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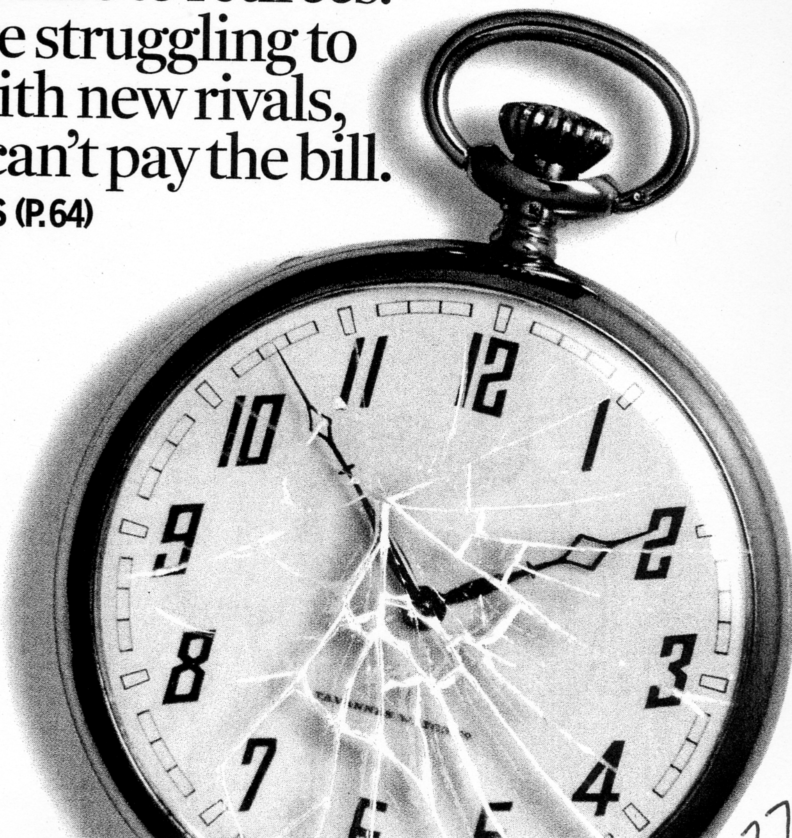
THE BENEFITS TRAP

Old-line companies have pledged a trillion dollars to retirees. Now they're struggling to compete with new rivals, and many can't pay the bill.

BY NANETTE BYRNES (P. 64)



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CAUGHT SHORT

JAMES ROBERTS

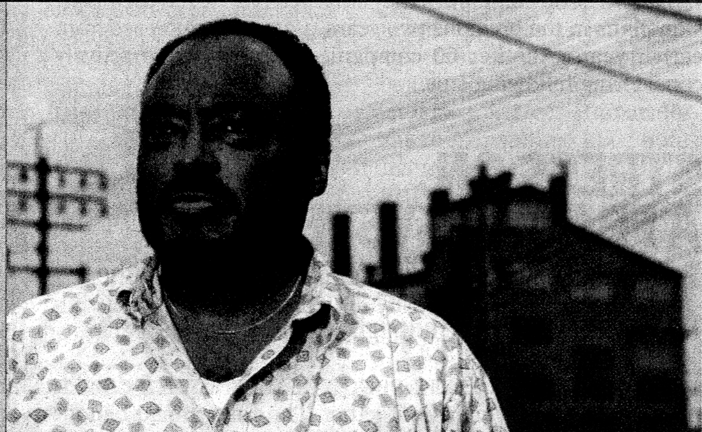
AGE 56

HOMETOWN Harrisburg, Pa.

JOB STATUS Retired with a degenerative bone condition after 33 years as a crane operator for Bethlehem Steel's Stilton (Pa.) mill

MONTHLY PENSION $1,242.52

HEALTH CARE No company coverage, pays his own medical bills, including $200 a month in insurance and $450 a month in prescription drugs



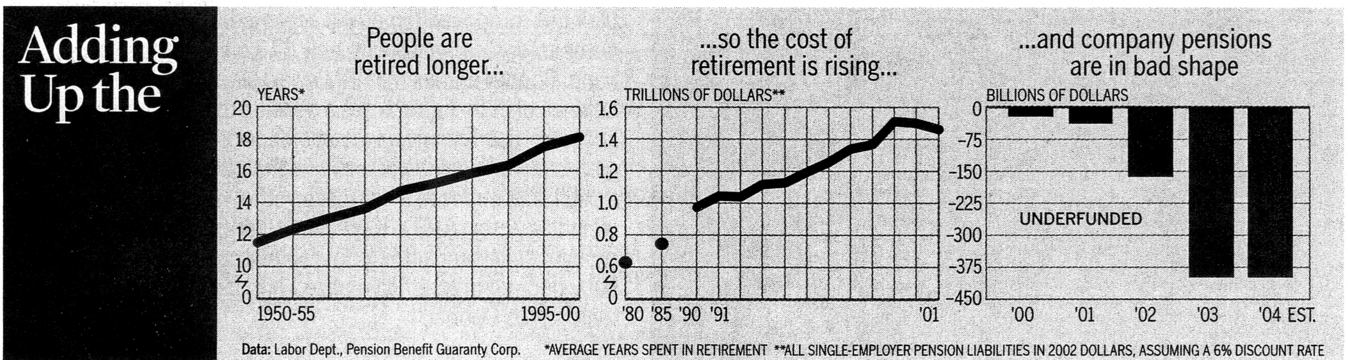
James Roberts spent 33 years at Bethlehem Steel, 28 of them operating a massive ceiling-mounted crane in a mill turning out 20-inch steel. Sometimes he would work six days a week, 10 hours a day, often in shifts that started at 8 at night or 4:30 in the morning. When he retired in November, 2000, he was only 53 but had begun to suffer from a degenerative bone disease as well as high blood pressure and cholesterol, all of which required monthly medications. But Roberts wasn't worried: He had a health plan from Bethlehem and a pension of $1,887.75 a month. That all changed in 2002 when Bethlehem declared bankruptcy. The filing wiped out the retiree medical plans, and the pension was taken over by the PBGC, which cut Roberts' monthly payments by a third. Some months Roberts goes without his most expensive medications, like Zocor, which he takes for high cholesterol at a monthly cost of $120 to $135. "With the pension cuts, I couldn't afford it," he says. Recently he took a part-time job working the lunch shift in a school cafeteria for $7.50 an hour.

drag. The companies of the Standard & Poor's 500-stock index, for example, continue to run an aggregate pension deficit of $149 billion, according to David Bianco, an accounting analyst at UBS. That's despite a strong stock market in 2003, which pushed up pension plan assets, and despite the billions companies contributed, including $18.5 billion from General Motors Corp. alone. If conditions don't change, Bianco figures the S&P 500 companies will end the year $192 billion in the hole.

WHAT TODAY MIGHT be seen as an isolated problem for a limited number of companies promises to bloom into big trouble for us all. By conventional math, the PBGC is already insolvent: As of September, 2003, it had $46.5 billion of liabilities and only $35 billion of assets, a deficit of $11.5 billion that had close to tripled in one year. The agency paid 2003 benefits of $2.5 billion, but only took in $1 billion of premium income from companies with defined-benefit plans. (The PBGC says the deficit had dropped to $9.7 billion as of March, but can't give further details.) The PBGC is not directly funded by the taxpayer, but it is backed by the U.S. government, which would likely bail it out in a crisis.

The fragility of that system only increases the stress on other sources of retirement income and insurance: Social Security, Medicare, and personal savings. Social Security has its own $11.9 trillion deficit. And the still-recent history of personal savings vehicles like 401(k)s shows that people generally save too little, pay too much in fees, and fail to adequately diversify their risk. Olivia S. Mitchell, executive director of the Wharton School's Pension Research Council, is among the many who think one result is that we will all have to work longer than we thought. "It used to be thought Social Security was the safe leg of the retirement stool, but that's not safe either," says Mitchell.

Demographic trends will only make matters worse. As recently as 1985 there were three U.S. workers for every retired person. Now it's close to even. And we're still six years away from 2010, when the first of the baby boomers will hit 65. Not only are more people retiring, but they're living longer once they get there. Today 17% of the U.S. population is age 60 or older. According to Census Dept. data, that figure will rise to 26% by 2050, when college graduates entering the workforce today can finally begin to think about retiring. It's the complete reversal of the years after World War II, when companies



Data: Labor Dept., Pension Benefit Guaranty Corp. *AVERAGE YEARS SPENT IN RETIREMENT **ALL SINGLE-EMPLOYER PENSION LIABILITIES IN 2002 DOLLARS, ASSUMING A 6% DISCOUNT RATE

PHOTOGRAPH BY DOMINIC EPISCOPO; CHARTS BY ERIC HOFFMANN/BW

COMMENTARY

BY CATHERINE ARNST

The Medicare Cuts Have Only Just Begun... Wait Til 2012!

Medicare vs. Cancer Patients

Refusing to reimburse off-label treatment is far from the best way to cut costs

WHEN HAROLD KOBLINER was diagnosed with aggressive prostate cancer in 1996, he was determined to do whatever it took to beat the disease. The Long Island resident received radiation treatment at Memorial Sloan-Kettering Cancer Center in Manhattan and went into remission. But a year later, the cancer spread to his bones —typically a death sentence. The medication that saved his life, according to Kobliner and his oncologist, Dr. Howard I. Scher, was Taxol, a chemotherapy approved for use against ovarian and breast cancer. "When your life is at stake, you want to have the most cutting-edge treatment," says Kobliner, now 74 and still cancer-free.

In the cancer world, cutting edge commonly means unapproved. Most cancer drugs win marketing approval for only one type or stage of the disease, but they are often effective against other tumors. Consequently, oncologists frequently experiment with so-called off-label treatments—using drugs that were approved for another type of cancer. Such prescriptions are legal and so common that a 1997 survey of oncologists by the American Cancer Society found that 60% prescribed drugs off-label.

In an ill-conceived cost-containment maneuver, U.S. health authorities are considering slapping constraints on this treatment strategy, which has not only saved patients but also greatly expanded doctors' understanding of how cancer drugs work. The Centers for Medicare & Medicaid Services (CMMS) is mulling a policy change that would allow it to end automatic reimbursements for off-label uses of four expensive cancer drugs. If the change goes through, it will set a precedent that could be applied to a broad range of cancer drugs. "Many, many patients would be seriously harmed," warns Sloan-Kettering's Scher.

ONCOLOGIST SCHER "Many...patients would be seriously harmed"

Where real savings lie: Generics, prevention, and fewer uninsured

To be fair, Medicare is struggling with the need to ration its dollars in an era of runaway health-care inflation, and some novel cancer drugs carry sky-high price tags. Two of the drugs under review, Zevalin from Biogen Idec and Bexxar from Corixa and GlaxoSmithKline, are radically new treatments for advanced non-Hodgkin's lymphoma, a disease that strikes about 53,000 Americans each year. Each costs more than $22,000 for a one-time dose. The other two, Pfizer Inc.'s Camptosar and Eloxatin from Sanofi-Synthélabo, are both for advanced colon cancer—of which there are 106,000 new cases every year. Each of these drugs costs about $3,000 for a course of treatment.

Historically, Medicare allowed reimbursement for most off-label uses of all drugs under its purview, says Dr. Sean R. Tunis, chief medical officer at CMMS. "That practice wasn't a problem when drugs cost $100 to $150 per patient, but it's another thing when they are $3,000 to $4,000 per patient," he says.

Yet oncologists argue that their ability to practice good medicine would be severely hampered if they were restricted to approved uses. There are a number of studies, for example, showing that both Camptosar and Eloxatin can be effective against some of the deadliest forms of lung cancer. If the proposed Medicare changes went through, doctors could still appeal to Medicare for reimbursement, but that process could take months—time that few lung cancer patients can spare.

Right now, the CMMS says it's willing to consider alternatives. To continue its review, the agency delayed a decision on reimbursement changes that was due at the end of January. Oncologists argue that Medicare should change the framework for the debate. "A disease that happens to be expensive should not be singled out for cost-containment measures for that reason only," says Deborah Y. Kamin, senior director for cancer policy at the American Society of Clinical Oncology.

Cancer is not the reason health-care spending is out of control. Broader use of generic drugs, an emphasis on disease prevention, reducing obesity and smoking, and coverage of the uninsured would all result in greater savings than a decree that cancer victims can't have life-saving medicines only because they cost a lot. ■

ERICA BERGER

L 28

Medicare to Cut Reimbursements

By Sarah Lueck

WASHINGTON—Medicare is moving ahead with significant cuts in reimbursements to cancer specialists for the medications they administer in their offices, changes ordered under last year's Medicare overhaul law.

The Centers for Medicare and Medicaid Services today is expected to release proposed rules imposing an 8% cut in oncologists' drug revenues, beginning next year. The proposal is among a number of changes to reimbursement rates for medical specialists to be announced by the CMS as it updates its annual physician-payment rule.

Oncologists and patient-advocacy groups have argued that the cuts in cancer-drug reimbursement are too deep and will hurt patients' access to treatment outside of hospitals. Medicare officials say that's not the case and note that the government, while cutting reimbursement for the drugs, increased payments to doctors for administering them. Those payments drop next year, however.

Medicare won't cover most prescription drugs until benefits begin in 2006. However, it does cover certain drugs given in hospitals and doctors offices, such as intravenous chemotherapy or drugs for rheumatoid arthritis.

Today's expected announcement marks a shift by Medicare, the government's health-insurance program for the elderly and disabled, to a payment system based on the "average sales price" of the medications, gleaned from a new ... ers have been reporting to the government the prices they charge various purchasers. The proposed rule will state what Medicare proposes paying for 32 widely used drugs, officials said.

Previously, Medicare paid physicians based on a drug's "average wholesale price," an industry list price that government investigations found was often far below the price doctors actually paid for the drug. That allowed oncologists to make a profit on the government reimbursement. Oncologists argued they used the margins to cover the expense of administering the medications.

Physicians and drug makers are already raising concerns about the new payment system, arguing that in some cases the Medicare agency doesn't have adequate price data. The proposed rule will prompt a flurry of lobbying on the issue. Specific drug prices are expected to change before the final payment rule is completed, based on newer data from drug manufacturers and expected recalculations by Medicare.

The reduction in payment for cancer drugs is partly the result of an estimated 7% cut in what Medicare will pay next year for **Amgen** Inc.'s Epogen and **Johnson & Johnson**'s Procrit, anemia treatments that are oncologists' highest revenue drugs. Three other drugs provided by oncologists—Taxol by **Bristol-Myers Squibb** Co., Aredia by **Novartis** AG and **GlaxoSmithKline**'s Navelbine—have come off patent and next year will see payment reductions from Medicare of 81%, 72% and 21%, respectively. Medi... is expected to increase by about 3%.

Other specialists also will see reductions. Medicare officials' preliminary estimate is that urologists will see a 36% reduction in their revenues from drugs, largely due to a 39% drop in the payment for prostate-cancer drugs Zoladex by **AstraZeneca** PLC and Lupron Depot by **TAP Pharmaceutical Products** Inc.

Officials estimate a 6% reduction in rheumatologists' drug revenue, mostly due to a 7% cut in the payment for Johnson & Johnson's rheumatoid-arthritis drug Remicade. In another closely watched provision of the same rule, inhaled treatments for respiratory disorders will see cuts as they also move to payments based on average sales price because of the new Medicare law, which would affect major home health-care companies **Lincare Holdings** Inc. and **Apria Healthcare Group** Inc. As with the cancer drugs, government analyses found that Medicare had been overpaying for the drugs, which the program covered only when delivered by nebulizer, a device which turns liquid into a fine spray to be inhaled through a mask.

The new Medicare drug benefit will begin covering inhalers as an alternative device beginning in 2006. Some patients will still need nebulizers, however, so Medicare officials plan to seek comment in the rule on whether the program should pay a dispensing fee to the companies. Lobbyists for the industry have been advocating a fee of $50 to $70 per prescription. But analysts predict the ...

IF Medicare cuts Now, what will it have to do when Boomers retire?

Prescription for Trouble

7-19-04

When the Bush administration pushed its Medicare drug bill through a reluctant Congress, even supporters knew there were flaws that would have to be corrected. The fact that no serious fixes have been made, or even proposed by the White House, suggests that the whole impetus for the idea had more to do with presidential politics than with health care policy. Now, as the defects loom wider than ever, even the program's political appeal may be eroding.

Government estimates published in The Times last week indicate that one of the biggest problems with the program — the way it could encourage companies to drop drug benefits for their retirees in favor of the inferior federal program — may be worse than originally thought. According to the new figures, companies may drop or reduce prescription drug coverage for 3.8 million retirees when the new drug benefit takes effect in 2006. That could rise to 4.1 million by 2010, a blow for more than one-third of retirees who are insured by their former employers.

The Medicare agency, which is writing rules for the new law, quickly said that the numbers in The Times's report were outdated and that "great pains" were being taken to protect benefits. That doesn't carry much credibility coming from an ... information about the impending Medicare reform from Congress and the public. To reassure restive retirees, the agency must produce detailed regulations that allow Congress, insurance experts and corporations to assess the law's impact before it goes into effect. For that to happen, the rules must be issued comfortably in advance of the law's start date of Jan. 1, 2006.

This page endorsed the overall drug benefit plan in the hopes that it would be a first step toward a larger, better program. But if it turns out that the new law is likely to gut the existing benefits of millions of retirees, it could trigger a political backlash that might threaten much-needed reform. Medicare officials would do well to review the events of 1989, when a mob of generally affluent old people, feeling cheated by a huge Medicare reform law from 1988, accosted the chairman of the House tax-writing committee as he sought cover in his car. Shortly thereafter, the law was repealed.

A similar demise for the current prescription drug law would be a shame, especially for the 25 percent of Medicare recipients who lack drug coverage. The best way to avoid that is for the agencies that were responsible for misleading everyone ...

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FEBRUARY 2, 2004

STREET WISE
By Amey Stone

Robbing Peter Jr. to Pay Paul Sr.

Younger workers face dwindling benefits and soaring costs as governments and corporations divert funds to baby boomers

Consider what could be a typical family conversation in the not-too-distant future:

Adult daughter: "Mom, I hate to ask this, but we could really use some help with our mortgage payment this month."

Mother: "Last month it was your credit-card bill, this month your mortgage. If this begging keeps up, I won't be able to pay my property taxes this year. I'm only 75, and I'm halfway through my 401(k) plan."

Daughter: "Yeah, but at least you have a 401(k) plan. My new job isn't even offering benefits. And remember, part of my check is going to pay your Social Security."

Ouch! Policymakers have long warned that the coming retirement of 79 million baby boomers will inevitably lead to increased intergenerational conflict, as the senior set puts extra pressure on government programs like Social Security and Medicare. But that pressure may prove just the tip of the iceberg. Corporations, too, are feeling the pinch as they face a coming wave of retirees and cut back on benefits to help keep their balance sheets in good shape.

Meantime, financial pressures on younger Americans are mounting as the price tag of major expenses -- education, health insurance, and housing -- rises sharply. A likely interest rate rise in the next few years, which will make their debt more costly, isn't going to help matters.

These new economic realities, recent public policy moves, and election-year politics are accelerating the coming war between the generations, raising painful questions about exactly where the government and Corporate America are going to get the kind of cash needed to fund obligations to future retirees. Generation X-ers won't take kindly to the benefit cutbacks and tax and fee hikes that await them when the baby boomers start to retire en masse.

COSTLY TAX CUTS. "For now, it's a muted concern at best," says Robert Smith, president of Smith Affiliated Capital in New York. But he expects Gen X-ers to get more concerned -- and more aggravated -- over the next few years as their costs increase while their benefits decline. "We're building to a crescendo at the point when boomers are really ready to retire."

Increasing attention to the gargantuan federal deficit is lately adding to the public perception that the current generation is getting tax breaks at the expense of future workers. This isn't quite the scenario the Bush Administration is hoping for. It believes tax cuts will stimulate enough income growth to

L32

BABY BOOM SOLUTIONS

1. CUT BENEFITS
2. RAISE ELIGIBLE AGE
3. MEANS TEST
+
4. SLIGHT TAX ↑

2-26-04

Greenspan urges cuts to Social Security

Fed chief says nation can't afford benefits to baby boomers

BY MARTIN CRUTSINGER

WASHINGTON — Federal Reserve Chairman Alan Greenspan, stepping into the politically charged debate over Social Security, said Wednesday the country can't afford the benefits now promised to the baby boom generation.

He urged Congress to trim those benefits to get control of soaring budget deficits, which he said threatened a "very debilitating" rise in interest rates in coming years.

Alan Greenspan
For tax cut, too

Democratic presidential candidates denounced his proposals, and President Bush and other Republicans sought to distance themselves from the Republican Greenspan.

POLITICAL INACTION WILL ONLY DELAY THE DAY OF RECKONING →

The central bank chairman also repeated his view that Bush's tax cuts should be made permanent to bolster economic growth. He said the estimated $1 trillion cost should be paid for, preferably, with spending cuts so the deficit would not be worsened.

As for specifics on trimming Social Security, Greenspan told the House Budget Committee that one possibility would be to switch to an alternative measure of inflation for annual cost-of-living adjustments. Instead of relying on the Consumer Price Index, he suggested switching to a new chain-weighted CPI that gives lower inflation readings and thus would mean smaller payment increases.

Greenspan, who turns 78 next week, also suggested tying the retirement age for full benefits to longer lifespans with the age continuing to rise. The 65-year age for retiring at full benefits started increasing last year and now stands at 65 years and four months. It will increase to 67 over the next two decades and then stop rising.

The remarks set off a political storm.

Democratic front-runner Sen. John Kerry said the way to address the deficit was to roll back tax cuts for the wealthy and "the wrong way to cut the deficit is to cut Social Security benefits. If I'm president, we're simply not going to do it."

Bush said Social Security benefits "should not be changed for people at or near retirement."

Underscoring the view that Congress is not about to touch Greenspan's suggestions, especially in an election year, Republican House Speaker J. Dennis Hastert was asked to comment on the proposals and replied only, "He's a fine man."

In his testimony before the Budget Committee, Greenspan said the current deficit situation, with projected record red ink of $521 billion this year, will worsen dramatically once the 77 million members of the baby boom generation start becoming eligible for Social Security benefits in just four years.

He said projections show the country will go from having slightly more than three workers supporting each retiree to 2.25 workers for every retiree by 2025.

"This dramatic demographic change is certain to place enormous demands on our nation's resources — demands we will almost surely be unable to meet unless action is taken," Greenspan said.

AP

L33

Greenspan Says More Spending And Hiring Will Help Economy

WASHINGTON, July 21 (Reuters) — The economy will benefit next year if businesses shed their unusual reluctance to spend and hire, Alan Greenspan, the chairman of the Federal Reserve, told Congress on Wednesday.

In a second day of testimony on the central bank's semiannual report on monetary policy, Mr. Greenspan told the House Committee on Financial Services that even with the recovery gaining pace, corporate America has held back from new capital investments, inventory building and permanent hires.

"We are far from behaving the way we typically did" with other expansions, Mr. Greenspan said in answering questions from the panel. He attributed the corporate restraint to a number of "caution-creating factors." He cited the bursting of the stock market bubble in 2000, a spate of corporate scandals and latent fears of terrorist attacks as factors that had made businesses less willing to take risks.

In his opening remarks, Mr. Greenspan stuck to the upbeat script he used Tuesday before the Senate Banking Committee, which led markets to brace for a slightly faster increase in interest rates than they had been expecting.

United States bond prices extended Tuesday's losses on Wednesday. Stock prices, which rose on Tuesday, slipped on corporate profit concerns.

Lawmakers from both parties did their best to draw Mr. Greenspan into an election-year debate over fiscal policy, with limited success.

Mr. Greenspan said the sizable tax cuts President Bush pushed through Congress provided a welcome economic stimulus, but he offered a warning on the long-term budget outlook.

"I think the tax cuts were effective in stemming the extent of decline in the weakness of the economy," he said. "Looking forward, fiscal policy is going to become a very critical issue on the agenda for macroeconomic policy.

"I would prefer lower spending and lower taxes and lower deficits," Mr. Greenspan said.

He renewed a call for restoration of budget discipline rules, including spending caps and requirements that new expenditures or tax cuts be offset elsewhere in the budget. The Bush administration wants those rules to apply only to new spending, not tax cuts.

Mr. Greenspan also said Congress should find ways to rein in programs or tax cuts that prove more costly than expected.

As he did on Tuesday, Mr. Greenspan said the economy was in a self-sustaining expansion that no longer needed the strong monetary stimulus the Fed provided with 13 interest-rate cuts dating to 2001.

The Fed began withdrawing that stimulus last month, when it raised the overnight federal funds rate to 1.25 percent from 1 percent, the lowest since 1958. More measured increases are expected to follow.

Other Fed officials who spoke Wednesday echoed Mr. Greenspan's tone. The Fed's vice chairman, Roger W. Ferguson Jr., said the recovery appeared "firmly on track." Anthony M. Santomero, president of the Philadelphia Federal Reserve Bank, said a recent soft patch did not reflect "a significant change for the broad outlook."

Alex Wong/Getty Images

Alan Greenspan, right, told the House Financial Services Committee yesterday that companies were behaving far differently in this recovery than in the past. Michael G. Oxley, chairman of the panel, is at the left.

↑NYT 7-22-04 WSJ↓

Greenspan Hails Bush's Tax Cuts

Fed Chief Reaffirms Support For Rules Limiting Growth In Federal Budget Deficits

By MICHAEL SCHROEDER

WASHINGTON—Federal Reserve Chairman Alan Greenspan told Congress that President Bush's tax cuts helped moderate the recent recession and contributed to a quick recovery, lending credibility to the administration's defense of its tax policy.

Democrats at a House hearing on the Fed's midyear economic forecast failed to prod Mr. Greenspan into commenting directly on the view that the tax cuts have caused the federal deficit to bloat to levels that could mortgage the nation's economic growth.

In the past few months, Mr. Greenspan has said publicly the U.S. budget deficit threatens the nation's economic stability by driving up long-term interest rates. But he declined to make similar arguments yesterday, giving Democrats little ammunition in their campaign against extending Mr. Bush's tax cuts.

"I prefer lower taxes ... for economic reasons," Mr. Greenspan told the House Financial Services Committee.

Rep. Barney Frank (D., Mass.) pressed the Fed chairman: "Even if it makes the deficit worse and has this long-term negative effect on the national savings rate?"

"I am for lower taxes and lower spending and lower deficits," Mr. Greenspan replied.

In his testimony yesterday, Mr. Greenspan also reaffirmed his support for reinstating congressional budget rules that require lawmakers to offset any spending increase or tax cut to avoid widening the deficit.

The rules expired in 2002, and Mr. Bush proposes to renew them only for spending increases. Sen. John Kerry of Massachusetts, the likely Democratic presidential nominee, has called for reinstating them for both taxes and spending.

Mr. Greenspan's running commentary on fiscal policy has drawn some stiff criticism of the Fed chairman. He backed President Clinton's deficit-reduction efforts in 1993, but at the end of the 1990s began warning of the dangers of federal surpluses getting too big. He then angered deficit hawks by backing President Bush's tax cuts.

Lately he has returned to warning about the dangers of deficits, and the need to restrain spending on Medicare and Social Security. Some present and former Fed officials fear he talks too much about fiscal policy, and risks inviting politicians to start critiquing monetary policy.

During his testimony, Mr. Greenspan also commented on race and the job market.

Rep. David Scott (D., Ga.) asked why black Americans have a disproportionately high unemployment rate of about 10%, almost double the national jobless rate.

"I think no matter any way we cut it, part of it is discrimination," Mr. Greenspan said. "We've got to find a way to enhance the educational skills in...all of our work force. And where there are significant problems, as there are in the African-American work force...I think we have to make certain that we double up on our efforts."

LARGE TAX ↑ WILL SLOW THE ECONOMY: TOO MUCH, NOT AN OPTION

As Japan Ages, Concerns Shift to Retirees, Debt

By Sebastian Moffett

TOKYO—After voters dealt Japan's ruling party a rebuke at the polls last weekend, commentators immediately pinpointed a verbal gaffe as the cause.

Prime Minister Junichiro Koizumi, facing questions last month about not having paid premiums into the national pension system four decades ago—when the law didn't require him to—said: "People have all sorts of lives. There are all sorts of companies. There are all sorts of employees. Why do I have to apologize?"

Many Japanese thought he was making light of the nation's gravest issue: As society ages, how will the government find money to fund pensions and its debts?

Japanese policy-making is going through a sea change. After the late 1980s asset bubble popped and plunged Japan into more than a decade of stop-start recoveries, authorities have worried about how to revive the economy. The past couple of years have lessened such concerns.

Though economists expect a slowdown later this year from the past two quarters of 6%-plus annualized growth, most see the expansion continuing at least through 2005. Japan's worst long-term structural problems are fading too, such as the bad-loans crisis and deflation.

Junichiro Koizumi

Now the Japanese are worrying about the future, and dealing with an aging society has become the nation's top priority.

Projections show that by about 2007, the proportion of the population more than 65 years old will have jumped to 20% from 10% in just 21 years, a rate of graying nearly twice as fast as any other major industrialized nation, meaning fewer workers to pay for retirees. The tumbling birthrate has become such a sensitive subject that the government recently delayed announcing the latest numbers until after an unpopular pension bill had passed Parliament. The national rate fell to an all-time low of 1.29 children per woman in 2003. The bill means workers will pay more into government pension system, but receive lower benefits after retiring.

Young people who can get away with it are increasingly failing to pay into the national pension system. Among self-employed Japanese, who must make their own pension payments, 46% aged 20 to 24 didn't pay up in 2001. According to a regular poll in the business daily Nihon Keizai Shimbun, pensions and social security overtook economic-stimulus measures in September at the top of the charts of voter concerns.

Another problem is Japan's outstanding government debt, which is more than 160% of gross domestic product—much higher than any other major economy—and is expected to grow in coming years.

Worse still, the recovery has boosted interest rates. That means the government has to borrow more just to pay the interest on its debt.

Economists figure the only way to solve the problem will be an increase in the 5% consumption tax. Yet, the last time the government raised this—in 1997—consumers cut down on shopping and the economy slid into recession. Mr. Koizumi has said he won't raise the tax while in office, which, barring an upset, will be until his term as leader of the Liberal Democratic Party ends in 2006.

Europe

Italy Approves Overhaul of State Pension Plan

ROME—Italy's Parliament approved a long-awaited pension overhaul that aims to cut state spending and prevent the country's debt from ballooning out of control.

The overhaul, which takes effect in 2008, should save €40 billion ($48 billion) in its first six years by raising the retirement age and shifting some of the burden from Italy's strained public pension system over to private pensions.

Europe's fourth-largest economy each year gobbles up 15% of its gross domestic product on pensions—one of the highest levels on the Continent. Italy's big pension bill has also left it with the world's third-highest debt, diverting money that could otherwise be used to fund growth-boosting tax cuts.

The revisions were seen by financial markets as a test of Silvio Berlusconi's ability to pass structural changes at a difficult moment for the premier's center-right coalition. To ensure his fractious coalition closed ranks, Mr. Berlusconi put the bill to a confidence vote in

edly warned Italy it must cut its huge debt and contain its budget deficit to avoid hefty fines. The current pension system has helped Italy's debt balloon to 106% of GDP.

The changes, intended to save the state an annual 0.7% of gross domestic product, raise the retirement age on a full state pension for men to 60 years old from 57, provided they have made 35 years of pension contributions. Others can claim a pension regardless of age if they have paid 40 years of contributions. Women can still retire at 57 under the new law, but with a lower state pension.

The law also tries to relieve the burden from the state pension system by shifting workers' funds into private pensions. Launched in Italy five years ago, private pensions have failed to take off, leaving the country without a key player in capital markets.

The new law says workers' severance pay, normally held by employers until the employee leaves or retires, will be automatically transferred into a

France Approves Broad Health-Care Overhaul

PARIS—In one of the biggest overhauls yet under France's conservative government, the parliament approved a broad health plan Friday aimed at cutting costs in the generous but debt-strapped system.

The measure paves the way to trim waste and raise charges on workers, employers and pensioners in a bid to plug a €13 billion ($15.6 billion) hole in one of the world's most-generous health systems.

Along with pension overhaul, the move is a legislative victory for the government of Prime Minister Jean-Pierre Raffarin, who has been battered in the polls but boosted by signs of a steadily improving economy. The aim is to save €10 billion by 2007.

The plan is controversial in a country where people are accustomed to being able to see any doctor they want and having most prescriptions and fees reimbursed by the state. The measure will require patients to consult a general practitioner before seeing a specialist and pay €1 for every doctor's visit, among other changes.

France's health-care expenses account for more than 9% of its total gross domestic product, according to the Organization for Economic Cooperation and Development. France is struggling to bring its public deficit below the European Union's limit of 3% of gross domestic product by 2005. Despite the move, the Finance Ministry forecast last month that a reformed system would still run a deficit of between €7 billion and €15 billion in 2007.

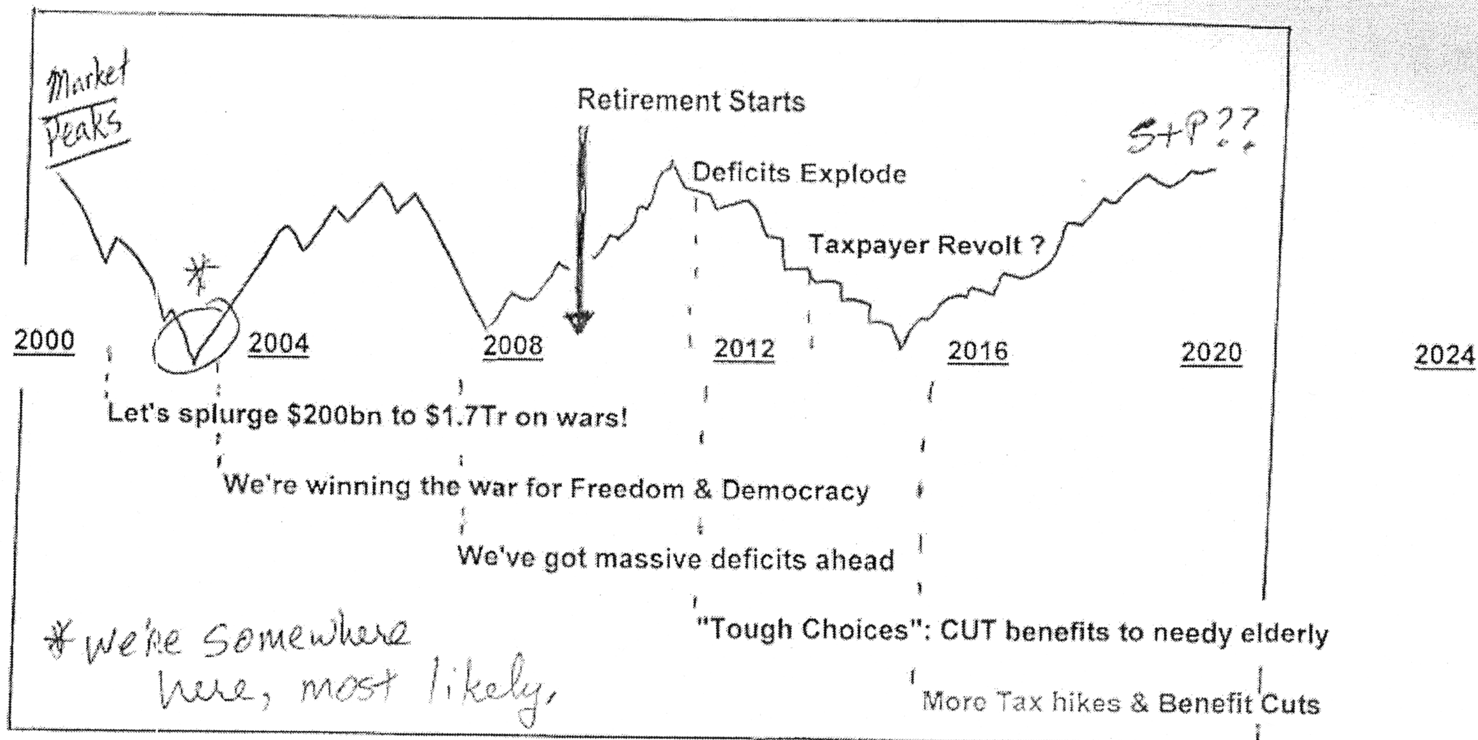
The Senate passed a final version of the bill Friday. Socialist lawmakers said they would appeal to the Constitutional Council, France's highest administrative body, in a bid to repeal the measure.

—Wall Street Journal News Roundup

BOOMER RETIREMENT: A GLOBAL PROBLEM

L35

BABY-BOOMER RETIREMENT:
THE SILENT "BLACK HOLE" of FINANCE



WILL MARKETS MOVE "SIDEWAYS", PULLED BY THE GRAVITY of ENTITLEMENT FINANCING DEMANDS OVER THE NEXT 20 YEARS??

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