COMBINED PENSIONERS AND SUPERANNUANTS ASSOCIATION OF NEW SOUTH WALES INC.

Founded 1931.
Serving pensioners of all ages, superannuants and low-income retirees.

Consumer Protection Awards – 2002, 2003, 2004

SUBMISSION

Productivity Commission
Implications of the Future Ageing of Australia's Population

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Introduction

Combined Pensioners and Superannuants Association of NSW Inc (CPSA) is a non-profit, non-party political membership based organisation serving the interests of pensioners of all ages, superannuants and low-income retirees. It has around 145 branches and affiliates with a combined membership of over 12,500 throughout NSW. CPSA also serves the interests of its membership and broader constituency at the local, state and federal levels.

Economic Implications of an Ageing Australia (2004) (referred to in this submission as "the report") is of great interest to CPSA as it is aimed at influencing governmental policies that will affect older people in the medium to long term. Age Pensioners and other retirees make up a large part of our membership and broader constituency. This submission aims to articulate their interests when it comes to formulation of policies on the issues raised in the draft research report. CPSA hopes that our comments on the report will be taken into account when it comes to enacting policy. These comments will be framed around the three points the Productivity Commission is to report on.

1. **The likely impact of an ageing population on Australia's overall productivity and economic growth.**

The likely impact of an ageing population on Australia's future productivity and economic growth includes a range of variables. As the report suggests, there are divergent views about the affect on economic growth and productivity as the population ages. William Scarth, in reference to Canada, states that:

"…Denton and Spencer (1998) note that the rate of growth per capita GDP is certain to fall significantly over coming decades unless either the immigration rate or the productivity growth rate increases rather dramatically. It is the aging [sic] of Canada's population that lies behind this concern" (Scarth, January 2003).

The *Intergenerational Report 2002-03* also raises concerns about Australia's ageing population in regard to growth in GDP:

"Consistent with the projected lower labour force growth, economic growth in Australia, as measured by growth in real GDP, is expected to slow over

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the next four decades. Real GDP per person, a more appropriate indicator of living standards, is also expected to grow more slowly, but is not expected to decline to the same extent as the growth rate of real GDP" (Treasury, 2003).

However, Scarth puts the current situation in relation to Canada in its historical context and has a more positive approach:

"In the 1950s, the youth dependency ratio was extremely high – when the baby boom generation was too young to work. But the overall dependency ratio was pulled down by the fact that there were relatively few older Canadians in those years. As time has passed since then…things have been switching. The youth dependency ratio has been falling while the old-age dependency ratio has been rising. The overall dependency ration fell as baby boomers entered the working years, and now it is rising again as boomers begin to retire. We managed to cope quite well with the high overall dependency ratio before. Optimists presume that we can do so again" (Scarth, January 2003).

But there is a difference. While children, especially at a very young age, need constant care and are unable to become productive members of society until they are older, the older generation are capable of undertaking work (either paid or unpaid) well after they formally retire. As Judith Healy points out:

"Mature age workers today have a greater capacity than previous generations to work beyond a retirement age of 60-65 years as they are healthier and better educated and the nature of work is less physically demanding" (Healy, March 2004).

As long as barriers such as age-based discrimination are removed, older people will make up an integral part of a forward moving Australian economy. And it needs to be stressed that if they are marginalised or discriminated against on the basis of prejudices regarding their capacity to work, then that in itself will be detrimental to economic productivity – not to mention the negative effects on older people themselves.

The impact of expenditure on social security has a significant effect on the health of the economy. There are concerns it may have a negative impact. However, Pamela Kinnear makes this point:

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“As the pool of younger workers diminishes with population ageing, mature age workers will naturally increase their share of employment across most sectors of the labour market. As this trend continues, the unemployment rate is expected to fall significantly, with reductions in payments for unemployment offsetting increases in expenditure on pensions…Due to its non-contributory flat-rate and means-tested system, Australia is comparatively well placed to cope with future pressure on pensions. Pensions expenditure in Australia is projected to increase from 3 per cent of GDP in 2000 to 4.5 per cent of GDP in 2040. This is well within manageable limits and is far below that of other OECD countries” (Kinnear, December 2001).

In other words, although so-called baby boomers, as they retire in large numbers, will be eligible for the Age Pension, Australia’s social security system will not (as some may fear) be unduly strained. And part of the reason for this is the introduction of compulsory superannuation. As more and more Australians retire in future years, they will be contributing to their retirement in three ways:

- During their working lives they will pay income tax which can be used, as it has been in the past, to fund social security;
- They will accumulate greater superannuation savings;
- They will remain taxpayers by virtue of the fact that as consumers they will pay GST on many items.

It is then up to governments to use the revenue streams appropriately and ensure older Australians get value for their considerable contribution to the economic health of the country.

It also needs to be pointed out that health expenditure in the future on Australia’s older population will not be detrimental to economic growth. It is wrongly assumed that older Australians may adversely affect the health budget. There are various reasons for being optimistic in this regard.

First of all, as pointed out previously, Australians in 60 years or more age category are living in greater health in their later years than in previous decades. Secondly, Medicare, so long as it is maintained as a universal health insurance system, is one of the most cost-effective ways of ensuring the health budget is kept to manageable levels – in contrast with the US:

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“Reports from the United States show that the private health system is reaching new heights of absurdity. Despite health costs now pushing 15% of GDP (almost double that of Australia’s free system – 8.6% - and most of the OECD countries), many of the sick are being refused health insurance cover by the for-profit corporations” (Costa, 1998).

Medicare helps prevent health expenses to both the individual and the economy overall by providing an incentive (in the form of taxpayer-funded health care) to have health problems rectified early rather than later. When health problems are unattended to then health consumers require more expensive acute care services. This is partly the reason why Australia’s health budget is more manageable compared with that of the US.

CPSA and other organisations have argued that growing older per se is not the cause of cost blowouts in the health system. The Productivity Commission’s report suggests there is conflicting research on how much of a difference an ageing population will have on health budgets. Nonetheless, the report also points out that:

“The available evidence suggests that the biological aspects of ageing and other changes in the mix of worker and job traits accompanying ageing will make a negligible difference to Australia’s aggregate productivity and economic growth performance” (Productivity Commission, 2004).

At any rate, CPSA emphasises that older people should not be regarded in terms of a health cost – regardless of whether health expenditure on their needs is large or small. Health expenditure is a necessary part of social planning and it should go without saying that all Australians deserve the attention of the health system according to their needs.

Finally, in regard to this section of the submission, it must be stressed that while it is important to consider the effects of an ageing population on economic growth, it is more important to look at what the needs of older Australians are in the context of the coming decades. The Australian economy should be of service to the Australian people, including older Australians, and not the other way around. Investment in social security and health maybe an expense but it is an essential expense in a civilised country. Once that is understood by policymakers there is a better chance of including older people when it comes to social planning for the future.

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2. **The potential economic implications of future demographic trends for labour supply and retirement age, and the implications for unpaid work such as caring and volunteering.**

As is the case in most Western countries including Australia, future demographic trends will mean a much larger percentage of the population will be people aged 65 years or more:

“At Federation, the old were scarce. Less than one in 25 of the population were aged 65 years or more. Now, they comprise one in every eight Australians. By 2044-45, more than one in four will be aged 65 years and over” (Productivity Commission, 2004).

This is unprecedented and will have implications in regard to the labour supply trends and retirement age. Watson Wyatt Worldwide, in a report to the World Economic Forum Pension Readiness Initiative, stated that:

“In the 2010s, roughly two out of every three countries will experience a reduction in labor supply under our baseline projections. Even in Australia, Ireland and the United States, which are expected to have relatively persistent labor force growth in the coming years, labor supply growth rates during the 2010s will be half those of the current decade. Employers in the developed countries may face considerable challenges in finding sufficient numbers of talented employees to run their operations. The potential alternative is economic stagnation or even economic decline, depending on the severity of the workforce contraction” (Watson Wyatt Worldwide, 2004).

This means that employers are going to be forced to look to older people to fill the gaps left by the scarcity of younger workers. This will definitely be a challenge. There is much debate about how government and companies can develop strategies to encourage people considering retirement to remain in the workforce. While CPSA supports measures that will allow people in that age category to continue to work *if they want to* (such as measures aimed at breaking down aged-based discrimination), the problem with this debate is that it ignores the needs of much younger workers who have been laid off on the basis that they are too old. In this regard, we are talking about workers who are 45 years or older. According to a fact sheet produced by the NSW Department of Ageing, Disability and Home Care (DADHC):

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"62% of unemployed people over 55 surveyed in July 1998, said their main difficulty in finding work was that they were considered too old by employers…Employment participation rates for individual age groups are the highest for people aged between 20 and 44, and are lower for each subsequent age group" (DADHC, nd).

In addition, workers aged over 45 years face an average period of 96 weeks of unemployment compared with workers 44 years or younger who face an average of 38 weeks (ABS, 2001). The figures point to a shameful waste of potential but they seem to be overlooked by employers and government alike. It is all very well to work on strategies aimed at encouraging employees to defer their retirement. CPSA agrees that if people want to work beyond 65 years that is their right. But it is still important not to ignore the employment needs of people much younger who are deemed too old to work. If there was a more positive attitude in Australian society towards those in the 40 to 49 years age category there would be less of a problem in relation to Australia's future labour supply.

If more 65 year olds defer retirement plans there will be implications as regards unpaid work including volunteer work and caring. According to recent research:

"…men and women aged 65 years and over contribute almost $39 billion per year in unpaid caring and voluntary work…At an individual level the unpaid work of older people is valued at between approximately $20,000 to $27,000 for older women and from just under $17,000 to $18,000 for older men" (Gray et al, October 2003).

This work is performed under a range of circumstances. Many grandparents enjoy looking after grandchildren. Husbands and wives regard looking after their spouses as their health declines due to old age as a responsibility attached to marriage. Older volunteers commit to community organisations because they feel better when they make a social contribution. But regardless of why the work is performed it needs to be emphasised that much of it either wouldn't get done or would have to be paid for by government if older people were not available.

In this context, policymakers will have to find a solution to the burgeoning problem of the lack of personnel to undertake essential unpaid work if increasing numbers of older Australians choose to remain in the paid workforce.

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3. **The potential fiscal impact of the above factors on Commonwealth, State and Territory and, to the extent practicable, local governments.**

As stated previously in this submission, the impact of social security, health and outlays necessary to cope with an ageing population should not have a detrimental impact on the economy – provided that appropriate forward planning is carried out.

“The broad options for future policy are to take early policy actions that reduce the magnitude of the projected gap – such as more efficient health care provision – and to finance the remaining gap. Early intervention will avoid the need for inefficient or inequitable ‘big bang’ interventions, such as excessive tax increases or service rationing, which would also face public resistance. Population ageing can only be conceived as a crisis if we let it become one” (Productivity Commission, 2004).

The temptation for all levels of government to react to events set in motion by Australia’s ageing population (such as an increasing need for social services) could be to make budget cuts. This would be a mistake both in terms of equity and inefficiency. For instance, the Australian Government may react by attempting to impose more costs to pay for health care onto health consumers themselves. This could have the effect of discouraging people, especially low-income earners (including many older people) accessing medical services. This in turn could mean greater impact on the hospital system. In relation to the fiscal impact of health costs, as Kinnear points out:

“Successfully managing the health costs associated with population ageing will depend on giving priority to equitable and universal access to quality health care, properly balancing preventative health measures and high-end technological intervention, and retaining public control over administration and allocation of health services” (Kinnear, December 2001).

To lessen the impact of ageing on government budgets, it is actually necessary to invest more. This may seem counterintuitive but, as we have seen in the US where government investment in health care is lower than the OECD average (Johnston, Spring 2004); less money towards health care can end up costing the economy more overall.

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“Ageing in place” is a term used to describe the policy aimed at ensuring that people are able to go through the later stages of their life without disruption. The policy is useful in a number of applications such as residential aged care (trying to ensure residents go from low-care to high-care in the same facility) and housing. With regard to public housing, the policy is clearly not being translated into action. Funding for public housing comes via the Commonwealth-State Housing Agreement (CHSA). However, according to ACOSS:

“Between 1984-85 and 1994-95, taking into account inflation and changes in the population into account, per capita levels of spending on CSHA housing assistance decreased by 25%” (ACOSS, August 2002).

This translates into the loss of affordable housing on a massive scale – even taking into account recent increases in CSHA funding. In turn, this means housing has become unaffordable for many pensioners and superannuants. And if more and more people cannot get into public housing there is greater pressure on the private rental market. Pensioners, superannuants and other low-income earners are being priced out of the market and vulnerable to homelessness. This will mean greater spending will be need on social services or even corrective services impacting on all levels of government – especially state and local governments. But most importantly, it will mean disruption to the lives of many people who can’t find a stable living environment.

What applies to health and housing also applies to other government outlays. Whether it is funding residential aged care (Commonwealth) funding HACC (Commonwealth, states and territories) or local community services (states and local government), the fiscal impact of an ageing population will get worse if investment in health and social services is reduced in a short-sighted attempt to rein in spending.

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