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Retirement Implications of Demographic and Family Change

by Anna M. Rappaport

This project was sponsored by the SOA Committee on Social Security — Retirement and Disability Income. It was in response to concerns that as society is changing, financial security systems and programs do not always respond rapidly to them. This concern can be reflected in specifics with regard to the design of employee benefits and retirement programs and the use of insurance products such as long-term care insurance, life insurance and annuities. Fundamental issues underlying the project include:

- Population aging in many countries, with very dramatic changes in the United States as a result of the aging of the Baby Boomers and more rapid aging in Japan and countries in Europe
- Changes in the way people are exiting the labor force, but without formal changes in the retirement system to accommodate those changes most effectively
- Legal structures governing pension plans that do not support phased retirement
- Diverse family patterns, but with financial security systems that often still seem designed to fit the needs of traditional families. U.S. Social Security does not adequately reflect diverse family structures.
- Poverty rates among U.S. elderly women living alone that are much higher than for couples. While elderly couples have poverty rates of about five percent, for women alone, it is closer to 20 percent, depending on which group we are viewing.

In response to these issues, the committee sponsored a multi-part project: Retirement Implications of Family and Demographic Change. This project started with formulation of the key issues and a call for papers. The papers were posted on the SOA Web site, and the project then followed with a symposium held in conjunction with the 2002 Pension and Health spring meeting. The papers are now available on the SOA's Web site as part of an online monograph series.

This project served to bring together people from different disciplines and organizations. Seventeen cooperating organizations participated in the project. Topics covered spanned health and disability, as well as pensions and included private and government programs. This material provides good background for the long-term care actuary who is interested in a background on vital issues affecting our aging population.

Changing patterns of retirement are interwoven with health and disability issues. Decision factors for individuals include when to retire, the availability of health insurance (both before and after retirement), personal health status and the health status and care needs of family members. Many people, particularly women, end up leaving the workforce or reducing their work schedules because family members need care. At the same time, these people often do not have personally adequate retirement resources. The paper "Alternatives for Providing Family Retirement Benefits in Social Security and Employer Sponsored Pension Plans" by Anna Rappaport and Manha Yau focuses on different family structures and how well they meet personal retirement needs. It looks at what is done in other countries as well as the United States, as a way to think through the issues. Beverly Orth, in her paper, focuses on how decision making within couples is interrelated.

I would also like to point out several information sources for the long-term care actuary. There is an overview of all of the papers in the March 2002 edition of *The Actuary* and the online monograph. A paper presented by Douglas Andrews called, " Policy Implications of Long-Term Care." It was written by Yung-Ping Chen, a noted gerontologist provides a big picture view of long-term care benefits. Robert Brown shows how we can look at pension and health risks as balancing each other in "Qualified Pension Plans and Health Care for the Elderly: The Perfect Macrodemographic Immunized Portfolio."

In addition to the papers, there were two panels: an overview of key factors facing the retirement system, and an employer perspective. Some highlights from the second panel are included here.

Long-Term Care Implications of Employer Perspective on Workforce Aging and Phased Retirement

This panel provided insight into what employers are thinking about with respect to demographic changes and phased retirement. Some of the discussion has implications for the

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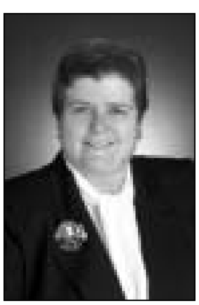
use of long-term care insurance. As a group, the panelists represent several roles that are important in benefit and workforce management includeing the financial management of benefit plans, providing advice on plan design and how benefits align with the organizational strategy, employee education and retirement planning. The companies they work for span middle-and large-size manufacturing, home building and financing, mining, forest products and financial service. More detail on the panel will be available in the online monograph.

In this article, I focus on the perspective of employees and health care issues and what employers have said about them. Quotation marks are used where comments are reflective of direct statements.

Business Impact of Population Aging

Economic realities are driving business action today. The business slowdown is serving to mask the impact of the aging of the baby boomers. For companies going through mergers, consolidation is a common theme. They are also unlikely to be focused on the talent issues that are just around the corner. While workforce shortages are not widespread today, there are exceptions.

Cost challenges link to the level, variability and changes in obligations. Population aging is interacting with increasing health care costs and declining investment markets. It is partly driving the increases in health care costs. This combination is serving to increase the costs for pension and retiree health plans well above what would have been predicted several years ago. These forces make it less likely that companies will offer financial support for long-term care insurance, but not less likely that they will sponsor a program.



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Perspective of Employees

Employees are asked to discuss their hopes and dreams, fears and concerns in planning seminars. One panelist conducts financial planning seminars and talks to many employees as they near retirement and states, "The number one or two fear is either finances or health, and that is almost always the response. Sometimes health is the number one concern; sometimes finances are the number one concern, but those are always the top two. When you probe below the surface on what concerns people have about health, it's health care costs, uncertainty about future health care costs and accessibility of care." Healthcare costs are related to finances and are an important part of the concern about finances. Findings from AARP studies are very similar to the concerns reported in the seminars. The strong concerns about health care can easily extend to long-term care in the future and indicate a good future potential market. Our panel reinforced those concerns.

The panelist continued, "As workers age, their concern is really about wealth accumulation and protection of assets. And, as many boomers find themselves in the sandwich generation are dealing with aging parents, they are becoming acutely aware of health care costs and also of the issues surrounding long-term care. They are taking care of elderly parents and often must take time off from work. They are lobbying for long-term care insurance products."

While the population over all is living longer and is healthier, chronic disease is a problem for many as they reach the mid-50s. "Approximately one-quarter of workers I see around age 55 have significant health issues as they near retirement. For many, they have made poor lifestyle choices. Although many boomers have taken good care of themselves, others have not. I see increases in Type 2 diabetes, heart disease and cancer. For some part of the population, health related issues will force early retirement and have a significant impact on their costs and finances in retirement."

Family status makes a big difference. While dual earner couples often are very well off, other groups are not. "Those workers that are not going out early tend to be 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."

Lump sums are particularly important in retirement decisions and in success in retirement. Another panelist pointed out that many of their programs allow a lump sum option. "You find people at all levels, from executives to lower levels, suddenly facing the opportunity to have the biggest pot of money they've ever had in their lives. From a financial planning point of view, financial planners are saying it's best for you to grasp that money now, because it might not be available later. You and your spouse may not live long enough to enjoy it." Designers of long-term care products may wish to focus on whether there is a special approach useful at the point of retirement, particularly when people get lump sums.