

CHANGING DEMOGRAPHICS IN AMERICA

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SPECIAL POINTS OF INTEREST:

- The segment of the general population of retirement age (ages 65 and over) is expected to reach 19.6% in 2030.
- At the end of the 20th century, half of the population was more than 35.3 years old.
- In just the last two decades of the 20th century, the Asian population tripled, and the Hispanic population more than doubled.
- Among married-couple households, the proportion with their own children under age 18 has declined since 1960.

U.S. Population Reaches 300,000,000

According to the U.S. Census Bureau, the population of the U.S. reached 300 million in October of 2006. This is a significant milestone for our country, but the underlying trends behind this number are far more interesting. Besides having the third highest population in the world, the U.S. is also getting older, our minority populations are increasing, and single parent households are on the rise.

The continuing shift in the demographic landscape of the U.S. should be observed by everyone within the financial services industry. Although the #1 trend soon to have the largest effect on our industry is the retirement of the "baby-boomer" generation, it is not the only segment that should be focused on. DeHayes Consulting Group has identified the Top 10 demographic trends that will influence how financial services companies do business in the future. These trends hold the most promise for our industry, and companies that recognize and prepare for these trends will be the most successful.

1900 1920 1940 1960 1980 2000

Top 10 Demographic Trends

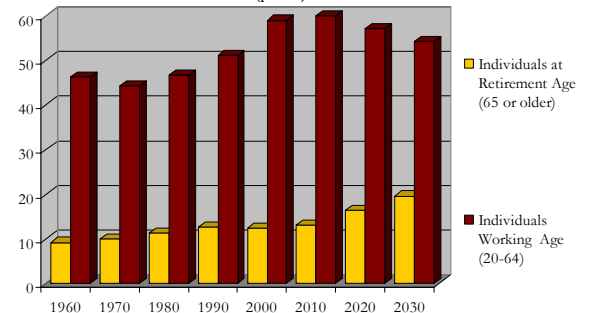
#1 The Retirement Avalanche

The segment of the general population at retirement age (ages 65 and over) is expected to increase to 19.6% in 2030. Conversely, the segment of working-aged people (ages 20-64) will decrease to 54.2% in 2030. With this significant shift in our country, there will no doubt be a growing demand for new insurance products and services tailored to individuals 65 years of age and older.

#2 300 Million and Counting

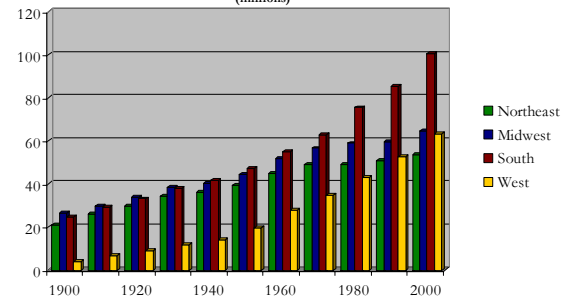
The U.S. population more than tripled from 76 million people in 1900 to 281 million people in 2000. It reached 300 million in October of 2006. The growth of 32.7 million people in the 1990s represented the largest numerical increase of any decade in U.S. history. The U.S. population grew increasingly metropolitan each decade, from 28 percent in 1910 to 80 percent in 2000. Suburbs, rather than central cities, accounted for most of the metropolitan growth. By 2000, half of the U.S. population lived in suburban areas. The population of the West grew faster than the population in each of the other three regions of the country in every decade of the 20th century. The Northeast is currently the most densely populated region and had the highest percentage of its population living in metropolitan areas throughout the 20th century.

General Population at Retirement Age: 1960 to 2030 (percent)



Source: U.S. Census Bureau

Total Population for the United States, by Region: 1900 to 2000 (millions)

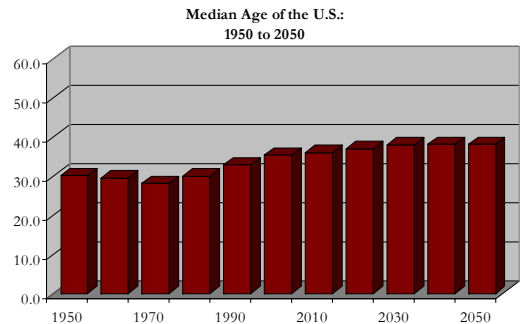


Source: U.S. Census Bureau

CHANGING DEMOGRAPHICS IN AMERICA, CONTINUED

#3 Median Age of the U.S. Reaches 35+

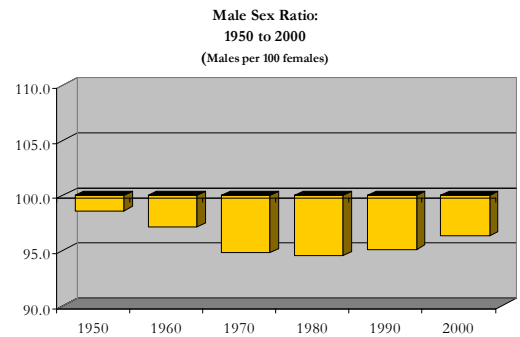
At the beginning of the 20th century, half of the U.S. population was less than 22.9 years old. At the end of the 20th century, half of the population was more than 35.3 years old, the country's highest median age ever. The median age of a population often is used to describe a population as "young" or "old." Populations with a median age under 20 years may be classified as relatively young, and those with a median age of 30 years or more as relatively old. With the median age of our country projected to continue increase through 2050, expect in the coming decades an older population, living longer.



Source: U.S. Census Bureau

#4 The Growing Female Majority

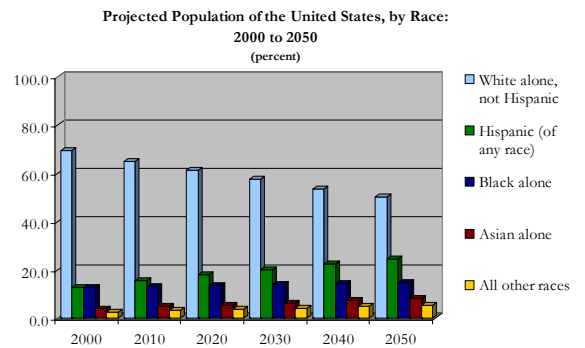
The United State's gender composition shifted from a majority male population to a majority female population around mid-century. The male sex ratio (males per 100 females) declined every decade from 1910 to 1980, then increased in the 1980s and the 1990s. Among the regions, the West had the highest male sex ratio and the Northeast had the lowest male sex ratio for the entire 20th century. Only seven states, all in the West, still had a larger male than female population at the end of the 20th century.



Source: U.S. Census Bureau

#5 Latin and Asian Growth

Racial and ethnic diversity increasingly characterized the population of the United States during the last half of the 20th century, especially in the last three decades. Race and ethnicity are separate concepts as defined by the federal government. People of a specific race may be of any ethnic origin, and people of a specific ethnic origin may be of any race. Large-scale immigration, primarily from Latin America and Asia, underlies both increased racial and ethnic diversity. In just the last two decades of the 20th century, the Asian population tripled, and the Hispanic population more than doubled. The growth rate for both Asians and Hispanics is projected to continue to increase.

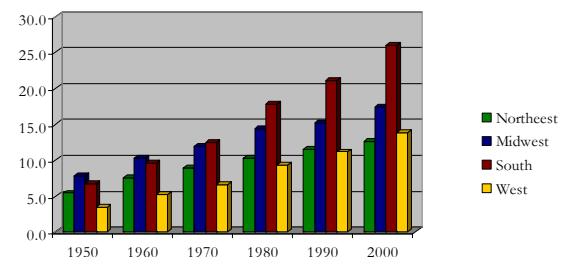


Source: U.S. Census Bureau

#6 Homeownership Continues to Accelerate

Prior to 1950, over half of all occupied housing units were rented. By 1950, homeownership became more prevalent than renting. Each region's highest homeownership rate of the 20th century was recorded in 2000. The Midwest had the highest homeownership rate for every decade of the 20th century, except in 1910, when the West ranked first. The 1930s was the only decade when the proportion of owner-occupied housing units declined in every region. At the end of the 20th century, households who were Black, Hispanic, or of two or more races were more likely to rent rather than own their homes.

Owner-Occupied Housing Units for the United States by Region: 1950-2000 (millions)



Source: U.S. Census Bureau

CHANGING DEMOGRAPHICS IN AMERICA, CONTINUED

#7 The Demise of the “Traditional Family”

In 1900, the most common household contained seven or more people; from 1940 to 2000, it contained mostly two people. In 1900, nearly half of the U.S. population lived in households of six or more people; by 2000, more than half lived in households of one, two, or three people. As the traditional family continues to decline, there will be an increase in opportunities for financial services companies to offer products and services dedicated to the 1-3 person household.

#8 Married Households on the Decline

Households are classified as either family households or non-family households. Within family households, married-couple households represent the most common type. Within non-family households, one-person households (people living alone) represent the most common type. Between 1950 and 2000, married-couple households declined from more than three-fourths of all households (78 percent) to just over one-half (52 percent). One-person households represented 1 of every 10 households (9.5 percent) in 1950, but constituted 1 of every 4 households (26 percent) by 2000.

#9 One-Person Households are Increasing

From 1960 to 2000, the number of one-person households increased for both male and female households and for households both under age 65 and age 65 and over. Between 1960 and 2000, the number of men under age 65 living alone increased by 7.6 million, women under age 65 living alone by 5.7 million, men age 65 and over living alone by 1.5 million, and women age 65 and over living alone by 5.3 million.

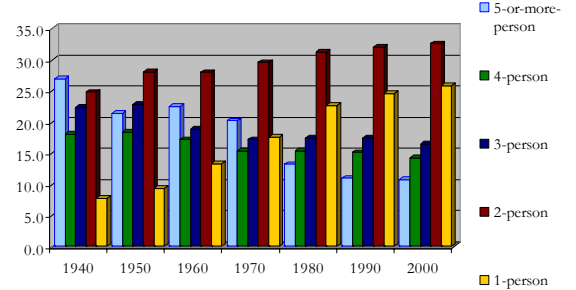
#10 Single Parent Households on the Rise

Among married-couple households, the proportion with children under age 18 has declined since 1960. In 1960, 3 out of every 5 married-couple households (59 percent) had at least one child under age 18. By 1990 (and in 2000), less than half (46 percent) of married-couple households had children under age 18. Among female family households with no husband present, the proportion with children under age 18 increased from 1 out of every 3 (34 percent) households in 1950 to 3 out of every 5 households (60 percent) by 1980. Among male family households with no wife present, the proportion with children under age 18 increased in every decade from 1950 to 2000.

Sources:

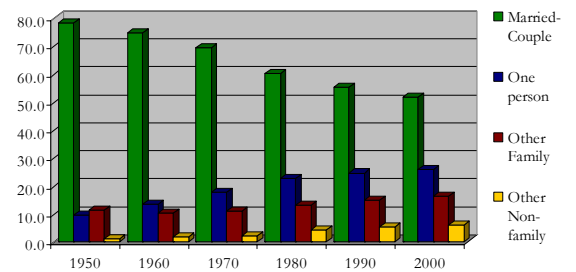
U.S. Census Bureau
Standard & Poor's Industry Survey, 2006

Distribution of Households by Size: 1940 to 2000 (percent)



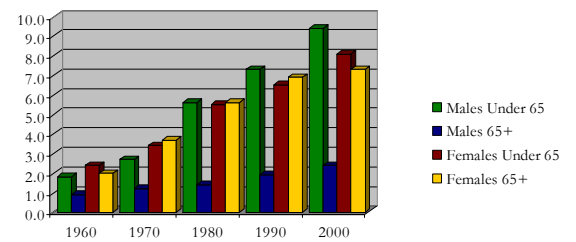
Source: U.S. Census Bureau

Distribution of Households by Type: 1950 to 2000 (percent)



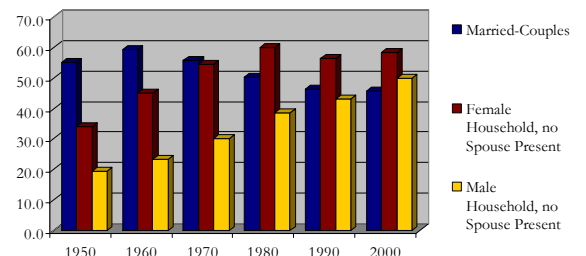
Source: U.S. Census Bureau

One Person Households by Age and Sex of Householder: 1960 to 2000 (millions)



Source: U.S. Census Bureau

Family Households With Own Children Under 18: 1950 to 2000 (percent)



Source: U.S. Census Bureau

TOP 10 STRATEGIC DRIVERS FOR THE FINANCIAL SERVICES INDUSTRY

Financial services companies critically need to recognize the constant changing trends that affect our industry. DeHayes Consulting Group has compiled a Top 10 list of what we have found to be the key strategic trends driving the financial services industry in years to come.

1. “Baby-Boomers” and their Retirement
 - *The overall aging of the population should accelerate the industry’s attention away from mortality-based financial products toward retirement-oriented financial products to supplement income of retirees.*
2. Changes in Consumer Behavior
 - *The breakdown of barriers (banks, brokerage houses, technology) that once separated the various sectors of the financial services industry will continue to have a positive influence on consumer behavior leading to broader service and availability.*
3. Distribution Channels
 - *Faced with growing competition from other financial services firms and the aim to increase profitability, many insurers have reevaluated their distribution channels and are revamping the way they deliver products to consumers. Those companies that deliver these products and services to consumers in the most cost-effective way will thrive in the future.*
4. Consolidation
 - *Merger and acquisition volume should accelerate as companies seek economies of scale and entrance to new markets.*
5. Transparency and Compliance
 - *As regulators and capital markets are demanding greater transparency in all aspects of governance, top-performing firms will use transparency as a way to win over their investors and customers.*
6. Technology
 - *The difference between success and failure will not depend on the amount spent on technology, but rather on the governance of technology within the business.*
7. Growth through Stronger Customer Relationships
 - *Financial institutions are likely to face a continuing challenge to grow their top line. The objective in this case would be to solidify existing customer relationships and gain market share from less focused competitors.*
8. Business Models for Global Markets
 - *The financial services industry will become increasingly global as firms in mature markets seek new sources of growth in emerging economies beyond their domestic home markets.*
9. CSO 2001
 - *Although the new mortality tables only apply to new sales of life insurance products, they could also affect in-force premium levels, product guarantees, cash values, and the need for reinsurance.*
10. Marketing Image Update
 - *Many insurers have undertaken major programs to reshape their marketing image, which will include a much broader financial service image.*

TOP 50 COUNTRIES: LIFE EXPECTANCY

According to the [Central Intelligence Agency World Fact Book, 2006](#), the following countries are listed as the Top 50 in regards to life expectancy. Surprisingly, the U.S. ranked only #48, with an average life expectancy of 77.85 years old. Industrialized countries are in bold.

1. Andorra	83.51	15. Gibraltar	79.80	29. Malta	79.01	42. Puerto Rico	78.40
2. Macau	82.19	16. France	79.73	30. Netherlands	78.96	43. European Union	78.30
3. San Marino	81.71	17. Monaco	79.69	31. Luxembourg	78.89	44. Guadeloupe	78.06
4. Singapore	81.71	18. Liechtenstein	79.68	32. Montserrat	78.85	45. Bosnia and Herzegovina	78.00
5. Hong Kong	81.59	19. Spain	79.65	33. New Zealand	78.81		
6. Japan	81.25	20. Norway	79.54	34. Germany	78.80	46. Bermuda	77.96
7. Sweden	80.51	21. Israel	79.46	35. Belgium	78.77	47. Saint Helena	77.93
8. Switzerland	80.51	22. Jersey	79.38	36. Saint Pierre and Miquelon	78.61	48. United States	77.85
9. Australia	80.50	23. Faroe Islands	79.35	37. Guam	78.58	49. Cyprus	77.82
10. Guernsey	80.42	24. Aruba	79.28	38. United Kingdom	78.54	50. Denmark	77.79
11. Iceland	80.31	25. Greece	79.24	39. Finland	78.50		
12. Canada	80.22	26. Martinique	79.18	40. Isle of Man	78.49		
13. Cayman Islands	80.07	27. Austria	79.07	41. Jordan	78.40		
14. Italy	79.81	28. Virgin Islands	79.05				

1915, 1967, 2006, 2046

The U.S. has come a long way since it's first significant population milestone in 1915, when our population exceeded 100 million. Although it took 139 years since the creation of our country to reach this mark, it only took an additional 52 years to reach 200 million. It reached 300 million in October of 2006. Besides the numerous demographic changes that have taken place throughout our history, it is amazing to see how things have changed. Note some of the headlines from each year our country reached a significant population mark.

1915 - 100 million

- Albert Einstein publishes the theory of general relativity.
- Long-distance telephone service begins between New York and San Francisco.
- The taxicab makes its first appearance in American cities. Service costs a nickel and the popularity of cabs leads to the development of intercity bus lines.

1967 - 200 million

- The world's first heart transplant is performed in Cape Town, South Africa, by Christiaan Barnard, but the patient only lives 18 days. New York surgeon Adrian Kantrowitz performs the operation four days later, but his patient only lives a few hours.
- U.S. President Lyndon B. Johnson signs the Public Broadcasting Act of 1967, establishing the Corporation for Public Broadcasting.
- IBM creates the first floppy disk.
- ABC joins CBS and NBC in presenting 30-minute television newscasts.

2006 - 300 million

- The International Astronomical Union defines "planet" at its 26th General Assembly, demoting Pluto to the status of "dwarf planet" more than 70 years after its discovery.
- Demand by producers and retailers is beginning to outstrip supply for organically raised products.
- North Korea tests their first nuclear device.
- The Dow Jones industrial average crosses 11,900 for the first time ever.

Any thoughts as to what the headlines will be in 2046, the year when the U.S. population is projected to reach 400 million?

U.S. POPULATION CLOCK

When compared to Japan and Western Europe, whose population and birth rates are shrinking (respectively), the population of the U. S. continues to grow. According to the U.S. Census Bureau, the U.S. population increases by 1 individual every 11 seconds. How did they come up this figure? The U.S. Census Bureau uses a simple formula, based on their research, to calculate the rate at which the U.S. population is growing. This is based on estimated births, international migrants, and deaths. Their formula is listed below.

Formula for U.S. Population Growth

$$\begin{array}{rclclcl}
 \text{One birth} & & \text{One international} & & \text{One death} & & \text{Net gain of one person every} \\
 \text{every 7} & & \text{migrant (net) every} & & \text{every 13} & & \text{11 seconds} \\
 \text{seconds} & + & \text{31 seconds} & - & \text{seconds} & = & \\
 & & & & & &
 \end{array}$$

ABOUT DCG

As corporations within the financial services industry continue to face an expanding range of opportunities and challenges, navigating through the issues and selecting success strategies that will take an organization forward can be a particularly daunting task. New ways of thinking about the industry become paramount, which is why clients have and continue to turn to DeHayes Consulting Group (DCG) since 1983 for independent, confidential, experienced counsel when the issues include:

- **Strategic Growth** - DCG has a tailored approach to create acquisition opportunities and address specific challenges faced by acquirers in the insurance and financial services sectors. DCG strives for opportunities with clear value driven principles.
- **Distribution Re-vitalization** - DCG assists companies to gain competitive advantages by addressing their specialized marketing and distribution objectives through a customer-focused, needs-based approach. DCG capitalizes on client strengths through innovative distribution strategies.
- **Integrated Financial Services** - DCG supports financial institutions and insurance companies in forging long-term alliances designed to maximize competitive advantage. Services include proprietary product development, alliance and joint venture strategy to facilitate business combinations, and assisting both parties in the exploration of various cross-marketing opportunities.
- **Strategic Counsel** - DCG provides confidential, balanced, and independent counsel tailored to the needs of the individual chief executive officer. Matching opportunities with the philosophy and objectives of the company, DCG assists to assess options and develop a customized strategy.

DCG is differentiated from other consulting firms in financial services in that we focus not just on development but play an active role in assisting the implementation of client growth strategies. DCG's consulting team comprises highly regarded senior executives with in-depth knowledge of the financial services industry and demonstrated success. Their knowledge and backgrounds extend across the broad range of financial services including all aspects of distribution.

I look forward to exploring with you, on a strictly confidential basis, how DeHayes Consulting Group can help you reach your company's growth objectives.

Sincerely,



A. James DeHayes

Chairman

DeHayes Consulting Group

... navigating through the issues and selecting success strategies that will take an organization forward can be a particularly daunting task.

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