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The Seven Myths of Population Aging: How Companies and Governments Can Turn the "Silver Economy" into an Advantage

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Point of View

February 2012

From Asia to the Americas, populations are getting older—a trend that is likely to continue for decades to come. So far, however, while perhaps acknowledging the existence of this trend, policy makers and business leaders have done little to prepare for it. In many cases, this inaction stems from misconceptions about older workers and consumers. We have identified seven common myths surrounding aging populations and highlight how organizations can find growth where others see only cost and limitations.

"We're none of us getting any younger," the saying goes, and it's as true today as ever. What's different today, however, is that the global population isn't getting any younger either. In fact, because people are living longer and having fewer children, it's aging rapidly. Whereas today the global population aged 60 or over numbers nearly 750 million (more than 10 percent of the overall population), by 2050 it's expected to soar to more than 2 billion (perhaps exceeding 20 percent of the overall population). Of the forces that will shape society and the global economy over the next decades, none is more certain and predictable than population aging. In China and Japan this has led to inverted family pyramids, also called "four, two, one" in reference to four grandparents, two parents, and one child.

Despite the likelihood that the planet's population will steadily become much older over the next four decades, many business leaders and policymakers don't have a good grasp of the realities of population aging. In our conversations with leaders in both

government and business, we frequently encounter misconceptions about the topic. These misconceptions have arisen from various sources. Some are the product of erroneous conventional wisdom, some are rooted in outdated assumptions and perceptions, and others overlook the extent to which policies and actions can address the aging trend.

Here we examine seven of these misconceptions, or "myths," and set the record straight for each. Our objective is not only to dispel these myths, but also to illustrate how companies and governments can spur growth and capture economic opportunities by crafting the right response to population aging.

Myth #1: Emerging economies will balance out the 'silver tsunami' of developed economies

Reality #1: Population aging is a global trend that affects many emerging economies

It's widely recognized that the populations of developed economies are aging. In Japan, more than 30 percent of the population is already aged 60 or over,

a proportion that is steadily rising.¹ The United Kingdom now has more people aged 60 or over than aged 16 or under.² Business leaders and policymakers understand that this trend stems from declining birth rates and a dramatic increase in life expectancy.

However, many mistakenly believe that the populations of emerging economies are immune to this trend, and that their large, younger populations will be the salvation of the global economy. Goldman Sachs stresses that "young populations and rapidly expanding domestic markets" will turn the BRIC countries into four of the six largest economies by 2030.³

In reality, however, the populations of emerging economies, such as China, Brazil and Mexico, are also getting older at a comparable pace. In 2010, those aged 60 and over represented 12 percent of the population in China, 10 percent in

Brazil, and 9 percent in Mexico. By 2050, these figures are expected to increase to 31 percent, 29 percent and 28 percent, respectively.⁴ (See Figure 1.)

Even countries with relatively youthful populations appear to be unable to avoid a similar fate. For example, Iran is experiencing the world's most rapid decline in birth rates—from a high of nearly 2 million births per year between 1985 and 1990 to a current level of around 1.2 million births and a projection of 700,000 births by 2050.⁵ South Korea currently has one the youngest populations among OECD countries, but will become the second oldest by 2050.⁶

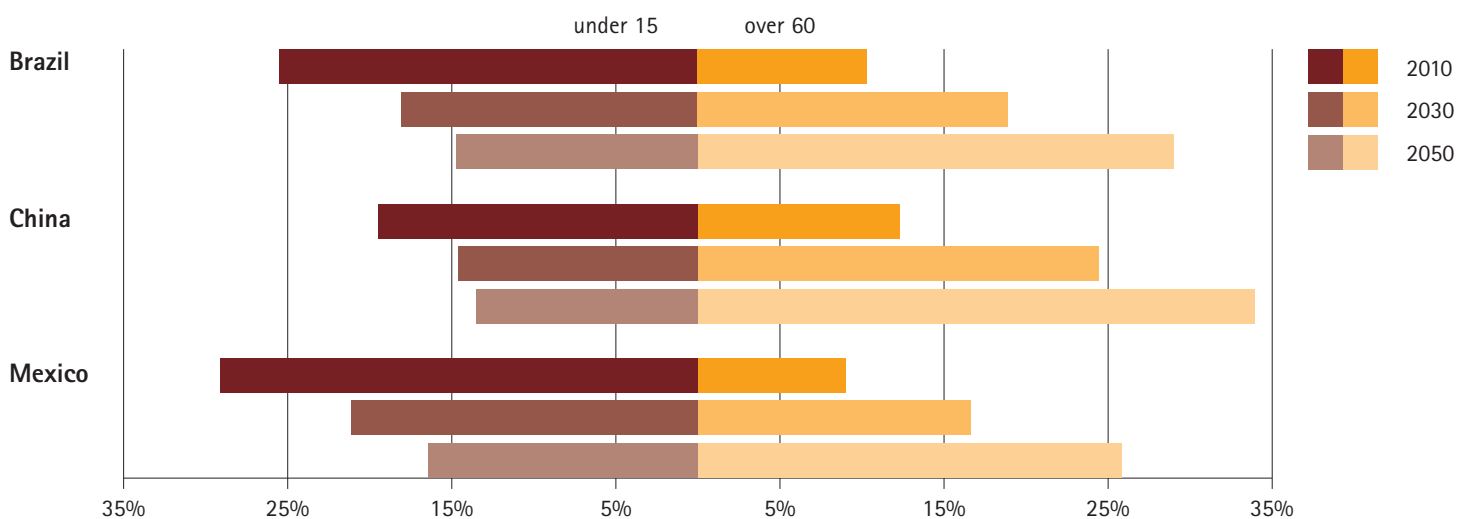
Of course, there are some countries whose populations will remain relatively young. For example, in India and South Africa

nearly half the population today is under 25 years old. But even in those cases, considerable investment will be needed to convert raw numbers of young people into an employable and productive workforce that can be mobilized for future economic advantage.

Business leaders and policymakers in the developed economies should not expect that relatively younger populations in emerging economies will provide an automatic customer base or workforce to replace their aging counterparts in developed economies. And leaders in emerging economies must also find ways to sustain the employability and productivity of their aging populations.

Figure 1: Emerging markets: getting older, too

In three of the leading high-growth emerging markets, the percentage share of the total population over the age of 60 is trending rapidly upward; in parallel, the percentage of those under 15 is shrinking. Developed economies can't depend on youthful populations in emerging economies to bail them out by keeping productivity and output high.



Source: United Nations Population Division.

Myth #2: Countries with aging populations face decades of low growth

Reality #2: By taking steps to increase the employment of older workers, countries can avert economic stagnation

Commentators have been sounding alarms about the dire consequences of an aging population for a long time. According to these commentators, population aging will inevitably result in economic stagnation at best and decline at worst.

The scenario is indeed an alarming one. Aging populations increase the financial burden on governments, creating a pension time bomb and increasing demands on health-care and elder-care systems. As more people enter retirement, a vicious cycle of lower growth and higher taxes will arise. With fewer people in the workforce, disposable incomes will fall, reducing consumer spending.

In reality, this outcome is not inevitable. Leaders in both the public and private sectors can help their economies avoid this fate by taking steps to harness the productive potential of people who are living healthier lives, not just longer ones. In practice, this means addressing the incentives and systems that prevent older people from staying in the workforce, such as early retirement provisions, or pensions and tax systems that penalize people who work later in life. In 2006,

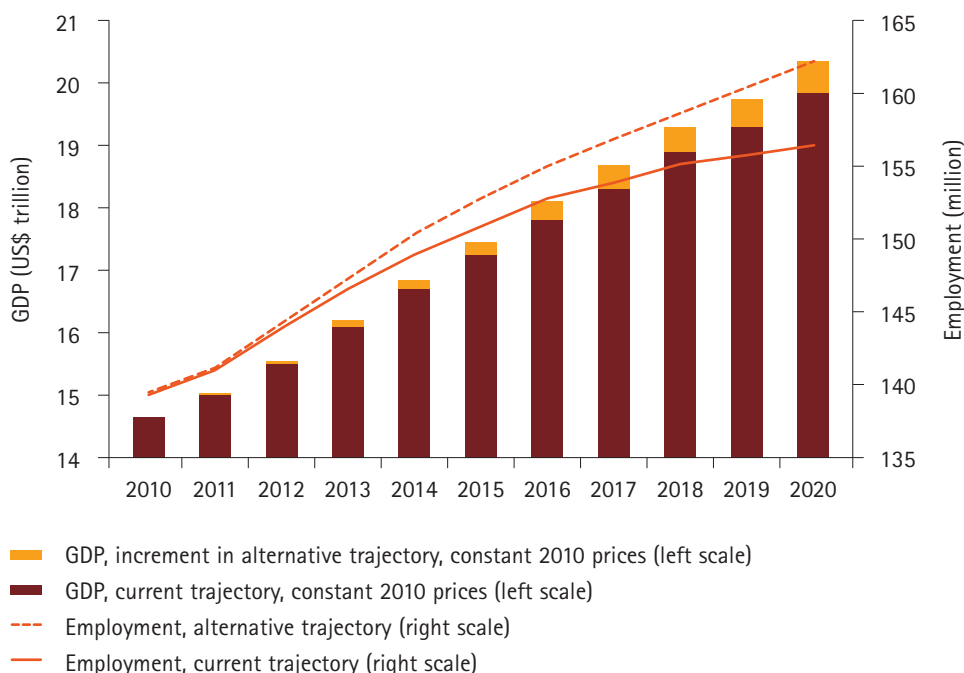
the UK government introduced tough age discrimination laws, and in 2011 went one step further to completely abolish the default retirement age of 65. The UK's employment relations minister, Ed Davey, explained in support of the move that "retirement should be a matter of choice not compulsion."⁷

We see significant opportunities to increase the time that people spend in productive employment. The OECD average for estimated years in retirement is 21 to 28 years for women and 14 to 24 years for men.⁸ A UK government study released in 2011 found that increasing time in the workforce by just one year per person would boost the level of real GDP by approximately 1 percent.⁹

Our research at Accenture, in collaboration with Oxford Economics, shows that by increasing the number of older people in the workforce and making productivity-enhancing investments in human capital, governments and businesses could boost economic growth and job creation. We estimate that the United States could increase its GDP by \$442 billion and lift employment levels by 5 million by 2020. (See Figure 2.) In Germany, similarly measures to harness the "silver economy" have the potential to boost GDP by €61 billion and lift employment levels by 1.5 million by 2020. The research uncovered a similar story in the United Kingdom and Spain.

Figure 2: More older workers = higher GDP

More workers in an economy lead to higher growth. In the United States, we estimate that increasing the number of older workers would lead to significant increases in total GDP.



Source: Accenture, 2011.

Myth #3: Employment is a zero-sum game, so retaining older workers will only worsen the crisis of youth unemployment

Reality #3: Retaining older workers is likely to increase overall employment growth

Unemployment is reaching record levels, particularly among the young. In December 2011, the UK crossed the threshold of one million unemployed young people, while in Spain approximately 52 percent of 15-to-24-year-olds are unemployed.¹⁰ With so many young people struggling to gain a foothold in the workforce, many observers believe that retaining older workers will simply worsen the crisis. This view, dubbed "the lump of labor fallacy" by economists, assumes that the number of jobs in an economy is fixed, which in turn results in a misguided focus on protecting existing jobs.

The US National Bureau of Economic Research has found little evidence that older workers take jobs away from younger ones in the United States. In some cases, such as in France and Canada, the researchers also found that greater workforce participation among older people was associated with greater participation among young people, because of the increase in the overall economic pie.¹¹ Civic Venture's "Encore" program is a powerful example of offering second careers to older HP and Intel executives in the non-profit sector.¹²

To spur overall economic growth, business leaders and policymakers should devise incentives and training programs that will enable older workers to stay in the workforce, rather than push them out to make room for younger workers.

Myth #4: Older workers tend to be less productive

Reality #4: Organizations can sustain older workers' productivity by adapting the workplace to their needs

The myth is contained in this scenario: An organization primarily employs people aged 50 and over, having long tenure. While they are competent and knowledgeable, many are reluctant to embrace new ideas, are uncomfortable with making changes, aren't well motivated, and find early retirement increasingly enticing. Consequently, productivity is lower than in a workplace dominated by younger workers.

In reality, "productivity rises with age all the way up to retirement," according to a study of German production line workers in a Mercedes-Benz truck factory.¹³ The authors concluded that although deteriorating physical ability meant older employees made more minor mistakes, these were "outweighed by the positive effects, such as the ability to cope when things go wrong."¹⁴

A recent Swedish study examined productivity in nearly 9,000 manufacturing plants. Controlling for plant-level effects, the researchers found that plants with a high proportion of older adults were more likely to have higher productivity than were plants with a high proportion of young people.¹⁵

By adopting new work models, organizations can engage people who aren't able or interested to work full time. Small adjustments in the physical environment can address changes in employees' physical strength and stamina, which tend to decline with age.

BMW, for example, implemented 70 changes to a production line where the (older) employee profile reflected the

company's expected overall workforce profile in 2017. The changes covered health care management and skills enhancement, as well as improvements to the workplace environment, such as orthopedic footwear and adjustable work tables. The production line's productivity improved 7 percent in one year, bringing it to the same level as lines staffed by younger workers.¹⁶

Also, the deployment of technology and new work models enable flexible and remote work arrangements that might be more appealing to older workers. MITRE Corporation, a US research and development enterprise, was concerned about losing its expertise in fields such as radar. It launched the "Reserves at the Ready" program to bring back retirees on a part-time, on-call basis.¹⁷

Myth #5: The entrepreneurial spirit tends to decline with age

Reality #5: Older people are more likely to set up a new business, and they're less likely to fail

Setting up a new business is normally considered the preserve of the young. Witness the wave of young technology-company founders consistently featured on magazine covers. Governments tend to focus their entrepreneurship policies and objectives on the young. New funds are set up to help young entrepreneurs, such as the "20 Under 20" Thiel Fellowship announced in 2011. There have even been claims that for some sectors, like technology, the peak age for entrepreneurship is similar to that for top athletes, at 25 years old.¹⁸

But recent research has found that age is not the pre-eminent factor influencing entrepreneurship, and that factors such as educational background and professional networks are more likely to play a role.¹⁹

In fact, many people decide to set up a business in later life. In the United Kingdom, entrepreneurs aged 50 to 65 created 27 percent of successful start-up companies²⁰ between 2001 and 2005, equivalent to 93,500 companies. During that period, this age group accounted for 18 percent of the UK population.²¹

A recent survey in Finland of 839 small firms²² established in the country between 2000 and 2006, found that 16 percent were set up by those aged 50 to 64.²³ And in the United States between 2005 and 2010, entrepreneurial activity among those aged 45 and above increased during the recession, while it declined among the 18 to 44 year olds.²⁴

Older people are also more likely to succeed in their new business ventures, with surveys finding that ventures started by those aged 50 and over had the lowest failure rates.²⁵ Entrepreneurship among older people could potentially be even higher if age-related barriers were removed. For instance, access to seed capital and funding is crucial in setting

up a new business. Yet many older people confront age limits for financial products and higher interest rates for loans, or are excluded from insurance products.

Myth #6: Older consumers are an unattractive demographic for marketers

Reality #6: Older consumers have vast purchasing power, making them an untapped opportunity for marketers

Many marketers don't get excited about targeting products to older consumers. They aren't big spenders, the argument goes, because they have less disposable income and often prefer to keep money in the bank rather than spend it. What's more, they're less mobile and have established brand preferences, so it's harder to convince them to try new products, the skeptics believe.

Research reveals that these skeptics hold sway. A recent survey found that only 37 percent of companies find it fairly important to take into account the needs and preferences of older consumers when developing products for them.²⁶ Most companies take great care in distinguishing between 20 or 40 year olds, but lump 50 and 70 year olds into the same category. This skepticism is also reflected in marketing practices, as research shows that only about 30 percent of TV advertisements include someone over 50. Not surprisingly, 70 percent of people over 55 believe that advertising does not speak to their needs.²⁷

In reality, what the skeptics fail to understand is that older consumers have vast purchasing power. In the United States, consumers aged 50 and above outspent

younger adults by approximately \$1 trillion in 2010.²⁸ In the same year, baby boomers in the US were reportedly the dominant spenders in 1,023 out of 1,083 consumer packaged goods categories.²⁹ In the United Kingdom, baby boomers hold around 80 percent of all financial assets.³⁰ In Europe, the over-65 age group is estimated to be worth more than €300 billion.³¹

Clearly, companies have not invested sufficient time, money and resources in understanding the untapped opportunity offered by older consumers. Companies should start by adopting more inclusive product development strategies and marketing approaches that include consumers of all ages. Some companies have already expanded their product range to cater to older consumers. For example, Harley Davidson—recognizing that the average age of its customer has increased from 38 to 46 years old in the last two decades—is designing new motorcycles to appeal to consumers in their sixties and beyond.³²

Marketing for silver consumers however has to fit hand in glove with brand perception. A good example is Unilever's Dove soap campaign that featured women from everyday life and captions like "Why aren't women glad to be gray?" The campaign helped the company substantially boost sales around the world—no mean feat for the static soap category.

Myth #7: Older consumers are less likely to adopt new technology

Reality #7: The digital divide isn't inherently age-based, and it will close over time

There is a common misperception that older people are slow to engage with new technologies. Older people can't keep up with the latest technological developments, and aren't early adopters or trend-setters. You can't teach an old dog new tricks, these sceptics believe.

Research shows that although this might have been true in the past, the story is now changing. It's true that there is a digital divide between the old and the young in many countries. In Germany, for instance, only 31 percent of those aged 65 and over used the Internet in 2010, compared with an average of more than 75 percent for the overall population.³³

But this is due to lack of experience rather than age—it reflects a generational difference rather than an inherent relationship between age and technology adoption. Many of the younger baby boomers were in the workforce during the evolution of computers, email and the Internet, and were the first to understand the value of technology.

In Germany, 75 percent of those aged 45 to 64 in 2010 regularly used the Internet, in line with figures for the overall population. Nearly 80 percent of US baby boomers use the Internet for social media, downloading music and movies, financial transactions and gaming.³⁴ The tech-savvy middle-aged

of today will comprise an equally tech-savvy cohort of seniors in the coming decades. One product that has managed to transcend age barriers is Apple's iPad: from design to marketing the product is age-inclusive, contributing to its wide appeal. For example, the powerful zoom, intelligent keyboard and voice functions such as Auto-text mean that it's very easy to use and accessible. Likewise, the advertising campaign shows people of all ages engaging with the product.

Discarding myths, realizing opportunities

Both business leaders and policymakers must recognize that now is the time to address population aging. As a starting point, business leaders can assess their company's preparedness on key dimensions, by asking the following questions:

- Have we quantified the opportunities arising from population aging?
- Do we offer flexible, tailored work models that support the changing needs of older workers?
- Do we have programs and incentives that encourage the exchange of knowledge between generations?
- Do we have detailed customer profiles and market intelligence on consumers aged 55 and over?
- Do we have an innovation strategy focused on the needs and preferences of older consumers?

Policymakers can make a start by focusing on the following questions:

- Does our education policy include a strategy for supporting lifetime skill formation?

- Are tax and pension systems aligned to encourage older people to stay in the workforce?
- Do our digital policies sufficiently address the needs of an aging population?
- Are we stimulating and leading discussions among researchers, business leaders and policymakers on the issues arising from an aging population?
- Are we addressing the barriers—such as access to capital, or regulation—that frequently stymie the entrepreneurial potential of the older population?

"Demography is destiny," the sociologist Auguste Comte stated almost two hundred years ago. This may well be true, but that destiny is not immutable. Just as aging individuals must adjust life styles to maintain personal vitality, societies with aging populations must adjust business practices and policies to boost their economic vigor.

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