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Symposium on The Future of Retirement

by Peter W. Plumley

In 1986, the Society of Actuaries identified a number of external trends that could have a substantial impact on future retirement patterns. An analysis of demographic trends clearly indicated that more people would be reaching older ages and that they would live longer. At the same time, many people were retiring at younger ages. Several recent changes in the U.S. legal structure protect the right of older Americans to work longer. The combination of these and other forces led the Society to determine that there was a great deal of uncertainty with regard to the future of retirement.

Because retirement patterns are very important to the work of the actuary, a research project was structured that led to "The Future of Retirement" symposium in November 1988. A task force was formed to structure the process and symposium. This group determined that these issues should be looked at from a broad-based and interdisciplinary approach, considering the big picture. Also, the views represented should reflect the range of issues affecting older persons and retirement decisions.

The project consisted of a multi-step process:

1. Weiner, Edrich, and Brown, a consulting firm specializing in futures research and planning, was engaged to prepare a background paper covering the range of issues that will affect the future of retirement and to help structure the project. This paper was to cover the major societal forces affecting this issue.

Continued on page 3 column 1

Concerning the health actuary of the future

by Howard J. Bolnick

The Society is taking a hard look at its members' needs and our future as a profession. Two recent studies have focused attention on the building of our future: Report of the Task Force on the Future of the Actuary and Report of the Task Force on Strengthening the Profession. Both reports discuss the importance of our profession in healthcare matters. But, neither report is designed to address the practical issues involved with building toward our future in healthcare.

Because we see a need to begin to address these issues, the Committee on Planning would like to share some thoughts for discussion. This article, based upon a memo discussed at a recent committee meeting, does not represent the committee's views. It serves only as a catalyst for further exploring our needs.

The healthcare business in which health actuaries practice their profession is different from businesses in which other actuaries practice. This is no surprise. However, differences in these businesses affect the needs of our members, sometimes in ways we have not adequately considered.

Health actuaries' historical interest and training is narrowly in healthcare financing. Financing is, quite importantly, the means by which citizens access healthcare. However, the delivery of medical care for the sick and injured is generally of more immediate importance to society than the means by which it is financed.

Our profession's financial security perspective does not fully prepare us to understand or to play a meaningful role in the healthcare industry.

Healthcare is a major national political issue. One-third of all Americans are covered by publicly financed programs, and medical care cost increases are widely viewed to be out of control in both the public and private sectors. The shape of our mixed public/private healthcare financing system is subject to constant scrutiny and increasing control by

Continued on page 2 column 2

In this issue:

Retirement cont'd

2. Six experts were selected representing six different areas – business, government, philanthropy, gerontology, economics, and futurism – to write scenarios on the future of retirement. Each expert was asked to focus on the next 25 years, looking at retirement in the year 2013.

3. Panels representing the actuarial profession, economists, and other experts were then assembled to develop implications of these scenarios in three broad areas:

a. Public policy,
b. Private sector products and services, and
c. Employer policy and the workplace.

These materials served as the basis for the symposium.

Symposium attendees contributed further to this effort in several different ways:

1. They were asked to complete two questionnaires – one before and one after the session – on their views on the future of retirement.

2. They participated in three workshop sessions following up the three panels on: public policy; private sector products and services; and employer policy and the workplace.

3. They engaged in floor discussion at the three panels.

The symposium objectives were to help the participants gain a broad understanding of the societal forces likely to influence retirement patterns and to provide them with background information to help them think through likely futures and form their own conclusions. It was hoped that the information and insights gained would help them respond more effectively to challenges they face in their professional and personal lives. It also was hoped that the insights would help them actively participate in shaping the future.

Some questions considered at the symposium were:

1. How will retirement be defined?
Traditionally, retirement is defined as an all-or-nothing event – someone is either working or retired. It does not provide for gradual reductions in activity within the paid labor force or as an entrepreneur.

The scenarios clearly pointed in the direction of new definitions. One introduced the idea of the "fourth pillar," so that support during retirement comes from four sources – government, employer, individual savings, and continued work – instead of from the traditional first three. Another discussed the concept of "trial retirement." Still another analyzed the concept of redesigning jobs for older workers, with the expectation that they can work on less than full-time schedules.

Each of these concepts creates problems with respect to Social Security, taxation, and other retirement-policy-setting by government and employers. These problems were discussed by various speakers.

2. When will people retire?
The experience of the last 40 years shows a clear trend to earlier retirement. People also are projected to live longer. The Census Bureau low mortality projections for white males indicate an increase in the life expectancy at age 65 from 14.2 years in 1980 to 19.6 years in 2050. For white females, the corresponding data is 18.5 years and 26.7 years.

The demographic trends alone do not demonstrate that the trend to early retirement will reverse, but they raise some questions:

Will more older people be needed in the labor force as the age distribution of the population shifts?

Will increasing life expectancy (and period of retirement, if ages do not change) cause people to rethink retirement ages?

The scenario writers overall felt that retirement ages would change but did not have a consensus about a specific pattern.

3. How will retirement decisions be made, and what will influence those decisions?
The individual makes retirement decisions on the basis of income available while working, income available in retirement, preferences about work and retirement, the desirability of work available, preferences of other family members, health, etc. Some employers sponsor preretirement planning seminars to assist the employee in decision making.

A number of factors in this decision-making process were discussed, including the influence of pensions and Social Security, the impact of wealth, and the participation of spouses.

4. What benefits will be offered to those retiring?
Retirement security is based on having several forms of benefits – pensions, capital accumulation plans, medical benefits, and a way to finance long-term care. Social Security benefits are offered to nearly all Americans. Benefits provided through this system include both pension and medical benefits, but not any significant amount of long-term care. The vast majority of private employers, particularly the larger ones, offer pension plans as well as retiree medical benefits.

No specific conclusions were reached about the form or timing of benefits, but there appeared to be a consensus that when considering retirement benefits, it is necessary to focus on not only retirement income but also retiree medical and long-term care. It was felt necessary to focus on benefits that fit the life cycle patterns of tomorrow's retirees.

The paper by Weiner, Edrich, and Brown pointed out several factors indicating that pensions may be less available in 2013 than today. Some of these factors are increasing employment in small firms and the increasing use of temporary and part-time workers, who may not have pension coverage.

5. What products and services will support retirement?
It was felt that traditional benefit plans will support retirement as they do today but perhaps with a different mix and different provisions. As emphasis increases on long-term-care benefits and insurance, the role of the insurance industry in providing these benefits is likely to increase. The employer may also sponsor such benefits more often. The demographics point to a major increase in the need for long-term-care services. It is also likely that new patterns of care-giving will emerge and that many services will be available within the community to help individuals avoid institutionalization.

One idea that surfaced in the scenarios was permitting tax deductions for time spent in volunteer care-giving service. If the number of different types of care-giving options increases so that individuals can secure service in different ways, there will be a need for "care managers." It is quite possible that employers could purchase services for employees and their parents who are involved in this process.

If the current expectation of retirement as an all-or-nothing event changes so that the employee phases

Continued on page 4 column 1

Retirement cont'd

down gradually, rather than abruptly retires, there will need to be changes in services and job patterns. One possible new service would be temporary employment services focused on helping people with this phase-down. Some companies now are doing this through internal retiree pools.

6. Are there special issues relating to healthcare and retirement? Historically, retiree health benefits have not been a high priority in most employers' planning for their employee benefit programs. Virtually no employers covered much long-term care in their health benefit plans. However, in the last few years, a few employers have introduced voluntary long-term-care arrangements, through which their employees could purchase long-term-care insurance on an employee-pay-all basis.

Benefit needs analysis focused on retirement benefits has not looked specifically at the issue of retiree health benefits. Rather, the emphasis has been on retirement income, which is appropriate when the health benefits are continued into retirement with the employer paying for the benefit on the same basis as for active employees.

The symposium included structured workshops on issues related to public policy, private sector products and services, and the workplace. Four case studies were developed for these workshops, which consisted of 20-30 people. Each workshop group was divided into smaller groups for discussion.

An analysis of the responses to the questions above indicates that the issue of the future of retirement is complex. Many forces will affect it, including some that at first may seem unrelated. The materials presented at the symposium gave participants the opportunity to examine these forces from a broad perspective.

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A regulatory framework for long-term-care insurance

by Larry M. Gorski

Meeting the needs of an aging population is a challenge for those involved in health issues. As an actuary in state regulation, I am working to ensure that any products developed by private insurers to meet this challenge are secure, fairly priced, and properly disclosed to purchasers. This article will discuss what I perceive to be the key actuarial issues relative to long-term-care (LTC) insurance benefits sold in conjunction with life insurance.

I have limited the scope of this article because of the newness of this approach to funding LTC benefits and the lack of a regulatory framework for the product. This discussion assumes that any legal issues concerning the approvability of the product have been answered. Also, I am limiting this discussion to LTC benefits and excluding dread disease-type benefits.

From a regulator's viewpoint, the two key actuarial issues are insurer solvency and policyholder equity. Without the reality of insurer solvency, prefunding LTC benefits through a private insurance mechanism is meaningless. Diversity in product design and lack of insured population data have made the solvency issue a regulator's nightmare but an actuary's delight. The issue is a regulator's nightmare because the underlying life product used in these situations is some form of universal life insurance, which in and of itself is surrounded by many open questions. Proposed reserve methods for the additional LTC benefits have ranged from "adding nothing to the basic policy reserve" to "developing a traditional prospective valuation formula using assumed annual claim costs." Rigorous analysis of benefit features, including the impact of waiting periods before benefit eligibility, should be performed.

The arguments for a particular method are often no more than an exercise in "hand waving." While a particular reserve methodology might eventually be chosen on the basis of practicality, the reserves computed on this basis should be least as large as reserves based on a comprehensive multi-decrement analysis utilizing the best available data to support the various assumptions, including incidence and continuance rates. Lack of published insured population LTC data makes the need for monitoring the adequacy of the reserves an obvious necessity.

The question is how should this be accomplished. My view is that an ongoing actual to expected analysis should be performed. Many actuarial issues must be addressed to implement this idea. For example, should separate analysis of incidence and continuance rates be performed, or should the analysis be based simply on incurred claims? How should the impact on the underlying life benefits and reserves be handled? How should the results be reported to regulators? A complicating factor is that the charges for LTC benefits are not always explicitly displayed but incorporated into an overall cost of insurance charge, which includes both mortality and morbidity.

The usual solution to equity issues is through nonforfeiture values. Even though there might be situations in which nonforfeiture values for LTC benefits sold in conjunction with life insurance might seem obvious, I feel that at this point in the development of the product, solvency and disclosure concerns are more fundamental. Variations in benefits, benefit eligibility requirements, and the impact of paying LTC benefits on life insurance benefits make appropriate disclosure crucial. However, one idea that appears to have some support is to require paid-up benefits, but not cash values, upon lapse of the LTC benefits.

Loss ratio requirements are an integral part of any regulation dealing with health benefits, including LTC benefits. This approach to policyholder protection doesn't appear to be necessary when dealing with LTC benefits that are an acceleration of death benefits but does appear to be appropriate in other circumstances. My view is based on the premise that LTC benefits that are an acceleration of death benefits are incidental to the death benefits.

Continued on page 5 column 1