

Serving **aging** baby boomers

Baby boomers have rewritten the rules at every stage of their lives. They will rewrite the rules of retirement as well.

**David Court, Diana Farrell, and
John E. Forsyth**

In less than a decade, all of the baby boomers will be 51 to 70 years old. This generation's size and tendency to make new rules have created business opportunities since child boomers bought hula hoops in the 1950s. Now it's time for businesses to prepare for the changing needs of the older boomers, who are about to become the largest and wealthiest over-50 consumer group in US history. Boomers will account for roughly 40 percent of US spending by 2015 and for a disproportionate share of the growth and consumption in industries ranging from consumer electronics and clothing to home furnishings, restaurants, and, of course, health care (Exhibit 1).

Despite the economic power of boomers, many aging ones face the prospect of shattered expectations. A generation that lived through unprecedented prosperity and has correspondingly high hopes for its golden years must cope with significant financial, physical, and social challenges. New McKinsey research reveals that 60 percent of boomers won't be able to maintain a lifestyle close to their current one without continuing to work, that 60 percent of older boomers already suffer from chronic health problems, and that by 2015 there will be 21 million single 51- to 70-year-old boomers—more than twice as many single households as the previous generation had at the same age. Not surprising, 46 percent of boomers fear ending up alone, and 43 percent already are frustrated that they aren't leading the lives they expected to.

EXHIBIT I

Booming

Market presence of US baby boom generation (born from 1946 to 1964)

	Share of increase in total spending per household, by age, 2005–15, ¹ %		100% (\$ billion in 2000 dollars)	Total market share of economy by 50+ households, 2015, ¹ %	Change in 50+ market share, 2005–15, ¹ percentage points
	≥50 years	<50 years			
Medical fees, services	99	1	389	74	7.7
Food at home	96	4	77	52	8.4
Prescription drugs	95	5	123	83	10.9
Food away from home	86	14	62	50	9.0
Health/beauty aids, over-the-counter items	85	15	36	60	6.3
Housewares	73	27	33	58	6.4
Furniture, appliances, other equipment	64	36	154	52	7.2
Clothing, accessories	62	38	120	48	7.1
Footwear, jewelry, apparel, services	56	44	72	44	6.7
Consumer electronics	52	48	890	50	6.7

¹Base case forecast, Q3 2007.

Source: McKinsey Global Institute analysis

Yet our research—which combined economic forecasting, demographic modeling, and market research on a cross-section of boomers approaching retirement—also turned up grounds for optimism: the boomers’ resourcefulness and willingness to change. Around 80 percent of them enjoy trying new products and services and believe that they can survive anything life throws at them.

The combination of the boomers’ economic power, challenging circumstances, and openness to innovation creates enormous opportunities for companies prepared for the changes ahead. Unprecedented numbers of boomers will need or want to continue working. Large numbers require help with their finances and health but seem distrustful of traditional approaches. Many boomers who are not prepared for retirement have discriminating tastes they will attempt to satisfy at a bargain price, and many will be searching for new forms of community. Innovative companies that can satisfy these needs will find new sources of talent and profitable growth.

The boomer opportunity

By 2015 the United States will have more than 45 million households with people from 51 to 70 years old, compared with about 25 million for the previous generation. Boomers will control nearly 60 percent of US net

wealth (up from 51 percent today) and account for 40 percent of US consumption and income. To put these figures in perspective, consider that the boomers’ real disposable income and consumption will be roughly 40 percent higher than those of the “silent” generation, born from 1925 to 1945. For the first time, a 51- to 70-year-old group will consume more than any other generational cohort in the US economy (Exhibit 2).

Companies considering the boomer market must grapple with a powerful dichotomy. On the one hand, this group has enjoyed more opportunities than any other generation in US history: boomers were born during the years (1946–64) of post–World War II prosperity, attained high levels of education, and benefited from the rapid growth of the economy and the stock market, during the 1980s and 1990s, while building careers. On the other, although boomers have enjoyed certain advantages, our research indicates that many are anxious, frustrated, and more concerned about their future than were the members of the previous generation.¹

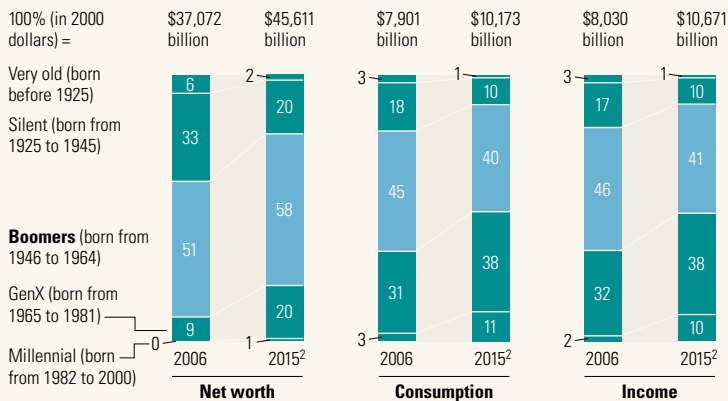
Unprepared but envisioning retirement

We discovered the depth and causes of this anxiety by surveying and interviewing boomers from a variety of socioeconomic backgrounds and by

EXHIBIT 2

The less-silent generation

Total share by US generation, %¹



¹ Figures may not sum to 100%, because of rounding.

² Base case forecast, Q3 2007.

Source: McKinsey Global Institute analysis

¹ For example, 62 percent of boomers “worry that I have not planned sufficiently for retirement” (compared with 54 percent of the younger members of the silent generation), while 43 percent are now “very frustrated that I am not living the life I expected” (compared with 34 percent of the younger members of the previous generation).

creating a detailed model of their household finances.² One finding of our research was a segmentation (Exhibit 3) indicating that only about a quarter of the boomers are financially prepared for their twilight years. This “affluent” segment is aging with confidence, and its wealth (average net worth—\$1.2 million) exaggerates the financial well-being of the generation as a whole.

At the other end of the spectrum, “disadvantaged” boomers (representing another quarter of the generation’s population) have an average income of only \$15,000 a year and a net worth of \$75,000. They are concerned and even depressed as they look to the future. Society will have to wrestle with this large group’s financial and health needs in the years ahead.

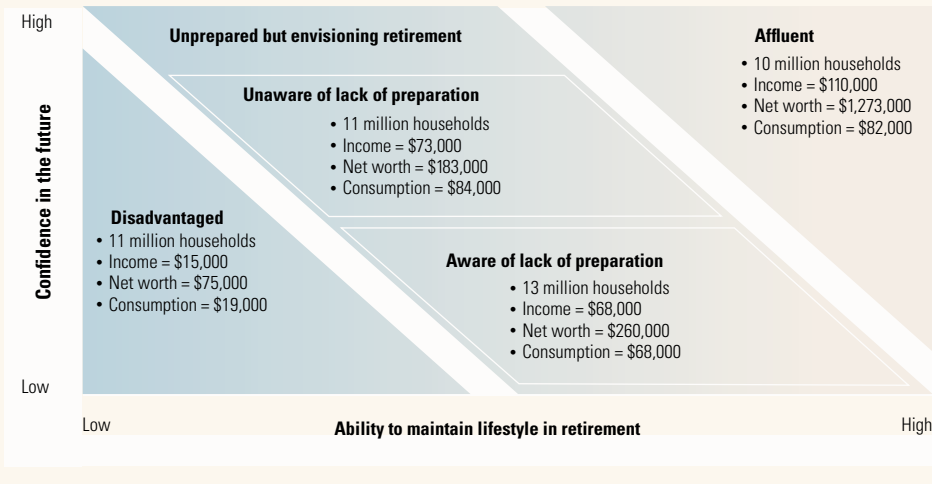
The rest of the boomers—50 percent of the generation’s population, controlling almost 25 percent of total US consumption by 2015—envision a comfortable retirement like that of the affluent but haven’t prepared for

EXHIBIT 3

Portrait of a generation

Average annual financial data per household in 2006,¹ by segment of US baby boom generation (born from 1946 to 1964)

In 2015 60% of all consumption by boomers will come from those who are unprepared for but envision retirement.



¹ Estimated.

Source: 2007 McKinsey survey of 5,100 members of US baby boom and silent generations, aged 50–70; ethnographic interviews; McKinsey Global Institute analysis

² We surveyed 5,100 older boomers and younger members of the silent generation and conducted 32 in-home interviews that involved observing the environments of the interviewees and listening to their verbal narratives. In addition, we used national data sources stretching back to the 1960s to model the boomers’ finances and spending behavior. By integrating survey, economic, and demographic data, we created a database (with assets, liabilities, and spending patterns) of households by age and income cohort. Finally, we used econometric methods to project household finances and spending through 2016.

it. These “unprepared” boomers spend more than they earn and have an average net worth of just 15 percent of their affluent counterparts. Yet our attitudinal research indicates that nearly half of the unprepared boomers are not aware of the difficult financial straits approaching and have attitudes similar to those of the affluent segment: 55 percent are extremely excited about their future prospects and 75 to 80 percent find it exciting to think about the lifestyle changes they believe will be possible in retirement.

Facing broader challenges

Boomers face issues extending beyond finances; for example, they have a higher divorce rate than any other generation in US history. Our analysis indicates that by 2015 unmarried boomers will account for 21 million households, or 46 percent of all boomer households. In 1995, when the members of the silent generation were 51 to 70 years old, it had just 10 million unmarried households, 39 percent of all households in that generation. What’s more, 51- to 56-year-old boomers have higher rates of chronic health, drinking, and psychiatric problems than did the members of the previous generation at the same age.³ Not surprising, boomers are anxious: 62 percent worry about their health in retirement, 71 percent about health care costs, roughly half about their financial preparedness for retirement, and 46 percent about ending up alone.

The quest for solutions

Despite these difficulties, optimism defines boomers: 86 percent agree that “I have always believed that I deserve a good life.” What’s more, this generation’s experiences—dynamic times marked by the fall of Communism and by innovations ranging from jet air travel to the PC, the Internet, and mobile telephony—have generated a real openness to change. More than 80 percent of boomers say that they enjoy trying new products and services; 77 percent regularly use the Internet. As one of our interviewees said, “We are the first generation to open up, to taste it, to try it, to do it.” Seventy-eight percent believe that they can control their own destiny and survive anything life throws at them. Already, 40 percent are ready to “change my life as I age.” Yet the boomers’ flexibility will be tested as they strive to redefine retirement, protect their health and wealth, achieve their aspirations on a budget, and create a sense of community.

Redefining retirement

The boomers’ need and desire to work will redefine the concept of retirement. Eighty-four percent of those we surveyed expected to work after they

³ According to the National Bureau of Economic Research (NBER), 60 percent of 51- to 56-year-old boomer men born from 1948 to 1953 had chronic health problems, compared with 53 percent of the cohort born from 1936 to 1941 at the same ages. The rate of drinking and psychiatric problems was 28 and 21 percent, respectively, for boomers, compared with 21 and 8 percent for the previous cohort. See Beth J. Soldo, Olivia S. Mitchell, et al., “Cross-cohort differences in health on the verge of retirement,” NBER Working Paper 12762, December 2006.

formally retired, and 63 percent said they couldn't see themselves ever retiring completely. Our analysis also indicates that 60 percent of boomers will need to work just to maintain 80 percent of their current consumption and that more than 40 percent (29 million) will be working at age 65. That is twice the number of people from the silent generation who were working at the same age (14 million, or 30 percent). By 2015 more than one-third of the labor force will be over the age of 50.

Companies will want such workers. Building on occupational forecasts from the US Bureau of Labor Statistics, we project that from 2005 to 2015 US companies will need to fill 34 million net jobs as the economy grows and workers retire, leave their jobs to enter new occupations, or depart the labor force for other reasons, such as poor health. Twelve million of these jobs will involve highly skilled professional and management roles, and more than 10 million will involve service roles. Boomers will be desirable candidates for many of them. This generation not only is the best-educated, most highly skilled aging workforce in US history but also accounts for a disproportionate share of US "knowledge workers"—51 percent of all managers and 45 percent of all professional people, such as doctors and lawyers—while representing just 41 percent of the workforce.

Only about half of the surveyed boomers in management and professional roles say they plan to continue working for financial reasons. The rest view work as a source of self-fulfillment and mental stimulation. Attracting and retaining significant numbers of aging knowledge workers will therefore require far more than merely advertising job openings. The first order of business for many companies is to decide how many knowledge workers they need. Recently, when a large multinational manufacturer accelerated its succession planning, the company realized that it would have to replace 80 percent of its executives within six years.

Companies that need large numbers of boomers must create a compelling value proposition for them. The most important elements, according to our research, will probably be flexibility, physical environments that are easy to navigate, workplace camaraderie (25 percent say they plan to continue working primarily for social reasons), and, for the many boomers who are not financially prepared to retire, benefits, particularly in health care.

Early efforts. A few companies have begun assembling pieces of this puzzle. Lincoln National, a financial-services concern, has created a task force to design flexible work arrangements for older employees. The drugstore chain CVS offers "snowbird programs," which permit boomers to transfer during the winter to sunny locations such as Arizona and Florida. IBM and P&G seek retirees to work on projects that let them share expertise with

younger workers. As such initiatives gain traction, boomers will become an increasingly important source of reasonably priced talent.

A more advanced step, which some companies have already taken, is to create work groups filled with boomers. Such teams give older workers a comfortable social network and sometimes appeal to customers. UBS Financial Services, for example, has begun hiring boomers as retirement advisers because it believes that they are extremely effective with clients in the same life phase.

On the horizon. As competition for aging knowledge workers heats up, recruiting them will require a better integrated set of initiatives that satisfy more of their needs. Five years from now, a company might have work centers with seating, lighting, computers, and telecom equipment geared to the physical needs of older workers; considerable flexibility about working hours, including the option to work from home; company-sponsored affinity groups to connect boomers with similar interests; and tailored employment agreements. These special deals might provide boomers who work a certain number of hours with the benefits they need most (perhaps a package of health benefits) and save the company money by excluding others, such as 401(k) plans, that may be less important to them. While elements of such a broad program exist, we haven't identified a company that has assembled all of them.

Protecting health and wealth

Although many boomers worry about their finances and health, they seem skeptical of the traditional offerings of the financial-services and health care industries; only 20 percent of them have a long-term financial plan, for example. Despite the financial importance of real estate to many boomers—50 percent of their 2005 net wealth was in real estate—just 4 percent say they would consider a reverse mortgage as their incomes decline, and only 7 percent would contemplate a home equity loan. One explanation: more than half of all boomers don't trust the objectivity of financial advisers. A second reason, highlighted by our qualitative research, is that many boomers find financial-services offerings confusing and ill suited to their needs. As one interviewee put it, "What I need is a book that is *Retirement for Dummies*."

Health care is similar in some respects: less than 15 percent of boomers trust health-management organizations to deliver reliable information. Fewer boomers than members of the preceding generation trust the recommendations of doctors or believe that they take the time to find the best solutions for individual patients. But boomers are starting to assume more control of their health care. Roughly three-quarters of them say that

they proactively use the Internet to seek out information about their conditions. Large numbers have tried preventative services, such as chiropractic medicine (46 percent), massage therapy (39 percent), homeopathic remedies (37 percent), and meditation (35 percent). The needs and preferences of boomers create opportunities for any company offering approaches tailored to them. Below we consider several of these approaches.

Retirement in a wrapper. A potentially powerful way of overcoming boomers' discomfort with traditional financial offerings is to stop pitching them narrow products (such as annuities) that generally meet only part of their needs and instead focus on comprehensive financial approaches that evolve as their requirements change. The increasingly popular target date retirement funds that shift asset allocations from equities to fixed-income instruments as people age are an obvious starting point. A more complete approach would convert such funds to annuities when income protection becomes more important than growth, bundle in longevity insurance as protection against outliving assets, and include cash flow flexibility to cope with changes in health. In addition, the boomers need better tools to help them chart the course: as powerful as today's financial-planning software is, much of it is better suited to actuaries than to anyone else. As boomers wrestle with difficult financial trade-offs, they will need easy-to-use, flexible tools to simplify their choices.

Wellness for the masses. Boomers' attraction to nontraditional medicine creates an opportunity for companies that augment their core health care products and services. Bayer Nutritional Science, for example, has created a line of eye, heart, mind, and joint supplements for active boomers. The health and wellness company eq-life is partnering with a number of health care systems and is building stores on hospital campuses to offer a range of health and wellness products and services, from therapeutic massages and salon pampering to organic cleaning products. A wide range of companies is beginning to recognize that for many boomers wellness starts with food. AgeLab, for example, has developed a handheld device indicating whether food meets a consumer's dietary objectives, and Tropicana recently targeted boomers by introducing orange juice fortified with omega-3s, which some believe help in the prevention of coronary heart disease and other ailments.

Self-directed health care delivery. Boomers' desire to manage their own health and their distrust of doctors create an opportunity to deliver health care and advice in new ways. Clinics are already appearing in retail locations such as supermarkets and pharmacies. Novartis' hypertension program, BP Success Zone, combines a blood pressure monitor for home use with education for patients to help them manage their condition. It's also easy to imagine that pharma companies or service providers, such

as health maintenance organizations, might create a new category of “medicine managers”—specialized doctors who could ensure that the many drugs lots of the elderly take work well together.⁴

Achieving aspirations on a budget

The high expectations and constrained pocketbooks of unprepared boomers will make serving them extremely challenging; combining the low prices, high service levels, and strong brand identity these boomers crave is inherently difficult. Indeed, as US income disparity has increased over the past two decades, many companies, in industries ranging from airlines to financial services to retailing, have differentiated themselves by moving upmarket or focusing relentlessly on low costs and prices, partly through low-touch or even self-service channels.⁵ In the years ahead, the sheer size of the unprepared segment will richly reward companies that can shift gears and deliver more for less.

Combining low prices and strong service. Some companies have already achieved this goal: Southwest Airlines, for instance, combines low prices with a strong on-time service record, and Charles Schwab provides higher-touch service than online brokerage specialists do, at similar prices.⁶ Unprepared boomers will be searching for this elusive combination in virtually all parts of their lives.

Their preferences offer some clues about how companies should approach that opportunity. Thanks to the boomers’ comfort with technology, for example, Web-based tools that lower delivery costs while retaining a sense of personalization and high-end service will probably be appealing. One of the fastest-growing usage segments for Skype’s Internet videoconferencing service is grandparents talking to grandchildren. It’s not a big leap to imagine financial-services providers using this same technology to deliver personalized financial advice to boomers cost effectively.

As for retailers, conventional wisdom has long held that older people prefer smaller specialty stores because they are easier to get around in and because retirees have plenty of time to shop. Our research, however, indicates that two-thirds of the unprepared boomers prefer bigger stores with lower prices, and roughly half prefer doing all their shopping at one store.

⁴These doctors might also help increase the odds that patients take the drugs prescribed for them. For more on this topic, see Jessica Hopfield, Robert M. Linden, and Bradley J. Tevelow, “Getting patients to take their medicine,” *The McKinsey Quarterly*, 2006 Number 4, pp. 14–7.

⁵For more on market polarization, see Trond Riiher Knudsen, Andreas Randel, and Jørgen Rugholm, “The vanishing middle market,” *The McKinsey Quarterly*, 2005 Number 4, pp. 6–9.

⁶For more on companies that compete on both price and service, see Robert J. Frank, Jeffrey P. George, and Laxman Narasimhan, “When your competitor delivers more for less,” *The McKinsey Quarterly*, 2004 Number 1, pp. 48–59.

Since unprepared boomers also have high expectations for service, large retailers targeting them should avoid overinvesting in smaller-store formats and focus instead on keeping prices down and shoring up convenience and service. They might, for example, make it easier to navigate stores and to find merchandise or salespeople, as well as figure out ways to avoid long lines.⁷

Building smart brands. Despite the financial limitations of unprepared boomers, they are brand conscious and share many aspirations with their affluent counterparts. Creating brands that help these people feel smart, innovative, proud, and not old—boomers are touchy about aging—will be a critical part of meeting their needs.

Companies hoping to create such an identity for competitively priced brands can learn from Target and JetBlue. Fifteen years ago, Target was an also-ran to Wal-Mart Stores. But as boomers were having and raising children, Target began providing cleaner shopping environments, bolder designs, and brighter colors in children's clothing, as well as more appealing displays,

than other big-box retailers offered. Over time, it created tremendous loyalty among boomers: shoppers say “I love Target,” not “I save money there.” More recently, JetBlue launched in 2000 with routes between New York

Related articles on mckinseyquarterly.com

[Taking the risk out of retirement](#)

[The demographic deficit:](#)

[How aging will reduce global wealth](#)

[Can pension plans age gracefully?](#)

and Florida (a popular trek for many aging boomers). From the inception of the company, it combined low prices with comfort—individual television sets, leather upholstery, and extra legroom for each seat. In this way, JetBlue helped passengers feel smart and special. Although its operational difficulties in early 2007 angered some of them, JetBlue responded with a “customer bill of rights” consistent with its brand.

Creating community

The need for social connections is nothing new, but loneliness will be more acute for boomers than for any past generation because they will be less able to rely on traditional sources of community. Forty-six percent of the boomers will be unmarried by 2015, compared with 40 percent of the members of the silent generation at the same age; barely half of the boomers believe they can count on their families for a safety net, as compared with 60 percent of the younger members of the silent generation; and just

⁷In our survey, 88 and 83 percent of the unprepared boomers expressed frustration with the difficulty of finding salespeople and merchandise, respectively.

30 percent attend church weekly, as opposed to nearly 40 percent of the latter. These findings imply that loneliness will afflict more than one in five boomers, who will turn to several new sources of community.

Affinity groups. Given the diminished importance of traditional sources of community, boomers' interests are likely to play a larger role in creating social outlets. Affinity groups have always sprung up around individual pursuits, such as cooking, reading, photography, or home improvement. As tech-savvy boomers age, these groups will increasingly meet both online (regularly) and in person (periodically). Already, boomer-specific groups—such as Boomj.com, which offers a social-networking service for boomers, and Eons.com, which combines on- and offline communities—are emerging.

As in the past, boomers who have enough money are likely to travel and to use these trips as a way of meeting others. Retirees have long associated with like-minded people through organizations such as Elderhostel and tours organized by the alumni associations of universities. Companies such as BabyBoomerTrips.com are now emerging to assemble travel packages specifically for boomers.

“Giving back.” Two-thirds of boomers over age 50 view retirement as a time to contribute to society. Coupled with their social needs and the fact that many won't want or be able to retire fully, this aspiration creates an enormous opportunity for nonprofit organizations. Today 90 percent of the people in Habitat for Humanity's database of active volunteers are in their late 50s or early 60s. Similarly, Goodwill Industries' Senior Community Service Employment Program offers seniors low-paying, socially oriented jobs. As competition for boomers' time heats up among nonprofits, the ability to create a sense of community will be a critical differentiator.

Although baby boomers will soon have more influence over the US economy than any group of 51- to 70-year-olds in history, they will also face an enormous financial, physical, and social challenge. Helping them to overcome it and achieve their aspirations for aging will be a significant business opportunity in the years ahead. **Q**

The authors wish to thank Jonathan Ablett, Vivek Banerji, Eric Beinhocker, Lora Chajka-Cadin, John Chao, Vanessa Freeman, Ezra Greenberg, Geoffrey Greene, Matt Klusas, Mette Lykke, Jeongyeon Shim, and Ned Welch for their contributions to this article and the research underlying it.

•
David Court is a director in McKinsey's Dallas office, **Diana Farrell** is director of the McKinsey Global Institute, and **John Forsyth** is a principal in the Stamford office.
Copyright © 2007 McKinsey & Company. All rights reserved.