

**Speech by the Hon. Kevin Andrews MP
Minister for Ageing
Towards Opportunity And Prosperity Conference
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Theme of session:

As the baby boomer generation enters its retirement years, will an ageing population impose an insufferable burden on the next generation of taxpayers? What policy responses should be taken now? How can the elderly participate more in society and the economy? What is the next phase of reform for superannuation and retirement income policy?

Introduction

I am pleased to participate in this landmark event to discuss the future of Australian society, including the issues surrounding ageing.

As the inaugural Federal Minister for Ageing, I am keen to implement a partnership approach to the many complex issues surrounding the ageing of our population.

Part of my charter is to develop, in conjunction with portfolio ministers, a whole of government approach to ageing.

As part of this partnership approach, we are looking to work cooperatively with State, Territory and local governments, together with business, the professions and academia, in moving this agenda forward.

The issues surrounding ageing are complex and far-reaching in their impacts on our society.

If we are to best meet the challenges and gain from the opportunities associated with ageing, we will require every element of society — but especially older Australians, business, academia and community groups — to reflect on the challenges and opportunities and work cooperatively with us on initiatives to address them.

MAJOR DEMOGRAPHIC CHANGE

Over the past century, Australians have received an extra 20 years of healthy life, with our average life-expectancy increasing from around 55 years for people born in 1901, to over 75 years for people born now.

As you know, there have also been social changes so great that successive generations have developed distinct characteristics, influenced by the specific challenges each generation has faced.

My parents' generation was strongly affected by the Depression and the World Wars, so they tend to have a strong sense of patriotism and loyalty, and also a sense of obligation to help others in need.

They have sought security by populating the nation, establishing industries to provide jobs and services, and maintaining strong family ties.

They have placed significant emphasis on establishing security and passing on the fruits of their efforts to their children.

I am squarely in the baby-boomer group.

My generation is well known for being influenced by material prosperity in a rapidly growing nation, having expanding educational opportunities, and rising individualism.

My children's generation is different again.

They have been born into an era of rapid change and technological advancement.

They are well educated and have been encouraged to find personal fulfilment.

Now our nation faces a further challenge — unprecedented ageing of the population and below replacement levels of fertility, in the first half of the 21st century.

There will be significant changes in all aspects of social and economic life, as the proportion of older people in the community increases.

The simple fact is that the proportion of the population aged over 65 will increase from 12 percent of the population in 2001, up to around 18 percent of the population in 20 years time, and 26 per cent in 50 years.

The fastest growing group in the Australian population comprises our citizens aged 80 and over.

This group is projected to almost double in size over the next 20 years, and to triple in size over the next 50 years, to reach more than 9 per cent of the population or 2.3 million people.

The New Portfolio of Ageing

Our new portfolio of Ageing reflects the Federal Government's belief that all Australians should be supported to age positively, and that older Australians should be supported across all aspects of their lives.

I want to talk briefly about two issues relating to our rapidly ageing population and its effect on Australia's prosperity, being:

- ❖ mature age employment and life participation;
- ❖ and retirement incomes and mature age expenditure.

MAJOR ISSUES FOR PROSPERITY

Mature age employment and life participation

There are currently 170,000 new entrants to the workforce each year, yet Access Economics has forecast this will drop to only 125,000 new entrants for the entire decade of the 2020s.

That means, in the 10 years from 2020 to 2030, there will be fewer new entrants to the workforce than currently enter in one year.

The impact of these changes will begin to be felt from as early as this year, when the first baby boomers turn 55.

Further change will occur after 2010 when the number of people reaching 55 will be the same as the number turning 15 years of age.

Thereafter the gap begins to widen, with many more people turning 55, and possibly leaving the workforce, than those turning 15 and possibly entering it.

This is a massive re-orientation of our employment market, and sends a strong signal to employers that they will have to respond to a very different employment environment over the next 20 years.

It presents an opportunity — indeed a vital need — to make use of the skills and attributes of mature age workers and to ensure the workforce reflects its ageing customer base.

Research by the Australian Employers Convention indicates that older workers tend to be concentrated in the more traditional employment sectors, and will need to become more strongly represented in growth industries.

This also represents a significant shift for both workers and employers, but one that will have to occur if Australia is to access an adequate supply of labour and skills into the future.

On the positive side, Access Economics has also estimated that an increase in workforce participation of 10 percentage points by Australians aged 55 to 70, would largely cancel out any extra costs from an ageing population.

Many people already work well into their 60s and 70s.

My own mother continued to transport livestock until her mid-60s and still runs a small farm in her 70s.

I believe the continued participation of mature age workers in the workforce is an imperative that governments, business and the community must all address.

The Government has taken the lead in this area by amending legislation and introducing changes to accepted employment practices.

We are developing a Mature Age Workers Strategy and the Attorney-General will also be introducing age discrimination legislation, to address this impediment to the participation of older workers in our workforce.

Retirement income systems and mature age expenditure

Let me turn to retirement income.

Australia's retirement income system supports its older citizens through a mix of public pensions, superannuation and voluntary savings.

I am encouraged that the World Bank regards our 'three-pillar' system as a model for other countries without an established retirement income system.

Decisions on the future levels of public pensions, and the capacity to collect taxation revenue to support these payments, will be an ongoing issue for all governments.

Nevertheless, Australia's strong record of economic growth and economic fundamentals, combined with our sound retirement incomes system and continued careful economic management, means that an older population is not expected to be a burden on the community.

Current projections indicate that pension outlays as a proportion of Gross Domestic Product are expected to grow by 1.6 percentage points to 4.6 per cent of GDP in 2050.

This is one of the lowest rises predicted for OECD member countries, and compares with the projected 3.4 percentage points average rise to 10.8 per cent of GDP for other OECD countries.

Even so, it is clear that regardless of future economic growth, Australia will benefit from increased self-provision in retirement incomes.

As I have indicated already, our current group of older Australians is supported by superannuation and personal savings, or has the old age pension as a safety net.

This will also be the case for the older baby boomers, although the younger baby boomers still have time to save for their later years.

The age groups younger than the baby boomers have the best opportunity to have a comfortable retirement by building up superannuation and private savings.

As a society, we have an opportunity to increase our future prosperity by encouraging these younger groups to into financial self-reliance.

It is therefore important that action occurs on three fronts:

- ❖ Firstly, working towards ensuring that the social security, employment, taxation and health and aged care systems provide a consistent message about the desirability of, and support for, private savings as a major part of retirement income;
- ❖ Continuing to educate the community on the benefits of building their own resources through superannuation or other savings and investment options to support a higher standard of retirement living;
- ❖ And ensuring that information is available, and mechanisms are in place, to support secure management of retirement assets by individuals and financial institutions over the longer term.

Financial planning will be a key issue for greater numbers of Australians across all age groups, particularly as people will require an adequate retirement income for a longer period of time.

While it is never too late or too early to start saving to fund one's retirement, the key message is that planning and commitment is required to set aside money to generate financial gains for later use.

In addition to financial planning, it will become increasingly important for people to plan how they spend their extended retirement period — and this could be up to 30 years.

There is likely to be growing demand from mature age workers for flexible work arrangements.

The increasing numbers, diversity, resources and needs of older Australians will also drive consumer demand for a different range of goods and services.

Businesses that recognise the changing nature of the market and act on these trends are likely to benefit accordingly.

For example:

- ❖ 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 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;

- ❖ 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;
- ❖ and mature customers are likely to be more comfortable being served by mature age workers.

To be successful in this ‘silver’ market, retail and service businesses will need to ensure their products and technology are wanted by older consumers.

The ‘silver’ market of mature consumers is expected to grow by 61 per cent over the next 10 years across the board, which is double the national average, even after allowing for inflation.

People currently aged over 55 account for 21 per cent of Australia’s population, but are part of households that own 39 per cent of the nation’s household wealth, and account for 25 per cent of all disposable income.

Baby boomers are expected to demand higher standards of living in retirement.

They are likely to have greater spending capacity on entering old age than the current generation.

But there is diversity in the spread of this wealth because not all the baby boomers will be wealthy as they grow older, or manage their savings or inherited wealth to maximise their total retirement income.

Individuals' wealth will also be affected by changing family relationships and social issues such as rising divorce rates, people remaining single, never having children and higher mobility.

Indeed, the delay in family formation can have a pincer effect on individuals who face the twin constraints of dependant children and ageing parents.

On the issue of health costs, my Department has estimated that if we overlay the expected demographic composition of Australia in 2051 on today's Australia, then we would need to be finding an extra \$17 billion now to maintain the same level and quality of Medicare, pharmaceutical benefits and hospital or acute care services.¹

This is a substantial increase on what we currently spend, but as I said before, an increasingly older population is not expected to be a financial burden on the community.

¹ Occasional Papers No 7: The Ageing Australian Population and Future Health Costs: 1996-2051, Department of Health And Aged Care, Canberra, 1999

Nevertheless, we will be monitoring the cost issue closely, especially given that 17% of the population aged 80 and over is currently in residential care.

THE NATIONAL STRATEGY FOR AN AGEING AUSTRALIA

There is no doubt that population ageing has many implications for individuals, families, communities, business and governments.

That is why the Federal Government has developed a National Strategy for an Ageing Australia, which I recently released.

The Strategy is based on a number of principles.

- ❖ The ageing of the Australian population is a significant common element to be addressed by governments, business and the community.
- ❖ All Australians, regardless of age, should have access to appropriate employment, learning, housing, transport, cultural and recreational opportunities.
- ❖ They should also have access to care services appropriate to their needs.

- ❖ Both public and private contributions are required to meet the needs and aspirations of older Australians.
- ❖ And a strong evidence base should inform the policy responses to population ageing.

This Strategy provides the framework in which we can move forward positively, to address the issues surrounding ageing that affect current and future older Australians.

CONCLUSION

Australia has a great capacity to respond positively to change.

We have been successful in reforming institutions to meet new needs while retaining the institutions and practices which continue to serve the best interests of the country.

If we take early and strategic action to respond to population ageing now, we will be in a strong position to meet the challenges, make the most of the opportunities presented by an ageing Australia, and continue our prosperity.

Hence, we can ensure that, as they enter retirement years, baby boomers will not impose an insufferable burden on the next generation of Australians.

Together, we have an opportunity to lay the foundations that will support older Australians in our community, as we move through the remarkable demographic changes expected over the next decades.

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