

Trends: **Rich, Retired & Restless**

Generation R: Meet the lost executives who need to be rehired, rewired and to put their \$300 billion to work.

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RETIREMENT-READY

The richest 50-64-year-olds v. the rest

STATUS	WEALTHIEST 10% OF 50-64-YEAR-OLDS	AVERAGE OF REMAINING 90% OF 50-64-YEAR-OLDS
Married	74%	75%
Working part-time or retired	50%	61%
Children left home	78%	61%
WEALTH OF COUPLES (\$)		
Value of home	585,000	207,800
Mortgage	33,800	23,500
Other property investments	319,400	17,000
Shares	319,000	24,600
Cash deposits	142,600	21,800
Superannuation	746,800	105,900
Vehicles	56,000	19,800
Collectibles	27,200	3,200
Credit-card debt	600	1,000
Other debt	20,400	7,200
Approximate net wealth	2,000,000	370,000

Baby boomers are supposed to be the lucky generation. The description certainly fits the wealthiest of the boomers. The richest 10% of 50-64-year-olds are retiring in droves. Research reveals that there are 300,000 people in this group with net wealth totalling \$300 billion.

But history might throw up another epitaph for these rich retirees: the lost or wasted generation. They are being lured by a culture that equates success with leisure. The age of retirement is being sold as 55. But are the former captains of industry and their lieutenants retiring too early?

Most face another 30 years of good health and the risk is that their early retirement will convert into mind-numbing boredom. Robert Critchley, the author of a new book, *Doing Nothing is not an Option*, says: "Fifty years ago, most jobs were manual. Now only 10% are manual. These people are as mentally alert as ever. On average, they have amassed extraordinary skills and experience. Yet there is a lot of peer-group pressure to retire early."

Some baby boomers have shaken off society's expectations of early retirement and are redefining the years between 50 and 70, creating new terms such as "portfolio lifestyle", which involves a mixture of commercial and volunteer work. One 60-year-old entrepreneur, Yvonne Row, says she is called a workaholic by her peers because she continues to work hard. "I am also called a sports fanatic because I enjoy exercising. These terms associate you with failure, instead of celebrating the fact that you are fully engaged."

The danger is that many in this generation might disconnect with the workforce just as the nation begins to feel the full effect of the skills shortage and low birth rates. Andrew Inwood, a market-intelligence researcher at Brand Management, says: "The skills are still there but the nation doesn't understand how to use them. We are in danger of losing a generation of skills from the workforce."

There is little sympathy among later generations because many younger people are locked out of the housing market and facing huge university debts, for which they blame the baby boomers. But the most strident critics of this generation tend to be other baby boomers, who are becoming increasingly disturbed at watching their contemporaries fritter away their wealth, skills and mental health.

A former lawyer, Alan Wein, who established the franchise House and is now an adjunct professor at RMIT University, believes that many in this generation are lost. "They have no idea where they are going with their lives and they cannot find a useful purpose. You can see them mid-week, hanging around Toorak Village and Brighton in Melbourne. Some are as young as 45; they have 40 years left and they are not doing anything with that money but passive investment." He says anxiety and depression is growing within this group, because they are beginning to realise that playing golf and heading to Noosa or Tuscany to escape winter is not going to satisfy them.

This group has a consumption fetish, seeks a quick fix and instant gratification. Wein says: "I think the over-indulged baby boomer is becoming imprisoned psychologically, socially and spiritually."

Rolling in money

So far, this group has been able to afford their consumption binge. On average, couples in the wealthiest 10% of people aged 50-64 have amassed net wealth of about \$2 million. This compares with an average of \$370,000 per couple for the remaining 90%. Despite the image of the wealthy baby boomer, most of the wealth is concentrated in the top 10%.

They have four times the cash and super, six times the shares and five times the investment properties and collectables of the average couple aged 50-64. Simon Kelly, the principal wealth researcher at the National Centre for Social and Economic Modelling, says: "Their children have usually left home and most work until 50 or 55. At 55, employment rates start to plummet. By 60, more than half are not in the workforce at all, and only a quarter are working full-time. This is new. We have not seen this much wealth in these numbers. Yet early retirement is becoming common."

Inwood, who researches baby boomer consumption patterns, employs wealthy baby boomers as mystery shoppers for financial products. "I love them. They are educated, really intelligent and understand the issues." He says he sees two groups. "One lot is going a hundred miles an hour, doing property developments and thinking of opening a cooking school. The others are cruising into retirement." He says that in the Victorian era there was also a large group of wealthy people with time on their hands. "But they invested in science and adventurers. The aim of the wealthy middle class today, particularly the younger ones, is to retire with millions and spend it."

Surprisingly, the rich boomers do not live in multi-million-dollar mansions. Kelly says: "This group have been savers. The average house (owned by a couple) is worth about \$600,000 and they probably bought it 20 years ago and are still in it. The culture is not to buy bigger or better houses. The same with vehicles: the average vehicle is \$28,000."

Their savings in superannuation are much bigger than those of their less wealthy contemporaries: \$373,400 compared with an average of only \$85,100. (Financial advisers at AMP say that with appropriate tax structuring and access to social security payments, some people can achieve an average income of \$52,000 a year in retirement with about \$250,000 in superannuation savings.)

The richest 10% of the 50-64-year-olds also have plenty of liquid assets that can be quickly accessed for investment or spending purposes, even if their superannuation is locked away

in an annuity pension. They have, on average, \$230,800 in cash and shares, compared with an average of \$23,200 for the remaining 90%.

KPMG forecaster and researcher Bernard Salt predicts that they will also live longer than average. "They have not been eating jam roly-poly pudding; they jog; eat rocket, smoked salmon and pasta; have a salt-free, fat-free diet; don't smoke; drink moderately; and exercise. They are going to live a very long time."

Scott Keck, who runs the property valuation company Charter Keck Cramer, says the reasonably wealthy people hanging around rich suburbs are idle-minded, smug and boring. "They drive a Lexus or a Mercedes, are planning the next cooking trip to Tuscany and play the pokies when no one is looking. They are contributing nothing. What sort of example are they setting for their children?"

An equivalent gathering place in Sydney is Balmoral, according to Inwood. Former chief executives gather over lattes at communal tables on the foreshore. Inwood says: "They ran advertising agencies, software companies, and they are bored off their skulls. Put that group together and you have a great advisory board. There are enclaves like this all over Australia."

The wasted generation

What a waste then, that this generation should work less and retire so early. Salt says: "In 80 years, we have added 18 years to life expectancy. Yet why have we contracted our working lives from retiring at 65 to 55?"

Entrepreneur Yvonne Row says: "I would call this, not the lost generation, but the wasted generation." At 53, Row started an organic food store, called Passion Foods, in the upmarket Melbourne suburb of Albert Park. Now 60, she has revenue of \$2.5 million and 12 staff and is more energised and motivated than ever. "God, I will never stop working," she says. "Yet I still belong to a group that thinks it is unsuccessful to keep working. It is a shocking indictment on our society. You are supposed to feel successful travelling around Australia. When I catch up with people, I can tell immediately whether they are still working or not."

Inner-city Melbourne psychotherapist Moira Healy says therapists and life coaches are seeing many more of the lost generation in their waiting rooms. "The men coming through our programme ask: 'Have I been put out to pasture? What is my value now I have stopped working?'"

She says this group has not been defined by the spouse and home. "These highly driven people were defined by work. Trying to improve their golf handicap and travelling will not challenge them. The danger is they get depressed and they might suddenly be home with the wife in her space and the relationship can break down."

As one wife puts it, when her husband retired she had "twice as much husband and half as much money". Healy says: "They shouldn't jump on the antidepressants. They should go and talk to someone and stay working."

Need to accept change

Many would love to keep working but feel they have been rejected by the youth-obsessed Australian workforce, which has the lowest over-45 workforce participation in the world. Stories abound of people in their late 40s who cannot get a job and by 50 decide to retire.

Nick Plummer, director of the career management company Directioneering, says: "If people come to us in their early 50s and they have been a managing director, the chances of them returning to that role or similar roles are very low. We are a youth culture, despite our ageing population."

Critchley says: "Recruitment companies won't interview people over 45, although they won't admit it. Once rejected, to maintain their self-esteem, many decide to retire. Yet extensive research shows no relationship between age and job performance. Americans aged 55 and above take fewer sick days, adapt to new technologies successfully and are more loyal to their employer than younger people."

To stay working, people must change. Critchley says: "They need to be prepared to take lesser jobs, work at a lower level in the organisation and take orders from a young kid on the way up who knows less than they do. That's very challenging."

This group has to think of the transferability of their skills. "They get stuck in a mindset that they have lived or worked in the one industry in the one job and that's all they can do. So often I see people lose their job, shrug and say, 'What else can I do? I am only a banker'," Critchley says.

Critchley, 61, could once have said that. He spent 20 years in the banking industry before becoming president of DBM, a career management company, and running his own consultancy, Experience 2, while holding director roles, writing books and consulting to companies on their ageing workforce.

Too often, the mature-age job seeker worries a lot about security. Critchley says:

"If companies don't want to employ you because of the money, go on a one-year contract, do a short-term project - be prepared to work for as long as they, not you, want."

Critchley also urges people to stay positive. "No one wants to hear your hard-luck story. Get over it and think of the future."

There is little sign that this group is rushing out to start their own small businesses. The latest Australian Bureau of Statistic figures show that the number of small-business operators aged over 50 has fallen by 2%, from 524,000 in 2002 to 515,000 in 2004.

Women in the lost generation may fare better. "Women over 45 are the fastest-growing area in the workforce," Critchley says. "The husbands have been put out of a job and their egos won't let them adapt to changed circumstances so the women decide it is up to them. Women also had to struggle harder to get where they are. So they are more relaxed about doing something more menial."

New policies needed

Nothing will change until employers stop discriminating against older workers. And that will not happen until they realise that they have no alternative, because they do not have enough workers.

Take the example of the United States. In 1980, there were 99 million jobs and 107 million workers. In 1995, it was break-even. Now there are 168 million jobs and 158 million workers. Critchley says: "This is coming our way, but Australian CEOs still have their heads in the sand and are focused on sacking people, worried about the result in six months' time - not three years."

Foreign governments are already taking action. Singapore is providing incentives to encourage organisations to hire older workers, such as wage support to encourage employment of workers over 40 and help for career transition.

Finland has introduced the National Programme for Ageing Workers, increased the retirement age and improved flexible work opportunities and part-time pensions. Austria has introduced incentives to retain workers past retirement age and penalties for leaving the workforce early. In Spain, severe penalties are imposed on those who retire before 65.

The Australian Government is starting to encourage workplaces that hire mature-age workers. But Anne Hatton, the chief executive of the recruiter Hudson Australia and New Zealand, says she sees no shift in companies employing older workers. "A big part will be education but we might need incentives," she says.

Salt agrees, saying more inducements are needed, like extending the retirement age to 68. The superannuation changes are a good first step, he says. (From July 1, people who reach retirement age will be able to access their superannuation lump sum and continue to work part-time.) "Expect more measures, but the way to do it won't be to bully them but to provide options," Salt says.

The recycled retiree?

Salt is not too worried about this lost generation. "They will reinvent retirement like they invented teenage years. Before the boomers, you went from being a child to an adult until the boomers created the teenage years. They will create a new transition phase between 50 and 70 with a new name, a lifestyle and market. They will redefine that time in life for those who come behind them."

One name that may well reflect the lifestyle that more will lead is Generation R - not for rich retirees, but for recycled retirees who reinvent themselves. Row says: "We recycle everything else - let's recycle retirees."

Some, like James Strong and Gary Pemberton, leave chief executive roles and buy into high-growth companies. Others completely reinvent themselves. Software entrepreneur and BRW columnist Tom McKaskill reached his nadir at 50. Deciding to retire, he set off travelling and six months later was divorced and bored stiff. He sat down and wrote a plan. "I decided I wanted to work with interesting projects and interesting people, wanted to do something flexible, not spend 50% of my life on planes and I wanted something challenging to engage my passions. Income wasn't important."

He was on an aircraft when a fellow traveller told him he was a professor of business. "Suddenly I thought, that's it." McKaskill has now become an author, academic and researcher.

Other members of Gen R are taking to book writing, lecturing and becoming directors of corporate and charity organisations. Salt says the perfect portfolio lifestyle is two to three days on commercial activities, volunteering every Thursday, spending a day investing in the relationship with your (probably new) wife/husband and time with the grandchildren.

Hatton says recruitment companies and organisations are helping this group to become coaches. "They have broad and deep experience, they have ridden rollercoasters and seen economic cycles ... They make the best coaches and they enjoy it."

"They can take short-term positions filling in for people on maternity leave or when people go on sabbatical. Some are successfully running coaching businesses and acting as mentors," Hutton says.

More organisations need to be created to match small businesses with mature workers. Australia desperately needs the equivalent of score - the Service Corps of Retired Executives, who style themselves as "Counsellors to America's Small Business". Washington-based score has a national network of 10,500 retired and working volunteers who are experienced executives, corporate managers and entrepreneurs.

McKaskill agrees that a federal retired-entrepreneur organisation like score is a must. "They could meet monthly and everyone would know where to go to find help with their small business and charity."

Managing the money

But perhaps it is all just too hard. Tony McDonald, the managing director of Snowball Financial, says much of his research shows that people in this age group do not intend to keep working. "They are not talking about going back to work three days a week or running a portfolio of small businesses, which is what the politicians are talking about. Nor are they planning to retire into a lounge chair. They want a reasonably active life and they want to be valued while they do it."

It is talk like this that infuriates the rest of the nation. Keck says: "If this group were not so complacent, thinking they had made it, they would get off their bums, provide the community with services, set an example for their children and look after themselves better, to make sure their money lasts. Besides, anyone used to a middle-class lifestyle who thinks that \$2 million is enough to retire on needs to think again."

Jack Regan, the managing director of Hillross Financial Services, a subsidiary of AMP, specialises in financial planning for the "mass affluent" or the wealthiest 20% of people. "This is an aspirational generation," he says. "They do not want to go back to work but they want to live well and execute their dreams."

There is still a high level of anxiety among this age group about their financial situation, even among the wealthier ones. Kerrie Kelly, the chief executive of the Financial Planning Association, says: "They don't know how much is enough, they don't know how long they are going to live, they don't know what the situation with tax is going to be ... They really are in a very uncertain phase of their lives, when their income-earning capacity is removed but they are still going to be spending. So the level of anxiety is highly understandable."

Another option is to sink part of their funds into their children's start-up and take a position on the board or doing the accounts. McKaskill says: "It's a great idea, but if people are going to put their money at risk they should be allowed a tax incentive." A change of attitude is required; most retirees are keen to reduce the volatility of their investments and increase their sense of security as their wage-earning capacity declines. At the same time, many in this generation want to retain some control over their wealth and financial future.

But the current tax system, designed to encourage private saving for retirement via superannuation, acts as a disincentive for wealthier retirees to reinvest their savings in more adventurous assets, other than simple annuity pension products. The reasonable benefits limit (RBL) test means that people receiving a lump sum of more than \$619,223 or a pension fund worth more than \$1,238,440 have to pay tax on the excess.

Only about 20% of retirees will need to contend with these limits, but financial planners advising those who do are primarily concerned with ways to minimise the value of funds above the RBL. Buying non-commutable pension schemes is one way, as these do not count towards the RBL, but this locks away funds in a low-risk asset class for the remainder of the person's life.

There may be scope for changes to superannuation tax law that encourage wealthier retirees to invest some of their wealth in more active asset classes or new ventures, spurring new economic growth.

Wein says: "Traditional investment models need a radical review. It is no longer appropriate to slot clients into investment products. Rather, we need products tailored to our holistic requirements."

Whatever the answers, the problem is clear: ways must be found to put \$300 billion of wealth and 300,000 highly skilled people back to work.

FINDING THEMSELVES

Worries of the wasted generation:

- Minimising tax.
- Control and knowledge of their financial destiny.
- Financial independence.
- Estate planning/succession planning.
- Having sufficient income streams (from superannuation savings or elsewhere) to support "aspirational" lifestyle.
- Asset protection and reducing volatility.
- Being valued and engaged in society: do meaningful work, be respected.
- Applying knowledge, skills and experience in a useful and valued way.
- Remaining active, and being able to pay for a continued active lifestyle (for example: regular travel and hobby farms/holiday homes).
- Keeping a sense of individuality and "breaking away from the herd".

Cashing in on all that cash

Future BRW Rich 200 lists are likely to feature several multi-millionaires who made their money from providing the right products and services to wealthy 50-64-year-olds. There are big opportunities for businesses in creating new investment and lifestyle products and services to capture a share of the \$300 billion of net wealth held by the richest 10% in this age group.

The KPMG forecaster and researcher Bernard Salt says: "AV Jennings got the housing right for the suburbs, Frank Lowy got shopping centres right. The people that get this right will make a fortune. But no one has got the model right now. It is trial and error until the right chord is struck, the market crystallises around it and gathers momentum. Until then there will be a lot of flailing about."

The problem is that these 50-64-year-olds are hard to reach and no one is sure what they want. Former lawyer Alan Wein says they are lumped in with the other baby boomers. "But this group want more of a hands-on investment and do not want to feel trapped."

The financial services industry is gearing up for the surge of baby boomers that will hit retirement age in the next 10 years, but the looming retirement of 300,000 wealthy baby boomers will not necessarily be a gold mine for financial advisers. Despite the increasing demand for sophisticated financial planning services, so far the industry has stuck with its conventional structure of tailored - and therefore labour-intensive - advice. For planners, revenue is higher from wealthier clients, but the costs of servicing them are also substantially higher, so wealthy clients may not result in higher profits for advisers.

Almost three million people in Australia are aged between 50 and 64, and most are now grappling with how to finance the next 30 years of their lives. Most banks and financial

services companies have divisions that specialise in providing planning advice for the wealthiest 10-20% of this group and are starting to tailor products and services to suit - either through the private-banking facilities or in specialist mass-affluent and high-net-worth business units.

Paul Kofod, the general manager of private banking at Commonwealth Bank of Australia, says: "There is absolutely more and more demand for advice and financial planning services in this area." Kofod's clients - who usually have more than \$2.5 million of assets to invest - tend to have three concerns about managing their financial situation in retirement: tax minimisation, control of their destiny, and planning for what happens to their wealth when they die. "Tax is still the main driver of superannuation and investment choice in Australia," he says. This is especially true for the wealthier end of the spectrum, where lump sums and asset values are likely to be well in excess of tax thresholds.

Jack Regan, the managing director of Hillross Financial Services, says another important issue facing self-employed baby boomers is what to do with their business when they reach retirement age. "For many people, their critical asset is their small business.

They need help with the succession planning of that business, and they need to have the tax implications of that carefully handled."

But Andrew Inwood, a market-intelligence researcher at Brand Management, warns against trying to sell this group highly complex products. "They trust people, not brands. Yet companies still reward sales, not relationships."