

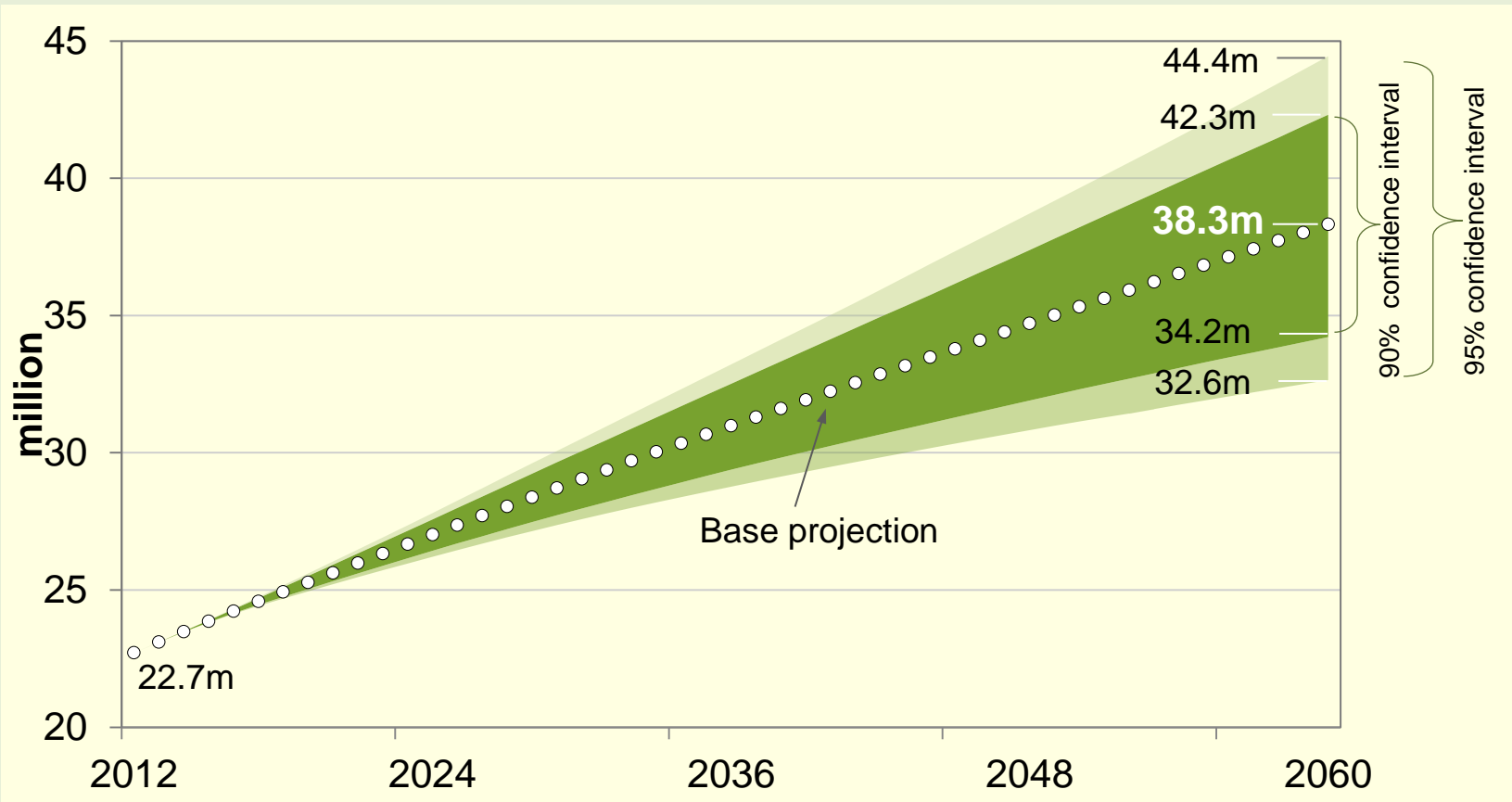
An Ageing Australia: Preparing for the Future

Mike Woods

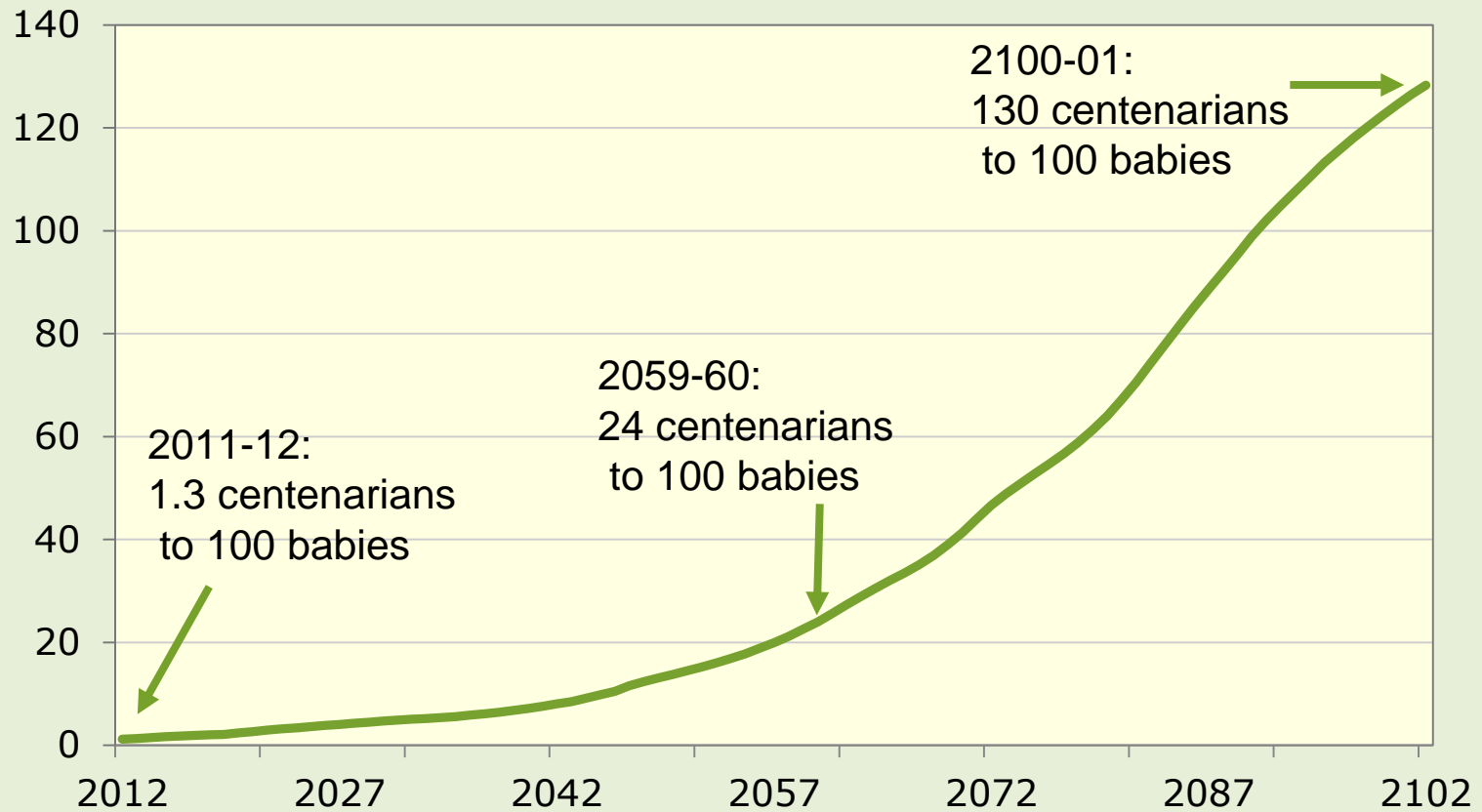
**Deputy Chairman, Productivity
Commission**

COTA National Policy Forum

The population will grow strongly...



But it will age



Ageing will reduce labour supply

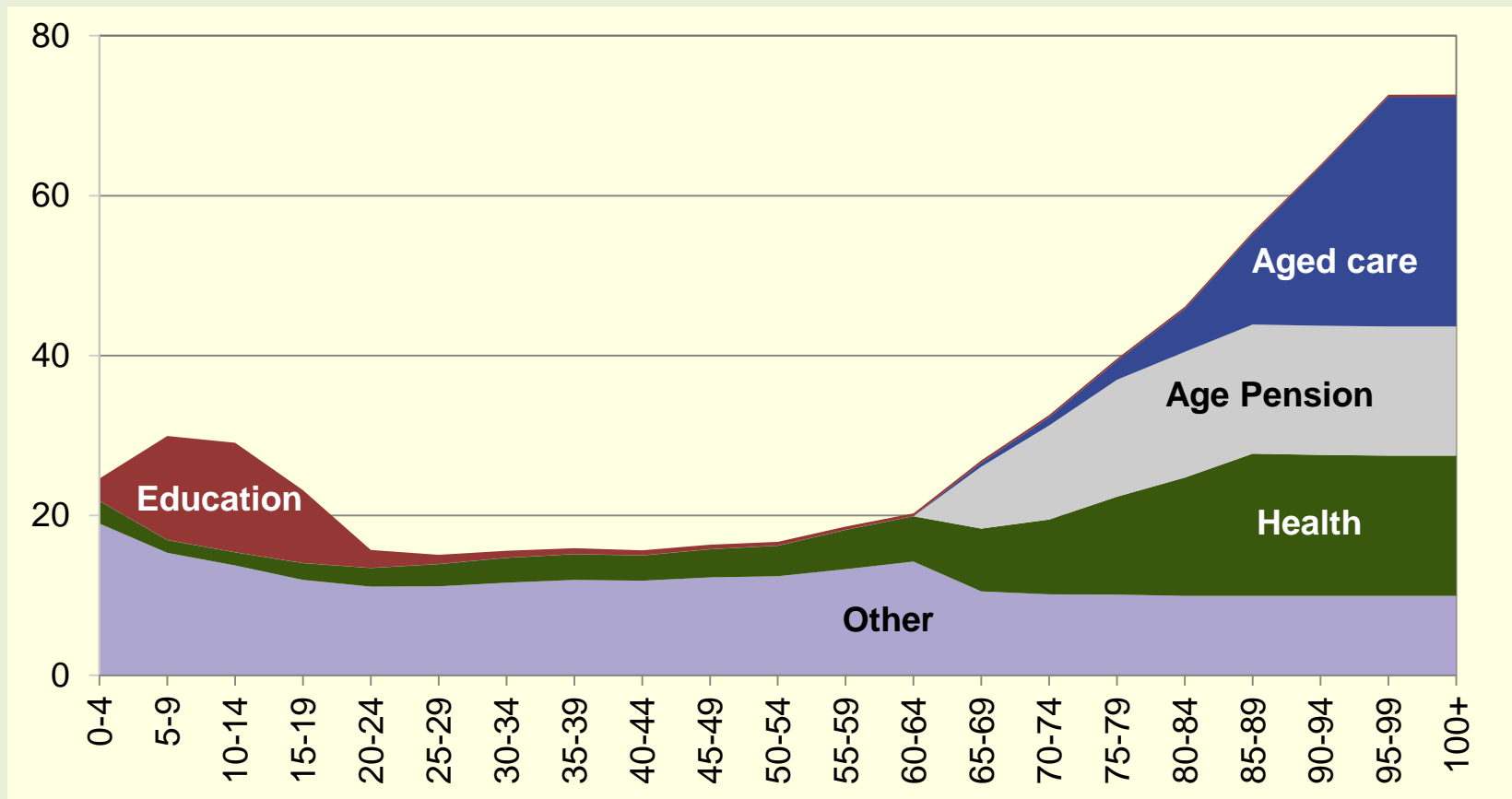


An age of diminished expectations

Real net disposable income growth will fall from current levels



Current expenditures are weighted towards older Australians (2011-12)



Australian Government fiscal pressure (per cent of GDP)

	2011-12	2049-50	2059-60	Difference between 2011-12 and 2059-60 (fiscal pressure)
	%	%	%	Percentage points
Health	4.1	6.4	7.0	2.9
Age Pension	2.7	3.7	3.7	1.0
Aged care	0.8	2.2	2.6	1.8
Education	1.9	1.7	1.7	-0.2
Disability support services	0.3	0.6	0.6	0.3
Disability support pension	1.0	1.0	1.0	0.1
Family Tax Benefit (A & B)	1.4	0.7	0.6	-0.7
Parenting Payment	0.3	0.3	0.3	0.0
Other social security & welfare payments	2.1	2.2	2.2	0.1
Defence & other expenditures	6.1	5.4	5.4	-0.7
Total	20.7	24.2	25.1	4.5

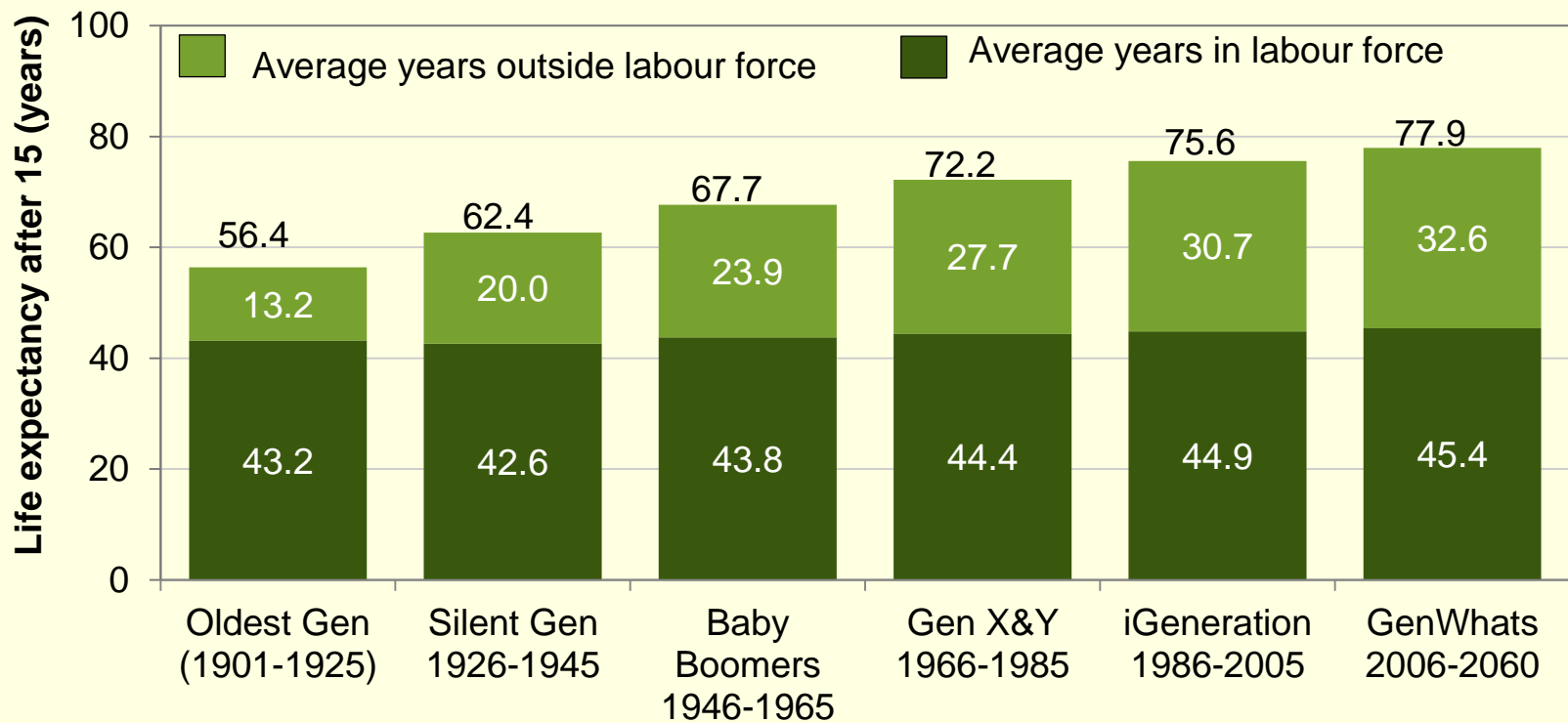
Policy responses

Addressing the fiscal gap

- The fiscal gap must be addressed through
 - *Reducing public expenditure (but do not neglect innovative private co-contributions as an option for this)*
 - *Increasing taxation*
 - *Some hybrid of the two*
- Privatising assets may be desirable on efficiency grounds, but it is not a long term strategy
- Options canvassed include:
 - *Changes that stimulate labour force participation rates of older people and reduce government outlays*
 - *Examining new ways to help fund government-provided services*
 - *Productivity reforms in health care*

Mismatch between life expectancy and retirement policy

People are living longer, but not increasing the time spent in the workforce



Rounding errors means numbers may not exactly sum

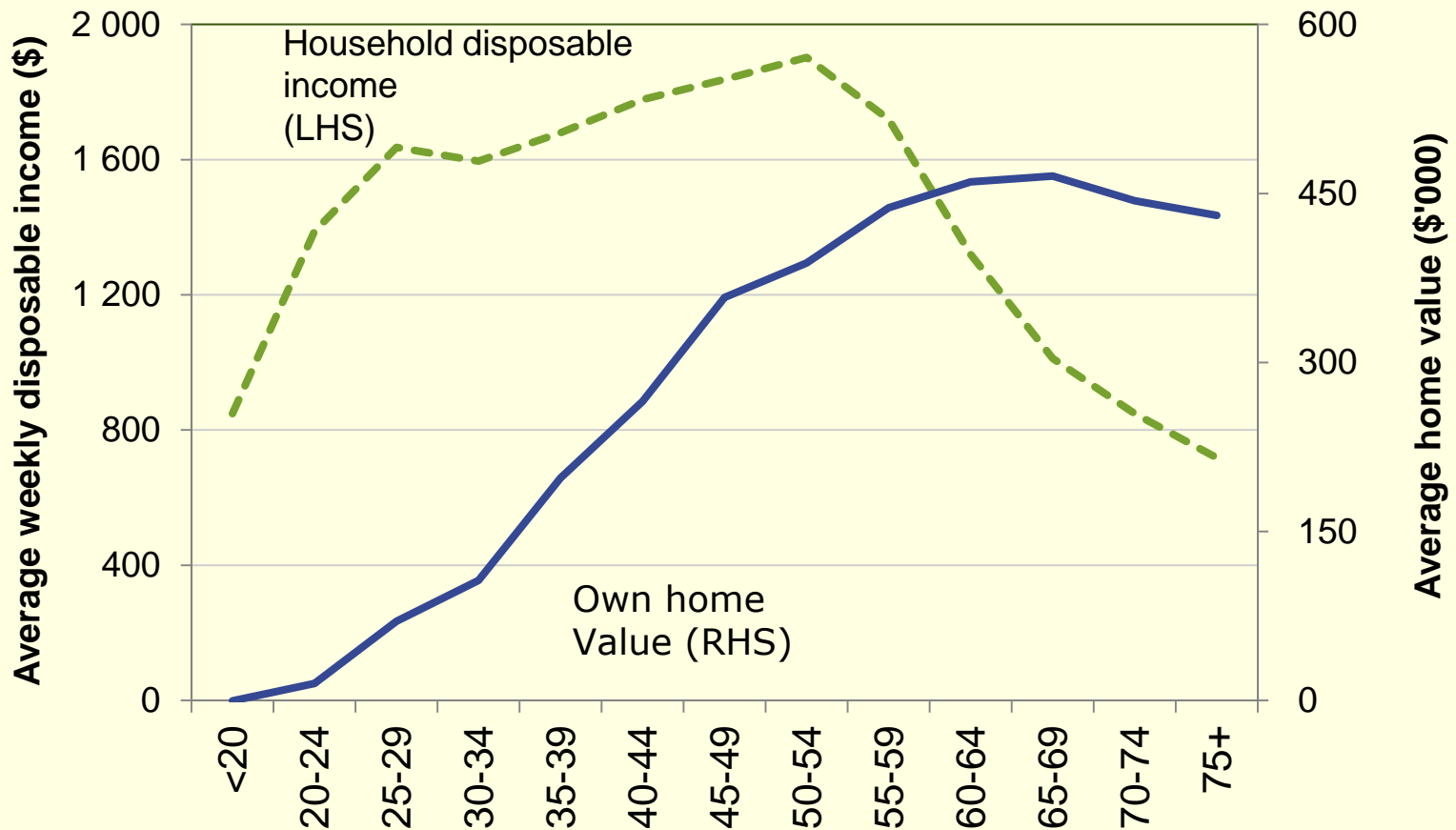
Increasing the eligibility age will have a fiscal and labour market impacts

- Increasing the eligibility age to 70 would defer retirement, increase participation, and stimulate private savings
 - *increase participation rates for people in the relevant ages by around 3–10 per cent (after taking into account DSP takeup)*
- There would be fiscal savings
 - *Ongoing fiscal savings of between 0.1 and 0.15 per cent of GDP per annum from 2035*
 - *\$150 billion (2011-12 prices) in net fiscal savings from 2012-13 to 2059-60*
- Signalling effect could be important too

Wider applicability to the retirement income system

- The eligibility age is only one mechanism that influences the period of time receiving the Age Pension
- Strong linkages between the Age Pension and the superannuation system
- The issues raised by growing longevity should be considered for the whole retirement income system

Older Australians are often income poor, but asset rich (2009-10)



Equity release schemes could help households fund co-contributions

- Already in use to help households pay their council rates
 - *Also for Age Pension under certain conditions*
- Effects could be significant
 - *Contribution of half the annual real increase in home values towards aged care services could reduce government expenditures by around 30 per cent*
 - *This would still leave older households with an appreciating asset base*

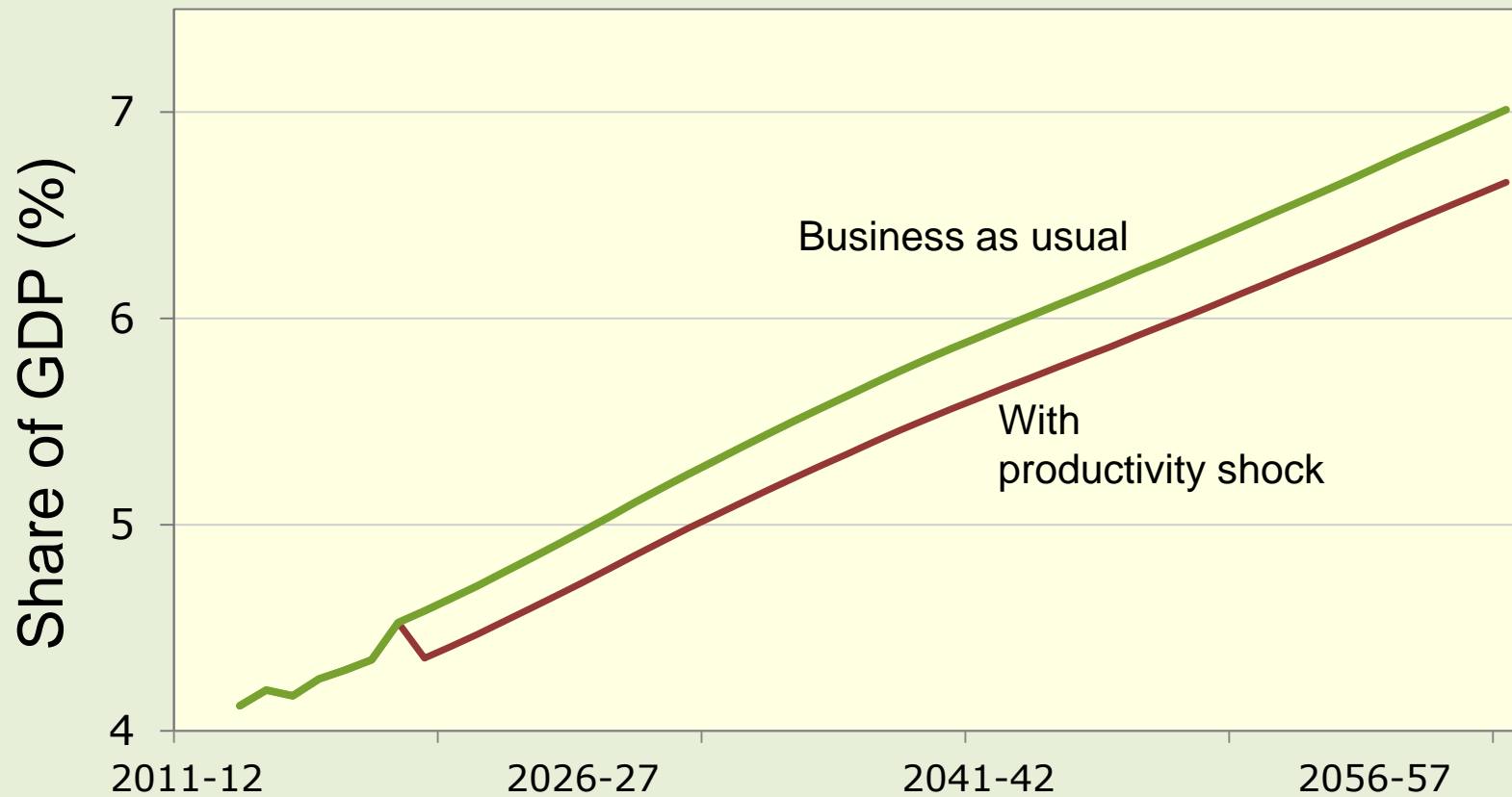
A scheme designed for aged care

- The Commission's *Caring for Older Australians* report proposed an equity release scheme
 - *Allows eligible individuals to access equity in their home to pay for aged care services*
 - *Scope for use for both community and residential care services*
 - *Provides for better consumer directed care*
 - *Avoids the 'forced' sale of the family home*

Productivity and costs in the health sector

- Area of largest fiscal pressure
- Significant variations in the productivity of different health service providers
- Potential areas for reforms include:
 - *Organisation efficiencies - 'lean' care models*
 - *Sharper incentives*
 - *Diffusion and adoption of leading practice, cost effective technologies and clinical practice: 'Do not do' lists*
 - *Workforce reform*
 - *Efficient procurement*
 - *Preventative health (though needs to be realistic)*

Potential savings



Planning for the future

- Population ageing is a desirable side product of success
- However, it entails major economic and social transformation
 - *Current fiscal pressures, falling terms of trade and weak productivity trends*
- The preferable time to contemplate the policy implications of these developments is while these near-inescapable trends are still in their infancy

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