

booz&co.

Reflections on
The New
Demographics
Debate



REFLECTIONS ON THE NEW DEMOGRAPHICS DEBATE

Written by
Lord Andrew Turnbull
July 2008

The Seminars

In the course of 2007 and the spring of 2008, Booz & Company hosted a series of four seminars around the subject of changing demographics, and the implications for families, society, economy, employers and government. This was done in partnership with a number of government departments, and particularly with the support of Alexis Cleveland, Director General of Transformational Government in the Cabinet Office.

Rethinking Issues and Moving to a More Flexible Work and Retirement Model

The background to the seminars was set out in my paper entitled *The New Demographics* (this can be found on the Booz & Company website at www.booz.com/uk). The first meeting discussed this paper which argued that in a number of dimensions public understanding and government policy had not fully caught up with the impact of demographic change. The paper identified a number of areas of outdated or limited thinking:

- We will spend long enough working to pay for our retirement;
- As society gets richer we can afford to retire earlier;
- It is a good thing to retire people early as there are not enough jobs for everyone;
- Income and status at work rise linearly and you retire from the organisation from your most senior position – and when you retire you leave your organisation entirely;
- Our standard of living in retirement will be constant, ignoring the rising costs of care in later life;
- We acquire assets while working and decumulate them during retirement, with a sharp distinction between the accumulation and decumulation phases;
- During retirement our housing needs do not vary very much;
- The state will provide social and healthcare services for us in our latter years, allowing our children to inherit our estate without it being significantly depleted;
- Marketing is best focussed on young people and families.

All this recalled Keynes dictum that “Practical men, who believe themselves exempt from any

intellectual influence, are usually the slaves of some defunct economist.”

The paper advocated a rethink of these issues and a move to a more flexible work and retirement model in which there was an extended time when people could be part-working/part-retired, and defer taking all their pension in order to earn enhancements.

The second seminar looked in more detail at the issues concerning the world of work; the third about the needs of the more elderly; and the fourth about the goods and services companies’ offer to older people, and the way they communicate with them.

An account of the discussion of all four seminars can be found on the Booz & Company UK website.

Over 150 people were engaged in the seminar series, with a group of 70 participating in one or more sessions. All participants recognised that changing demographics was one of the major issues facing the developed world. Although most of the specifics relate to the UK, many of the same problems arise in North America and the rest of Europe.

Reviewing the series as a whole, a number of broad themes were identified.

Financial Education

A lot of work is needed to improve public understanding of the prospects for retirement. People need help to understand:

- What their real-life expectancy is (this is systematically underestimated at present);

- What the probability and cost of needing long-term care is;
- How much they need in their pension pot;
- What pension support they can expect from the state and employers (less than the current generation of retirees are enjoying).

Changes are needed in the way assets are not only accumulated but drawn down/decumulated. The latter receives a lot less attention than the former at present. In the UK many people are using investment in housing to build up wealth but are then unwilling or unable to use the instruments that will allow them to release the equity. Concern was also expressed about the quality and availability of financial advice specifically focussed on the needs of older people. It was also argued that in buying fixed annuities people are switching too soon from growing their pension pot to preserving it. There is a need for more products such as variable annuities which continue to grow the pot while providing safeguards.

Long-Term Care

This issue featured prominently in several of the sessions. So far the UK has failed to develop a consensus on the way forward. Previous reports have envisaged that the state not only takes responsibility for funding the care of an increased number of elderly people but also provides a less rigorous means testing. But many thought this was completely unrealistic and that some form of insurance would be needed. This would probably need to have some kind of state backing if not actually provided by the state. The key would be to bring as many people into the risk pool, though it is likely that

people at the start of their working careers would see a risk they would face 50 years later as too remote. The focus should therefore be on those approaching retirement or just past it.

A key obstacle is the current attitude to inheritance. Many still resist the idea that they should run down their accumulated assets to pay for care or, still worse, sell the family home, though it was noted that this presumption was not so strongly resisted in other countries. The work that the UK government has launched therefore assumes great importance.

World of Work

The changing nature of the labour market was noted, for example, starting later after more education; more services rather than manufacturing; more round-the-clock provision of services; and the rise in both pension and retirement ages (both trends probably not yet complete). All this raised a number of issues:

- The prevailing early retirement culture of the past 30 years is no longer appropriate (though it still lives on in some EU policies);
- The abrupt transition from work to retirement was giving way to a phase of mixed working and retirement. The final years will less and less be the most senior and best paid, with implications for final salary pension schemes;
- Organisations need to rethink the model whereby power and reward pass from one generation to another. Solutions need to be found allowing senior people to pass on authority without being cast out of the organisation;

- A substantial rethink is needed of attitudes to training. The view that there is no point in training over-fifties needs to be replaced by a view that 50-year olds who may be working another 10 or 15 years are well worth retraining;
- Presumptions about a right of early retirement need to change, especially in sectors with acute skills shortages such as nuclear and oil and gas;
- The UK will need to decide whether to retain its default retirement age of 65. In organisations such as HMRC - who have chosen not to enforce retirement at 65 - the appetite for continuing working has been strong;
- At present many employers provide help with child care, but with the working fifties and sixties increasingly having care responsibilities for their parents, they may need similar help and understanding.

Families

The dominant image is of the three-generational family but the four-generational family will grow in importance. This will put pressure

on women in particular as they are expected to provide informal care upwards and downwards. The provision of long-term care may have to rely less heavily on unpaid and informal care.

Marketing of Goods and Services

Despite the over-fifties spending about £200 billion a year and controlling around 75% of financial wealth, many companies still regard them as a peripheral market. Marketing and advertising are still slanted towards younger people. Stereotypes abound about older people - for example, that they are not IT literate, when in practice they are prolific users of the internet. More sophisticated approaches are needed, such as marketing around occasions and special events rather than by simple segmentation by age.

Moving to Action

The strong consensus to emerge from the seminar series - especially in the case of the four key issues (awareness, employment, long-term care and markets) was that there is much to do, and little time before

the scale of the New Demographic challenge becomes overwhelming. The private sector has to build robust strategies that recognise the shift in market power to a much more mature consumer, and large companies will need to be able to integrate a far greater proportion of mature staff effectively into their workforces. For the public sector, education, accelerated policy development and reconfiguration of many public services will be needed. But time is short: by 2050 one in three people in the UK will be over the age of 65.

Conclusion

The choice of New Demographics was vindicated by the range of issues which were raised where public awareness has still some way to go to catch up with reality. And public policy lags still further. There are, however, signs that change is now happening with pensions reform, the rise in the retirement age, and in attitudes in the workplace. Booz & Company are therefore extremely grateful to all those who took part in the discussions and shared their ideas so freely.