# Boomer times or bust?

*A huge market is there for the taking,* if *you understand it*

*Many, if not most, of you reading this are members of the much publicized Baby Boom generation (born from 1946 to 1964). How well do you know yourselves? One 53 year-old boomer, Dr. Ken Dychtwald, has made a career studying generational demographics, and the Baby Boom in particular. As president of Age Wave, San Francisco, the psychologist, gerontologist, and best-selling author of ten books including* Age Wave *and his latest* Age Power: How the 21st Century will be Ruled by the New Old, *he conducts research and consults with companies and governments regarding trends and issues emanating from the massive wave of boomers marching their way through life. He is a frequent speaker and has addressed numerous financial services groups including the ABA Annual Convention this past September and the International Monetary Conference in 2002.*

*Now that the median age of the boomer generation is 50, Dychtwald's observations about the changing nature of aging and especially about retirement are almost a blueprint with which financial services companies can put their strategies, training, messages, and products in sync with what he maintains is the historic shift in the nature of the "mature market."*

*In this article, based on two telephone interviews with Editor-in-Chief Bill Streeter, Dychtwald speaks particularly to bankers—sounding both a loud wake-up call and a strong note of encouragement to a still-trusted industry. In the first section, Dychtwald addresses three broad trends.*

## Increased Longevity

We are living in an era of increasing longevity. With every passing decade in the Twentieth Century the average life expectancy elevated two and a half years. And so we went from a life expectancy of 47 in 1900 to 76 by 1999. If that trend continues, it's not unreasonable to imagine that many of us will live to 90 or 95 or even 100-plus years.

The mistaken assumption on the part of the media and the general marketplace is that increasing longevity means that there will be more old people and they will be old longer. Instead, I believe that most people will elect to postpone old age and remain youthful longer. In truth, folks have begun to realize that 50 is not over the hill and that at 70 you can still reinvent yourself.

An extension of this is that the entire paradigm for the way people conduct their lives is going through a metamorphosis. In expectation of a relatively short life, people historically lived linear life plans: You learned once, you fell in love and got married once, you worked like a dog for 40 years, and, then, if you had a little bit of longevity, you had leisure for the remaining few years of your life.

Now that people are beginning to realize they have more time, they are saying, ‘Maybe I’ll go back to school at 30 or 50 or 70’; ‘Maybe I’ll take a break from what I have been doing and start up a new career.’ What is emerging is an entirely new model of life which I call a cyclic life in which it’s becoming more normal for people to reinvent themselves and try new things than it is to simply go up the mountain and, at about the age of 50, start the tedious descent down. My wife, Maddy Dychtwald, recently published a book on this subject, entitled *CYCLES.*

Most financial services companies are still marketing to people based on an obsolete linear model of life. Almost all retirement planning calculations assume people will reach 62 or 65 and permanently cease earning. In other words, they say: ‘This is what you will need in order to retire’—meaning that you won’t be working half time, you won’t start new careers, it’s the end of work. But that flies in the face of everything that’s happening.

I realize that not everybody at the age of 59 will divorce their spouse, quit their career, learn a new skill, or get remarried. It’s not as though everybody is now obligated to become Madonna and morph themselves every month. But the linear model as the template for life is gone.

The ultimate effect is a more ageless society, one in which 20 year-old students mix with 50 and 80 year-old students—and employees.

Because this cyclic paradigm is less predictable, age becomes less useful as a marker. One of the biggest errors in marketing to the mature population is the assumption that because you know an adult’s age, you know who they are. While most twelve-year-olds have an enormous amount in common, most 50-year-olds don’t. If you had five 50 year-old men, one of them might be a grandfather, another might be starting a new career, one might have just had another round of kids, while another maybe just had a heart attack, and still another might be training for a marathon. Or you might even have a sixth who is *all* of the above.

A lot of the reason that we’ve had a negative image of aging in our society is the fact that we associate aging with loss, with a shrinking of life’s horizon. But in this cyclic model, you can be 70 and learn to surf the internet, you might be 80 and write your first novel, you might be 60 and find the love of your life. It’s a landscape that’s more filled with opportunity than the previous model allowed—or encouraged.

**Most financial services companies are still marketing to people based on an obsolete linear model of life**

### The Boomers Begin to Age

For several centuries, the birth rate throughout the world had been declining. The number of children per family fell from 7 to 5 to 2. The all-time low occurred during the Depression and World War II. But then the boys came home and there was a great feeling of hope and prosperity. Part of the way Americans and other peoples responded was we had 76 million kids over the next 18 years. On average, that’s four million a year, 10,000 a day, one every eight seconds. And, thus, the ‘baby boom’ blasted its way onto the American scene.

Clever companies and entrepreneurs saw this demographic explosion as a great opportunity. As the boomers migrated from infancy to childhood to teenage years to their swinging singles, products from diapers to Band-Aids to Clearasil to Princess telephones to Mustang convertibles took off.

We also gradually recognized that there are some distinct differences between the boomers and previous generations. One is that we are very self-empowered and not inclined to want things the way our parents had them. If our parents’ thought that you should respect authority, we rebelled against authority, whether it was the priest, the doctor, the lawyer, or the President. We are an enormously inventive generation, which means that you can’t assume that what was good for the generation before will be perfectly aligned with the boomers.

So now the boomers are between the ages of 40 and 58. We are moving into our wealth accumulation years. The next major milestone used to be called retirement, but because of the shift from a linear life plan to a cyclic life plan you can’t quite find the traditional retirement marker anymore. Not only that, but in terms of finances, this generation differs greatly from its parents who grew up in the shadow of the Depression, and were always relatively frugal. They learned to put aside 10 or 15% of what they earned for a rainy day. And most of them didn’t spend what they didn’t have—that was part of their morality.

In contrast, the boomers grew up in a period of prosperity and middle-class affluence, with easy access to credit. For us there were no thoughts about rainy days, as we came to live for today. But in truth, we are less nervous about our financial futures than we have a right to be. And we are more financially cavalier than we ought to be. To make matters even worse, our demographic heft will cause us to get shortchanged.

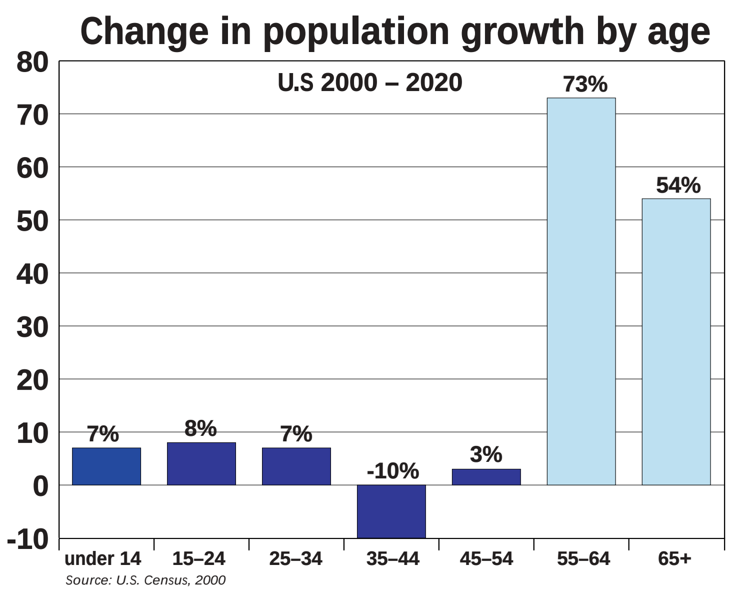
This is just a demographic reality. Today’s elders are part of a small generation that gave birth to a large generation who are earning a lot and paying a lot of taxes. The boomer generation, on the other hand, is huge and gave birth to, relatively speaking, a generation half as large. And so when it's our turn to take versus give, there won't be as much to go around.

So here we are entering into a stage of life where without any doubt many of us are financially unprepared.

The median retirement savings of the boomer generation right now is not $1,000,000 or even $250,000—it's $40,000. And a *third* of the boomers, 25 million people, have less than $1,000 in total net assets. It is astounding. You can look at a dozen different studies and the portrait is not good. The truth of it is, as much as I have great pride in our generation, when it comes to financial matters we are nearly all knuckleheads. We really are. And please understand, I include myself in this definition as I'm more of financial knucklehead than I ought to be.

So it's pretty obvious that this is a generation that really needs help and guidance in preparation for our increasingly long lives. This is made all the more important by the fact that our relationship to our employers and to our government has changed so that increasingly our future well-being will be our own responsibility. A generation ago you had an employer for life; benefits and compensation were structured to keep you with that company for life. If you were in the military, you had GI benefits for life. But during the last decade, a switch has taken place where employers no longer take as much responsibility for benefits, nor can you be certain the government will be able to fund your future.

It's true that the boomers will be the beneficiaries of one of the greatest wealth transfers of all time when their parents die. But it won't be an even distribution. A segment of boomers—from 10-15%—will receive an extraordinary windfall. The rest will not get that much, although there will be something.




If we do nothing different from what we're doing now—given the shrinkage of pensions and the shortfalls in Medicare and Social Security—we're heading for the biggest economic train wreck since the Depression.

As an optimist, however, I can see a rosier scenario, in which people hear the wake-up call, put the brakes on their spending, and move in the direction of building the nest egg that they should have started earlier. There's still time for this to happen. But remember, it flies in the face of our national politics of encouraging unrestrained consumer spending. The result, to use farmers' parlance, is that people for some time have been 'eating their seed corn.' They're bankrupting their future. I even know people who are earning $200,000 or $400,000 a year, who, if you stripped away all their credit cards and said, how much do you have left to live on? They'd have nothing. These seemingly affluent people are basically broke.

Another possible solution has appeared as we move away from traditional retirement. Instead of reaching their 65th birthday and having to live for 20 to 40 years on their savings, in the years ahead most people upon reaching their sixties and seventies will continue to earn a salary, maybe from part-time work, maybe in a completely different kind of work. That income could definitely relieve the pressure for many people.

## Financial Services Gone Wacko

My last point of context is that on top of what I have just described, you've got a financial services industry that is about as close to insane as anything I've ever seen.

First of all you have an industry that's largely a selling industry, rather than an educating or problem-solving industry. It's like a third-world bazaar: Somebody's selling life insurance that supposedly solves all your problems. Someone else says mutual funds are the best answer. Someone else has annuities or CDs or convertible bonds.

When mutual funds arrived on the scene a few decades ago they were meant to simplify things. Now, what are there, 12,000+ funds? That's one of the contributors to the insanity, many of the choices are impossible for the average person to understand. And there is no place to go for a fair witness—there is no food pyramid for financial planning.

When you go to a broker or your local agent or your accountant or your local banker, you get one man or one woman's opinion. And, unfortunately, you may also get the feeling that you're dealing with a used car dealer; they're impatient, trying to turn you fast so they can move on to their next sale. And their compensation and commission structure may not be at all oriented toward your best interest.

To make matters even worse, in the last

several years some individuals and companies in financial services have behaved shamefully, and that triggers everyone's distrust of the industry overall.

I'm not referring to any one event, but to a combination of things—being sold tech stocks when the technology industry was about to bust; being sold more life insurance than you really need; being told such and such when you know this answer will generate the biggest commission for the "advisor"; seeing major financial institutions carve unsavory deals.

Granted, some of our own generation were responsible for these excesses, but the average individual forms gross impressions about the financial services industry. There begins to be this sort of holistic impression of decay, dishonesty, and greed that has diminished our ability to trust—ironically, at the very moment when we truly need help.

I am not saying that the *people* who work in financial services are insane. I actually think that they are some of the finest, hardest working people I've encountered. But when you add up all the different slices of financial services that are increasingly multi-functional, it's easy to get frustrated.

Not only that, but the language in the industry is not consumer-friendly. The language to describe pensions, for example, is utterly confusing. And what the heck is a 529? Why didn't they name it the 'Help your children go to college fund'? Instead, consumers have to wander through this Alice in Wonderland forest of characters selling various solutions that they either can't understand or that may not have any relevance to their life.

And yet, we're at a moment in time where there has never before been a greater opportunity to make money by providing financial solutions to a massive generation in need.

If I were visiting from another planet and someone laid out this picture, I would say, 'What an opportunity for the local banker.'

• • •

*In the following section, Ken Dychtwald responds to some specific questions relating to banks' role in the broad trends he just described.*

**Is the trusted advisor role that you're describing something that can be a profitable venture for most banks?**

If you simply define the function as providing financial planning and counsel, that unto itself is not a viable commercial function. You could charge $100 or $200 an hour, but if the folks across the street, whether it's the community college or another institution, are providing it for free it would be hard to compete on an hourly basis. Although I am inclined to have respect for people who do financial planning on a for-fee basis because I realize they are not trying to sell me anything, I see the role more as a matter of outreach and education, which can increasingly be done on a group basis. Many doctors, for example, now conduct monthly or weekly workshops. Instead of sitting down and talking to 17 different people with diabetes an hour at a time, they invite them Tuesday night for a diabetes awareness evening.

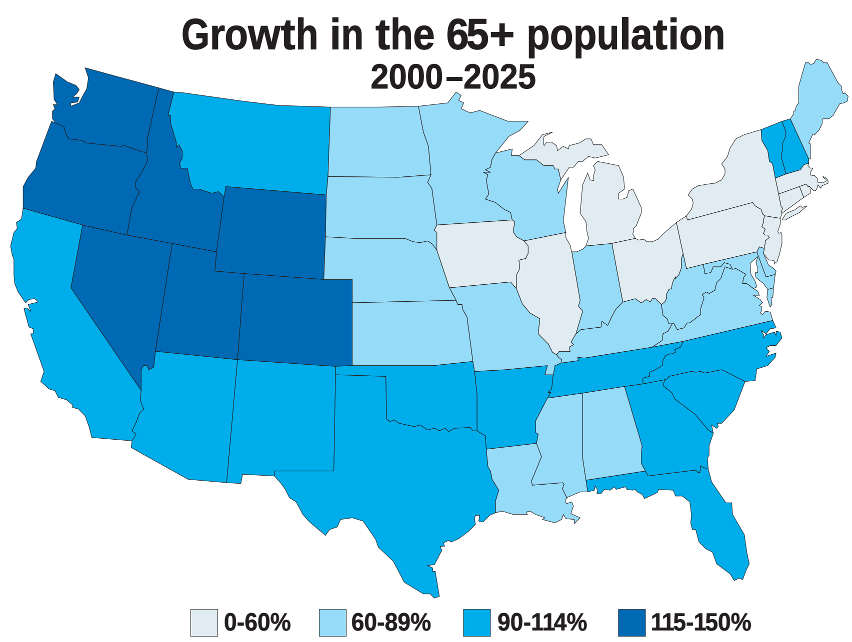
Is this sort of thing going to make a bank rich? I don't think so. But is it the vehicle by which you can form a relationship and then be the provider of the solutions? Absolutely.

By the way, this is one of the reasons why people tend to like their local pharmacists better than they like doctors. They see the pharmacists all the time. They can ask them questions without being billed. It's a comparable advantage that the local bank has. There's a solid basis for a personalized and ongoing relationship that can be readily built out.

**What will it take to win over the business of skeptical boomers?**

Part of the way the boomers hedge their uncertainty is by diversifying. If I'm not sure I'm in the right job, I change jobs. If I'm not sure I like this TV show, I run up and down the channels until I find what I want. Similarly, if I'm not sure that my financial advisor is competent or attuned to my needs, I'll use several of them. Which is exactly what the financial services industry is trying to reverse. It wants people to consolidate. But if there is an absence of trust and confidence, the way this generation will hedge that is by diversifying their relationships.

So you've got a little bit of a conflict there. On the one hand people want to simplify, and on the other hand they're not ready to turn it all over to one player. Banks have to earn their way to higher



and higher consolidation from this generation, and it's not going to be done by just telling them, 'Don't worry. I'll handle it for you.' It's more to be done through an ongoing process of education, guidance, empowerment, and problem-solving.

With regard to your question, I see three areas of excellence required to succeed in banking with the boomer generation:

• The ability to understand and communicate honestly and reasonably about financial products and financial solutions;

• The ability to provide excellent customer service;

• A substantial knowledge of adulthood and maturity and the events and circumstances that are likely to occur in people's lives so that you can help people put the solutions in place before they occur.

In my opinion, that last point may be the missing link in financial services for this new era. During the last decade we may have fallen too far in love with technology and have lost sight of the importance of being relevant and helpful to people's lives. Some bankers and financial advisors are pretty darn good at being able to describe why your portfolio ought to have specific elements in it. And some are also really good at customer relations. But most of them haven't the foggiest idea what happens in maturity and adulthood and therefore their financial guidance might be flawed, hollow, or wrong.

My company recently conducted a survey of 1,000 people 55 and older. We asked, 'What are you looking for in a financial advisor?' The older generation's most frequent answer was, 'Works for a company that I trust.' But the 55 year-old boomers' number one response was, 'Helps me visualize my future.' Members of this new generation of wealth accumulators aren't oriented toward money in and of itself. Instead they want help figuring out where they might be heading, what the lifestyle choices are and what financial tools and solutions will be required to get them there.

Most financial services employees don't ask people about their lives or their dreams—questions such as, 'Are your parents alive? Are they healthy? Will you have to support them if they need eldercare? Have you thought about whether you want to retire? Would you like to join the Peace Corps when your kids leave the nest? Would you consider relocating to a region of the country where you could get by on a lot less money?'

The whole idea is to help people create a plan, a vision for their future—almost like a general contractor.

**What you're talking about sounds like private banking. The average customer may need the same conversation but in reality can banks with thousands of customers afford to provide that kind of one-on-one service?**

Maybe not private banking, but certainly personalized banking. And, it doesn't need to be one to one with a highly compensated person. Let's think about this for a second. Boomers are information junkies. We love information. We believe that knowledge is power because it gives us the ability to make sense of where we're heading. You could provide that by putting a hundred people in a room and covering the basic financial issues of caring for their parents or funding retirement. It could also be done with books, pamphlets, or on a website.

Look at Suze Orman. She may not be everybody's cup of tea, but she is sure serving a need. She does 'one on one' while a million people listen in.

While educational programs are certainly a good start, clearly some individuals will pay a fee or some percentage of their assets under management for financial advice. Others are just such fabulous clients that how could you *not* treat them one on one? However, today banking for most people is too much like shopping at K-Mart. Which is fine for simple transactions, but it's not clear to the public to what extent their bank is there to help them visualize their future and then help put the right financial solutions in place in a thoughtful and responsive way.

**Isn't one of the reasons for the popularity of the Suze Ormans of the world—who are perceived to be independent—that people don't believe that most financial advisors will recommend a solution that will be unprofitable for their institution, even though it may be the best solution for the customer?**

Yes, and that is why I believe a certain degree of objective and reasonable models must become standard in the industry. That may require 100 financial experts to sit together in a room and come up with a consensus of reasonable suggestions that can be customized for each individual at various stages in their lives. Until that happens, it's a crapshoot for the customer.

Let me give you a possible solution. I've recently done some consulting and research work with members of the vitamin industry. They were wrestling with a similar problem to what we're describing—a confusion of names and terms and claims. Every time some "expert" writes a book, people begin to think that, say, wheat germ or St. John's wort are now the answer to all their problems—until the next book comes out.

After some discussion, we decided there needed to be an objective point of view that's relevant to different individuals with different states of health. So we organized a panel of the country's 100 leading experts on nutritional sciences and had them surveyed by a reputable survey house.

The survey results—to be released soon—come about as close to an objective set of actionable recommendations as

> **We're at a moment in time where there has never before been a greater opportunity to make money by providing financial solutions to a massive generation in need**

anyone has ever seen. Something similar could be done in financial services, because the average person does not know what the right answer is and they no longer trust the individual financial professional sitting across the table from them. Somehow, the industry has to take the mystery and subjectivity out of the solutions.

**Earlier you spoke of a cyclical versus linear life plan. Could you offer some more specifics on what financial providers can focus on?**

There are, in my view, five key understandings that are essential to marketing to boomers and winning their business.

*First* is this whole idea of life planning tied to financial planning that we've been discussing. Boomers are really interested in having someone they can trust help them to make sense of their own future.

*Second*, if you're going to focus on life stage versus age, that calls for a greater sensitivity of what the new adult life stages are. There are several stages, some familiar, some less obvious.

For example, there is parenting. I'm 53 and I'm still actively parenting. I ought to be thinking seriously about how I'm going to fund my children's college tuition, whereas other 53-year olds may already be through that stage.

Another major adult life stage is empty-nesting. People often don't realize how major a transition this can be. When the kids move out, couples usually rethink their home, their financing, their lifestyle, their relationship. It's a substantially different moment of life into which a financial guide can insert some useful thinking and ideas.

Grandparenthood is another stage. We've got 65 million grandparents in this country. I can't recall ever having seen a bank with a banner up on its wall celebrating Grandparents' Day [first Sunday after Labor Day]. Yet grandparents often get actively involved in funding various aspects of their grandchildren's lives like college tuition or buying their first home. So it's a life stage with a great deal of opportunity for banking.

Another major life stage is care-giving. The average American today will in all likelihood spend more years and dollars care-giving for their parents than they did for their kids, and that's an outcome for which most people are just simply blindsided.

Retirement in its traditional sense is disappearing, yet people will still seek times when they will stop working at least for a block of time. How much wealth needs to be accumulated for that period?

Another adult life stage is widowhood. Older single women now are the wealthiest sub-segment of America. There are 15 million single women over the age of 50, so it's not a small group.

I should also mention disability. At this moment in our lives, we're actually more likely to grow ill or to hurt ourselves or to lose work or lose money in a physical disability than we are to die. Most people think of having life insurance, but the idea of disability insurance doesn't necessarily fall into place.

In this modern age, an equally substantial adult life stage is loss of work. If you've been "right-sized," it might take you a month or six or twelve to get a new position. How do you finance that?

The *third* understanding you need to attract boomers' business is to be aspirational. Boomers are driven by hopeful messages, by possibilities of who they might become, and they want to know how to get there. I've seen ad campaigns that are geared to scaring them into action, but which tend to produce a deer-in-the-headlights type of reaction.

The *fourth* point is to help them simplify their lives. The boomer generation has the highest percentage of dual-income couples in history. We've got more people doing more things with relationships, schools, clubs, volunteer programs, and with e-mails pouring in. Our lives are so fragmented and busy that it's driving everyone a little bit crazy. *Time* is what many people value and simplification of financial planning would be an enormous help.

*Fifth*, you have to think of your role as a long-term life partner. Previous generations had it in their mindset to trust authority. Boomers, as we've said, grew up believing in self-empowerment and tend to be skeptical of authority. What they're seeking, therefore, is an opportunity to deal with a professional who can both explain things to them and allow them to feel informed, and then together they take action steps. It's more of a coaching, partnering role than it is 'trust me and I'll handle it all for you.'

As a long-term partner, by the way, you should be providing more and more benefits and advantages in return for the increased business that people and their families bring to you over their lives.

**Of all the financial services players scrambling for a piece of this huge pie, do banks have a good shot at it, in your mind?**

I've heard people say that we don't need banks anymore. I totally disagree. I feel that a local and trusted community-based institution with kind and thoughtful employees can play an enormously important role in helping people put their financial houses in order over the entire course of their lengthening lives. With the aging of the incredible number of 40-, 50-, and 60-year-olds, the need for a range of banking functions and services doesn't *diminish*; it multiplies, especially in light of the trends we discussed earlier. The average member of your community is going to have her or his hands full figuring out what they ought to be doing, making the right moves, and consistently doing it, whether in regard to funding tuition, long-term care, estate management, or retirement-oriented wealth accumulation.

It's a noble cause—when you realize that people's lives and well being and the security of their families are at stake. Yet when you also realize that nonbanks have captured so much of this business, I have to say that the banks in this country have been a little asleep at the wheel. Is it time for them to fold up shop? I don't think so. But it's certainly time for a rebirth—for a new vision of the role and function of banks.

Banks have an enormous value proposition by being community-based resources and retaining a sense of trust. The only question is: Can they build themselves out from there to be an institution appropriate to the needs of a new generation of longer-lived men and women in a new century? *BJ*

*For more information about Ken Dychtwald and for links to the various resources and research mentioned in this article, visit* www.AgeWave.com.