LIVING TO 100 SYMPOSIUM

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General Session 1: Implications of Longer Life Spans: What Does This All Mean to Us?

Moderator: Anna M. Rappaport
Panelists: Timothy F. Harris
Dawn E. Helwig
Valerie A. Paganelli
David K Sandberg
Steven G. Vernon

ANNA RAPPAPORT: Thank you all for coming to this panel on the Implications of Longer Life Span. I'm Anna Rappaport. I'm very proud that I was part of the first two Living to 100 Symposia and am very proud to see so many people here, and a different group of people here. I was actually the keynoter of the first one in 2002. The reason that we're having this panel and the thing that led to this particular session compared to some of the sessions based on, this is heavily based on papers, is that one of the things about the first one is while people said they would rate, they didn't hear enough about implications and what can I do when I go home....and how to do something with this on Monday morning. What's going to happen next? So we put together this panel to focus on implications, to try to give you all ideas on what you might do with it.

As we think about this issue of Living to 100, it affects society very broadly. But we're not here to talk about total society, we're going to think about the people that actuaries serve and the different audiences that actuaries serve and we're also going to be talking only about the private sector in this panel, not about social systems, not because there aren't important implications but we have other sessions about Social Security and government programs in different countries. So this will be really private sector.

We'll talk a little bit about issues related to changing patterns and retirement, which is a huge subject, but only a little bit about it here because we want you to come back this afternoon where we're going to have a similar panel focus on how definitions of retirement are changing. So we'll have a lot of focus on that, and there will be also a lot more focus on health in some of the sessions, so that the topics here, they'll be discussed more elsewhere. And I'd just like to ask you all a question too. How many people here work primarily on life insurance or annuity products? I'm just curious to see who we've got here? Oh this is tremendous. Retirement systems? Quite a few of you. Health benefits or health or long-term care insurance? Fewer of you, but some of you. How many of you are more in the research and academic community?

Okay now this is a C shift. This is a huge shift from the prior Living to 100, because we have a lot more people here that are actually trying to work on products and this is great. We hope you have a chance to network. So I'd like to start with the panel introducing themselves and who their stakeholder is and just a little bit about the issue from that point of view and then we're going to have two rounds of going around the panel. The first round after we finish the introduction round, they'll be talking about opportunities and pitfalls, the challenges to their stakeholder group and what they might do. And our five stakeholder groups are the individual, what people do, the customers of all the people that make these products, and then we'll have the employer and then we're going to have life insurance and annuities. We're going to have long-term care, thinking about both insurance products, but also about how do we provide it in health care and our panelists, after they introduce their stakeholder, will introduce themselves and what they do as well.

So, Steve Vernon, do you want to start us off with the individuals?

STEVE VERNON: I'm Steve Vernon and I'm President of Rest-of-Life Communications. My background is I spent 30 years as a consulting actuary in the corporate world. Last 25 years for Watson Wyatt and what got me into this area is that I was witnessing the demise of the Defined Benefit and Retired Medical System for employees and so it got me interested as how individuals deal with this? How do they have enough money to live for the rest of their lives? How do they have good health to prevent medical expenses as much as they can? And so my focus now is helping individuals take all the research and be able to use the products and services that you represent. How do individuals deal with that so that they can live a long time and have enough money to prosper all that well.

VALERIE PAGANELLI: My name is Valerie Paganelli and I come to you from the Pacific Northwest in Seattle and I'm thrilled to be here and I'm going to be representing the employer stakeholder group for this panel. Reason being, I spent 25 or so years in the consulting industry to employers regarding their retirement programs, and benefit programs that support the workforce dynamics of people enter and exit their particular workforce. And as I started my career in the throes of early retirement incentive programs, and a lot of accelerated exits that do continue within the workforce today, but have, in the last 10 years, invested an enormous amount of time in research and consulting around extending the working lifetime, particularly of key employees and key industries and key geographies. I'm looking forward to sharing those experiences with you.

DAVID SANDBERG: I'm Corporate Actuary at Allianz Life Insurance Company in Minneapolis, MN. I'm delighted to be here. My company's background in this issue has really been kind of a 20 year question early on, practically 20 years ago, that perhaps future questions to be resolved within the insurance community was not how to solve the problem of dying too soon, but solve the problem of living too long. And that the real risk paradigm that was going to emerge in the marketplace was that. That's a very complicated question, and but we've actually been, essentially tracking that within our

own product design and philosophy as we tried to view the market. In that period, we also became acquired by an international company and so we kind of bring to it the filter of, if you will, of a distribution process that actually has banks, investment managers and independent agents as, in a sense, a distribution way to bring product to people that you're concerned with the insurance needs of living too long.

I'll also mention that I've been to two conferences in the last year or so, that have really been a collection of banking, investment houses, broker dealer community, CFAs and regulators, all kind of looking at this looming issue of lump sum money that's been accumulated in an accumulation phase, trying to transition to a de-accumulation phase, and it's clear there is a lot of head scratching and development issues going on about how to access and provide real value and service in that. So that perspective...oh I want to mention as well, I am probably going to introduce in a sense, some of my Academy and Society hat as well, because one of the issues that I think is emerging is how do you find a way to speak credibly in the face of the immense, what I'll call, greed factor of trillions and trillions of dollars at play, for advice and I think one of the other issues, is how do you create a professional discipline around communication people.

ANNA RAPPAPORT: And Dave didn't tell you this, but Dave Sandberg has just been serving as Academy Vice President responsible for the Life Practice Area.

DAWN HELWIG: My name is Dawn Helwig. I'm a Consulting Actuary with Milliman and I've been with Milliman for 21 years and most of that time, I've spent working on long-term care insurance. Medicare supplement to some extent as well. But so I am representing the long-term care stakeholder in this panel. As part of that, I guess, I'm going to bring in a little bit not only long-term care insurance, but some comments about CCRT, combo products, long-term care riders attached to life policies and annuity products and reverse mortgages. But my primary emphasis is going to be long-term care insurance.

Long-term care insurance is sort of the new kid on the block in the insurance industry. It's been around for about 30 years or so. It's, you know, and we sort of have that extended life span. We take care of it...I would characterize long-term care insurance as sort of being in its teenage years. It's a little bit troubled. There have been issues. The policies, there have been rate increases, policies have been re-priced, but I do believe that it's a product too, as time has come, and even though this is a panel on private insurance or the private sector, you really can't talk about long-term care insurance without mentioning the public sector, because long-term care has at least had the perception in this country for quite a while, that it is provided by the public sector and it is not.

So I think private long-term care insurance is an idea whose time has sort of come and actually, would be something that should be on everybody's list to consider, if they haven't already.

ANNA RAPPAPORT: Tim? You all have met Tim already.

TIM HARRIS: Yes. I'm a Consulting Actuary with Milliman in the St. Louis office and I work in the health area and do a lot of work for state and federal agencies. My area today is going to be to focus on the health care capacity in the U.S. I know we have people here from different countries and we all know that the U.S. has a different health care system here. And I've always been curious about whether or not the system will be able to support the changing demographics that we all know is coming about as the baby boomers age.

I'm also going to comment briefly on health insurers as well, but the primary focus will be capacity in the U.S.

ANNA RAPPAPORT: Now we're very proud that we have people here from 14 countries and as we had our little last minute preparation last night, talking about the panel, we talked about the fact that many of the issues that we face, there are parallel issues through much of the developed world and in many different countries. So while all of us are working in the U.S., we will try to keep in mind and also mention how these issues play out in other cultures as well.

So at this point, what I want to do is ask each of the panelists now discuss the opportunities, pitfalls, and challenges for their stakeholder group and some suggestions for how to address them. We'll go around the panel, then we're going to give the panelists a chance to ask each other a couple of questions and we'll give you all a chance to make some comments and ask questions as well. And then after that, we're going to focus on innovations and what we've seen as innovations. Back to you, Steve.

STEVE VERNON: I'm representing the individual and what got me interested in this, as I mentioned earlier, is that the demise of the defined benefit system in the United States, and actually in many of the industrialized nations, that's also going on, in Britain, Australia, and other countries, we're seeing a decline in people covered by defined benefit plans.

So that's a challenge. Basically employees are going to be left with lump sum payments from 401(k) plans and they need to know how to manage that to last the rest of their lives and they don't know how long they'll live. So that's a huge challenge.

The level of understanding and knowledge in this area, among older Americans is pretty low. I've done lots of employee meetings and I can tell you that it's very, very low. And so one of the challenges is just getting people some knowledge to help them make better choices with regarding how they manage their clients.

ANNA RAPPAPORT: Steve, I want to just jump in a minute for everybody here, let you know that the SOA has done a lot of research and also documented that the level of knowledge is low and we're going to talk about some of that this afternoon. But be sure to ask me or Steve Siegel if you haven't seen the research that you're interested in, and Steve, put up your hand. I'm sorry.

STEVE VERNON: I'll just tell you a brief story that illustrates this. As I was giving an employee meeting and I was trying to explain the Joint & Survivor Pension, and how that works as a Joint 50 percent Survivor Annuity, and so I said, well after you die your spouse gets 50 percent of your annuity. And the employee looked at me really suspiciously, like "when does she get the other half?" As if I was taking it. And I just realized, you know, there's a level of understanding here.

Now this issue really relates, as I said, to the industrialized nations. The other issue which is more here in the United States is Retiree Medical and so employers are also abandoning those plans. And what should we do about it?

And what I found out is that there is a lot you can do with your lifestyle, your eating, your exercise, your stress management, that the research suggests that you can reduce the odds of the chronic initiatives that are very expensive by about 50 percent. And you can argue whether it's 70 or 30, but basically it's a very good strategy to take care of your health to reduce the odds of getting wiped out by medical bills.

And so there's also a lot of misinformation out there. But what really got me interested in this is that the level of information is pretty good, even if we know what to do, most people don't do it. So a lot of the challenges are behavioral. Everybody knows or at least lots of people know they should save more, eat less, and exercise more, but they don't really get around to doing it. And so, one of the challenges I think we face is that not only do we need to get good information out there and as Dave mentioned with the advisors, unbiased information, cause there's a pot load of money out there, that advisors and financial people are swarming around.

And so I think there's a good at least, my role, the one I'm choosing is to provide unbiased advice and information and information that's pretty good, based on the latest research.

Let me just quickly say a few more things. Just to illustrate the challenge, is that the average 401(k) balance in the United States for people in their 50s and 60s is about $100,000. And for lots and lots of people, that seems like a lot of money, but if you need to make $100,000 last for the rest of your life, you can have an annual retirement income of $4 or 5,000. And so right away you can see that's a big problem.

There are studies that show the average amount of money you should have on hand, for medical expenses in your retirement is about $100,000 per person—$200,000 for a couple. So right away we think all right, a meager $100,000 401(k) balance it might all get taken up by medical expenses.

So I came to the conclusion pretty quickly that Americans, at least, and actually I think people in the other industrialized nations, are going to need to work longer than they had thought. I think retirement in your 50s is almost out of the question. In your early to mid 60s, for most people, actually is out of the question. And a full retirement into your late 60s and early 70s is probably more likely going to happen.

Now when you go and say that to most people, they're very distressed to hear that. Because they don't like working and they want to quit their work.

One last thing to throw in here, there's some evidence emerging that actually if you work in your later years, you actually are healthier and live longer. This is emerging research and so it's not conclusive, but what I've been starting to talk about is kind of a holistic lifestyle package where you work longer, but maybe you're not killing yourself, you work less hours and do work that's more enjoyable, be engaged with life and take care of your health. Look beyond just the money. You got to do a good job with the money, and you gotta have a strategy for making your 401(k) balance, your other savings last for the rest of your life. But you can't just stop with the money. You gotta focus on your health and your engagement with life and continuing to work and that's a package I think which is a lot more realistic for most Americans.

And so what I'm about is, educating people and motivating them to think about their later years. I think I probably run out of time.

ANNA RAPPAPORT: I want to just mention additional piece of Society of Actuaries' research, the focus groups that we did a couple of years ago, talking about people needing to work longer and plan for a long time. We did focus groups with people that had significant 401(k) balances and had retired a few years ago, and we found out that, in fact, they were planning really short term. They weren't thinking about long-term. So the importance of what you're doing is so great, but for us, one of the challenges is, how do we climb over the hump, to getting people to think about longer, getting people to pay more attention? I want to now call on Valerie again. Let her talk about some of the issues from the perspective of the employer.

VALERIE PAGANELLI: And I'm going to rely heavily on Tim's earlier start to this whole thing, caveats of what I'm saying may not represent my views, but they represent views of a myriad of employers that I've worked with over the years. And I would say that the reality is that the longevity and the implications are a huge blind spot for the vast majority of employers. If you go into these companies and walk into their marketing department, and their sales department, they are acutely aware of the implications of longevity and our aging population. And how from a supply and demand in the marketplace, their company is going to either benefit or not benefit from an aging population. And looking at ways to modify their products and services in such a way as to continue to generate revenue for the company.

But from the standpoint of how they do that, they're very short-sighted and have been forced to make some pretty extreme decisions in order to mitigate costs. Steve mentioned the decline of the defined benefit plans. As soon as those got costly, they started to ratchet them down. Post retirement medical programs, as soon as those got costly, started to ratchet them down. So, my job has really been to help them focus on the flip side of the equation. Supply and demand externally focused is great. Internal to their own organization and the people that are going to make that go and the access that

they're going to have for those people to generate those sales and revenue and productivity is light years behind.

And so from an employer's standpoint, they are really dialed in, more so to the opportunities that longevity will provide as opposed to the risks inherent in longevity. And where employers have left a lot of their employees is with this traditional definition of retirement, but not the supporting role that they have played for decades. We have the traditional three-legged stool of retirement resources: Social security, personal savings and employer-provided pensions. Well that's gotten chopped off part way and the additional fourth leg that is now in that stool and developing to offset it, as Steve mentioned, continued working…and continued wages. So the individual has become the determinant of what longevity means to a company, as opposed to the company and the employer harnessing what it's going to mean to them. And so, the challenges that many companies are faced with is, who are we culturally, internally, to accommodating an aging workforce? And how big of a shift do we need to make in order to sustain our business model?

And so from a what are we doing about it, standpoint, which I think is what Anna was really hoping to get out of this panel, the employers that I'm working with are on the spectrum either realizing that they have this huge opportunity to harness if they need the industry or lead in the thinking of how they accommodate an aging workforce and there are others who actually are disassociating it or ignoring it until it becomes so acute that they have to respond. And then hoping that the leaders have sort of figured it out and they can just ride the coattail.

The reality is the industries that are most acutely impacted are the ones that ironically seem to be least equipped and have the biggest blinders on, because they have the revenue issues in their face directly. Think of the GMs, think of some of the utilities. Think of the hospitals. They have, they are so focused on the revenue and how to provide their services that they're trying to play catch up on the people side.

So from a culture standpoint, organizations are looking at accommodating part time employment. It's amazing the number of historic companies out there, who don't have a part time employee, never have had a part time employee, all of the way that they exist from a reporting of revenues to allocation of expenses, it's all on a per head basis. You know, if you're going to be part time but carry a full time expense load to a particular line item on an accounting balance sheet, then it doesn't register and they're not going to accommodate it. Also, training of managers. Managers in those environments, don't know how to deal with part-time employees.

So what I'm finding is, taking those kinds of organizations and say, hey, you haven't probably benchmarked yourself before against a retail industry that is full of part-time employment and knows how to deal with part-timers, but maybe you should start to integrate with their thinking more. So you're seeing companies go outside their normal benchmarking group to accommodate this kind of thinking and doing a whole lot of scenario planning. So you take your own population, employee population and you

project out what has normally occurred in the way of retirement or exit and what you would like to have occur and see the gaps, and begin to map together and weave together how you're going to recruit differently. How you're going to build programs that support the opportunity for people to stay in your workforce and supply the goods and services that we're all going to demand.

So on the back end of what Steve is saying, all the poor savers that don't have retirement resources available to them, therein lies a huge asset for a corporation if they can harness that energy and know that these employees may continue to work from a financial standpoint and how to turn them into happy workers, as opposed to the grumpy workers that Steve portrayed.

And then I would say that many companies are probably not thinking, certainly not the senior leadership level, thinking about what role they need to play. The markets that Dave and Dawn are going to talk about. They're not efficient markets. But the employer holds a role in that. Are they going to be passively involved or are they going to be actively involved? Are they a kind of company that has been paternalistic and so employees would naturally look to them to make the decisions for them, you know, wade through all of the information and present them with the most viable opportunities.

A lot of companies don't want to see that intermediary, so how do we build these markets efficiently, so that an individual can access them or a corporation can be the conduit? Those are some of the challenges that companies are facing today.

ANNA RAPPAPORT: For those of us who are actuaries, we tend to think about the employer as being the offerer of benefits and a lot of us, the roles we play have been supporting and offering a message, but as Valerie pointed out there is a real need for projecting workforces for planning and companies who are really different so, we can think about some different roles for ourselves. And also picking up on a question from earlier, you asked about (coughing), a new report from the Conference Board just out, Gray Sky, Silver Lining, gives some intensive case studies on companies that in fact, have adapted well. So at this point, would like to ask Dave to give us some of the perspective in the life insurance and annuity products, which is, I think, the work that many of you do from what you said earlier.

DAVID SANDBERG: Well I'll try and focus on four questions as far as identifying issues that need to be resolved and then in the next go-around, maybe talk about some of the directions, at least at our company that and perhaps in the profession that I think we're taking to address that.

First of all, I'll bring out the question, what is the product we're actually selling? And I'll kind of go back historically 50 years ago, the insurance agent was very much somebody who said, I am skilled at what I do because I make you sit down and face hard decisions that are not pleasant to look at, which is are you able to think about if you die, who's going to take care of your family? Not a pleasant subject but you need to be able to kind of meet people at that level and say here's a plan that can help you deal with that.

In the, with the emergence of some of the bifurcation of product risk into term insurance and other products, it kind of became a case of a Wal-Mart model. You know, what's the cheapest way that you can buy life insurance? And I think we've had a fragmentation of you know, what is it that's offering? On the accumulation side it became well what's the highest yield they can offer? So I'm kind of competing as a commodity.

Our company, three or four years ago, started doing some solid kind of research and to kind of identifying well what is the market out there? Cause we don't want to just be offering the same product we're offering and trying to talk people into buying what we're already selling. We're saying, no, we think there's some things changing. And so, one of the things that we found out is that particularly as you move into, what I call the second half of life, at least in our current definition, it may be the first 10th of life if we live longer. But at least under our current framework into the second half of life, that the questions are less about money, but are much more about values. And then the idea of somebody accumulating wealth comes to, well what is it I want to do with my life? What is it that I want to spend my money. My mom grew up in the Depression. She, every year has $10,000-20,000 extra. She doesn't really know what to do with and certainly, she could go buy a boat or you know, something but that's just not her values. It's not a value issue.

In addition, this same generation of older people are accumulating a vast legacy of money that's actually not, they're not going to live off of. They're actually going to transfer to the next generation. So while we often in this context talk about will I, as an individual, have enough money, the reality is that as a society we have trillions and trillions of dollars that are going to be gifts to the next generation.

And so the discussion that is kind of lacking, if you will, that we see in the marketplace, is well what values do you have about that money? What is it that you want bequeath with that? So it's, you know, kind of the Warren Buffet question, where he said, it isn't healthy for my family to have this money. You know, I'm going to make a decision now that says, no, this is a legacy that I'm building. Now none of us are Warren Buffets but we all will face and our parents will face the question of 200,000, half a million, a million dollar legacy, that I can actually choose to leave for something for after I'm gone.

So now the role of this advisor is no longer the commodity role, it's a question about values. I think Steve in a later panel is going to talk about this challenge of some of the financial advice, but I'm not a therapist. You know? I'm giving you a quantitative risk return tradeoff that says, here's your sound investment. What's this about value? At the same time, a good friend of mine, her parents come to her and say "we've decided you get the house." She says, "well what's my sister going to say?" Well, let's go talk to her. Well they talk to the sister. "I don't care about the house. It's the family photos that are non-negotiable." So in this decision about planning your money, it's really a question about values. And how do you transition? So that's one question. The other is, is that we've also bifurcated the accumulation phase from the decumulation phase.

And we haven't really thought about them as a continuum. So you know, we've got these great marketing people who have already come up with the symbol of an hourglass, sand hourglass, that's dripping down your accumulating, you know, sand into this asset pool. You get to retirement, you flip it over. Now you start paying yourself back what you've just accumulated. And now, as you die, you may end up with additional sand and you flip it over and say, "so now I'm going to bequeath the rest of this to a legacy." So this idea of accumulating/ decumulating.

Now I'm going to put on my, if you will, risk hat, actuarial hat. One of the interesting questions we have now is, well how do I think about risk of accumulation versus risk of decumulation? And how do I link the two of them?

When we say what is the product we're selling, are we selling an investment product or an insurance product? And I'll distinguish the two by saying, if I'm selling you an investment, I put $100,000 on the table, and while I may make a million dollars, I could lose all of it. Buyer beware, certainly a possibility. I may sell you that it's only a one in a hundred chance, one in a 10 chance, but you can lose it all. Or you can lose 20 percent of it before you can even do anything about it.

If I put an insurance product on the table, and say here's a $100,000 and it's always going to be there, whether it's traditionally a death benefit or an accumulation vehicle, that says this money is always here. The only choice differentiation is how much risk do I take in accumulating that? I'll never hit a home run but maybe I can hit a single or a double. Maybe I take a lower guarantee, force an increased upside potential.

So that's kind of a distinction. So, now as we talk about product, it's going to go to, now who sells it? So, and this thing comes back to the question of compensation. What is the person being compensated for when they sell this product?

If I'm selling you an investment product, the world is risky and it changes every day and your risks change. So the traditional model has been, I should get compensated for waking up every morning and assessing on your behalf, how the world has changed and how your risk tolerance has changed, and here's my recommendation for how you need to rebalance, to kind of always stay consistent with the goals that you have. So therefore, I should be paid a percentage of everything that you're having invested.

The insurance paradigm says that we don't like making hard decisions. We put them off. We ignore them. Or we tend to react emotionally when things go bad, and overreact and do something kind of impulsive or impetuous.

So if I have a product that says, it's actually a little bit hard to get out of this, it's meant to be part of the structured long-term program that says, you've committed to something that actually enforces the savings discipline on you. And is part of the program comparing for later life. Well maybe you should be paid a fee upfront to kind of lock you in.

Now culturally, that's a real challenge. If I'm an investment advisor, I would have to think that in my gut, it seems morally wrong for somebody to be paid an 8 percent commission for doing something that they don't do any work for it seems. So it seems to them, because their world lives in every day, re-evaluating situations and modifying.

On the other hand, maybe the worst thing you can do is have complete liquidity, so that when things go bad, you make bad decisions and compromise the situation.

So lastly then, who regulates it? Okay we're thinking about these products and emerging issues so who is it that's actually going to come in and say, this is appropriate. This is, you're holding the right amount of capital. You're disclosing the right amount of information. I think one of the curious things in the fixed annuity world today is that you have what I'll call the securities world, arguing that guarantees and benefits that are sold in insurance products that are providing an insurance protection, are worthless. Or worth very little. Or they're being foisted as something of no value. At the same time, the other, the insurance regulators are required to look at the capital need and saying, "We don't think there is enough capital. We think these guys are undercharging and selling a benefit too cheaply." So there's a real kind of conflict in the regulatory world, "Well how do deal with this?"

So, the issue, so in all of this, is I kind of mentioned once already, the issue of credible information, how do we sort out what's really going on here in the midst of kind of the seductive allure of trillions and trillions of dollars at play, for people to take their little small piece of the revenue stream from.

I think that the ability to think coherently about risk and risk management, whether it's at an individual level, as Steve is kind of laying out some concepts. Or whether it's at a corporate level to say well, if I, as a corporation, am taking on longevity guarantees, how do I now think about the volatility of mortality, given some of the other issues that are well. And how do I make a framework that says this product will not be a risk disaster 20 years from now, but has the right kind of risk sharing mechanisms and regulatory oversight that the promises that are there, that can't be made, will be made.

So with that, I'll...

ANNA RAPPAPORT: I'm going to ask you a question before we go on. I want to ask you, how did the fact that more of us are at the decumulation ages and that we're living longer? How does that change the...does that change the thing being discussed or what extra challenges does it create?

DAVID SANDBERG: Well I think it says that the products you're offering can no longer be the simple dichotomy of term insurance an annuity. You know, I get paid outright. I can buy an immediate annuity and get a guaranteed payment stream, and many people are reluctant to do that. That's one of the behavioral issues that we talked about. How do you change behavior? And I know that there's been some information

that's tough, it says at least from limited research says, "Until people see a 30 percent difference in value, they don't kind of ask to commit to make that kind of change and say okay, I'll go from my lump sum money into a pay out."

So I think that the changing landscape of retirement is going to lead to products that need, what I'll call option leveraging. They're going to have to (1) have some risk sharing mechanisms, because nobody can afford to make an absolute guarantee. So how do you manage the risk exposure both to the individual and the company in changing the promise that's there?

ANNA RAPPAPORT: Okay. At this point, like to call on Dawn to talk a little bit more about the long-term care.

DAWN HELWIG: Let me start out by saying that long-term care is really a modern day problem. There is a reason that long-term care insurance has only existed for the last 30 years or so. Long-term care is and the need for long-term care services, and by long-term care services, I'm talking about the risk of somebody going into the nursing home, going into the assisted living facility or getting private home health care in their home.

Typical long-term care insurance does not cover, does not pay a family member for taking care of you. If you have a spouse, you're married, to quite often, the spouse cares for the infirmed spouse. And long-term care insurance typically does not cover that. There are some policies that do and they're much more expensive as you can imagine, but so long-term care really covers nursing home and assisted living facilities or home health care.

It's only been in recent years that we've had longevity to the point where people are using long-term care services in a much greater proportion. And as you look at what's happening with the baby boomers coming down the pike, you can imagine the increased concern to the increased number of long-term care services that are going to be used in the next 30-40 years.

So long-term care insurance is a relatively recent innovation to try to cover that eventual risk. So there's a lot of opportunity and I do need to just kind of backtrack a little bit and talk about who has been paying for long-term care services so far. Long-term care when it started out, basically paid for nursing home only services. The coverage has expanded to include home health care and assisted living facilities but only about 7 percent of the over 55 population in the United States owns long-term care insurance. So you might question what's happening to the rest of the long-term care, that is being provided in this country.

Either you have two basic scenarios. Either somebody has enough assets that they're paying for privately out of their pocket or, they are able to divest those assets, or their assets are very small to begin with and they're qualifying for Medicaid.

Medicaid is paying over half of nursing home expenses in the United States today. 30 or 40 years ago, it paid about 20 percent. It's not that we've got that many more people that are economically destitute that they qualify for Medicaid, it's that you got that many more people that have divested their assets and become qualified for Medicaid.

State Medicaid budgets and you have to make sure that we distinguish here between Medicare and Medicaid. Medicare pays very, very, very little for long-term care. It pays a few days of nursing home services and it has to be in a Medicare certified nursing home, which there are not very many of them. And it pays for some skilled home health care. But generally, Medicare does not pay for long-term care.

Medicaid pays for nursing home services and they need to be, the person needs to be financially destitute before Medicaid will pick up the services.

So it leaves a whole bunch of people when they have not really planned for the eventual need for long-term care services at that point in their lives where they either have to look at all these life insurance proceeds, their annuity proceeds or just their meager savings, that they had planned to basically pass on to their heirs and now they're going to need to tap into that to pay for their nursing home or their home health care services.

In this country, what happens is that the families, typically takes care of the person as long as possible, while they divest the person's assets and then they get them on to Medicaid. Again, this is for the majority of Americans, not really, you know, the truly wealthy obviously can self pay or self fund forever.

So long-term care was really designed to provide insurance protection for the...that group of people that really shouldn't be qualifying for Medicaid. Medicaid is not a very pleasant system to enter, as you can, if any of you have had relatives that have gone that route, can attest to. Medicaid does not pay for very good facilities. I mean quite honestly, people that go into Medicaid nursing homes, the nursing homes are pretty dismal. So private long-term care insurance, basically picks up the coverage of nursing home or home health care. You can have a nurse come to your home.

But it hasn't been that popular. As I said, only about 7 percent or 8 percent of people have purchased long-term care. Some of that has been because of the long-term care program itself. It's been a new product. It's been...there have been a lot of pricing missteps, quite honestly over the years. It's a level issue age product and that's mandated by law for anybody over age 65. It has to be level premium based on your issue age. But the cost of the care is a really, really steeply increasing curve. So, if you miss in your pricing assumption on the voluntary lapsed rate or on the mortality rate, you end up with a lot more people at that top end of the curve that's above your issue age premium and you have a premium problem. And that has happened in the industry. There have been rate increases, new policies that have come out, have been higher priced. Companies have been reviewing their claims practices and cutting back on, on what they would pay basically, not paying things that are outside the contract, etc.

So there have been challenges. That has caused some of the pitfalls that we've experienced in long-term care. There has been some negative publicity as a result. But overall, i mean I think we're at the point in the industry as I said earlier, we're kind of in the teenage years, but I think nearing the end of those teenage years. We're leaving those troubled years behind. Pricing has stabilized for the most part. And the product is fairly stable at this point.

Now that's not to say that we, as pricing actuaries, have all of these pitfalls accounted for. One of the biggest pitfalls is what is going to be the future projected long-term care needs of people? Are they going to look like what the long-term care needs of the current population has looked like? And as most of you know, actuaries tend to project the future by looking in the rear view mirror. Dr. Kenyon's comments to me this morning were very interesting about the possible squaring of the mortality curve, versus extending the period of time that somebody lives in a disabled state. That's a key assumption for pricing long-term care insurance. If we, we have seen and I think there's a paper that's going to be presented by Dr. Eric Stallard, during this conference that basically the population in the United States has improved in its key triggers for long-term care insurance, which are activities of daily living. Basically bathing, eating, dressing, toileting, incontinence and transferring.

And but the proportion of people that are disabled in those activities of daily living, have declined historically, by a couple percent per year. You know, depending upon which study you're looking at. But people have gotten healthier and that, with the population or with the data being age adjusted. So looking at the over 65 population, the proportion of people that have limitations in two or more activities of daily living, which or are cognitively impaired, those are the triggers that will allow somebody to start using a long-term care policy.

That proportion of the population has actually declined even when it's age-adjusted. So the population does seem like it's trending more to the squaring of the mortality curve. We've got people living longer lives and living them in a healthier state, which is very good news for the long-term care industry and that's what we want. We're, the you know, it would be absolutely key for the long-term care industry if some of the new drugs that are being tested for Alzheimer's work. Eliminating the Alzheimer's claim from a long-term care policy, would make a huge difference in the price of the policy. It's something like 40 percent of the existing long-term care claims are cognitive related.

So it's a huge factor. Now, that's not to say that the price would go down 40 percent. Those people that have cognitive impairment quite often have other physical conditions that would still cause them to use long-term care services.

So we know that the long-term care, the way long-term care is delivered in this country, historically, by relying on Medicaid, is not going to be sustainable in the future. Medicaid is, I'm sure you're all aware, partially funded by the federal government, and partially funded by state. States are going, their Medicaid programs are going bankrupt. There have been numerous Medicaid crises among States where they just, they don't have the

funding for the Medicaid programs and long-term care nursing home insurance or nursing home care rather is the biggest component of Medicaid budgets. So you know, their reaction is that they cut services. They cut what they're going to pay to the providers, which leads to lower quality care and it becomes a vicious cycle.

So I think in this country, you know, it has been made pretty clear by the federal government in the past, that they don't see that the feds are going to pick up covering long-term care. Long-term care is or Medicaid coverage is going to probably contract rather than expand. Legislation that the Deficit Reduction Act from a couple of years ago, actually changed several key aspects of Medicaid coverage of long-term care, which would, if enforced, lead to far fewer people qualifying for Medicaid.

So I think that we are going to get to the point or we are at the point where people are going to realize that they need to take responsibility for long-term care insurance themselves. Or for their own long-term care needs.

There have been some studies that suggest, and I was interested in Steve's comments that indicate about $100,000 is needed for one person to basically cover or correct me if I'm not saying this correctly, but basically, a person needs about $100,000 and that pretty much pays for their medical costs at the time they retire. There have been some estimates that that in order for somebody to be 90 percent confident that they are going to be able to cover all of their long-term care needs, they need a half million dollars or more for that.

Now about half the people are going to actually use paid long-term care services at some point in their life so you might be one of the lucky 50 percent that never needs it and then you've got, you know, all of your assets that can transfer your heirs or if you're one of the unlucky 50 percent that does use paid long-term care services during your retirement years, you're going to need $150,000 to pay for this.

So that's where long-term care insurance comes in. It basically has had a lot of pitfalls. There have been a lot of stumbling as the product has matured. As the pricing has matured. But I do believe that you know, particularly if you look at the possible scenario down the road, of people living longer lives and in unhealthy states, that it's going to become a key insurance and right now it's being provided both at the individual level and at the group level. Group insurance has taken...has accounted for about 10 percent of long-term care sales. Many employers offer it or are offering it, but it's generally offered on a totally voluntary basis, where it's just made available to the employees and they pay the full premium.

There are some employers and we're actually seeing some more trends in this direction in recent years. There are some employers who will pay for some very basic you know, key kind of long-term care coverage and then the employee can buy up or they'll pay some portion of the employees premium. But that is, that is really a small portion of the employees right now.

So it is actually six years ago the federal government implemented long-term care insurance on its employees. It was a totally voluntary program that they sent a very definite message that the feds are not going to cover this type of benefit and we expect employees and the federal government actually opened it up to anybody who was even remotely related to a federal employee could purchase this coverage through the federal plan.

So you know that was a pretty big step on the employer side, with the federal government saying, we're covering this or we're making this benefit available to our employees.

ANNA RAPPAPORT: I want to call on Tim Harris.

TIM HARRIS: As I indicated, I'm going to talk about the supply and demand of health care into the future as our demographics change, as the baby boomers move through the population. And in preparing for this, I built a computer model using U.S. Census data which projected populations out to the year 2100. Plus we used some Milliman proprietary data which shows hospital utilizations for various age groups, and came up with some very interesting results.

Now according to our statistics, an individual in the age group 65 to 69, will utilize a hospital bed four times as often as an adult in the under age 65 group, and an individual in the 85+ age group, will utilize that hospital bed 14 times more often, so I think we all understand that as we get older, we're more likely to be admitted to a hospital. We're more likely to require some type of surgery. We're more likely to stay in the hospital for a period of time. And then also as a larger proportion of our population gets older, who do you expect to see just more people in the hospital. More older people.

ANNA RAPPAPORT: And Tim, if we're the hospital, we also understand that that's a huge part of our business, as people over 65, correct?

TIM HARRIS: Right. But are there enough hospitals? Okay? Or enough doctors? Are there enough nurses? Yeah it's business, but the issue I think, is more capacity. Will there be enough capacity on the supply side in the health care arena?

And actually there was a bit of research on this topic. I hadn't seen any by actuaries and some of the research that is out there could have used an actuarial touch. When you look at the data on hospital admissions, you'll find that actually there's going to be quite a surge in the admissions but when you take into account some of the reductions that we've seen and anticipate continuing to see in length of stay, through the more efficient delivery of health care services to the population, and through the shifting of services from the inpatient environment to the outpatient environment, it actually doesn't look that bad in the projections that I indicated that I had done in connection with this presentation.

We find that there may well be sufficient hospital capacity. Right now our hospitals are, hospital beds are only about 70 percent occupied. So there's currently a 30 percent excess in the U.S. in hospital capacity. And in making these projections, you also need to

consider what we call trend. Over time there's a change, there has been a change in the utilization of health care services. As a population in the U.S., we have decided that we want to be healthier and so we have gone to the doctor more. We have used more medications. We've gone to the hospital more. So there's been somewhat of a shift in the utilization of services. There's also a change in technology. There are more services being offered, so that also increases the desire or demand for services.

So in these models we took into account trend and even with trend it's fairly likely in the projections that we've assembled that the hospital capacity is going to be sufficient for this population that we were projecting out to the year 2100.

Now I'm not sure what will happen in the hospital environment, maybe it will all...I know there is some areas where they think that they do need more hospitals and they may well be building more hospitals, but in the aggregate for the U.S., it looks like things may be sufficient.

Now when you start looking at something like outpatient surgery though, it's quite a different issue, because as I indicated there has been and we anticipate there will continue to be a shift from inpatient to outpatient types of surgeries and in addition, we're seeing again with this population, with this older population, an increase in surgeries, so you're going to see an increase in outpatient surgeries. So these projections that we assembled, indicate that there will be a shortfall in the outpatient surgery facility area. If we assume that outpatient surgery facilities grow at the same rate as the under age 65 population which is about ½ percent a year, that will not be sufficient to provide the outpatient surgery needs of the population as it ages. It's going to need anywhere from a 1 percent to 2 percent increase in the number of outpatient surgery facilities that we have per year in addition to the ½ percent per year increase related to the under age 65 population.

When you start looking at providers, it's even a worse scenario. And what happens, what happens here is that you see to begin with, an increase in the number of office visits of course, if you're going to the hospital more, getting surgery more, you're going to have more office visits. So there's going to be a greater need for physicians, but then we have a population...we have a reduced fertility rate, and we have a population that is not growing fast enough to provide the number of health care providers that are going to needed for this older population. In addition, in the U.S. under our health care system, physicians are going to gravitate toward the more attractive, more rewarding specialties, and gerontology is not one of those. Gerontology is focused on the care of elders. The gerontology field actually has been decreasing recently as opposed to increasing. So we're going to see an aggregate shortage in physicians and we project as much as a 9 percent per year shortfall and an aggregate number of physicians needed and in addition, there are going to be more extreme shortages by specialty.

On top of that, I'm sure we're going to have regional shortages as well. Now some other complicating issues are with nurses for example. Right now, it's estimated that there's 200,000 nurse shortage in the U.S. presently. And that this is expected to grow to over 1 million by the year 2020. So there's an extreme shortage on the nursing side. So it looks

like, as I indicated, it looks like we may be okay with hospitals, outpatient surgery facilities, probably not physicians, now nurses, no way. And then we have the complicating factor of individuals shifting toward the more attractive specialties.

And one of the other things that happens when you start mixing Medicare and Medicare is going to be the one who is paying for a lot of these health care costs, and commercial health care costs is that in addition to the providers not wanting to do a lot of work for Medicare, you'll find that the hospitals will shift cost from their expenses related to Medicare population to the commercial population. This happens because Medicare in the U.S. is the service provided, health care services provided to the over age 65 population, which is paid for by the federal government through taxes, supposedly.

And the federal government restrains the amounts that are paid to Medicare providers and so when they restrain the amount that is paid to a Medicare provider for a Medicare population. That provider has to make up that difference from some other source. That other source typically has been what we call commercial insurance, which are, you know, what we have as employees or what you buy from an insurance company. So what you're going to see then is you're going to see an increasing shift of the overhead of health provider entities, hospitals and physician groups to the commercial side so there will be an increasing inflation of commercial insurance carriers. There are a lot of implications related to what's happening over time as a population ages.

ANNA RAPPAPORT: Thank you Tim. I want to try to move us on a little bit if we can. Because we're running tight on time here. I'd like to give a chance for a couple of questions from the audience and then move us into innovations and products.

DOUG ANDREWS: (University of Waterloo) Dawn, in describing the long-term care, you say that the state governments can't afford the Medicaid and the consequence of that is there is going to be a need for more insured long-term care. And Dave, you say, and this isn't quite a direct quote, no one can afford to provide guarantees and the regulators are concerned about the state of the industry. We're going to have more people seeking more insurance, what is the state of the industry? Are these just going to be more products sold for a period of time, but the promises won't be met down the road?

DAVID SANDBERG: Well, when I kind of talked about the role of the profession, I think that one of the intriguing things that really isn't well understood, even I think, even in our industry is how insurance acts as a risk sharing mechanism, and it puts people in the situation to make their own choices and so part of my answer will be if you design a regulatory process that puts the person interested in their situation with the tools that they need to make decisions, so that they're accountable for them, then you...I mean we see a Medicaid system which says, make a choice to spend on your assets. And now you qualify. And surprise, we're getting more and more people doing that. And it's that element of thinking about what the...I mean it's an economic risk incentive issue and you need to be starting to kind of think about, well wait a minute, let's see what does this mean?

So you know, the idea of a dividend policy is a very old one, but it says, you know, you pay an extra premium upfront versus what you might get from a regular policy, but it gets dividended back to you. We'll share in the process of this.

Stock company solutions then say we'll give non-guaranteed elements. I'll give you a minimum guarantee, but I'll credit you something and I've got the ability to handle kind of disasters and we have a reasonable expectation about what might occur.

Now if the regulatory system comes in and starts saying, well we need to mandate somebody to take up the guarantee, then we have you know, some recipes for disaster. And that's where I think the professional responsibility starts clarifying. There is no free lunch. Now whether it's Social Security, Medicare, Medicaid, or personal retirement systems, it's about saying everybody has to be understand there are some limits to what can be done but if you're at least educated about it, you can say okay that's a choice I have to make.

ANNA RAPPAPORT: Dawn, did you want to…

DAWN HELWIG: Well I think my only comment in addition to that question would be, that I mean we have seen a lot of regulatory action on private long-term care insurance in this country, where the regulators have been asking and trying to get insurance companies to come closer to the guarantee situation as well. There was a fair amount of regulatory talk two years ago about making long-term care policies non-cancelable, and unfortunately, that didn't go anywhere, but they are guaranteed renewable. The reserve requirements are pretty stringent. Many insurance or insurance departments look very closely at the rate and rate increases are scrutinized very carefully.

The contractual language is very strict. I mean there is, there is a lot of regulatory scrutiny of long-term care in this country. So we are not too far other than the fact that the premiums are not guaranteed. We're not too far from the guarantee situation with long-term care. Which, when you look at the opposite situation or the other alternative rather, for an elderly person, which is spending down your assets and qualifying for Medicaid, there are absolutely no guarantees on what kind of benefits you're going to get with Medicaid or whether Medicaid is still going to be around 10,15, 20 years from now. Whether long-term care is still going to be paid for by Medicare at all. You know, so on the government side, there are no guarantees whatsoever.

But on the private long-term care insurance side, there are quite a few guarantees.

ANNA RAPPAPORT: Steve, did you have any perspective to add to that as the individual?

STEVE VERNON: This is an issue that I keep harping on is that individuals can reduce the odds of incurring long-term care expenses by taking care of itself. And actually, it's about a 50 percent reduction in your risk as an individual so certainly as individual that's a good strategy.

And I'd like to actually connect that with something Tim was talking about is that as an individual reducing a risk by 50 percent, you know, that's not a guarantee. But as a society or as an insurance company, if your insured population could reduce their risk collectively by 50 percent, that's huge. And are we going to continue to pay for people smoking? People overeating? People not eating right foods. People not exercising. A lot of it comes down to behavioral and I think we're going to start having these kinds of discussions as individuals in society, is how much can we afford for people to basically not take care of themselves? And avoid these claims?

ANNA RAPPAPORT: Question over here?

NANCY WININGS: I work for Genworth Financial. I read in the press and I'm sure all of us have, that there is this huge concern about people who haven't saved enough money and that was echoed in the panel this morning. We also hear that there is a huge transfer of wealth. It seems like there is a dichotomy here and I'm wondering if there has been any attempt to try to match those people who don't have very much in their 401(k) with their wealthy parents to see if there is really not as much of a concern for those people who only maybe have $100,000 because they expect to get a transfer of wealth through inheritance. And maybe to look at their risk not so much as these individuals in isolation, but perhaps those people who will get a transfer and how to deal with that transfer when a huge pot of money comes to them on one day, instead of those of us who build our wealth over our lifetime.

ANNA RAPPAPORT: That's a great question and I want to throw in a little bit of answer and then see who else...the Health & Retirement Study provides a lot of perspective on what's the wealth distribution in the population. I don't know specifically about the inheritance, but because it's so skewed this wealth, we're talking about probably 20 percent of the population where really the most wealth is. And the same people who have the wealth are the most likely to get the money from their parents, I believe. There is an awful lot of the population that no, in fact, if we look at older women alone, about 40 percent of them have nothing but Social Security. So you really got a group with wealth. A group with nothing but government programs, and some with very modest means. I think one of the big challenges is we know a lot about what to do about the wealthy group and I don't know do any of the panelists have more insight on Nancy's question?

STEVE VERNON: Let me add to that. I looked at a research study on that. It kind of verifies what you're saying Anna, is that the average wealth of someone in their 60s and above, a lot of it is concentrated in a home with no mortgage and that's the vast majority of the transferable wealth that's going on. Yes, there's a small part of the population that has, will transfer invested assets, but by far and away, the biggest asset is an unmortgaged home, worth about $200,000-300,000, maybe and so you start dividing two or three hundred thousand dollars by 2,3,or 4 siblings in the baby boom generation and you're looking inheriting about $50,000. So that's not going to fund retirement for the vast majority of people. So that's one insight that I've seen. As to your thought about if you do get this lump sum of money, will it be spent wisely? The research is again suggesting,

no. And I'm seeing studies that show that inherited wealth is usually spent in 2-3 years after it's inherited. As far as applying that to retirement, another way to look at this is, decisions that employees make when they're offered a lump sum from pension plans, which I think is a bad idea. But if a pension plan offers a lump sum, 90 percent of the people would take the lump sum rather than take the annuity, which I think is another indication that it's not a good use or understanding of how to manage lump sums out there, whether it's from inheritance or from a pension plan. So I don't really take too much relief at this vast inheritance. It's going to affect a few people really well, and the vast majority, it's really not going to do much for them.

ANNA RAPPAPORT: Okay, we'll do one more question before we try to move the panel on for innovations and then have more interaction with you all.

FROM THE FLOOR: My question is that it's okay to talk about people having to work longer to provide for their pension, but are there enough jobs? And will the companies want to keep those people employed for three more years, paying them huge salaries, senior people in the company rather than taking someone younger who can do the job as well? So what does the company do? Do they provide for the extra pension or do they provide for high salaries or those three years?

ANNA RAPPAPORT: Or do they do both?

STEVE VERONON: When I go out and give workshops and presentations, I get that question all the time. Cause there is this perception that employers will not hire older workers. And there is some truth to that perception and there's some not truth to that perception. And there are employers out there that discriminate against older workers, no doubt about that. There are also employers that are getting it that they want to accommodate older workers and generally, it's an industry that really needs the older workers. And so you're seeing the health care industry, we've heard shortage of nurses, they'll take anybody they can get. So if I wanted...

FROM THE PANEL: Oh it's not that bad. There will be employment in the health care industry (laughter).

STEVE VERNON: Okay. Aeronautical engineering, oil engineering, and highly skilled areas, they are accommodating older workers. And so, I think as an individual, at least, I take hope in that there are some employers who are into hiring older workers, I'm going to try and seek them out. But on the same hand, it requires that I need to maintain my skills, because if I don't maintain my skills, I'm not going to be employable. So it's not an easy answer but at least I take some optimism as there is hope and I think the more we talk about it, the more the society ages and the more we deal with this problem, the more employers will give, the more we have Valerie talking to folks, the more employers we will get that will open up to hiring older workers.

ANNA RAPPAPORT: I'd like to encourage you to come back this afternoon, at the retirement panel, we're going to be talking about phased retirement, but I think that's a

great question and part of the answer relates to the fact that the traditional patterns of these are the way we define jobs and these are the way people are in them. That's not an adequate answer for the future and we really need to be thinking about different patterns of jobs and work and I hope we can talk about it...

FROM THE FLOOR: Where I'm coming from is, is it good for the employer to keep an employee for three more years rather than paying 14 more years of their pension?

ANNA RAPPAPORT: It depends an awful lot on the talent situation too, because there is a kind of an assumption that I can always hire more people and I can always replace people. Well, there are an increasing number of situations today where there is not that pool out there, I can't just hire the people that I need that replace them. So yes, I believe in many cases, it is good for the employer, but it's a much more complicated question than I just keep the person three more years in their full time job.

STEVE VERNON: Can I add to that? In the ideal world, I'd like to see employers making an age blind decision. Truly, do they need these workers for their skills and to work or not? You can make a financial case that older workers don't cost more. And a couple of examples of that is that absenteeism is a lot lower among older workers than younger workers. If you're covering the family medical costs of the younger worker, that's more than the medical costs of an older worker who doesn't have children in the household. And so you can make a compelling case that there is not a pure financial reason to have an older worker. So then it becomes down to do you need them or not? Just to run your business, do you need them or not?

ANNA RAPPAPORT: I would also add one comment that I believe that the jobs that high firm specific human capital, have a very different economic tradeoff than jobs that require, have lower specific human capital, and/or require a lot of strength and dexterity. But I want to move us on to...did anybody else...Valerie did you want to add to that question before I move us?

VALERIE PAGANELLI: I think the only thing I would add is that that's part of the struggle that many employers are having. They have targeted workforces that do need to be encouraged to extend their working lifetime but, the key piece in it, is what do you do for those three years? What do you ask of those employees? Because if they are paying a premium to extend their work life, there needs to be something in exchange in the transfer of knowledge or mentoring program or documentation of their skill sets. So I think that's the piece that often times gets overlooked. There's just that immediate decision that we need Joe to stay three more years, but we don't tell him specifically what we want in return as an employer.

ANNA RAPPAPORT: I want to move us on now to innovation and because we had the most people who put up their hands when we asked the questions about life and annuity products, Dave, I'd like you to start us on some of the innovation that you see in the products, in the industry and in your company and then we might have some panel interactions, some questions on that.

DAVID SANDBERG: Well I'll start first from my company. It's been interesting to me to see how deeply it's affected the kind of maybe cultural and processing...processes in the company about the markets hat we're trying to target. As soon as you start to actually study the market to see what's happening, you realize well it's no longer, I'm no longer selling to a male for example. I'm selling to a diversity of well genders, I was going to say cultures, but (laughing)but the gender issue of women whether they're alone or part of the decision process, as soon as you start taking the longer time horizon, you're saying okay what's life going to be like for you as a couple? What will it be like if it's for one of you? What are your mutual values? In addition, culturally, we have an increasingly diverse marketplace in the United States and I think internationally as well. There are unique kind of flavors and values and preferences that start being built in to the question about how do I design and sell this?

So one of the things that we have that I've really been intrigued by is this emphasis on what's the role of the distribution and what does it mean for them? What's the credibility of the sales process when they're selling a product? So while the actuary and he's kind of been focused on innovation and risk sharing mechanisms and whether it's you know variable products with guarantees, or equity index annuities, or some other kind of, you know, like financial risk sharing mechanisms, I think it's interesting to realize that the real question is, how is it that the individual person can understand what they're buying, have a sense of assurance that this is, you know, billed as soul. And so you know, some of the innovations within our company, well we certainly are continuing to work on product innovation, we spent a major amount of time this last year, dealing on innovation within the distribution force.

What is it that we can do to solidify that this person representing our products to a consumer has trust? That this is what it really will be? So simple things such as piloting if we sella product to a senior person, should we have a followup phone call? You know, this is kind of revolutionary, in the sense that the independent agent or the broker/dealer is very, appropriately so, they are a professional, who is being asked to give advice to their client. Then they represent dozens of companies, dozens of kinds of products. So how do you partner with that if you're professional, to make sure that you're providing value added to confirmation that the sale occurred as appropriate and is understood by the person as part of a program that's dealing within a sense their personal risk management program for the future.

We hired six months ago, we decided to institute a Chief Suitability Officer, who reports to the CEO. And came from a regulatory background and his responsibility is to say is the consumer being represented in the process? How is what we're doing, creating additional value?

ANNA RAPPAPORT: Dave, I'd like to ask the audience because many of them who are in the product area, how many of you are looking at or thinking about innovation and the distribution and how you build trust with the customer? Can we see some show of

hands? How many, for how many of you does this resonate? Just a few. So this is something else to think about.

DAVID SANDBERG: Well this is our corporate bet. I mean that's pretty much it. Certainly we think that's part of our vision and part of that I think says we're trying to address across a broad distribution, there's no bias between, you know, it's not that the one form of distribution is better than another. However the process occurs. How do you ensure that people making long range commitments are getting the right kind of information? I do think that the lump sum issue is going to be one of the biggest challenges that we face. I mean I have close experience with a family member who took early retirement. Decided that they were going to list to the commodity broker/dealer they've been hearing on the radio and sent their money in to options and precious metals and two months later, they had none of their retirement package. And they are still working now at age 70. And you know, and certainly providing for themselves and doing as you said, well I'll just keep working. But the idea of my retirement is gone, I think we have you know, that's going to be a major challenge.

So part of the other thing that I'll mention that we're dealing in addition to the trust issue then, is and this is early developmental, is are there ways that we can create a language that kind of provides some clarity for people to say, well this kind of product you may hit a home run with, but you could lose it all. Versus this is an absolute guarantee and find a way to help people start thinking about the tradeoffs. What if I bought a product that guarantees me a life income, but doesn't start until I'm 75, 85. I know that there are other companies coming out with that innovation as well. And so you tell somebody at age 50, here's a $100,000. If you throw it in a product and you live to 85, we can guarantee you $100,000 a year. Oh, okay. That's, you know, that has a kind of appeal to someone because oh that makes sense.

ANNA RAPPAPORT: Are any of you looking at or working on these kind of products of longevity insurance? A lot more hands here.

DAVID SANDBERG: But they're not concerned about the consumer understands it. Okay. No. (laughter) We're all actuaries here. What do we...you know, I don't mean to be glib about that and I recognize that you know, that the other areas of the company may be more focused on that, but that's for us, we felt that partnership between the technical design of longevity combined with a discussion about values, combined with what is the consumer getting is an important message.

STEVE VERNON: Anna? Let me just piggyback on what Dave was saying. I think another innovation to consider is how we do talk about planning for the future, buying insurance or other products and the point I'm trying to make is that if you look at our culture and our advertising, there's this huge pressure to spend your money now, eat at McDonald's or eat somewhere, you know, eat unhealthy food, drink lots of beer, I mean there's lots of very clever ways that we're being told to do this. And lots of our population, pay attention and go ahead and do it. Either consciously or unconsciously. And so, you know, we tend to, as actuaries, we want to respond with oh if they only knew

the facts, they would make more logical decisions. Well, we might operate that way, but lot of people out there don't. And so I think we need to focus on how we market and put this information out there. And we can deviate from good information. I mean that's got to be the bedrock of where we come from, but then how do we put it out there in ways that compete with the very clever advertising, to spend their money on a new car and go to McDonald's and all this other clever stuff. And so I think that's an area to focus on is how do we actually deliver the message in ways that influence people, to go beyond just giving them data and facts and figures.

ANNA RAPPAPORT: I was going to specifically want to ask in innovation, one of the two of you, about what do you see as the future of combination parts. We talked about people living a long time. We talked about needing long-term care and a lot of us have said for years, they'd make sense to put these together.

DAWN HELWIG: Absolutely. And that is, is an innovation that we've seen a lot of activity in the last several years. A combination product and actually the Pension Protection Act that was passed recently finally put some structure around the tax implications and how the combination products are handled and that had been done through a private letter ruling on the life combo products before, but had not ever been done on annuities. So the annuities and all the provisions of the Pension Protection Act kick in on January 1, 2010 and that was totally a cost measure that they could get the cost of this particular bill under the federal threshold, so they could cost it out appropriately if they delayed it being implemented until 1/1/10. But anyway the combo products on the life side, as said, have been around for a while, on the pension side, they're really just starting to pick up steam, because of the Pension Protection Act, but the basic concept of any of the combo products is that you've got this pool of money, be it a life insurance benefit for an annuity that, you're going to be able to tape into or that your heirs are going to inherit the life insurance side or that you could be tapping into the annuity at some point. That why not let you accelerate some of that that death benefit or some of that annuity if you have a long-term care need. So, in a sense if you do tap into the life insurance benefit and accelerate it to pay for long-term care expenses, then that death benefit isn't going to be there for your heirs, so there is a transfer of money issue here. But that actually works in the positive for the long-term care or the insurer because basically people don't tap into that long-term care benefit or that...or use that death benefit for long-term care unless they really, really need it. But the whole sales idea behind the combo product is great, because you've got basically this, you get the death benefit if you die. You get a non-forfeiture benefit. If you lapse and if you need long-term care services, you get a long-term care benefit. You can basically demonstrate to the person, any of those three contingencies, any of those three legs of the stool, they're going to get back more than what you paid in. So, it almost seems like you're working with magic a little bit. It's a very compelling sales pitch.

On the annuity side, there's a whole bunch of different possible benefit structures that exist from just basically starting a deferred annuity earlier and without there being surrender charges if you have a long-term care need to...a long-term care rider that would

actually pay an additional amount above and beyond just what you would get from your acceleration of your annuity.

So these are actually great ways that...one of the big issues with long-term care insurance is that it has traditionally been a very complex product sold by a few specialist agents. So the whole distribution of long-term care other than through the group side,, has really been an issue. There just aren't enough agents out there to sell it, so you get (coughing) product and you can get long-term care through life insurance agents and through annuity agents and through the warehouses. And really open up the potential markets that way.

DAVID SANDBERG: One side note I'll make. I think that the ability to do those kind of combo products is only a function of how well the regulatory process will allow what I will call principal based products. So I personally invested a fair amount of time over the last four or five years in trying to start with can the financial reporting process at least accurately portray the risks that you are taking on. Once you do that, you now have the ability to say, well now a company is reporting on the risks and now I've got the ability perhaps, go a little more innovation, that it is important as you said, it wasn't until the Protection...Pension Protection Act that we could say okay here are some clarity, I know we got out a few years ago, some combo products, because of the ambiguity on the tax side and said you know, we just can't, you know, handle that. I'm certain that we'll start to be exploring that more but I think that the overall regulatory framework is part of a solution that is needed there.

DAWN HELWIG: Yeah and you know, even though the tax issues have been clarified with the Pension Protection Act, it's still a little bit of a regulatory mess, because you have, you're send in a filing on a combo product and the long-term care rider goes off to the health actuary and the life policy goes off to the life actuary and there are provisions in the long-term care model regulation that deal with accelerations on life policies, but they never contemplated accelerations on pensions, so then the State Dept. kind of scratched their heads if you sent in an acceleration on a pension product and don't know if it should be regulated with the same rule and, it's getting a little clearer, the states are kind of starting to get their hands around it, but the filings are not easy.

ANNA RAPPAPORT: I think that one of the things that led us to wanting to organize the panel the way we did is that we all tend to live in some sort of silo, and as we deal with these issues, it's pretty clear that they cross over all the silos and we need to speak about the relationships. But I want to pick up on a question that was asked earlier and a comment that was made. Nancy Winings asked about the wealth and part of the answer was hey an awful lot of wealth is housing a product that hasn't had a lot of play so far, is reverse mortgages and I'm wondering about the future of them. And actually have, Tom do you want to say a word about reverse mortgages and then maybe somebody else does and I think we can take maybe one question from the audience and then we're at where everybody is probably waiting for which is lunch.

TOM HERZOG: I'm Tom Herzog. I'm the actuary for the Federal Housing Administration and I think we're doing about 90 percent of the reverse mortgages in the

U.S. and we're...have a huge increase and we're right now, we're running about 10,000 a month. I think in the last year we did 107,000. And so we're doing a lot.
I mean I guess, I took an economics course in college and the professor said you should spend your last dollar right before you die. And now is, do you want to die a major league death.

ANNA RAPPAPORT: I want to comment that housing wealth is extremely important for many people and I think this is an area for all of us to think about. I also want to comment on a project that we are trying to collect information Steve, on products...we're trying to collect information on what's happening around income pay out products, pretty much and this is Steve Siegel again, from the Society staff, so we're hoping to have something put together next year, some more research and what's happening and if people want to contribute to it and I'll take one or two questions before we break for lunch. Does anybody have a last question?

TONY GREEN: My name is Tony Green from Gen Worth Financial. I want to ask a question about the combo product. Has anyone thought about or are they selling a combo with disability and long-term care? Like is there any regulation against selling such a product?

DAWN HELWIG: There's no regulation against it. There have been a couple of companies that have experimented with it and have not had very good success. That part of the issue is that you, I mean basically what they've had is something where the disability policy converts into a long-term care policy at age 65 and traditionally, the premium either has to go up pretty dramatically or the benefits on the long-term care policy are pretty low because you can't buy a long-term care policy for the same....with reasonable benefits for the same premium that you were paying for the disability. So the companies have not had real good success in the transition rates at age 65.

TONY GREEN: It would just seem to me that if say someone age 50 is buying such a product, you have like 15 years to prefund that long-term care part of it. So why wouldn't that part be cheaper if you combine it with a disability structure?

ANNA RAPPAPORT: The person who is standing behind me, you got a comment on this? Okay. And I do want to add the comment that I believe in Israel, they had such products at one time.

DAWN HELWIG: Yes, I mean I agree. I think philosophically, they make great sense. But they just practically haven't worked here.

Gary Mooney: I'm Gary Mooney, Optimum Re. There was a Society of Actuaries study a couple of years ago on the topic of substandard pay out annuities and I think at the time, there were nine companies included in that study. It seems to me that it's inevitable and important that we do expand the availability of substandard pay out annuities. If people realized how much more money they could get, you know, if they're

not in the best of health. There would be just a huge demand and certainly be very helpful for a lot of people.

ANNA RAPPAPORT: Could we have a show of hands as to how many people are interested in that topic? The substandard annuities? Quite a few, okay that's very optimistic. Well I think that I need to thank the panel, but also I got in a way, with these comments a perfect lead in to what's happening at the lunch. Tim mentioned that we're having tables....

TIM HARRIS: Table topics.

ANNA RAPPAPORT: Table topics and some of the topics you were asked to sign up in advance, but each table will have a topic and some of them are in the financial services. Each table will have a topic that's going to be discussed and Tim do you have any further instructions about those tables?

TIM HARRIS: No, Jan do we have any further instructions about the table topics tables?

ANNA RAPPAPORT: Jan, are we going to have any debrief or...

TIM HARRIS: Are we doing anything with the findings of the tables? So just discuss and we're not taking notes or anything? Okay.

ANNA RAPPAPORT: I want to thank the panel and thank you all. (applause).