



SOCIETY OF ACTUARIES

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Retirement cont'd

Changing world political scene

During 1989 there were major political changes in the Communist Bloc countries. East Germans were allowed to freely visit West Germany, and the Berlin Wall is disintegrating. Free elections have been called for in East Germany, and major internal changes have developed in Czechoslovakia and Poland. At first glance these developments seem unrelated to retirement in the United States, but they may play a role in what will be. Retirement patterns will be greatly influenced by employer-offered incentives, which, in turn, are partially driven by the labor supply and demand for workers. At present, a great new uncertainty exists about the impact of these changes on the U.S. labor market. Some questions for consideration include:

- Will the changes affect the supply of workers in the United States?
- Will the changes mean that the Eastern nations are also competing to be manufacturing sites, so that new factors enter into plant-location decisions?
- Will the levels of labor cost that can be supported by manufacturing in the United States change?

These areas need to be watched. It is unclear what impact, if any, they will have on work and retirement patterns.

Repeal of Medicare Catastrophic

In fall 1989 Congress repealed the Medicare Catastrophic Coverage Act, enacted in 1988. This law had two elements: additional benefits and financing through higher Part B premiums and a surtax on income tax of the elderly. The result of this repeal will be higher costs for employer plans covering Medicare eligibles and for Medicare supplements sold to individuals. Employers also are likely to be disturbed by this additional evidence of public policy instability, and this change may encourage employers to terminate their retiree benefits plans or to implement cutbacks through design changes.

Medical costs influence some individuals' retirement decisions, and this change could lead some individuals to delay retirement.

Supreme Court decision

Under ADEA as interpreted by the regulatory agencies, companies were not allowed to make age-based distinctions in employee benefits. Guidelines were issued by the Department of

Labor, and later the Equal Employment Opportunity Commission set forth rules. The *Betts* case, decided by the Supreme Court in 1989, effectively overturned these guidelines. Congress may enact legislation that would have the effect of reinstating these rules.

Retiree medical benefits

In February 1989 the Financial Accounting Standards Board issued its exposure draft on retiree medical accounting. After public hearings in fall 1989, the Board indicated its intention to proceed with the project and not to adjust the timetable. The impact of the proposed changes will be a major reduction in reported earnings per share. It appears likely that plan sponsors will reduce their benefits and that, as a result, employees will be less secure in retirement. This could delay retirements for some and encourage other retirees to return to work, at least part-time.

Seminars in Japan for SOA members

by Harold G. Ingraham, Jr.

This past summer the SOA organized a program of seminars on various topics in several U.S. cities for a touring group of Japanese actuaries, in conjunction with the Institute of Actuaries in Japan (IAJ). In turn, the IAJ recently advised the Society that it would be willing to arrange a number of seminars in Japan in October 1990 for SOA members. The seminars would cover a two-week period and would focus on investment and other financial matters relative to both life insurance and pensions. The IAJ would find lecturers and arrange sightseeing trips as part of the seminar program.

The attending group would be limited to about 25; if more than 25 Society members wish to attend, attendees will be selected by lottery.

If there is sufficient membership interest in pursuing this, the IAJ will need to know soon. If you wish to attend this seminar program in Japan, please let Barbara Choyke in the Society office know by March 15.

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The retiree medical benefits issue will be of major importance to employers over the next few years.

Regulatory and legislative confusion

Major changes were required in pension plans by the Tax Reform Act of 1986. Major portions of key regulations have not been issued as of late 1989, and effective extensions of certain implementation dates have been granted through various Internal Revenue Service notices. Many plan sponsors have changed their plans, but others have not; generally there are concern, confusion and dismay among plan sponsors. Section 89, which was included in the Tax Reform Act, was repealed in the fall of 1989, months after its effective date. This chaos and the extraordinary compliance costs associated with continual changes will discourage employers from offering benefits, and they are likely to lead to deteriorating retirement security.

Public focus on retirement security issues

While plan sponsors deal with retirement security issues in a confusing and rapidly changing environment, the public is becoming more aware of the issues. For example, the *Chicago Tribune* recently published a front-page series on retirement-related issues. The first story was headlined, "Retirement security may be an illusion." It said, "As America's population ages, concerns grow about the nation's pension plans." The stories focused on pension plans and retiree medical coverage and on individuals facing economic problems in retirement. Some of the issues raised include pension coverage, cancellation of retiree health benefits, individuals returning to work to get health coverage, absence of cost-of-living increases, plan terminations, etc.

These developments show that change is continuing. The issues raised in "The Future of Retirement" are as important today as in 1988, but as public awareness of them grows, it is increasingly important that they be examined thoughtfully. A review of some key issues indicates that:

1. There is no real change in demographic issues. Baby boomers continue to age, and life spans are still increasing. The proportion of the population at older ages will increase dramatically.
2. Business restructuring also continues. Benefits are often changed