Economic implications of increasing longevity

A gift, a curse, or both?

Rising life expectancy

	Life expectancy at birth	
	male	female
1970-72	67.8	74.5
1980-82	71.2	78.3
2004-06	78.7	83.5
2056: low	85.0	88.0
2056: high	93.9	96.1

Population projections

	2006	2056	06	56
Age group	m	m	%	%
0-14	4.1	5.9	20	15
15-64	14.0	26.4	67	59
65 plus	2.7	8.1	13	23
85 plus	0.3	1.7	2	5
100 plus	.003	.136	.01	.2

Increasing dependency ratio

- Ratio of 15-64s to over-65s

- 2006: 5.2: 1
- 2056: 2.4: 1

- We are now in a demographic sweet spot! It won’t last.

Australia better off than most

Because

- Low % of over-65s to start with.
- Relatively high fertility rate (1.97 in 2008, 7th highest among 33 rich countries – cf Japan 1.34, Korea 1.19, Taiwan 1.05).
- High immigration, overwhelmingly in 18-39 age group.
- and

Everything happens later now

- Education
- Long-term partnering/marriage (if at all)
- Raising children (if at all)
- Home purchase (if at all)
- Paying off the mortgage
- &
- Death

The bad news

Why ageing costs us

- Hospitals and medical bills
- Aged care
- Pharmaceuticals
- Pensions
- Increased dependency ratio
- All requiring increased taxation
- Decline in rate of innovation?

Commonwealth health spending

2009-10 4 % GDP

- 2049-50 7.1 %

- Real health spending to increase fivefold, from $50 billion pa to $250 billion
- MOST of that increase to be in spending on over-65s (only ¼ of population)

Health spending by age

- average of all Australians = 1
- age group

	5-14	45-54	75-84
Pharma	0.1	0.9	4.5
Medical	0.3	1.0	2.8
Hospital	0.25	0.7	3.5
Insurance	0.25	1.0	3.25

The future

Over next 40 years, real health spending on over-65s forecast to increase 7-fold.

- Real health spending on over-85s forecast to increase 12-fold,
- Real spending per head for all Australians forecast to rise from $2290 to $7210 (in constant 2009-10 $)

Aged care

- 2009-10: 0.8 % GDP
- 2049-50: 1.8 %

- Real spending per head: $460 > $1840.
- This assumes
- 1.8 million people aged 85 and over.
- Real unit costs rising 1.6 % pa.
- No change in prevalence of severe disability.

Pharmaceuticals

- Real spending per head has trebled in last 20 years, to $375 in 09-10.

  Over 75s spend 10 times as much per head as 25 to 44s.

Pensions

- Australia's pensions among the lowest in the Western world.
- Despite rapidly-growing superannuation balances (140 % of GDP by 2049-50) . . .
- . . . Almost 80 per cent will be of pension in 2050
- Pensions to rise from 2.4 % GDP now
- to 3.9 % by 2050

The bottom line

- Assuming all other spending unchanged in real terms
- Ageing and health pressures forecast to lift government spending by 4.7 % of GDP by 2050 – roughly $60 billion a year.
- This would require big tax increases (e.g. more than doubling GST) or big spending cuts in other areas.

The good news

Hell, no! We won't go!

- Rate of workforce participation (%)

	1978	1997	2009-10
Men			
55-59	83.0	72.2	79.0
60-64	59.0	45.7	60.4
65 plus	12.4	10.2	15.2
Women			
55-59	30.0	41.9	63.9
60-64	13.0	18.9	41.9
65 plus	2.8	2.9	6.4

How we compare

- Employment rate among 55-64 yos
  (out of 27 rich OECD countries)

	Aust 09 (94)	rank	best	
Men	66.7 (54.7)	8	Switz'ld	84.5
Women	51.4 (26.2)	10	Iceland	76.4
Total	59.0 (40.5)	9	Iceland	80.8

Hell, no! We won’t go!

- Employment rates among over 65s

	05-06	09-10
	%	%
65-69	17.9	23.9
men	24.7	31.1
women	11.2	17.0
70 plus	3.4	4.3
men		7.8
women		2.4

The big difference

- Three recessions in 20 years left only 32 per cent of Australians 55-64 in workforce by 1992. Older workers were targeted for early retirement.

- In 2008-09, while full-time employment fell by 140,000, older workers were kept on. Rather, employers stopped hiring.

For example . . .

- Full-time jobs lost, year to July 2009
-
- age jobs lost %
- 15-24 - 122,000 - 12
- 25-54 - 66,000 - 1
- 55 + + 66,000 + 6

- Total - 122,000 - 2

Retirement plans

- workers over 45 with retirement plans

retire at	2004-05	2008-09
45-59	22 %	13 %
60-64	31	29
65-69	39	46
70 plus	8	12
never retire	384,000	575,000

This workforce will grow!

- May 2005: 196,000 workers 65 and over
- May 2010: 313,000

- May 2020: 1 million plus?
- May 2050: 3 million plus?

But policy changes too timid

- Keating: preservation age to be lifted from 55 to 60 . . . between 2014 and 2024

- Costello: female pension age lifted from 60 to 65 between 2003 and 2013
- Costello: tax free super from age of 60!

- Swan: pension age to be lifted from 65 to 67 . . . between 2017 and 2023

Policy needs to catch the wave

- Baby boomers (as conventionally defined) now aged 49 to 64.
- 4 million Australians heading towards pension/retirement age
- We need them to keep working longer.
- To do that, policy needs sticks as well as carrots.

Lest we forget

- Household disposable income per head (equivalised for work status,dependents)

15-24	$733 per week	
25-34	$727	
35-44	$711	
45-54	$791	
55-64	$705	
65 +	$439	(pre-housing costs)

Bipartisan policy on ageing

- Incentives to induce people of retirement age to keep on working.
- Raise pension age gradually, but still allow people to take super payouts tax-free at 60.
- $30 pw increase in single pension won bipartisan support.

Labor policies

- Work bonus to allow pensioners to earn $6500 a year in employment income without affecting their pension.
- Age discrimination commissioner.
- Skills training for 7500 workers over 50.
- Better protection for reverse mortgages.
- Set up peer support groups for grandparent carers.

Meanwhile . . .

- Productivity Commission inquiries into:

- Caring for Older Australians
- draft report December, final in April.

- Disability Care & Support
- draft report February 2011, final in July.

Coalition policies

- Seniors Employment Incentive Payment, paying employers up to $3250 to take people over 50 off welfare (unemployed, disabled, aged pensioners).
- Abolish age limit for super guarantee.
- Index thresholds for Seniors Health Card.
- Consider retail issuance of govt bonds.
- Safer Seniors program.

Coalition policies - 2

- Introduce aged care provider agreement with peak aged care bodies – aim to cut red tape and ensure value for money.
- Convert 3000 allocated bed licences to operational residential aged care beds.
- $300 m for post-illness convalescent care.
- $50 m for research into Parkinson’s etc
- $14 m for pet therapy, $12 m for human companions.
- $12 m to grass-roots wellness initiatives.

But

- No new money for aged care – Coalition program is funded entirely by cuts to Labor programs eg
- Transition aged care places: $241m
- Long stay older patients: $429 m
- Zero real interest loans: $166 m
- Aged access to primary care: $98 m
- Ambassador for Ageing: $1 m

Conclusion

- Ross Garnaut: The era of reform ended with the GST. Populism now rules, on both sides. Unwillingness to tackle hard issues (eg dumping of Hogan report).
- Costs of ageing largely inevitable. Opportunities are being taken by older workers, but we risk missing the wave of baby boomers for lack of a focussed, hard-headed policy.

What might we do?

- Lift pension age to 70 by 2025.
- Lift preservation age to 60 by 2020, and to 65 by 2030.
- Lift age for tax-free super to 65 asap.
- Create a culture in which working on into one’s late 60s and 70s is seen as normal.
- Challenge the ageism of HR managers.
- Invest heavily in research into Alzheimers and other disabling diseases of age.