Thanks for downloading this short excerpt from *The 50-Plus Market* by Dick Stroud.

www.the50plusmarket.com

Marketing bonanza

Back in 1996 I wrote a book about a little known technology called the Internet and how it was going to change the world of business. I just couldn't understand why marketers didn't share my excitement about the Internet's potential to create new markets and business channels. Everybody had a different reason why it wasn't important and why things would not change. They were wrong.

Today I feel exactly the same about the 50-plus market. It is obvious, at least to me that we are on the precipice of a marketing bonanza. The over-50s have been largely ignored yet even the most statistically allergic marketer can understand the data showing their economic power. There is a relentless shift in the economic centre of gravity towards older people. Each day there are more, better-off oldies and fewer, indebted youngsters. Our culture faces 'young', the economic reality is pointed 'old'.

A puzzle

Why, why, why don't companies grasp this business opportunity and do something about it? How can marketing directors ignore this group of affluent consumers? Why aren't the senior management of US and European companies demanding their advertising agencies target the older market?

For the last couple of decades people like me have been shouting about the 50-plus and their increasing importance as a key group of consumers, to little or no effect. It seems that business is impervious to these arguments since life has gone on much as before. Marketing attention is showed onto the 18-35 year olds and their parents and grandparents are pretty much ignored.

The solution

Just telling marketers about the importance of the 50-plus market is not enough. It is necessary to address the real reasons that companies are so reluctant to change and provide them with the tools and guidance to venture into the world of older consumer. This is what this book seeks to do.

The book is not a social policy or 'preaching' document; a set of predictions or a collection of facts and figures. It is a "how to" book. It is a book for the businessman and marketers who want to succeed in a world that is getting older.

Chapter 2 - The future is getting old(er)

THE 'CHARMED GENERATION'

Some of the circumstances surrounding the 'charmed generation' are special to the UK, but, in differing degrees, they are also present in Europe, Australia, Canada, Japan and the US.

In the UK, part of the group of people who are retired and who will retire in the next five to ten years have a level of wealth and income that is unlikely to be repeated in future generations. They are thus the 'charmed generation' and represent a business opportunity that, once gone, is unlikely to be repeated.

The reason for their good fortune is explained by the four Ps: pensions, property, parents and prudence – not to be confused with marketing's 4Ps!

Pensions

Many people of this generation receive, or will receive, a defined benefit pension. This scheme pays the highest level of guaranteed income, relative to the person's salary, of any type of pension. It is unaffected by the stock, bond, currency or any other market. Its recipients receive a guaranteed level of income for the rest of their lives.

In the UK's commercial sector, the number of active members of these schemes today has fallen by 60 per cent since 1995, 50 per cent since 2000 and could fall by a further 10–20 per cent in the future. This generous form of pension provision is fast disappearing. So, unless there is a drastic change in pension law, the era of receiving a guaranteed level of pension from an employer is over. Like the parrot in *Monty Python* (the renowned TV comedy show), the defined benefit pension scheme is dead, it is no more, it has ceased to be. Defined pensions have expired and gone to meet their maker!

Government employees are the only group who are guaranteed a defined benefit pension. The cost of meeting pension commitments for civil servants, teachers, National Health Service employees and the emergency services has risen so quickly that it now dwarfs the level of public sector debt. The estimated, unfunded public-sector pension liabilities had reached £690 billion by March 2005. The size of this figure is staggering, as is the problem it presents to government. Public-sector pensions will be forced to undergo radical change.

The unpalatable alternative is for people to spend a sizeable amount of their income – maybe as much as 25 per cent – on funding a private pension. Money that is funding a pension is not being used for consumer spending.

Property

In the UK, the proportion of people under 45 years old owning their own property has declined since 2001. If you are 30 or younger, you are less likely to own a property now than 20 years ago. The barrier to becoming a homeowner is the relatively high cost of property. If you were buying a house between 1960 and 1970, it would have cost you three times your annual earnings. Today it is exactly six times.

In 1994, three in every five first-time buyers came from the 18–30 age group. In the last 10 years, property prices have trebled and now only two in every five first-time buyers are of this age.

The conclusion to be drawn from this analysis is that much of the UK's property assets are owned by the 45+ and that the financial barriers for future generations to join the ranks of property owners will keep rising.

Saving for a deposit and paying the mortgage consumes a disproportionally large chunk of income and, like paying for pensions, money spent on housing debt is not spent on consumption.

Parents

Another repercussion of the rapid rise in property prices is inherited wealth that the over-50s are receiving at the death of their parents. Few older people have used the equity in their property to fund their retirement, which means that most of the property value is being passed on to their children as an inheritance. Today's 50-year-olds need to fund, on average, 20 to 30 years of post-retirement life, however, so releasing equity (wealth) from the value of their homes will become an increasingly important way in which to achieve this.

Already, a fifth of people moving between owned properties on which there is no mortgage say that the reason for them doing so is that they want a smaller and cheaper house. From this you can infer that they are seeking to transfer some of their property value into cash. Nearly 40 per cent of people in the UK aged between 51 and 60 who have a pension believe that the equity in their home will be part of their retirement assets. For some, in fact, property wealth will be an integral component of their retirement income. Currently, £2,250 billion of value resides in housing equity (that is, the property value less the outstanding mortgage). This is nearly double other forms of wealth, with the exception of pensions. Unlike savings and investments, housing equity is more evenly distributed throughout the population and so can be used by more people.

The outcome of the over-50s' dependence on property wealth has a worrying implication for their sons and daughters: property wealth spent on funding mum and dad's retirement will not be inherited. We have witnessed the birth of the SKI phenomenon – spending the kids' inheritance.

In truth, nobody knows how much of retired peoples' housing equity will find its way back to their children or be consumed funding their own retirement, what effect the reduction in the number of young people will have on housing prices and what will happen when interest rates rise. Further, if housing prices are at an artificially high level and plummet, so will one component of the 'charmed generation's income. Where there is little doubt is that converting the equity held in property into income will be a central issue in the pension-funding process.

Prudence

The UK's level of debts on credit cards, mortgages and loans has reached the gigantic figure of £1,004,290,000,000. Very little of this vast mountain of debt resides with today's retired generation. They come from the pre-credit card era, when debt was something to avoid at all costs.

Things are different for younger people, however, and those close to retirement. As the Director General of Age Concern said, 'Older people have historically been reluctant to get into debt, but some of the next generation of pensioners appear to have quite different attitudes.' It appears that many 50-year-olds are spending rather than saving and this is setting the trend for 40- and 30-year-olds. There is a cohort of people entering retirement with considerable levels of debt that has to be serviced by retirement, rather than earned, income. This change in behaviour is likely to affect intergenerational transfers of wealth as older people have to use their property value to repay debt rather than pass it on as inheritance.

The terrifying prospect is that interest rates increase. At the beginning of 2005, the UK's base rate of interest was 4.75 per cent. For much of the 1970s and 1980s, the interest rate was twice and sometimes three times this level. If the rate were ever to increase to these historic levels again, then it would divert a massive amount of expenditure from consumption to debt repayment. It is a thought best not considered.

For the debt-free retired generation, though, the higher the interest rate the better, as it increases the income they receive from their savings.

The 'charmed generation' grew up during a period when the State paid for higher education and all but the very wealthy went to State-funded schools and used the free health service. Now, the burden of paying for education and health is increasingly transferring from the State to the individual.

This generation has benefited from good pensions, rocketing property assets and low debt. It is not surprising, when you look at the wealth profile of the UK, that so much of it is concentrated with the 50-plus. Sadly, the children and grandchildren of this group are very unlikely to accumulate the same levels of wealth. In a decade's time, the 50-plus cohort might have (almost certainly will have) a very different wealth profile. It will still contain the very rich and very poor, but the group of people who benefited from the unique combinations of the 4Ps will be missing.

Not all members of the 'charmed generation' are wealthy

The report produced by the Pensions Commission in 2004 as a policy document for the UK government concluded that 'The present level of pension rights accrual is both deficient in total *and increasingly unequal.'* This inequality is demonstrated in Figure 2.11, which shows how the mean and median levels of net wealth vary by age. It is impossible to deduce from the mean (average) value how the wealth is distributed (that is, there may be a few very wealthy people and lots of poorer ones or, alternatively, everybody could have approximately the same level of wealth). The median value is a more useful measure. It represents the middle value of net wealth in each age range. So, for the age range 60–64, the average net wealth is nearly £35,000, but the median is close to £5000, implying that half of the people's net wealth is below this value.

Even the most statistics-averse marketer can see that the median value is far less than the average value for the whole age range. There are a few people in each age group with a lot of financial wealth and far more with little or none. Indeed, of the £165 billion financial assets owned by 50–59- year-olds, over 84 per cent are owned by a quarter of the group.

Another measure of inequality – or, perhaps, it is the cause – is the unequal distribution of older people who have not retired but just 'stopped working'. Figure 2.12 shows, for the age group 50–59, the unequal distribution, by levels of wealth, for those who are retired or semi-retired and those who have stopped working for such reasons as being unemployed, sick or needing to care for a dependant. The poorest 20 per cent of this age group have nearly all disappeared from the work market, while the richest 20 per cent have retired or are semi-retired.

The more you look, the more evidence you will find of the disparity in wealth. Savings and home ownership are higher among those with pensions than those without.

Income and wealth inequality is very much part of society in the US as well. The AARP published a study in 2004 showing that there is an increasing level of wealth and income inequality for Americans aged 41 to 59 (baby boomers). The top 1 per cent of this group owns more wealth than the whole of the bottom 80 per cent. In each year of the survey – from 1989 to 2001 – the inequality gap widened.

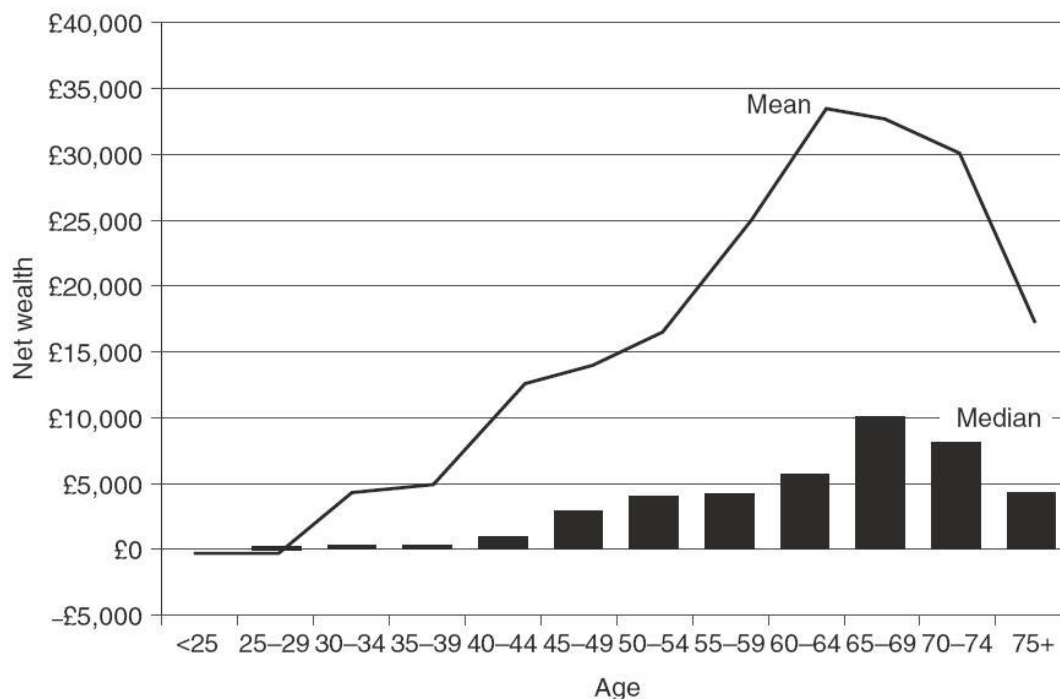

Figure 2.11 *The mean and median values of net wealth by age*
Source: Institute for Fiscal Studies, 2002

The message for marketers is blindingly simple: some retired people, and those near to retiring, are going to have a lot of spending power. A lot more in this age group, however, will have very little – a trend that will become more pronounced in the future. This puts a premium on establishing marketing relationships with the post-retirement affluent. The question every marketer must answer is: does their customer base contain the rich or the poor over-50s? This is not such a simple question to answer because it depends whether or not their customer's income is predominantly dependent on paid employment.

To learn how to market to the Charmed Generation you will need to buy the book!