the international perspective. I think there is no way that social security will not be there when you retire, even if it is closed down, even if it is run down. The U.S. government must recognize past contributions to the system. Of all the countries that are reforming around the world, there's only one country that has not explicitly recognized past contributions, and that is a country that runs a nominal social security system. By nominal, I mean it's not linked to real values. It is based on nominal values. What that country has done is given the option to people when they retire to choose whether they want the benefit under the new system or the old system. This is known as the lifetime sweeps, but for everyone else, hard contributions are recognized. So whether social security is there or not for the current younger generation should not be an issue.

The question is whether it is better to abolish social security completely in favor of privatized funds or not. I have already expressed my personal opinion on that issue. The multi-pillar system is a better system than one that relies only on social security or only on private funds.

Ms. Rappaport: From my perspective, it seems to me that you have got two scenarios. One scenario is that the U.S. continues to exist in its present form. I think that's the likely scenario. I would say it's inconceivable to me that social security would go away and in many of these ways, it would be inconceivable to me that the U.S. wouldn't continue to exist in its present form. When you look around the world, there have been so many changes in what are the borders of countries and how our country is defined. So under that scenario, you might have probably a very different situation.

Having said that, it's inconceivable to me that social security would disappear. The question seems to be, or a big part of the question is, how big and what is the social safety net? As Americans I don't think we're willing to see lots and lots of people starving in the streets. At the same time, we also don't protect everybody. The question really is, how big should the social safety net be? How do we view social security as part of the social safety net versus something that is more like an individual program, where people have saved money? I see the appropriate role of a government program to be part of the social safety net. The more I thought about some of these issues involving people of different family statuses and women, I think the social safety net should not be too skinny. I also think we are moving in a direction where the social safety net will be somewhat smaller versus larger.

Then the question becomes, how do we really help people to save more on top of it? I am also pessimistic about people saving money and doing very well without it. We talked about educating people to do investments, but a lot of people leave high school being essentially financially illiterate. Until we teach basic financial concepts to a lot more of the population, teaching them about investments seems pretty far fetched to me. I really think it's a question of how much of a social safety net it should provide versus social security going away entirely. I think a lot of what the younger generation has been taught isn't very realistic.

Mr. Friedland: I think as long as we exist as a democracy and as long as our economy is as big as it has been, we can certainly afford the kind of debate that we should be having, which is about the relative balance between social insurance, public assistance and individual responsibility. That's what I think this debate ought to be about. We need to recognize, as we see so clearly in the case of long-term care, that first, we aren't going to be 20 forever, and second, we're connected to people who are also getting older. In the case of long-term care, where there is no rational decision-making process by which we've decided to cover it through social insurance and have mostly covered it by default through Medicaid and not by clearly thinking it through, we find that grandchildren, children and spouses provide care for the relatively small percentage of the population who need hands-on assistance with eating, getting to the bathroom, and changing clothes, etc.

Perhaps they did not save their money sufficiently. There was no forced transfer system through social security, or there was no Medicare system. At some point you probably had a parent or in-laws for whom you had to provide care. You must recognize that if you are getting older, they are going to get older, and they may have to move in with you. That may happen anyway, but it was more likely to happen if there wasn't a way of sharing the risk and the financial consequences. This is a part of the discussion that has to occur very early on about how we take responsibility for our careers, for our savings, for retirement, for all the life events that occur. We never talk about it until it happens and we learn on the job, and some of us are lucky enough, as I think Anna said, to be able to afford to do very well. Others have had to grapple with hard lessons, or have made bad decisions. But this is the kind of debate we need to have. Younger people will become older people, and younger people are often connected to people who are older, otherwise they would be paying for them or vice versa. The assistance they get from their parents would be less if the parents were having to cover so much on their own.

Mr. Daykin: I think there's not really any significant danger to the social security program at the level of the old-age security program. The U.S. has one of the most closely in balance programs in the world in terms of scheduled tax rates and scheduled expenditure. There are very few other countries that do a 75-year projection anyway, so the fact that you're slightly out of balance on the 75-year projection is largely in the realms of theory rather than practice. Where the problems as I perceive it are likely to be in the U.S. are much more on the medical side, health insurance and long-term nursing care, where the escalating costs are with the great number of elderly, and there could be some urgent problems to address in terms of how that's financed and how you give the whole population access to proper health insurance coverage.

From the Floor: I heard a different comment from the younger individual back there. Being the parent of two young sons, I see the problem is not that we have an esteemed panel that says social security is going to be here 40 years from now. The problem is that the young people don't believe it, and what can we do as the SOA, or any society of the U.S., to change that opinion. Just saying it won't make it happen. In fact, I sat through a session where someone told me that social security represented an $11 trillion debt, and my comment as a taxpayer is, why don't we capitalize our future military expense or capitalize our future whatever? Frankly, I feel I've gotten a great bang for my buck on my social security taxes. I see what they've done, I see where they've gone, and I'm very happy with it. I feel less happy about where some of my other taxes go.

Mr. Sam Gutterman: I'd just like to follow up a comment that Bob just made about what I considered a further pillar—that is family support, which people don't typically talk about. Family support has been a traditional one that usually the oldest daughter has provided to the elderly, and one of the significant impacts of the demographic change with the smaller family size has been, first of all, there's many families without an elder daughter to support the parents as they grow older. The growing lack of family support is a significant contributor to concerns of long-term care or nursing care because there isn't that level of family support that there was in the last couple of generations. In addition, the attitude of the baby boom generation is to not provide that family support, even if there is an older daughter in a family. This also creates a very changed burden in terms of future generations. This pillar is something that obviously we can't do much about demographically, at least not for several generations, but it is something of concern in terms of future utilization of such resources.

Mr. Robert L. Brown: I'm going to ask a series of what I hope are rhetorical questions. I'm going to start by asking, is it more important for social security and for the future of social security to have a 15-year-old stay in school and learn computer skills or to decide what the mix of the investment of the trust fund should be between stocks and bonds?

I sat through a session with Janice Bricker and Steven Goss, and I was really dismayed. Here are perhaps two of the brightest people in the U.S. spending a huge amount of their personal time and resources running projections of what happens if you have a certain percentage of the trust funds in a certain kind of portfolio. Steven shouldn't be doing that and Janice Bricker shouldn't be doing that. The future security of social security is based on worker productivity and the ability of the economy to create wealth. Every time someone gets up and starts to talk about some of these proposals, the American Academy of Actuaries (AAA) should be there saying, how does this tie to worker productivity and creation of wealth and health of the economy?

My final rhetorical presentation is there is this continuing shift in societal philosophy to increase demands for individual responsibility. I want to introduce another word to you and that is the word responsibility. I would like actuaries to start to make that connection because there's a disconnect right now. Everybody in this room is capable of being individually responsible; however, there are many people who are being asked to be individually responsible, but we are not making them individually responsible. If we don't make that connection, we're not getting anywhere and we're not doing any good. We have that ability as a group of professional actuaries.

Mr. Friedland: As I tried to say, but you said much more articulately than I, if there is a crisis, we're not paying enough attention to the early childhood development and the link between that and productivity. There's more to it than that, but we certainly do know or have recently learned how important the first three years of life are in terms of productivity. We pay no attention to that when we can recognize clearly dysfunctional families or situations. You reminded me of some other information that I came across recently. I just finished a paper about "Health Literacy and Ability to Navigate Through the Health Care System." I was astounded. This was an area that was new to me. It discussed functional literacy—being able to tabulate a tip, being able to fill out an employment form, being able to read the newspaper and make a comparison. Almost half of the adult U.S. population age 16 and over has difficulty being functionally literate, are either marginally functionally literate or functionally illiterate. That was an astounding finding, and these were from national data.

Now 30% of the elderly are functionally illiterate or have difficulty comprehending forms—and so this is a population that can read, but they can't read very complex things. They may have been able to read when they were younger, but they lost some ability. They didn't have jobs that required reading or very extensive reading. These are kinds of skills that you lose over time if you're not keeping up with them. I raise this because in the issue of productivity, which is really the central issue, we have to think or rethink how it is that we get people to participate in an educational process throughout their lives, to keep up labor skills, to develop new labor skills, or to define new labor skills. We don't have a tax system, and we don't have a reward system in the employment sector to do that. I want to bring that to your attention. So many do know how to read and graduate. They may know how to read at one point; but by the time they're much older and they've left the labor force, they don't read very much and it goes away and they lose the ability to ask questions. They feel ashamed, they hide it, and they lose the abilities to navigate very complex systems like getting access to health care, following instructions for tests or for medications, and that sort of thing.

Mr. Daykin: I think that's a very important point that Rob has made. I think I mentioned earlier that the transfer of wealth between the active population and the inactive population had to be done whether or not it had a public system or a private system. There is potentially a difference between the two in that the private system is involved in creating investments, and if that investment is productively used to increase the savings ratio and to have an impact on the economy, it could create a larger cake at the end of the day. If your larger economic cake is there, then the question of transferring money from one group to another becomes a little bit easier.

In principle we see that demographic aging has a lot to do with lower fertility, but much has to do with increasing life expectancy. We're now seeing probably 60% of the cohorts born in recent years who are likely to live to the age of 80 compared to 40% who have already lived to the age of 80. So an increasingly large proportion of people are going to live to pretty old ages. In the U.K., the expectation of life was 65 for men when we set up our current social security scheme in 1948. Life expectancy is now 68. Over the last 50 years, expectation of life for men at retirement age has gone up by about three years. I think there's a lot to be said for envisioning indexing the retirement age as the expectation of life increases, either to maintain the expectation of life at retirement more or less constant, or at least to maintain some sort of relationship between expectation of life at retirement age and the period of working life.

That's all very well from an actuarial, theoretical point of view, but the realities of life are that people want to retire earlier, or many people do. Certainly in many European countries, the average age of retirement has been going down as the average expectation of life at a fixed retirement age has been going up, and part of that has to do with what people want to do with their lives after they have spent a lot of time working.

Part has to do with education and training, and I think this leads back to Rob's point. He was talking about the younger people and their educational achievement. I'm also concerned about the older people and their educational achievement. What are people doing in their 50s or early 60s? Are they obsolescent as far as the workforce is concerned? That tends to happen in a lot of professions. People are being retired early. They no longer meet the requirements for the job, or they're not up to date with modern technology and so on. What effort are we putting into retraining people and giving them the opportunity to contribute actively to society in those ages up to a higher level when they could retire eventually from the work force at seventy or some age like that?

Mr. Vittas: I think these are very challenging questions, and it seems to me that the evidence we have over the years suggests that capital markets and the markets generally are better able to achieve this increasing production and greater efficiency than government planners are. In that sense, putting more responsibility on private markets isn't the right direction, especially if one compares countries where government planning was predominant. Having said that, there's no doubt that in the real world there are some aspects that require government intervention. There are the well-known problems that affect the managers, problems of information asymmetry between different players in the markets and the ability of some players to acquire market power—monopoly power. So you need government intervention to correct for those, and it may be that education is the one area that’s far more important than other areas. I don't know. One needs to put more emphasis on private markets than has been traditionally the case in many countries around the world.

Now the U.S., Canada, and the U.K. are different in some sense because there's already a lot of freelance markets. Maybe those countries need to put a little bit more emphasis back on government planning in that direction. Then I heard Robert say how in the U.S. so many people are functionally illiterate. I'm wondering why the U.S. economy's performing so well. It must mean that in other countries there are an equal number of illiterate people. I have also read reports that say other countries are doing better in educational tests than American children. Again, if that is true, then I can only explain the better performance of the U.S. by the fact that there's more reliance on markets than government planning. And if other countries start following the same approach of relying more on markets than governments and they have better educated people, then the prospects for the future may not be so bright for the U.S.

Ms. Rappaport: I think this is a wonderful discussion, and I'm thrilled by all the audience participation as well, but it's interesting if we want to bring together the ideas, we're bringing together the question really of productivity in terms of the workforce and what the workforce can do currently as well as capital markets. Again it's an issue of balance. We've also had implicit in Rob's comments the whole concept of investment in human capital, training, and some of the other comments. What we're thinking about is that balance between private and public sector is a big issue, but productivity is a big issue. Thinking about it from the perspective of skills, human capital, and effective capital investment that builds productivity. And what I've also heard is this question of being careful again that we're starting from some very different places. So if there's a place that's right in the middle and if one group is over here and if one group is over there, don't think that moving in the same direction is the right thing to do because we might all be trying to move to some middle point.

Mr. Myers: I'd just like to build on a point that Chris Daykin made. I very much agree with him that probably a large part of any solution to any financial problems in a social security system is to establish a reasonable retirement age and not keep it static; rather we must increase it with increasing longevity, assuming that there's a similar increase in workability. When we consider dependency ratios and things, we shouldn't take the static approach that age 65 is automatically aged. Rather it should be a dynamic concept that moves with the longevity and the health and workability of people.

From the Floor: I actually have three different areas that I want to comment on. Occasionally I talk to various people who call me and want to get information. One of the key things they want to know is what all this means for an individual person. If somebody is looking at, for example, social security, they recognize that there needs to be about a 50% increase in government expenditures. Many times they fail to recognize that the Medicare program, both parts A and B, over the early to middle part of the next century, are going to have to have a 300% increase or 300% change in their cost expenditures. By the year 2020, according to the intermediate projections of the Board of Trustees, Medicare will actually outspend social security payments, and they'll be about 25% higher throughout the middle part of the rest of the century. In my view, that's a relatively optimistic projection.

The question arises, what kind of balance is there? What is a person getting when they're getting those benefits? There's a green book that's put out by the Ways and Means Committee that indicates that, in 1995, if somebody retired that person could expect to get about a $100,000 worth of medical benefits, but their contributions were on the order of about $40,000. So it's a really good deal if it were sustainable. I think that $100,000 in medical benefits is something that people have to recognize. They must face the fact that the government has a program, or does not have a program, which doesn't change the fact that they need that care. As actuaries we can say, how do you deal with that $100,000 worth of care for those people? Who's going to be responsible?

There's a question about the lack of an organized, long-term-care benefit in this country. Medicare does not pay for it, although home health has sort of been coerced into it. I did a quick calculation and perhaps other people could refine it. What I did was estimate that about 54 months of long-term-care would be needed for somebody reaching age 65. I broke that into about 20 months of mild care, 20 months of severe care, and then 14 months of institutional care. Then I assumed that a $100 daily benefit would be reasonably close to the cost of an institutional care of $50 for the severe home care. Then I estimated, using a life table, that somebody reaching age 65 could expect to face about $70,000 worth of expenditures. If you're really unlucky it might be $700,000—if you're really lucky it might be zero—but the average was about $70,000. When we add those together, you get about $170,000 worth of expenditures at age 65. An individual that's looking at that might say that's really terrible. Over the course of the century, we've had a 25-year gain in life expectancy. That gain does not come free, so there's good news and bad news. It's great we live a whole lot longer than any other generation in history, but there are costs and we need to plan for them.

Ms. Rappaport: Maybe one last comment before I go. I think the $70,000 is probably low, but I think there's also a real difference in even separating out what we think about as long-term care because you'll start thinking about all the different kinds of help that people need. One of the questions is really what are families going to do? What kind of medical care are we going to provide? What are our standards going to be in the long term? At what point are we going to say, we don't want to continue to provide the same kinds of care that we've been providing? I do not know. I'd be really interested in terms of comparative information, but I'm quite sure that if we went to 20 different countries and took people with exactly the same conditions, there would be very radical differences in what care was delivered. There are probably significant differences in when they died, and we might get some surprises in terms of thinking about the big picture. What were all the implications in terms of life? We often provide a lot of care when it doesn't really add to quality of life, and we should probably be rethinking some of that.

Mr. Friedland: I think we do need to rethink and focus a lot on what we mean by health care. One of the problems that I've not been able to come to terms with is that when we talk about medical care, we really are talking about very different standards of care. We need to discuss what medical care is every five years, and it has been at least 30 years since this was defined in the U.S. What we define as medical care is very different as five years go by. Looking at the expenditures, makes it traumatic or difficult to understand because we're actually buying something different than we bought ten years ago. And, of course, when I'm 65, what we're buying in health care will be very different.

I guess I would pose at least part of the issue this way: Medicare and Medicaid finance about a third of the health care in this country now, yet it covers about a quarter of the population. It's that one-quarter of the population that is the most sick or the most likely to die. They are the ones with chronic and disabling conditions and long-term-care needs. From that perspective, regardless of how we define health care, unless we're going to define health care very differently for one set of the population than another, we need to have a discussion about what is it we mean by health care and what we, as a society, want to spend on health care. We spend a third of the resources on the quarter of the population that's the sickest. I think that's a pretty good deal.

I think the second issue we have to come to grips with is that the elderly population alone is perhaps going to double in the next 40 years, and is it reasonable to expect that the federal budget share of Medicare is going to double. Even if it does double, then that means we're talking about relatively the same kind of health care today 40 years from now, and we may not have that. So doubling may not be sufficient for the standards of care. Is it reasonable as a society to double what we spend in health care in the next 40 years or more? Is this the way to think about those calculations?

Mr. Daykin: I think the U.S., as compared to any country in the world, probably spends the highest proportion of its GDP on health care, and it's more than double of what we spend in the U.K. as a proportion of our GDP. Now maybe you have a much better health care system than we do, but it may be that money is not being as efficiently spent as it should be. There are, of course, different incentives. We're having different types of health care systems, which can affect that apart from the level of actual health care provided. I'm by no means any sort of expert on the health care situation here so I really hesitate to comment, but it does seem to me that if the SOA and the AAA are going to put their efforts into thinking about old-age-crisis issues, probably the health care side of things is going to be a much more productive and challenging area for them to concentrate their efforts on than the pensions area.

I wonder about the life-cycle effect. We've given increasing attention in Europe to the fact that people accumulate assets over their working lifetime. Perhaps they should be considering running them down during their retirement period, and that applies not only to the cash income but also to their health care needs. It is a substantial amount of money if you look at retirement age as it relates to what it could cost to provide your future health care and nursing requirements. On the other hand, most people buy in or a very substantial proportion of the population have accumulated quite substantial assets in property, which they could then release through income schemes. I don't know how prevalent plans are here in the U.S., but they have quite a lot of interest now in Europe and some other parts of the world because after all, it's no longer so necessary for people to pass on their assets to the next generation. People are living so long that by the time they die, their children are already wealthy and also probably getting to the stage of retirement. So the idea that when you die, you must pass on your income to your impoverished 20-year-old children is really not the case any more. Why shouldn't people use up their assets in an efficient way during their retirement period?

One last comment. We've got quite a big debate going in the U.K. regarding private medical insurance because of the impact of genetic testing. In the life insurance area, we don't see that there's much of a problem with genetic testing, but in the long-term care and health insurance area, there are tremendous problems of anti-selection. As soon as you get genetic tests companies are then able to discriminate satisfactorily between potential for Alzheimer's and other chronic diseases of the aging process. In the U.K., we have a largely national health service, so that the medical insurance is very much on the fringe, whereas in the U.S., medical insurance is absolutely a fundamental part of your system, and I wonder what attention is being given to the potential for problems in that area?

Mr. Winters: First, as to the perceptions about the availability of social security for people retiring 30 years from now, my principal estate planning advisor is an attorney/certified public accountant (CPA) of about age 45. He’s a very smart, very politically aware person, who is planning for his retirement on the assumption that he will receive zero social security. He believes it, and he's planning that way. Second, the public sector's effectiveness in its spending for medical care on Medicaid, which was designed as a system to provide acute care for the poor, is spending over 50% on long-term care for the elderly, and they are not in that one-third of the neediest in any sense, except for their significant requirement for long-term care. But in terms of acute care or even chronic medical care, that's not where the money is being spent.

Mr. Friedland: Right, I agree. Medicaid (unfortunately, the long-term-care part wasn't clearly planned out and thought through), has only received attention in the last few years, and so it hasn't helped develop a continuum of care in the marketplace the way other big payers can do. There's lots we need to do in the health care system, but it isn't a Medicare problem or a Medicaid problem per se; it is a health-care-defining problem in terms of what we want to buy, or what we're willing to buy. It has to do with the incentive structures. Just as an example, the Johnson Foundation spent a lot of money figuring out how advanced directives were affecting the treatment protocols of people who were dying, and it found out that doctors are not listening to their patients. We've seen examples where a nurse was paid by the foundation to sit there and communicate with patient and family and then with their doctor; however, even with all that extra effort (and that's not something that you get in an insurance plan), the doctors were not responding. I wasn't part of the research team so I may be naive in all this, but it said to me that we have a very fundamental issue about who we choose to train as a physician or allied health professional, how we go about that training in terms of very fundamental questions about what we want, how we want to reorganize our health care system, particularly when we are in advanced stages of death, terminal conditions, chronic conditions, or near the end of our life.

Mr. Vittas: The guy who is a CPA and lawyer, given his likely lifetime income, he's absolutely right about what to expect from the social security benefit in net terms, if you allow for the fact that high benefits are being taxed. For a person earning average income or less if it's a young person, I think it's very likely they would be getting social security benefits.

Mr. Friedland: It's issues perception.

From the Floor: Absolutely.

Mr. Bank: I was sitting here trying to figure out how we can prevent people from making base lists or inflammatory comments, which is where I think this perceived social security crisis has come from. Someone comes up and says second-hand what someone told him—they're never going to get social security. This is what the young kids are hearing. What can we do about that? I mean, we do the scientific projections that show one thing, but then there will be a senator or someone who wants some attention coming up saying, the sky is falling.

Mr. Katz: We've got just a couple of minutes left, and what I'd like to do is give each of the panelists an opportunity to perhaps sum up what they think we, as the audience, should hear. So I'll just ask each of the panelists to spend about a minute to sum up.

In the session, one of Anna's challenges to us was to take something away from this and do something about it, presumably professionally, but I suppose it could be more than that within our lives. While I have not participated in the debate on purpose, my concern is that we don't just sit and debate this within these four walls and then go out and have lunch and forget about it. Let's do something about it hopefully within the profession. If not within the profession, we should certainly do it in our own lives, to see whether we can, in fact, contribute to solutions. I won't debate whether it's a crisis, a problem, or an issue, but clearly there is work to be done. I think we'd all agree to that. Let's see if we can't be part of the solution as opposed to part of the problem.

Ms. Judy Feldman Anderson: As Anna was leaving, she asked me to put in a plug for a research project that we are going to be doing on trying to develop a retirement-needs framework that would recognize changing states during retirement and things of that ilk and how all of this fits together. So we hope there will be a call for papers coming out very soon, so keep your eyes out and get your pens ready.

Mr. Vittas: I think it's clear that the one issue that has been identified as very important is this general agreement as to the question of perception. An effort needs to be made to correct that perception. My reading of the situation in the U.S., is that we already see a reaction from those people who are crying out that the sky is falling. Last week there was a paper given, which I have not seen but I've seen the announcement of it, of some economist who is arguing that increasing rate of return to the young generation is not a basis on which to change social security. In other words, it is not going to be a high rate of return. If you abolish social security, it would be the same because of the need to continue to fund the pensions of low-income workers who do not achieve a high pension when they retire. I think we need to focus on correcting the perception that the young generation cannot look forward to receiving any benefits from social security. That's clearly challenged and, the SOA, like economists and actuaries, can contribute to correcting this perception.

Mr. Daykin: I think we often talk about the role of actuaries is to substitute facts for impressions, and we also now have a byline in the Institute of Actuaries (IA) in the U.K. that the actuary makes financial sense of the future. I think we do have quite a public responsibility in terms of raising awareness of some of these longer- term issues. We certainly have a longer perspective than most professionals and most people within our society, so we need to be willing to bring that perspective to bear. At the same time, I think we should be very careful to avoid scare mongering. Maybe the use of the term "crisis" and so on implies that; but I don't think those are our terms, they're terms that are being used elsewhere. We have responsibility to bring some sense to the debate, and not just to concentrate on the peers of demographic issues. We must sort of raise or widen the perspective—to look at issues that deal with economic growth and education and training and social aspects, which are all connected with this debate. I think the U.S. is a very large and sometimes insular country, and I think in this modern world, no man is an island, even in the U.S., so you should have your eyes open to what's going on in the rest of the world where, in some cases, there are more crisis situations but there are also other experiences and things to learn from in terms of the way things have evolved and the way in which things are changing. And I would also reiterate the point that's been made several times: don't ignore the health care side; health as well as pensions, need to be on the agenda.

Mr. Friedland: I have very similar impressions. We cannot really have an informed public debate and reach a sense of consensus about where we're going and what we want if we don't have better public understanding. And the case of social security is a good point because, where is the public debate about social security? It's about when the trust fund is going "bankrupt," and that is the only kind of message that goes out to most people. And there are baby boomers who are all going to retire at the same time. We have the impression of the demographics as well as the kind of discussion we have every year, then the trustees' report comes out and that's the main news event—when the trust fund is going to be bankrupt. So it's not surprising that there's a misperception about social security because we, outside this room, generally don't understand how it works, and we only hear about it in one context. We have no familiarity with it until we ourselves are 50 or so and are thinking about retirement.

So we need to bring in better understanding of private insurance, social insurance, health care and pensions together, and I think your role as actuaries, pension actuaries or health care actuaries, whether in the public sector or the private sector, can begin to think about the linkages even though your expertise may be about social security or pensions. Think about the linkages between the labor market and understanding and perceptions and child care and productivity. So try and think outside your box of what it is that you're working on day to day, and you begin to put together health care and income security broadly and help others understand that in simple ways. In your outside discussions, help people understand how these things work together here in this country. Maybe through better understanding of how they work, and better information, we can have a more rational discussion about where we want to go rather than disputing and fighting over what the facts are, because we don't know what the facts are.