Population Ageing and the Economy

Research by

Access Economics Pty Ltd

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Access Economics gratefully acknowledges JobsEast as the source of three of the examples quoted in boxed text in Chapter 1. For more information, please call Louise Rolland on (03) 9873-8377 or email jobseast@jobseast.asn.au.

TECHNICAL NOTE. The forecasts in Chapter 3 have been made using Access Economics' Marketing and Modelling System (MAMS) model. MAMS provides a comprehensive overview of the income, wealth and spending patterns of Australians, now and in the future.

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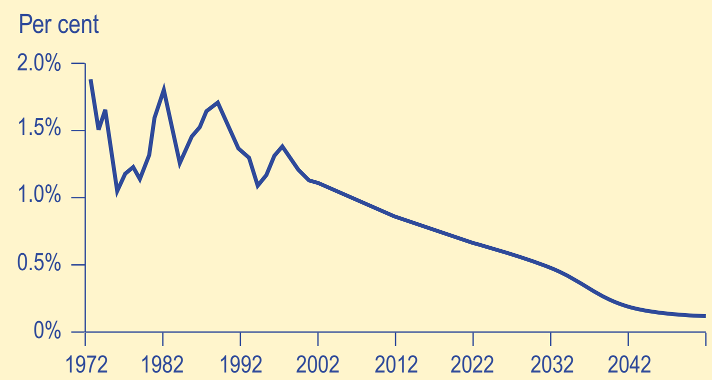
Foreword by Minister

Australia will experience significant demographic changes over the next few decades. These will need to be accommodated in a young country which is celebrating its first 100 years as a federated nation.

Australia's population was 13 million people in 1971 and is projected to grow to around 25.4 million by 2051. Population growth per year has trended down from around 1.6 per cent in 1971 to around 1.2 per cent in 1999 and is predicted to fall to just over 0.1 per cent by 2051.

Figure 1. Historic and Projected Population Growth Rates [1]



Source: RIM Unit, Commonwealth Treasury

We have been growing older in a world of developed nations ageing at a faster rate than us. In 1976 Australia had 1.3 million people over 65 years or 9 per cent of the total population. Today there are 2.3 million people over the age of 65 years or 12 per cent of the total population. By 2016 there will be 3.5 million or 16 per cent; and by 2051, 6.03 million or over 25 per cent – one quarter of Australia's population – will be aged over 65.

Australia has already experienced the effects of ageing and we have been dealing with them successfully for at least a century. For example, in 1870, 42 per cent of the population were aged less than 15 years and 2 per cent were aged 65 years and over. In 1998, 21 per cent were aged less than 15 years and 12 per cent were aged 65 years and over.[2]

A well managed economy over the long term is an essential element to our capacity to meet the emerging challenges of population ageing. Provided that appropriate and timely approaches are taken along the way, Australia will be well positioned to reap the opportunities and meet the challenges of an ageing society which will begin in this decade and continue for 5 decades.

Appropriate utilisation of the increased supply of mature age workers, in particular, can be a factor in economic growth as highlighted by recent research undertaken by Access Economics contained in this publication. This important research on the micro and macro issues surrounding the projected increase in the supply of mature age workers and the implications of the baby boomer cohort for the market place for goods and services in the next couple of decades is outlined in this publication.

Access Economics' work has focussed on three key areas:

- the reasons why individual businesses should start to change their attitudes towards mature age workers, as outlined in Chapter 1. *Too valuable to waste*;
- turning negative aspects from demographic effects over coming decades to a more positive national attitude towards mature age participation in work, as outlined in Chapter 2. *All in it together*; and
- the fact that almost half of the expected increase in retail spending in the next decade will be attributable to the over 55's, as outlined in Chapter 3. *The Silver Market goes Platinum.*

There is an additional imperative to manage the economy to facilitate adjustment for the increased numbers of people likely to enjoy a longer period in retirement. The larger baby boomer cohort will have higher expectations of retirement that will need to be supported by sustainable economic and social policies.

Recognising the significance of an ageing population the Federal Government is developing a National Strategy for an Ageing Australia. The National Strategy will be embedded in a sound economic context. It will deal with the short, medium and longer term policy responses to population ageing.

It will address the challenges and possible responses for government, business, the community and individuals to meet the needs of Australians as they age.

There are a number of population ageing challenges for Australia. Promoting a sound economy is the best insurance a nation can take to counter and adjust to the impact of population ageing.

The interrelated challenges requiring attention are:

- establishing the right balance between individual and public responsibilities, particularly in pensions and health and aged care as these costs will grow with an ageing population; and
- market responsiveness is also an issue: labour and capital markets need to respond quickly to the effects of ageing – productivity improvements are essential.[3]

These factors are common threads in OECD analysis of how nations can best adjust to the challenges of an ageing population. Action in these areas also underpins current responses in Australia and will influence future policy directions.

The OECD[4] has stressed the need to make adjustments to fiscal outlays on pensions; for new approaches to funding and delivering aged care; and for removal of barriers to work:

- throughout most OECD countries pension costs will increase and, one way or the other, the bulk of those costs must be borne by the younger generation. The OECD advocates pension reforms (eg. increasing the age of entitlement to full benefits, or increasing flexibility in pension arrangements during the work to retirement transition) as a necessary supplement to effective economic and social policies designed to raise employment and output and to increase working life flexibility
  - Australia's means tested and publicly funded aged pension system is projected to be sustainable over the coming decades. Outlays are expected to grow from the current 3 per cent of GDP to 4.5 per cent in 2050;
  - The relatively modest growth in outlays notwithstanding

the ageing of the population reflects the targeted nature of our public pension arrangements and the success of Australia's superannuation policies. The superannuation arrangements backed by the pension will progressively provide a higher level of retirement income support for a larger cohort of retirees. Since 1985 superannuation fund assets have risen from about $40 billion to the current level of $490 billion. There will continue to be steady growth in the coverage and size of superannuation;

- the OECD analysis points towards the importance of treating ageing and care as a normal life risk that should be planned for. Currently, public expenditure on long term care is in all countries overwhelmingly for residential rather than for community care. This needs to be adjusted to reflect a more balanced health and age care delivery system with services supporting people in their own home, such as home health care, personal domestic care, meals on wheels and day care services
  - In Australia this Government's policies are delivering more direct backup services into the community to enable people to remain in their own home for as long as possible, as this is where they want to be. The 1997 Aged Care Reforms introduced user charges according to the capacity to contribute and put in place an accreditation and sanctions regime to support quality outcomes for the small proportion of older people needing residential aged care; and a continued shift in emphasis from residential to community care in recognition of consumer preferences and improvements in quality of life outcomes; and
- the OECD also advocates action to remove early retirement incentives in the public and private sectors for example through : age specific active labour market programs; action taken to promote training and lifelong learning for mature age workers; and gradually changing a range of personnel practices that work against mature age workers. These include countering age discrimination in the work place, finding alternatives to pay scales that are based on seniority and hence drive up the cost of mature age workers, and developing flexible working life arrangements, work

organisation and working conditions designed to meet the needs of mature age workers

- To date Australia has responded through a number of measures including: changes to superannuation preservation laws which will provide disincentives to early retirement; abolition of a compulsory retirement age in the Commonwealth Public Service; increased flexibility in the Workplace Relations System that now provides for the certification of family/age friendly working arrangements including the prohibition of age discrimination in the Workplace Relations Act; and encouraging changes in attitudes by employers and employees to the early retirement culture.

If around a quarter of the population is going to be aged over 65, this could act as a drag on our growth potential and standards of living unless we can improve overall productivity performance, including making better use of mature age workers.

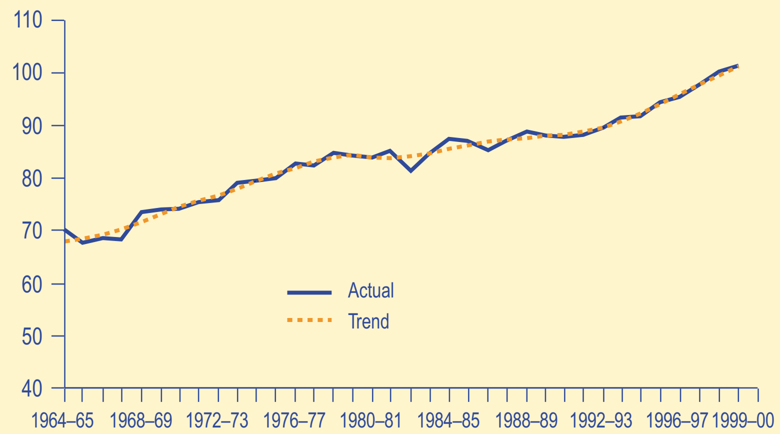
Australia experienced in the late 1990's a turn around of a long history of relatively poor productivity performance by international standards. Australia's rate of productivity growth was higher than nearly all other high-income countries in the late 1990s suggesting that a domestic explanation for the improvement is required. Success in explicit attempts to raise Australia's productivity performance by introducing microeconomic reforms is an important part of that explanation.[5]

Greater exposure to competition and the greater commercial focus of government business enterprises provide ongoing incentives to seek out better products and better ways of doing things. A more 'dynamic' business culture reinforces the focus on productivity. There are also greater flexibilities to improve business operations. For example, less unnecessary regulation and new enterprise bargaining structures enhance the ability of firms to reorganise production and redesign work arrangements.[6]

That is not to say that there will be immunity from demand-side shocks, such as downturns in external markets. But, even here, it can be noted that the economy has become much more resilient. It posted record productivity growth in the midst of the Asian economic crisis. In part, this was due not only to good macroeconomic management, but also to the fact that producers are more flexible, more aware of markets and anticipate and manage risks better.[7]

According to OECD estimates, a small number of high-income countries (eg. Australia, Denmark, Ireland, Finland, Norway, the United States), experienced faster growth in the 1990s that was linked in important part to an acceleration in multi-factor productivity (MFP), which reflects the overall efficiency with which labour and capital are used. MFP growth can be lifted through technological progress, improved managerial practices, organisational change and, more generally, improved ways of producing goods and services. In the second half of the 1990s, MFP accelerated in Australia, as indicated in Figure 2.[8]

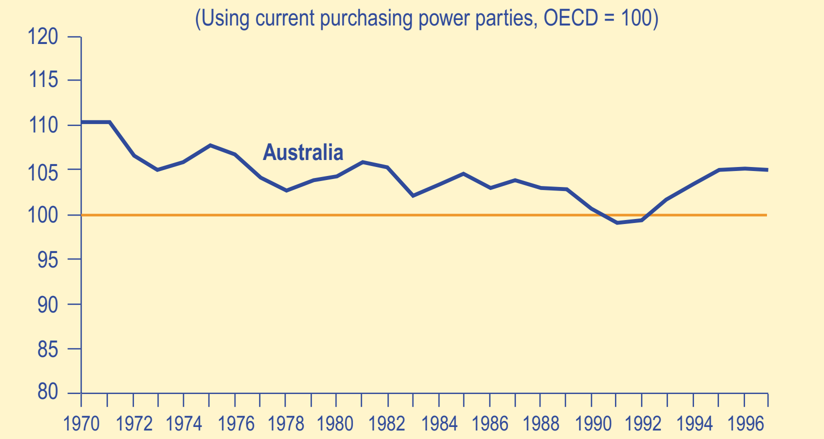
Figure 2. Multi-factor productivity (MFP) – Actual and Trend



Source: Productivity Commission

The strong pick up in productivity growth in Australia has underpinned the strong upturn in Australia's growth. A comparison of average growth from June quarter 1983 to March quarter 1996 of 3.5 per cent, with average growth from June quarter 1996 to June quarter 2000 of 4.5 per cent shows the importance of productivity growth. Decades of poor productivity performance underpinned our relativity poor economic growth record and relative decline in our standards of living compared to other high income countries. (See Figure 3.)[9]

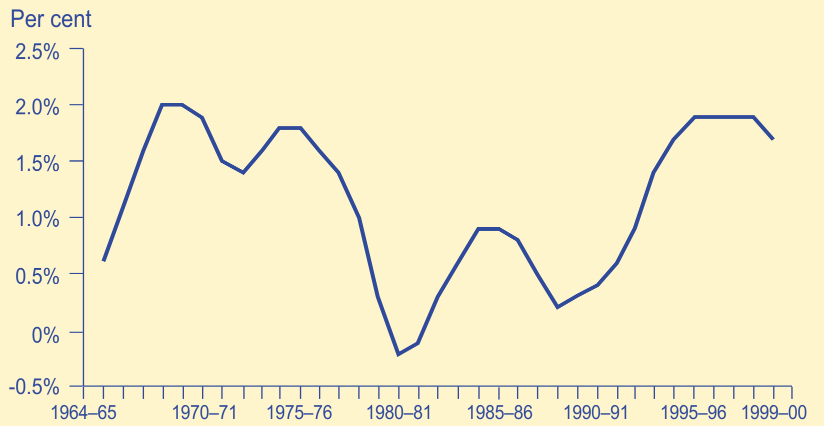
Figure 3. GDP per Head: Australia Relative to the OECD



Source: OECD Outlook No. 66

However, the surge in productivity growth in the 1990s has underpinned Australia's exceptional economic growth performance of the 1990s (Figure 4 shows that the trend in MFP has continued to grow albeit at a slower rate). This is encouraging. It points to the importance of 'staying the course' with measures that are conducive to continued strong productivity. This will be particularly important as Australia's population ages.

Figure 4. Annual growth in trend multifactor productivity, 1964–65 to 1999–00 (per cent)

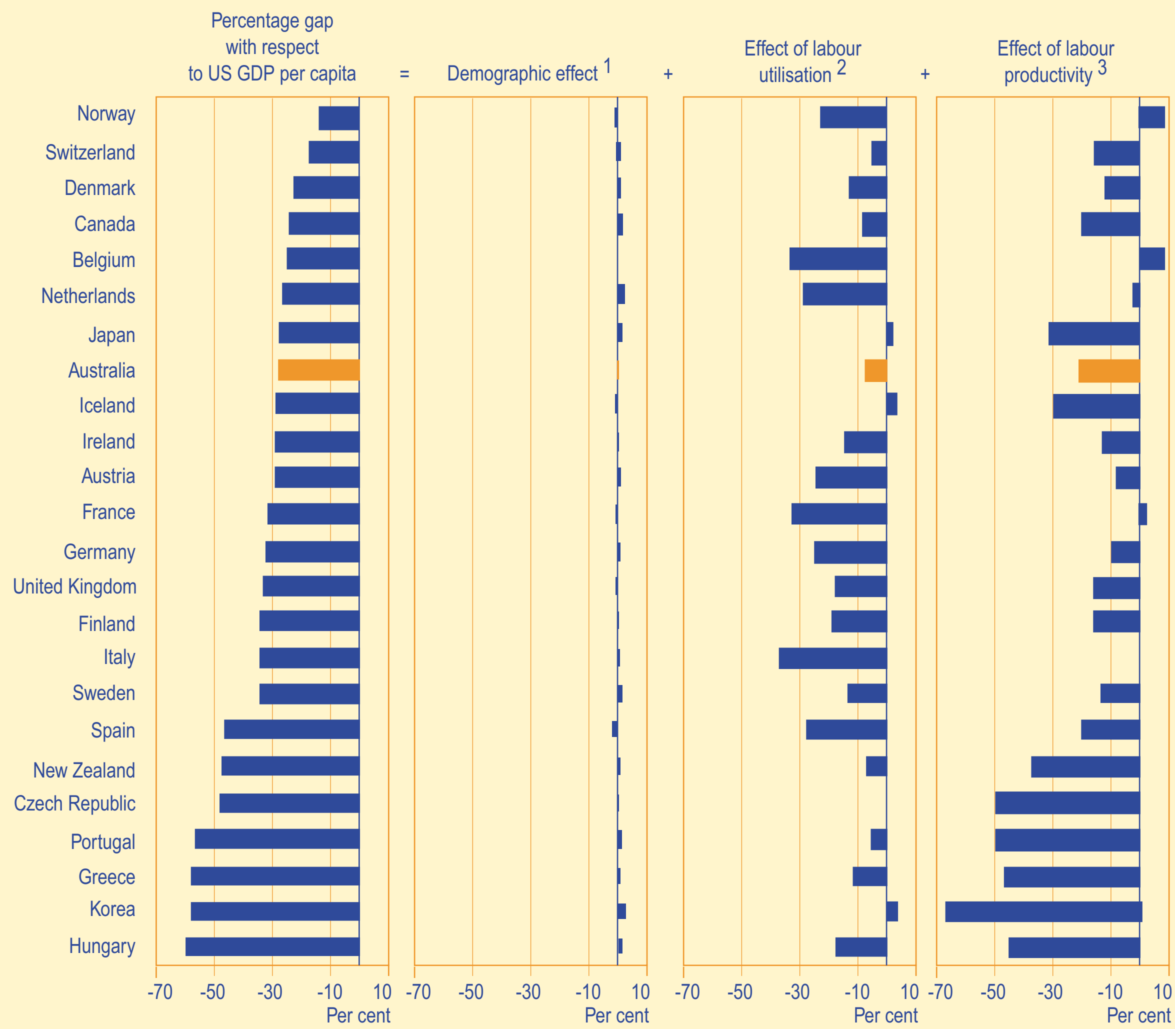


Source: Productivity Commission

The significance of this point is drawn out in Figure 5.[10] Among developed economies, income per person (GDP per capita) is the highest in the United States. This can be explained by differences in the demographic, labour utilisation and labour productivity factors. For the vast majority of OECD countries demographic differences were a relatively minor component of differentials in GDP per capita at the end of the 1990s.

Figure 5. Differentials in GDP per capita and their determinants, 1998

Percentage point differences in PPP-based GDP per capita with respect to the United States



1. Based on the ratio of working age population (15–64 years) to total population.
2. Based on employment rates and average hours worked.
3. GDP per hour worked.

However, the influence of demographic factors is set to strengthen in the future due to a more rapid increase in the share of older persons in total population.[11] The demographic effect could be a relative dampener on GDP per capita as Australia's population ages unless we utilise the talents of mature age workers. This means increasing the employment participation rate of persons over 55 years by keeping a larger percentage in the workforce. Australian governments need to keep up the pace of economic reform, because even with our strong productivity performance of the 1990s there is still a large productivity gap with the United States and productivity growth also accelerated in the United States in the 1990s.

The Commonwealth has an important role to play in micro economic reform but in many areas it is a shared responsibility with the States. This also applies to policy responses to population ageing which extend out into the wider business and community sectors.

Micro economic reform is an ongoing process which provides benefits to consumers in lower prices and improved quality. It also can result in better wages and conditions in return for increased productivity. Success in the reform process will underpin an economy able to support an ageing population and creates new opportunities in the process for a quality lifestyle for the working and non working population.

Continued employment for mature age workers who have the right mix of skills will add to the capacity to use the current tools of the modern workplace; and also has the potential to create intellectual capital leading to the development of new tools and approaches to work that better meet current and future needs. The creation of opportunities for mature age workers to undertake retraining and the breaking down of barriers to access retraining are critical issues. The establishment of a culture of continuous learning and re-skilling is essential to maximising the contribution of mature age workers to economic growth.

Australia is well placed to handle population ageing and a changing workforce in the coming decades because of its continuing program of sound economic management and reform over the longer term, its natural resource advantages and an awareness of the need to utilise and continually skill its mature age workforce.

Participation in the workforce throughout life is an important element of individual saving for pre and post retirement purposes and also an important contribution to overall economic growth. Within recent decades there have been significant changes in the working patterns for both men and women. These include:

- a general decrease in the participation rate for men aged over 15 (from 75.4 per cent in 1990–91 to 73.0 per cent in 1997–98);
- a general increase in the participation rate for women aged over 15 (from 52.3 per cent in 1990–91 to 53.7 per cent in 1997–98);
- an increase in the proportion of the workforce working part-time from 18.2 per cent in 1985 to 25.5 per cent in 1997–98 accompanied by a decrease in the proportion working full-time from 81.7 per cent to 74.5 per cent over the same period;
- longer periods spent in education by the young; and
- an increase in early retirement for men. (This trend has seen the labour force participation rate for men aged 45–64 decline from 84.6 per cent in 1978 to 77 per cent in 1999 with those aged 55–59 and 60–64 falling by 13 and 15.5 percentage points respectively).[12]

More women are in paid work than ever before. 65 per cent of working age women aged between 15 and 64 were in the workforce in December 2000–this is one of the highest rates on record. Female employment grew by 11.2 per cent (402,600) between March 1996 and December 2000.

These trends are resulting in long term changes in the labour market behaviour of both men and women. Although the labour force participation of men is expected to remain higher than that of women, men are experiencing shorter working lives and are likely to spend an increasing proportion of their lives in retirement. This trend is amplified by gradually increasing life expectancy. On the other hand women are spending an increasing proportion of their lives in the labour force with the majority of women spending longer in the labour force than women of earlier generations.[13]

Access Economics has reported that the working age population currently grows by 170,000 people a year. But trends already in place will see the working age population grow by just 125,000 for the entire decade of the 2020's.

If present trends continue some experts predict that the impact of population ageing is projected to be as follows:

2000s	Labour supply and income tax revenues start to slow down.
2010s	Pension outlays start to increase as a result of an increasing baby boomer cohort of retired people.
2020s	Health outlays start to rise.
2030s	Aged care demands increase.

Governments in Australia and overseas have responded to the prospect of growing age dependency through policies designed to meet the fiscal challenges presented by an increased number of people seeking access to the publicly funded pension; and encourage more individual responsibility for self provision in retirement.

Ageing will be a direct cause of dependency only to the extent that those not working are reliant for income on those working.

In practice there is a range of means of earning income; from labour or from shares, savings (superannuation and other), real estate and other productive assets. With superannuation now more widespread and with growing real incomes, the proportion of the retired population needing to rely fully or even partially on the pension will decline over time.[14] This will increasingly be the case as the baby boomer generation moves through to retirement and begins to use its financial wealth to drive the platinum market identified in the Access Economics research.

Australia's retirement income system includes a sustainable age pension for older eligible people who are unable to fully support themselves financially in retirement. With both income and asset testing for eligibility we are able to target those older Australians who need access to our affordable safety net.

The National Strategy for an Ageing Australia Independence and Self Provision Discussion Paper sets out the choices and responsibilities that individuals need to consider in saving for retirement. It recognises that people have a responsibility to make provision for themselves if they are able to and if they expect to have a higher level of income in retirement than if they relied on the age pension alone. Financial incentives for later retirement are also provided in the Deferred Pension Scheme.

Despite substantial growth in older age groups over the last two decades, population ageing has only contributed a minor proportion to growth in health expenditure. Expenditure on health services in the future depends on the interaction between supply and demand factors, each of which is difficult to predict. On the demand side, ageing added only 0.6 per cent to expenditure per year between 1982-83 and 1994-95. Significant pressure on total health costs is due to the rising use of medical and pharmaceutical services, the increasing use of more expensive drugs and technology (1.9 per cent increase per person per year in the last 22 years), and higher consumer expectations of the level of services provided.[15]

As the wealth of older Australian's increases, there is likely to be universal demand for a greater range of products and services in relation to health and aged care, and an increased ability to make a contribution toward their cost, either directly or through insurance. These issues are being considered in the context of the National Strategy for an Ageing Australia and are discussed in the World Class Care Discussion Paper.

Studies have found that unemployment is often psychologically and financially devastating for mature aged people and for those who are dependent upon them. There is substantial evidence of the negative health effects, not only for the unemployed person but also for their family. In economic terms, unemployment is a major loss of valuable productive resources with all that implies for economic growth and the standard of living of the whole community.[16]

The longer a person is unemployed, and the earlier they retire, the greater can be the adverse financial effect of unemployment. People unemployed later in life are less able to increase savings to make up the shortfall in expected retirement income and this loss is greater the earlier a person retires. Unemployed people also have a greater usage of health services, such as higher hospital admissions, doctor and outpatient visits and higher use of pharmaceuticals, than employed people.[17]

Changing social attitudes have met an increasing trend towards delayed marriage and childbirth; and an increased incidence of second and subsequent marriages accompanied by extended social and financial family obligations. These developments have financial implications across the lifespan, particularly for people affected by retrenchment. There are flow on effects for this group of people particularly their capacity to save for retirement. They are likely to need to continue in the workforce to a later age.

Micro economic reform policies contribute to the growth of the economy. They are one element of major significance for sound economic management and higher living standards for all Australians. Government policies will also continue to address the needs of individuals experiencing unemployment. This is being done through the provision of income support and encouragement of training and upgrading of skills for people able to return to the workforce. A return to the workforce will mean a restart to financial independence and benefits to individuals themselves directly and also indirectly by their contribution to productivity and overall economic growth.

The Access Economics research states that unless companies adjust their thinking about mature age workers, market forces may do it for them. The ‘supply’ of mature age workers will grow rapidly in the year ahead, while the ‘supply’ of younger workers will contract in relative terms.

The Government’s workplace relations policies are removing the inflexibilities in the labour market for all workers including the mature aged. Longer participation in the workforce beyond traditional retirement age, phased retirement programs and flexible working hours are all possible in the modern workplace. If individual employees and employers and the community as a whole are able to grasp these opportunities Australia will continue to benefit from the wisdom and experience of its mature age workers.

The Government is addressing the need for welfare reform to ensure that the system is equitable and sustainable and effectively recognises the principle of mutual obligation for all welfare recipients. Most people re-enter the paid workforce at an appropriate time through their own efforts or with minimal help.

However, mature age workers may sometimes be regarded as ready for retirement when they would rather remain economically active into their sixties or beyond. It is important to ensure that barriers to their continued participation in the workforce are removed and that policies to support this participation are put in place.[18]

Access Economics has found that ensuring that mature age workers are not encouraged out of the workforce simply as a result of their age – as opposed to their competence – has the potential to raise the income of all Australians. Experts agree that average per capita income of Australians will be lifted if as few as 10% of people between the age of 55 and 70 years remain in the workforce instead of leaving.

The ageing of the population is being addressed through the development of a comprehensive policy framework. Action involves:

- continuing sound economic management of present and future pressures being created by demographic changes;
- promotion of discussion of the valuable contribution being made by mature age workers to current economic growth. There is a critical need to remove barriers and provide incentives for continuing participation in the workforce beyond traditional retirement age;
- education to support informed retirement planning covering financial, health and lifestyle issues which are important for the population as a whole, to consider early in life not just when thinking of retiring from the workforce; and
- ongoing support for a quality health and aged care system.

Finally, I wish to acknowledge the valuable contribution to the discussion on population ageing and the economy made by Chris Richardson and his team from Access Economics Pty Ltd. The Access Economics Research highlights the range of market forces at work in the economy and the potential for creative outcomes for an ageing population.

This Government is committed to policies that will not only maintain and improve living standards but also maximise the opportunities for an age diverse and well skilled workforce.

The Hon. Bronwyn Bishop MP
Minister for Aged Care

1 Too Valuable To Waste

Summary

Unless organisations adjust their thinking on mature workers, market forces may do it for them. The 'supply' of mature workers will grow much more rapidly than the 'supply' of younger workers. The working age population currently grows by 170,000 people a year. But trends already in place will see the working age population grow by just 125,000 for the entire decade of the 2020s. In fact, baby boomers are already moving into early retirement.

Unless demands adjust accordingly, organisations will pay a premium for youth – that is, workers with less experience, higher job turnover rates, higher absenteeism and greater training needs. If younger workers are replacing mature employees, then not only will the valuable skills of mature workers be wasted, but organisations will be paying a premium for this privilege.

Both international and Australian research has shown the productivity of mature workers is equivalent to, if not better than, younger counterparts. Mature workers combine experience and wisdom, above average quality of work, loyalty to the organisation, good work ethic, lower job turnover and reduced absenteeism – attributes that should not go unnoticed by employers.

Mature workers are often paid higher wages than younger employees, but this should be compared to the performance and attitude to the job of each employee. Mature aged workers supplement their skills with work experience that cannot necessarily be taught through formal training courses. If human resource departments or personnel managers automatically assume that employees will retire upon reaching an 'appropriate age', organisations will prematurely lose some of their most valuable assets.

'It is important that older workers be assessed on the basis of their performance and contribution rather than on the basis of their age' (OECD, 1994).

There should be no automatic assumption of a 'use by' date – all individuals have different capabilities and aspirations. The short-sightedness of organisations can lead to the unnecessary or premature loss of valuable employees. Competence is what counts, yet many organisations and managers use age as a convenient measure of competency – usually to their cost.

Australian organisations who learn the lesson that mature workers are too valuable to waste will have a competitive edge on those organisations that are slower on the uptake.

1.1 Introduction

Organisations should value workers who are highly productive, familiar with their products and customer base, imbued with loyalty to the organisation, and who have a strong work ethic.

Yet often organisations do not do enough to retain the services of long-standing employees with those very characteristics. International and Australian evidence profiled here suggests mature employees possess a rare blend of experience and wisdom, all too often overlooked by employers. Their work ethic, loyalty and experience should be sought after attributes.

Organisations regularly lose mature employees as a result of company policy ('mandatory retirement at 60') or simply due to the attitudes of managers ('time for fresh blood'). That can be shortsighted. Organisations should not have a mindset which assumes employees should retire on reaching an 'appropriate' age, as Australians are entering the workforce later anyway. As with any other employee, an organisation should only initiate departure if it is dissatisfied with the employee's work. There should be no automatic assumption of a 'use by' date, as all individuals have different capabilities and aspirations. The short-sightedness of corporate bureaucracy can lead to the unnecessary or premature loss of an organisation's most valuable employees. Competence is what counts, yet many organisations and managers use age as a convenient measure of competency – at their own cost.

Diversity is the key to success. It may be diversity in the products sold or the customer base. Diversity should also extend to employees. For an organisation to reach its full potential it needs the experience and knowledge of its mature workers, as well as the enthusiasm of its younger workers. Diversity in skills and experience is vital to business success. Today's risk management practices suggest skills and experience should not be discarded merely because a particular age has been reached.

Stereotypes often threaten good business practice. Young employees are often stereotyped as creative, enthusiastic and holding the future of an organisation, yet at the same time mature employees (once regarded as creative and enthusiastic themselves) are somehow transformed in the eyes of employers solely because of their age.

It is often automatically assumed that retirement is on the basis of age. Organisations know it is expensive to find the 'right' person for a position, and yet they give little consideration as to whether the 'right' person that they already have should retire.

This paper looks at current research to examine views associated with mature workers and the impact of their early retirement on individual organisations. The clear conclusion from the data is that mature employees are *too valuable to waste*.

1.2. The demographic facts

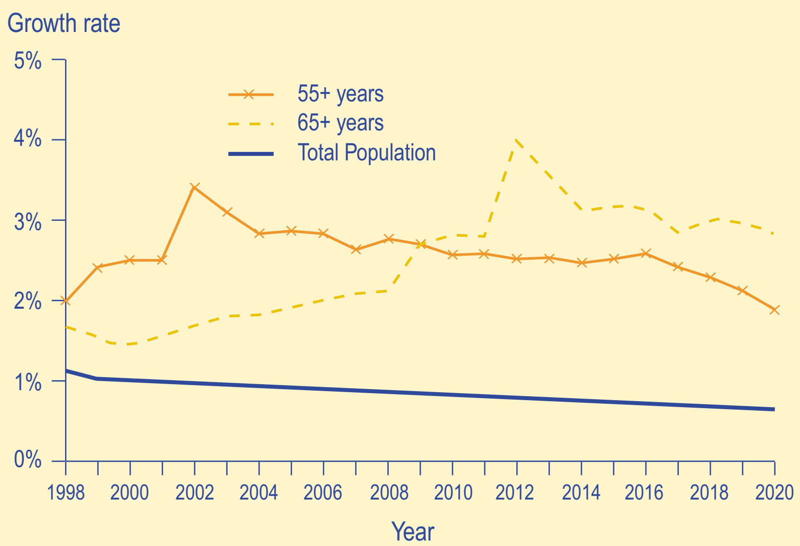
Two-thirds of all people who have ever lived beyond age 65 are alive today (BRW, 1999). Australia is no different, with a rapidly ageing population. In 1976, Australia had 1.3 million people over 65 years, or 9 per cent of the total population. Today there are 2.3 million over 65 years of age, or 12 per cent of the total population. By 2016 there will be 3.6 million or 16 per cent. ABS figures (ABS, 1998a) show the number of over 65s will reach a peak rate of growth of 4 per cent in 2012 – the year the first of the baby boomers reach 65. That is considerably faster than the growth expected for the total population, currently 1 per cent a year but declining (see Figure 6).

WHAT DOES THIS MEAN FOR BUSINESS?

Unless organisations adjust their thinking on mature workers, market forces may do it for them. The 'supply' of mature workers will grow rapidly in the years ahead, while the 'supply' of younger workers will contract in relative terms. The working age population currently grows by 170,000 people a year. But trends already in place will see the working age population grow by just 125,000 for the entire decade of the 2020s, while the first of the baby boomers are already moving into early retirement. Unless demands adjust accordingly, organisations will be paying a premium for youth – that is, workers with less experience, higher job turnover rates, higher absenteeism and increased training needs. If those younger workers are replacing mature employees, then not only will the valuable skills of the mature workers be wasted, but organisations will be paying a premium for the privilege to do so.

The internal age of the older population will also change markedly – in 1976 one in six of the over 65s were aged 80 and over; in 1996 it was one in five; and in 2016 it will be one in four.

Figure 6. Australia's projected population growth rate, 1998 to 2020



Source: ABS, Cat. 3222.0

1.3. Bringing the mature worker into perspective

It may be that organisations should be trying harder to retain the services of long-standing employees. Negative stereotypes often associated with mature workers are accepted all too readily by many employers with little regard to the findings of current research. Levine (1988) notes ' ... a major part of what caused [businesses to adopt] mandatory retirement were erroneous generalizations and cultural and psychological attitudes. These factors ... are closer to stereotype and bias than they are to economic rationality'.

International and Australian evidence suggests that mature workers are highly productive, familiar with the organisation's products, its customer base and the way in which the organisation's systems work. They are imbued with loyalty to the organisation and have a strong work ethic. Disregard for such attributes could be to the detriment of Australian organisations and to the economy.

THE STAFF TURNOVER EQUATION

Every worker does something for an organisation, and every worker's labour comes at a cost. The decision of when to replace an existing employee with a new employee should consider all the costs and benefits of doing so. The turnover decision should only be invoked when the level of benefits minus costs is in favour of the new worker over an existing worker. Many organisations pay too little attention to some key elements of this equation:

Staff Turnover = f (Benefits, Costs, Hidden Costs/Benefits)

On the benefit side, characteristics such as the worker's output per hour or day (productivity) and their quality of work must be considered. On the cost side, labour employment costs, recruitment and training costs are key components. However, the hidden costs of retiring workers are also important. These include possible loss of corporate memory, acquired skills and experience, as well as a worker's loyalty to the organisation and their work ethic. At the end of the day, what organisations need is the right person for the job – irrespective of age.

This paper considers the benefit and cost sides of this turnover equation separately, examining where the mature worker fits into that framework.

1.3.1. The benefits of employment

The benefit to a business of the work of an employee is a function of the hours they work and how productive they are when they work. In turn, a range of other factors – skills, experience, corporate knowledge, and the like, affects their productivity.

Productivity

The bulk of the evidence (Reid (1989), McNaught & Henderson (1990), Encel (1992), Salthouse (1994) and Waldman and Avolio (1986)) suggests productivity declines little with age, and that in many applications (notably work involving intellectual skills) productivity may rise with age. For example, Birren (in Levine 1988) states:

1. 'Verbal intelligence ... remains the same or increases with age';

2. 'The distribution of [memory and learning skills] among active 65-year-olds ... is more like the distribution among active, healthy 25-year-olds';

3. 'Chronological age ... is not a good predictor of the competence of the older adult'; and

4. 'Work methods and strategies resulting from older persons' experience may so adequately compensate for [any other age-related] limitations ... that their effectiveness ... is greater than it was in their earlier years'.

THE LEADER

Five years after his African National Congress won South Africa's first post-apartheid elections, Nelson Mandela stepped down as President. Aged 80, Mandela has remained involved in international affairs, promoting humanitarian causes around the world.

By retiring mature workers before those workers want to go, organisations are losing one of their most valuable resources, thereby reducing their organisation's potential output or its quality. The World Bank (1994) notes early retirement is '... an expensive way to restructure enterprises ... It reduces the country's labour force (especially its experienced labour force), shrinks potential output, reduces political pressures to cut unemployment and results in regressive redistributions'. Similarly, a Federal parliamentary committee criticised the '... wastefulness of losing experienced workers' (House of Representatives, 1992).

THE HUMANITARIAN

Albert Schweitzer did much of his famous humanitarian works after the age of 70. In 1913, at age 37, Dr. Schweitzer opened a hospital in Gabon, then part of French Equatorial Africa. He devoted his life to health care for the people in the area. In 1953, at age 78, Schweitzer received the Nobel Peace Prize. He oversaw the hospital until his death at age 90.

The productivity of employees is related to their skills and experience and their ability to apply those to new situations. Changes in technology mean organisations and their employees are required to adapt many aspects of their operations to ensure they are able to maintain their place in the market. There is an oft-held view that mature workers cannot adapt themselves to these changes in technology. Yet those aged over 50 who use personal computers are more enthusiastic and use them more than any other age group (BRW, 1997).

Training also affects productivity, but is addressed later.

Quality of work

It is not only the level of output from an employee or their ability to adapt to change that is important. Quality of work is an essential element in assessing the value of an employee. Many international studies conclude mature workers provide superior quality work (and workers) compared to their younger counterparts.

UK employers found the reliability and quality of work of their mature workers to be high (Cooper and Torrington, 1981). Another study analysed the abilities of older people over a ten-year period. It concluded that not only does experience add to ability to deal with new situations, but accuracy also rises with age.

THE MANUFACTURING WORKER

A manufacturing firm supervisor notes: 'The mature workers you find are the more quality conscious but the younger ones are faster. However, when taking speed into account you don't always get the quality you want'. He goes on to note that '... over a period of time the mature workers are still keeping ahead of the young one who's made the rejects.' (Pickersgill, 1996)

Waldman and Avolio (1986) found some strong evidence of a correlation between increases in age and in job performance. Four studies they assessed showed the work of mature employees was '... better in terms of output level, accuracy, and steadiness of work output'.

Corporate memory

Output and the quality of that output are the direct benefits of employing staff in an organisation. By investing in these attributes the organisation improves its human capital base – and therefore the worth of the business through improved products produced or services provided.

Investment in human capital can be done by providing training to staff or through recruiting new employees with the knowledge and experience required. Although there are costs associated with training staff (considered shortly), there are obvious benefits of doing so.

BARRISTERS FOR FIFTY YEARS

The advantages of having people who 'have seen it all before' are too easily underestimated. QCs Chester Porter, Frank McAlary and Tom Hughes, three barristers in their 70s, are still active in a profession they have dominated for the better part of fifty years. Nor are their skills declining – a *Sydney Morning Herald* report (1999) noted a colleague of Porter's who referred to his 'tongue like a razor blade' and his possession of 'the gentleness and delicacy of a rattlesnake'. It also mentioned 'Hughes says he has no plans to retire. 'I'm enjoying myself far too much,' he chuckles'. McAlary 'runs three properties in the Kimberley as his second passion to the law, exporting 40,000 head of cattle a year to Indonesia', and is looking forward to his 60th anniversary as a barrister in eight years time.

Long-term investment in employees and the build up of their 'corporate memory' or 'institutional knowledge' can be of great benefit to an organisation. It would be a brave manager who claims that they have never experienced at least one instance where a piece of corporate or commercial knowledge or the solution to a problem has been lost due to the departure of an employee. This usually results in current employees 're-inventing the wheel'. That is costly to the organisation and can be frustrating to those involved.

As well-known economist Robert Samuelson (1999) notes, '… companies depend on people who know their products, customers, markets and work methods. This takes time and costs money. High turnover is disruptive. People without long-term attachments are more mistake-prone, being more ignorant and indifferent.'

Despite an organisation's best effort to capture all the knowledge of a departing or retiring employee through documentation, there are few foolproof solutions to these situations. Organisations need to take greater cognisance of the worth of corporate memory in deciding whether it is time to replace a mature employee, and they need to ensure access to the pool of information among recently retired employees in a manner beneficial to both the organisation and to ex-employees.

FORD

In an effort to maintain the knowledge and experience of their workforce, Ford in the UK contracts out work to Ford professionals who have retired. This allows those professionals to enter semi-retirement, while Ford taps into the skills and experiences of those workers that would otherwise have been lost. There are currently more than 550 retirees whose skills from engineering to management are called upon by Ford. (JobsEast, 1999)

Advantages of matching the customer base

The productivity of employees can be turbo-charged by the advantages of matching an organisation's customer base. As Australia's population ages so does the customer base of Australian organisations.

B&Q HOME HARDWARE RETAILERS

In response to the perception that customers preferred to be served by staff members of a similar age to themselves, UK hardware firm B&Q piloted an idea to staff an entire store with mature workers over the age of 50. In doing so, not only did they have happier customers and an increase in profitability, but there was a 39 per cent fall in absenteeism and a reduction in employee turnover (six times lower than other stores) (JobsEast, 1999).

The practice of young people working in music, sporting and other youth-oriented retail outlets is widespread, as store managers try to match the demographics of their customer base with their staffing arrangements. This approach is less common at the senior end of the demographic scale, but the matching of staff with the demographic profile of all customers is being adopted increasingly by managers in the US and UK, particularly in retail.

1.3.2. Costs of employment

Mature workers are already highly trained, less likely to leave the organisation (and therefore require the training of someone new), and are happy to accept greater flexibility in working hours.

Costs issues point to the potential benefits to organisations of retaining long-standing employees. International and Australian evidence suggests that mature workers possess these and other cost advantages.

Major labour costs

COST vs PRODUCTIVITY

ABS data shows the average weekly earnings of full-time employees in the 55–59 age group is $835 compared with $765 in the 25–34 age group (ABS, 1999). Although older workers tend to have higher average wages than younger counterparts, the question is one of the productivity and value for money of each worker. An ILO report notes 'even when older workers cost more than their younger colleagues, this can be more than compensated by the value of their accumulated know-how' (ILO, 1995).

Apart from costs associated with training, the major direct costs associated with the employment of labour are wages, superannuation, payroll tax, fringe benefits tax and workers' compensation costs.

Wages comprise more than 87 per cent of these labour costs (ABS 1998c), with superannuation accounting for half of the remainder (6.5 per cent). Superannuation is paid as a proportion of wages. Therefore, as with wages, it is usually older and more experienced workers who have a higher cost of superannuation to the organisation. But, as with wages, the question to be answered is whether the organisation is receiving an appropriately higher productivity and quality of work given the cost to employ and provide super contributions for mature workers.

Workers' compensation costs make up 2 per cent of total major labour costs in Australia (ABS, 1998c), and are currently around $720 per employee (LMC, 1998). There are generally two types of costs to employers relating to workers' compensation. The first relates to the cost of insurance premiums, and the second to those costs not reimbursed by insurers. According to 1996-97 data from Worksafe Australia, workers 55+ accounted for 10.8 per cent of all new compensation claims in that year. That makes them more expensive than the average (as workers 55+ were 9.6 per cent of total employment then – ABS, 1997), but not significantly.

Job turnover

Losing an employee costs business. Not only are there costs associated with replacing that person (such as recruitment and training costs), but the loss of skills, experience and expertise of the departing employee can be significant. This is particularly so in the case of mature workers. As noted, the mature worker holds a wealth of corporate knowledge and substantial work experiences that are difficult to replace. Losing such employees has a larger impact on an organisation than does losing a less experienced worker.

What is the likelihood of losing an employee? ABS figures show that the level of job churnover[19] more than doubled (from 3.4 to 7.6) between 1994–95 and 1995–96 (ABS, 1998b). The level of job turnover has increased significantly compared with the number of new jobs created. The workforce is becoming more mobile, as people are more willing and able to change jobs.

WH SMITH, RETAILERS

WH Smith management recognised that their customers preferred to be served by staff of a similar age to themselves. This led the company to restructure the profile of its workforce to reflect the age structure of the community, which meant employing a larger proportion of mature workers. In doing so, not only did they attract more customers, but they saved themselves money in terms of training and recruitment. WH Smith found mature workers had a job turnover rate four times lower than workers aged in their twenties. (JobsEast, 1999)

The ABS carries out a survey of labour mobility every few years (ABS, 1998d). Results from the latest survey (relating to the year ending February 1998) indicate that 14 per cent of the labour force had changed jobs inside that year – roughly one in seven. But there are substantial differences in mobility according to the age of the employee. Job mobility in the 20–24 age group is more than 25 per cent (one in four). Mature employees aged 55–69 had a job mobility of just 5 per cent (one in twenty). The younger worker is five times more likely to change jobs compared to the mature worker. International experiences suggest similar results.

Training /recruitment

Jobs are changing rapidly due to changes in technology, combined with increased globalisation and more flexible workplace arrangements. To keep up with these changes, organisations provide employees with regular training. Training should be provided when particular skills will be needed to carry out a particular job, and allowing for the likelihood that the newly trained up worker will stay with the organisation.

One misconception is that training for mature workers is not justified as they will soon be leaving the organisation to retire. However, just because an employee is young does not necessarily mean that they will stay with the organisation for as long as a mature worker. A younger worker is five times more likely to change jobs than a mature worker. Australian studies have also shown mature workers stay longer at an organisation after training than do younger workers (Schrank & Waring, 1989; Kern, 1990).

REDUCED STAFF TURNOVER MEANS REDUCED TRAINING COSTS

Training recruits to fill the shoes of exiting employees can be costly and time consuming. The ABS notes '... employers who had the most continuous turnover of staff were more likely to provide structured training (62 per cent) or unstructured training (85 per cent)' (ABS, 1998f). The ABS figures also indicate the factors causing the greatest rise in training provided to employees in 1996–97 were recruitment of new employees and technological changes.

Surveys of Australian organisations by Reark Research (1990, 1994) have shown that mature workers have good learning capacity and retain information better than younger counterparts.

International studies reveal similar results. One American study concluded that mandating the retirement of workers 55+ was more than one-third more expensive than retaining those workers and training them (NFER, 1990). Another study undertaken in a US electronics firm also analysed the costs and benefits of retraining versus replacement of older workers. The results indicated the cost of laying off 20 engineers (half of them aged over 50) and replacing them with new employees would have cost the company $200,000, compared to a cost of only $76,000 to retrain the existing employees (Copperman & Keast 1983).

Mature workers do not always require the level of training necessary for a younger employee or new recruit. They can also provide a convenient source of knowledge to be passed onto younger workers through formal training sessions with their colleagues or through mentoring programs, on-the-job training or just through the day-to-day management or supervisory roles that they play. By encouraging these practices, business owners can ensure that the skills of younger workers are improved upon by the experience and wisdom of their mature workers.

Absenteeism

Absenteeism costs employers via lost productivity. ABS data indicate more than half of all absentees are on sick leave, at a significant cost to business (ABS, 1998e). Including holiday leave, workers over 55 have equal lowest absenteeism across age groups. Excluding holiday leave, they have the lowest. Of those on sick leave, only 14 per cent are in the 55+ age category. This age group is however, more likely to take holiday leave than their younger colleagues. (see Table 1).

A study undertaken by Kern (1990) for the World Health Organisation backs up the ABS data on an international scale. Managers found mature workers had lower job turnover, less absenteeism/sick leave, fewer accidents, and a steadying influence on younger workers as well as good productivity. Also, as shown in the B&Q Home Hardware example on page 9, B&Q experienced a fall in absenteeism of 39 per cent in their store run purely by mature workers.

Table 1 Absenteeism, August 1997

	Age Group				
	15–19	*20–34*	*35–54*	*55+*	*Total*
Total Surveyed	353,100	2,750,300	3,159,000	521,100	6,783,500
Absent from Work	17%	20%	18%	17%	19%
Type of Leave					
Holiday leave	10%	22%	21%	28%	21%
Study/exam leave	5%	2%	1%	1%	2%
Sick leave	55%	55%	56%	51%	55%
Bereavement leave	2%	2%	3%	3%	2%
Long service leave	0%	1%	2%	2%	1%
Maternity/Paternity/Parental	0%	3%	2%	0%	2%
More than one type	0%	0%	1%	1%	1%
Unapproved leave	11%	4%	3%	2%	4%
Other	16%	11%	11%	13%	12%

Source: ABS unpublished data, 1998e

1.3.3. Employee characteristics

It is not only the direct costs and benefits associated with employment that should concern an employer. Other characteristics of employees should be taken into consideration, such as loyalty to the organisation and the strength of the employee's work ethic.

In a study undertaken by Donald et al (1998), managers reported the three most important characteristics needed for an employee to be considered for advancement were their ability and reliability, trust/loyalty, and qualifications/knowledge. This suggests that, aside from the direct benefits an employee can bring to an organisation in terms of output and productivity, other qualities may be just as important.

Loyalty to the organisation

An increasingly dominant feature of the modern workforce is its flexible nature. While this has large benefits for an organisation and indeed the workforce, a downside can be erosion of loyalty by employees to their organisation. The transient nature of the modern workforce, including the tendency to outsource work, effects the commitment between an organisation and its employees. There is an argument for reinforcing and protecting that bond.

THE BUSINESSWOMAN

Mary Rossi, aged 74, runs her own business, Mary Rossi Travel, in North Sydney. Rossi started her business almost 30 years ago and now works three days a week. She has a staff of 11 people. Rossi loves her job and says 'We all have lunch together every day and share information and problems and everybody loves it'. During her career, Rossi found time to have 10 children, most of whom have been involved in the business at some time. Rossi and her husband celebrated their 50th anniversary last year. (*Sun Herald*, 2nd May 1999)

Against this backdrop a mature employee may provide a stabilising presence, offering a degree of continuity and a demonstration of long-term commitment. A survey of employers carried out for the then Department of Employment, Education and Training in 1989 (Encel, 1998) found that managers regarded older workers as having:

- better developed skills and experience;
- stability in the job; and
- reliability and loyalty.

Work ethic

While loyalty is related to the commitment of employees to their employer, work ethic relates to an employee's attitude towards the quality of their work.

As with loyalty, the rising flexibility of the workforce can be considered as having an effect on the work ethic of modern employees. The rising presence of short-term contracts and the general flexibility of the job market leaves employees feeling less tied to a position, project or organisation in the long term. This may erode the work ethic, as at least on a subconscious level employees no longer feel that they will be fully accountable for the long term consequences of their job performance today.

Mature employees did not have the luxury of today's flexible job market for much of their career. This may have developed a more substantial work ethic that is still present, irrespective of their current environment. The ability of mature workers to promote this work ethic to other members of an organisation should not be ignored by employers.

THE RUNNER

Ron Clarke was one of Australia's greatest long distance runners. In the mid-60s he held every world record from 2 to 20 km and is remembered as the torch bearer for Melbourne's Olympic Games in 1956. Now 63, Ron has also had a very successful business career – he started the Adidas franchise in Australia, and more recently has built a state-of-the art eco resort on South Stradbroke Island. He comments 'You peak in your sixties and seventies ... You have all the experience, the network. You should be at your best.' (Safe, 1999)

The bottom line

Mature workers are too valuable to waste. Employers are wrong if they – knowingly or not – prematurely encourage their mature workers to leave their employment. All too often they do so with too little thought as to the hidden costs of losing a good employee. Nor do many mature employees want to go. In fact, ' ... three out of five of the workers who are mandatorily retired want to keep working past the usual retirement age.' Levine (1988)

Every worker should be assessed on their individual merits and worth to an organisation. It is competence and experience that counts, not age.

2 All In It Together

Summary

If Australia uses its resources prudently, then we add to wealth creation. One of the fastest growing resources available to us is our mature aged workers. If companies drop their mandatory retirement policies – in place officially or by default – then we all gain as a nation.

Ageing is an issue that affects every Australian. *We are all in it together*. As mentioned in Chapter 1 the working age population currently grows by around 170,000 people a year. But trends already in place will see the working age population grow by just 125,000 for the entire decade of the 2020s. Yet Australians are good at adapting to such changes, and there is much to gain if we embrace the challenge of a maturing population. Achieving tax reform and encouraging competitiveness via national competition policy are things the Government can do to help Australians. But achieving the necessary change in mindset that allows mature workers to avoid enforced retirement is something only Australians can do for themselves.

It is easy to be alarmist about the demographic changes headed Australia's way, dwelling on the negative aspects of an ageing population over the first half of the 21st century. Many pages of various reports have been filled with the impending decrease in the ratio of workers to non-workers, rising pension and health care costs and declining tax revenues. Some potential Budgetary implications of ageing are estimated by Access Economics in Section 2.3 for those unfamiliar with this topic. These figures amount to the cost of 'doing nothing'. Alternatively, they may be seen as the potential savings from achieving significant reform.

This report does not dwell on the potential negatives. Rather, it focuses on the opportunities on offer and the enormous potential created by a maturing population. Australians are living longer, healthier lives and will have greater financial resources in retirement than ever before. The ageing of the population represents a fundamental change in the Australian economy's structure. If we approach this new era with the attitudes of the past, then an ageing population may well have many negatives for the economy. Alternatively, there is much to be gained if we update our attitudes and embrace the challenges of a maturing population.

Australians have always been good at adapting to structural change, recently evident in the way our exporters were innovative, adaptable and competitive in their response to the Asian crisis. Australians have also adapted rapidly to the information age, with technology take-up rates among the world's highest. A maturing population poses the next great challenge to employers, retailers and service providers, who stand to benefit considerably by updating their attitudes to older Australians. The maturing of our population is far less pronounced than in societies such as Japan and Europe, making it more feasible to turn a potential negative into a positive and in doing so increase Australia's international competitiveness.

One attitudinal change in particular may be of major benefit to Australia in coming decades. Many Australian corporations and managers, like their counterparts around the globe, have policies (or simply attitudes) that encourage mature employees to retire before they would like to. Those policies and attitudes affect not just the profitability of the companies concerned – as they let go employees too valuable to waste – but also the ability of the economy itself to grow. The available research (in Australia and internationally) indicates that three out of five workers who faced mandatory retirement wanted to keep working.

This outdated attitude of encouraging early retirement has not hurt company performance in the past twenty years – there has been an excess supply of labour in that time. Baby boomers and rising female participation have contributed to an abundant talent pool, making it easy for companies to replace people in their 50s and 60s with baby boomers in their 30s and 40s. But over the next twenty years labour supply growth will dry up. Those born in the peak baby boomer year (1947) reach age 55 in 2002, so a company encouraging mandatory retirement – officially or by default – will soon have trouble finding suitable replacements.

The demographics of a slow growing labour supply will deliver some short term bonuses. For example, it may be easier to cut unemployment as baby boomers reach 'retirement age' in the next decade. Similarly, part of the fall in US crime rates may be attributable to ageing. Further, extra pension costs may be largely offset by reduced outlays on education. But after such initial positives a labour shortage will emerge. Organisations will have to pay more to get the right person for the job. That may hurt Australia's competitiveness, reduce the return to all investors, and see the economy (and therefore national income) grow at a slower pace.

But these potential negatives are far from certain. What if mature workers were not prematurely encouraged to retire? And, to complement that, what if older Australians decided to remain longer in the workforce? If so, Australians could benefit considerably. This paper employs sophisticated econometric modelling techniques using the long-run version of the Access Economics Macro (AEM) model to assess the potential benefits of such developments. They are considerable.

It may be useful to consider this against the yardstick of the Government's micro-reform agenda. Achieving tax reform and promoting national competition policy are things the Government can do to help Australians. But this is not something Governments can do for us. Governments can educate us as to the coming revolution, but it is up to individuals and organisations to make the necessary changes. Achieving a change in mindset to help mature workers avoid enforced retirement is something only Australians can do for themselves.

The evidence suggests that tax reform may add somewhere in the region of 2.5 per cent to the annual national income of Australians', and that promoting national competition policy may add 5.5 per cent to the national income. The desire to ensure mature workers are not encouraged out of the workforce simply as a result of their age – as opposed to their competence – has the potential to raise the income of all Australians by a similar amount. Average per capita incomes of Australians could be lifted by 4 per cent if workforce participation by 55–70 year olds rose by just 10 percentage points.

The relativities are revealing. They suggest that, on published estimates, the benefits to national income of later retirement rank somewhere above those of tax reform and below those of promoting competition policy. Such estimates are imprecise at best, but they are a timely reminder of the importance of an issue that will grow with the passing of time.

Australia is ageing. No jump in migration or birthrates will avert that. Some organisations will rise to the challenge and opportunities presented by this slow change. Others will not realise the changes among their workforce, suppliers and customers until it is too late.

Organisations can benefit from early recognition of the profound structural changes headed our way. So too can Australia as a whole – all Australians are in it together. One day we will all benefit from early recognition of those changes. That day will come sooner rather than later.

2.1. The time line of an ageing population

Figure 7. The time line of an ageing population

DECADE	IMPACT
2000s	Labour supply and income tax revenues start to slow down
2010s	Pension outlays start to increase
2020s	Health outlays start to rise
2030s	Residential care demands increase
2040s	Demographic trends reach new plateau

An ageing population is a serious human resource issue. Can your company continue growing with current human resource practices as the population matures and the supply of labour dries up? Australians are entering the workforce later, and leaving it earlier. Australian companies invested substantial resources to ensure they were Y2K compliant, but many will face a similar challenge from the BB2002 bug (as the peak year of baby boomers turn 55 in 2002).

If Australia uses all its resources prudently, then we add to potential wealth creation for all. We do not suffer the cost of lost opportunities. And one of the fastest growing resources available to the nation is our mature workforce. If we add to the opportunities available to this group, we all gain. But adapting to a maturing population will require organisations to change human resource strategies, notably recruitment, retirement and retraining.

What is the impact on shareholder value of a maturing workforce and product market? At the individual company level, adopting more enlightened employment policies for mature workers will provide that company with greater capacity to achieve future growth. Further, to the extent all other firms ditch misconceived policies or attitudes with respect to the aged, then the individual firm will benefit through a positive impact on the macroeconomy. These effects are large, as demonstrated by:

- The potential gains to national income associated with increased workforce participation by the aged (the benefits of 'change'); and

- The costs to Federal and State budgets of ageing if present trends are maintained (the downside of 'no change').

As a nation, we achieve maximum benefit if all organisations are aware of the potential cost of unnecessarily premature retirement, and if all individuals are able to take the retirement decision free of official regulation, human resource practices or cultural attitudes. Australian companies need to start adapting their human resource strategy to cope with a maturing workforce immediately, because critical dates in the ageing of Australia's population are:

- 2002, when the peak year of the baby boomers, those born in 1947, will reach age 55. At that age many can access superannuation and may opt for early retirement. Historically workforce participation drops considerably when people reach 55, notably for women. In effect, 2002 marks the true start of the effects of ageing on Australia's workforce.

- 2012, when the peak year of the baby boomers will celebrate their 65th birthday. In the single year of 2012 the population over 65 will grow by 4 per cent. During the years 2012 to 2028 the population of over 65s will grow rapidly. It will grow by an average of 2.9 per cent a year – four to five times faster than the total population.

- 2022, when the baby boomers will start to reach 75, and their use of health services and possibly residential care will also start to increase considerably. This latter year may mark the start of an increase in public sector health outlays.

The ageing of the population is normally thought of as a long-term problem. And it is true that the impacts on pensions and the public health system will take at least a decade to be felt and several decades to fully flow through. However, the impact on the workforce will start to hit home in just two years from now. Are organisations ready?

2.2 The economy does not have to mature with the workforce

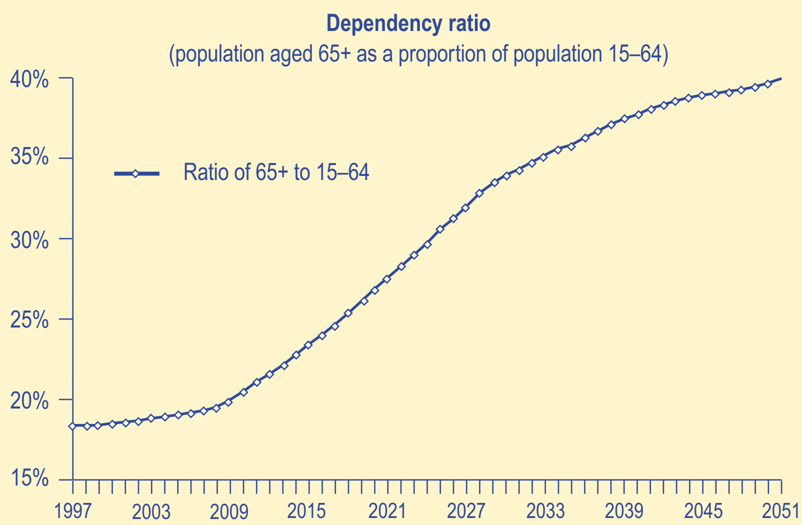
By the 2020s the working age population will stop growing, and even decline in the southern States. This could potentially restrict economic growth substantially. There is little scope to increase the already-high workforce participation of those aged 15–54. By contrast, the population aged 55–70 will be a massive untapped source of productive capacity enabling the economy to continue growing, providing wealth and prosperity well into coming decades.

History tells us that a series of major developments (such as the steam engine, electricity, motor car, television, information technology) have led to eras of sustained growth and the creation of new industries. The maturing of the population will be the era following the information technology age. The current stock market interest in Internet and high-tech stocks will be followed by an interest in companies that provide goods and services to a maturing population, as well as companies that can adapt and grow with a mature workforce.

2.2.1. The changing population mix

The ratio of people over 65 to those 15–64 will double over the next forty years. This substantial change in the demographic profile of the Australian market will change the mix of products and services offered by the private and public sectors as well as the mix of employees available to produce those goods and services. Perhaps most amazingly, the purchasing power of the over 65s will continue to grow in its influence on the economy.

Figure 8. Ratio of those 65+ to those 15–64



Source: ABS, 3222.0 II

Anyone who will be aged over 55 at any time in the fifty year horizon of these projections has already been born, so the composition of Australia's older population over the next fifty years is known with a high degree of certainty. Figure 8 maps the 'aged dependency' ratio, the population over 65 divided by the working age population, 15–64. All charts are based on ABS population projections, using Series II (the mid-range population growth assumption).

The ratio of people aged 65+ to those 15–64 rises only very gradually during the next decade, remaining under 20 per cent. But in the decade of the 2010s it takes off. From 2009 to 2051 the dependency ratio doubles to 40 per cent. Towards the middle of next century, after the baby boomers have retired, there may only be 2.5 people of working age for every person 65+, compared with more than 5 people of working age for every person aged 65+ currently.

This change in the population mix will fundamentally alter the range of goods and services that will be demanded by the older population. It will also fundamentally alter the structure of the workforce that has to produce these goods and services.

2.2.2. The working age depopulation

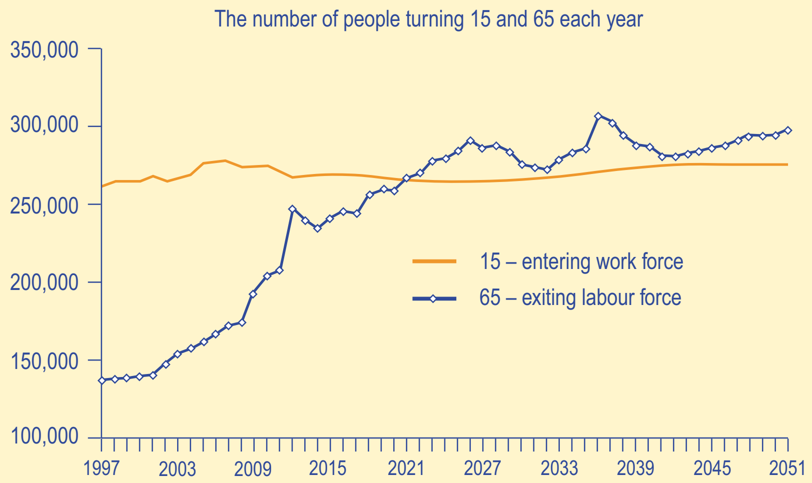
In recent years the working age population, defined as those aged 15–64, has grown by 170,000 a year. Demographic trends already in place will see Australia's working age population growing by only 125,000 for the entire decade of the 2020s – at least, if employers stick with the arbitrary definition of 15–64 as the age range for 'desirable employees'. Employers in the southern States have even more reason to change their ways.

An ageing population has significant impacts on the size of Australia's workforce. Working age population, and the rate of participation in the workforce by that population, jointly determine the size of the workforce. This section concentrates on the first part, working age population.

The projections in this section are not affected by the performance of the world economy, employment programs or changes in workforce participation. They are simply a consequence of people already born growing older – *these trends will happen*. Some argue that increased birth rates and/or immigration can overcome trends induced by ageing, but in reality these solutions only have very slight impacts on the age distribution of the population. The working age population of the future will only differ significantly from these charts if employers change their views on the 'acceptable' age range for employees.

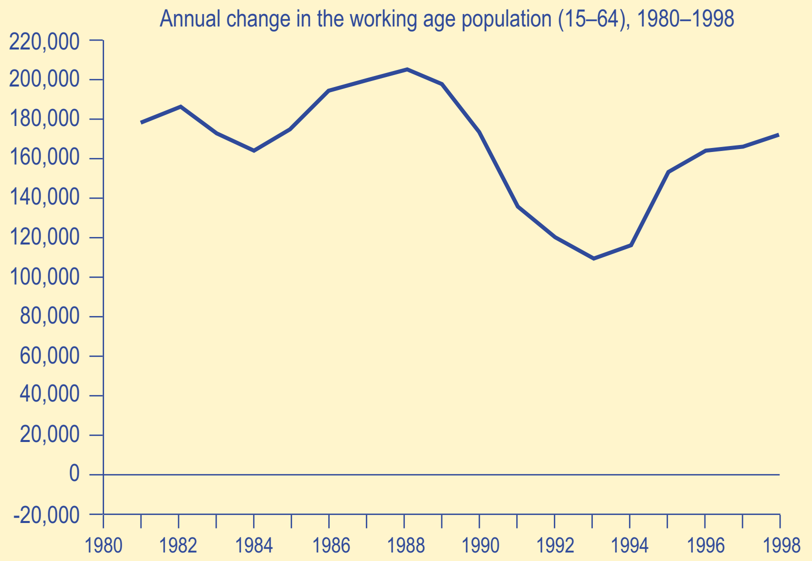
Figure 9 shows the number of people having their 15th birthday each year for the next fifty years. That figure is roughly the people entering the working age population each year. The chart also shows the number of people having their 65th birthday each year, roughly the number of people leaving the working age population each year. There will simply not be enough school leavers to replace retiring 65 year olds.

Figure 9. The end of the generation gap



Source: ABS, 3222.0 II

Figure 10. Working age population growth – the good old days

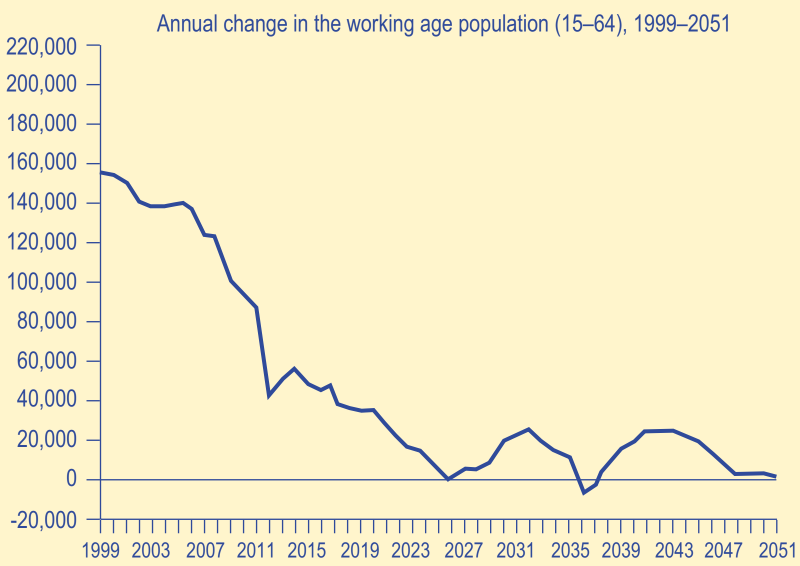


Source: ABS, 6203.0

Figure 10 illustrates the growth in working age population employers have enjoyed over the past twenty years. This is the difference between people turning 15 and those turning 65, allowing for net immigration and deaths. The working age population has risen in the range 100,000 to 200,000 every year through the 1980s and 1990s. Over the past few years the working age population has grown by 170,000 a year. Australian employers are used to an abundance of labour from which to select. This average annual 170,000 increase in the working age population has underlaid workforce growth of an average annual 135,000 in recent years, reflecting strong workforce participation.

Figure 11 shows the expected growth in the working age population from 1999 to 2051. For ease of comparison the chart uses the same scale as Figure 10. By the 2020s the growth in the working age population will be almost zero. For the entire decade of the 2020s the working age (15–64) population will grow by only 125,000. That is, it will take more than a decade for the working age population to grow by the amount it currently grows by in a single year.

Figure 11. Working age population growth – the future challenge

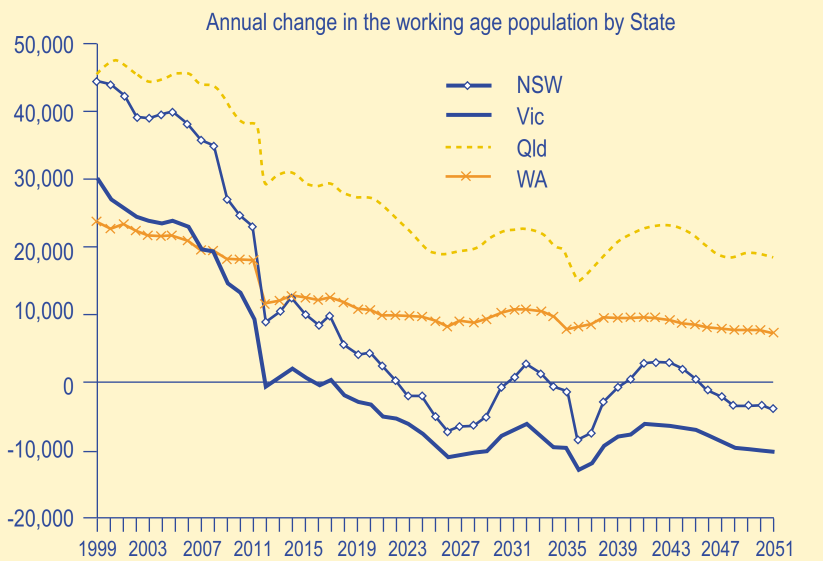


Source: ABS, 3222.0 II

Unless employers change their attitudes, an alarming potential slowdown in working age population growth looms. Of further concern is the expectation that population ageing will not be felt evenly across Australia. Figure 12 and Figure 13 illustrate the growth in the working age population for each of the States and Territories.

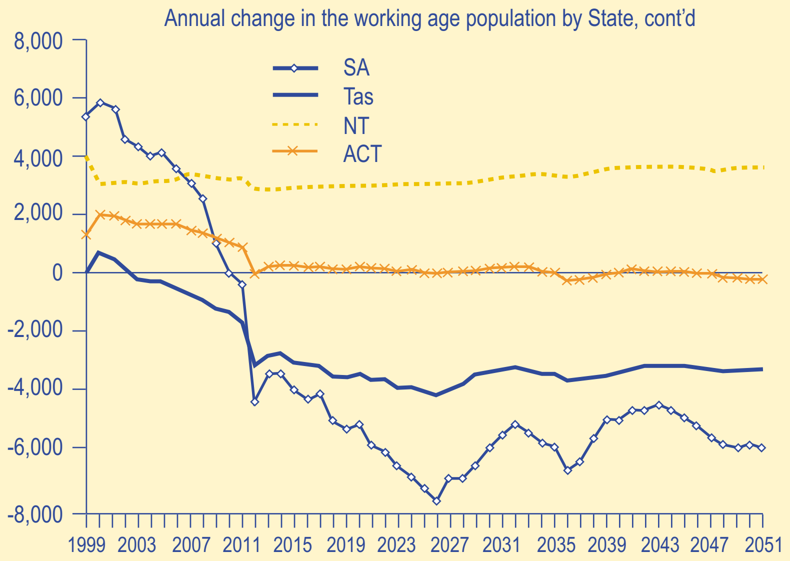
The working age populations of Queensland and Western Australia continue to grow throughout the next fifty years, although at a slower pace from 2010 onwards. Net interstate immigration and a more balanced age distribution help defy the ageing process in those northern States. However, New South Wales and Victoria will encounter severe labour shortages. In 2012, when the peak year of baby boomers (1947) hit age 65, growth in the Victorian working age population will hit zero, and may decline by around 10,000 per year from 2020 to 2050. New South Wales has a similar profile, although with slightly less pronounced declines than Victoria due to lower interstate emigration. Growth in the New South Wales working age population is negative for most of the 2020s.

Figure 12. Qld and WA grow, Victoria and NSW age



Source: ABS, 3222.0 II

Figure 13. Declining working age population in SA ,Tasmania, NT and ACT



Source: ABS, 3222.0 II

Of the two smaller States and the two Territories, only the Northern Territory is expected to have working age population growth throughout the next fifty years. The working age population in the Australian Capital Territory is roughly constant. By contrast, South Australia and Tasmania may have a declining working age population for most of the projection period.

2.2.3. Capacity for increased workforce participation

A lack of growth in the working age population potentially limits economic growth – and therefore national income. Increased workforce participation can help offset this. But participation by men aged 20–54 is already at very high levels and participation by women aged 20–54, after rising during the 1980s, levelled out in the 1990s. Participation by those aged 15–19 is limited by the demands of education. So the increases in participation required to offset the slow growth in working age population must come from mature Australians.

Labour is the most fundamental input into the productive capacity in any economy. If growth in the workforce were to slow, the ability of the economy to grow is cut commensurately. Long term real economic growth in Australia has been 3.2 per cent over recent decades, of which around half is generated by growth in the workforce, and the rest through rising productivity.

Figure 14 and Figure 15 illustrate the workforce participation rates of males and females by age group. Men in the 20–24 and 45–54 age groups have participation above 85 per cent and the 25–34 and 35–44 age groups have participation above 92 per cent. These rates have been very stable over the past twenty years, with only a very slight downward trend evident. It is unlikely that any higher participation could be achieved by men aged 20–54. Participation by 15–19 year olds is much lower due to high retention rates in education, so it is neither possible nor particularly desirable to raise the supply of labour from within the ranks of 15–19 year olds.

For men the only group where there is the potential to raise workforce involvement is among those over 55, where participation rates drop off sharply, and have been falling of late.

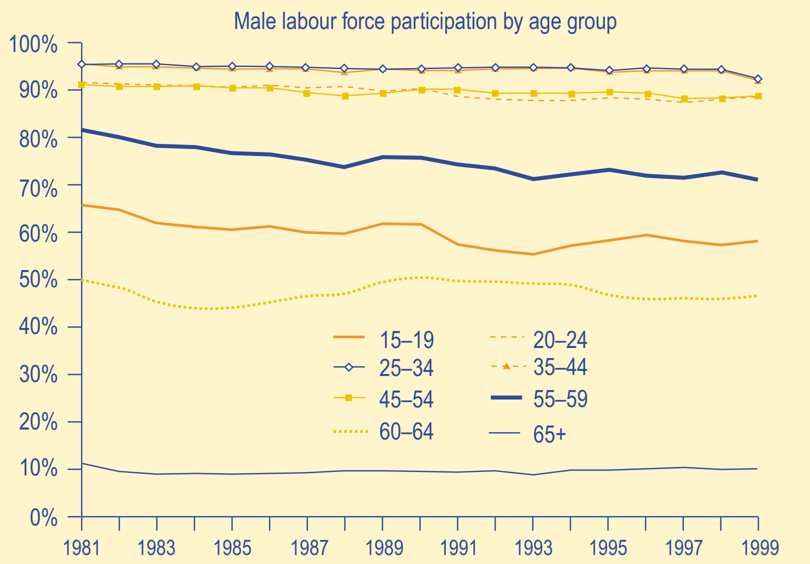
Workforce participation among women aged 20–54 trended upward in the 1980s. However, after rising in the 1980s, participation appears to have flattened out in the 1990s at around 70 per cent for women aged 25–54 and around 78 per cent for women aged 20–24. This may indicate a new upper limit of workforce participation by younger women has been reached.

From age 55 upwards participation by women drops off markedly. Importantly however, participation by females 55–59 has increased by 15 percentage points over the past twenty years as the new generation of working women continue the habit into their mature years. Women aged 55–59 and 60–64 could in the future attain comparable levels of participation to men of the same age groups, while the growth in the number of women aged over 65 suggests another rich source of growth in the workforce.

So increasing workforce participation by men and women over 55 could substantially offset slow growth in the working age population. To avoid labour shortages employers need to:

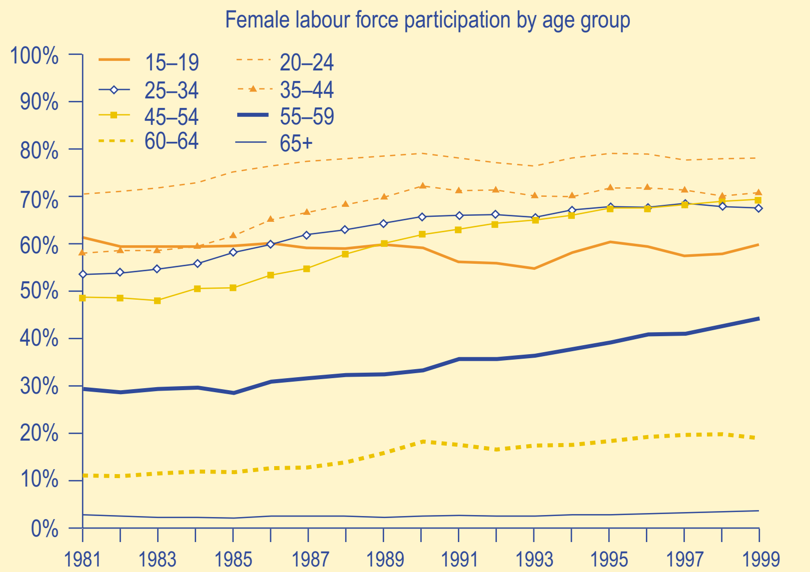
- Be awake to the maturing of the workforce;
- Introduce more flexible work practices;
- Look to recruit mature workers;
- Provide retraining; and
- Encourage later retirement.

Figure 14. Participation by men aged 20–54 is very high



Source: ABS, 6203.0

Figure 15. Participation by women aged 20–54 levelled out in the 1990s



Source: ABS, 6203.0

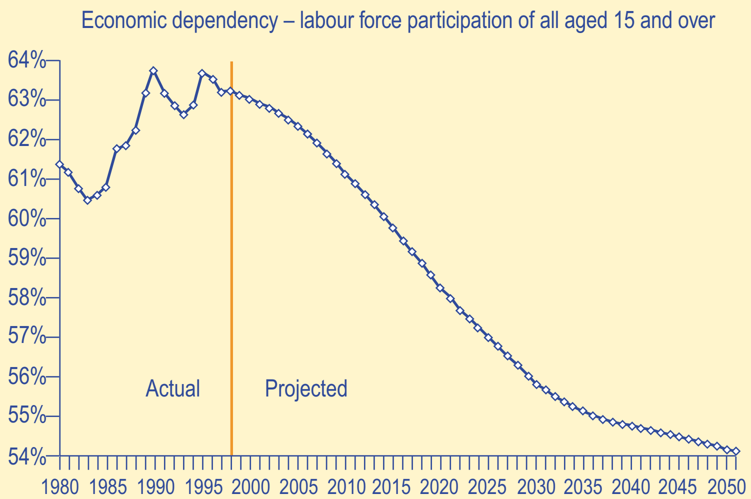
2.2.4. To increase the workforce is to increase the size of the national income

The slowdown in workforce growth is not matched by an equivalent slowdown in demand for goods and services. Baby boomers will retire with large financial assets. If the shortage of labour is not addressed through higher participation rates among mature Australians, the current account may widen, wages may take off and returns to the owners of capital may fall.

On current trends the workforce will grow slowly over the next twenty years. However, demand growth for goods and services will not fall off to the same extent. The baby boomers will retire with savings and superannuation providing disposable income far greater than previous generations of retirees. There will be plenty of demand for goods and services from a fast growing retired population. It will need to be provided by a slow growing workforce, as the population of consumers will grow much faster than the population of producers.

Figure 16 is the forecast workforce participation of those over age 15 on current behavioural trends. This is the economist's version of the dependency ratio shown in Figure 8. The figure shows how many people in the economy are working to produce goods and services compared to the number of adults consuming goods and services.

Figure 16. The ratio of producers to consumers



Source: ABS, 6203.0 Source: Access Economics

The workforce participation rate of those over 15 hovered between 62 per cent and 64 per cent for all of the 1990s. By 2020 workforce participation may drop to 58 per cent, as demographic trends see more people in age ranges with lower participation rates. The baby boomer impact on the dependency ratio in Figure 8 is in 2012–2028. However, their impact on workforce participation starts much earlier. As soon as the peak year of baby boomers start reaching 55 (in 2002), their workforce participation declines, dramatically so for females.

Initially the slowdown in labour supply will absorb into full–time jobs those people who would otherwise have been unemployed, underemployed or discouraged job seekers. From 2002 to 2005 this excess supply of labour will mostly fill the gaps left by new retirees. Hence the period 2005 to 2010 may see lower unemployment due to demographics. Equally, the persistently high levels of unemployment through the 1980s and 1990s can be in part attributed to the large size of the working age population (driven by baby boomers) relative to the total population. The shortage of labour from 2005 onwards will be further exacerbated by the fact that those retiring will generally have a higher average skill level than school leavers and the unemployed.

Australia's economy has averaged growth rates of around 3.2 per cent a year over recent decades. There will be sufficient demand for goods and services to sustain that sort of growth in the future, as baby boomers retire with high disposable incomes. However, the projections of labour supply in the previous sections indicate that the economy may not have sufficient supply side capacity to sustain economic growth at rates of 3.2 per cent.

Given the already high workforce participation by people aged 20–54, the only avenue for ensuring sufficient supply of labour is to encourage higher participation by the population aged 55–70. Although recent changes to workplace arrangements have reduced the barriers to working past age 65, many cultural and financial barriers still remain. Yet there is enormous potential for the Australian economy if it can unlock this source of labour. A combination of policies to increase the participation of 55–64 year olds and to encourage the participation of over 65 year olds could deliver substantial benefits to the economy.

As people live longer, healthier lives, and as they increasingly enter the workforce later than they once did, there is no reason why they must retire at age 65, let alone age 55. While some may accumulate sufficient savings to retire early, many would like a few more earning years prior to retiring. Research by Borland and Kennedy (1998) indicates that people in employment have better health and higher life satisfaction. Other research indicates that three out of five of the workers who faced mandatory retirement wanted to keep working (Levine 1988).

More flexible work practices could help in allowing people aged over 65 to continue working, perhaps scaling back gradually to part-time work if they so choose. It is important for corporate Australia to realise that, unless they adopt a more flexible attitude to mature employees, they may face severe labour market shortages within a few years – to their cost.

2.2.5. Encouraging growth in the mature workforce

Increased workforce participation by older Australians would substantially benefit the economy, increasing available resources and averting a sustained period of demand outstripping supply. The latter would see demand frittered away through increased current account deficits and sustained wage inflation driven by labour shortages. Such 'leakages' of the wealth of retirees (to the rest of the world and to those working) might continue until the wealth of retirees had diminished to an extent where the workforce is able to meet demand. Avoiding such wealth erosion would benefit Australia's economy considerably.

Australia has achieved significant economic reforms in a wide range of areas in recent years. Particularly notable are reforms in tax, industrial relations, competition policy and public sector finances and management. As a result of these reforms Australia's economy will be stronger, less indebted and more flexible in the new century. These reforms have moved the course of the Australian economy onto a higher plain.

There have been suggestions of increasing birth rates and/or higher net immigration so as to increase the workforce. However, when the dynamics of the ageing workforce are taken into account, these solutions would have relatively marginal impacts on the size of the working age population relative to the population of retirees:

- Encouraging higher birth rates would take 16 years before the first effects on working age population are felt. Even if a new baby boom were to occur over the next ten years the new boomers would not reach full-time working age until the 2020s, when the dependency ratio will already be above 25 per cent. The higher birth rates would also have to be sustained for at least a decade to make any impact. The population projections in this paper already use the higher of the two future birth rate scenarios developed by the ABS.

- Increases in immigration would have relatively minor impacts on the age distribution and ageing characteristics of the population, although it would increase the total size of the population. The age distribution of immigrants is not sufficiently different to the age distribution of the existing population to have much impact.

Suggestions to raise birth rates or immigration tend to concentrate on increasing the working age population in order to provide a larger workforce relative to the number of people aged 65 and over. It makes far more sense to reduce the size of the 'economically dependent' population by encouraging higher participation in the workforce beyond age 55.

The employment and workforce participation of older Australians is largely beyond the direct policy control of Governments. The current Federal Government has already substantially expanded the employment and workforce participation options of older Australians in the areas where it can directly alter policy, for example by lifting the mandatory retirement age in public sector employment and offering incentives to defer the collection of the aged pension.

However, many older Australians work in the private sector and will be largely self-funded in retirement, so they may fall outside the influence of these reforms. Governments cannot directly increase the employment and workforce participation of this group, but can indirectly influence their employment and workforce participation through initiatives aimed at:

- Promoting a better appreciation in the business community of the value of older Australians to their employers;

- Making employers aware of the potential for more flexible employment arrangements;

- Removing financial incentives to retire early; and,

- Retraining and assistance with career transition.

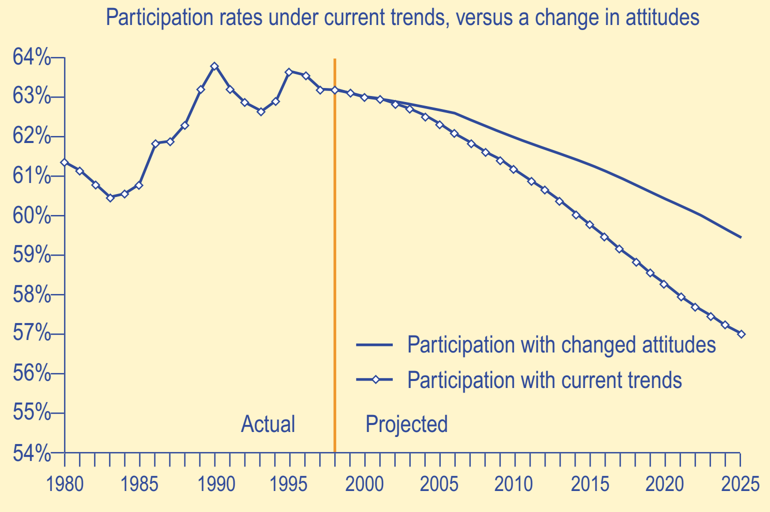
2.2.6. The economic benefits of a growing mature workforce

There is much to be gained from initiatives to encourage increased employment and workforce participation of older Australians. A modest and eminently achievable increase in workforce participation of 10 percentage points by Australians aged 55–70 would largely cancel out any negative effects of an ageing population. Per capita annual incomes will increase by around 4 per cent compared with current behavioural trends.

Figure 17 shows Access Economics' estimate of workforce participation, based on current trends. It is compared to an alternative, higher, level of participation. The latter could reasonably be achieved with a change in attitudes towards the employment of older Australians by the corporate world. Rather than workforce participation dropping to 57 per cent by 2025, what if it only dropped to 59.5 per cent?

The extra participation of 2.5 per cent equates to an increased labour supply of around 450,000 people by 2025. The population aged in the range 55 to 70 will be 4.5 million in the year 2025, so this scenario analysis is only assuming 1 in 10 persons aged 55 to 70 remain in the workforce, whereas under current behavioural trends they would have retired. That change appears quite achievable – and is certainly not a blue-sky scenario.

Figure 17. Retaining older workers unlocks new benefits



Source: ABS, 6203.0 Source: Access Economics

The long-term version of the Access Economics Macro model has been used to simulate the economic effects of a slower decline in workforce participation than current trends would suggest (achieving additional participation of around 2.5 per cent of the population over 15 by 2025). Note that even with a very substantial change in behaviour, workforce participation will most likely decline in the next thirty years due the massive weight of numbers in the older age groups. However, even a slowing in the rate of decline can deliver big benefits.

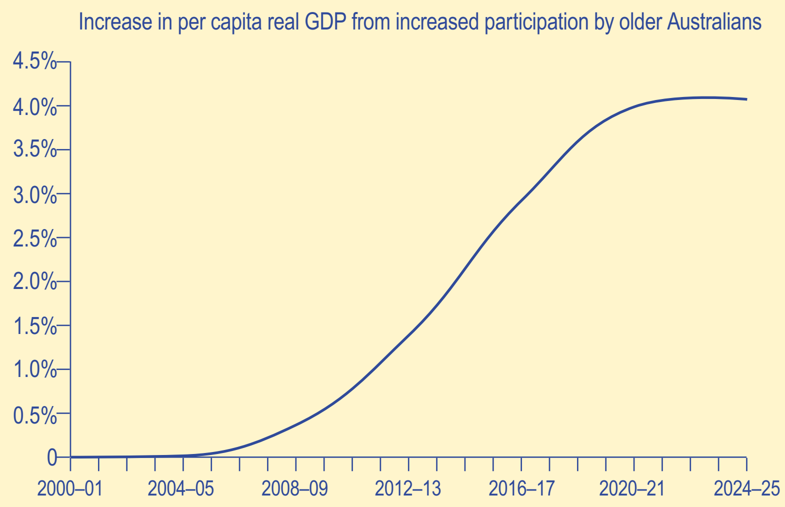
Initially the additional workforce participation by older Australians causes a small increase in unemployment. For every four older Australians remaining in the workforce, there is one additional unemployed person, a net gain of three jobs. Chances are that the ‘extra’ unemployed person is an older Australian, rather than a younger Australian. But this effect passes. An increasing labour supply is like pressing the accelerator – there is a lag as the speed of the car gradually increases up to the new level.

Once the slack caused by the initial lag has been taken up, large benefits flow through. The additional labour supply feeds into the engine room of the economy, increasing the productive capacity of Australia. Wages earned and demand generated by working older Australians (who would have been retired under current trends) increases the growth rate of the economy, generating more jobs – enough jobs in fact to employ all the working older Australians and to reduce unemployment among younger Australians.

The older Australians who would keep working would also keep paying taxes instead of receiving pensions (a double-edge sword of increasing revenues and reducing outlays). The impact on the public sector balance is significant. Access Economics estimates suggest that the boost to public sector coffers would be enough to fund an across-the-board 2¢ in the dollar tax cut, by 2030. In today’s dollars, that translates to a tax cut of $8 billion a year.

Or alternatively, the extra taxes and reduced social spending would be enough to fund increases in health, education and other outlays, offsetting some of the potential negatives noted in Section 2.3

Figure 18. The economic benefit from retaining older workers



Source: Access Economics, AEM model

Compared with current trends, per-capita real GDP will be higher with increased participation in the workforce by older Australians. Figure 18 illustrates the significant increase in per capita real GDP – which levels off at just over 4 per cent in the decade of the 2020s.

The impact in Figure 18 is the Australia-wide average. Some States, particularly Tasmania and South Australia, will experience more accentuated population ageing. For these States there is more at stake and consequently more to gain from higher workforce participation by older Australians.

The evidence suggests that tax reform may add somewhere in the region of 2.5 per cent to the annual national income of Australians' income (Access Economics, 1999) and that promoting national competition policy may add 5.5 per cent to national income (Industry Commission, 1995). The desire to ensure mature workers are not encouraged out of the workforce simply as a result of their age – as opposed to their competence – has the potential to raise the income of all Australians by a similar amount. Average per capita incomes of Australians could be lifted by 4 per cent if workforce participation by 55–70 year olds rose by just 10 percentage points.

Private consumption is a good proxy for the standard of living because it takes the increased GDP per capita noted above and also allows for the increased disposable income cause by personal income tax cuts. This measure of the standard of living increases by 5 per cent by the end of the 2020s.

That gain may be an overstatement, in that we have not valued the reduced leisure time available to those older Australians who keep working. That said, to the extent that people voluntarily choose to keep working when employers change their attitudes towards retirement age, that minimises any negative aspects of reduced leisure time. Any reasonable assessment still suggests a gain in national welfare of over 4 per cent.

The increase in incomes from a modest increase in workforce participation by older Australians ranks somewhere above the benefits generated by reform of the nation's indirect tax system and somewhere below the benefits generated by microeconomic and competition reform.

Such a boost in national income – from reduced involuntary early retirement – would obviate the potential costs identified in Section 2.3

2.3. The Budget impacts of an ageing population

Increased workforce participation by older Australians, measured in Section 2.2, could help offset many of the expected future costs of an ageing population, but the Budget impacts of an ageing population could still affect future generations.

What may happen to Government finances if Australia continues on current trends in relation to an ageing population? This section describes the cost of 'doing nothing' – of current trends remaining intact. Or, seen differently, it measures the potential savings to be made by planning and adjusting now for an ageing population. The amounts involved are large.

2.3.1. The current fiscal position

The current Federal Government surplus was built on the twin pillars of good policy (tight control over spending) plus the windfalls associated with a strongly growing economy. Good growth has lifted receipts of personal, company and sales taxes, as well as State stamp duties and franchise fees, while a fall in unemployment has taken pressure off Federal spending.

The Federal Government's move away from a clutch of inefficient State taxes and the ramshackle sales tax to a consumption tax is another important move in placing fiscal finances on a firm footing.

But official estimates extend out only a handful of years. In recent years official agencies (EPAC, the Federal Treasury's Retirement Income Modelling Unit, and the OECD) have addressed the long-term outlook, focussing on the implications of ageing for public spending. Those reports have indicated that Australia faces fiscal challenges down the track, albeit less than those facing many other countries. This section revisits the ageing issue, but extends the existing official analysis to the implications of ageing for tax revenues, as well as to the rising cost and quality of health care.

2.3.2. Expenditure-side trends

An ageing population causes a relative rise in the public resources required for pensions, health and residential care outlays, but also causes a relative cut in resources required for youth job programs and education outlays. The rise in pensions and the reduction in education outlays are modest and roughly cancel out. It is not so much ageing as it is the cost of increasing quality in health that threatens to blow a hole in the nation's public finances.

The older population will more than double in the next thirty years. A person's use of health services tends to increase significantly in the last few years of their life and, as the baby boomers reach their 80s, health costs and residential care may increase significantly.

As a result of these forces, Australian fiscal finances may be steaming towards a rendezvous with the demographic glacier in the next few decades. Official estimates suggest Australian taxpayers might be up for a bill in the region of $16–24 billion (in 2000 dollars) by 2031.

OFFICIAL ESTIMATES

EPAC (1994, at p. 42) estimates that, by 2031, public social spending will take-up 3.7 per cent more of national output than it does today. That translates to $24.2 billion in 2000 dollars.

The OECD (1998, at pp. 124 and 127–28) made similar estimates. It charts a RIM estimate showing age pension costs rising by 1.1 per cent of national output between now and 2030 and, referring to tabulated RIM estimates, adds in a health cost of 1.4 per cent of national output. The total of 2.5 per cent implies an additional pension and health cost of $16.3 billion in 2000 dollars. The OECD notes that, if health costs actually rise in line with the number of elderly, then that alone would cost an extra 2.4 per cent of national output by 2030. Adding in the pension component, the additional fiscal task by 2030 would be 3.5 per cent of income, or $22.9 billion in 2000 dollars.

To these estimates may be added those of Access Economics. The latter use ABS population projections, and combine those with estimates of public sector spending on each age group (by EPAC in 1988 and 1994); and trends in health spending (by health economist Roger Kilham of Access Economics). The latter are used mechanically, and so may overstate the potential increase in health care costs. Access Economics estimates:

- The cost of paying pensions will rise by 0.82 per cent of national output ($5.4 billion in 2000 dollars) between 1999 and 2031. This would be larger still (by another 0.25 per cent of GDP) were it not for the impact of the Superannuation Guarantee (SG). By raising retirement incomes, the SG lowers pension payments down the track. Income and asset tests combine with the boost to retirement incomes from the SG to ensure that the ratio of pension outlays to GDP rises relatively modestly. It rises by around a quarter, a modest amount given that the population over 65 nearly doubles its share of the total population across this period. The modesty of that increase is all the more impressive given that the current Government has legislated a guarantee linking pensions to Male Total Average Weekly Earnings.

- The cost of education will fall as a share of total outlays. There will be relatively fewer people at the school and university end of the demographic scale. That will save the national public sector purse 0.67 per cent of GDP, a figure topped up by an additional 0.05 per cent of GDP due to relatively smaller spending on labour market programs as well. The latter's spending is also biased towards the young. The total of the two is an offset (saving) of 0.72 per cent of national output, or $4.7 billion in 2000 dollars.

With education and labour market program savings ($4.7 billion) coming close to offsetting the prospective increase in the pension bill ($5.4 billion), one could be forgiven for thinking the much-vaunted threat to public finances from demographics was completely overstated.

However, as Figure 19 shows, over time public sector spending on health has risen due to:

- **Factor 1:** Population growth;
- **Factor 2:** Rising per capita utilisation due to increasing usage of doctors' services, as well as the demographics of ageing – see Figure 20 for factors related to the latter;
- **Factor 3:** Rising prices; and
- **Factor 4:** An improved 'quality' of health care, whereby spending is rising as the public sector invests in improved technology and techniques for the benefit of the public.

Figure 19. Reasons behind the growth in Medicare spending

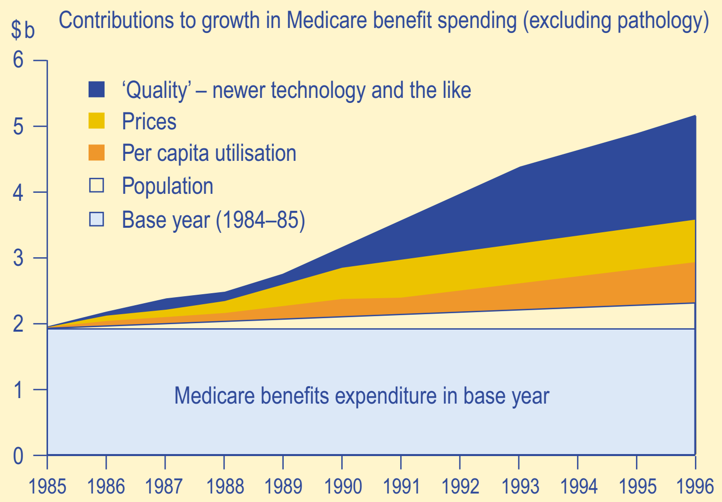
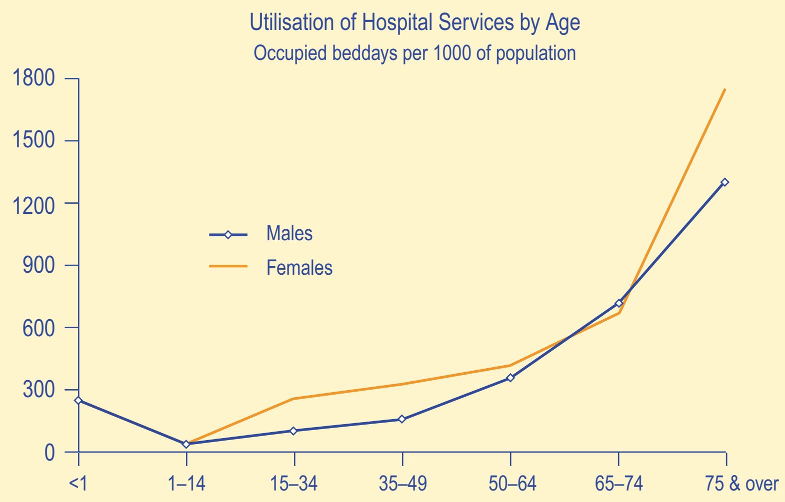


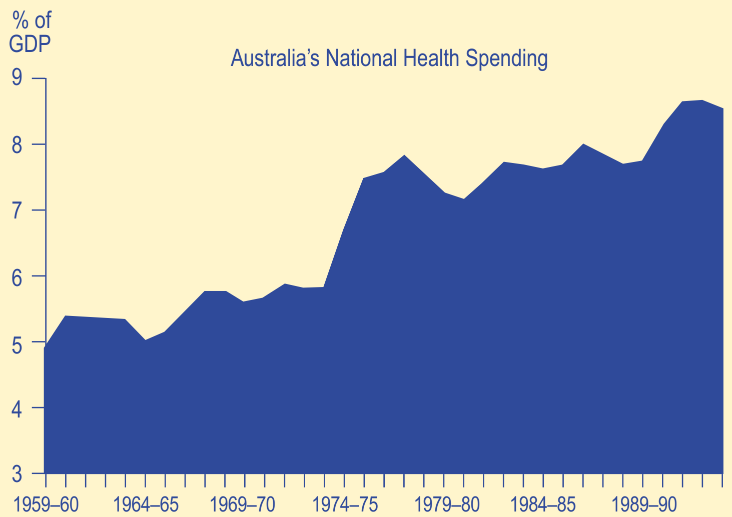
Figure 20. Health demographics



Source: AIHW, Australia's Health 1996

At the same time total (private plus public) health care costs have been on the rise. Figure 21 shows trends compared to the total national income. It includes private as well as public spending on health.

Figure 21. Health is taking a gradually bigger bite of the national income



Source: AIHW, Health Expenditure Bulletins

Access Economics estimates suggest that demographic effects (and resultant rising per capita utilisation) may add to health care costs the equivalent of 1.78 per cent of national output ($11.6 billion in 2000 dollars) by 2031.

Adding in the net bill from higher pensions and lower education costs, the net cost of ageing on public sector spending may be as high as $12.3 billion a year by 2031.

However, as Figure 19 indicates, history suggests that it is insufficient to add a factor for demographics alone. There may also be a need to add a factor for prices, where the latter is broadly defined to include an allowance for the improving 'quality' of health care over time (factors 3 and 4 above). In so doing, Access Economics estimates become larger than official estimates of the fiscal effects of ageing, because they add in a cost for the rising quality of health care.[20]

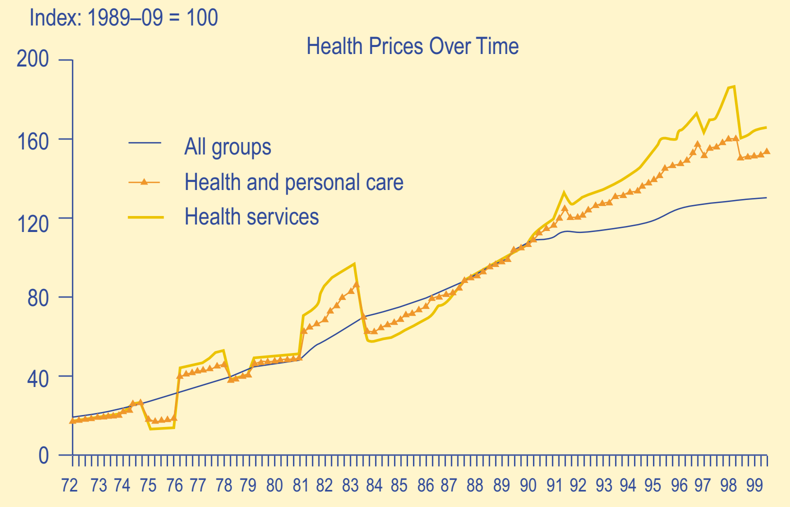
Table 2 shows the average rate of increase following the introduction of Medicare for the total CPI ('all groups'), and for health, both broadly- and narrowly-defined. [21] Prices for the broad definition have run at 2.4 percentage points a year faster than the average CPI, while 'health services' have grown faster by a marked 4.0 percentage points a year over the past fourteen years.

Table 2 Health care prices in the Consumer Price Index

(1986–87 to 1998–99, average annual increase)	
CPI (headline, all groups)	3.5 %
Health and personal care	5.9 %
Health services	7.5 %
(1972–73 to 1998–99, average annual increase)	
CPI (headline, all groups)	7.1 %
Health and personal care	8.6 %
Health services	9.2 %

Comparisons over a longer time period bias down the speed of price increase in the health sector as they include the artificial reduction in prices recorded when Medicare came into being in early 1984 and more recently the 30 per cent private health insurance rebate (see Figure 22). However, that caveat noted, faster inflation in health prices is still evident in looking back to 1972–73. On average, inflation for broadly defined health has run at 1.5 percentage points a year faster than the average CPI, while 'health services' has grown faster than average economy-wide prices by 2.1 percentage points a year over the past twenty six years.

Figure 22. Health prices in the CPI



Allowing for a gap of 1.5 per cent a year as a proxy for rising relative prices and quality suggests that the additional costs for health care might rise by 6.08 per cent of national output over the next thirty two years, or $39.7 billion in 2000 dollars. Were that to occur, such a potential result would dominate the other fiscal costs of ageing.

However, the Borland and Kennedy work noted in Section 2.2 might suggest that, were more older Australians to be allowed to work as a result of changes in corporate attitudes, then the benefits to health care spending could be large. Employed people are, on average, healthier than those out of employment. The causality runs in both directions – the ill find it harder to get jobs, as well as those in jobs being healthier because of the increased exercise and social activity that working brings. But the latter is likely to be the stronger effect, suggesting that the potential savings to the national economy of reduced early retirement are even larger than those already identified in Section 2.2 (as well as suggesting the likely increase in public sector health spending outlays estimated in this chapter may be at the top end of the range).

On balance, Access Economics concludes that official estimates of long-term pressures on Australia's fiscal finances (up $16–24 billion by 2031, measured in today's dollars) may be understated. The Access Ecomomics estimate of the effect on public outlays is $39.7 billion, of which the pure effect of ageing is $12.3 billion a year by 2031, and the remainder is a 'health care quality' effect.

The difference between the Access Ecomomics estimate of $39.7 billion and the official estimates is more than explained by allowing for a price/quality effect in public sector health care spending. Such a price/quality gap has been evident in Australia over recent decades, but the total increase in public sector health spending may be significantly ameliorated by reduced early retirement.

It is important to separate the impact on public sector health costs of two effects – demographics, and the price/quality leap in health. Both will add to costs, but the latter far more so. As noted in the *Bulletin* of 22 June 1999, '... the key determinant of an individual's use of health services is the number of years they are from death, rather than the number of years they are from birth. 'On average, what determines health care use is not whether you are 70 or 80 or 90, but whether you are five years from death,' says University of Sydney health economist Jane Hall'.

This highlights the importance of encouraging whole-of-life health insurance and other measures to spread the risk and burden of financing the health system.

2.3.3. Revenue-side trends

Demographics also have Budget impacts on areas other than pension, health and education outlays. They also impact on revenue raising by governments. Governments raise both direct and indirect taxes. The elderly and the young pay less in both types of tax, but the gap is less pronounced for the elderly with respect to indirect taxes, and more pronounced for the young with respect to direct taxes.

The analysis here draws estimates of direct and indirect tax paid by the age of the 'reference person' (basically the head of household) in the 1993–94 Household Expenditure Survey (ABS 1996). The latter is calibrated to 2000 tax collections using the May 2000 issue of Access Economics *Federal Budget Monitor*.

Across the next thirty years working age population growth will fall from an average of 1.9 per cent a year now to 0.3 per cent a year. Without a change in workforce participation, that may leave trend growth in Australian GDP at about half the 3.2 per cent a year seen in recent decades. The estimates suggest that demographics may prove to be a burden on public sector revenues. That is most notable with direct taxes (basically all personal taxes, including the Medicare levy). The effect is not as large as on public spending, as the loss of personal tax revenue from a shift away from working age taxpayers to retired taxpayers is partly offset by a relative fall in the number of the young, who effectively do not pay direct tax at all. There is also a benefit to public revenues from the higher retirement incomes fostered by the Superannuation Guarantee, but no allowance is made for that here (the offset between super and the age pension was accounted for in the outlays discussed above). Access Economics estimates an 'ageing' loss to direct tax revenues of 0.70 per cent of GDP by 2031, or $4.6 billion in 2000 dollars.

The effect on indirect tax is small, as the elderly still pay indirect tax, just less so than do the working aged. Access Economics estimates a loss to indirect tax revenues of 0.18 per cent of GDP by 2031, or $1.2 billion in 2000 dollars.

The total loss of public sector tax revenue as a result of ageing is $5.7 billion. Adding in the expenditure side of the equation suggests that the total fiscal hill to be climbed in the next three decades could be $45.5 billion a year in 2000 dollars.

2.3.4. The bottom line

It is not so much ageing as it is the cost of increasing quality in health that threatens to blow a hole in the nation's public finances. The lesson from history is that health costs rise not merely because of demographics, but also because of a tendency for unit costs to rise fast in response to increasing complexity and quality in health technology and delivery. Based on an estimate of the latter trend, the additional costs to the public purse in coming decades may be dominated by health. For that reason, if left untouched, Australia's finances could depart from their current impressive state in the next three decades. By 2031 the annual recurrent bill to put public finances back where they are today could be $45.5 billion (2000 dollars).

Of that amount, $18.0 billion a year (by 2031, but measured in 2000 dollars) is the potential 'cost of ageing' on public finances, and the remainder is the cost – if current trends persist – of the rising quality of health care.

To ensure Australia copes with the Budget implications of an ageing population it is essential to continue to advance on many fronts. As Section 2.2 stresses, and as this section notes, one key area for potential advance lies with encouraging increased workforce participation by workers aged 55–70. So if Australian organisations change their attitudes towards encouraging early retirement, then they may look forward to:

- Better sales revenue, a larger national income and reduced unemployment;
- Lower labour costs and a more experienced and flexible pool of available workers; and
- A stronger public sector position, so financing a tax cut or increased public spending.

3 The Silver Market Goes Platinum

Summary

A transformation is underway. With the baby boomers about to hit age 55, the nature of the product markets Australian organisations sell to will be revolutionised in the coming decade.

Organisations have been happy to view demographic change as a slow moving glacier. That was true in past decades. It will not be true in the next. Are Australian organisations ready?

The over 55s account for 21 per cent of Australia's population, but head up households that own a remarkable 39 per cent of the nation's household wealth, and account for 25 per cent of all disposable income. The over 65s head up households owning almost half of all deposits in the nation's financial institutions. Mature consumers are the wealthiest in the nation.

The coming decade will see further rapid growth in the importance of the 'silver market' to manufacturers and retailers. The wealth of Australia's mature consumers has the potential to introduce a spending bonanza of proportions not seen before.

For many mature consumers the kids have left home, the mortgage has largely been repaid and other commitments are at an all time low. That means they have more time and money on their hands than at any other stage of their lives. It is not surprising, therefore, that they spend their consumption dollar differently. Retailers and manufacturers with an eye to the future will know the value of staying one step ahead of the mature dollar, redirecting their efforts to the needs of tomorrow's consumers. They already:

- Have more time and money on their hands than at any other stage of their life.
- Have a less direct role with kids.
- Worry more about their health.
- Are happy to outsource.
- Are secure in their homelife.

Those patterns will increasingly dominate total retail spending in Australia. After all, mature consumers are the largest retail growth market in the nation. Their spending over the next ten years will, even after allowance for inflation, grow by a marked 61 per cent – almost double the national average of 32 per cent. The astounding growth in the mature population and its spending reach may be compared to a younger population almost stagnating in size. For that reason it is the spending habits of mature consumers that will define growth markets in the years to come. The demographic train is about to leave the station – manufacturers and retailers should not get caught with one foot on the platform.

The over 55s, 21 per cent of the nation's population today, will account for more than 43 per cent of the total growth in retail spending in the next decade. Within that overall 43 per cent, mature consumers account for more than half of the expected growth in spending in many categories. Are organisations geared up to target these growth markets? The silver market is already huge, but ten years from now the silver market will go platinum. The implications for organisations are enormous.

3.1. Are organisations ready?

International retailers are increasingly aware of the size and growth potential of the 'silver market'. It is important for local producers and those marketing to consumers to realise that a massive but slow moving change has already begun to hit the Australian marketplace. The growth demographic for spending is no longer youth – whose relative numbers will continue to fall, and whose disposable incomes are unlikely to rise as rapidly as in the past two decades. Rather, an astounding proportion of Australian retail growth will be in sales to mature customers.

Until now there has not been much good information on the power of mature customers, as the available modelling has concentrated on their incomes. Although mature customers have surprisingly high incomes, their strength lies in their assets and so their ability to spend. The current cycle has resulted in a considerable boost to the asset worth of mature customers. Their housing (often in inner city areas) has risen in value more than the average, while their age allowed them the asset base to be invested in sharemarkets (or indirectly via super) across a period when shares, bonds and rental property values have risen sharply.

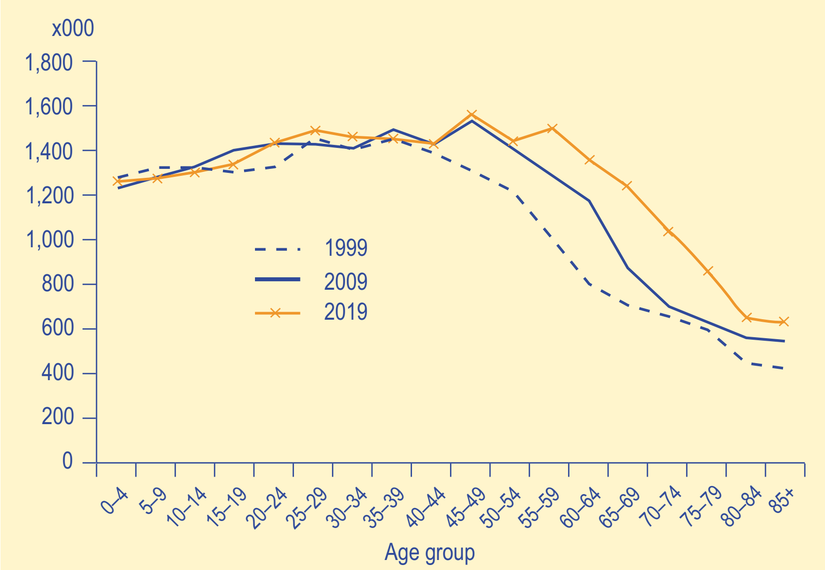
WHAT DOES THIS MEAN FOR ORGANISATIONS?

The demographic train has already left the station, and a rise in the relative importance of the silver market has begun. Its growth will be unstoppable. Manufacturers and retailers should be aware – ten years from now the silver market will go platinum. The implications of a rapid rise in silver spending power are enormous. For example:

- carmakers will observe a further swing to small cars and away from family sized cars, raising the incentive for manufacturers to make smaller cars locally, or lose market share;
- other manufacturers may also need to change the proportions made of many products, from the cut of jeans to the weight of the gardening tools they produce;
- shopping malls will have fewer sportstores and music outlets but more bookstores, while mature customers are likely to be more comfortable being served by mature age workers;
- travel agents and airlines will have to pitch to different market demographics, with less backpackers, but more travellers willing to pay a little more for extra comforts; while
- the construction industry will need to build fewer and smaller new homes, but with higher quality fittings and a greater emphasis on safety and security.

Figure 23 shows the coming changes in the age profile of Australia. At present the number of people aged 60 to 64 is only half the number of 35 to 39 year olds. This is about to change. Twenty years from now the relative numbers will be almost equal.

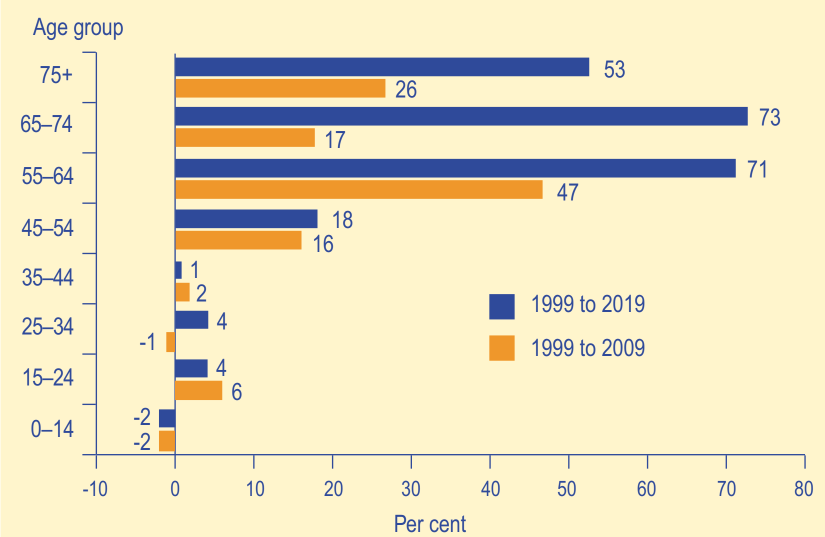
Figure 23. Australia's projected population by age group in 1999, 2009 and 2019



Source: ABS Cat No 3222.0

The story of Australian demographics over coming decades is simple – numbers in the age groups up to 45 will remain unchanged, while mature age numbers will expand fast. Growth in the Australian population will largely be concentrated among the age groups above 45 years, and in particular those above 55 years (see Figure 24).

Figure 24. Projected growth across age groups: 1999 to 2009, and 1999 to 2019



Source: ABS Cat No 3222.0

From 1999 to 2009 the number of those aged between 55 and 64 will rise by an astounding 47 per cent. Over the same period, the number of persons above 75 years will increase by 26 per cent. However, the real explosion is still to come. Over the twenty year period from 1999 to 2019 the number of persons aged 65 to 74 will increase by 73 per cent and 55 to 64 year olds by much the same (71 per cent).

WHICH FACE WILL SELL MORE PRODUCTS – LEONARDO di CAPRIO OR SEAN CONNERY?

The tremendous growth in the mature population and its spending capacity may be compared to a younger population almost declining in size. With people entering paid employment later than ever, and with demographics working against them, the relative spending power of youth will decrease. For that reason it is the spending habits of mature consumers that will define growth markets in the years to come. The demographic train is about to leave the station – manufacturers and retailers should not get caught with one foot on the platform.

3.2. Too powerful to ignore

Consumers' needs change over the course of their lives. Mature consumers have typically entered an established phase of their lives where the kids have left home, the mortgage has largely been repaid and other commitments are at an all time low. That means mature consumers have more time and money on their hands than at any other stage of their lives. It is not surprising, therefore, that they spend their consumption dollar differently. Retailers and manufacturers with an eye to the future will know the value of staying one step ahead of the mature dollar, redirecting their efforts to the needs of tomorrow's consumers.

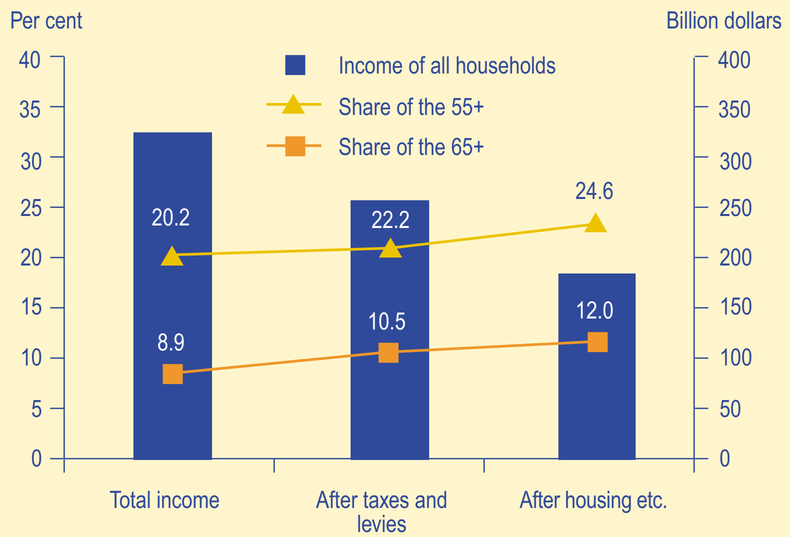
3.2.1. Wealth beyond retailers' dreams

THE POWER OF THE WALLET

The over 55s account for 21 per cent of Australia's population. However, they head up households that already own an astounding 39 per cent of the nation's household wealth, as well as accounting for 25 per cent of all disposable income available for consumption. The over 65s head up households owning almost half of the deposits in the nation's financial institutions.

Even before the growth expected in coming years, mature consumers already account for a considerable share of the economic resources in society – both in terms of their income and their wealth. Research by Access Economics (see Figure 25) suggests that, in 1999:

Figure 25. Household income



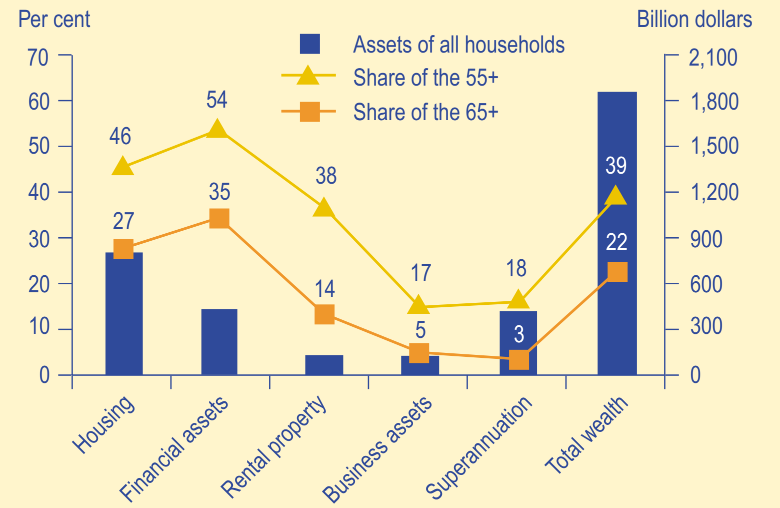
Note: 1999 household income before and after taxes, levies, housing and other non-consumption expenditure. Totals are for all households and for the share of households with a 'reference person' aged 55+ and 65+ in 1999 (expressed in 1998–99 dollars). 'After housing etc.' refers to household income after payment of housing (rents, mortgage payments, maintenance, rates, utilities), interest payments, superannuation contributions and life insurance.

Source: Acccess Economics

- The over 55s headed up households accounting for 20.2 per cent of the nation's household income and, indeed, 24.6 per cent of disposable income available for consumption (ie, after payment of tax, housing and utility costs, and contributions to superannuation and life policies).
- The over 65s headed up households which alone account for 8.9 per cent of the nation's household income and 12.0 per cent of disposable income for consumption.
- The increase in their numbers and the growing prosperity of mature consumers will increase the over 55s share of disposable income from 24.6 per cent in 1999 to 29.3 per cent in 2009.

The market power of mature consumers becomes even more apparent in looking at the remarkable share of the nation's wealth they command. Although mature consumers have surprisingly high average incomes, their real strength lies in their asset base.

Figure 26. Household wealth in 1999



Note: Household wealth by asset type in 1999, total for all households and the share of households headed by a 'reference person' aged 55+ and 65+ in 1999 (1998–99 dollars). 'Housing' is net of mortgage loans. 'Financial assets' include bank accounts, bonds, debentures, investment trusts and shares. 'Rental property' is net of investment loans and includes rental and commercial properties. 'Business assets' refer to the net business assets of the self-employed (unincorporated). 'Superannuation' includes an estimate of the value of unfunded entitlements.

Source: Acccess Economics

As at January 1999, it is estimated that (see Figure 26):

- The over 55s headed up households own an astounding 39 per cent of the nation's household wealth with the over 65s head up households accounting for 22 per cent alone.
- The mature consumers have a very high proportion of their wealth invested in financial assets that are easily made available for consumption.
- The over 55s headed up households own 54 per cent of the nation's financial assets, and the over 65s headed up households owning almost half of all deposits in the nation's financial institutions.

3.2.2. How mature consumers currently spend

As a group, mature consumers are the wealthiest in the country. They have a large proportion of that wealth invested in assets that can easily be consumed, with most of the rest in the family home. The family home is, indeed, the main investment for many mature aged. While these assets have traditionally been 'locked-up for life', trends have emerged in recent years to free-up bricks and mortar to accommodate the spending needs of a new class of retirees. The downsizing of the housing nest egg has already become a common way to free-up assets, and more innovative methods are also expected to reach Australia's shores in coming years. Other OECD countries have seen an increasing popularity of financial products that link income stream products to the family home.

A BONANZA AWAITS

If there is any truth to the bumper sticker 'Spend your kids' inheritance now', then the wealth of Australia's mature consumers has the potential to introduce a spending bonanza of proportions unseen before.

Mature consumers have different lifestyles with different needs, and this is reflected in how they spend their consumption dollar. Their share of the market varies greatly across different consumer products. Based on estimates for 1999 (see Figure 27), the spending habits of mature consumers[22] can be summarised as follows. They:

- *Have more time and money on their hands than at any other stage of their life.* They take advantage of that, spending an above-average share of their income on holidays, books, magazines and the telephone, as well as enjoying a gamble on lotteries, pokies and the horses. Because they have more time on their hands – and they grew up with the habit anyway – mature consumers cook at home, spending a below average share on fast food and restaurants, but an above average share on groceries and homewares.

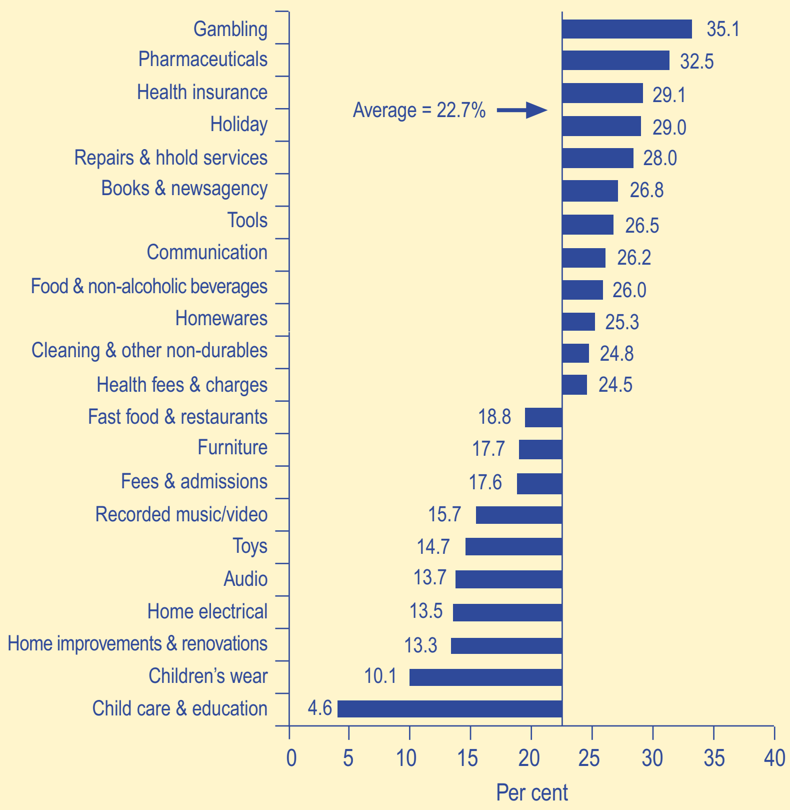
- *Have a less direct role with kids.* Their own kids having grown up – and often having left the nest – the over 55s spend relatively little on child care, education, children's wear and toys. They also spend less on CDs and videos, where youth spending dominates.

- *Worry more about their health.* The mature consumer market worries about its health, spending up big on pharmaceutical products, and health insurance, fees and charges.

- *Are happy to outsource.* No more balancing atop ladders to clean the gutters. Older and wiser, mature consumers are more likely to pay for an expert to come in to do repairs to appliances and the plumbing, as well as the heavy work in the garden. That said, they are happy to spend up on tools, working in the garage and the garden.

- *Are secure in their homelife.* Happy with what they have, mature consumers spend less on home improvements and renovation (the kids are leaving home anyway, allowing Mum and Dad to spread out in a manner they have previously been unaccustomed to). For similar reasons they spend less on furniture and home electrics (happy to squeeze an extra year from the toaster).

Figure 27. Household spending shares on selected items by those aged 55+ in 1999



Note: The share of total household spending on selected consumption groups by households with a 'reference person' aged 55+ in 1999.

Source: Access Economics.

3.2.3. The growth markets in retail

Figure 28 details forecast growth in retail spending by all Australian consumers across a range of items. On average, and after allowing for inflation, the nation's retail spend will rise by almost 32 per cent between 1999 and 2009. But spending on some items will flourish, and those on others may lag.

Figure 28. Growth in spending, all households, from 1999 to 2009 (inflation-adjusted $s)

Source: Access Economics

The forecasts in Figure 28 suggest that, averaged across all consumers in the period ahead:

- Outlays on health will rise fast, including those on *pharmaceuticals*, *health insurance*, and *health fees and charges*, mostly due to demographic factors.
- Rising incomes and a population with increased leisure time means better-than-average prospects for a bunch of recreational activities. That includes everything from reading *books* and *magazines*, to mucking around with *tools* in the garage and the garden, having a flutter on the pokies or the horses (*gambling*), taking *holidays*, and talking to each other on the phone (*communications*).

By way of contrast, there may be slower-than-average growth in outlays for *toys*, *children's wear* and *child care*, as demographics leaves us with relatively fewer kids. In addition changed spending patterns will leave many alternatives to toys for kids, such as home computers (*home electrical*). The latter show up with above average spending growth.

3.2.4. Mature consumers – a high growth segment

However, what is true for all consumers is not necessarily true for mature consumers as a group.

SPENDING GROWTH AT TWICE THE NATIONAL AVERAGE

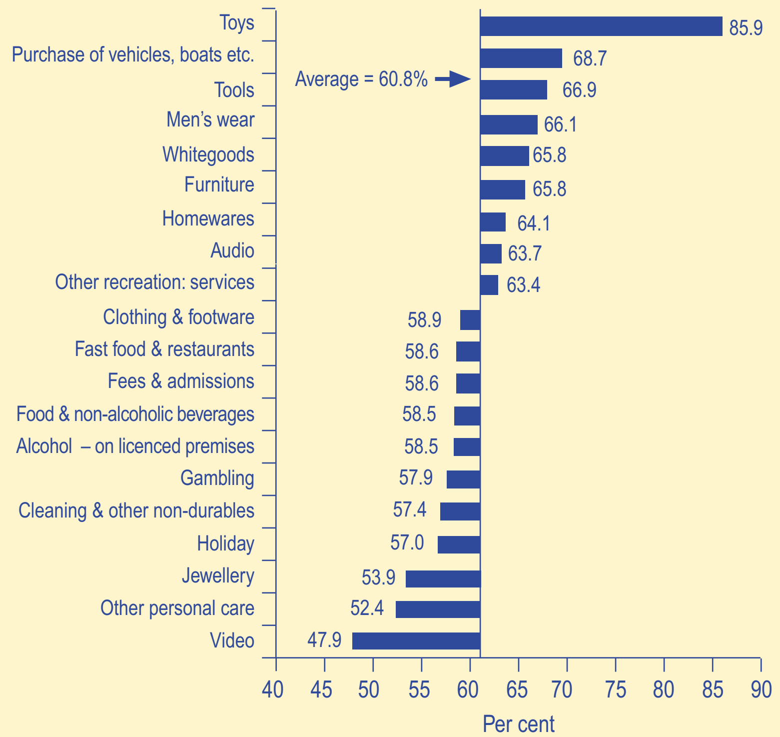
Mature consumers are the largest growth market in the nation. Their spending over the next ten years will, even after allowance for inflation, grow by a marked 61 per cent – rather more than the national average of 32 per cent.

As Figure 29 indicates, the mature consumer is forecast to:

- *Indulge the grandkids*. Mature consumers do not currently spend a great deal on *toys*. But the growth in their income, combined with a relative increase in the number of grandparents is expected to result in a near doubling of toy purchases by mature consumers for their grandchildren. So, as Figure 28 showed, there will be relatively modest growth in the overall toy market but, as Figure 29 shows, mature consumers will be raising their spending on toys considerably.

- *Indulge themselves*. Blessed with the happy combination of the money to finance an indulgence and the time to enjoy it, mature consumers will spend a lot more on *boats* and *cars*. Similarly, spending on *tools* will rise as Mum and Dad potter around the garden (despite increasingly paying for someone to mow the lawn), and as Dad slowly rebuilds the Datsun 120Y up on blocks in the backyard. Along the same lines, mature consumers will spend more on *other recreational services*, *menswear*, *furniture* and *whitegoods*.

Figure 29. Growth in spending by aged 55+ from 1999 to 2009 (inflation-adjusted $s)



Source: Access Economics

That said, although spending by mature consumers is forecast to rise rapidly, there will be some categories of spending where the growth in the outlays will be less than average. Mature consumers will *spend relatively less on videos and jewellery*. Items that mature consumers appear to class as more frivolous – *videos* and new *jewellery* – may remain spending categories dominated by the young. Yes, mature consumers will raise their spending on these items, but not dramatically compared to their average spend. And, comfortable with who they are, mature consumers will spend relatively less on *other personal care*.

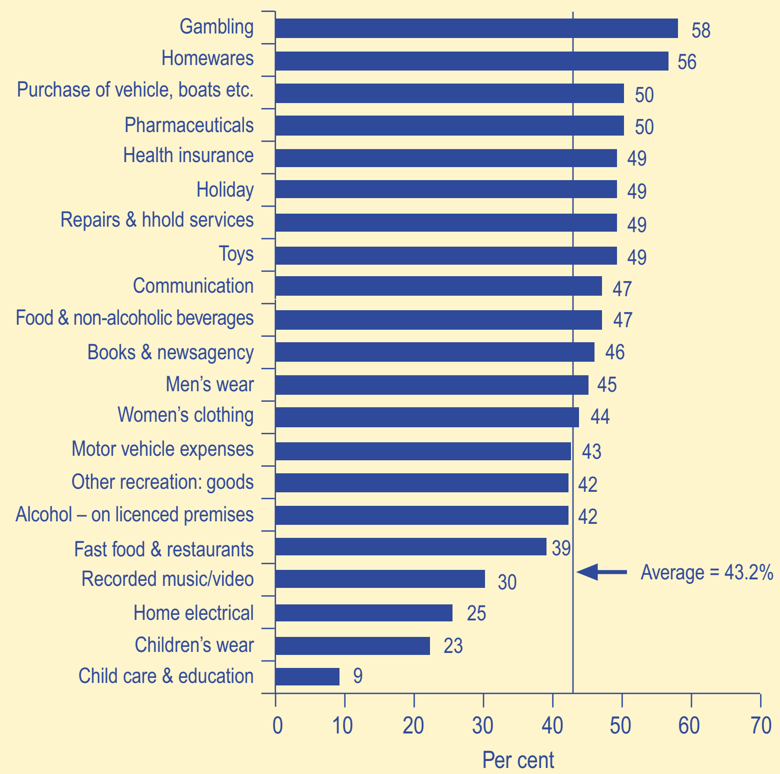
3.2.5. Targeting the growth markets

Figures 28 and 29 have laid the groundwork – Figure 28 suggesting solid overall retail spending growth, and Figure 29 indicating particularly strong growth in the outlays of mature consumers. That combination leads to Figure 30, which provides analysis of the share of spending growth in the next decade attributable to mature consumers.

MATURE CONSUMERS WILL SUPPLY ALMOST HALF OF ALL GROWTH IN RETAIL MARKETS IN THE NEXT DECADE

The over 55s, 21 per cent of the nation's population today, will account for more than 43 per cent of the total growth in retail spending in the next decade. Within that overall 43 per cent, mature consumers account for more than half of the expected growth in spending in many categories. Are Australian organisations geared up to target these growth markets?

Figure 30. Share of 1999 to 2009 spending growth attributable to the over 55s



Source: Access Economics

Figure 30 suggests that Australia is about to enter the era of the 'discretionary consumer'. The key feature of spending by mature consumers is that relatively little of it is promised away as mortgage repayments, school fees and the like (with the possible exception of health spending, where the passing of the years has reduced the scope for discretion in outlays).

Added to the growth in the number of mature consumers, that means that, across many categories of spending, the over 55s account for a surprising proportion of the forecast growth over the next ten years. The 'discretionary consumer':

- *Is happy to dabble*. In the coming decade mature consumers will take advantage of their relative freedom, spending on their 'toys' and their vices (such as *cars*, *boats*, *holidays* and *gambling* – though not *drinking*, perhaps with one eye on their health). No longer meeting their friends as much at pubs and clubs, they will talk direct, making increasing use of the *telephone*.

- *On the other hand, mature consumers will indulge the grandkids, not underwrite them*. Happily leaving *education* and *child care* outlays for their grandkids to their children, mature consumers are set to revel in the role of gift giver. From their relatively low share of spending on *toys* now, the silver market will splurge on toys to indulge the grandkids.

3.2.6. The bottom line

Demographic trends are inexorable. Unlike many things in life, we know the ageing of the baby boomers will have a striking effect on patterns of production and consumption in Australia, and indeed around much of the world.

The silver market, already both substantial and cashed up, will grow at startling rates in the coming decade. In fact mature consumers will provide almost half of all the growth in retail spending in the next ten years. That surge will change national spending patterns. Unless Australian manufacturers and retailers get their act together now, they may miss their chance. Equally, those who fail to note the coming revolution may find their competitors one jump ahead.

3.3. The cameos

The previous analysis has focussed on the national level. This section considers the importance of mature consumers at the regional level, with a focus on four regions – Maclean, Brighton, south Caloundra, and Manly. Note these 'regions' are the Bureau of Statistics' Statistical Local Areas (SLAs). The boundaries of the latter may differ significantly from, for example, postcodes. The Manly SLA, for example, is a much larger area than the Manly postcode.

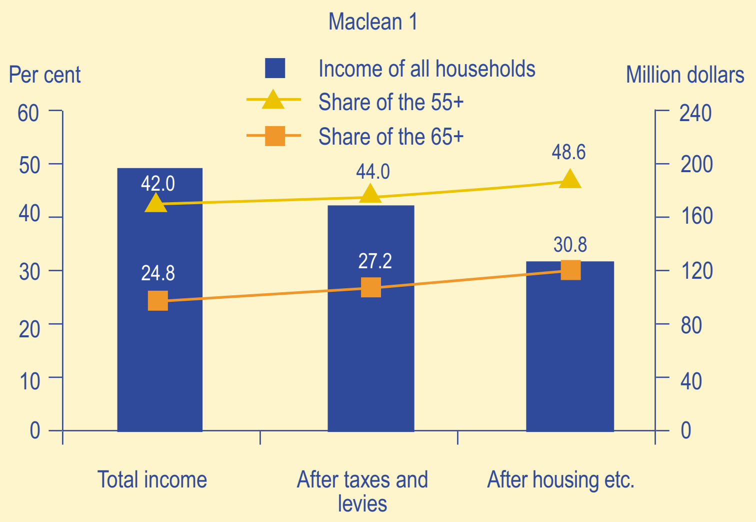
3.3.1. Maclean

Nestled in the mid North Coast of New South Wales, Maclean was settled by a large Scots population in the 1840s and 1850s. The city, on the shores of the Clarence River, relies on tourism, its prawn trawling fleet, and agriculture (notably sugar cane).

Australia-wide the over 65s account for 12.1 per cent of the population. In Maclean the over 65s already make up 22.7 per cent of the population, almost double the national average. Partly that reflects the pleasant climate of the region, which has attracted many retirees, both to Maclean itself, and to the surrounding district, including Yamba. Partly the high proportion of over 65s also reflects relatively slow economic growth in the area in times past. Maclean has had an unemployment rate close to twice the national average, leading to some younger inhabitants seeking better fortunes elsewhere.

That means mature consumers, important nationally, are vital to the economic heartbeat of Maclean. Nationally, mature consumers (defined here as the over 55s) account for 21 per cent of Australia's population, and 25 per cent of all disposable income available for consumption.

Figure 31. Share of 1999 income attributable to different age groups



Note: 1999 household income before and after taxes, levies, housing and other non-consumption expenditure. Totals are for all households and for the share of households with a 'reference person' aged 55+ and 65+ in 1999 (expressed in 1998–99 dollars). 'After housing etc.' refers to household income after payment of housing (rents, mortgage payments, maintenance, rates, utilities), interest payments, superannuation contributions and life insurance.

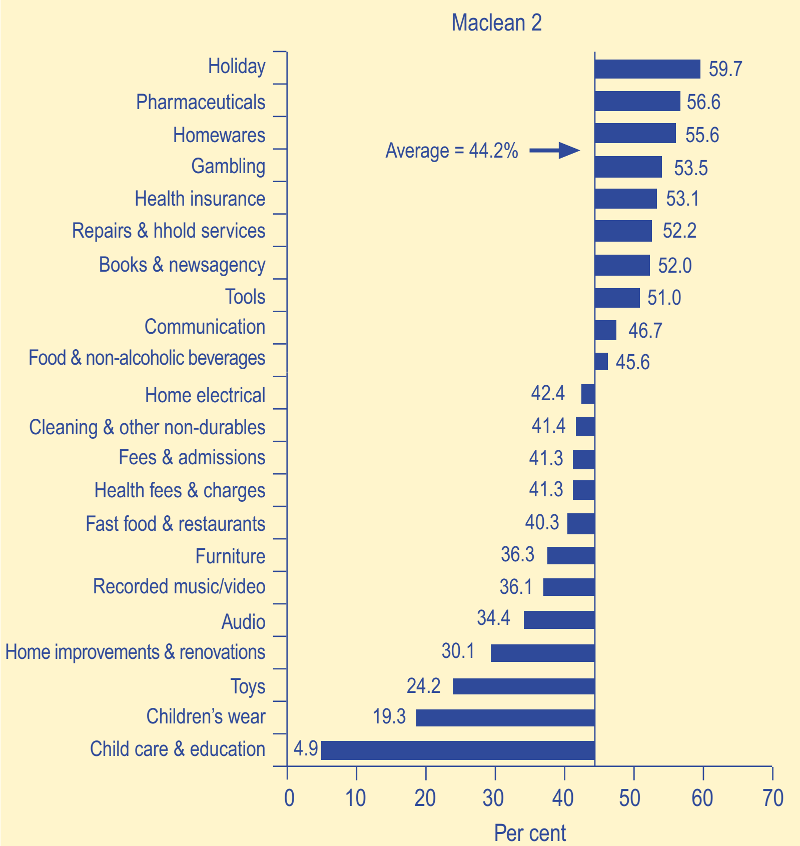
In Maclean, the over 55s account for:

- 37 per cent of the region's population (23 per cent for the over 65s); and
- 49 per cent of all disposable income available for consumption – see Figure 31 (with the share of the over 65s at 31 per cent).

Spending by mature consumers therefore bulks rather larger in Maclean (Figure 32) than it does nationally (compare to Figure 27 above). Spending by the over 55s accounts for 44 per cent of all spending by residents of Maclean, but less than 23 per cent nationally.

In Maclean the over 55s are a little less likely to gamble than their national counterparts – though it remains a favourite past-time – or to visit restaurants. However, they spend relatively more than over 55s nationally on home electricals and holidays.

Figure 32. Household spending shares by those aged 55+ in 1999

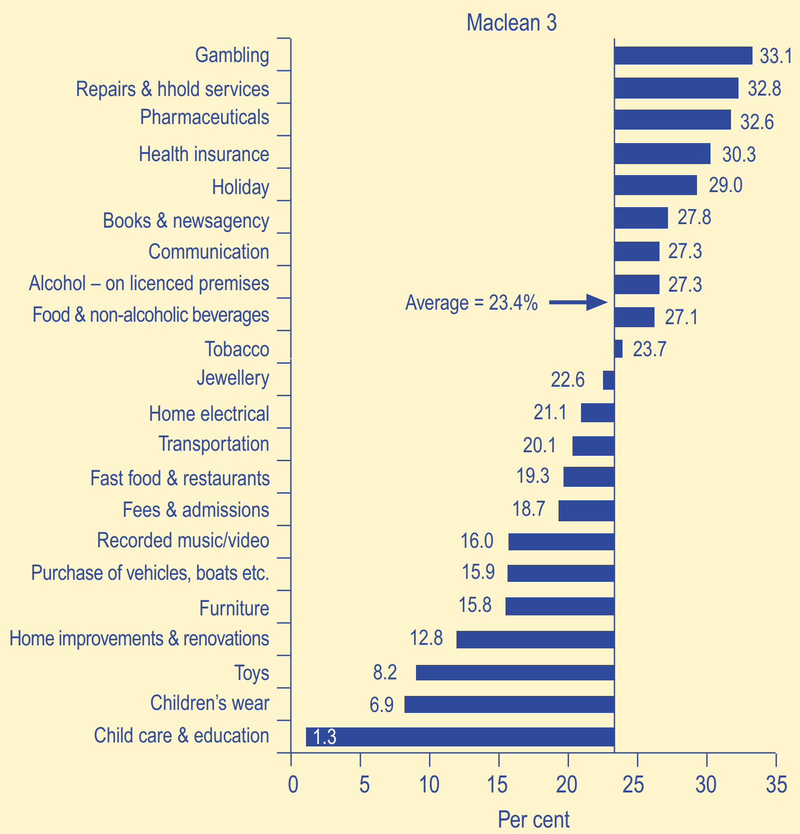


Note: The share of total household spending on selected consumption groups by households with a 'reference person' aged 55+ in 1999.

Source: Access Economics.

A not dissimilar pattern is evident in the spending of the over 65s. This group accounts for a marked 23 per cent of all household spending by residents of Maclean (Figure 33).

Figure 33. Household spending shares by those aged 65+ in 1999



Note: The share of total household spending on selected consumption groups by households with a 'reference person' aged 65+ in 1999.

Source: Access Economics.

As they already are the largest single slice of the retail market in Maclean, local organisations understand the importance of serving the needs of mature customers. But the impact on the region of the ageing trend has not yet run its course. The over 55s are likely to account for more than half of the retail dollar within two to three years.

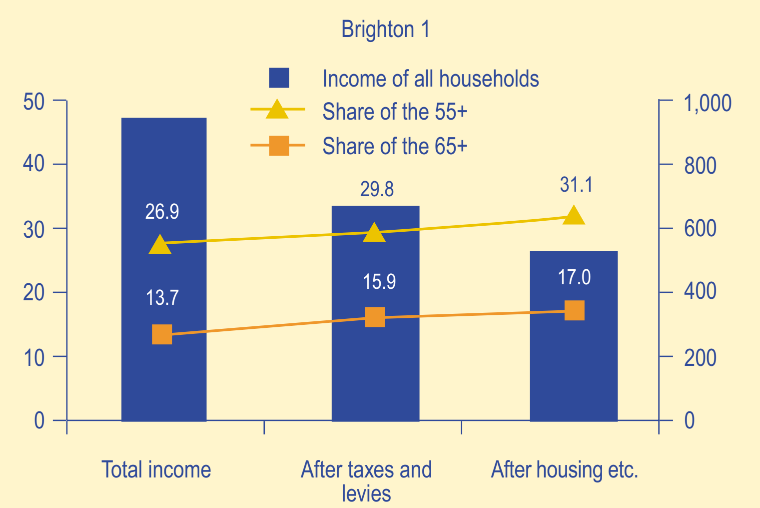
3.3.2. Brighton

A prosperous bayside suburb of Melbourne, Brighton is known for its beach, bathing, its beautiful houses and its generally well-off inhabitants. The latter – numbering some 33,000 – are often stereotyped as 'old money'. Given the age profile of the district, there may be something to the stereotype.

Australia-wide the over 65s account for 12.1 per cent of the population. In Brighton the over 65s make up 18.5 per cent of the population, well over the national average. The comparison is a little less stark for the over 55s – 21 per cent of the nation, but 27 per cent of Brighton. The number of mature residents is most likely to reflect, among other factors, the higher cost of housing in the area. The wealth of older age groups allows them to buy into suburbs such as Brighton, as well as allowing them an increased scope to stay in their own home well into their late '70s and '80s.

Mature consumers figure prominently in expenditures by Brighton residents – and so have a considerable impact on local organisations. The relative economic strength of the mature aged has, for example, helped to maintain something of a 'village' atmosphere in Brighton (Church Street and Bay Street in particular), while their numbers have also lent assistance to the strong local 'Save Our Streets' campaign. Nationally, mature consumers (the over 55s) account for 21 per cent of Australia's population, and 25 per cent of all disposable income available for consumption. The equivalent figures in Brighton are 27 per cent and 31 per cent (see Figure 34).

Figure 34. Share of 1999 income attributable to different age groups



Note: 1999 household income before and after taxes, levies, housing and other non-consumption expenditure. Totals are for all households and for the share of households with a 'reference person' aged 55+ and 65+ in 1999 (expressed in 1998–99 dollars). 'After housing etc.' refers to household income after payment of housing (rents, mortgage payments, maintenance, rates, utilities), interest payments, superannuation contributions and life insurance.

Spending by mature consumers is more important in Brighton (Figure 35) than it is nationally (compare to Figure 27 earlier). Spending by over 55s accounts for 30 per cent of all spending by residents of Brighton, but 23 per cent nationally.

Figure 35. Household spending shares by those aged 55+ in 1999

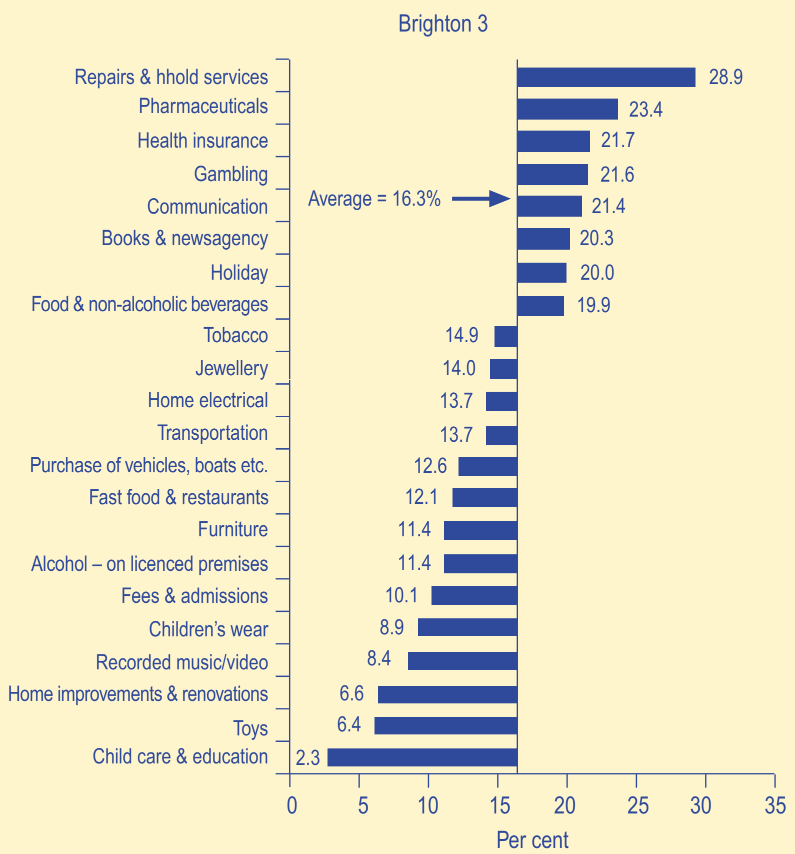
Note: The share of total household spending on selected consumption groups by households with a 'reference person' aged 55+ in 1999.

Source: Access Economics.

Reflecting the relative wealth of the district, Brighton residents aged over 55 are much more likely to pay for repairs and household services than are their counterparts nationally. They are also relatively more likely to spend on food and non-alcoholic beverages, and on children's wear. On the other hand, they are less likely to spend on home improvements and renovation than is the case for over 55s Australia-wide.

A not dissimilar pattern is evident in the spending of the over 65s. This group accounts for 16 per cent of all household spending in Brighton (Figure 36).

Figure 36. Household spending shares by those aged 65+ in 1999



Note: The share of total household spending on selected consumption groups by households with a 'reference person' aged 65+ in 1999.

Source: Access Economics.

Brighton's residents aged over 55 have already left a clear stamp on the character of the suburb, let alone its economic make up. On the latter front mature age consumers already account for a large chunk of total population (27 per cent), a bigger chunk of retail spending (30 per cent), and of disposable income (31 per cent). Demographic trends suggest more of the same is headed Bayside.

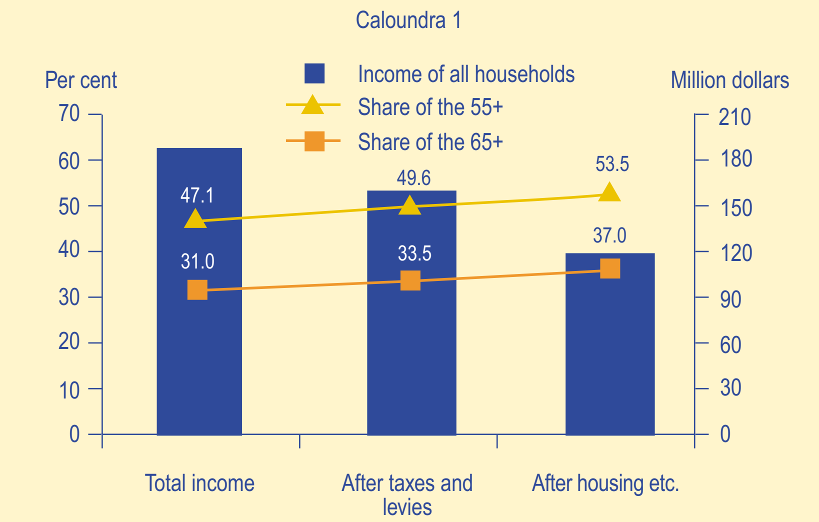
3.3.3. South Caloundra

Gateway to Queensland's Sunshine Coast, south Caloundra's population has grown rapidly in recent years, averaging gains of over 6 per cent a year for almost three decades. Less frenetic than Noosa a little further up the coast, the region around Maroochydore and Caloundra has long benefited from the desire of many Australians to retire to a spot on the coast, well served with amenities, yet close to Brisbane should the need arise to visit the 'big smoke'. In addition, part of the relative strength of numbers in mature age residents has arisen as Caloundra has had an unemployment rate more than twice the national average. That has led to some younger inhabitants seeking better fortunes elsewhere.

Australia-wide the over 65s account for 12.1 per cent of the population. In the wider Caloundra district the over 65s make up 18.4 per cent of the population, and in south Caloundra in particular the over 65s account for a striking 30.7 per cent of the population of 14,000. That makes the latter region one of the most popular in Australia for mature aged residents – vying for that title with Coolangatta on the Gold Coast.

Nationally, mature consumers (over 55s) account for 21 per cent of Australia's population, and 25 per cent of all disposable income available for consumption. In Caloundra, mature consumers make up 43 per cent of the region's population (31 per cent for the over 65s), and 54 per cent of all disposable income available for consumption – see Figure 37 (with the share of the over 65s at 37 per cent).

Figure 37. Share of 1999 income attributable to different age groups



Note: 1999 household income before and after taxes, levies, housing and other non-consumption expenditure. Totals are for all households and for the share of households with a 'reference person' aged 55+ and 65+ in 1999 (expressed in 1998–99 dollars). 'After housing etc.' refers to household income after payment of housing (rents, mortgage payments, maintenance, rates, utilities), interest payments, superannuation contributions and life insurance.

Spending by consumers aged 55 and over essentially accounts for half of all retail spending by the residents of south Caloundra – see Figure 38. Mature consumers account for almost two thirds of all spending on gambling by residents of the south Caloundra region, and about 60 per cent of the spending on holidays, pharmaceuticals and health insurance.

Although this report has noted the growth prospects in retail for the mature age market, it seems that the future is already large in the streets and organisations of south Caloundra.

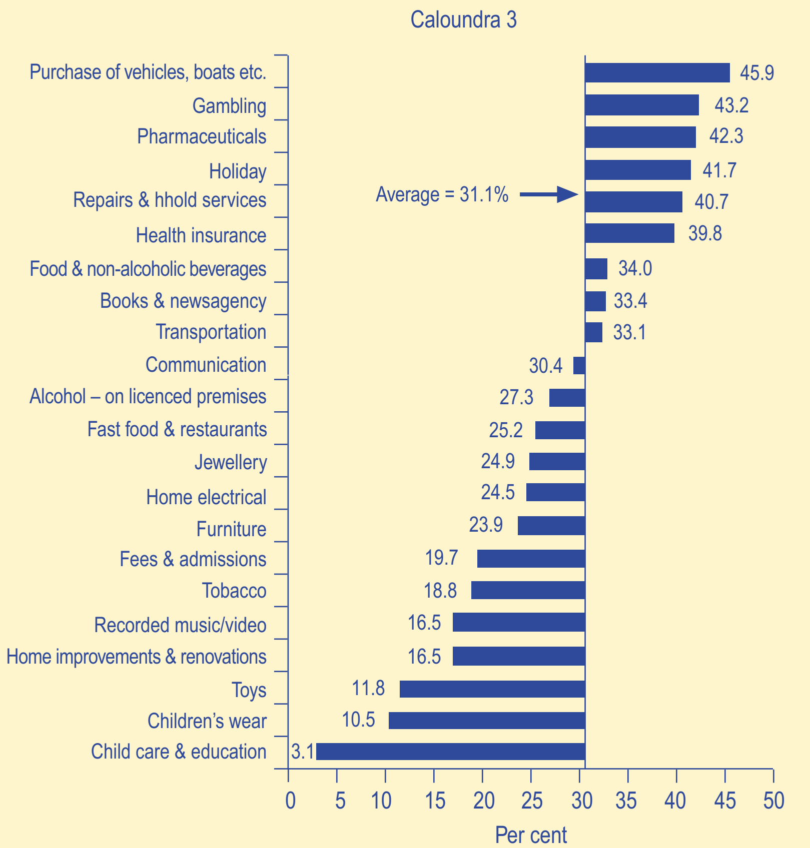
Figure 38. Household spending shares by those aged 55+ in 1999

Note: The share of total household spending on selected consumption groups by households with a 'reference person' aged 55+ in 1999.

Source: Access Economics.

A not dissimilar pattern is evident in the spending of the over 65s. This group accounts for a marked 31 per cent of all household spending by residents of Caloundra (Figure 39).

Figure 39. Household spending shares by those aged 65+ in 1999



Note: The share of total household spending on selected consumption groups by households with a 'reference person' aged 65+ in 1999.

Source: Access Economics.

Mature consumers already dominate the retail market in south Caloundra. That dominance can only rise further in the years ahead, as the region's lifestyle/climate advantages tempt more retirees to the Sunshine Coast. If they have not already realised it, Sunshine Coast organisations need to get ahead of galloping demographic trends. More than for almost any other region in Australia, demographics already matter in south Caloundra.

The region provides a useful case study of the demands on organisations that much of the rest of the nation will face in coming decades.

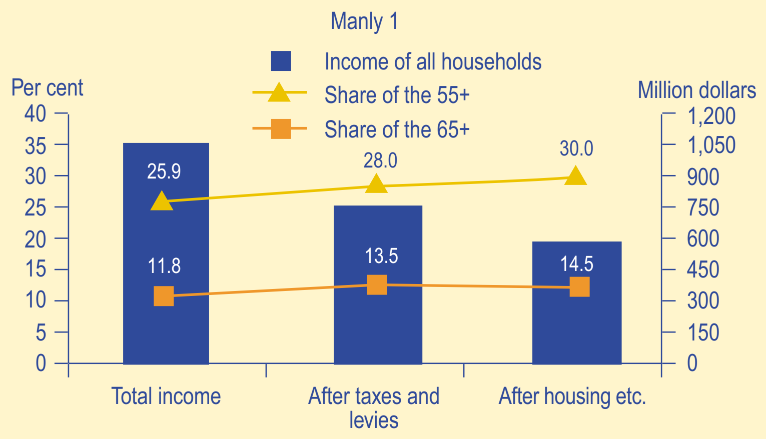
3.3.4. Manly

'Seven miles from Sydney, and a thousand miles from care', Manly's beach, Corso and Wharf have long been Sydney icons. A cosmopolitan community, well served with restaurants as well as transport links to the CBD (a 12 minute JetCat ride to Circular Quay), Manly's population has grown relatively slowly.

Most population gains have been linked to the introduction of high rise to the district. The last year has seen several new high rise developments and redevelopments, catering to twin markets – the twenty somethings who enjoy an apartment lifestyle, good restaurants and the easy commute to work, and the mature aged, who appreciate Manly's excellent shopping, the quality of the available housing, and the very good public transport links.

Australia-wide the over 65s account for 12.1 per cent of the population. In Manly the over 65s make up an above-average 15.8 per cent of the population. That is, for example, only half of the proportion of over 65s in south Caloundra. However, recent development activity suggests that Manly's ratio of over 65s will grow rapidly. Even before that growth kicks in, mature consumers more than pull their weight in household spending by Manly residents. Nationally, mature consumers (the over 55s) account for 21 per cent of Australia's population, and 25 per cent of all disposable income available for consumption.

Figure 40. Share of 1999 income attributable to different age groups

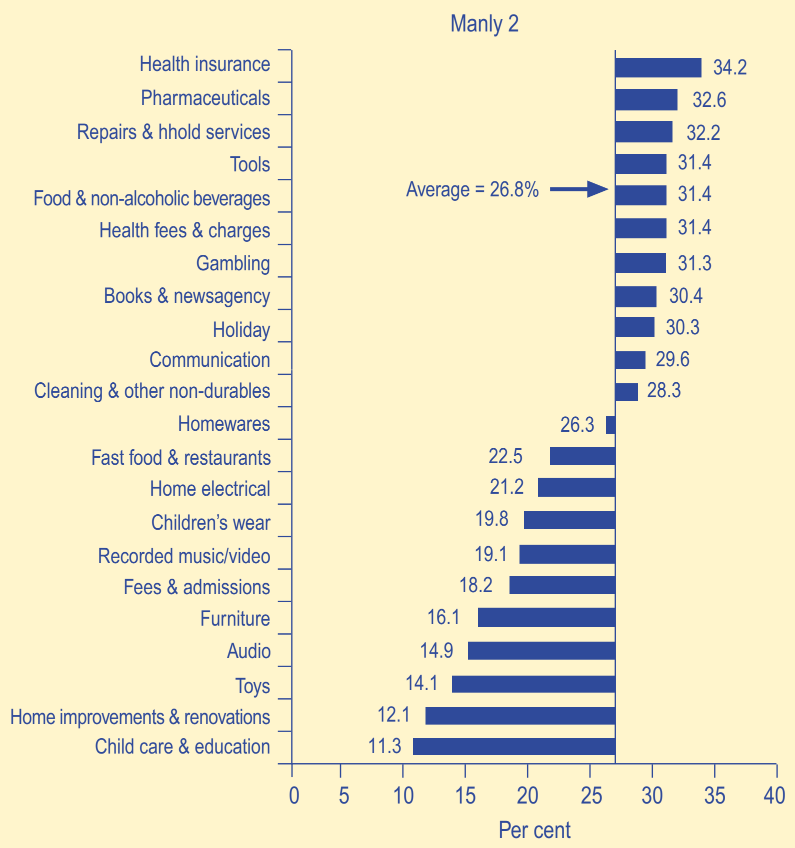


Note: 1999 household income before and after taxes, levies, housing and other non-consumption expenditure. Totals are for all households and for the share of households with a 'reference person' aged 55+ and 65+ in 1999 (expressed in 1998–99 dollars). 'After housing etc.' refers to household income after payment of housing (rents, mortgage payments, maintenance, rates, utilities), interest payments, superannuation contributions and life insurance.

In Manly, mature consumers account for 24 per cent of the region's population (16 per cent for the over 65s), and 30 per cent of all disposable income available for consumption – see Figure 40 (with the share of the over 65s at 15 per cent).

Spending by mature consumers also looms larger in Manly (Figure 41) than it does nationally (compare to Figure 27 earlier). Spending by over 55s accounts for 27 per cent of all spending by residents of Manly, but 23 per cent nationally.

Figure 41. Household spending shares by those aged 55+ in 1999



Note: The share of total household spending on selected consumption groups by households with a 'reference person' aged 55+ in 1999.

Source: Access Economics.

Despite its reputation as a recreational playground, Manly's over 55s display rather more restraint in their vices than is evident nationally. For example, Manly's over 55s spend rather less on gambling than their national counterparts, despite accounting for a larger share of the population base. By contrast, they spend relatively rather more on the likes of child care, education, and children's wear – and holidays as well, perhaps confident in Bob Fulton's judgement that Manly is 'God's own country' anyway, reducing the need to go elsewhere.

A not dissimilar pattern is evident in the spending of the over 65s. This group accounts for 14 per cent of all household spending by residents of Manly (Figure 42).

Figure 42. Household spending shares by those aged 65+ in 1999

Note: The share of total household spending on selected consumption groups by households with a 'reference person' aged 65+ in 1999.

Source: Access Economics.

Manly's age profile is not atypical of Australia as a whole today. Its mature age consumers already feature prominently in local retail markets (though apparently a little more at Warringah Mall than Harbord Diggers), but are expected to account for a rapidly rising share of retail spending growth in the coming decade. They already account for 27 per cent of household spending by Manly residents, and are expected to provide half or more of future growth in retail spending.

Glossary

GDP	Gross Domestic Product
MFP	Multi-factor productivity
OECD	Organisation for Economic Co-operation and Development
PPP	Purchaser Price Parity

Endnotes

[1] National Strategy for an Ageing Australia: Employment for Mature Age Workers Issues Paper, November 1999.

[2] Peter McDonald and Rebecca Kippen, Ageing: The Social and Demographic Dimensions, Productivity Commission and the Melbourne Institute of Applied Economic and Social Research Conference, March 1999.

[3] OECD Social Policy Studies No.20, Ageing in OECD Countries: A Critical Policy Challenge. pp.3.

[4] Ibid pp.17–23, 67.

[5] Dean Parham: A More Productive Australian Economy, Agenda Vol.7, pp.3–16, November 2000.

[6] Ibid.

[7] Ibid.

[8] AABS Cat.No.52090 plus unpublished ABS data.

[9] Microeconomic Reform, Presentation to House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, The Treasury, September 1996.

[10] OECD 2000. Recent Growth Trends in OECD Countries pp.173–176.

[11] Ibid.

[12] National Strategy for an Ageing Australia: Independence and Self Provision Discussion Paper, November 1999, p.17.

[13] Ibid.

[14] Department of Health and Aged Care, Occasional Papers: New Series No.10 Ageing Gracefully: An Overview of the Economic Implications of Australia's Ageing Population Profile, 2000, p.22.

[15] Australian Institute of Health and Welfare, Australia's Health 2000, p.316.

[16] House of Representative Inquiry into Issues Specific to Workers Over 45 years of Age Seeking Employment, or Establishing a Business Following Unemployment, August 2000.

[17] Ibid.

[18] Participation Support for a more Equitable Society: Reference Group on Welfare Reform, July 2000.

[19] Churnover is measured as the ratio of job turnover to net job generation. For example, a value of 3 indicates that for every new job created, 3 people have changed or lost their job.

[20] For example, EPAC 1994 at p. 36 notes it 'does not take into account the possibility of faster growth in per capita health care expenditure associated with rising incomes, which has been a long term trend independent of changes in the demographic structure.' RIM 1998 at pp. 14–15 provides a similar estimate to that of Access, assuming an additional 2 per cent a year for price/quality. RIM notes that is in line with 'the trend rate over the 10 years to 1994' *after* allowing for ageing. However, the RIM paper focuses on a result obtained using a 1 per cent price/quality effect, and the latter is also the RIM result quoted by the OECD.

[21] The comparison is much the same if underlying rather than headline CPI is used.

[22] As measured by households headed by over 55s.

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