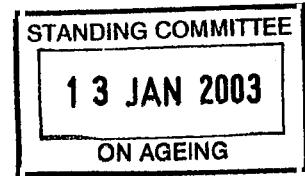


9 January 2003

OUR REF: PFXS/KJM



Mr Adam Cunningham
Inquiry Secretary
House of Representatives
Standing Committee on Ageing
Parliament House
CANBERRA ACT 2600

Dear Mr Cunningham

You have solicited a submission from SAI concerning it's views of the inter-generational value systems between the Later Thrifts, Baby Boomers, X Generation and the Y Generation and in particular how the Baby Boomers and the X & Y Generations will interact as the Baby Boomers become aged.

We are pleased to share our views but before providing these you should be aware of how our views have been formed and the bias that will naturally attach to these views.

Background

On 8 January 2003 I personally celebrated 30 years in Financial Advice practice and I am the founder of the SAI Group. The Group has evolved by showing individuals how to make their personal financial affairs effective.

Effectiveness is measured against five benchmarks. Those benchmarks are as follows:

1. Do clients live in the home that they want?
2. Do clients entertain and holiday the way they want?
3. Do clients have the vocation most appropriate to them?
4. Do clients have the financial capacity to raise and provide for their family the way they want?
5. Do clients have control over their domestic and investment finances?

With an average length of relationship of between 15 and 20 years, a high degree of intimacy exists between the adviser and the client. Integral to this is an annual conference where the question "How are the children going and what are they up to?" is posed. This is necessary in the context of ensuring an accurate categorisation that capital is available for investment rather than being held for short to medium term domestic consumption.

The bias that exists since 1985 is that there has been specialisation to families that enjoy well above average incomes. Currently, over 95% of SAI's clients fit into either the high or ultra high-income categories. These are defined as being families with taxable income of between \$150,000 to \$400,000 per annum (high) or over \$400,000 (ultra high). Therefore, the clientele represents a skew distribution of the normal population and would not be indicative of the normal population.

Please note that whilst this skew exists our experience shows us that it is the ultra high and high income earners who are the decision makers, leaders, initiators and consequently early adopters and early movers to changes in socio economic behaviours.

Finally, please note that our views have arisen from anecdotal and applied research but the number of case studies is large enough for our views to resonate positively in the market niche we serve. Our views are subjected to constructive criticism at least 8 times a year by different groups of members of The Executive Connection.

We are acutely aware that there are less 20 to 25 year olds in the Melbourne Metropolitan area compared to 50 to 55 year olds, that there is a reproduction rate of around 1.6 in Melbourne and that there is significant interstate migration around Australia. Our external sources of data are

- a) The Reserve Bank Journal
- b) The Australian Bureau of Statistics - publication 4102
- c) International Business Week
- d) The Economist
- e) The Australian Financial Review

SAI Views

The major concern is the dramatic shift in the dependancy ratio and that the number of tax payers supporting the aged will mean that current levels of support will not be able to be maintained.

We believe that there are a number of factors and an absence of data, which means that some of these concerns are well exaggerated.

Unusual Factors

1. The residual Early Thrifts (those born before 1925) are saving considerable amounts of money in many cases motivated by fear that they need to assist their X Generation grand children afford housing. There is no accurate measure of the wealth of this generation but many of them find themselves asset rich because of the price rises of their housing. Excepting medical care the cost of living of this segment of our community is extremely modest. Whilst there are capital gains taxes, capital gains tax does not apply to the principal residence so that the current lack of probate means that testamentary bequests will have a significance on our economy of which there is no historic precedent.
2. The Later Thrifts (those born between 1925 and 1940) are saving substantial amounts of money and their major concern is how to ensure their testamentary bequests do not ruin their children's lives. They are experienced enough to recognise that the only prudent custodians of capital are those who earn it. This generation has been helping the X Generation, females in particular, acquire modest housing.

3. The inheriting decades are 45 to 65 with a 70% probability that you inherit 55 to 65. This means that the first of the Baby Boomers have begun inheriting money from their parents and as this follows the loss of the solitary survivor the experience is particularly confronting. This inherited capital is being treated as custodial capital where the Baby Boomers are quite happy to enjoy the benefits of the income or savings generated on the capital but they are not motivated to spend the actual capital on lifestyle. In turn, this has created a migration into "Get a Life Property" which in turn, is one of the major factors for the increase, in real terms, of land prices in either inner city urban areas or seaside areas.
4. The level of communication between the Baby Boomers and their children is distinctly more open and relaxed than that which applied between the Baby Boomers and their Early Thrift parents. Whilst there are major differences in the economic values of the Baby Boomers and the subsequent generations it is the timing and size of the X & Y Generation family formation that will be the major influence on the actual outcomes. Because the Baby Boomers have allowed their children to stay at home much longer than their own experience and provide significantly greater support than they received there is a social contract between the subsequent generation and their parents. We expect siblings to compete for the opportunity to take care of their parents in their dotage.
5. The Baby Boomers will create a different approach to retirement than the earlier generations. Already an element of the Later Thrifts have created an opportunity to reduce their responsibilities but remain actively employed despite having the financial resources where the economic rewards from employment are unnecessary. Historically, retirement was the only time people had funds and time to live out life long dreams i.e. the big trip to the "motherland". In today's society less and less of the community use their physicality to generate an income so their bodies don't wear out. But more importantly the capacity to travel relatively cheaply and within the time frames of annual leave entitlements means that life long dreams can be realised progressively through one's work life.
6. The amount of national capital dedicated to residential housing has been significantly influenced by the Baby Boomers whose badges of success have been their houses and their cars. The Baby Boomers could well afford this approach because they had the surety of full vocational employment in their economic development years. The following generations are less likely to follow the tradition of their crib and follow their own individual value systems and seek to tribe with those of similar views. Materialism has been well experienced. Many of the perceived luxuries of their parents are truly commodities and despite the last two decades leaving young people cynical about secure employment the reduced numbers means that the younger generations will in fact see increasingly secure employment in the later stages of their working lives.
7. For the last decade we have experienced deflation of manufactured goods prices on a global scale. The excess manufacturing capacity on a global scale means that this deflation of material goods has no end in sight. This means that the material standard of living will continue to increase throughout the whole community yet this will require an increasing smaller number of the community to produce. This frees up human resources for further service industries. The growth in the massage industry is an example of this. There will be services that will evolve for the Aged because the Baby Boomers will demand them and they will be able to afford to pay for them once they are comfortable with their probable spending pattern when they become early Aged.

Summary

The Y Generation (those that ask "Why?" when the boss says jump high) born after 1970 will have an influence on investment capital of which there is no historic precedent. With their value system of "Get a Life" we form an optimistic view of how our aging population will fare in the future. We do not know whether the decline in birth rate is a pause or whether it is a permanent fixture of our society. Our anecdotal research tells us that it is a permanent fixture. This being the case the critical issue will be migration and there will be an increasing global trend of migration where individuals elect to pursue better climates whether they be political, economic cultural, or financial apart from the obvious of weather.

It should be noted that the X Generation and the Y Generation feel considerably less bound to work and live near their parents and that the increasing level of travel among young people and in particular back packers, means that there will be less and less impediments to migration.

Australia would be wise to include a cultural filter in it's migration policy and be particularly attracted to those cultures that have a relatively higher value attached to respect of the aged.

Yours sincerely

PETER F X SCULLY
Deputy Chairman
SAI Group