

SEGAL SPECIAL REPORT

FEBRUARY 2001



The Aging of Aquarius: The Baby Boom Generation Matures

The baby boomers are now in the prime of their working lives. The youngest will turn 36 this year and the oldest are reaching age 55. As the largest generation in U.S. history, their birth, education and development dominated American politics, business and culture during the last half of the 20th century. The boomers' maturation and aging will, in many ways, shape American life, especially the workplace, during the first decades of the 21st century.

To some observers it appears that the American population is inexorably marching toward retirement. At least half of the workers in some, but by no means all, industries will reach retirement age in the next decade. The challenges posed by the maturing of the baby boom generation, including the implications for the future of Social Security and Medicare, are beginning to dominate our national discussions.

Considerations for Employers and Other Plan Sponsors

Employers and other plan sponsors engrossed in making daily decisions may wonder why they should take out time from tending to immediately pressing issues to take a broad look at the nation's demographic profile. The answer: National demographic trends show who, from today's labor market, will be available to do tomorrow's work and point the way to making the transition effectively.

Of course, when it comes to demographics, no sweeping generalizations or implications apply to all industries, workforces and/or plan populations. The issues and how they interrelate can be complicated. Sponsors of pension plans and health plans that cover retirees will need to ensure that they are prepared for the waves of boomer retirements. Improved longevity is likely to accelerate demand for long-term care services and insurance. Moreover, as their retired parents age, younger workers will face eldercare issues, particularly if they do not have siblings to share the responsibility. Indeed, given the increasingly complex structure of American families, many younger workers may need to watch out for stepparents, and other elderly loved ones, in addition to their mothers and fathers. As so many boomers retire, workforce shortages may become acute in many industries and new styles of recruitment and retention efforts may be needed.

The Aquarius Initiative

The Segal Company is analyzing the implications of demographic patterns on behalf of its clients. Although The Segal Company's initiative is called "The Aging of Aquarius: The Baby Boom Generation Matures" to stress the most immediate concern, the Aquarius initiative addresses the employment-related needs and concerns of all generations of workers. The initiative will help each client determine a strategy for dealing with the relevant issues raised by its own demographics. By understanding where their own working populations appear to be headed demographically and the resulting implications for benefits, human resources and compensation programs, plan sponsors and employers can plan intelligently. This *Segal Special Report* uses a question-and-answer format to identify employment-related demographic trends and issues.

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The Challenge

When will employers and other plan sponsors feel the impact of the aging of the Aquarius generation?

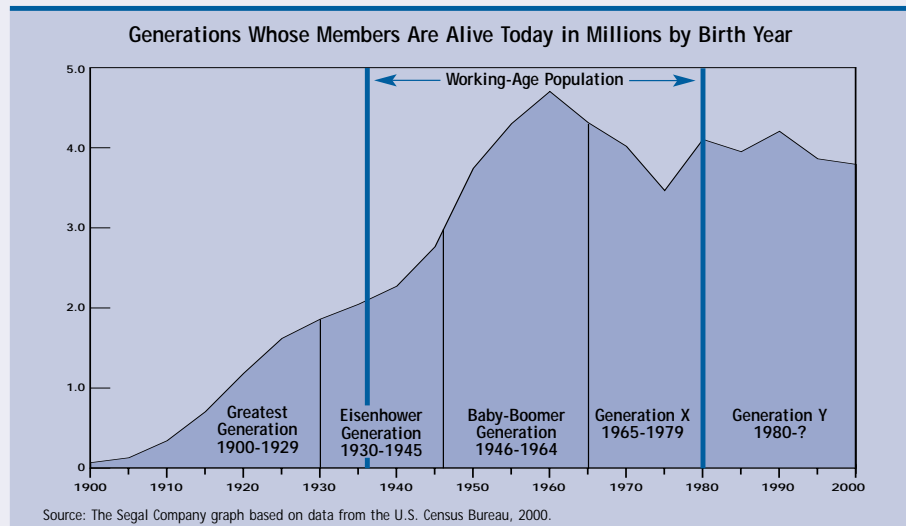
The first effects of the aging of Aquarius are already being felt as some of the oldest boomers prepare for early retirement. However, the impact of the baby boomers' retirements will increase dramatically over the next 10 to 20 years as a growing number of boomers reaches retirement age. Whether the impact is immediate, imminent or deferred, most employers and plan sponsors need to start planning now for the effects that waves of boomer retirements will have on everything from retirement and health plan costs to recruitment strategies and succession planning.

The full effect of the baby boom generation's aging will be spread across two decades because the baby boom generation, the population explosion that began in 1946 following the return of World War II veterans, lasted until 1964 when the number of births began to decline. The graph below shows the size of the baby boom generation and other generations whose members are alive today.

*"Everyday it's a-gettin' closer,
goin' faster than a roller
coaster..."*

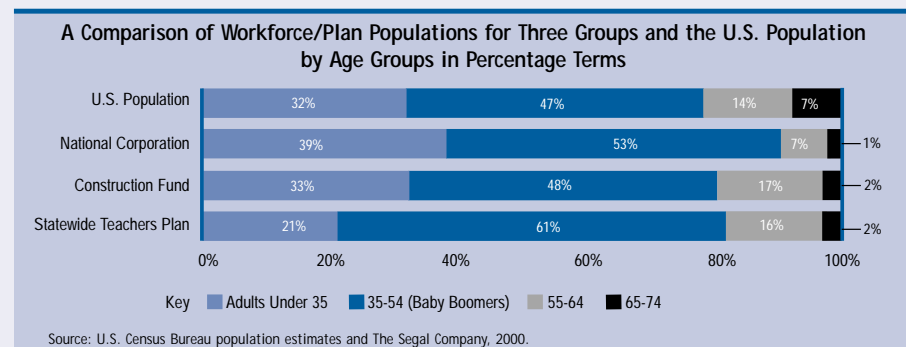
— Buddy Holly

"Everyday," written by Charles Hardin and Norman Petty.
Performed by Buddy Holly, *The Original Master Tapes*, APRS.



It is the convergence of two demographic patterns — a maturing baby boom generation and significantly smaller succeeding generation (Generation X) — that is causing the aging of America and a changing workplace. In 1980, half of American workers were under 35 years of age. In 2005, it is anticipated that the midpoint will be age 41.

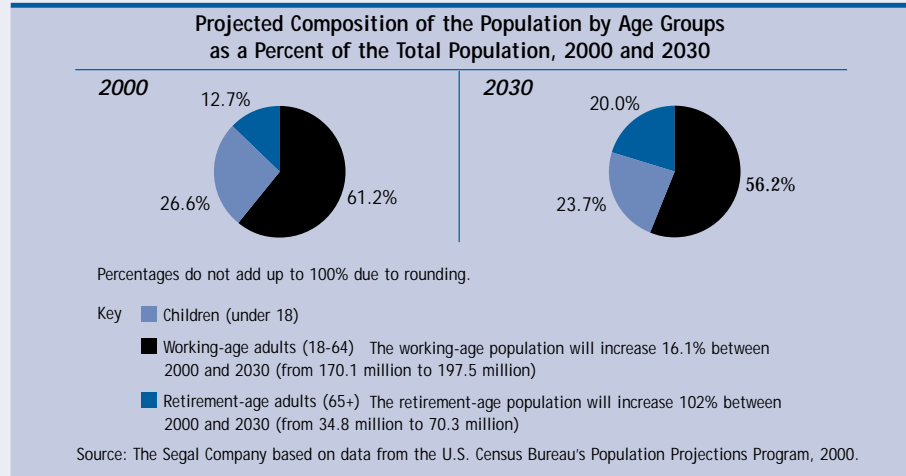
Of course, every employer's workforce and each employee benefits plan has a unique demographic profile that may not mirror that of the nation as a whole. To illustrate how different these can be, the graph below shows the workforce profiles for three Segal



When will employers and other plan sponsors feel the impact of the aging of the Aquarius generation? (Cont.)

Company clients: a national corporation, a multi-county construction fund in a Mid-Atlantic state and a statewide teachers' plan in the Midwest.

The country's retired population will increase dramatically over the next 30 years. Over that same period, the working-age population will also increase, but at a much more modest rate. The illustration below shows these projected changes.



Of course, if a significant number of boomers decides to continue working past normal retirement age, then the effect of the first boomer retirements will be mitigated. In recent years, after a period of precipitous decline in the average retirement age, increasing numbers of pre-boomers have been working beyond age 65. In 1998, about 18 percent of men and 9 percent of women aged 65 and over were still active labor force participants. Moreover, a recent study by the AARP found that 80 percent of boomers expect to continue working at least part time during their retirement years. Clearly, sponsors of retirement plans and retiree health coverage will want to take these trends into account when evaluating plan designs.

How important is it to begin to prepare for the maturing of the baby boom generation?

For employers and other plan sponsors, it is critically important to begin planning *now* for the retirement of the baby boom generation and, as a corollary, the reorientation of benefit and compensation programs to fit the next generations of workers. Spreading this message is one of the main goals of The Segal Company's Aging of Aquarius initiative. As noted, all signs point to a continuing tightening of the labor market due to population patterns, even as the economy slows down.

As described in this *Segal Special Report*, because of the size and the expected improved longevity of its members, the huge baby boom generation is expected to have a striking effect on the country's demographic profile and economy and on individual employers and plans well into the 21st century. Thirty years from now, when the oldest boomers will be 85 years old and the youngest turning 65, there will still be 61.4 million residents of the U.S. who are members of the baby boom generation.

The following workforce-related observations apply to the aging of the baby boom generation:

- **There may be workforce shortages.** Boomers make up half of the U.S. active civilian labor force. When the boomers retire, employers may find that the labor market tightens and demands on available workers increase. The Bureau of Labor Statistics (BLS)

How important is it to begin to prepare for the maturing of the baby boom generation?
(cont.)

predicts that between 2003 and 2008 the replacement needs attributable to the boomers' retirement will be greatest for the 10 occupations listed below:

Occupation*	Number of Employees Needed to Replace Retirees 2003-2008**
Elementary School Teachers	237,000
Registered Nurses	188,000
Administrators in Education and Related Fields	101,000
Administrators and Officials in Public Administration	81,000
Financial Managers	58,000
Lawyers	57,000
Social Workers	54,000
Teachers Aides	52,000
Plumbers, Pipefitters and Steamfitters	36,000
Postal Clerks (Except Mail Carriers)	30,000
TOP-10 TOTAL	894,000

* Note: The BLS only looked at occupations with more than 50,000 employees.

** Replacement needs are equal to the number of people leaving less those that will not be replaced.

Source: "Gauging the Labor Force Effects of Retiring Baby Boomers" by Arlene Dohm (Bureau of Labor Statistics' *Monthly Labor Review*, July 2000).

- **Organizations may experience a leadership shortage.** Institutional knowledge and succession planning are important responses to this possibility.
- **Health plans that cover retirees may find it difficult to pay benefits.** Coverage for early retirees tends to be high because these retirees are not yet eligible for Medicare. The sharply rising cost of prescription drug coverage for Medicare-eligible retirees is a particular concern for plan sponsors that provide benefits supplementary to Medicare. In mature industries, sponsors of health plans will need to prepare for the retirement of the baby boomers because the sheer numbers might otherwise be overwhelming. Significantly, boomers can expect long retirements due to improvements in life expectancy, a trend that is discussed on page 7 of this report. Of course, sponsors of plans in new or emerging industries, where few boomers have been employed for any length of time, may not be significantly affected by the retirement of the baby boomers. Sponsors of plans that do cover many baby boomers will want to watch Washington to see if Medicare coverage is expanded to include prescription drugs.
- **Some public services will be strained.** Already, waves of teacher retirements are beginning to strain public school systems now that the school-age population is rising again because of the boomers' children and grandchildren.
- **Because of the size of their generation, retired boomers will affect the economy.** As boomers (and their parents) age, they are expected to stimulate demand for certain services. For example, there will be greater need for home health aides and home repair assistance. In addition, boomers' changing needs and preferences are likely to have an impact on consumer markets (e.g., empty nesters selling homes and moving to apartments) and financial markets to the extent that they shift to liquid investments and spend down assets.
- **Working retirees could affect job designs.** If boomers desire to work in retirement, what kind of employment will be attractive to them? Will they be able to use their accumulated skills or will they need or want to switch occupations? How can employers take advantage of this? Will they want to work part time or full time? If part time, will they overload the available part-time jobs or lead employers to create part-time jobs out of today's full-time jobs? If part-time jobs increase, what mix of compensation and benefits will prove attractive?

*"You better start swimmin'
Or you'll sink like a stone
For the times they are
a-changin'..."*

— Bob Dylan

"The Times They Are A-Changin'," written by Robert Dylan. Performed by Robert Dylan, *The Times They Are A-Changin'*, Special Rider Music.

How important is it to begin to prepare for the maturing of the baby boom generation? (cont.)

Of course, the exact effects of the baby boomers' retirement will vary from industry to industry and among different geographic locales. To gauge the likely impact in individual situations, ideally, organizations should undertake a total review of their benefits offerings and employment strategies.

What are employers and other plan sponsors doing to respond to these challenges? We suggest some of the answers to this question in the Next Steps section beginning on page 11, but to understand the answers it is very helpful to know The Rest of the Story, which follows directly below.

The Rest of the Story

What's so special about the boomers?

In many respects, the baby boom generation is a maverick generation. The characteristics of the baby boom generation discussed below provide clues to what boomer employees have to offer, the services they need and employment and benefits policies that meet those needs.

Two workforce characteristics of the baby boom generation are significant:

- **The baby boom generation has the highest labor force participation rate of any generation in American history.** Currently, 85 percent of boomers are either employed or actively seeking work. With over 65 million participants, baby boomers constitute more than half of the U.S.'s active civilian labor force.
- **Most boomer women work.** In 2000, 80 percent of female baby boomers are working. This has implications for household income and, for working parents, child care needs.

Additionally, several social, lifestyle and demographic characteristics of the baby boom generation are notable when considering benefit and compensation designs:

- **Many boomers are relatively well educated.** Boomers are twice as likely as their parents to be high school and/or college graduates. About one in four boomers has a bachelor's or higher degree. Nevertheless, it is important to note that 13 percent of boomers have not completed high school and another third ended their education at the 12th grade level.
- **Boomers' divorce rate is high.** For example, in 1990, 36 percent of the oldest boomer women (age 40 to 44) had been divorced. (Ten years earlier, only 26 percent of women in that age group were divorced). Among other things, the high divorce rate illustrates why the administration of qualified domestic relations orders (QDROs) splitting rights to benefits between divorcing spouses has become so complicated.
- **Boomers pioneered nontraditional living arrangements.** Boomers are far more likely than people in earlier generations to be unmarried. One-third of baby boomers never married, compared with less than 5 percent of their parents' generation. Of course, not all unmarried boomers live alone – although 10 percent of boomers do live alone. The baby boom generation is the first generation to draw attention to non-traditional households. According to U.S. Census Bureau data, in 1998, there were more than 1 million households with two unrelated adults headed by 35- to 44-year-olds. Of those householders, 72 percent had a partner of the opposite sex and 28 percent had a same-sex partner.
- **Boomer women are increasingly delaying childbirth.** While the absolute number of women having their first child at older ages is small, it represents a notable increase in a short period. In 1998, for every 1,000 women who gave birth for the

*"Time, time, time---see what's become of me
While I looked around for my possibilities
I was so hard to please."*

— Simon & Garfunkel

"A Hazy Shade of Winter," written by Paul Simon. Performed by Paul Simon and Arthur Garfunkel, *Bookends*, Paul Simon Music.

What's so special about the boomers? (cont.)

first time, 8.7 were 35 to 39 years old and 2.6 were 40 to 44 years old. Only eight years earlier, the equivalent figures were 6.5 and 1.2, respectively. It is worth noting that women and men who have children when they are older — including those who have divorced, remarried and started second families — may have an incentive to remain in the workforce longer than their “empty-nest” or childless colleagues.

- **Boomer women are having relatively few children.** Boomers’ mothers had an average of 3.1 children. In contrast, boomer women are expected to have an average of 1.9 children by the end of their childbearing years. Although women may be having fewer children than in the past, there is considerably more demand for employers to accommodate their needs for child care because so many women with children, including those with young children, work. According to Bureau of Labor Statistics data, nearly 65 percent of women who have children under age six are in the labor force.
- **The percentage of childless boomers is higher than in the previous generation.** For example, in 1989, about 24 percent of older boomers and 44 percent of younger boomers were childless. In 1959, 20 percent and 18 percent of their parents’ generations were childless. (Of course, younger boomers ranged in age from 25 to 33 in 1989. To the extent that younger boomers decided to delay having children, the percentage of them that are childless may have declined over time.)
- **Many boomers’ parents are alive.** Unlike middle-aged members of previous generations, significant numbers of middle-aged boomers have living parents. Today, 27 percent of 50-year-olds have both parents living. In 1960, only 14 percent of 50-year-olds had both parents living, according to the National Council on Aging (NCOA). In 1997, approximately 3.3 million boomers were providing care to a relative or friend age 55 or older who lived at least one hour away, according to a survey by the NCOA and the Pew Charitable Trust. The NCOA president estimated that the number of these long-distance caregivers will more than double by 2012 as the boomers and their parents age.
- **Boomers’ standard of living is, in many cases, higher than their parents’ standard of living.** As a result, boomers may have high expectations for their retirement years. For example, a 1998 survey of boomers by the AARP found that 84 percent think their generation will need more money in retirement than their parents’ generation in order to live comfortably; 25 percent expect to scale back their lifestyle in retirement and 23 percent think they will have to struggle to make ends meet. Clearly, younger boomers may need to save more and older boomers whose savings are inadequate may need to delay retirement.

The Segal Company’s Aging of Aquarius initiative addresses the wide range of workforce and benefits implications of these characteristics of the baby boom generation.

Is there a profile of a “typical” boomer?

No. Despite popular perception of similarities among boomers, including the amusing stereotype of an affluent, gray-haired former hippie, the baby boom generation is extremely diverse. This suggests that benefit plans with the greatest flexibility will be preferable to “one-size-fits-all” designs.

A 20-year period can encompass more than one generation, particularly if a generation is defined as groups of people with shared experiences, similar attitudes and the same cultural touchstones. Older boomers’ formative years were the turbulent sixties and early seventies, the era of the Civil Rights and Women’s Rights movements and the Vietnam War and its organized opposition. Younger boomers turned 18 between the mid-1970s and early 1980s, a period that included Watergate, the oil embargo and high inflation.

**Is there a profile of a “typical” boomer?
(cont.)**

*“We’re one, but we’re not the same
We get to carry each other,
carry each other”*

— U2

*“One,” written by Adam Clayton, David Evans, Paul David Hewson and Laurence Mullen. Performed by U2, *Achtung Baby*, Universal Music Publishing Group.

Moreover, there are considerable life-stage differences among people at either end of the boomer age spectrum. Many boomers have children who are in college, other boomers’ children are in nursery school and some boomers are childless. Specifically, the “nests” of many older boomers are now emptying. Although, as noted above, some boomers are starting second families, only one in four older boomer households still includes a child living at home. In contrast, younger boomers are in the midst of their child-rearing years. Sixty-four percent of people in this age group have children living with them.

Many boomers in these two broad age groups share a common characteristic with each other and with some members of the younger generations: multi-generational family responsibilities for children and elderly parents. Members of this so-called “sandwich generation” face enormous pressures juggling these caregiving responsibilities and their careers. A 1997 survey by the National Alliance for Caregiving and the AARP found that 41 percent of all caregivers were caring for both children under 18 and elderly relatives or friends. Among caregivers for the elderly who were working outside the home, 47 percent also had children in the household.

Will boomers be “forever young”?

Not quite, but almost! The average 45-year-old baby boomer can expect to live to age 79 – men, three years less and women, 2.5 years more. Moreover, improvements in the health of those who are living longer are expected to keep members of the Aquarius generation active and productive for many years to come.

Improved longevity will not end with the boomers. Genetics and other medical advances could result in additional dramatic improvements in longevity. (Seizing on this possibility, a current advertisement for discovery.com shows a baby with the tag line, “Life Expectancy: 120” – which many scientists consider to be the maximum biological limit of a human life.) These marvelous new health care opportunities will, of course, come with a price tag that many workers and retirees will expect to have paid by their employers’ and unions’ retirement and health plans.

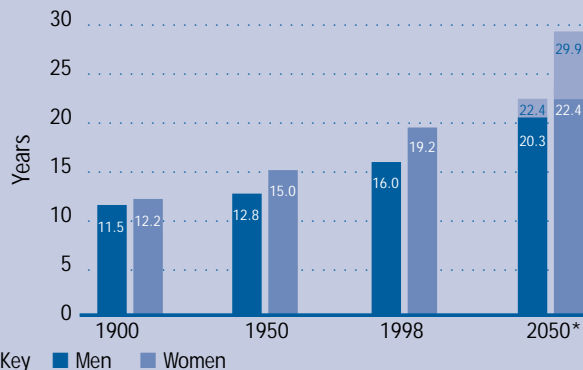
The graph below shows improvements in life expectancy for 65-year-olds over more than a century. Significantly, there are also dramatic gains in longevity for the oldest elderly (*i.e.*, those who are 85 or older), historically the most costly segment of the population in terms of health care benefits.

“May you stay forever young.”

— Bob Dylan

*Forever Young,” written by Robert Dylan. Performed by Robert Dylan, *Electric Lunch*, Rams Horn Music.

Actual and Projected Remaining Life Expectancy at Age 65 for Men and Women, Selected Years 1900-2050



* The lower of the life expectancy estimates for 65-year-old men and women in 2050 are based on the U.S. Census Bureau’s 1996 middle series projections. The higher estimates are based on the U.S. Census Bureau’s 1996 high series projections. Some demographers expect that the higher estimates will prove to be more accurate because they believe that advances in medical treatments and medical technology will result in exponential, rather than linear, improvements in life expectancy for older Americans.

Source: For 1900, 1950 and 1998, *Statistical Abstract* (Table 28). For 2050, Administration on Aging, based on U.S. Census Bureau projections.

Will boomers be “forever young”? (cont.)

Improvements in longevity have implications for the cost of retirement benefits because pensions are payable over longer periods, defined contribution plan account balances will need to be spread over more years and retiree health coverage may become more expensive because the oldest elderly tend to have the highest health expenses. However, in addition to living longer lives, Americans are generally living healthier lives at older ages. In a sense people are “younger” for longer periods. This fact means that improvements in longevity also present opportunities. As people live longer, healthier lives they may be more willing and able to continue to contribute to the workforce beyond what has been considered normal retirement age. Additionally, to the extent that traditionally expensive end-of-life medical expenses are deferred, plans that choose to pre-fund retiree health coverage have a longer period over which to prepare for covering the cost.

Why focus on the boomers — what about everybody else?

No demographic analysis is adequate without an examination of all living generations, as The Segal Company's Aging of Aquarius initiative does. Boomers are commanding the most immediate attention because of the size of the generation and their imminent retirement. Nevertheless, no employer or plan sponsor can afford to focus exclusively on the changes associated with the baby boom generation. Understanding the characteristics and preferences of generations that follow, particularly Generation X, which is already in the workforce, is equally important.

There are approximately 56 million Gen-Xers in America today.* As members of a smaller, up-and-coming generation, in the employment arena they are as immediately important as the boomers. As employers seek to recruit new workers and unions expand their organizing efforts, the number of people aged 25 to 44 in the labor force is projected to decrease by 3.7 million between 1998 and 2008, according to Bureau of Labor Statistics projections. (In contrast, when the boomers were in that age group, between 1978 and 1988, the size of the group increased by 10.7 million.)

Anyone looking at workforce demographics must consider how to attract, retain, compensate, motivate and best utilize the talents of the up-and-coming generations. For some industries, attracting and retaining employees at or near retirement age will be critically important as well. Compensation and motivational issues may be very different for these older groups.

On the other hand, employers and plan sponsors should not expect to see sharp distinctions between the boomers and the generations that follow. The data about Generation X suggests that, in general, Americans who are currently between the ages of 20 and 35 share many of the baby boomers' characteristics. They are well educated. (In fact, they are better educated. A 1997 survey found that 64 percent of Generation X workers had some education beyond high school compared to 44 percent of boomers.) The majority of Gen-X women work. Many Gen-Xers are divorced. Nontraditional living arrangements are common among Gen-Xers.

Notable differences between members of the baby boom generation and Generation X include the following:

- **Gen-Xers are marrying earlier and having children earlier than the boomers did.**
- **Gen-Xers are starting earlier to save for retirement.** A study by the Employee Benefit Research Institute (EBRI) found that 65 percent of Gen-Xers have started saving for retirement and 19 percent have already saved more than \$50,000. (Despite being older, only 18 percent of the younger boomers had saved that much.)
- **Generation X is more racially diverse than the boomers.** One-third of Generation X is non-white. Only 25 percent of boomers are non-white.

*Of course, as illustrated in the graph on page 2, Generation X covers a shorter period than the baby boom generation: 14 years compared to 18 years.

*“Oh you better be good to me
That's how it's got to be now.”*

— Tina Turner

“Better Be Good to Me.” written by Michael Donald Chapman, Nicholas Barry Chinn and Holly Knight. Performed by Tina Turner, Private Dancer, BMG Songs Inc.

Why focus on the boomers — what about everybody else? (cont.)

Members of Generation X have sometimes been portrayed as having less attachment to the labor force in general and their employers in particular compared to members of the baby boom generation; however, statistics do not support this conventional wisdom. For example, a Department of Labor study of job tenure did not find that young workers in the early 1990s were more likely to job hop than young workers in the early 1980s. In addition, a 1997 study by the Families and Work Institute found that although Gen-Xers were less likely than boomers "to have embarked upon their work lives imagining they would remain with the same company for most of their career," half of both Gen-Xers and boomers now no longer expect a "lifetime job."

Don't the different generations' interests conflict?

Some predict that the baby boom generation and the generations following it will do battle over the country's resources. They warn, for instance, that baby boomers' Social Security protections will need to be cut in order to avoid increasing the taxes on Generation X workers to pay for those retirement, disability and other safety-net benefits. It is true that difficult allocation decisions may have to be made, particularly if we experience an economic downturn. However, it should be obvious that the fortunes of the older and younger segments of our population are inextricably linked in myriad ways: they are, after all, one another's parents, children and siblings.

The threat of generational conflict has been cited in the arguments over the future of Social Security. In the context of employment-based plans, it shows up more in the plan design alternatives considered by plan sponsors, who may view one kind of plan as likely to make their younger workers happy while another would be appreciated more by older or longer-service employees. Since the reality of limited resources is much more immediate and concrete for an individual company or plan than it is for a massive federal program like Social Security, choices do have to be made. The challenge is to come up with a design or designs that have the greatest chance of satisfying both groups and to explain to all of the employees how and why it works. As the recent controversy surrounding cash balance plans has shown, if that evaluation and communication process is short-circuited, it is the employer or plan sponsor that will bear the brunt of the offended group's anger (and, perhaps, their lawsuit). Organizations that want to be able to use the talents of all generations need to be able to appeal to all of them, striking a balance and mediating among them when there is a possibility that they could perceive that one is being favored to the detriment of the others.

*"Will you still need me,
will you still feed me
when I'm 64?"*

— The Beatles

"When I'm 64," written by John Lennon and Paul McCartney.
Performed by the Beatles, Sgt. Pepper's Lonely Hearts Club Band, BMI.

How is the federal government dealing with demographic-related challenges?

The federal government faces most of the same workforce challenges as other employers – but in greater numbers and variety, given its size and the breadth of its activities. Moreover, as state and local governments are also finding, demographic trends are creating greater demands for public services at the same time that they are making it harder to find and keep the people needed to meet those demands. For example, the Social Security Administration expects the number of beneficiaries to rise by roughly 18 percent over the coming decade, while during that period close to 45 percent of the agency's current workforce will retire (and, in many cases, go on the SSA beneficiary rolls).

Because of its pervasive impact on our economy, what the federal government does here – whether as a provider of public benefits, a regulator or as an employer in its own right – inevitably shapes the actions and attitudes of employers and workers. Initiatives by the federal government to meet the evolving needs of its own employees can create coattail-riding opportunities for other employers. For instance, many hope that, when the government offers long-term care coverage to federal workers and their families, as authorized by a law passed in September, 2000, the participation of such a large purchasing group will stimulate the development of affordable group long-term care insurance generally.

How is the federal government dealing with demographic-related challenges? (cont.)

"Wishin' and Hopin'..."

— Dionne Warwick

"Wishin' and Hopin'," written by Burt Bacharach and Hal David. Performed by Dionne Warwick, *Presenting Dionne Warwick*, Casa David, New Hidden Valley Music Co., WB Music Corp., Warner Chappell Music Inc.

But the federal government's impact is most evident in connection with pertinent federal benefit programs and regulatory policies. Immigration policy, Internal Revenue Code rules for tax-favored benefit programs, Labor Department guidance on the duty of ERISA plan fiduciaries to make sure that workers understand their benefit rights, lawsuits invoking the nondiscrimination protections of the Age Discrimination in Employment and Americans with Disabilities Acts all illustrate the ubiquitous role of the federal government in regulating employment, benefits and compensation.

The federal government, of course, also provides retirement benefits directly, most obviously through Social Security and Medicare, programs that cannot avoid confronting the issues posed by the aging of the baby boomers. Americans' approach to retirement in general will depend in large part on whether and how those programs are modified to deal with the looming demographic pressures.

While political disagreement clouds the prospects for major program restructuring in the near term, there was no dissent from the latest Social Security program change: the Senior Citizens' Freedom to Work Act of 2000, which repealed the Social Security earnings test for people over 65 in order to encourage them to keep working. And, although it is decidedly more controversial, there is a strong likelihood that the Medicare coverage package will soon be updated by adding prescription drug coverage, given the prominent role that drugs play in medical treatment today.

Many employment-based health and retirement income programs have been built with Medicare and Social Security as the foundation. Solutions worked out by and for the federal government will be central to what employers and unions can and should do in their own spheres.

What are the implications of global demographic trends for the U.S.?

"We are the world..."

— USA for Africa

"We Are the World," written by Michael Jackson and Lionel Richie, Jr. Performed by various artists, *USA For Africa*, MJAC music and Warner-Tamerlane Publishing Company.

To the extent that global demographic trends affect the movement of jobs across national borders, the federal government, employers and sponsors of private-sector plans have an interest in international population and immigration patterns. Immigration to the U.S. is at an all time high. These increases in the number of immigrants to the U.S. are having an impact on the demographics of the current workforce and the issues that benefit plan sponsors must address. There may be dramatic changes in the government's assumptions about the financial position of the Social Security system as well.

Significantly, not all countries share America's demographic profile. Many developing countries where fertility and mortality are both higher than in the U.S. have very young populations. India, Nigeria and Pakistan are only three examples. Mexico also has a relatively young population. Immigration from these and other "young" countries may be the most significant unknown variable, or wild card, affecting population projections for the U.S. — and in easing workforce shortages.

Immigration has already had a profound effect on the baby boom generation, swelling its ranks to more than 84 million today. Today, 12 percent of American baby boomers are foreign born. It seems likely that in the future, as at other points in history, immigrants could make up a significant portion of organized labor in the U.S. Even in the absence of significantly higher immigration, America is expected to become more culturally diverse because recent immigrants are more likely than those who came to this country in the 19th and early 20th centuries to retain their ethnic identification and to pass it on to their American-born children. This phenomenon will have implications for how plan sponsors design benefit programs and how they communicate benefit programs to plan participants. To the extent that people immigrating to the U.S. for work retain deep ties to their native countries to which they plan to return in retirement, plan administration may become more complicated.

What are the implications of global demographic trends for the U.S.? (cont.)

It is worth noting that if Congress decides to increase immigration levels further, the U.S. may find itself competing with other aging nations for immigrant labor. Many developed countries, such as Germany, Italy and Japan, are facing severe demographic challenges because their populations are older and their younger generations are smaller than those in the U.S. Many of the so-called "Asian tiger" countries with strong economic growth, such as China, Korea and the Philippines, also have aging populations.

Next Steps

What are employers and other plan sponsors doing to respond to these challenges?

Strategies for coping with the challenges posed by demographics vary from organization to organization depending on the population characteristics and circumstances. The following are among the different ways that Segal Company clients are responding to the challenges presented by demographics:

- Finding new ways to communicate with employees and participants to make sure they appreciate and best use their benefits,
- Surveying participants to learn what they expect and want,
- Benchmarking compensation and benefits to remain competitive in the battle for talent,
- Reviewing current compensation structures and patterns to make sure they fit evolving workforce priorities,
- Introducing work/life benefits, including flexible scheduling, child care and eldercare programs, to meet the needs of a diverse workforce,
- Making long-term care insurance available to employees and their elderly relatives,
- Re-appraising and re-targeting early retirement programs,
- Analyzing pension plans' medium-term cash-flow needs and adjusting investment strategies to assure liquidity,
- Giving consideration to pre-funding retiree health benefits,
- Looking again at defined benefit retirement plans and the ways they complement 401(k) and other defined contribution-type plans,
- Educating plan participants about their self-directed plan investments, such as 401(k) plans and other defined contribution plans, and becoming financially prepared for retirement,
- Reviewing the adequacy of retirement benefits in replacing participants' pre-retirement income after retirement,
- Undertaking formal succession planning and leadership development among middle managers,
- Setting up training and knowledge management procedures and tools to preserve institutional expertise and make it more broadly available within the organization,
- Holding formal, professionally-led strategic planning sessions to take a broad look at where they are headed, validate the directions in which they are moving and set objectives for getting there.

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Future Segal Company publications will discuss the implications for employers and other plan sponsors of specific demographic trends. To discuss your organization's demographics and their implications for workforce strategies and plan design, please contact your Segal Company consultant or the nearest Segal Company office. A list of our offices appears on the back of this report.

*"Taking care of business every day
Taking care of business every way...
Taking care of business and
working overtime."*

— Bachman Turner Overdrive

*"Takin Care of Business," written by Randall Charles Bachman.
Performed by Bachman Turner Overdrive, Bachman Turner Overdrive,
Sony/ATV Songs LLC.

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