

"Anticipating Old Age With Assurance"

by

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In introducing his discourse "On Old Age," the Roman Cicero has one of the characters say to Cato, in whose speech the views of the author are embodied: "You will do us a very great favor if . . . . you would allow us to learn from you, in good time before it arrives, by what methods we may most easily acquire the strength to support the burden of advancing age." The search for knowledge of this subject and the appeal for understanding persists to this day, and with increasing emphasis. A change in the urgent nature of the problem since the Rome of 40 B.C. is indicated by a later comment in which the author observes that, "Young men more easily contract diseases; their illnesses are more serious; their treatment has to be more severe. Accordingly, only a few arrive at old age."

MORE PEOPLE ARE LIVING LONGER

Currently we are experiencing conditions which have been favorable to an extension of the average length of life, and an increasingly large number of persons are reaching advanced ages. Based on current mortality rates, two thirds of all people born in the United States today will live to age 65. Half of all persons will live to age 72, and over one quarter will live to nearly 80. Of great significance is the fact that improvements in longevity are continuing at a substantial rate.

Moreover, the substantial proportion of persons who are now living to age

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65 have an average future lifetime - beyond age 65 - of more than 10 years. Among some groups the average future lifetime at age 65 is as much as 15 years, or even more. This variation in the average reflects differences among specific groups we can identify, each characterized by its own mortality experience. Women, for example, have a substantially longer average future lifetime after age 65 than men. Then, also, there are variations by other groupings. The significant point is that for many persons, age 65 does not mark the end of life but the beginning of a considerable proportion of the total life span.

A question quite naturally arises at this point: What do we mean by old age? Various factors have tended to suggest age 65 as the normal age of retirement, and consequently as the borderline of old age. The figures just cited, however, as well as our own observations, call to mind the active and useful lives being lived by large numbers of people well beyond this arbitrary dividing line. Accordingly, while we may, for convenience, accept this boundary today, we should recognize its rather artificial nature and the forces which are tending to push it higher.

What is the effect of these developments on the composition of our population? At the census taken April 1950, over 12.3 million persons in the United States were age 65 or older; this is 8.2 percent of a total population of approximately 151 million. The number age 70 or over was more than 7.2 million. Not only has the proportion of the older members of the population increased to a higher level, but the proportion has been increasing and will continue to do so. Only a decade ago those age 65 or over were 6.9 percent of the total. In this short period of 10 years the population age 65 or over rose by 36.6 percent, while the total population increased by 14.5 percent.

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#### CAUSES OF INCREASED LONGEVITY

By nature we look forward to a continuance of life as a condition to be sought after and to be desired; generally speaking, we count it as exceedingly good fortune that the probability of attaining old age is so great and that the number of oldsters is so large. The factors which have contributed to this desired result are numerous. High on the list is the initiative and enterprise of our people in developing the country's abundant natural resources to make possible a high standard of living conducive to healthful conditions favorable to longevity. Our state of health has benefited greatly by the food, clothing, and shelter that are available to our people; by our educational facilities; shorter hours of work; and improved recreational facilities. Then, also, there has been a most satisfactory cooperation between public and private agencies in the promotion of public health measures - improved sanitation, water supply, food inspection, and sewage disposal. Exceedingly significant and successful have been the results of these measures in combating infectious diseases, particularly those associated with childhood and youth.

Coupled with all these favorable features are the vast and complex institutions dealing with sickness and ill health - our hospitals, medical schools, and the numerous and skilled medical personnel - our scientists, doctors, dentists, nurses, specialists of numerous sorts, laboratory technicians, and countless others.

#### NEED FOR INCOME DURING OLD AGE

Now, the great success with which the efforts toward improved conditions of health and longevity have been crowned has led to a situation which is beset by many problems of another sort as the program today attested. There would no

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doubt be wide differences of opinion as to the relative importance of these various problems, and it is not my purpose to attempt to appraise them. In the minds of many, however, the problem of obtaining an income or the means of supporting oneself ranks high as a matter of basic importance. In passing, it is interesting to observe that this is a matter the Roman philosopher does not refer to at all, being concerned, no doubt, primarily with a class of citizens whose material welfare was already assured.

Today the matter of providing for an income in old age cannot be ignored. How "we may most easily acquire the strength to support the burden of advancing age" is a matter of serious and widespread concern. It presents a challenge to us not only as individuals concerned with our own welfare, but as citizens in a social organization that is exceedingly complex.

#### PRODUCTION THE BASIS OF MATERIAL WELL-BEING

It requires no very elaborate analysis to reach the conclusion that the goods and services which each of us consumes is made up partly of the goods or services we ourselves produce and partly of those produced by others. When, because of age, we no longer are producing members of society, our sustenance is dependent entirely on the production of others, and what we then consume diminishes the aggregate that is available for others.

Looked at somewhat differently, the support of the aged members of the population who are no longer producing members depends on the production of the producing members. If the aggregate of the goods and services produced by the active members remains constant and the proportion of non-producing persons increases, the standard of living on the average must fall. Stated another way -

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the maintenance of a certain standard of living in the face of an increasing population of nonproducers requires an increase in tools and other materials of production or in their efficiency so that an increased aggregate volume of goods and services may be produced. (It may be noted that this fortunate condition has been realized in this country up to the present time. We hope it will continue.)

These elementary but inescapable considerations are often obscured in the discussions of pensions and Social Security and related matters. These admirable mechanisms which we shall consider later are not magical means of circumventing the hard realities.

The situation as just described is, of course, a gross simplification. We do not live in a society wherein the aggregate production of goods and services is shared equally prorata, but one in which such division is determined by a highly complex interplay of economic and social forces flowing in a large measure from our love of freedom and of a form of government which safeguards its expression. Hence, it is in this framework that we must realistically deal with our problem.

### THREE AREAS OF RESPONSIBILITY

Some who have studied the problem have discovered three distinct areas for dealing with the matter of supporting the burden of advancing age - a division which rests upon a concept of man in relation to his Creator, and of man in his relationship to his fellow men - relationships that are incorporated in the foundations of our government. The democratic principle of government derives its strength from a belief in the dignity of the individual and in his ability to cope with his destiny and that of his fellow citizens and of his country. A society governed by such principles places a heavy responsibility on its citizens to rise to opportunities which it affords for high achievement and to maintain the conditions

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of life which are favorable to the highest qualities of humanity.

#### INDIVIDUAL RESPONSIBILITY

Hence, in this matter of providing for old age, as in other areas of conduct, we place primary responsibility on the individual. Now, the process of providing for old age is intimately bound up with the decisions and choices that must be made in living the earlier years. Accordingly, the problems we are considering encompass not a part of life but its whole. There is much truth in the poet's assertion that old age is "the last (part) of life for which the first was made." He might also have suggested that it is the part which is very largely made or determined by the first. It is partly because life fits no neat universal pattern, which is the same for each individual, that the individual alone must determine how the myriad of unique situations that arise throughout life shall be faced. Therein lies part of its challenge.

#### EMPLOYER-EMPLOYEE RESPONSIBILITY

While a large measure of responsibility for providing for the future properly and inevitably rests with the individual, in our own industrialized society there are circumstances which affect and limit the scope of individual action. In many businesses and industries a point is reached where the efficiency of the enterprise is adversely affected by the employment of individuals whose abilities are curtailed because of the infirmities and limitations imposed by advancing years. Then, also, situations exist where the advancement and opportunities of younger workers are adversely affected if superannuated employees occupy desirable positions. In brief, experience has demonstrated that it is to the best interests of both employers and employees that provision be made for the retirement of the superannuated. The

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establishment and operation of pension plans is a formalized, group method of dealing with these matters. They are a powerful mechanism in supporting the burdens of advancing age.

There appear to be some unfortunate misunderstandings in this area which might well be clarified, and it is to be hoped that meetings such as have been sponsored here today may help in the discovery of answers to many questions that are involved. There are differing views on such questions as the desirability of an automatic retirement age, for example. These differences are not between employers on the one hand and employees on the other, but they are differences of views among employers and among employees. On analysis it will be found that this question is affected by many other questions, some of which depend on management for solution, others on the individuals involved. Some of these problems arise because of a certain lack of flexibility in adjusting to the changing circumstances.

#### SOCIAL RESPONSIBILITY

We have also learned that while primary reliance should and must be placed on individual efforts and while the efforts of employers and employees are of increasing importance, these measures do not always satisfactorily meet the needs of the situation.

Partly because of the human failing of not measuring up fully to the responsibilities that life involves; partly because of misfortunes and adversities which frequently nullify the sincerest efforts; and partly because the nature of the problem was not properly understood in the past - at least to the extent that effective action was taken - it was found that substantial numbers of old

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people did not have available adequate means of support. The magnitude of the economic problems of the aged and the threat that it constitutes to our economy has resulted in the recognition that society as a whole has an interest in this matter. In the past this interest has found expression in various "poor" laws and in activities of State and local government flowing from them. Important as these measures were and are, they are not adequate. For the problem also had to be linked with the maintenance of the dignity of the individual if our democratic institutions are not to appear as a hollow mockery. Accordingly, it appeared that some more orderly and certain mechanism might be desirable - one which would operate on a national basis to provide assurance to the individual of a basic layer of support in old age. It is from considerations of this sort that the Federal Social Security law derives its validity.

To recapitulate briefly - there is recognition of three areas of responsibility for dealing with the economic problems of old age: (1) the individual, (2) the group problem generally associated with the relationship of employers and employees, (3) the social or governmental. Views may differ as to which, if any, of these is pre-eminent over the others. From some standpoints the importance of individual responsibility is paramount and deserves the greatest emphasis. From others the social aspects rank highest. And from still other points of view, considerations of the highest importance stem from the employer-employee relationship. Fortunately, there is no need to establish a ranking. A view widely held is that, generally speaking, the three areas of responsibility are related equals that form a three-part approach to the matter of supporting the aged, analogous to the qualities of strength of a tripod or a sturdy three-legged stool. This analogy, while often used, is particularly apt since it so clearly calls to mind the need of a strong role for each of the three members if the burdens of age are to be supported with confidence. If one of the members is missing, or is weak, or

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otherwise is not doing the job, the result may well be likened to what would follow if one of the three legs of a tripod or stool was removed or impaired.

#### ASSURANCE THROUGH INSURANCE

Pointing out that we have responsibilities for dealing with the problems of the aging as individuals, as members of employed groups, and as citizens does not, of course, provide any clue as to how these responsibilities may be discharged. While it would be impracticable to explore this with you even briefly this evening, I would like to direct attention to some mechanisms which are being employed.

The subject assigned me is "Anticipating Old Age With Assurance." The choice of the word "assurance" seemed to be a very satisfactory one. In some areas - much more in Canada and Great Britain than in the United States - the word "assurance" is used for what we more commonly refer to here as "insurance." Hence, while I'm not sure whether the Program Committee intended that I should talk on "Anticipating Old Age With Confidence" or "Anticipating Old Age With Insurance," I believe I have sufficient latitude to make a few observations on how application of the principles of insurance may make it possible to approach old age with confidence.

As previously recognized, the problems of old age are not limited solely to problems of money or the lack of it, or generally of procuring the means of material sustenance. Of course, even in the area of providing for the material needs of old age, insurance is not the sole mechanism. However, insurance and the principles of insurance constitute today one of the very powerful mechanisms for supporting the burdens of advancing age.

#### ROLE OF INDIVIDUAL INSURANCE

When we think of Life insurance we are perhaps inclined to reflect on its

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usefulness in mitigating the financial problems caused by untimely death. The stabilizing qualities of Life insurance and its wide acceptance are attested to by the fact that over \$230 billion of such insurance is currently in force in the United States. Approximately \$8 billion is paid annually in premiums, and the assets of the over 600 companies engaged in underwriting this insurance total over \$60 billion, held for the protection of over 80 million people.

Not so widely known perhaps is the fact that a substantial proportion of these totals represents protection aimed at support during old age. Of the total annual premium income of the companies, approximately \$250 million is on account of individual annuities. This, however, is only part of the picture, for many insurance contracts are designed to combine features which emphasize retirement benefits with features designed to provide protection to dependents against the hazards of untimely death. Many Life insurance policies contain provisions whereby the policy can be changed or converted to provide a cash income to the insured in lieu of part or all of the benefits that would have been payable at his death. Also, the benefits payable at the death of the insured under many policies provide incomes to aged beneficiaries and thus contribute their part in supplying needed support to aged persons. In this category might also be included a policy that supplies the funds with which a young widow can pay off the mortgage on a home and ownership of that home will likely turn out to be an important factor of security in her old age. Illustrations could be supplied almost without end of this direct and indirect use of insurance in helping to meet the burdens of old age.

In brief, individual Life insurance policies and individual annuity contracts make available the means whereby systematic, orderly provision can be made to assure income in old age. Policies are available to accommodate the varying

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needs in a diversity of circumstances. It is difficult to imagine a situation in which it would not be possible for an individual who so desired, to make some provision for his old age through the use of individual insurance or an individual annuity contract.

#### ROLE OF INSURED RETIREMENT PLANS

In the last two years or so a great deal of attention has been attracted to the subject of industrial pension plans. This was the result, in large measure, of labor negotiations in some prominent segments of industry in which pensions were an important issue. Apart from the fundamental needs which gave rise to this activity, the fact that a large number of pension plans had been already functioning - some of them for many years - was no doubt an important influence in demands made by labor and in the pension plans that resulted from these recent negotiations. Over the years a great deal has been learned about the mechanics of pension plans; employers in a large number of businesses and industrial concerns have confirmed their value, and the principles of sound design and administration have been developed and tested.

A little over 25 years ago the principles of insurance and risk sharing which have been so successful in providing Life and Accident and Sickness insurance to groups of employees were extended to the underwriting of pension plans. Various types of insured pension plans have been designed to fit various types of situations. Some of them are based entirely on the group principle and are referred to generally as Group Annuity plans; others utilize individual policies. Underlying all of them is the use of the broad facilities of an insurance company - its facilities for investments, its actuarial and administrative experience and service, and its guarantees which are derived from its facilities for a pooling or sharing of the many financial, mortality, and other risks that affect the

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the fortunes of a pension plan.

At the present time there are roughly about 11,000 insured retirement plans. Of this number, about 2,500 are of the Group Annuity type, covering over 2 million employees. The reserve funds held by the insurance companies under plans of this type are already of the magnitude of about \$4.4 billion. These funds are growing at a very substantial rate - 18 percent during the year which ended December 31, 1950. In addition, there are about 8,500 insured retirement plans of other types - mainly those using individual policies - covering approximately 800,000 employees. The annual payments being turned over to insurance companies under these various forms of insured plans are estimated to be nearing the \$1 billion mark. This is, of course, separate and apart from the funds being applied for pension purposes under plans which are not insured.

From the standpoint of the individual employee, a pension is an exceedingly helpful form of provision for his old age when his normal source of earnings is no longer available to him. For some employees it may represent the only advance provision of a financial nature made for his eventual retirement. In many cases the employer's plan may provide for contributions from the employee himself. This not only enables the employee to do more easily what he has a basic obligation to do himself, but generally it provides benefits in excess of those which these contributions would provide if they were not applied as part of a cooperative group undertaking. However, for reasons previously indicated, it would not seem proper for an employee to look to the pension from his employer as the only appropriate source of his support in the event of his retirement.

#### ROLE OF SOCIAL INSURANCE

As mentioned earlier, the efforts of individuals, alone and in cooperation

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with their employers, to prepare for their retirement has nevertheless left an area which seems to call for the help of society as a whole through government. Some phases of this activity are exceedingly old (at least military pensions have antecedents far back in history). For many years government has been called upon to exercise an expanding role in regard to the welfare of its citizens. A new epoch was entered upon in the United States in this regard in 1935 with the enactment of the Social Security Act. This law, among other things, sought to establish a government program to provide incomes to the retired aged in certain classifications on a basis which utilized some of the nomenclature and some of the concepts of private insurance.

As further study was given to the matter and as experience developed, important modifications were made in the original legislation. It was recognized that there are some very fundamental differences between insurance as generally understood - as operated by nongovernmental groups - and the operations of the old-age and survivors' insurance provisions of the Social Security program. Last year some further important changes were made in that program. In the debate on the important issues which were involved - and which, in a large measure, still remain to be resolved - there were questions as to the appropriateness of applying the name of insurance to this sort of governmental program. It is not my purpose to comment on the merits of this debate but merely to point out that the Social Security program may be an important and useful mechanism for "supporting the burden of advancing age," and that while it is a mechanism resembling private insurance in some respects, it also functions in ways which make it seem desirable to some that it adopt another name. There is in fact a designation "Social Insurance" which encompasses government programs of this kind, but except perhaps to those who are in fairly close contact with the problem, it is

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questionable whether the average citizen is aware of the important differences that exist.

#### SOME BASIC PROBLEMS IN ACHIEVING SECURITY

This problem of terminology is symptomatic of a deeper issue that confronts us in dealing with this matter of supporting the burdens of advancing age. I refer to the fact that in their roles as citizens and in their roles as members of employed groups, large and growing numbers of persons have an influential voice in determining which of the various mechanisms for dealing with old-age security shall be utilized and in which proportions. That is to say, what the role shall be of each of the three broad areas of responsibility to which reference was made. An intelligent discharge of this inescapable obligation of citizenship requires information and understanding of issues and technicalities of rather staggering magnitude. In this, our whole educational system is confronted with a challenge of the highest significance. One can only hope that the opportunity will be seized and real understanding promoted before irrevocable decisions are made by the electorate.

More specifically, one of the basic issues which will continue to confront us is the relative roles that should be played by employers and employees, and by the government through Social Security, in providing old-age incomes for retired workers. There are many beguiling features about Social Security which encourage some to hold that government should and must play the predominant role and that there are important reasons why it would be advantageous for Federal Old Age Insurance benefits largely to supersede employer pension plans for rank and file workers. In much of this debate, the importance of the role of the individual himself is subordinated or entirely ignored.

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This issue alone involves problems of economics, of government, and of human nature. It involves, for example, the significance and relative importance of reserves held by the government in the Social Security trust funds - which, on examination, do not seem to be reserves or trust funds as such terms are commonly understood - and their importance relative to the reserves and assets of insurance companies and funds of similar character. It involves consideration of the merits and dangers inherent in a government program made up of diverse elements - various special pension plans for government employees, special existing plans for railroad workers, some governmentally sponsored benefits for some and nothing at all for others, and how these various programs are affected by the benefits provided for veterans.

The present Social Security program is laboring under various difficulties which stem not only from the relative newness of the system and the problems inherent in a gradual transition to a more comprehensive plan of coverage, but also from disturbed, world-wide economic conditions. It is not unexpected that these stresses should lead to all sorts of suggestions for altering the program and suggestions which in some respects have considerable appeal but which usually involve unsuspected dangers.

Our society depends in a large measure on the wisdom of the people as a whole, and we may take some comfort in the fact that confidence therein has frequently been justified. We may hope that this innate wisdom will be given a fair opportunity to find expression ultimately in dealing with the problems of the aging. This hope depends, of course, on a sound understanding of the issues and the relatively complex details affecting these issues. It is a large and difficult assignment. Whether this hope is well supported depends also, in a large measure, on the character of our legislators and those who influence public

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opinion, and on the capacity to present the issues fairly and to provide effective leadership in a field where a stand contrary to what may appear to be the popular will is frequently required.

It is appropriate to note that Congress - both the Senate and the House - has given very careful and generally very able attention to the grave issues involved in the Social Security legislation. The 1950 amendments to the Social Security Act have many encouraging aspects. We see in them a recognition of the desirability of universal coverage by which all aged citizens will be extended the protection the system affords. Of no less significance is the indication that the insurance program remains the basic element in the Federal program and that it has been strengthened against the encroachments of the dangerous assistance program, concerning which many have been troubled in recent years. Moreover, effective support has been given to the principle of a benefit formula which recognizes the considerable variations in conditions prevailing in our country and the desirability of stimulating individual incentives and of avoiding the deadening effects of uniformity which would be involved in the flat uniform benefits proposed by some.

Encouraging as this has been, a great task lies ahead, as the Senate has recognized in a resolution authorizing a thoroughgoing study of the whole Social Security structure. A fitting response to the challenging issues in Social Security may well be one of the critical tests of the strength of our democratic system of government.

#### NEED FOR A SOUND ECONOMY - THE THREAT OF INFLATION

In spite of the most artful mechanisms - in spite of an informed understanding of the problems - there will still be a lack of assurance in approaching

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old age with insurance unless the basic economy of the country is sound, unless there is some fairly close relationship between the value of the advance provision - the premiums paid - and the benefits that are paid out at maturity. This is, perhaps, but a trite observation, but it is one which is terribly important to have understood if we are to succeed in our quest. It is not enough to lay the blame for our present difficulties on the political exigencies of a war-racked world. We need to be reminded that our support is derived from production and that economic stability is likely to be achieved only by the maintenance of a sound relationship between the supply of the aggregate available goods and services and the effective demand for them. The methods for dealing with these problems are beyond the scope of these remarks, and there is a danger in getting lost in considerations of detail. It is important, however, that we keep our eye continually on this foremost threat to our economic security and that we learn to judge methods by their efficacy in defeating this basic enemy.

Subject to this necessary reservation, we may conclude that we have learned "methods whereby we can acquire strength to support the burdens of advancing age" - we can approach old age with great confidence if we utilize wisely the insurance mechanisms that have been developed and which are daily demonstrating their usefulness and power. It does not seem likely that the average citizen, even in our favored land, can consider the problems of old age without giving careful attention to the material aspects of providing for an income for his years of retirement. But, thanks to the growth of insurance and allied mechanisms, he is more likely to be able to concentrate like the philosopher of old on its other and more properly exalted aspects.