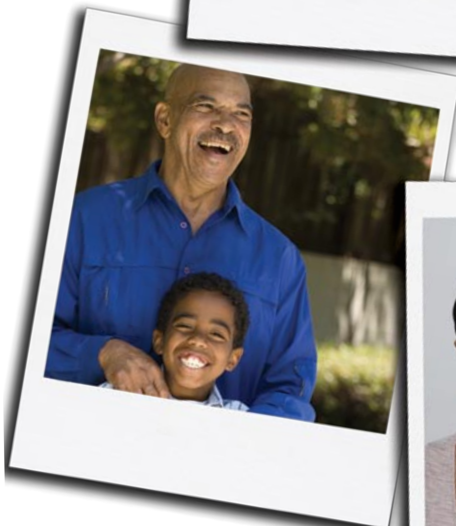
Prime Time



The onslaught of retiring baby boomers will change not only the way life insurers design products, but also the face of their work force.

by Steven Callahan

The life and annuity insurance industry is facing two approaching "megatrends." For insurers, these shifts come paired with challenges and demands for attention, as well as a warning of likely casualties among companies that don't take action.

The first trend is the coming wave of baby boomer retirements. As they reach retirement age, many will be faced with trying to meet rising health care costs and retirement lifestyle needs with inadequate funds.

Recent studies into this phenomenon by insurance companies and research firms have all come to the same conclusion: The effect is going to be a dramatic shift from asset accumulation to asset utilization.

In the United States alone, the number of Americans age 60 and over will reach 56.9 million by 2010, according to U.S. Census Bureau figures analyzed by the U.S. Administration on Aging.

With them will come an estimated $30 trillion-plus in assets that's expected to shift to retirement income purposes from asset accumulation products, consulting firm Deloitte reports.

Given that more than two-thirds of all life insurance buyers do so for income replacement purposes, the movement to a payout era is inevitable. As aging consumers face longer lifetimes and rising health care costs, layered on top of a predominantly low savings rate over their working lives, withdrawals from retirement accounts will accelerate exponentially.

More than 65% of working respondents to an AXA Equitable Retirement Scope global survey stated they will rely upon their own savings or income at retirement versus social security or pensions. This shift in the asset-management dynamics of the industry could represent the biggest period of growth ever seen. Yet it also could represent one of the most competitive periods

▶ **The Trend:** Retiring baby boomers will steer life insurers from selling asset accumulation to asset utilization products.

▶ **The Significance:** Insurers will be competing for $30 trillion in retiree assets.

▶ **Watch For:** Insurers to design new retirement-friendly products and hire a multigenerational, multicultural work force.

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as banks, security firms, and asset management companies all vie for the $30 trillion.

Customer-centric service, flexibility, and innovation are the keys to retaining the loyalty and business of this tremendous consumer base.

Innovative examples already are entering the market, like the unique products that create a payout plan by pairing an income stream with a 401(k) plan, giving the consumer options on where the money is invested. This approach allows the consumer to balance risk with income needs in a creative structure, providing a sense of control unavailable in traditional immediate annuities.

This type of innovation blends the benefits offered by the insurance industry with recognition of the shift to more sophisticated consumers entering retirement.

Variable funds and securities are also popular vehicles for innovation. Here again, the consumer benefits from a greater sense of control over investment options and payout levels.

Spreading the Wealth

Another challenge in dealing with the shift to payout from accumulation is how marketing will be conducted, with particular emphasis on distribution. As an example, even today there is a gradual deterioration in the agency system as face-to-face, relationship-based selling loses ground to the direct channel.

While retiring boomers may be more technophobic than their Generation X or Y successors—still preferring relationships over technology—the role of banks, asset management companies and securities firms are creating competitive alternatives.

And, because so much of middle America's dollars reside in checking, savings, investment and 401(k) accounts, relationships already exist between these channels and with their likely agency-sold property/casualty and life and annuity business.

The bank that simplifies a conversion from certificates of deposit or Treasuries to immediate annuities or variable investment accounts gains a tremendous advantage. It can leverage the retirement segment of the market away from the traditional insurance agent—a segment that represents the largest growth opportunity.

Some industry executives estimate annuity sales to double in the next three to five years, putting more than $9 trillion in play. Being positioned to compete with investment trusts, mutual funds, modified 401(k) plans and other feature-rich payout products is a necessity for both the agency system and for the insurer whose primary distribution is through that channel. Of course, a wise alternative is to build alliances with these alternative channels.

Nevertheless, these alliances will need to be managed with consideration to the existing agency system—a complex challenge for even the most adept.

The bottom line for insurers is that the retirement income tipping point is on its way. The industry must develop not only products that recognize the shift to a payout model, but also the service infrastructure to provide superior customer centricity and flexibility.

At the same time, insurers must consider the future opportunity presented by Generation Y. Products and plans that address the unique and diverse demands of the so-called digital generation will require Web servicing and automatic plan features as standard items, and not nice-to-haves.

Taken together, these challenges are enormously significant, and yet could easily be missed in the turmoil of business as usual.

The second trend involves the coming changes in demographics within the consumer and employee populations. These changes will impact leadership as well as product features, servicing options and distribution channels. Baby-boomer retirements will create a talent void in the globalized work force, and companies will face some of their most complicated and demanding leadership times with younger and less seasoned leaders.

Granted, the void is somewhat mitigated by delays in retirement due to longer lives and the need for longer income payouts. Still, the impact will be felt, especially culturally, as the Silent Generation (those born prior to 1946), baby boomers, Generation X and Generation Y share the work force together.

Imagine the challenges associated with leading a work force constituted by the wide range in value systems represented by the Silent Generation and Generation Y. How amenable will the generations be to coexistence? How long will cultures take to shift from forming to storming to norming until finally arriving at the performing stage—all while facing tremendous changes in the economy, technology and industry dynamics?

Clearly, it will be an employee's market as companies compete for the limited number of talented candidates to fill their growing needs.

One significant consequence will be a more global work force as companies

By the Numbers: Baby Boomers

57.8 million Number of boomers living in 2030, according to projections; 54.9% would be female. That year boomers would be between ages 66 and 84.

2.1 The number of workers for each Social Security beneficiary in 2031, when all baby boomers will be over age 65. Currently, there are 3.3 workers for each beneficiary.

2025 The year the youngest will be at least 60 and oldest will be 80.

Sources: U.S. Census Bureau, Social Security Administration seek talent from around the world to fill their needs and/or place their operations near where pools of talent are located.

In fact, the health care industry is an example of what the future holds for insurers. A shortage of more than 400,000 nurses in the United States is expected by 2010—and rising to 1 million by the year 2020—according to a report from Department of Health and Human Resources' Health Resources and Services Administration.

To fill this shortage, several Asian countries have established nursing schools, based on U.S. credentialing requirements, and hope to provide qualified nurses to come to the United States to fill this demand.

Although just one example, it shows foresight in terms of planning for the resource void ahead.

Consistent with these trends is the growing multiculturalism of American consumers. The Census Bureau projects that, by 2010, about one-third of the U.S. population will be minority members, with nearly 16% Hispanic, 14% black and 5% Asian. Greater consumer diversity will require companies to be more aware of these cultural differences and more adept at tailoring services for these differences.

> Being positioned to compete with investment trusts, mutual funds, modified 401(k) plans, and other feature-rich payout plans offered through alternative channels is a necessity for the agency system.

Whether through targeted hiring and training of minority agents or multilingual capabilities in call centers, correspondence and policy forms, the challenge for the industry will be to become globally diverse service providers.

And in this arena, there are internationally established companies that have a distinct advantage over most U.S. based operations, as they have operated in multilingual environments with ethnically diverse sales and service operations for years.

Most U.S. companies have remained almost exclusively English-based, with some extending capabilities slightly with their sales materials and in their call centers. Even fewer have taken the necessary steps to file and use multilingual policy forms, sales and support.

What are the probable effects of these megatrends? First is a likelihood of continued mergers and consolidation within the industry. And second is that companies that prepare for a global market and a truly diverse employee pool are better positioned for long-term growth and survival.

Is this an immediate, next-year issue? Not entirely, but making these necessary changes will take years of investment and preparation. To be ready for the future, the time to strategize the alternatives is now. BR