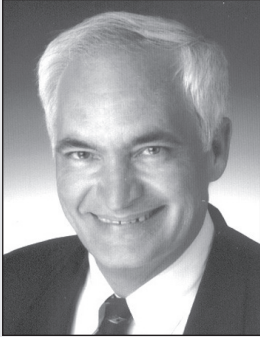


Progressive Affluence

Dr. Lowell Catlett



Lowell Catlett, Ph.D., a futurist, is a consultant to the U.S. departments of Agriculture, the Interior, Defense and Labor. He has addressed national and international audiences on technologies and their implications on the way we live and work now and will in the future. A Regent's Professor at New Mexico State University, Catlett has twice received the Don C. Roush Award for Excellence in Teaching, and is a recipient of the Burlington Foundation Faculty Achievement Award for Outstanding University Teaching.

*Convention Connection, c/o Kiela Hine
18133 Coastline Drive, Suite A3
Malibu, CA 90265
Phone: 800.443.9979
E-mail: kiela@conventionconnection.net*

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I want to first of all thank Stephen for that kind introduction. I want to also thank the wonderful people that make this show possible. I don't know that you realize how much work goes into putting on a show of this magnitude but I think all the volunteers, the board members, and all the wonderful professional staff at MDRT deserve our thanks and round of applause. It is a pleasure to be back with you. Ten years ago in Toronto I was kind of weird; I'm back and it's been ten years and a lot of alcohol and I've gotten weirder. We're going to have a good time here today because the world is weird.

The best way to view the world was given to us about 100 years ago by a man by the name of Marcel Proust. Proust gave us the best way to view the world when he wrote a story about a young man living in Paris in the wintertime. Paris in the wintertime is not the city of lights. Generally it's a beautiful place no matter when you go, but in the winter it's overcast, it's dreary and it's cold. Proust takes the story and places it in Paris in the wintertime. The young man, although old enough to be living on his own, is living with his parents. It's overcast and it's dreary and it's cold and the wallpaper is peeling off the wall. They have food but it's a poor quality. He is sitting there feeling sorry for himself, so Proust takes the young man to the Louvre, one of the world's great art treasures. Instead of taking him to see the grand masters of art - the Mona Lisa, for example - he takes him instead to a side gallery where he can see the painting of an obscure French painter by the name of Jean Baptiste Chardin. If you are familiar with Chardin's work, he paints in vivid colors but he paints very simple things: peasant women in the field, a bowl of apples, a loaf of bread, a fish. Proust says to the young man, "There's every bit as much beauty in a loaf of bread as there is in the Mona Lisa." Then he says, "It is, after all, the quality of the visionary that matters, not the vision."

We have the expression at university - there are always two lectures given: the one we think we gave, and the one the students heard. They are always different because everyone filters in a little bit with their own ideology. That's what Proust was trying to tell us. Trends are trends. Everybody sees them except we're going to

Progressive Affluence *(continued)*

see them differently. It is the quality of how you see them that matters. If you're in love or on your honeymoon, that sunrise is oh so pretty; but if you have a hangover and the sun is crashing through your eyelids, it is no fun. It's the same sunrise. The quality of how we see things matters, not the trends themselves.

I want to share the three trends about the future. The reason I want you to understand about Proust is when I tell them to you, I guarantee you're going to think, "I heard that one." All I would ask you today is be a little weird, be a little Proustian; you have to make the twist.

The first one is about money. I'm an economist so the first one is about economics. There's a bunch of money in the world, more money than at any time in history. My estimate is right now in the United States of America, the 106.6 million households have collectively 7 trillion dollars in cash: cash, you can spend it. Then not too long ago I was on another program with another economist who said, "Lowell, I think you're wrong. I don't think it's 7 trillion; I think it's 9.7 trillion." 9.7 trillion, 7 trillion, I don't know. Then not too long after that, another economist said, "Lowell, I think you're wrong. I don't think it's 7 trillion, I think it's 4 trillion. 4 trillion, 7 trillion, 9.7 trillion: big difference. Then I was doing some work with the federal reserve, the people that count your money, they should know this stuff so I thought, "hey, I can get the answer. They have the answer; they print the money, they keep track of it. So being a college professor I said to them, "Is it: A. 4 trillion, B. 7 trillion, C. 9.7 trillion, D. none of the above, E. all of the above. Do you know what they told me? "Yes." They don't know because it's so much money, we can't count it.

It isn't just happening here. We think there's 7 trillion here, but it doesn't matter. We know for a fact that Canadians have 2 trillion, the Australians have 2 trillion, Japan has 4 trillion, Europe has 8 trillion. Never in the history of the world has so much money been held by so many people. And guess the reason for it. You. All of a sudden, everybody in the world has a little bit more money because over the years you have been helping people save a little bit through a life insurance policy and

when a catastrophic event occurs, they somehow aren't devastated by it and have a little money. That is called progressive affluence. It has never happened in history. Never have so many people have so much money; and one of the principal reasons is because all the work that got you in this room.

The most important thing about it is not the money itself; but money changes people. The first thing we start doing is differentiating or segmenting. My mother used to say people complain the loudest when their belly's full. When you're hungry, you can get by on just about anything; but when you get your belly full, the first thing you start doing is think, "I don't want that anymore, I want this." At the end of World War II, we could classify 90% of the world's population with seven belief systems. Today it takes 2000. At the end of World War II, there were 51 solvent nations; today there are 206. It's called progressive affluence. When people get a little more money, they want to do it a little bit more their way. We left the production world and entered the consumer world. People have a little bit more money because of you and they are going to differentiate.

If you tried to help financially plan my father's generation, you can financially plan them by basically giving them a little term life, maybe a little whole life, make sure they have a little bit of medical insurance. You can't do that anymore. You have to help them with financial planning in ways we never dreamed possible. People have a little bit more money and they are going to complain and they are going to moan. They are going to be the most demanding consumers on the planet. If they are demanding, you can make some money. It's the most phenomenal opportunity to be in the business you are in. It's called progressive affluence.

The second trend is directly related to the first one. We're a bunch of old people in the world now; we're an aging society, we're getting older. You've heard that, but put a little Proustian twist to it. In North America, for example, 15 years ago 36% of the population was 18 and under; today it's 23% of the population. In 5 years, it's going to be 21% of the population; in the year 2018, it

Progressive Affluence *(continued)*

will be 18% of the population. When you're 18% of the population, you don't have a voice. My generation, baby boomers, 82 million of us are 40% of the population. When you're 40% of the population, people listen to you. We protested on college campuses, smoked dope, did drugs (we still do drugs except now it's Prozac and Metamucil).

We're getting older; but put the Proustian twist to it. When you're 18% of the population, you don't have a voice. Guess who has a voice - the old people, but it's a different voice. There's an old Mideast saying: people are more like the times they grow up in than they are their mom's and dad's. Your moms and dads may have given you values but as a consumer the music you want to listen, to the foods you want to eat, where you want to go for entertainment, are more a function of the times you grew up in.

We have a fancy name for it in economics; we call it "cohort analysis." If you don't understand cohort analysis, you miss opportunities. The car companies missed it. The car companies understood baby boomers of my generation (82 million in the US, 11 million in Canada) largest group of people ever to come out of a previous generation. They understood it in one sense; they thought the python will move through society and they'll get older. There are just more of them. No, we're weird, we're different, we are more like the times we grew up in. By 1979, the car companies said when people get older, they won't want to drive convertibles; so by 1979 how many convertible could you buy in America? None, squat, nada, zero, because people when they get older don't want to drive convertibles; they want to drive four door olive drab Chevrolets. How many convertibles can you buy today? 42; we add 3 a year. Have you noticed who is driving convertibles? They look a lot like moi; the average convertible owner is 51, the average Harley owner is 47. When I was 16 I begged my late father to please, please let me have a motorcycle. "No, Lowell, you're wild as a March hare; you'll be dead in two years." He wisely didn't let me buy a motorcycle at age 16. Now we buy them at age 47 and we're dead by 49.

We're getting older and it's not just happening here, it's happening all over the world. We're getting older; we're living longer and healthier. The average American lives to

be 79, average Canadian 80, average European 80, average Australian 81. We're getting older, there's no question about it. Men on average live to be about 75, women live forever; it averages about 80.

My father's generation lived to be 47 on average. The three leading causes of death were pneumonia, tuberculosis, diarrhea (tough way to die). Now we are living on average till about 80 and the three leading causes of death are heart disease, cancer, stroke; although in North America cancer and heart disease switched a month ago. That should be the fastest growth in human medicine. Every 6.8 seconds somebody in my generation turns 50. That's what people should be studying; they should be studying heart disease, cancer and stroke. No, we put a Proustian twist to aging (we're more like the times we grew up in than we are our mom's and dad's). We're a product of the consumer generation. The best example of that came from the November 2003 issue of the AARP, The American Association of Retired People; on the cover was the beautiful actress. Lauren Hutton. She just turned 60; she didn't look 60 and the motto on the cover was "60 is the new 30." I'm 56, I look 86, I feel 30. Sixty is the new thirty. Don't tell me I need 65% of my former income when I retire; I have no concept of retirement. I don't need 65% of my former income to get by. I need 165%.

Sixty is the new thirty. The three leading causes of death are heart disease, cancer, stroke but that's not the fastest growth of people going into human medicine, is it? The fastest growth of people going into human medicine, by a factor of 3, is cosmetic surgery because sixty is the new thirty. I'm thinking about getting a hair transplant from my ears to the top of my head. Sixty is the new thirty. We are not going gracefully into our good night. We're not driving our dad's Oldsmobile because they don't make it anymore because Oldsmobile didn't understand cohort analysis. Cadillac does. You can get a 600 horsepower V8 Cadillac. We drive it 30 miles an hour but you can get a 600 horsepower Cadillac.

Sixty is the new thirty. We're not going to retire; we're entering the great period of reengagement. When you enter the great period of reengagement, do you need more

Progressive Affluence *(continued)*

or less financial planning? You need more. The demand for what you do has no known bounds. It is phenomenal. You've helped us become the most wealthy nation on the planet, the most wealthy world, most wealthy set of countries because of your work. Now we want to live what's called a full life. Help us do that; you're the ones responsible for helping us do that because you're the best at doing it.

Sixty is the new thirty. You know the reason we're aging? Yes, we're living longer and healthier but here are the two bigger implications of it. The reason we're aging comes back to the first trend; this is the greatest birth control on the planet. We teach it in economics. Across cultures, across religions, across countries, when people get more money they have fewer children. That's why we know it's progressive affluence. Fifteen years ago there were 6.2 children born per female in the world; today there are 3.2. That's why we know the world is becoming progressively more affluent. It's an interesting paradox: when you can afford children the least, you have the most; when you can afford them the most, you have the fewest. It's happening throughout the world. You have to have 2.11 children to have a population that is stable and slightly growing. The United States has not had that since 1971, Canada hasn't since 1968, Europe hasn't since 1968, Japan hasn't since 1963 and, guess what, this year Mexico will be at 2.1 because in the last 15 years, 39 million Mexicans rose to middle class status. When people get more money, they have fewer children and when you have fewer children, the aging population just creeps up.

If you grow up in a household with 5 kids, you're kind of busy; but if you grow up in a household with 1.7, you can spend more time with the 1.7. But after awhile it's "why?" And that's not coming from the parents; that's coming from the kids. "Mom, dad, get up, go to the mall, get out of here." Here's the implication for your financial planning: when we have fewer children in the household, we substitute; and we substitute with two major things.

The first thing we substitute with is entertainment. The average American or Canadian or North American and Central American spends \$1800 a year on a hobby;

the average European spends \$1700 a year on a hobby. Which hobbies are going to grow? I don't think tennis has got a big growth chance. I don't know about you but my back hand never was worth a flip and, at 56, I'm standing center court; if my long arms don't reach the ball, it ain't happening. Guess what's happened to tennis court development, use and construction in the world; not doing it. Golf's going like crazy because the beauty of golf is if you shoot 20 on a hole what can you say? "Put me down for 5." You can lie like crazy with golf and that's growing.

Does an aging affluent population that wants to reengage need more money or less? Pick any restaurant chain that you like: five years ago we didn't measure it today; it is 11 cents out of every dollar and growing. The most profitable item in restaurant trade now is take out, and we didn't measure it 5 years ago. We don't even want to cook anymore, just take it out entertainment; so entertainment is growing by leaps and bounds. We need more money to do that.

The second thing we substitute with in an aging affluent population is pets. As people get more money, get weirder, have fewer children, they substitute with pets. In North America, for every household that has a child (slightly under 30%) there are two that have pets - dogs, cats, goldfishes, weasels, etc. In Japan, for every child that is 5 years of age there are 10 dogs; right now for every child under 5 in the United States of America there are 6 dogs; right now in Canada for every child that's under 5, there are 7 dogs; right now in Europe for every child under 5, there are 8 dogs. As we get older, have a little bit more money, we love pets. A long term study from Europe shows if you live with a cat you'll have a 35% reduction in strokes. I live with 5; I call that health insurance. The longest running epidemiological study in human medicines shows pets positively contribute to human health and longevity. Gee, is that part of the financial planning equation? Whether I have a dog or not matters to you; there are phenomenal implications. 94% of us now in the world refer to ourselves as our pets parents; 93% said we would risk our life for our pet; 79% greet our pet first when we come home and 19% greet our spouse first. As my wife told me, "If you lick my

Progressive Affluence *(continued)*

face the way the dog does, I'd greet you first too, Lowell." 62% of us celebrate our pet's birthday, 42% with something significant. 1 in 20 greeting cards sold in America and Canada involves pets. Somebody in this room, other than me, got a card from the dog on your birthday. I met a veterinarian a few months ago in southern California. He said, "I'm no longer a practicing veterinarian." I asked, "What do you do?" He said, "Well, I got a call from an attorney that changed my life. Unbeknownst to me, we shared a client. I kept this gentleman's horse. He passed away to me unbeknownst to me and his attorney called me. I was told that if I would keep this horse, now age 14, every year that the horse made it, I would get a 6 figure income. If the horse makes it to age 27, not uncommon for a horse, I'd get a 7 figure income." I said, "How's the horse doing?" "Real good," he said. "He lives in my living room." As we're living longer and healthier, don't you think our pets are too? How about financial planning for pets. One-third of all wills now in all developed nations have provisions for pets; it's not wrong or right, just different. Be Proustian, put a twist to it.

Finally, let's go to the third trend: it's the cell phone; but really it's the wireless world that has been built on it. You have a bunch of older people, weird people, who have a little bit more money and now they have a wireless connection to the world. People are more like the times they grow up in than they are their moms and dads. I grew up on a ranch in Plano, Texas and we had 17 people on a party line. I told my students in New Mexico State University I grew up on a party line and they said, "party line? Woo woo, party line!" No, it's not the same thing. They don't know what I'm talking about. I grew up where a phone is in a home or business; they grew up where a phone is life to mobile and when it's life to mobile, they want it to do more than just be a phone.

As of January this year, all cell phones in North America are also your personal locator device either by triangulation or global positioning. We know where you are.

That's great for 911 emergencies; it ain't no fun if you're where you shouldn't be. It's a personal locator device, it's a cell phone, you flip it out, you flip it over, it is your

computer, it's your personal digital assistant, it's your camera. My dog Tango has watched this whole presentation and she is in Las Cruces, New Mexico. It's a link to the world; this has phenomenal implications.

Radio frequency identification (RFID's) are those little remote sensors. The reason Wal Mart and retailers want them is you put an RFID tag on the boxes of cereal, you take it off your shelf when you're shopping and your debit card gets hit. No queueing in line. Guess what John Deere is doing. They put a radio frequency identification guts of a cell phone into heavy equipment. Every part has communications with the whole so a belt that's running on a piece of heavy equipment if it has a RFID tag on it is programmed that when the belt gets close to the end of its useful life, it lets the central processing unit know. It has the guts of a cell phone. The piece of heavy equipment calls the local John Deere dealer and then the John Deere dealer drives up. The operator says, "Why are you here?" The John Deere service technician says, "Belt number 21 called me; it's quitting in 15 minutes." This is called "just in time service" and it just changed the world.

Last year in Las Vegas, Nevada, I was lamenting to Halsey Cook, the president of Carrier Air Conditioning. I live in southern New Mexico which is God's way of preparing you for hell, it gets a little warm there. I'm in Las Vegas and my dog's at the house. My wife's at a meeting. I'm worried about my dog being too hot. Cook says, "Lowell, why don't you just call your air conditioner? Call my air conditioner? He continues, "Lowell, we had it for 18 months at Carrier. It's called Infinity. We put an RFID tag in each room, put the guts of a cell phone (.59 cents) and from any place on the planet, you make one phone call, call your air conditioner and you change the temperature and humidity in each room. That costs \$350; I had it installed two months ago. Now from any place on the planet, I make one phone call and talk to my air conditioner.

I told that to my veterinarian. He said, "Lowell, hello, what planet have you been living on? For 16 years RFID's are what we put in animals that when they lose their collar, we know where they are. Let me put a DNA chip to encode for metabolic rate, the guts of a cell phone (.59

Progressive Affluence

cents) and you won't have to call the air conditioner; your dog calls the air conditioner. I said, "Under one condition that we block out the Pizza Hut because I know that dog and she's ordering pizza."

Let me ask you something, ladies and gentlemen, if my dog can call the air conditioner why can't I talk to my life insurance policy? Do it for me and you own me.