RECORD, Volume 28, No. 2*

San Francisco Spring Meeting
June 24–26, 2002

Session 143TS
RIDFC Symposium—Employer Perspective and Issues

Track: Pension/Health

Moderator: ANNA RAPPAPORT
Panelists: MICHAEL J. BLACKBURN
SALLY HASS†
DAVID MANUSZAK‡

Summary: This symposium provides new insights and dialogue between diverse disciplines as professionals discuss the ways the aging population and changing family structures are changing retirement. The content extends beyond the U.S. borders, but this panel is largely U.S. focused. The research papers are available at: http://www.soa.org/sections/pension.html. This panel supplements the research papers and is not supported directly by papers.

MS. ANNA RAPPAPORT: We've received great papers, but what we were missing from the papers was perspective on what employers are thinking and doing about these issues. So we have three people to provide that perspective. I will ask each of them introduce themselves.

MR. MICHAEL J. BLACKBURN: I'm the vice president of benefits for Walter Industries. We're a small cap-diversified company in Tampa, Florida. Our major businesses are home building and financing, industrial products manufacturing, natural resources—specifically coal mining—and energy services. We have about 6,000 employees. Our average age is in the upper forties, and the average number of years of service is in the upper teens. I've been in this role for about two years. Prior to that, I was an actuary and retirement consultant with William M. Mercer for about 10 years.

MR. DAVID MANUSZAK: I'm director of retirement and financial services for the BlueCross and BlueShield Association in Chicago. The association is a federation of 43 independent BlueCross and BlueShield companies across the United States and

†Ms. Sally Hass, not a member of the sponsoring organizations, is a retiree relations, seminars and data manager with the Weyerhaeuser Company in Federal Way, WA.
‡Mr. David Manuszak, not a member of the sponsoring organizations, is director of retirement and financial services at BlueCross BlueShield Association in Chicago, IL.

in Puerto Rico. We are an association that provides services to those companies. The system has about 150,000 employees in total. If we were a holding company, that would make us one of the 20 largest companies in the United States.

The companies in our association insure one in four Americans for heath insurance. My area provides defined-benefit, defined-contribution, disability case management and executive compensation services through national programs to those Blue companies that choose to use our services. We serve the majority of Blue companies.

Prior to working for the Blues, I spent nearly 20 years in banking with a variety of institutions and spent a number of years before that in academia.

MS. SALLY HASS: I'm currently the benefits education manager with the Weyerhaeuser Company. Weyerhaeuser is a large forest products company located in the Pacific Northwest. We're a 100-year-old Fortune 500 company. Our products are generally wood products based. We produce lumber, pulp paper, shipping containers and boxes, and we have a large home building component.

We currently have about 63,000 employees in about 700 locations, mostly in North America. The average age of our work force is about 43 years old with 13 years of tenure. I have a master's degree in business and education, and in a past life I was the dean of women at a small university located in Washington State.

I've been with Weyerhaeuser 22 years, with the majority of my career spent in technology, systems management and data management. So you might ask yourself, how does someone who has a systems background become the manager of benefits education? It happened that the systems that I was managing and the data were the pension systems and the 401(k) systems. I am currently working full time as the benefits education manager. Much of my work revolves around conducting personal, face-to-face seminars for our work force, their spouses and partners, usually in small group settings of 30 to 50 employees. During this panel, I'll be drawing on my 10 years of experience in working with pre-retirees to help them plan for their future.

MS. RAPPAPORT: Now for our first question. Each of the panelists is going to give us their perspective on how they see the aging work force as impacting businesses. They might respond for their company, their industry or their community.

MR. BLACKBURN: There are a number of different areas that are being impacted by our aging work force. The first one is succession and work force planning. I'll get into that a little bit more later. With the aging work force, we run a substantial risk of losing a lot of knowledge as people retire.

Medical costs are a huge issue. For active employees, medical costs are rising because of trends and the work force aging. Of course, that all has a big impact on our *Financial Accounting Standard (FAS) 106* liabilities. Our liabilities are increasing due to current market conditions on the investment side and because of interest rates and medical trends. *FAS 87* pension and *FAS 106* retiree medical expenses are getting tougher and tougher to manage.

Another thing that I see is the need for more financial planning for our employees. We have a large blue-collar work force who expect to retire when they are eligible for medical benefits and/or a pension. They have really done little if anything to save, and they don't know how to plan finances through their retirement. Many white-collar employees are in exactly the same boat. They need to make their 401(k) balances last through retirement, and we need to be working with our employees to prepare them for that. A change I have seen recently is that eligibility for medical coverage is just as important as pensions, and sometimes more important, in personal decisions about when to retire.

MS. HASS: I expect baby boomers to shake things up, as they have done historically. I expect the business response to the aging work force will be dictated almost entirely by the impact on current earnings and bottom line results.

I don't think that many businesses will be proactive or creative in thinking about employment practices, benefit options or compensation until they feel some strategic pain around the work-force shortages. I know we're talking about work force aging, but I anticipate that the reality is businesses won't respond until they actually feel the pain.

At my company we just acquired a major forest products company, so we very much are in the mode of responding to immediate needs, downsizing and outsourcing. Phased retirement and the future worker shortage are not things that are going to get much attention at this time.

A trend I see as I work with employees is the closer they get to retirement, they're interested in benefits changes. The younger workers are very concerned about out-of-pocket costs for health premiums. As workers age, their concern is really about wealth accumulation and protection of assets.

The baby boomers are now the sandwich generation and are dealing with aging parents. They're becoming acutely aware of health-care costs and long-term care. They are ending up taking care of elderly parents and taking time off from the work place. They are lobbying very strongly for long-term-care insurance policies.

Another trend that I'm observing is that a few of our well-positioned employees and some of the dual-income earners are leaving early. Our current average retirement age at Weyerhaeuser is 61. However, we have seen an awful lot of people amass considerable assets in their 401(k) plans over the last 20 years, and they are planning on leaving at 55.

Other trends that I've heard a lot about over the last couple of days are the fact that we're all living longer and we're healthier. Yet, in my work what stands out for me are the approximately one-quarter of workers who are age 55 with significant health issues to confront. Although many of the baby boomers have been making good lifestyle choices and taking care of themselves, a lot have not. We see an increase in things like type 2 diabetes, heart disease and cancer.

I think that for some portion of the population, health-related issues are going to force early retirement and also have a significant impact on costs and finances in retirement.

While some people are leaving early, others are staying longer. Those workers who are staying longer include divorced, widowed and unmarried women. They are desperate to hang on to their jobs, want to work full-time and want to work to age 65 or beyond.

I also think that we're going to see more acceptance of people working past age 65. We have a few folks at Weyerhaeuser today who are working past 65, but I think that's going to become more of a trend as we move forward.

MR. MANUSZAK: Building on Sally's comments, we work with many companies. I see diverse behavior among senior managers. There are individuals who feel that they would like to provide something for their employees into their retirement, and they have a concern about the financial security of their employees. On the other hand, some say, "We'd give you something in your 401(k) plan now and say goodbye." These managers don't want to worry about employees' security in retirement.

Part of that is coming because of the huge financial pressures that are on all companies, particularly those that are public companies that are providing their numbers on a quarterly basis. So that's a perspective from the executive management point of view.

From the individual point of view, many of our programs allow a lump-sum option in the defined-benefit program. Many people out there at all levels from the executive level to the lower level are suddenly facing the opportunity of having the biggest pot of money they've ever had in their life. They have their 401(k) program and their defined-benefit lump sum. From a financial planning point of view, our financial planner is saying it's best for you to grasp that money now, because it might not be available. You and your spouse, or whoever, might not live long enough to enjoy it. I think that's pushing people, in many cases, to make a decision to retire earlier than they would in order to secure that pot of money. This doesn't talk at all about the studies that show that many people will outlive that money.

Finally, who is really being looked for in terms of coming back into the work force or staying in the work force longer? In our business, it's not just the executives, it's also claim processors. A vast majority of our people in the Blues are at that level. We operate in many rural states, and there is not a lot of available labor there. We are conflicted about how to get continued work from people who have chosen to take the lump sum. Some companies selectively rehire retirees.

At the highest levels, there's usually some way to make it work, but it has not filtered down into the rest of the organization.

MS. RAPPAPORT: Building on our discussion, we'd like to focus on the challenges in training, succession planning and capturing intellectual capital, as well as the expertise of the blue-collar people.

MR. BLACKBURN: I think we have some very distinct issues between blue and white collar, in terms of training, succession planning and capturing of intellectual capital and expertise.

On the white-collar side, I think there's a real need for good succession planning at all levels. It is not just at the senior levels of the organization. Far too many companies are just focusing on management level and above.

We've seen more interest in phased retirement. There are some legal barriers to allowing people to continue to remain active workers and continuing to accrue and/or receive their pensions and 401(k)'s. We've made it work with things like consulting arrangements. Somebody actually terminates and then comes back under a consulting agreement, or they are hired as temporary employees after retirement. Of course, there are special legal requirements that, if you're a temporary employee beyond 1,000 hours, you are effectively a permanent employee.

We're stuck between a rock and a hard place. We are looking at more and more cross-training of our employees to transfer some of the knowledge, so that as we lose people, we don't lose the knowledge.

Blue collar is just an entirely different animal. There are such tight labor markets right now in the blue-collar arena. I'll pick on the auto companies for a moment. There are car companies coming into the United States, building these factories in small towns, and attracting virtually any skilled work force within a 30-mile radius. Unless you're one of those big plants, it makes it very hard to attract a blue-collar work force.

I think there are fewer and fewer people going into a blue-collar type of job. There has been more of a focus on education and looking toward white collar. I look at our coal mines and wonder, Where is the next generation of coal miners coming from? When you have a group that already has 20 plus years of service, they are thinking toward retirement. There's just not the blue-collar work force coming up to replace those that are leaving.

On the blue-collar side, I see more and more of a reliance on pension plus Social Security, plus either Medicare or retiree medical plan for retirement. People looking at retirement today don't have the buildup in the 401(k) plans because they weren't available to them throughout their entire working careers. I think it will change as time goes by because everybody who is blue and white collar now wants a 401(k) plan to be able to save.

Union contracts have been kind of barriers in terms of intellectual capital and expertise. The whole country has gone through reductions in the work force in the past several years due to economic factors.

Within a union, your reductions are going to come from your lowest service people first. So we're just making our work force older and older, and then, as that work force goes out, those younger people that we let go a couple of years ago might not be willing to come back in. We're again just looking at trying to replace that blue-collar work force.

MR. MANUSZAK: I have just a quick comment there. In terms of the workers coming back, we are a very conservative organization, and regulators are looking at what we're doing all the time. It's very difficult to advise our companies about workers coming back onto the job. In the IRS request for phased retirement comment, there's some language that has to do with whether bright lines should be established. That would be a great help I think.

MS. HASS: I echo the comments that have been made so far on this topic. I think we have had phased retirement in place for corporate executives for several decades. It seems to me that the emphasis is really on the intellectual brain drain, and I think that's kind of siphoning the attention perhaps away from where it should be, which is on the blue-collar worker. I think our challenges there are going to be significant.

Weyerhaeuser operates in many rural communities where we are the only employer in town. Many of these workers are second- and third-generation employees, and many of them are desiring to cut back, reduce their hours or in fact do something different in retirement. I think we will want to try to accommodate that, but the reality is that the work is what it is. It's going to be hard to be creative about the work and structuring it in such a way that it can meet the needs of our workers. In some cases our actual union regulations are going to be barriers to meeting some of the needs of the workers.

MS. RAPPAPORT: I've visited with people recently who talked about opening plants around 1960. They said that the people who came to work when the plant opened are getting to be around retirement age. The other issue is that they're all still here. Many of us work in big cities, and we think about frequent turnover. But many of the people in small towns with big plants are still lifetime workers, and there are going to be huge issues for some of those plants.

David, you mentioned responding to the IRS request. Do you or any of the panel members have any more insights for us about how we should respond to the IRS request? Is there advice for the audience about how they might want to respond?

MR. BLACKBURN: I was really excited when I saw this request. Again, I think it has been noted a couple of times. It's 2002-43. I've just read through the background to this. For the symposium, it really echoes a lot of what everybody has been talking about. It has about 15 questions that it solicits answers to. It actually gives the name of the fellow who's the principal author: Michael Rubin of the Employee Plans Tax Exempt and Government Entities Division.

If you are interested in this area, find out exactly where he thinks pressure should be applied. Clearly a response to these questions based on the concerns that have been expressed during the symposium would be great. If he can direct us to where legislative pressure might be applied, I think we ought to jangle his phone off the hook.

MR. MANUSZAK: The actuarial profession is a powerful lobbyist. You've done a lot for employers very recently in getting some relief on pension regulations. I'm just using that as an example. It moved through pretty quickly once the actuarial profession got behind it. Listen to the employers you're working with and see what their issues are. I think one of the best things you can do is serve as our voice to the legislature.

MS. RAPPAPORT: Are there any data about interest in working after retirement or other types of data that would add to what we've heard about in the last couple of days?

MS. HASS: I have just a little bit of data to share, and this is hopefully where I gain some credibility points by throwing out a few numbers. I've actually conducted two surveys with Weyerhaeuser folks. One survey was with 400 people in retirement. These were people that were age 55 to 75, so these are actually our retirees.

The other survey was with 80 people that attend my retirement planning and life planning sessions, so it's not a huge sampling. On the first survey, one of the questions that I asked was whether they were interested in career retraining at the time they retired. Forty-four percent of the first group said yes. Another question was "Would they be interested in working in retirement?" and 80 percent of our retirees, age 55 to 75, said yes.
Should work be a lifetime activity? Forty-four percent of this group said yes. Should the workplace provide opportunities for working retirement and for retirement age individuals? Ninety-two percent said yes.

On the second survey, which was conducted with current workers over the age of 50, 93 percent said they were interested in working in retirement. What's of interest to the company is that 90 percent said they would be interested in working for Weyerhaeuser. Again, a high percentage of workers are interested in working in retirement. Many of them are wanting to work for the company.

Again, they favored flexibility of work arrangements, and they were also surprisingly flexible about the content of the work. Actuaries, take heart, because you too could be managing the intern program in your phased retirement activity, or you could be on the next acquisition team.

MR. BLACKBURN: Another point that I will make here is that I think health is key. Under federal law, retiree health did not receive the kinds of protection that the defined-benefit program received because of the exposure. People are living longer, and a lot of retiree health programs are going away in corporate settings. The restrictions, like who is eligible for benefits, are being tightened.

Health is a huge question mark out there for everybody, and I know that many of the panelists brought that kind of attention to the floor. I think it's important in terms of retiree health.

MS. RAPPAPORT: Sally, when you talk to people planning for retirement, is health something that they talk about?

MS. HASS: In every seminar that I give to employees, I always ask them about their hopes and dreams around retirement and their fears and concerns. The number one or two fear is either finances or health. Sometimes health is the number one concern, and sometimes finances are the number one concern, but those are always the top two.

The American Association for Retired Persons did a study on this some number of years ago. I find that what people are concerned about in retirement is directly related to that study. When you probe below the surface to determine what they're concerned about pertaining to health, it's oftentimes health-care costs. There is the wild card of what health care is going to cost, and will it be accessible to them.

Again, that relates to finances. They're very concerned and anxious about what to do about health care. How does one plan for health-care needs and undertake retirement and life planning?

MS. RAPPAPORT: Do any of you feel that the changes or reductions in retiree health are going to impact how people leave or when they leave? We've seen, in our company surveys, that the companies that offer early retirement and retiree health have an earlier average retirement age than the companies that don't.

MR. MANUSZAK: Being from Chicago, I saw the brouhaha that was raised by a major company's retirees when their retiree health plan was cut. I don't know the full extent of that situation. It just indicates how important that is. Most people do not realize how vulnerable these benefits are.

MS. RAPPAPORT: I heard a discussion about the bottom line when we talked about business issues. We've heard discussions throughout the last day-and-a-half about legal barriers and problems. Do you all have any comments on either accounting or legal requirements and how they might impact what's going on now?

MR. BLACKBURN: I've really worked with this a lot, both from the actuarial side and from the corporate side of it, which I am neck-deep in. I come in as a numbers guy, not a human resources guy. So I speak very well with the finance team in the company. One of the problems is that we see companies aren't as paternalistic as they were in the past. We have benefit programs that are very traditional plans. Back in the 1960s, when you were building these plants, employees were interested in a pension.

Today, there are fewer pension plans and an increasing number of 401(k) plans. I think that's a direct result of companies trying to do a better job of managing their balance sheet and their income statement. You can control the costs of a 401(k) plan to the company. It's going to be 5 percent of pay per year.

However, on the pension side, with *FAS 87,* there are outside market conditions that impact you. The employer, and not the employee, is taking the full risk of all of those market conditions. Unfortunately, there's little room to really change some of this. There's more and more pressure from ERISA, the IRS and the media with regard to cutting benefits.

Strictly from the standpoint of corporate finances, you almost have to look at doing that or coming up with some other sort of sharing. I think I mentioned before that, on the legal side, there are some barriers to really implementing a phased retirement program because in-service distributions of 401(k) plans or suspension-of-benefit rules for pension plans. These rules make it difficult for somebody to cut back on their work schedule and at the same time draw on their retirement funds. It is difficult to make up the difference until they're really ready to step outside of the work force.

MR. MANUSZAK: I must underscore that predictability is a huge issue to corporate finance. Many of these benefits were put into place at a time when the lifespan is not as great as it is now. I've been at seminars lately in which individuals are saying that people born today could expect to live to be 100. Nobody had that kind of forward-looking liability in mind when they put in the legislation for defined-benefit and retiree health programs. There certainly are adjustments to be made.

MS. RAPPAPORT: I'm going to go around the panel once more and ask the panelists what advice they'd have for all of us. Is there anything else that they would like to share? Maybe we can start with you, David.

MR. MANUSZAK: I was waiting to be third or second. I'm really excited by this request for IRS guidance. I was at a meeting in New York recently where a member of the Department of Labor led a session. He said, "Give us what you need in the way of guidance, and we will work to try to get it out." I would just say, read this, and respond to it, and call Michael Rubin at 202-283-9888.

MR. BLACKBURN: I would have said something very similar, of course, but I didn't have his phone number in front of me. To echo my earlier comments, I think one of the best things you can do is to respond to this request. We've seen pension legislation. It started to fill a need 30 years ago in the way pension plans were operated. From an employer's perspective, it has gotten absolutely out of control, but there's still probably a place for pension plans in the world.

Probably the best choice for your retirement dollars is a combination between a pension and a 401(k). As a form of lobbying, respond to this IRS proposal. I've heard in the actuarial profession that regulations had gotten out of control. Now I see it from the employer's side. This isn't anything new to you. Use your voice.

MS. HASS: Okay, I'm not going to talk about responding to the IRS proposal or give you that phone number. Instead, I would just like to comment on the fact that I think that this is a time for some whole systems thinking. Much of our collective future is going to depend on the economic viability of this country as well as the world. I think it's time to really think about the current incentives and disincentives that encourage or discourage people from being workers.

We need to think about this from the employer perspective and the design of benefits and human resources practices. We need to think about this as it relates to Social Security policy, taxation, Medicare and health care.

And I would also just like to share with you an observation about the Society of Actuaries. This is my first exposure to the Society, and over the last couple of days I've been very much pleased with how challenging your work is and how exciting it is. At the same time, I want to leave you with just kind of a personal thought, because I am a life planner.

The personal thought is that I know you're all going to solve these problems. These are big problems, but what I want to do is challenge you not to ignore your own life planning needs. I want to close with just a short poem or reading by Edith Wharton. It's not titled, but I call it "Formula for Happiness": "Despite even the arch enemy sorrow, one can remain alive long past the normal date of disintegration, if one is unafraid of change, insatiable in intellectual curiosity, interested in big things, and happy in small ways."