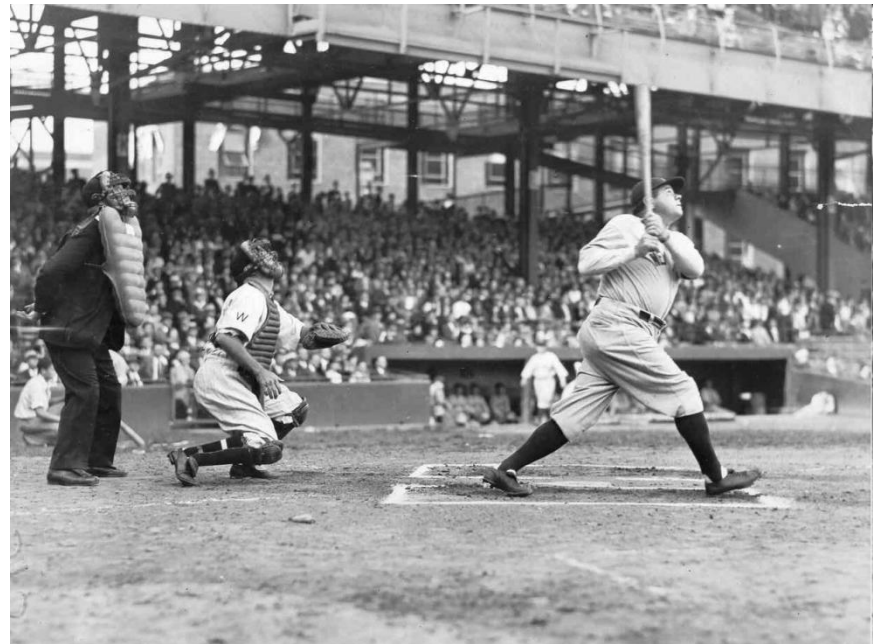


Avoiding the *Grand Slam*: The economic outlook and issues affecting benefits and cost control

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Session outline

The economic outlook

- Where we are
- How we got here
- Where we're going

Benefits – health care & retirement

- What the world looks like today
- What are some key trends, drivers?
- Other issues

Panel discussion

- An economist, a journalist and a physician...



Economic outlook

Economic outlook: key points

Brighter days ahead for many economies...

- US: +290,000 jobs (April '10) beats -528,000 jobs (April '09)
- ...but not everyone is recovering
- Europe's debt crisis deepens...

Multi-speed recovery

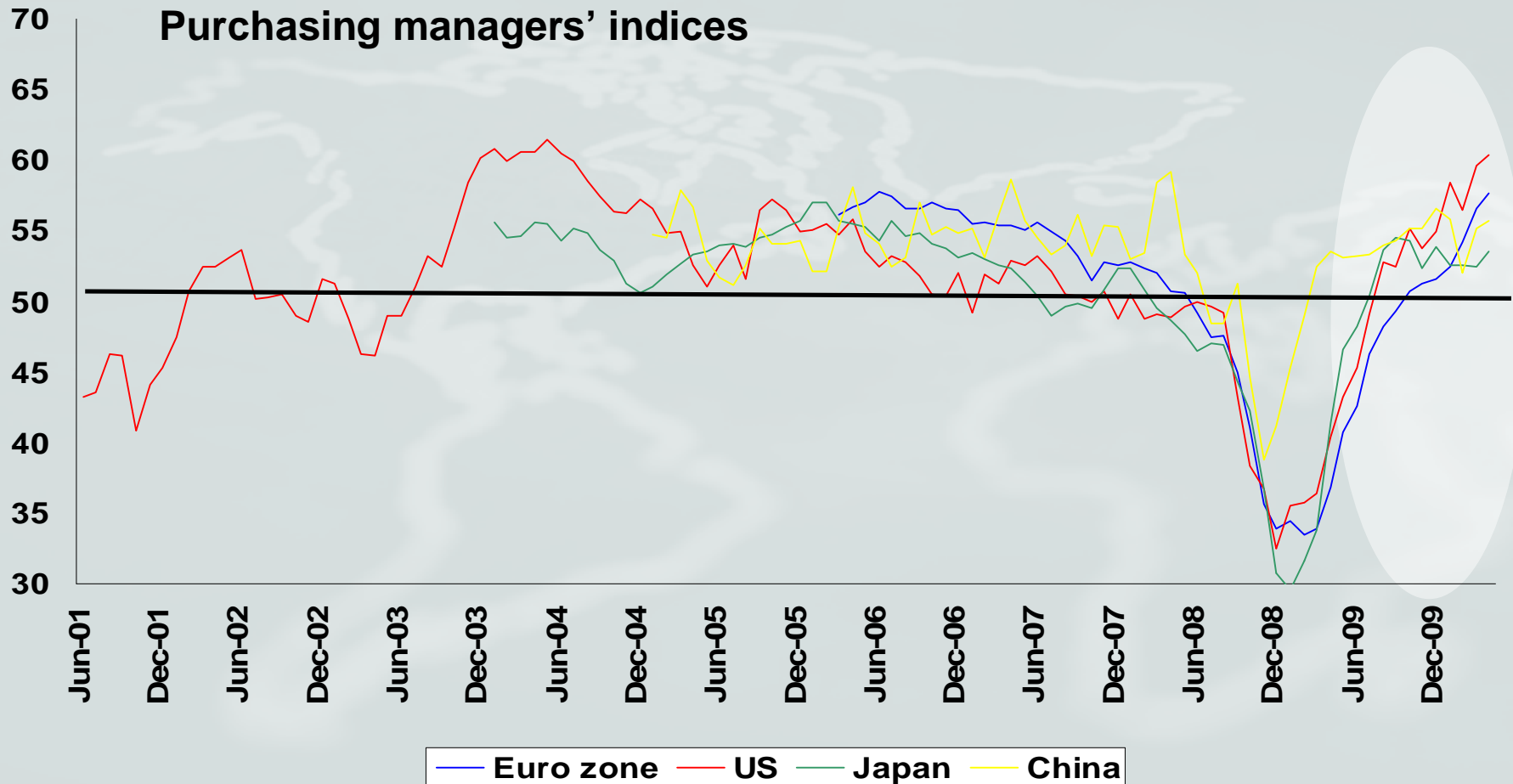
- Emerging markets will do better than rich nations
- The US will outperform Europe and Japan

Beware the bounce back

- Largely driven by government
- Public debt is alarming
- Consumers still stretched
- How long, how strong?

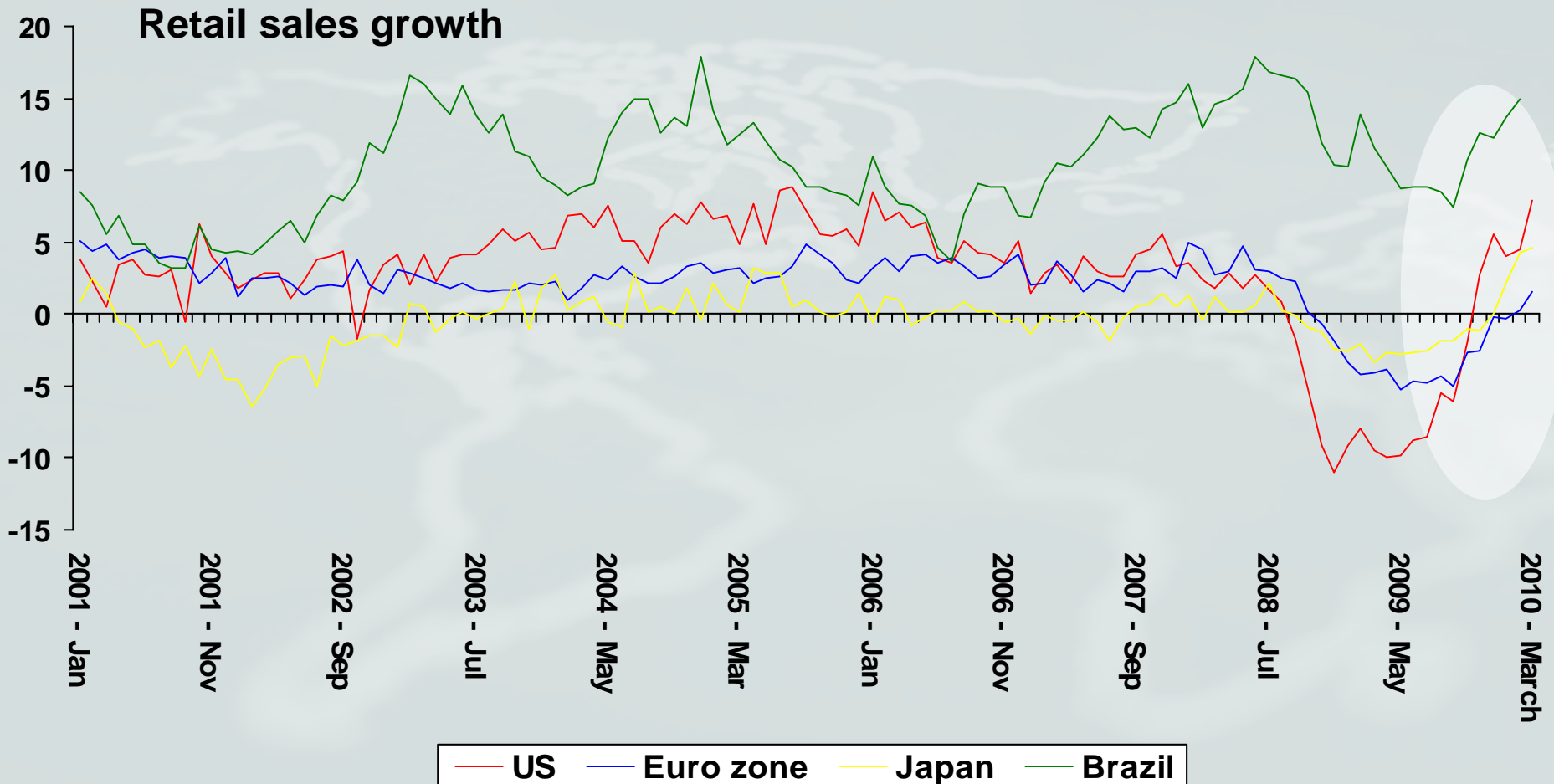


Growth is back, companies are buying...



Purchasing managers index. For US, ISM manufacturing index
50 indicates breakeven; a reading above 50 suggests expansion. Source: Bloomberg.

... and consumers are feeling better, too...



% change, year over year; seasonally adjusted, nominal terms

Source: Haver Analytics; national governments

Economist Intelligence Unit

The
Economist

...but it's largely because of government

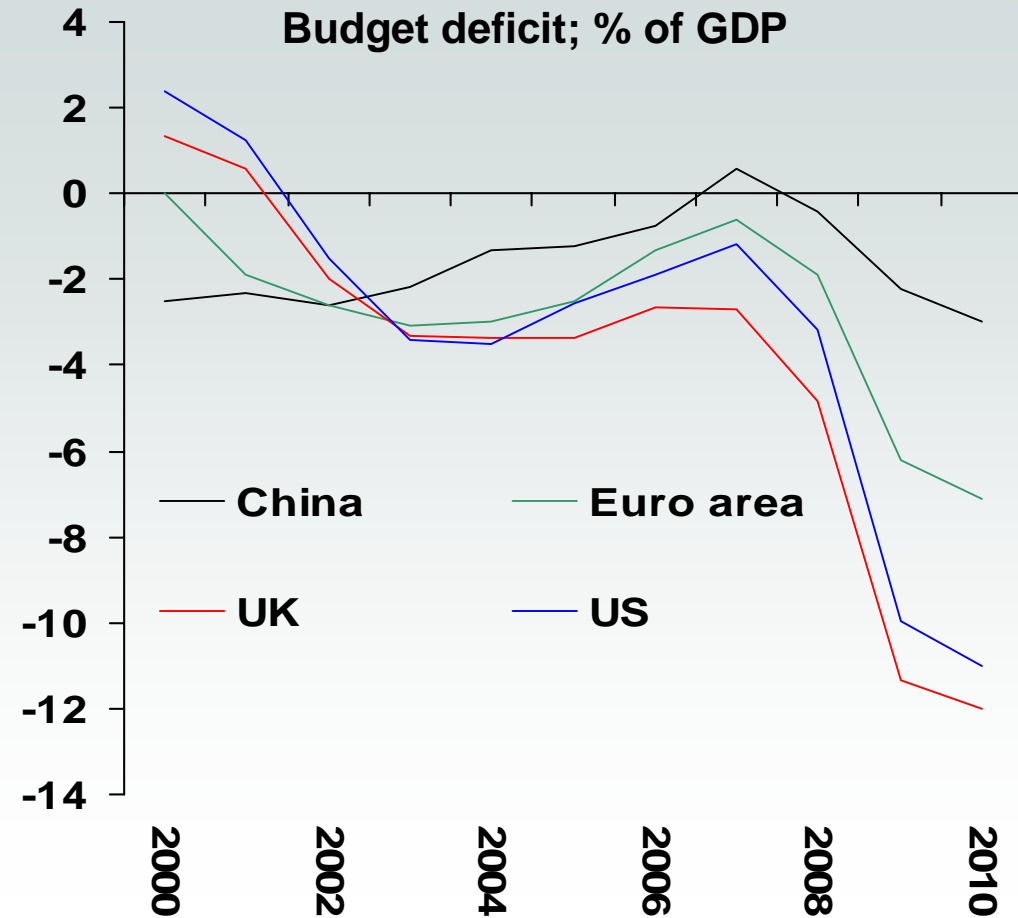
Budgets deeply in the red

- Worse in rich countries
- Governments subsidies, incentives, tax cuts, bailouts

Interest rates still low

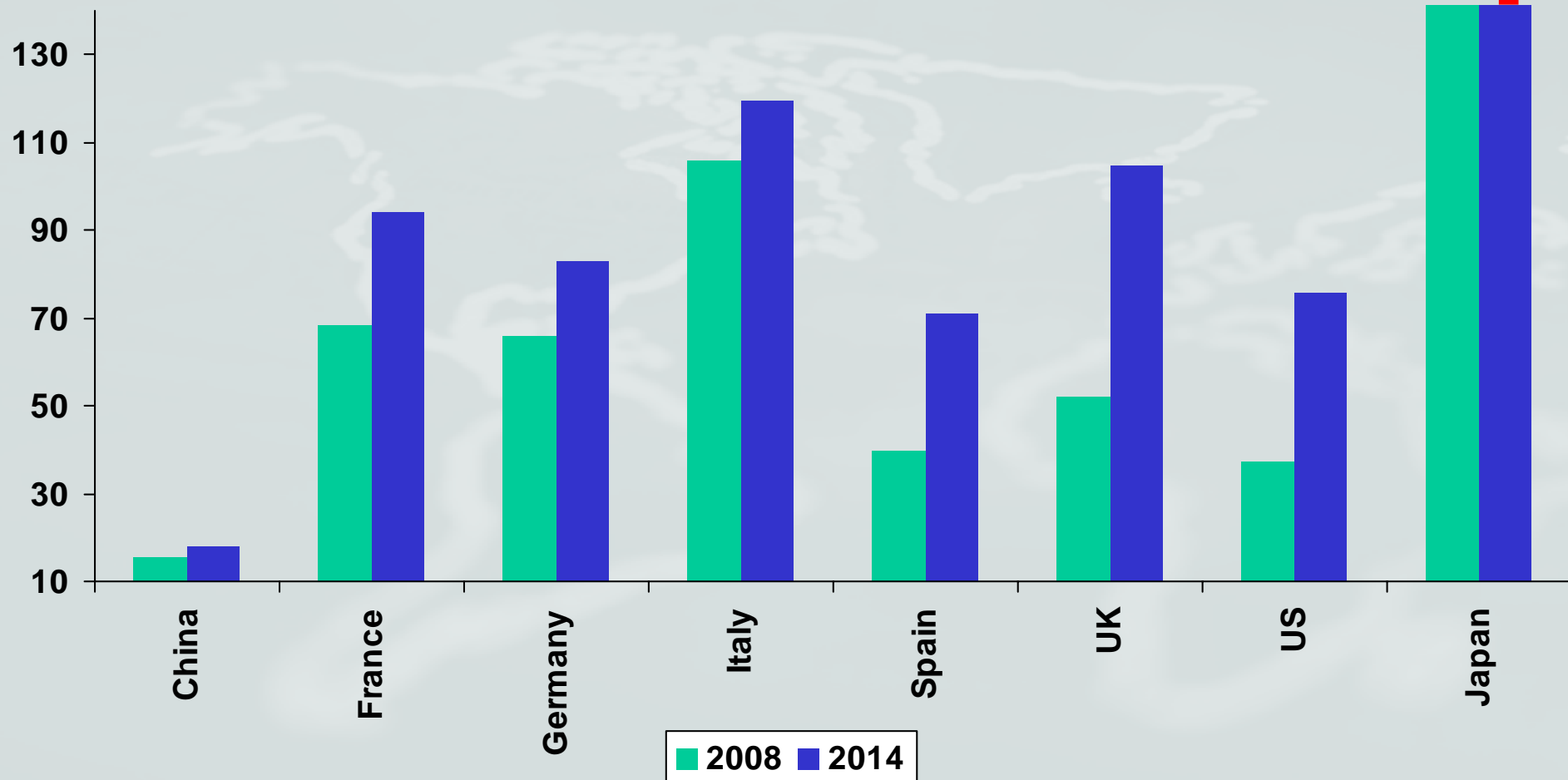
Inventories are being rebuilt

- Filling the shelves helps manufacturers
- Restocking is temporary



Source: Economist Intelligence Unit, *Country Data*

Budget busters: You play, you pay

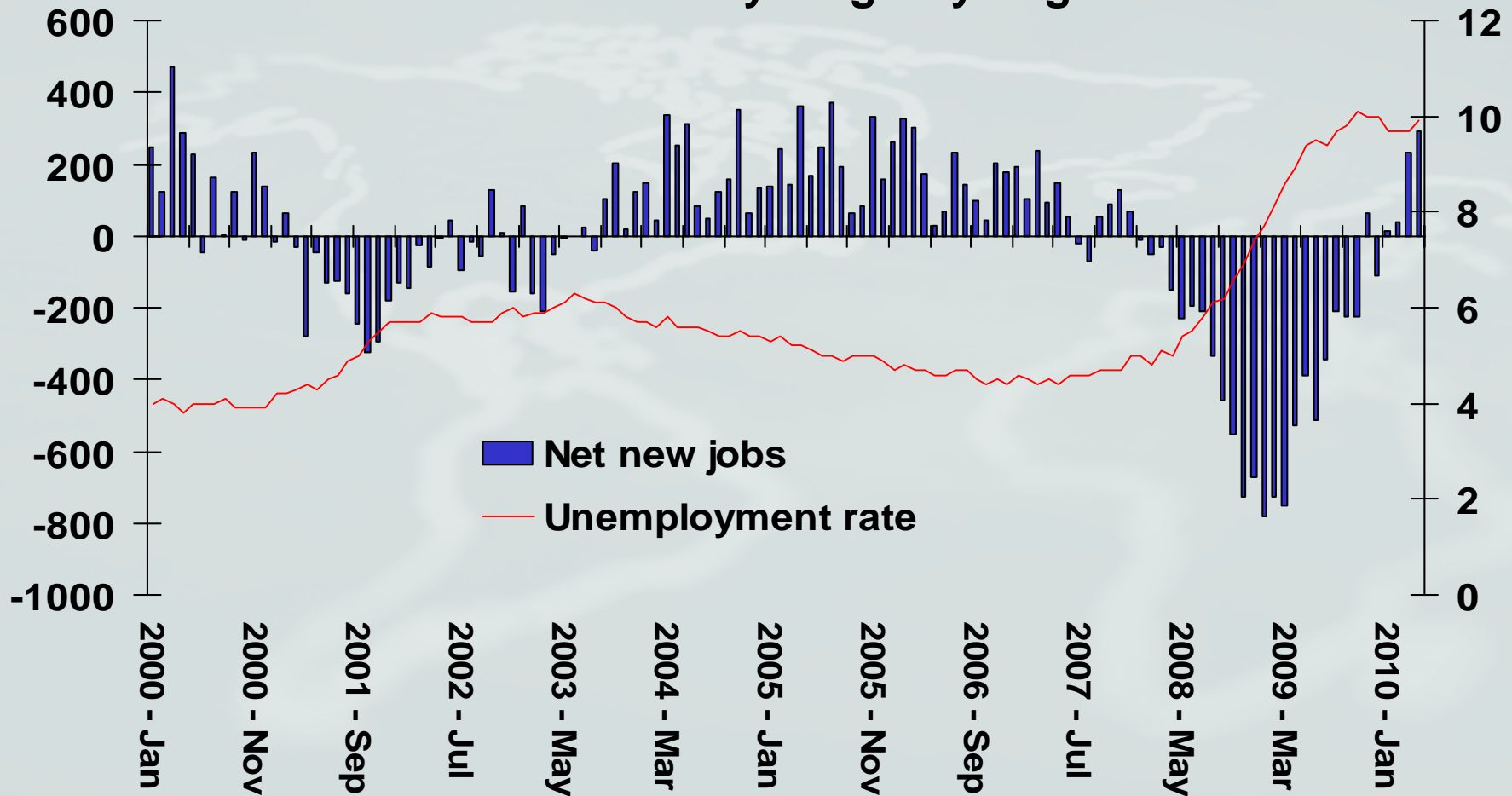


Gross public debt stock as a % of GDP. End-period.

Source: Economist Intelligence Unit, *CountryData*.

In the US, unemployment has begun easing...

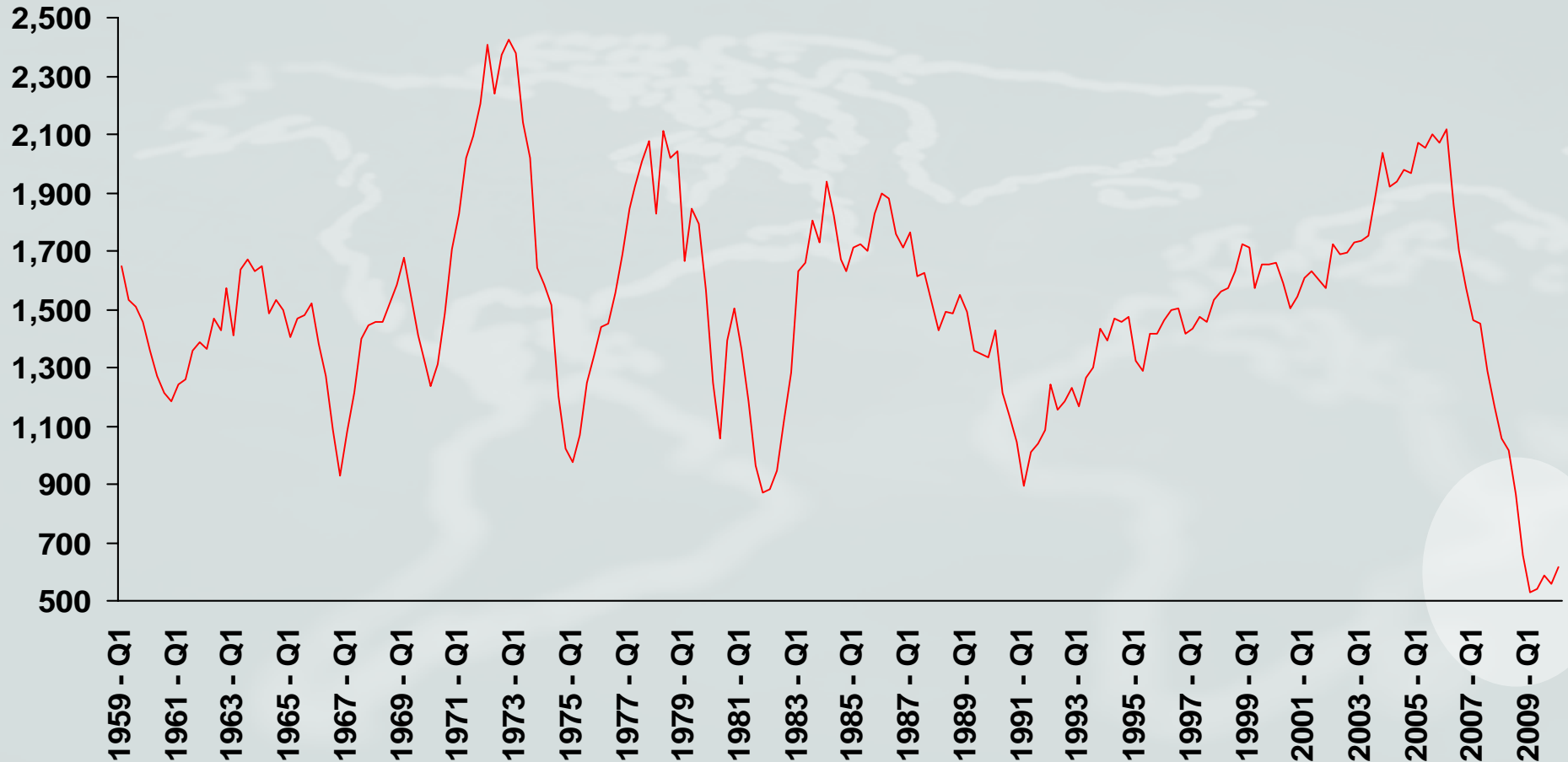
...but has a very long way to go



Jobs in '000s; unemployment, %

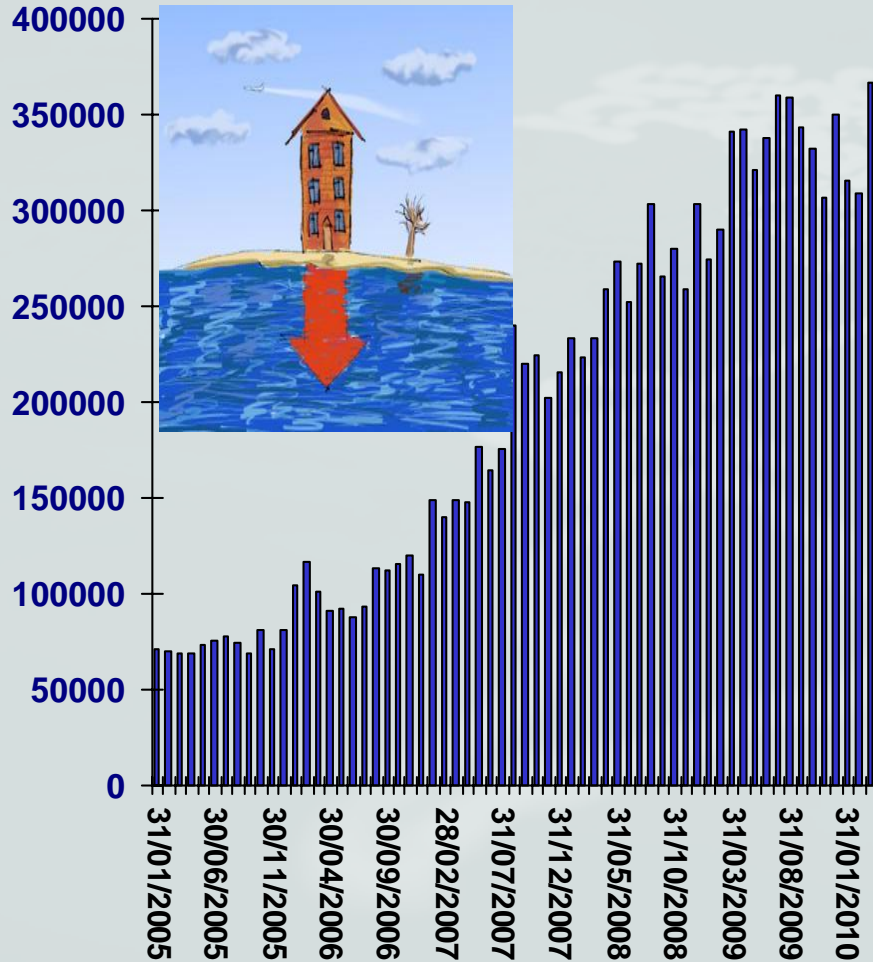
Source: Bureau of Labour Statistics

US housing is still very weak...



US housing starts, '000s, SAAR.
Source: Bureau of the Census

...and home foreclosures awful



Barely improved in past year

- April foreclosures: 334,000
- March foreclosures: 367,000—a record
- Pent-up listings will keep homes coming to market, restraining prices

At best, this looks like a plateau

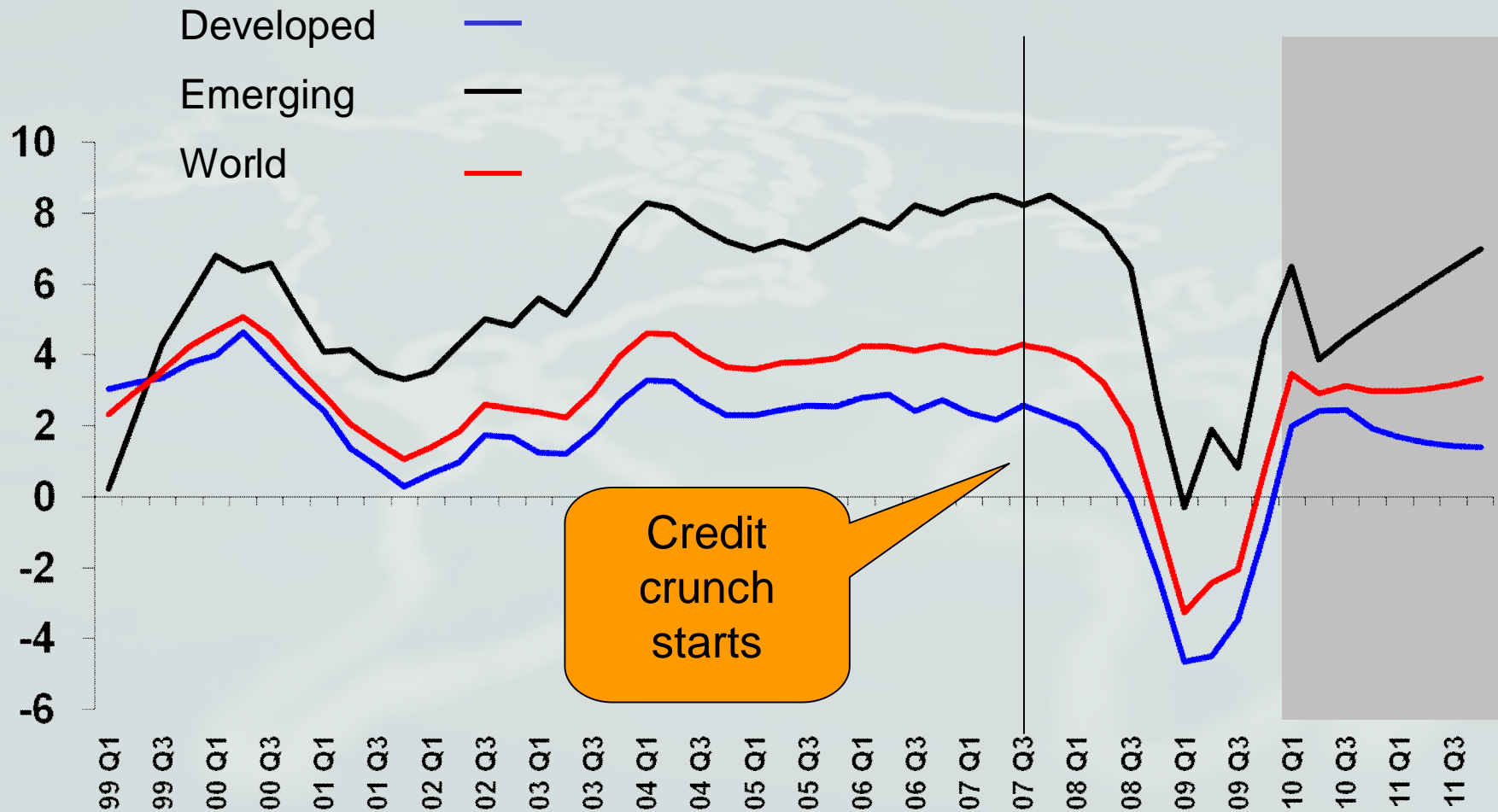
- New home sales are moribund
- Prices are largely stagnant

Nationally, 10+% of mortgages delinquent or foreclosed

Foreclosure rate: % change, year on year

Source: Realty Trac

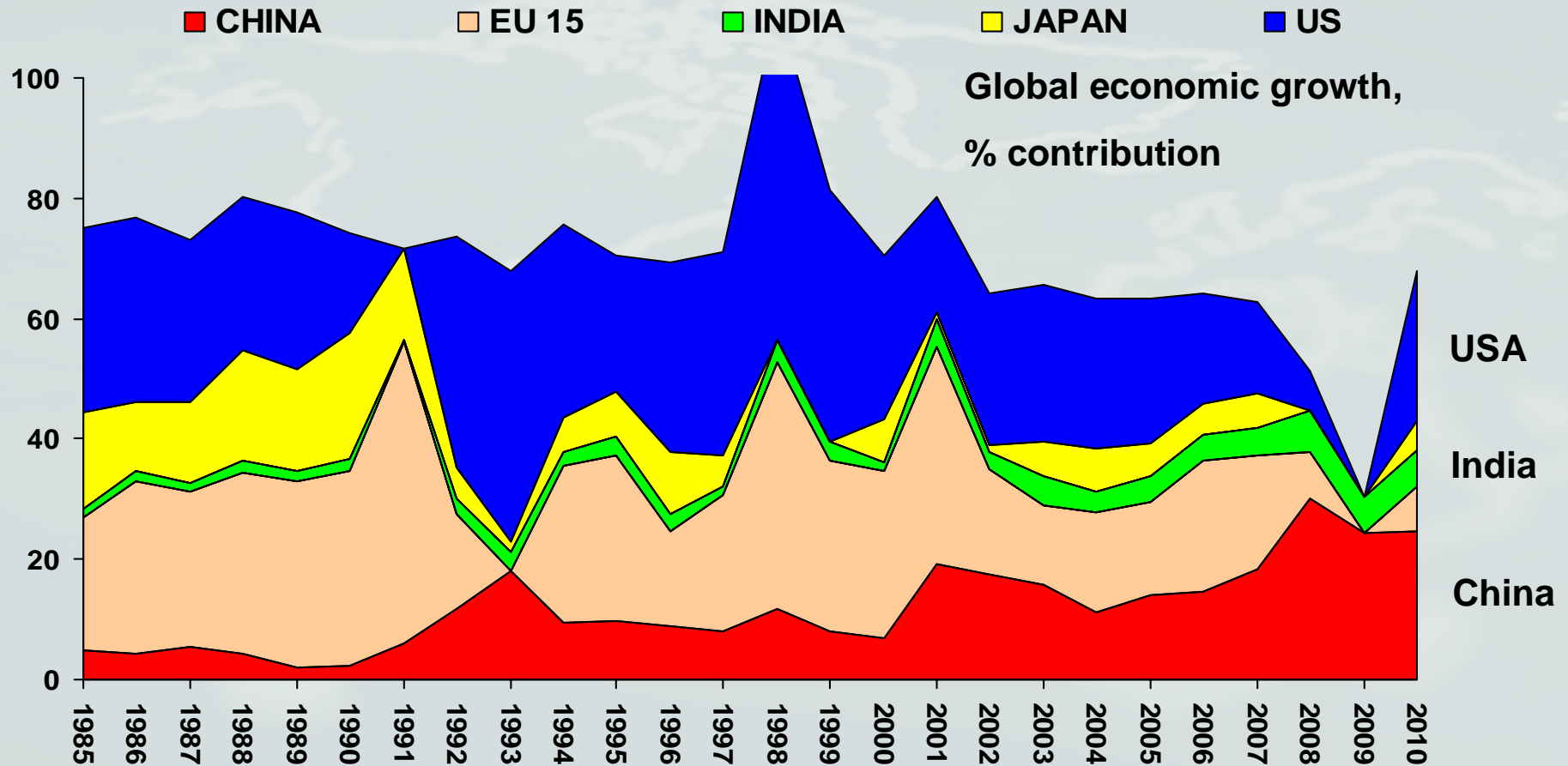
Global outlook: Upswing, but uneven



GDP growth, % year on year

Source: EIU estimates

China, India: Carrying more of the load



% contribution to real global GDP growth; 2005 US\$; countries that contracted in any year assigned zero growth

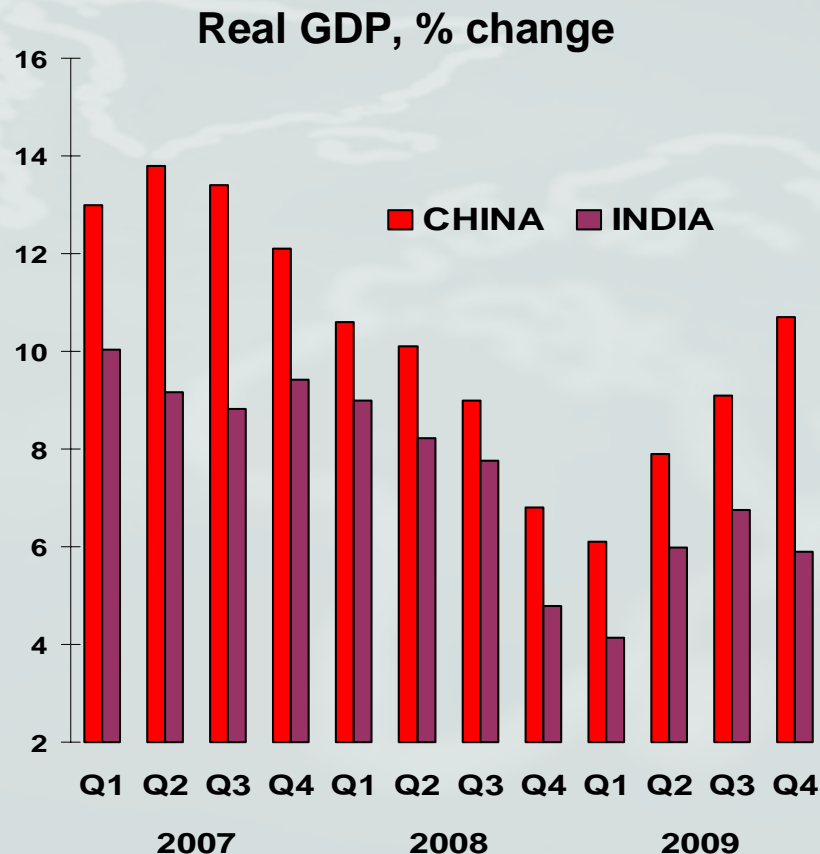
Source: Economist Intelligence Unit

China, India: Strong rebound...

... and growth far outpacing richer countries

A V-shaped recovery

- Investment, consumption rising
- China's exports, India's industry are booming
- But...
- Massive government stimulus
 - China's: Largest ever?
- Inventory rebuilding
- Risks ahead
 - Overheating, asset bubbles in China
 - Inflation, fiscal strains in India



% change, real GDP, year on year;

Source: National Bureau of Statistics, China; Central Statistical Organisation, India

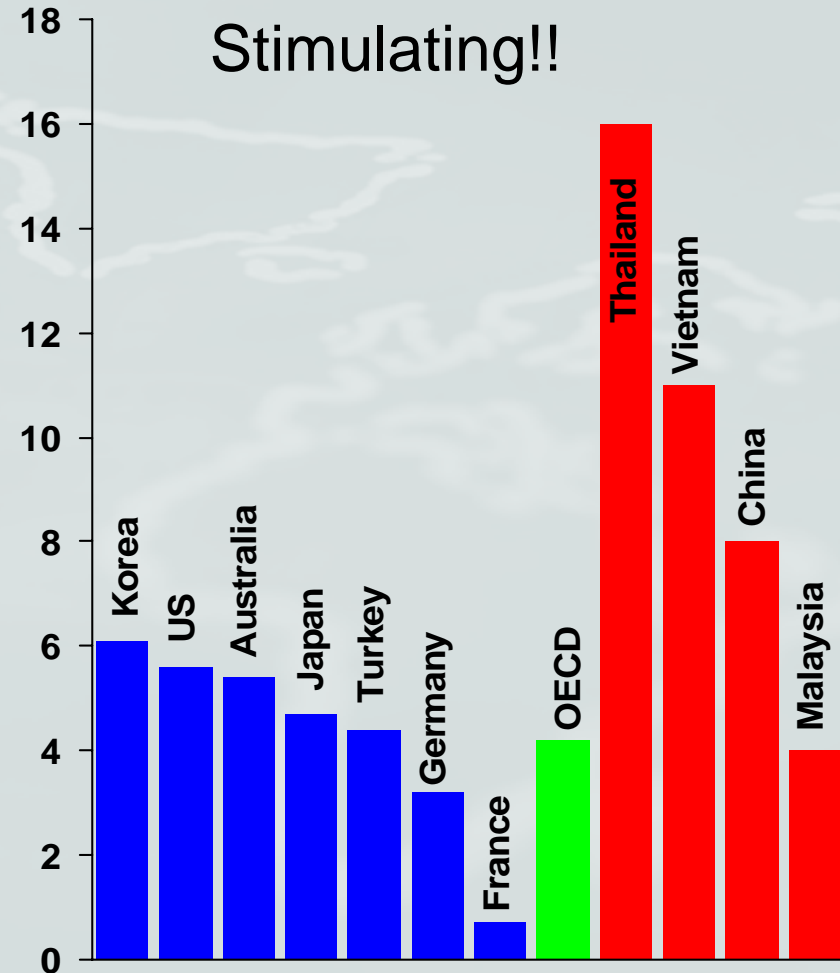
Asia: Hello, Tiger ...

Policy stimulus in Asia still strong

- Driving recovery—but is monetary policy too loose?
- Most Asians can afford the fiscal expansion
- It's important to look beyond the stimulus

Year of the TIGER!

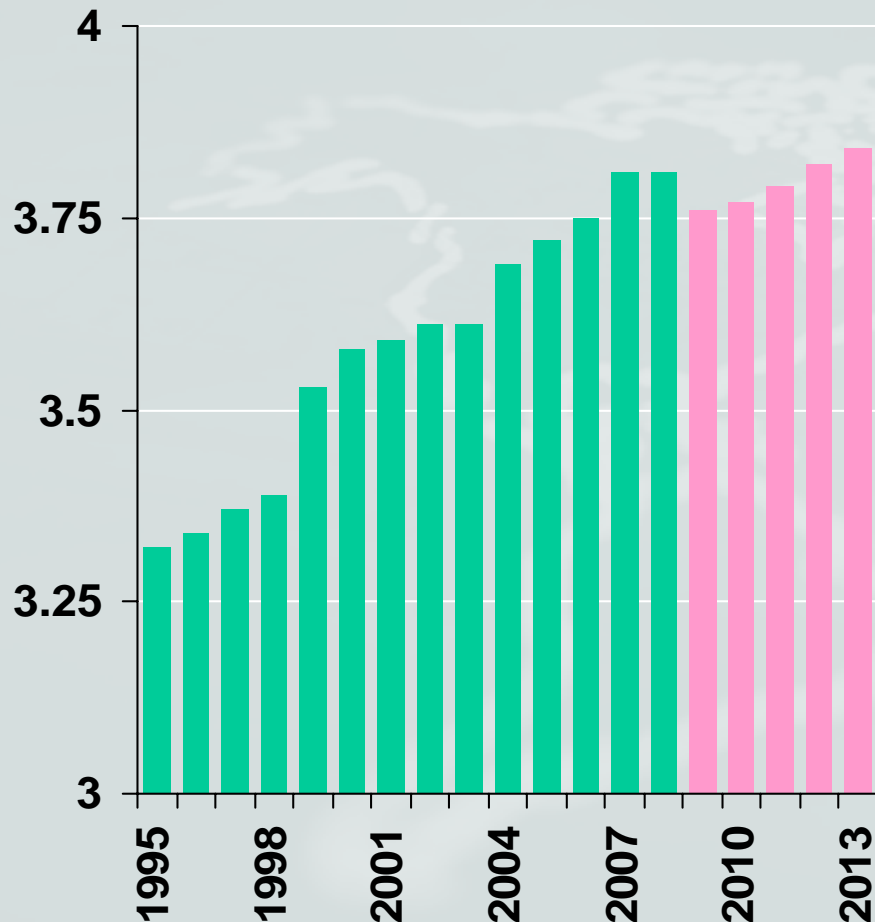
- Chinese demand is driving demand for other Asians' exports
- A sign of rising Chinese demand?
- Chinese tightening started, but to smooth pace of loan growth in 1H 2010 not to choke off lending



Fiscal stimulus, 2008-10. % of annual GDP

Sources: OECD; Economist Intelligence Unit.

Globalisation—a new phase

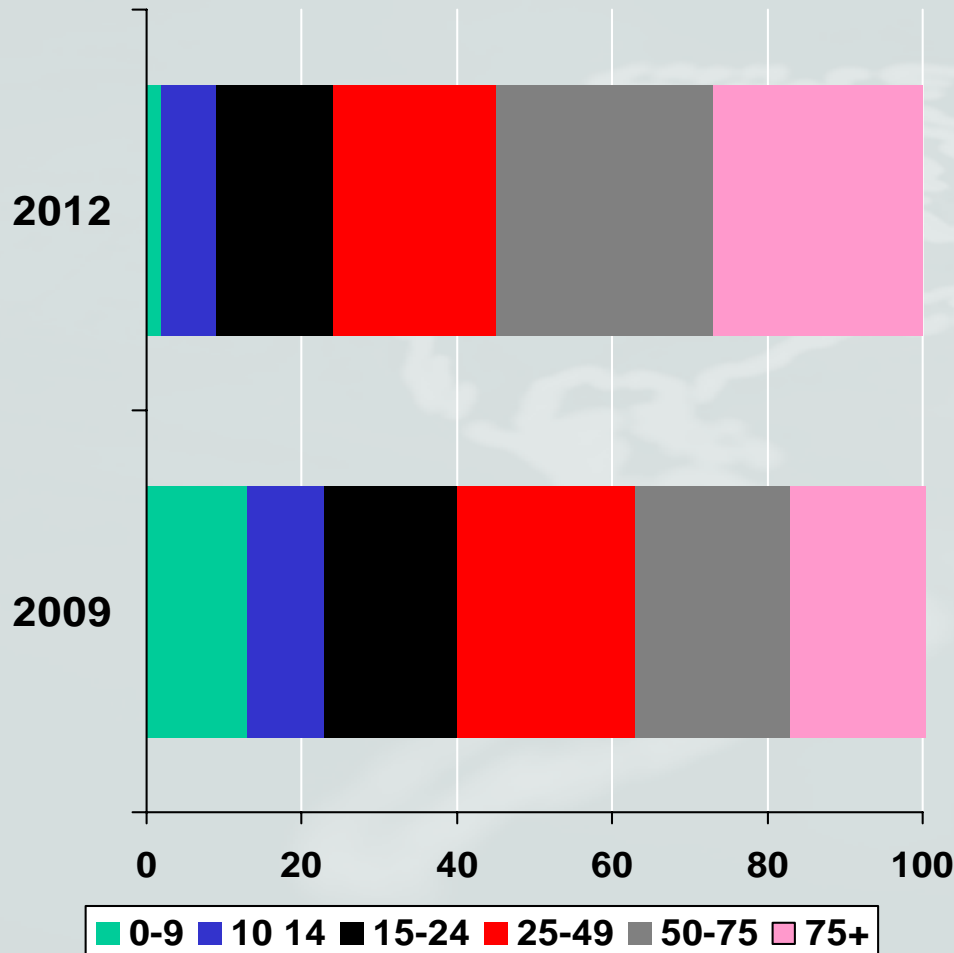


- “Absorption and agility”
- “Embracing manyness”—a world with no centre
- Treat emerging markets as you would your home market
- Flexibility is key
- Watch for the new competitive landscape—incumbents beware!
- Challenger companies/consumers are dissolving old barriers
- Technology continues to be a driver of globalisation

Globalisation Index.

Source: Economist Intelligence Unit.

Innovations in innovation



Expect an innovation surge

Look for EM innovation in:

- Products
- Processes
- Logistics
- Corporate structures

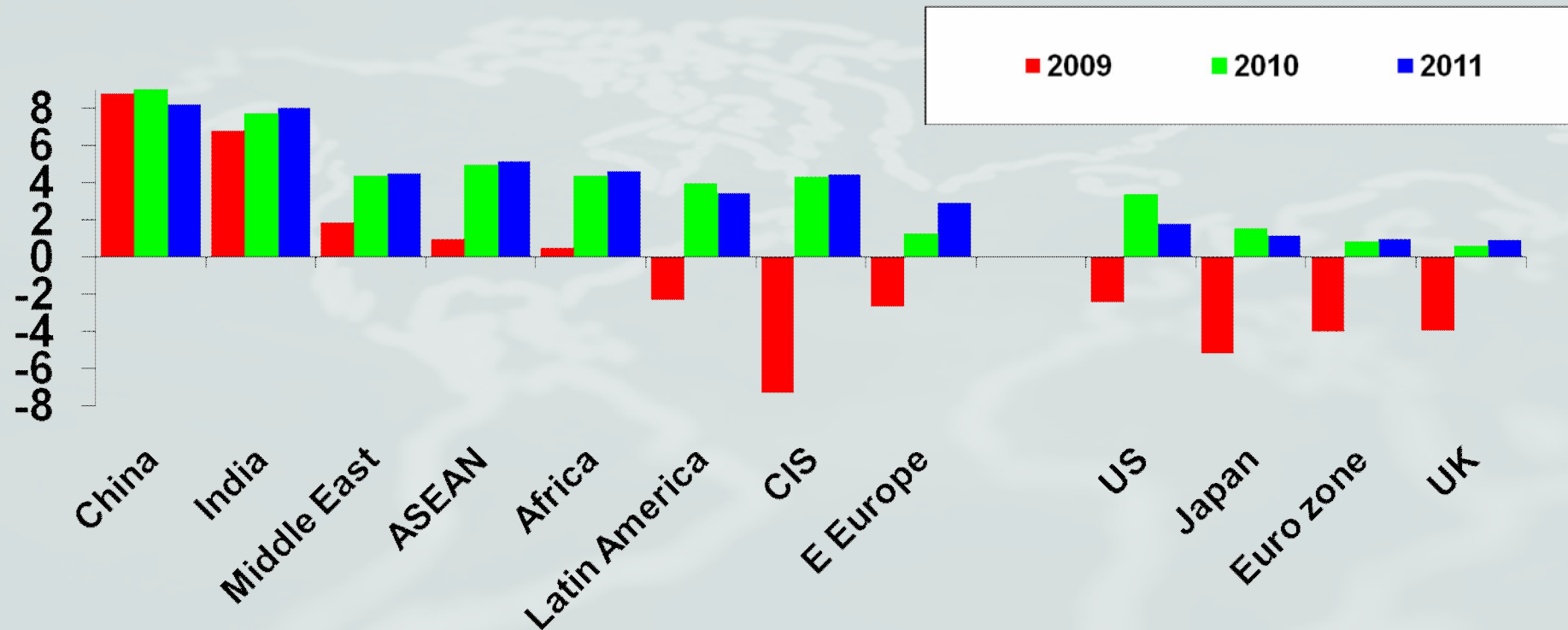
“Reverse innovation”

Flexibility in R+D—developing successful products in one country that can succeed in others is vital

What proportion of your company’s revenue is/will be derived from overseas operations?

Source: EIU Globalisation Index survey, 2009.

Where's the growth?

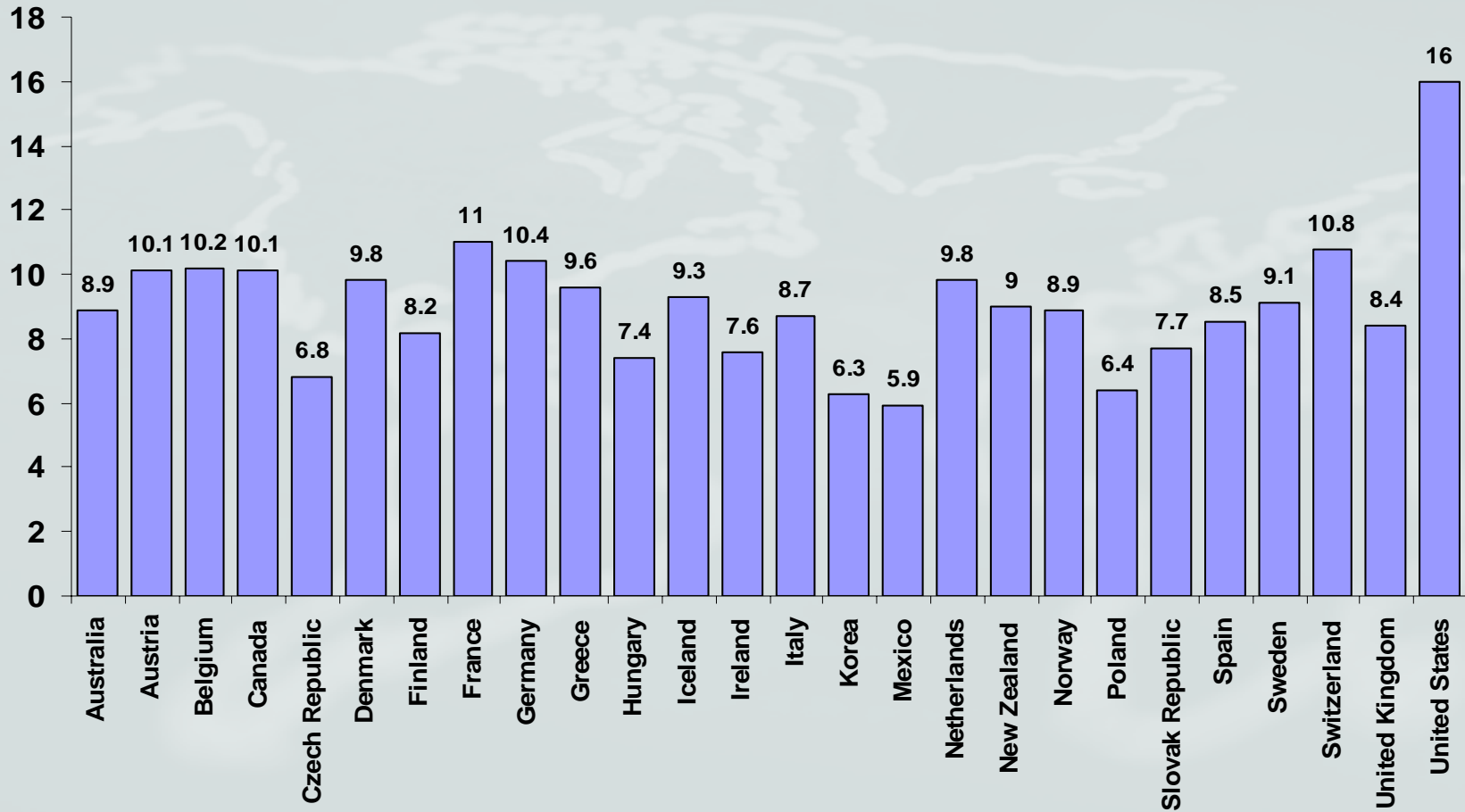


Real GDP growth; % change, year on year. ASEAN = Association of South East Asian Nations. CIS = Russia, Ukraine etc. As of April 2010.

Source: Economist Intelligence Unit, *CountryData*.

Benefits

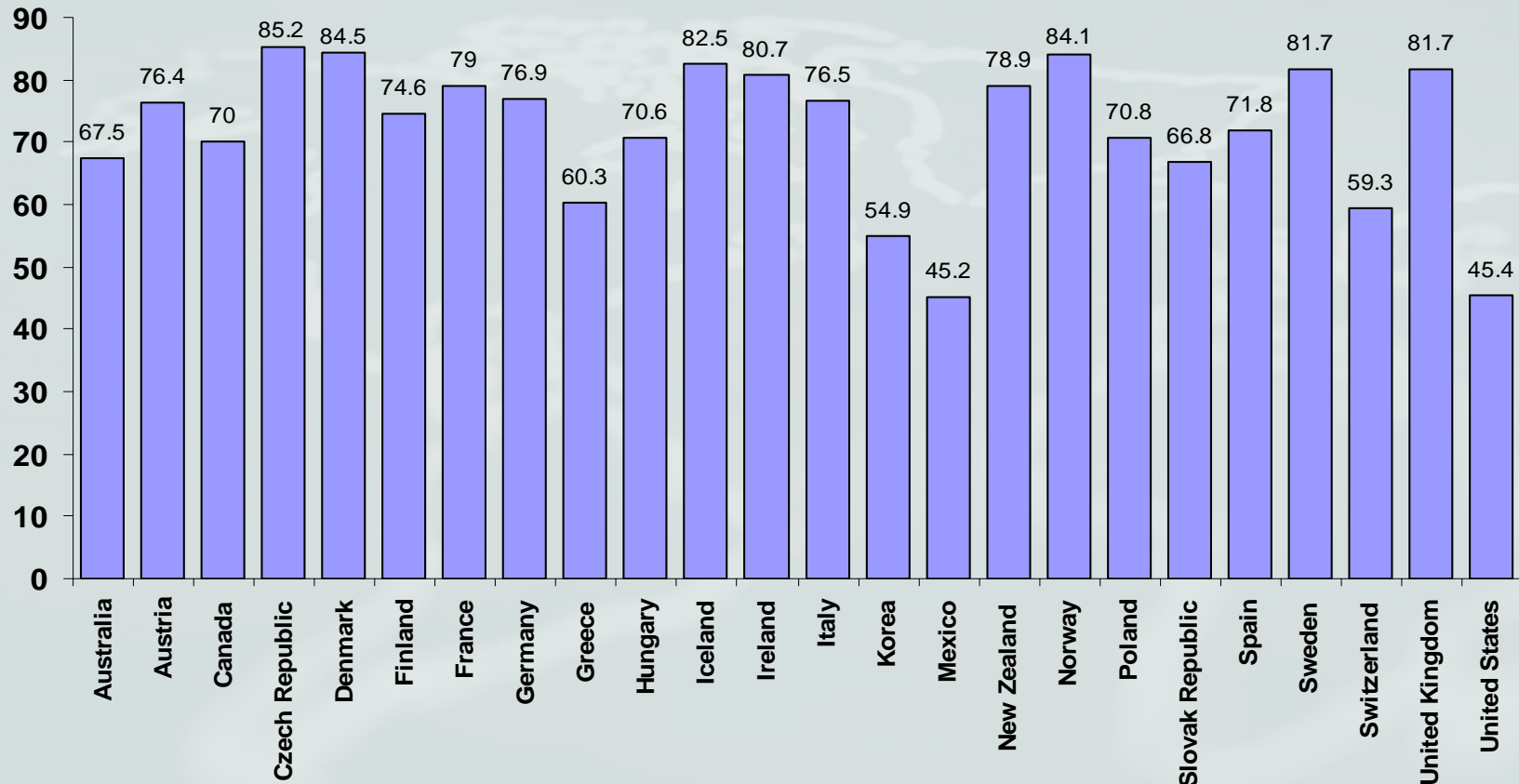
Health care: Not all are created equal



Total expenditure on health, % of GDP (2007).

Source: OECD.

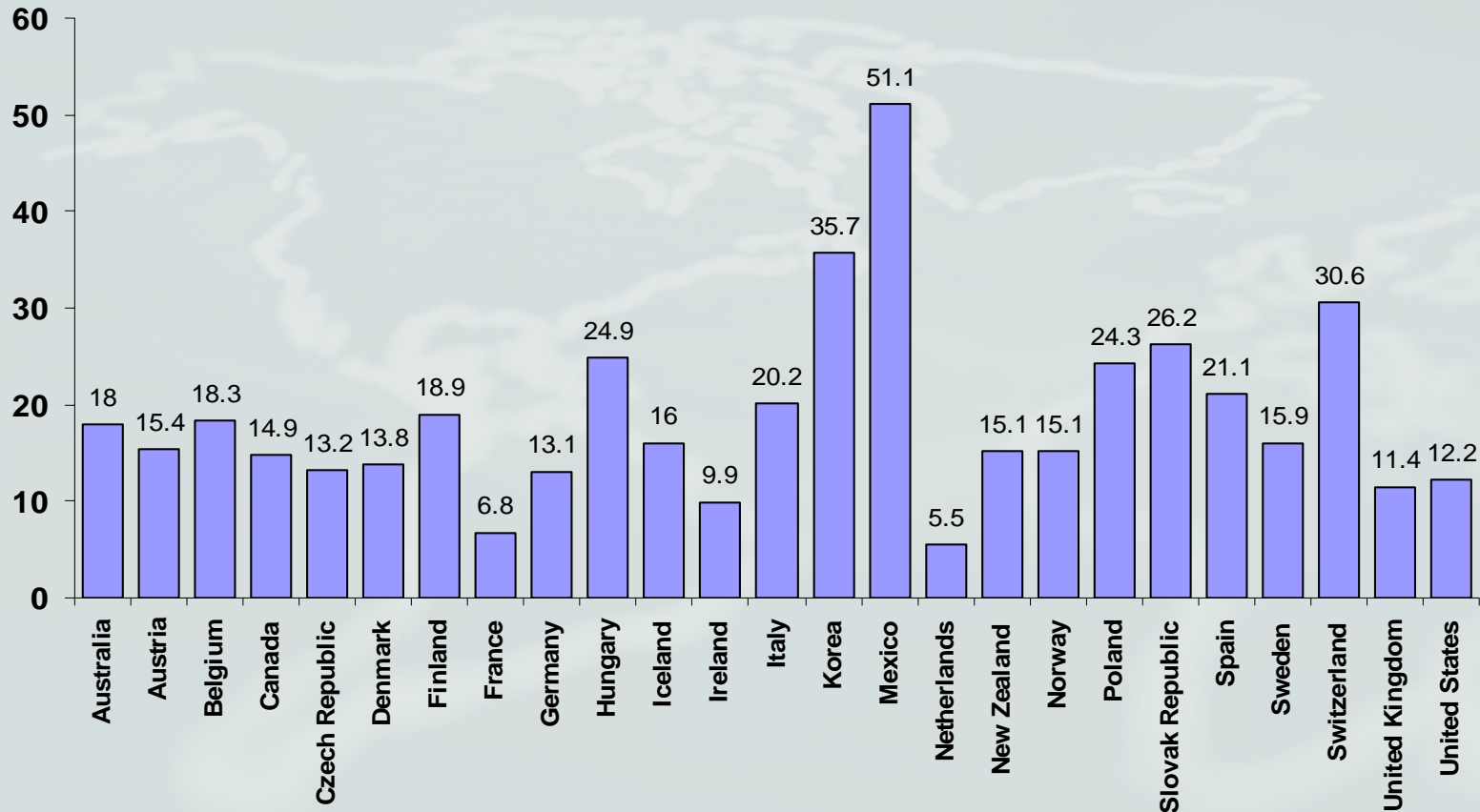
Health care: Who pays matters!



Public spend on health, % of total health spend (2007).

Source: OECD.

Health care: Who pays matters!!



Out-of-pocket spend on health, % of total health spend (2007).

Source: OECD.

Health care: Who pays matters!!!

Case study: cancer in the United States

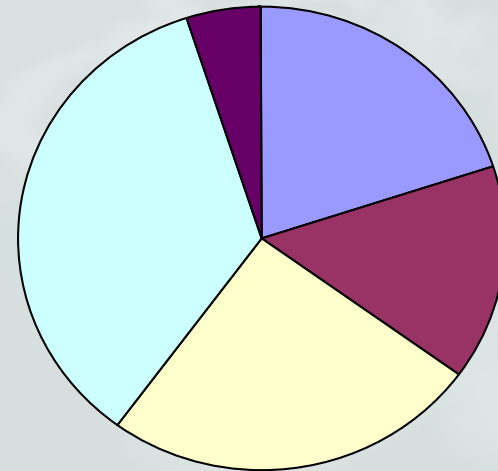
- \$24.7 billion in 1987 (2007 dollars)
- \$48.1 billion during 2001 to 2005 period
- (\$90 billion estimate in 2008)
- Cancer treatment costs double...
- ...but remain constant (~5%) as a share of all medical spending

Who *paid*

- Private payers: 42%
- Out-of-pocket: 17%

Who *pays*

- Private payers: 50%
- Private payer costs up 137%
- Out-of-pocket: 8%
- Out-of-pocket down 7%



Case Study: Cancer—US issues

Cancer is a stubborn disease to treat...

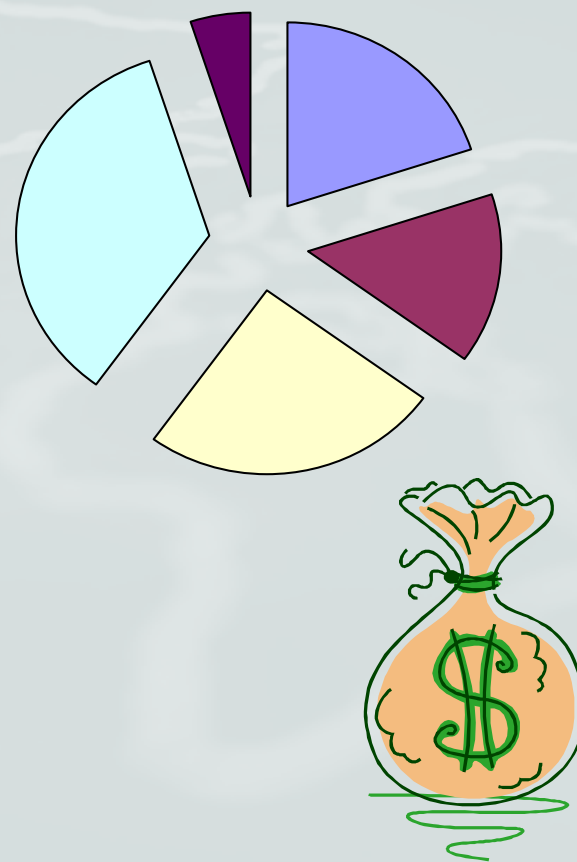
- Death rate fell 5% from 1950 to 2005

By comparison

- Heart disease down 64%
- Flu & pneumonia down 58%

And expensive...

- New prostate vaccine: \$93,000
 - 3 shots
 - Extends life by 4 months
- 20 drugs with sales > \$1 billion
- Largest category of drugs, by sales



Cancer: What is the problem?

Many cancers are avoidable...

- ...but we choose not to avoid them

Cancer is expensive

- New cancer cases cost \$286 bn in 2009
- Medical costs make up 53% of all costs
- End-of-life costs skyrocketing

Cancer is widespread and growing

- Already second leading cause of death worldwide
- Incidence rising in the developing world
- The *longer you live, the greater your risk...*

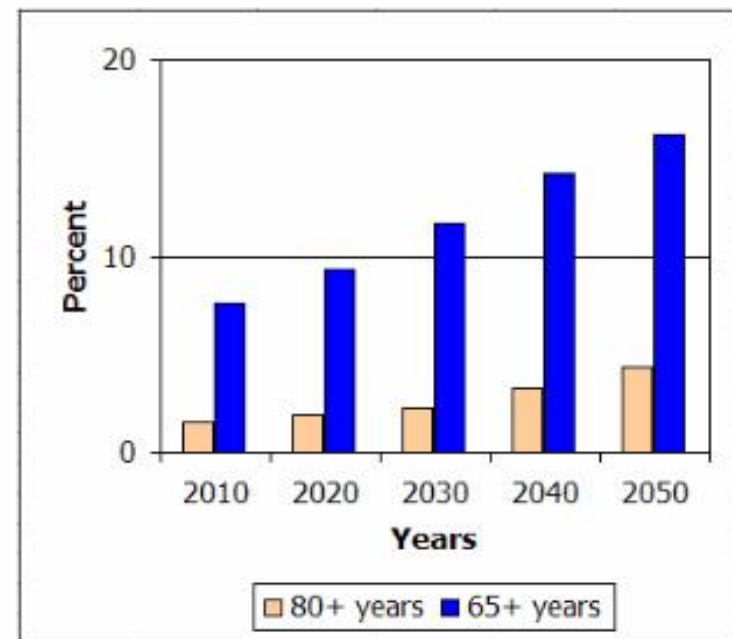


...And we're living longer



United Nations global demographic forecast

Year	65+ years	80+ years
2010	7.6%	1.5%
2020	9.3%	1.9%
2030	11.7%	2.3%
2040	14.2%	3.3%
2050	16.2%	4.3%



Source: [UN World Population Prospects](#)

...which matters for retirement...

How well you live is a function of:

- How well you are (i.e., health)
- How wealthy—what will you be able to afford

Who pays?

- In the US, 84% of public employees have defined-benefit (DB) retirement plans...
- ...compared with 21% of private sector workers

How will they pay?

- \$1 trillion gap for state employee retiree benefits
- \$34 bn gap for PBGC
- 24% funding deficit for DB pensions of public companies in the OECD
- 60% of OECD pension assets in DB and other guaranteed return plans



The future is now...

ABCD plans new American export—outdoor smoking ban...

XYZ said to consider dissolving pension fund for retirees...

...many possible reasons the US gets so little for its healthcare expenditures...

- ... **lack of insurance**...
- ... **high rates of elevated blood pressure, cholesterol and blood sugar**

Too fat to fight...



The future is???

“No pill or nutritional supplement has the power of near-daily moderate activity in lowering the number of sick days people take...”

“Exercise can be used like a vaccine to prevent disease and a medication to treat disease...”

“If there were a drug with the same benefits as exercise, it would instantly be the standard of care...”

