

Biennial Convention 2009

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Institute of Actuaries of Australia



Financing Demographic Shifts: Pension and Healthcare Scenarios to 2030

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Agenda

- Short-term: Today's new reality
 - Mercer's Global SnapShot Survey
- Long-term: Scenarios to 2030
 - Joint Study by World Economic Forum, OECD and Mercer
- Managing Benefits Risk – short and long-term



Uncertainty ... the new reality

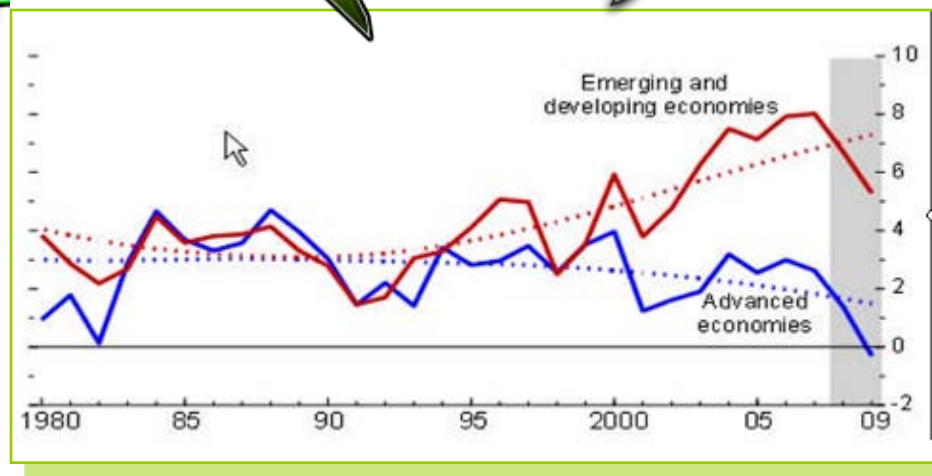


Weakening global demand lowering growth prospects

Policy actions to address causes will take time

Slumping confidence driving cuts in spending

Economic outlook is exceptionally uncertain



Real GDP Growth and Trend (*Percent change*)
Source: International Monetary Fund (IMF) estimates

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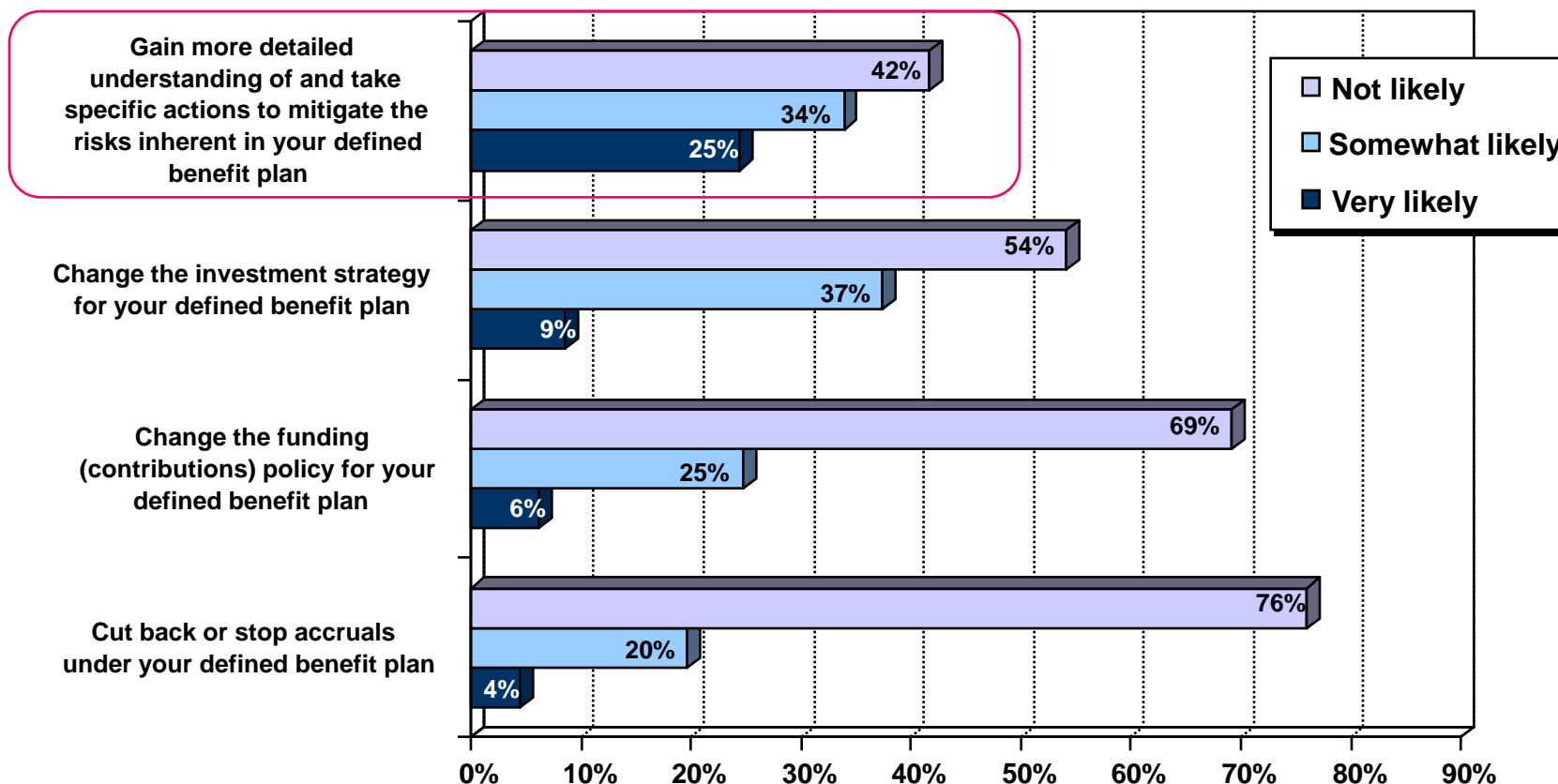


Mercer's Global SnapShot Survey



Survey findings: Defined benefit

Question: How likely is it that your company will...



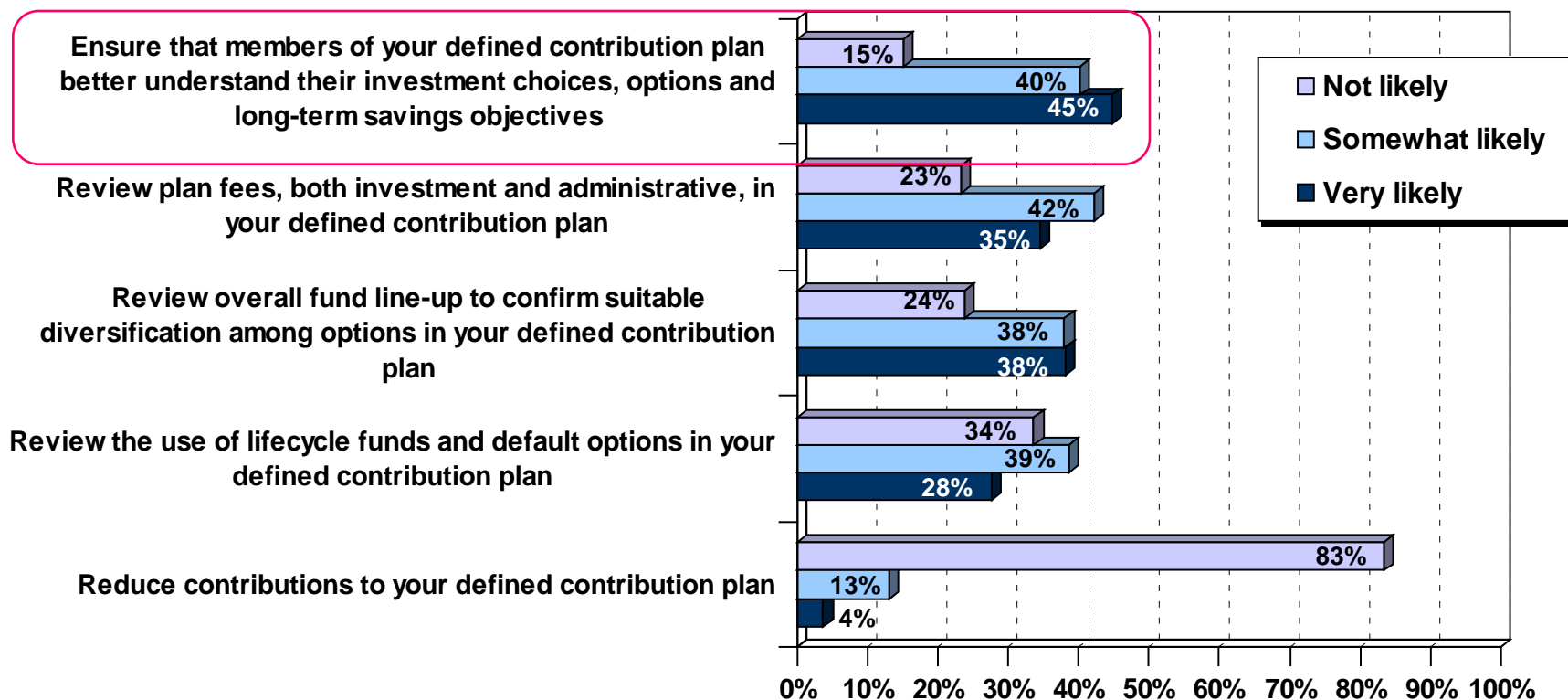
N = 1,028 human resource executives, representing HR plans and practices in 100+ countries.

Survey data collected 3-14 November 2008



Survey findings: Defined contribution

Question: How likely is it that your company will...



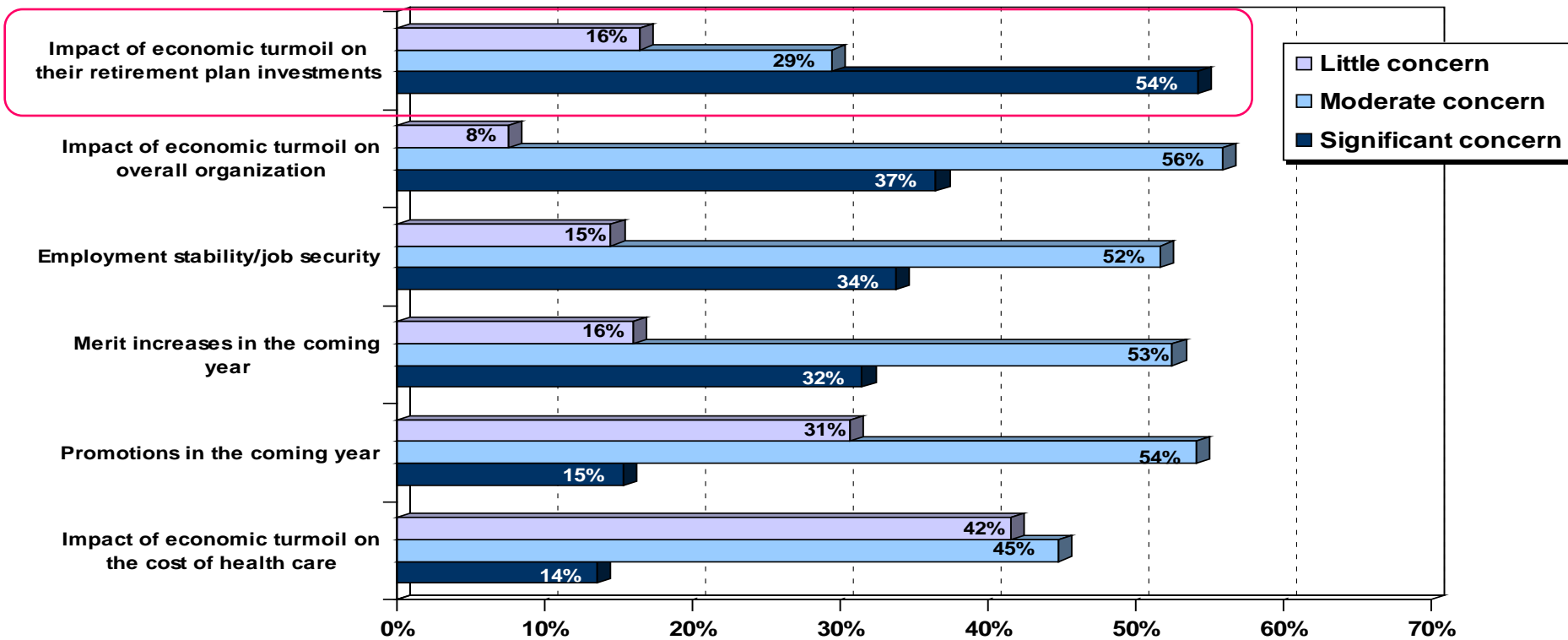
N = 1,028 human resource executives, representing HR plans and practices in 100+ countries.

Survey data collected 3-14 November 2008



Survey findings: Employees' concerns

Question: Identify employees' current level of concern



N = 1,028 human resource executives, representing HR plans and practices in 100+ countries.

Survey data collected 3-14 November 2008



Economic stress impacts business segments differently

Economic Impact on Performance

So far so steady	Bend but don't break	Hardest hit
<p>§ Examples – Business Segments</p> <ul style="list-style-type: none">- Low cost retailers- Select global companies- Select energy companies- For-profit education	<p>§ Examples – Business Segments</p> <ul style="list-style-type: none">- Consumer staples- Pharmaceutical	<p>§ Examples – Business Segments</p> <ul style="list-style-type: none">- Financial services- US auto industry- Airlines
<p>§ Potential Workforce Actions</p> <ul style="list-style-type: none">- Prune low performers- Ensure top performers are aligned with top opportunities- Invest in workforce planning- Limit salary increases- Increase use of variable reward elements- Shift jobs to low cost locations- Reduce training costs- Shift costs/risks to employees	<p>§ Potential Workforce Actions</p> <ul style="list-style-type: none">- Make performance-based staff reductions- Implement one-time health care program savings- Freeze salaries for some categories of employees- Reduce bonus payouts (tighten goal and target setting)- Rescind outstanding offers; delay hire of non-essential talent	<p>§ Potential Workforce Actions</p> <ul style="list-style-type: none">- Significant layoffs and limits on all hiring- Freeze salaries for all employees- Eliminate bonuses- Focus on retention for select key leaders

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**World Economic Forum,
OECD and Mercer
Joint Study:
Scenarios to 2030**



Uncertainty ... thinking long-term

Global drivers for change to pensions and healthcare

Global Drivers – Macro Forces

Demographic Shifts

Global Economic Performance
& Investment Returns

Emerging Middle Class
(in developing countries)

Changing Patterns – Infectious/Chronic Disease

Climate Change & Environmental Degradation

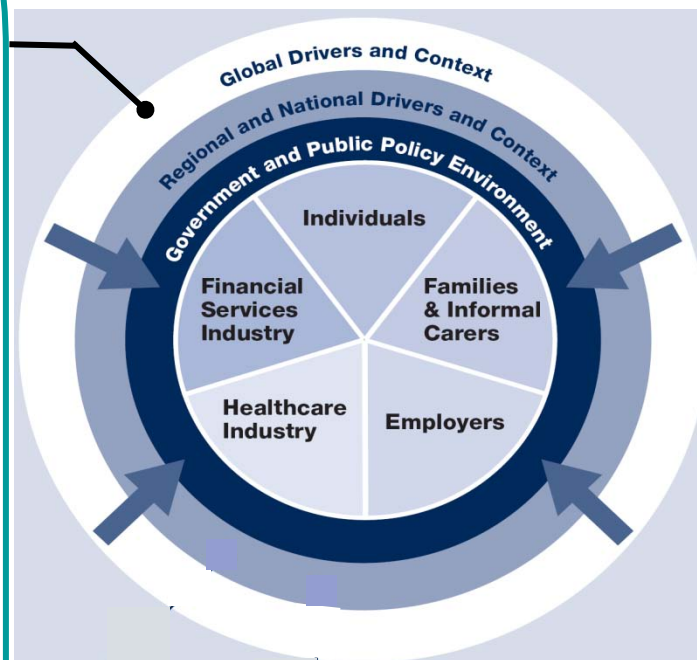
Urbanization (in developing countries)

Global Drivers – Stakeholders Forces

Changing Societal Attitudes of Stakeholders
towards Social Welfare / Retirement and Health

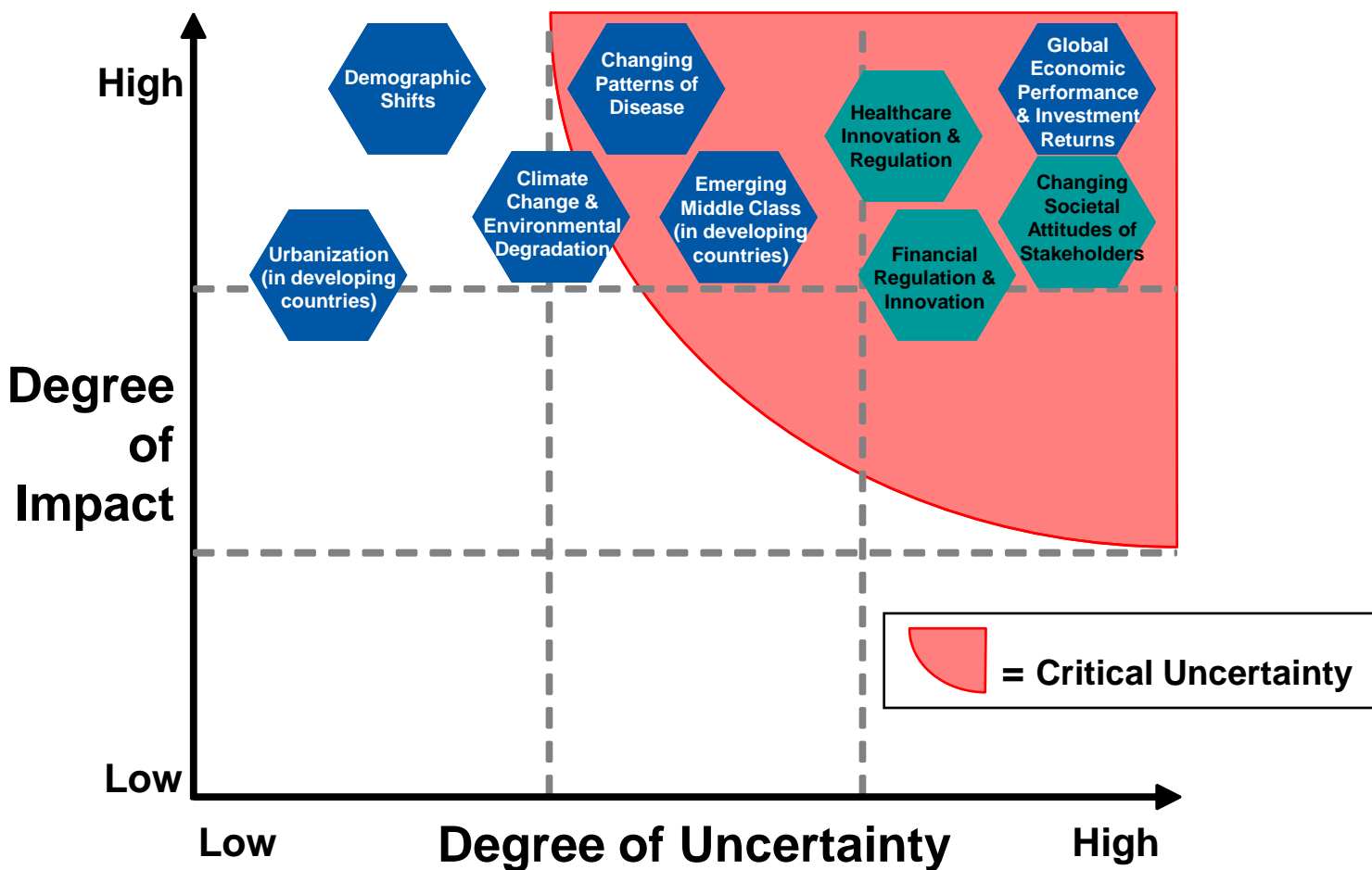
Healthcare Innovation & Regulation

Financial Innovation & Regulation





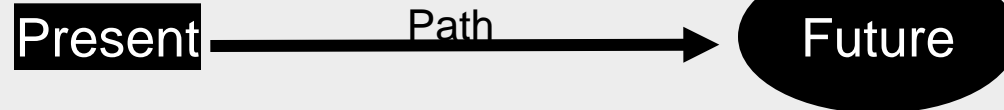
Global uncertainties and high impact forces driving change to pensions and healthcare





What are scenarios? Why scenarios?

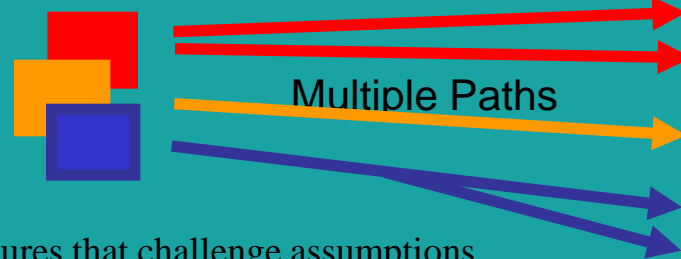
Forecasts



- § 1 future based on assumptions
- § Linear projection
- § Uncertainty is *implicit*

Scenarios

Current realities

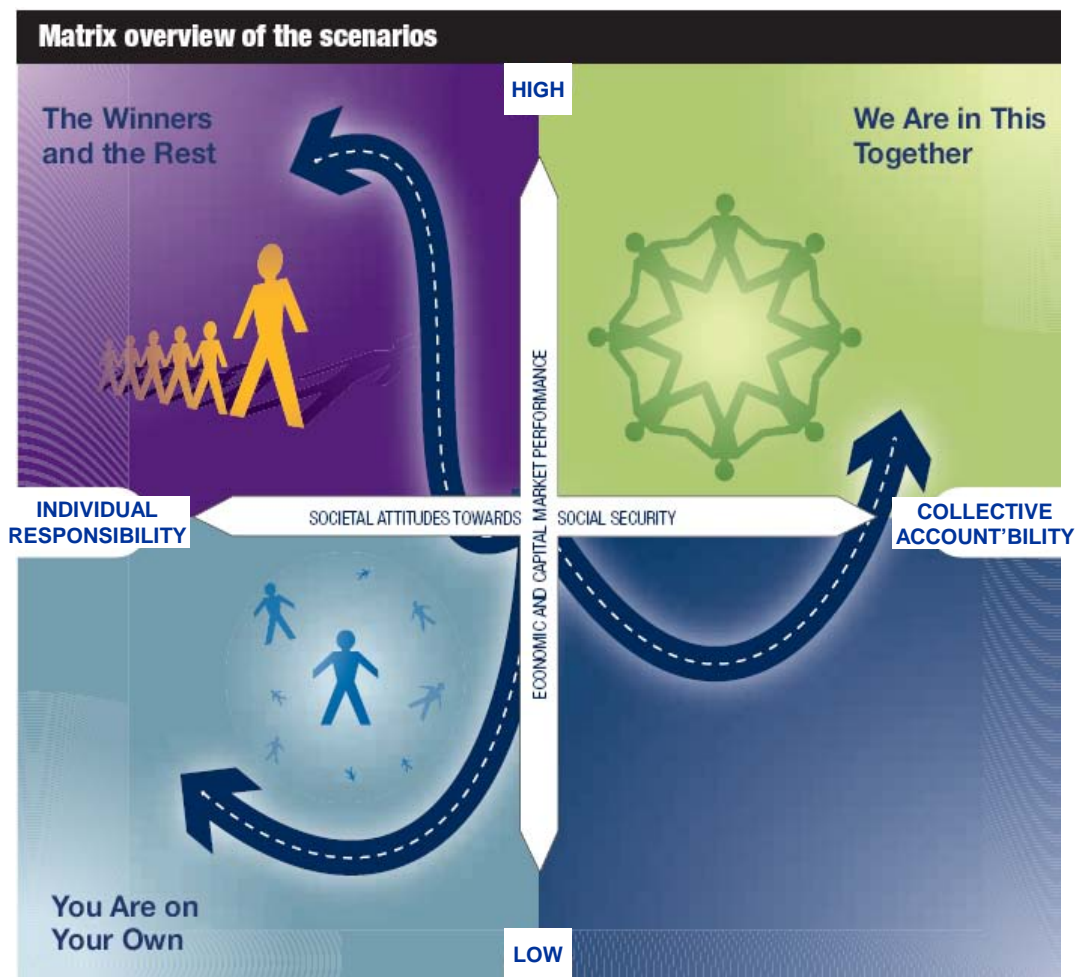


Possible futures

- § Multiple futures that challenge assumptions
- § Multiple development
- § Uncertainty is *explicit*



Three possible global futures





Three possible global futures

Timescale: 2009 to 2030




The Winners and the Rest

- High global growth, driven by emerging economies
- Social attitudes: Individualism
- Rising income inequality
- Social tensions between “Haves” and “Have-nots”
- Governments avoid fundamental reforms

Pensions & Healthcare

- New medical technologies target high earners; public v. private healthcare gap grows
- Employers **provide** benefits but **shift** cost/risk to employee
- War for skilled talent: Improved benefits for a few but not all




We Are in This Together

- Medium global growth
- Social attitudes: Collectivism
- Backlash against extreme income inequality
- Renewed commitment to universal social welfare
- Tax systems reformed to distribute wealth more equally

Pensions & Healthcare

- Employers **provide** benefits, **share** cost/risk with employee
- New risk-sharing pension arrangements
- Community-based care grows



You Are on Your Own

- Prolonged economic recession; financial crises
- Many people forced to work in their 70s and beyond
- Drastic change to minimal, means-tested social security
- Aggressive measures to privatize healthcare systems








Pensions & Healthcare

- Phased retirement / flexible work become critical
- Employers **reduce** benefits, **shift** cost/risk to employee
- Acceleration of DB to DC and of move to Flex programs



Demographic shifts predicted in all scenarios

Challenges and preparedness differ by country

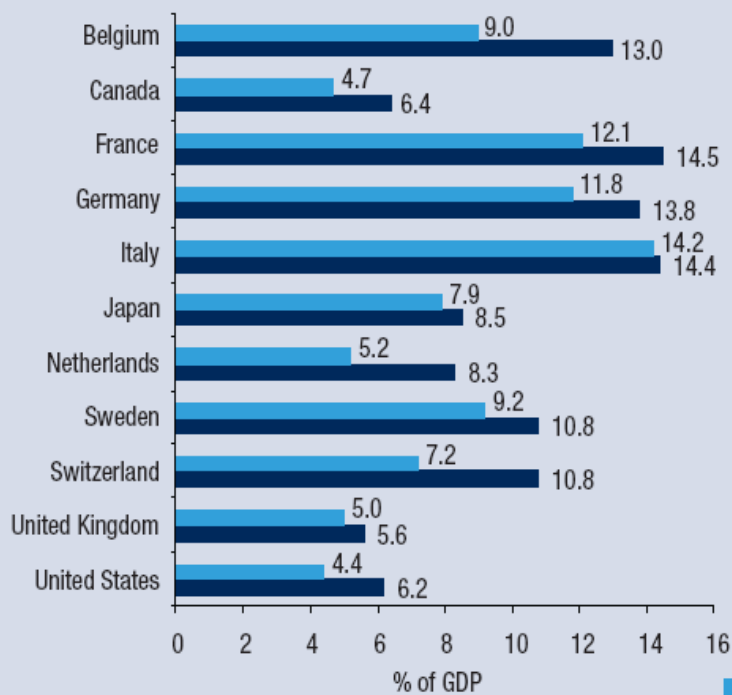
	Moderate Challenges			Major Challenges		Severe Challenges	
	Australia 	UK 	USA 	Germany 	France 	Japan 	Italy 
Old Age Dependency Ratio: Number of retirees (65+) per 100 working age adults (15 to 64)							
2050	40	38	33	50	47	71	69
2007	19	24	19	30	25	32	31
Pensions							
Public expenditure as % of GDP (2003)	4%	6%	6%	12%	12%	9%	14%
Gross replacement rate, male median earner	48%	34%	44%	40%	51%	37%	68%



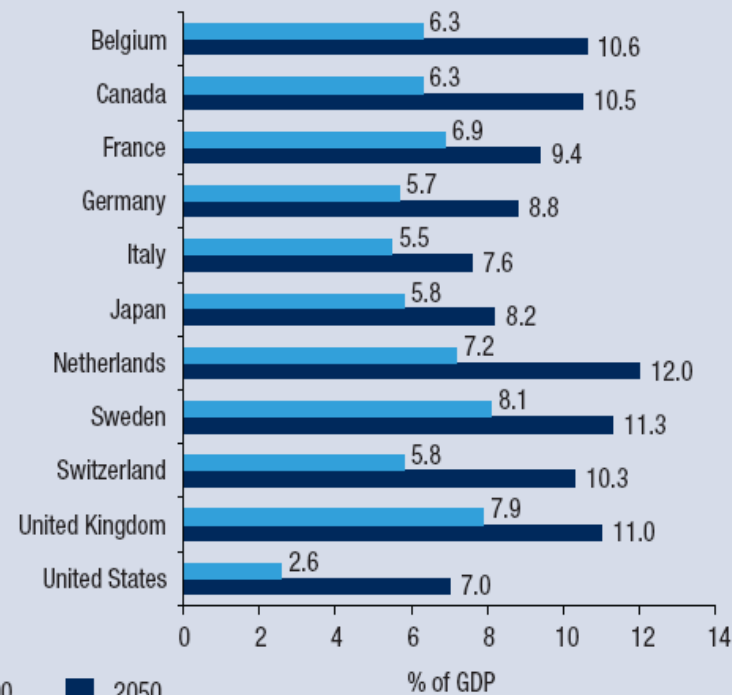
Projected increase in ageing-related public spending

Assumes unchanged policies as from early or mid-2000s

Old-age pension: Projected increase in age-related public spending



Health, long-term care: Projected increase in age-related public spending





Ensuring financial sustainability of retirement provisioning in an ageing world

Manage expenditures

Fundamentally change the concept of retirement ("retiring retirement")

Raise official retirement age (in accordance with changes in life expectancy)

Lower operational cost of public pensions through market competition / outsourcing

Enable retirement in a low-cost country

Strengthen funding / savings

Increase labor force participation of older workers and women

Stimulate immigration of workers

Encourage voluntary savings through "soft compulsion"

Improve financial education of individuals

Home equity release products

Public Pension Reserve Funds

Manage risks

Develop and invest in longevity bonds

Macro swaps

Develop and invest in long-dated bonds (beyond 30 years)

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Managing Benefits Risk: Short- and Long-term



Short-term: Current global priorities for companies and implications for benefits

Human Resource

- Downsizing
- Restructuring
- Retaining key talent



- § Determine ownership
- § Have clear corporate objectives for benefit plans
- § Balance healthcare, risk benefits and retirement spend for different employees and countries
- § Develop a set of principles and execute

Financial

- Retaining cash and managing down cost, where possible
- Minimizing surprises to investors
- Minimizing volatility in KPI's, including credit rating



- § Determine ownership
- § Develop clear financial goals around benefits and align with business objectives
- § Balance risk and return recognizing different regulatory constraints
- § Create a framework for decisions



Long-term: High impact strategic options By Stakeholder

Governments

- Promote work for older cohorts
- Provide prudent regulation
- Promote wellness
- Increase efficiency in public health system

Employers

- Phased retirement, flexible work
- Implement automation and simplification
- Financial education
- Health consumerism incentives

Healthcare Providers

- Promote prevention techniques
- Shift healthcare delivery to a patient-centered system
- Promote cost effective delivery, e.g. telemedicine, replacement organs

Financial Institutions

- Further develop markets for longer-dated bonds and index-linked bonds
- Further develop annuity markets
- Stimulate and facilitate home equity release products/reverse mortgages

Individuals

- Maintain a realistic long-term income, savings, spending plan
- Plan multiple careers including after “retirement” age
- Prevention (nutrition, exercise)



Key issues

- “How will the future look if we take the various key drivers and uncertainty into account?”
- “What will be the role of governments, the private sector and individuals?”
- “What actions can stakeholders take to capitalize on opportunities and/or overcome today’s challenges?”