CANADIAN DEMOGRAPHIC TRENDS / 3
The 'Countdown Generation'

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Where the money is
About one-half of all personal wealth will soon be concentrated in the hands of 12% of Canadians who will retire in the next few years. Ralph Hicks and Len Kubas, who completed a study of this group, call it 'the countdown generation.'

More people are retiring early
Statistics Canada data show that there has been a trend towards earlier retirement. If the current trend continues, the average retirement age could go below 60 (currently it is 61) by the end of the decade. Given the trend toward earlier retirement and increased life expectancy at retirement, the average male is likely to be retired for about 20 years and the average female 25 years.

Attitudes as a function of generational experience
Hicks and Kubas view the developmental processes of each generation as the result of their encounter with economic realities in their formative years. Thus.

- people who were born in the 1930s have memories of economic hardship and they continue to be debt averse and security conscious.
- people who were born in the 1950s and 1960s (the baby boomers) were exposed mainly to prosperous times and they believe in success, availability of alternatives (choice), acquisition and indulgence.
- those who were born in the late 1970s and subsequently have seen inflation and recession and believe in globalization and change.

Twenty years ago, the average retirement age was 63. Now it is 61 and falling ... At the present rate of change, the average retirement age at the end of the decade may be 59 or 60.

Hicks and Kubas thus attach considerable importance to cohort experience compared to life cycle experience.

The economic clout of the countdown generation
The mean networth of the countdown generation is $300,000. At first glance this looks impressive. However, the median networth is much lower -$200,000. In other words, there is a small group of very wealthy individuals in this group.

The above figure includes equity in homes, which accounts for 52% of all investments held by near-retirees. If we exclude homes, the median networth of this group could be reduced to less than $100,000.

A total median *family networth of less than $100,000 (excluding homes)* may not be an impressive sum. All the same, the total economic clout of this generation cannot be ignored by marketers. Here are a few reasons why this generation is still important:

- This group controls 40% of all discretionary income and 45% of all personal wealth in Canada.
- If we combine this group with the retired group, the combined groups control 60% of discretionary income and 75% of personal wealth, although they only account for 26% of the population.

- While equity in the home is less liquid and less readily available for spending, it is still wealth. Reverse mortgages may become common in the future, especially for people with no dependants or those with adult children who are financially very well off. Reverse mortgages convert personal networth into spending power. (Reverse mortgages enable a homeowner to convert his or her equity in the home into cash over a period of time. The homeowner can continue to live in the same house and receive monthly payment against his or her equity in the house which will be reconciled at a future date).

According to Statistics Canada figures, there has been a rapid increase in the number of 'non-family' households. In fact, between now and the year 2036, there will be an increase of 5.2 million households. More than half (52%) of these units will be 'non-family'- units of individuals. It is reasonable to assume that these individuals are more likely to spend most of their wealth during their lifetime since they may not have anyone to pass their wealth on to.

The pie chart illustrated shows the structure of the investment portfolio of the near-retirees.

Understanding the debt structure

Simply looking at the aggregate investment portfolio somewhat underestimates the economic activity generated. For instance, the aggregate investment portfolio does not include personal effects such as cars. Yet on the debt side, car ownership generates economic activity-car loans account for about 8% of near-retirees' aggregate debt. The specific types of debts generated by near-retirees are identified in the pie chart at the bottom of page 12.

Aggregate investments vs aggregate debts

Although the two pie charts-investments and debts-are of the same size, near-retirees' investments far exceed the debts. In fact, approximately $12 is available to support each $1 of debt. While both investments and debts generate economic activity, debt instruments supported by equity coincides with the interests of the lender as well as that of the borrower.

Distrust of government

Another notable feature of the near-retirees (as perhaps with most other Canadians today) is their distrust of politicians and governments. With the general erosion of universality of social security benefits and introduction of 'clawbacks' and user-fees this distrust may not be surprising.

Perhaps as a result of prolonged post-war prosperity and a wide variety of social security programmes, many Canadians have looked upon their government as a source of support in their retirement years. However, soaring government deficits are making it increasingly difficult for the government to continue the programmes-once considered a 'sacred trust'- at the same level.

Added to this is a general distrust of politicians in general, as identified by many polls. There appears to be a widespread perception that people are disenfranchised. Events such as the perceived secrecy involved in the decision making process of the Meech Lake accord and the introduction of the widely unpopular GST can be related to many people feeling powerless and consequently cynical about their government and politicians.

Marketing implications

No matter how the distrust came about, the fact that there is a general distrust of the government and politicians has implications for the financial industry.

If one assumes that government cannot be relied upon to provide benefits such as medical care and retirement income or education, it follows that one has to provide for these from one's own resources. As we have seen, the near-retirement group is in a position to do so.

An effective way of achieving the objective of future financial security is through investments. Consequently, we might expect increased investment activity among those who feel that they have to provide for their own future needs.

In this regard, the 'countdown generation' has considerable implications for the financial industry.

There are other marketing implications as well. For example, it is relatively easy to identify the major concerns of this group: need for financial security (heightened by a distrust of government), health orientation (given the increased longevity and longer retirement period), to name just two.

A second look at the concentration of wealth

It is worth remembering that sixty percent of all discretionary spending is concentrated in two groups: retirees and near-retirees. The near-retirees or the 'countdown generation' control two-thirds of this pool.

As well, three quarters of all personal wealth is controlled by these two groups-60% of this by the near-retirees.

Yet the near-retirees form only 12% of the population. No marketer can afford to ignore a group when it controls 45% of all personal wealth and 40% of all discretionary spending power. The fact that this is a small group makes it particularly interesting.

Segmenting the Countdown Generation

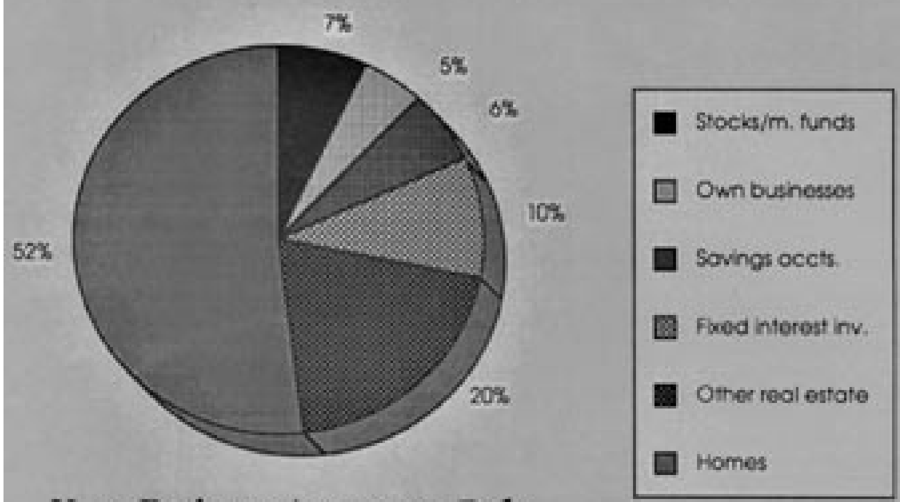
Although this group is a small proportion of the population, it should not be treated as a homogeneous group. One can identify distinct segments within this group.

The actual segments will depend on the way the segmentation is carried out and its objectives. Hicks and Kubas, on the basis of a series of lifestyle and attitudinal questions, identified four segments that are relevant to financial institutions:

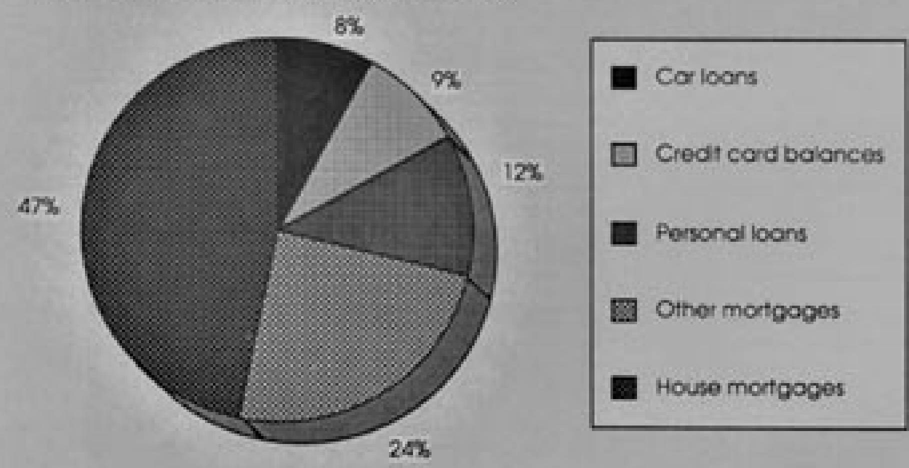
- Organizers
- Worriers
- Venturers
- Optimists

Such groupings may not necessarily suit all marketers since different segments can easily be derived by using a different set of statements and a different technique. All it points to is the fact that although cohort attitudes may exist within an age band, people are still sufficiently different to warrant further segmentation.

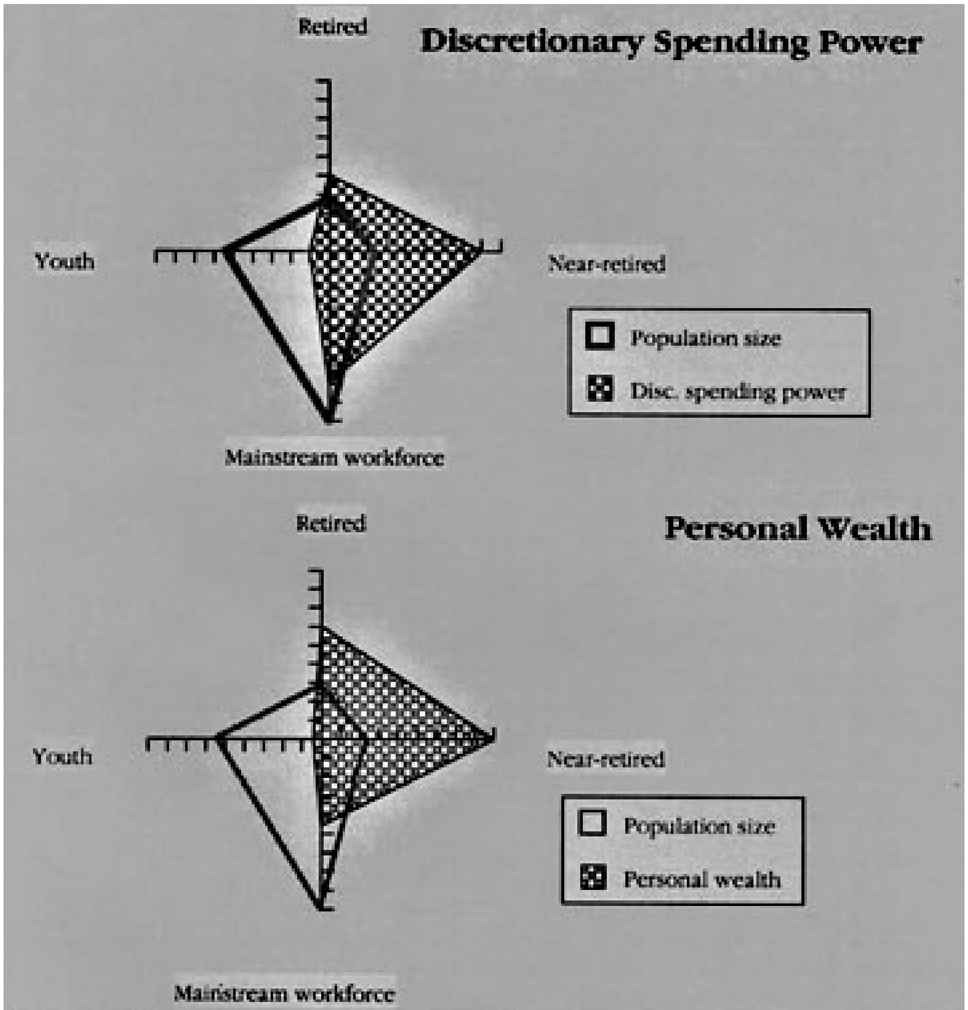
Near-Retirees Aggregate Investment Portfolio



Near-Retirees Aggregate Debt



NOTES. 1. The aggregate investment portfolio includes debts but excludes personal effects. 2. While the mean networth is $300,000, the mean debts are only about $25,000. *Source: Hicks + Kubas. Towards Retirement*



	Population size (%)	Disc. spending power (%)	Personal wealth (%)
Retired	14	20	30
Near-retired	12	40	45
Mainstream workforce	45	35	23
Youth	27	5	2

I would like to thank Mr. Ralph Hicks and Mr. Len Kubas for permission to quote extensively from their syndicated study of the 'countdown generation', entitled 'Towards Retirement' - Chuck Chakrapani