



Demographics

Highlights

- Within five years, one-third of the workforce will be age 50 or older.
- The ratio of retirees to workers is likely to reach one retiree per every four workers by 2050.
- As the U.S. workforce ages, the volume and importance of foreign-born workers in the labor force is unavoidable.
- Immigration now touches more states, counties, and municipalities than most people generally believe.
- Hispanics/Latinos accounted for more than half of U.S. population growth from 2003 to 2004.
- Up to 70% of the growth in retail financial services could come from Hispanics by 2008.
- Women are an emerging economic force as consumers, breadwinners, leaders, and business owners.
- Baby boomers will start turning 65 in 2011, and will be living longer than previous generations.
- Empty-nesters lead active lives and have a need for convenient access to financial services.
- Aging baby boomers are driving sales of condos and recreational vehicles.
- The number of buyers under age 25 purchasing their first homes jumped 20% from 2001 to 2003.

As the U.S. continues its transition from a manufacturing to a service economy, the composition of American jobs and the workforce continues to evolve. The nation's future economic vitality will be heavily influenced by certain socioeconomic trends, such as immigration patterns, an aging native-born workforce, and business sectors with the greatest potential for job creation.

This economic evolution has implications for credit unions in terms of how they design their products and delivery channels. The workforce—and credit union fields of membership—will look different. Fields of membership will include more older native-born citizens, documented and undocumented immigrants, children and grandchildren of immigrants. And more members will be female, whether they work for someone else or are among the growing number of women who own a share of the vibrant small business market.

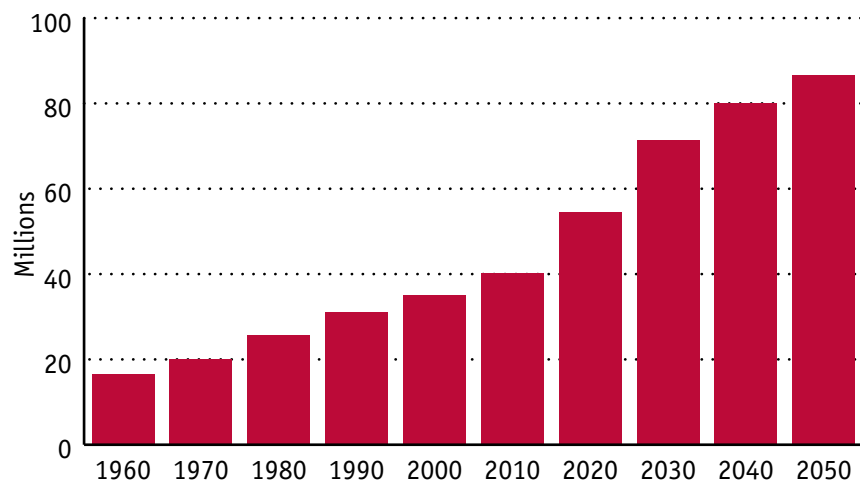
Older workers

The labor force is aging as it continues to grow, according to the U.S. Bureau of Labor Statistics and AARP. Consider:

- The current growth rate of workers 55 or older is four times that of the overall workforce.
- Younger workers—age 16 to 24—will continue to decrease, albeit at a slow rate.
- Primary workers—those who fall between 25 and 54 years of age—will decline from more than 70% of the workforce in 2002 to about 66% by 2012.
- As baby boomers age, workers 55 or older will increase from 14% of the labor force only three years ago to almost 20% by 2012. When you drop the age floor from 55 to 50, AARP predicts that within five years almost 33% of workers will be 50 or older.
- And more people who've reached the full retirement age of 65 now work, according to AARP. About 33% of men and 25% of women age 65 to 69 were working in 2004, compared to 1994 figures of 27% and 18%, respectively.

Aging populations and workforces is a worldwide phenomenon, particularly within the developed economies of Western nations. As the U.S. workforce ages, the volume and importance of foreign-born workers in the labor force is unavoidable. Clearly, there are obvious economic stresses associated with increased immigration in addition to other

Our Aging Population (Number of people age 65 and older)



Source: U.S. Census Bureau

integration concerns. This is glaringly true of the rising tide of undocumented workers from Mexico and other Latin American countries.

Immigration, however, may enable the U.S. to mitigate the adverse economic consequences of an aging society more effectively than its Western counterparts. Underscoring this point of view is the significantly lower birth rate of native-born Americans compared to the birth rate of the foreign-born. By 2030, the U.S. Census Bureau not only projects that 20% of all Americans will be senior citizens, it estimates that by 2050 non-Hispanic whites will decline to about 50% of the population. Given the low fertility rates of native-born Americans, the U.S. population would likely decline without immigration.

Ethnic diversity

Foreign-born workers accounted for much of the nation's population and employment growth over the past decade. Between 1990 and 2000, the number of foreign-born workers in the

labor market grew 76%, compared to only 11% for native-born workers, according to the Census Bureau. Immigrants who arrived in the U. S. between 1995 and 2003 fueled most of this growth, especially the growing number of undocumented immigrant workers, according to The 2005 Economic Report of The President. By 2012, the number of Hispanic workers will have accounted for more than 33% of total labor force growth in the U.S. over the previous 10 years, according to the U.S. Bureau of Labor Statistics.

Immigration now touches more states, counties, and municipalities than most people generally believe. It's true that immigrants still concentrate within certain cities and states that are traditional gateways into America. As recently as 1990, 88% of undocumented immigrants lived in six traditional gateway states—California, New York, Texas, Illinois, Florida, and New Jersey. By 2000, however, the U.S. Census Bureau's 2004 Population Survey revealed that this figure had dropped to 67%.

New York City is a traditional urban gateway into the U.S. for

immigrants. The New York City Planning Department estimates there is now a record 3.2 million immigrants in the city, and immigrants make up 43% of its labor force. Chicago is also a traditional urban gateway, and the Chicago Council on Foreign Relations reported in a 2004 study that more than 90% of the Chicago metro area's labor force growth in the 1990s was due to immigration.

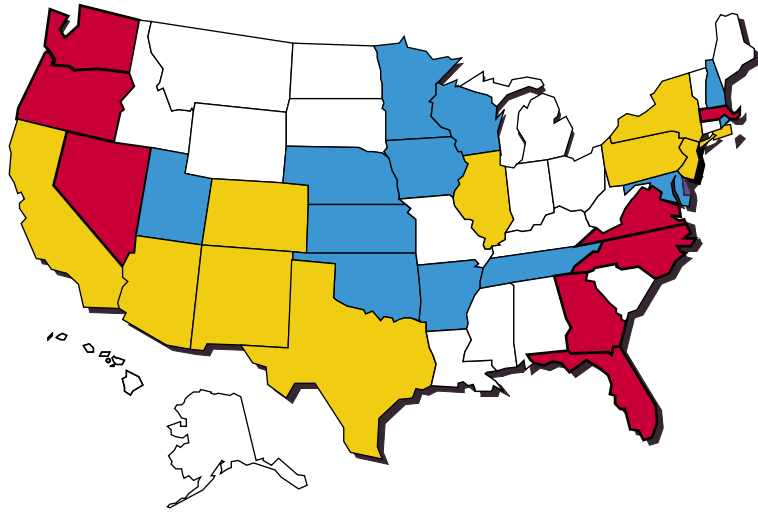
But with growing frequency, immigrants now are pursuing economic opportunities in markets where few of them previously lived. Since the 1990s, the most rapid growth in the number of undocumented people has been in states that previously had relatively small foreign-born populations, according to the Pew Hispanic Center. The growth in the undocumented population has been the principal driver of foreign-born populations in new settlement states such as Arizona, North Carolina, Georgia, Oregon, Arkansas, and Tennessee.

The foreign-born population of nine Midwestern states grew faster than the national average during the 1990s. Cities such as Des Moines, Grand Rapids, Kansas City, and Omaha are new smaller, urban gateways. In Wisconsin, undocumented migrants are estimated to represent between 40% and 54% of the state's foreign-born population. And nationally, while most undocumented migrants are adults, about 17% of the population (or almost 2 million people) is under age 18.

Foreign workers

Franklin Roosevelt once observed that "all of us (Americans) are descended from immigrants." But few issues stir more passion in the U. S. than that of immigration, particularly since 9/11. Witness the amount of mass media coverage

Hispanic Population Growth by State (1980-2000)



■ New Hispanic state
 > 200% growth and
 > 200,000 population increase
■ Emerging Hispanic state
 > 200% growth and
 < 200,000 population increase

■ Established Hispanic state
 < 200% growth and
 > 200,000 population increase
■ Nonmagnet state
 < 200% growth and
 < 200,000 population increase

Source: Pew Hispanic Center

early last spring when the Pew Hispanic Center upwardly revised its estimates of undocumented aliens in the U. S. from 10 million to 11 million. Or consider the discussions surrounding the North American Free Trade Agreement, secure borders, and guest worker programs conducted by the chief executives of Canada, Mexico, and the U.S last March. While President Bush reiterated his longtime support of legalizing the cross-border flow of Mexican workers, he made it clear that the current political climate in the U.S. makes any major changes in law or policy unlikely for the time being.

But the U.S. Census Bureau estimated in 2004 that America's foreign-born population was almost 35 million (12% of the total population). Nearly three-quarters (72%) of this number is either naturalized U.S. citizens or legal non-citizens. Twenty-eight percent

are estimated to be undocumented. More than half—legal and illegal—are Hispanic or Latino. The most adverse effects of immigration, particularly the impact of low-skilled and undocumented migrants, are felt locally. Already thin state, county, and municipal resources—financial and institutional—can be stretched to the breaking point.

Communities contending with large inflows of low-skilled immigrants often see an increased tax burden caused by the use of taxpayer-funded services, such as schools and health and social services. Discussions about more workable immigration policies and the overriding priority of securing our borders are essential, but they sometimes overlook the fact that immigration, including illegal or undocumented migrants, also helps drive the U.S. economy. And by sending money to families back

home through international remittance programs, immigrants help support the economic engines of underdeveloped countries.

The remittance business appears to be resistant to the ups and downs of the U.S. business cycle, even when the Hispanic unemployment rolls in the U.S. increase, according to the Migration Policy Institute. The remittance flow from the U.S. to Latin America and the Caribbean is now the largest remittance channel in the world, with a total dollar volume exceeding \$30 billion annually, according to the Pew Hispanic Center. Eighteen percent of Mexican adults receive money from family members working in the U.S. with most of those dollars going toward basic household expenditures. What was once a small, cash-carrying cottage industry just 20 years ago has evolved into a major business that has moved beyond wire transfers to incorporate electronic banking products used by the sender as well as the recipient.

The Hispanic population is not homogenous, and socioeconomic differences within this group will have a major influence on the type of financial products and services they need. Banks are aggressively pursuing this market as a new source of revenue. Two years ago, TowerGroup projected that by 2008 up to 70% of the growth in retail financial services could come from Hispanics. Hispanic households with checking accounts will have increased 57% between 2002 and 2007, according to FDIC's 2004 Winter Outlook.

The combination of higher fertility rates and a younger child-bearing population means greater demand for financial products—mortgages, home equity loans, and car loans—especially as second and third generation Hispanics accul-

turate and raise families in the U.S. In fact, over the next two decades, three quarters of the growth in the Hispanic population will come from children and grandchildren of Hispanic immigrants, according to the Pew Hispanic Center.

U.S. job picture

Between 2002 and 2012, the number of jobs in the U. S. will have increased 15% to more than 165 million, which is a faster growth rate than the preceding decade, the U.S. Bureau of Labor Statistics projects. Growth will occur at different ends of the job spectrum—in professional positions and in the service sector. A growing number of immigrants and women entering the workforce will fill many of these additional jobs. Education and health services will grow faster than any other employment sector over the next few years as an aging population with a longer life expectancy increases demand for health care and social services.

There are two ways to look at the future job market. The first is

to consider the fastest growing occupations in terms of percentage growth. The second is to consider occupations that will post the largest growth in absolute numbers. For the first, seven of the top 10 fastest growing occupations by percentage are in health care. Medical assistants—a field requiring only moderate-term on-the-job training—leads the way with an expected increase of 59%, or 215,000 projected new jobs. The other three occupations rounding out the top 10 are in the field of information technology.

The occupation with the largest projected job growth by 2012 in absolute numbers is registered nurses—more than 620,000 new jobs are projected to be created, for a 27% increase. The number of new post-secondary teaching jobs is expected to increase by more than 600,000, or 38%. Both professions require a higher degree of education. Seven of the top 10 occupations with the largest growth in actual numbers will be jobs that require more on-the-job training than additional education. These jobs include retail sales-

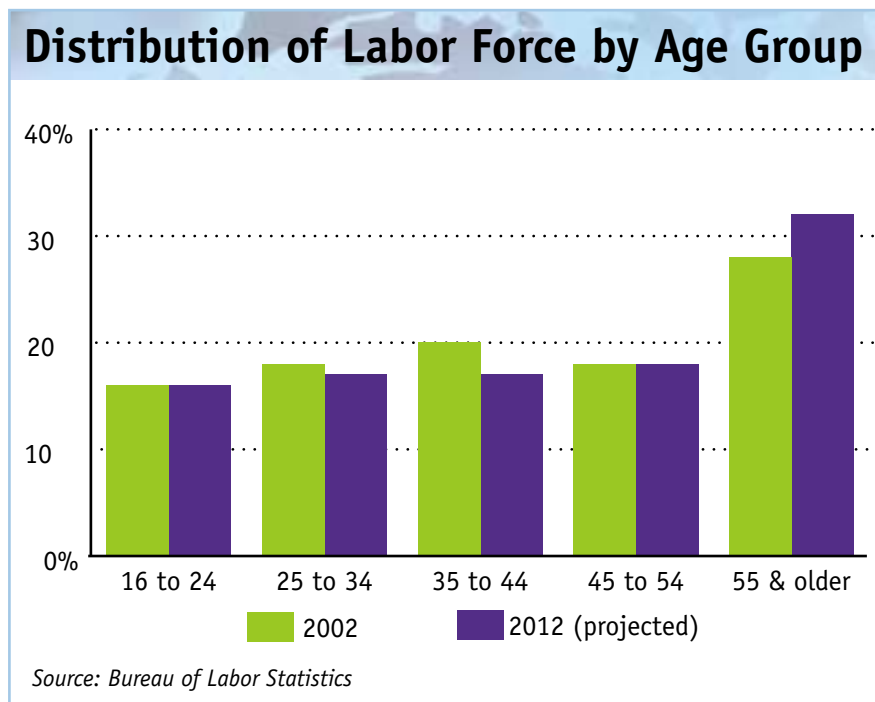
people, food-service workers, customer service representatives, and nursing aides or orderlies. These tend to be lower-wage jobs where women, Hispanics, and African Americans are disproportionately represented.

Just under 24% of the total U.S. workforce was employed in low-wage jobs in 2003—jobs where the average hourly wage was just over \$7/hour compared to the national average of just over \$17/hour, according to the Economic Policy Institute. Nine out of 10 of these workers are employed in the service sector where so much future job growth will occur.

Aging baby boomers

The oldest, leading-edge boomers are now in their late 50s and rapidly approaching “senior” status, which is usually seen as starting at age 65. As the first generation of Internet users, boomers are likely to transform the historically held notion of “senior citizens.” They will be less likely than previous generations to retire, and they plan to age near family and friends rather than relocate to southern climes. Boomers are also the first generation to reach retirement age after having shifted from defined benefit to defined contribution plans during their work years.

The growth of the population age 65 and over affects many aspects of our society, challenging policymakers, families, businesses, and health care providers, among others, to meet the needs of aging individuals. In just 25 years, the older population will be twice as large as it was in 2000, growing from 35 million to 71.5 million and representing nearly 20% of the total U.S. population. By 2050, our economy and government will be struggling to provide for one



retiree per every four workers.

Boomers look forward to owning a maintenance-free home (i.e., condominium) once their children move out. A survey conducted by builder Del Webb (now Pulte Homes) found that 36% of boomers plan to move to a new home once their children move out, and 26% are considering buying a home in an active-adult community that's within comfortable commuting distance to their jobs or the bridge jobs they plan to move into. *Business Week* refers to these active adult communities as "next-stage housing" rather than retirement communities because most residents plan to continue to work as long as they are able to do so. As a result, many of these "next-stage" communities are being developed on the outskirts of large metropolitan areas.

As empty-nesters, baby boomers lead active lives—relaxing, becoming physically fit, traveling, and enjoying hobbies. They have an even greater need than before for convenient access to financial and other services. For example, recreational vehicles (RVs) are increasingly popular among people over age 55, and 80% of all luxury travel purchases are made by boomers. However, a quarter of boomers expect their adult children to "boomerang," or move back with them at some point in time, and an equal percentage anticipate that their parents or in-laws may do the same.

Boomers realize they'll be living longer than prior generations. MetLife reports that a 65-year old has a more than 50% chance of living to age 85, and a 30% chance of reaching 90 years old. But Cerulli Associates predicts that 61% of households leaving the workforce will be unable to replace the (generally regarded minimum) 75% of their income in retirement.

In fact, boomers are most likely to cite personal finances as the one area they would most like to change, according to the AARP Life Stage Study. As a result, whether they realize it or not, boomers are moving from planning for their retirement to ensuring that they have enough income to last their lifetimes.

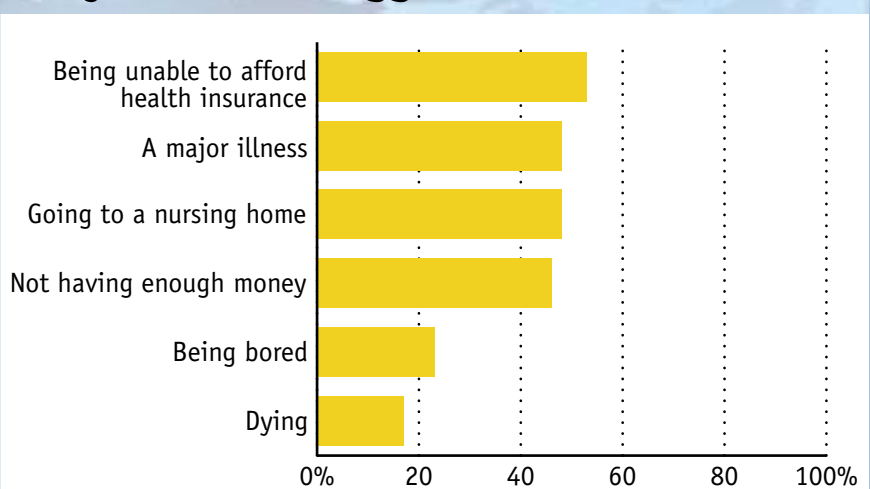
Robert Reynolds, COO of Fidelity Investments, reports that within the next five years, between 60% and 70% of investment assets will be in the hands of people over 60. Therefore, the time is ripe for credit unions to offer financial planning services. In fact, in the coming years, you can expect to see more products and services being designed specifically for aging baby boomers. Products and services that are currently available include the following:

- Reverse mortgages offer seniors a way to tap the equity of their homes without repayment until the home is sold. Even though this option has been available for many years, you can still expect a sales cycle of several months.
- Long-term care insurance is

becoming more of an estate planning product than in the past because people in their 40s and 50s can now buy and pre-pay during their key earning years, but reclaim the premium if the product is not used. This product has been slow to get off the ground because of complexity and high cost. However, boomers will receive a reality check as to the value of long-term care insurance as they struggle to care for their own parents in the near future.

- Health savings accounts (HSAs) can be used to help fill the gap between retirement and eligibility for Medicare.
- Personal financial planning, insurance, and investment advisory services will help members prepare for a long retirement.
- Post-retirement planning services such as Fidelity's Retirement Income Advantage will help retired people monitor how much they are spending in relation to what they receive from Social Security, pensions, investments, and personal savings. The service suggests the order in which to draw upon various sources of income and ways that investors

Baby Boomers' Biggest Retirement Fears



Based on those age 40 to 58 in 2004
Source: Merrill Lynch

can compensate for shortfalls.

Keep in mind that baby boomers collect a good deal of information to support their purchasing decisions. Given the sheer size of this market, your credit union would be wise to use segmentation and modeling to identify sub-segments within the baby boomer generation. Some segmentation variables to consider include disposable income, education level, household composition, previous purchasing history and any known hobbies/leisure activities. Analysts suggest that older consumers are more likely to be loyal to their financial institutions and will appreciate the personal service that credit unions can provide.

Looking ahead, the U.S. Census Bureau projects that the population age 85 and over will grow from 4 million in 2000 to an astounding 21 million by 2050. Since credit union front-line staff will increasingly be dealing with the oldest-old, they will need to develop the skills

necessary to recognize and support older members with diminished capacity, dementia, and Alzheimer's disease. Your employees will require a working knowledge of gerontology – the scientific study of the biological, psychological, and social aspects of aging – in order to better understand and support older members.

Women

It's been 85 years since women gained the right to vote, and yes, they've come a long, long way. While the tobacco industry may have been one of the first to develop and brand a typically male product for women, other industries have since followed suit.

In fact, experts including marketing guru Tom Peters and Marti Barletta, president and CEO of The TrendSight Group, consider women to be the world's largest market segment. They are certainly an emerging economic force as consumers, as breadwinners, and

as business-owners. According to Barletta, some of the reasons women are vitally important to a financial institution's marketing plan are because they are:

- Keepers of the household checkbook.
- Holders of the primary credit card.
- A growing percentage of homebuyers.
- Purchasers of two out of three new cars.
- Controllers of the finances in 53% of U.S. households.
- Achievers of 57% of college degrees.
- Decision-makers concerning 80% of household purchases.

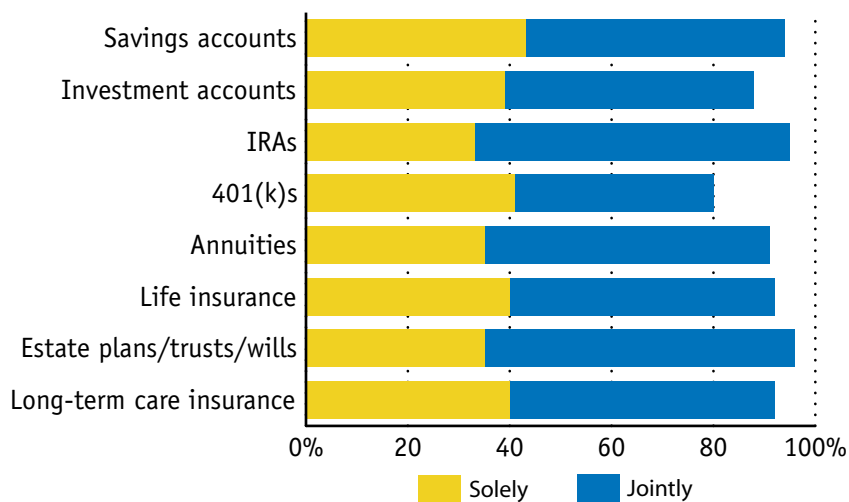
In fact, women are now the primary decision-makers in many traditionally male-dominated categories including automobiles, computers, home improvement, life insurance, investment accounts, and travel.

As little as eight years ago, nearly 75% of Internet users were men. Now more than half of all Internet users are women. As late adopters, women tend to use the Internet differently than do men. Because women tend to seek more information than men before making decisions, the Internet serves as a comprehensive yet extremely efficient resource.

It's important to take a different approach when marketing financial services – especially for retirement planning purposes – to women. Consider that women tend to build and manage financial resources while performing multiple roles throughout their lives. Plus, with their longer life expectancy (five years more than men), women must accumulate and manage financial resources over a longer period of time.

According to a recent Prudential Financial study of financial experience and behaviors

Percent of Female Baby Boomers Who Are Solely or Jointly Responsible for Insurance and Financial Services



Source: Prudential Financial's Study of the Financial Experience and Behaviors Among Women, 2004-2005

among women ages 25 to 68, over three-quarters of women believe maintaining their lifestyle during retirement is “very important,” but only 12% are “very confident” about their ability to do so. This presents a huge opportunity for credit unions to provide female members with the information, products/services, and guidance they need to ensure a comfortable retirement.

Many companies have found that when you improve your marketing to women, customer satisfaction among men rises as well. That’s because when you meet women’s more demanding expectations, you’re generally exceeding men’s expectations.

The role that women-owned businesses play in the U.S. economy continues to grow, representing a market opportunity for credit unions. Nearly half (7 million) of all privately owned U.S. businesses had women as the majority owners in 2004, according to The Center for Women’s Business Research. And women-owned firms are growing at twice the rate of all firms. Women-owned firms currently employ more than 19 million people, and their rate of employment growth is double that of all privately owned U.S. firms. In addition to paying an estimated \$546 billion in wages and benefits in 2004, women-owned businesses also spent more than \$100 billion on information technology, telecommunications, human resource services, and shipping.

There’s also a strong Hispanic influence in this business sector. Hispanic women owned more than 555,000 businesses, employing 320,000 people, and generating more than \$44 billion in sales in 2004, according to the Pew Hispanic Center. Almost 60% of these firms are in the service sector, and another 13% are in retail trade.

More than one-third of all Hispanic-owned businesses are owned by women, and their number is growing. Between 1997 and 2004, the number of Hispanic women-owned firms climbed by almost two-thirds and their employment numbers jumped by more than one-third, according to The Center for Women’s Business Research. In fact, businesses owned by women of color are growing. They totaled more than 1.4 million in 2004, employed 1.3 million people, and generated almost \$147 billion in sales.

When it comes to serving women business-owners, credit unions need to remember that it’s all about the relationships. It may take time to develop, but once women get to know and like you, they will refer you to their friends and colleagues. And not only will they bring you their company’s business, but their personal business as well.

Homeownership and upkeep

The home-improvement market is booming. U.S. households spend generously on home improvements and upkeep—nearly half engaged in do-it-yourself home-improvement projects during 2004.

At the same time, home equity debt levels are soaring, according to Richard Hastings, an analyst at New York-based Bernard Sands, a retail market advisory firm. Americans have taken advantage of low interest rates to buy homes and to eliminate high-interest credit card debts.

Gen Xers have taken on debt levels that are 78% higher than their boomer parents—mostly due to the high cost of housing, says James Chung, President of Boston-based Reach Advisors. Plus, a significant increase in home buying is now occurring among Generation Y, according to the National

Association of Realtors (NAR). NAR data shows that the number of buyers under age 25 purchasing their first homes jumped 20% between 2001 and 2003.

Telecommunications

Cell phones are increasingly omnipresent in American life and communication, and are beginning to change the landscape that’s existed for the past century. Three in four Americans currently use cell phones—about the same proportion as have Internet access at home—and people are beginning to give up their landlines in favor of relying exclusively on mobile phones. Consider that nearly 17% of single-person households no longer have landlines. In addition, 14% use a mobile phone as their primary phone and more than a quarter of consumers who still have landlines say they’d switch if wireless service were more reliable and less costly. As the move from landline to mobile phone reliance continues, keep in mind that it will become increasingly more difficult to contact members using out-bound call centers for sales and survey purposes.

The demand for credit union products and services is driven by multiple socioeconomic factors. Each credit union must strategically and objectively consider its own unique circumstances as it determines how to grow its member base and serve the financial needs of more people.

Strategic considerations

Older workers

- ◆ Analyze the demographics of your current and potential field of membership, both current and projected. Pay particular attention to age and to the types of employer groups (i.e., occupations) that you serve.

- ◆ Employment and membership growth both will come from opposite ends of the economic spectrum – highly skilled professionals and lower-wage service workers.

Ethnic diversity & foreign workers

- ◆ Identify and analyze the unique characteristics of your community's immigrant or low-to-moderate-income population so you can design and provide the right services, educational materials, and delivery channels.

- ◆ Understanding the unique characteristics of your community's immigrant or low-to-moderate-income population is critical to designing and providing the right services and delivery channels. Reaching out and forming partnerships with community organizations will help credit unions establish a foothold in targeted neighborhoods and communities.

- ◆ The proliferation of fringe banking services over the past decade is related to the increase in immigration. Traditional financial institutions have been slow to react to this socioeconomic shift, but more credit unions and their retail bank competitors will expand their presence in this vast market to increase their revenue opportunities.

- ◆ As immigrants pursue additional employment opportunities and affordable housing, more states and communities will be affected – and not just the traditional “gateways” and urban centers. Immigrant populations are younger and have a higher fertility rate than the general U.S. population. These trends will drive demand for mortgages, home equity loans, and car loans.

U.S. job picture

- ◆ Future growth in membership and revenue is tied tightly to regional and local dynamics of immigration, economics, and job growth. Success will require focus and a coherent strategy that has backing and buy-in from staff and boards of directors.

- ◆ Macro-economic and demographic trends provide critical context, but an analysis of local and regional trends and data is needed to answer a series of simple questions whose underlying drivers are fundamentally complex:

- Who will your members be?

- What financial products and services will they need?

- What jobs will they hold?

- How will they be exposed to credit unions?

- Who will you employ?

- What are the implications for staff training and education?

Aging baby boomers

- ◆ Establish lending strategies for baby boomers that focus on loans for condominiums, second homes, and recreational vehicles.

- ◆ Segment your baby boomer members based on employment status, disposable income, education level, household composition, previous purchasing history, and any known hobbies/leisure activities.

- ◆ Develop and/or offer products and services specifically for aging baby boomers. Consider offering RV loans, reverse mortgages, health savings accounts, and long-term care insurance.

- ◆ Move from offering pre-retirement planning to post-retirement planning services. Focus on helping your members allocate and manage their financial resources for the rest of their lives.

- ◆ Educate and train your employees in gerontology – the scientific study of the biological, psychological, and social aspects of aging – so they can better understand and support older members.

Women

- ◆ Develop a strategy for serving women – as consumers, breadwinners, and business-owners.

- ◆ Make sure your strategy for serving women includes a strong emphasis on education, information, retirement planning, and guidance.

- ◆ Women and minorities will own a growing share of the nation's small businesses, offering credit unions an opportunity to serve a viable market that's often overlooked or dismissed.

- ◆ Serve women business-owners by building the relationship.