

CEDA

ECONOMIC DEVELOPMENT

**Australia's Ageing
Population:
How Are We Preparing?**



Strategic Issues Forum

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Australia's Ageing Population: How Are We Preparing?

1. Introduction: Demographic Trends and Implications

The ageing of the Australian population projected to occur over the next few decades was identified by SIF members as an issue for CEDA to address, with the objective of recommending policy options to Federal and State Governments and to identify business opportunities for the private sector. The issue has been receiving considerable attention recently and this paper has drawn on research already completed by various Government and independent bodies, with population projections based primarily on those compiled by the Australian Bureau of Statistics.

Planning for the inevitable occurrence of an increasingly ageing population is vital for our society in order to prepare for the likely economic and social consequences of this demographic trend.

Since Australia's Federation in 1901, there has been a gradual ageing accompanied by a decline in population growth. This ageing process, which is anticipated to accelerate early in the next century, has been a consequence of both increased life expectancy and declining fertility rates.

Projections for the age structure of the Australian population up to the year 2031 are outlined below, followed by a summary of their implications, which are examined in more detail in later sections.

This publication does not claim to or cannot hope to cover all issues relating to the ageing of our population. Instead its objective is to take stock of the major issues and provide an overview, with supporting papers, to enhance the general awareness of these issues. It also identifies general areas for action and makes broad recommendations on policy options.

The paper is structured in such a way that it provides an overview of factors determining our population growth and a breakdown of projections by State and age group. It then comments on the workforce and revenue side of the issue before moving to the social services and cost side.

2. *Factors Determining Population Growth*

In the first half of this century, mortality levels declined dramatically, with life expectancy at birth rising from 55 to 66 years for men and from 59 to 71 years for women. Since 1950, life expectancy has continued to increase, although at a much slower pace, to 73.1 and 79.5 years for men and women respectively by 1988.¹ These substantial changes reflect particularly the marked improvement in mortality rates for infants, children and women of child bearing age, although in recent decades mortality decline at older ages has been the predominantly influential factor.

The decline in fertility rates in Australia since the beginning of this century has been equally as dramatic as the increase in life expectancy. This trend has been much less consistent however, being marked by considerable fluctuations, ie. the decline in the number of births during the depression of the 1930s and the contrasting post-war "baby boom". From 1961, the year of the highest fertility rate since the Second World War, the total fertility rate declined overall from 3.55 children per woman to only 1.84 in 1988² and although future trends are difficult to accurately predict, could continue to fall below this level.

Recent trends have been significantly affected by economic and social changes. Over the last twenty years this has resulted in women pursuing higher levels of education and increasing their participation in the workforce. These changes, combined with further likely declines in marriage rates³, relatively high divorce rates (10.8 per 1,000 of the married population in 1988)⁴, and an increasing number of women choosing to remain childless, indicate that a reversal in recent fertility rate trends is unlikely over the next few decades.

Net migration is the third determinant influencing the rate of growth of the Australian population, accounting for approximately 40% of population increase since World War II. Additionally, the large numbers of young working age immigrants over this period resulted in a more youthful Australian population than would have been achieved by natural determinants only. Annual levels of net migration have fluctuated widely over the last few decades, but due to declining fertility rates, net migration in 1987/88 and 1988/89 actually contributed more to Australia's population growth than natural increase. If fertility rates continue at current levels, without increase

from migration, the population would eventually begin to decline by the 2020s.⁵

3. *Age Structure of the Population*

In 1901, only 4% of Australia's population were aged over 65 years, whilst 35% were aged under 15 years. By 1988, the percentage aged over 65 years had increased to 11% and the percentage aged below 15 had declined to 22.3%. These trends are projected to continue, as shown in Table 1 on the following page.

The above figures are based on projections prepared by the Australian Bureau of Statistics, applying the assumptions of a continuation in the current levels of net migration and the gradual decline in mortality rates, with a variable in total fertility rates, ie. low level assuming a decline to 1.6 children per woman by 1996 and constant to the year 2031 (Rate A), or a higher level assuming a decline to 1.8 children per woman by 2005 and constant thereafter (Rate B).

Based on the above assumptions, under the higher fertility variant, Australia's annual population growth rate between 1989 and 1996 is projected to be 1.6%, declining to 1.1% for the period 1996 to 2021, and falling to only 0.8% from 2021 to 2031. Should lower birth rates and cuts in migration levels eventuate over the projection period, population growth would decrease and the ageing process would become more rapid.

The main feature of the changing age structure of the population is the large increase expected in the percentage aged over 65 years. Projected to rise from 10.7% in 1987 to about 12% in 2001, this age group would reflect an even more rapid increase between 2011 and 2021 when those born during the "baby boom" years reach 65 years and over. From 16% - 18% in 2021, this percentage of the population would continue to rise to between 19% and 21% by 2031.

Overall however, apart from the decade between 2011 and 2021 when the 65 and over age group will show the most marked increase, the population aged 80 and over is expected to grow at the fastest rate, from 2% in 1987 to between 4.9% and 5.7% in 2031. The last decade of the projection period will reflect

Table 1: Population of Australia 1901-2031

Year	Aged 0-14 (%)	Aged 15-64 (%)	Aged 65+ (%)	Aged 75+ (%)	Total (min)
1901	35.2	60.8	4.0	1.0	3.79
1933	27.5	66.0	6.5	1.7	6.63
1961	30.2	61.3	8.5	2.8	10.51
1988	22.3	66.8	10.9	4.2	16.54
2001	20-21	67-68	11-12	5.4-5.5	19.7-20.0
2021	17-18	66-67	16-17	6.5-6.8	23.7-24.7
2031	16-18	63-64	19-20	8.6-9.2	25.2-26.8

Source: ABS Census Data Cat. Nos. 3101.0 and 3222.0

Table 2: Australia's Population - States and Territories

	Aged 0-14 (%)	Aged 15-64 (%)	Aged 65+ (%)	Aged 75+ (%)	Total ('000)
1988					
NSW	22.1	66.5	11.4	4.3	5,701.5
Vic	21.7	67.3	11.0	4.4	4,261.9
Qld	23.2	66.1	10.7	4.1	2,743.8
WA	23.4	67.2	9.4	3.7	1,544.8
SA	21.0	66.8	12.2	4.8	1,408.3
Tas	23.4	65.2	11.4	4.4	448.5
ACT	24.4	70.1	5.5	1.8	273.5
NT	28.5	68.8	2.7	0.7	155.9
2031					
NSW	17.6 (-4.5)	63.4 (-3.1)	19.0 (+7.6)	8.7 (+4.4)	8,724.6
Vic	17.0 (-4.7)	63.9 (-3.4)	19.1 (+8.1)	8.7 (+4.3)	6,437.5
Qld	17.8 (-5.4)	63.5 (-2.6)	18.7 (+8.0)	8.7 (+4.6)	4,984.7
WA	18.6 (-4.8)	64.0 (-3.2)	17.4 (+8.0)	7.7 (+4.0)	3,308.6
SA	16.4 (-4.6)	62.2 (-4.6)	21.4 (+9.2)	9.9 (+5.1)	1,901.3
Tas	17.2 (-6.2)	62.0 (-3.2)	20.8 (+9.4)	9.5 (+5.1)	583.0
ACT	17.8 (-6.6)	65.5 (-4.6)	16.7 (+11.2)	8.3 (+6.5)	437.1
NT	22.6 (-5.9)	65.9 (-2.9)	11.5 (+8.8)	4.8 (+4.1)	390.3

Source: ABS Census Data Cat. Nos. 3101.0 and 3222.0
(Assuming a fertility rate of 1.8 children per woman by 2005).

the steep rise in this proportion of the population when the "baby boomers" reach this age group.

In contrast to these patterns in growth for older age groups, the percentage of the population aged under 15 years is projected to decrease consistently over the projection period, while the proportion aged between 15 and 64 years would initially rise and then begin to decline after 2010.

Of particular interest in highlighting the change in the Australian population's age structure is that the median age of the population has risen steadily from 22.5 years in 1901 to 31.3 years in 1987, but is projected to rapidly increase to between 40.4 and 42.5 years by 2031.

The table opposite shows a further breakdown of projected changes in the age structure of Australia's population, by States and Territories.

The composition of the population of working age is projected to alter considerably over the next few decades, with the proportion aged over 40 years expected to increase from 39% in 1988 to approximately 50% by 2021, whilst the percentage aged 55 to 64 years is projected to rise from 13.3% in 1988 to 18.7% by 2021. The overall percentage of the Australian population made up of the working age group is not anticipated to vary substantially from its level of 66.6% in 1987, with a projected figure of 64% by 2031. Should the net migration levels be lowered to a constant of 80,000 per year by 1997/98, the population of working age will decline by a further 1.3% between 2021 and 2031.⁶

If the trend towards earlier retirement that has emerged since the mid 1960s continues, this could have a significant impact on an ageing workforce in terms of contribution to the support of a growing dependent population and possible shortages of labour. This issue will be further examined in the next section.

To begin to assess the implications of an ageing population on the workforce, the dependency ratio is of particular interest. This ratio is a measure of the number of children (0-14) and elderly (65+) relative to those of working age.

Since the beginning of this century, the dependency ratio has fallen from 64% to 50.1% in 1987, however the structure of the dependent population has

altered, with the proportion of young dependents declining from 58% to 34% and that of elderly dependents increasing from 7% to 16.1%. This trend is projected to continue, as shown in Table 3, and is significant as per capita public expenditure for elderly dependents is 2.5 times the amount required for those aged under 15 years.⁷

4. The Effects on the Australian Workforce

The current bulge of 10 to 39 year olds will actually boost the numbers of the working age and child-bearing population in Australia in the next couple of decades. Over the next 30 years Australia will have a higher proportion of working age people than that experienced in the post-war years. If all else remains equal, the 15 to 64 year old group will remain above the 1981 levels until the year 2021 and above the 1986 level until the year 2046. While most European countries expect a decline in their labour force, Australia will experience a growing labour force. It is interesting to note that if current levels of immigration are maintained, this could result in an over supply of labour and force marginal workers out of the workplace.

The proportion of the youngest age group in the working population has been falling since the 1970s and this trend is predicted to continue. In 1986 they accounted for 25% of the working population but are expected to fall to 21% by the year 2010 and 20% by the year 2025. This will have interesting repercussions because even though the significant ageing of the population will occur after the year 2010, the ageing of the working population will begin much earlier, starting in the mid 1990s, and will be largely completed by the year 2010. It is expected that the growth of the total working age population will be 0.52% per year from 2010-2025 compared to an annual average of 1.28% in 1985-2010 and 1.85% during 1970-1985.⁸ This raises the question of whether the working age population will be both willing and able to provide a tax base necessary to support the very young and ageing population.

As mentioned in Section 3, the way this is measured is through the dependency ratio, which is the ratio of the dependent population (less than 15 and older than 64 years) to all those between 15 and 64 years of age. The projected movement of the dependency ratio as a percentage of the total population between the years 1985 to 2031 shows a downward movement until the year 2006, reflecting a reduction in the group of 0-14 years old. Thereafter the

Table 3: Dependency Ratio Per 100 Persons of Working Ages
(15-64) Selected Years, Australia

	Fertility Rate (A)			Fertility Rate (B)		
	1987	2001	2021	1987	2001	2021
Children (0-14)	34.0	28.5	24.7	34.0	31.0	27.4
Aged (65+)	16.1	17.7	25.0	16.1	17.8	24.3
Total	50.1	46.2	49.7	50.1	48.8	51.7

Source:

ABS Catalogue No. 3222.0

dependency ratio climbs steadily, reflecting the increase in the over 65 age bracket. Thus, given that the costs are higher for the older age group, the burden on wage earners is expected to rise significantly.

For the employer, the issue is one of being able to recruit employees with appropriate qualifications and flexibility to make the maximum contribution. With the proportion of the younger age group of the population declining, employers who traditionally recruited from this segment will need to start looking elsewhere to supplement their recruiting drive. For example, the banking sector has relied heavily on school and university leavers for new recruits and took an almost cradle to grave approach with their workers. Given the retirement and superannuation schemes offered by the banking sector, this often resulted in an early retirement being sought by employees. Due to the expected changes in the workforce, the issues for this sector include looking at recruiting, retraining or reskilling if recruiting from a different age group and/or industry. It would be necessary to consider attracting back into the workforce women who have left temporarily, to continue to use their skills and to provide a more flexible work environment for these women.

Another issue would be for the banking sector in particular, and other sectors in general, to examine their retirement programmes to encourage those who wish to remain in the workforce to do so economically. On the other hand, it should be recognised that there will be a growing number of people who wish to, and can afford to, retire at age 55. This will result in the loss of skills, especially in certain sectors, however at the same time will provide opportunities for those who will cater for this group's needs.

As women live longer than men and traditionally do not participate in superannuation schemes or have as high a level of home ownership as men, long term proposals need to address the special needs and requirements of women in the workforce. It is proposed that there should be an increase of opportunities for women in education and paid employment which would result in an escalation of numbers in labour force participation. Issues such as wages and a growth of employment opportunities, including part-time work, need to be examined. There should be an emphasis on changing community attitudes in regard to the role of women in the workforce and the home, supported by legislated improvements in the labour market position of women. It is also acknowledged that there are special needs for women in the workforce - such as

more flexible superannuation schemes. Encouraging women back into the workforce after an absence could be in both parties' interests, however factors such as skill updating, child-minding and flexible work hours would need to be addressed.

5. Australian Government Expenditure

During 1984/85, 53% of Government outlays, or 20% of the GDP, was spent on social security and welfare, health, education and employment. The estimated cost incurred during each individual's life cycle is highest in the early and later years. The cost of benefits rises sharply in the over-60 age group, reflecting increased social service and welfare costs, and again in the over-75 age group, reflecting the significant increases in health care costs.

The average per capita cost for benefits in the 65 and over age group is \$7,075 per head, 2.5 times as great as for those of the under 15 age group. The State Governments contribute approximately 60% of their expenditure towards the under 15 age group (which is largely taken up by education) and spends less than 25% on the elderly. This reflects the fact that the Federal Government bears the greatest burden of costs for supporting the elderly. It is predicted that between the years 1985-2025 there will be a 70% increase in the cost of social spending, reflecting a 1.3% real increase per year.⁹ The crucial factor of growth and productivity would have to rise annually by 0.3% to match these increases in social spending. However, this ignores the historical patterns of social spending which tend to increase with increased earnings because of a greater expectancy for services. It is probably more realistic to see social spending increasing in line with the productivity growth. The problem here is that with an ageing population, the rate of productivity growth will not necessarily be able to offset increases in Government social spending. Thus it is predicted that the GDP social outlays which were 20% in 1985 will increase to 22.6% by the year 2025 regardless of improvements in productivity.¹⁰

6. Proposals to Reduce Government Social Spending

It is proposed that changes in the retirement age would encourage workers from the 55-64 year group or older to remain in employment, thus increasing the tax base and also decreasing dependency on social spending. Over the last couple of years, the labour force participation ratio has increased and the dependency

ratio consequently decreased because of the larger percentage of women's participation in the labour force. In 1964 there was a dependency ratio of 64% which has dropped to 51% in 1989. Furthermore, the decline in the dependency of children and adult females has outweighed the increased dependency in adult males (from early retirement schemes) and the dependent elderly in terms of costs. Thus it is assumed that an increase of women in the labour force offsets increased costs of the ageing population, firstly by effectively providing the capacity for women to save for their own retirement; secondly by reducing the proportion of dependents in society, and thirdly by expanding the basic taxable base in the population.

6.1 Social Security and Welfare

In terms of an increase in Government spending on pensions, it has been noted that Australia on the whole is in a better position than most other countries in the Western developed world.¹¹ This is largely due to the following factors:

- (a) a smaller proportion of elderly people in our population;
- (b) a flat rate non-contributory pension system instead of a "pay as you go" system;
- (c) changes in the pension, such as the means test;
- (d) growth in the superannuation coverage as a major alternative to retirement income;
- (e) the high home ownership

In fact, total average spending on Government pensions in terms of the GDP decreased in 1983/84.¹² However this ignores the long term problems of what will happen when the baby boomers move through to the aged section of the population. It is the long term proposals, ie. 30 years hence, that will deal with the problems of altering the cost factor of an ageing population and the following areas need to be addressed:

- (a) Discourage early retirement to gain access to superannuation funds by making some funds available;
- (b) Increase access to home ownership as a means of saving, as housing status is one of the major factors influencing poverty when on old age pensions;
- (c) To maintain tax level, greater use will need to be made of indirect taxes as the personal income tax base declines;
- (d) Extend the earnings related system of pensions (see below);

- (e) Encourage savings rates through increased contributions to occupational superannuation schemes. In the longer term, after the year 2010 the additional savings of the working population will be offset by the dissavings of growing retirees;
- (f) Provide greater incentives for retirees to take annuities in preference to lump sums;
- (g) Compulsory retirement age to be abolished;
- (h) The level of old age pensions to be linked to retirement age.

The question of whether to encourage people to remain in or return to the workforce, or to encourage them to fulfil roles such as child rearing or caring for the aged, is complex - both options have merits. If there is an increased participation of women in the labour force, this would reduce the availability of care provided by women to the elderly community through either volunteer groups or family (usually daughters). In order to provide a choice as to who accepts responsibility for this service, compensation will need to be considered for the service provider.

Changing community attitudes towards ageing workers and the need to provide re-education, retraining and reskilling are issues that need to be addressed now to prepare for the future. In the long run, these steps would offset the early dependency on Government spending and would increase the overall tax base.

Earnings Related Pensions

Probably the largest and most complex issue is how Government should go about ensuring that in the future when most people retire, they will not require the Government to provide income support.

Towards this end, the Government has sought to expand the coverage of individuals under superannuation schemes so that now nearly 80% of workers pay into a superannuation fund. This wide coverage has been brought about through the Accord, under which the Government aims by 1993 to have employers contributing an amount equal to a minimum of 6% of employees' salaries into superannuation funds. The Government has also sought to encourage employee contributions by now offering tax concessions to employees who contribute to employers' schemes where the employer provides less than 6.5% of the employees' salary. However, a total contribution target of 10-12% of the employee's salary into a superannuation fund is required

simply to ensure that the annuity paid at pensionable age is equivalent to the current aged pension.

The other problem often cited with the current attempt to gain universal private superannuation coverage is that some groups will still probably escape coverage or be penalised because of their work status. The Strategic Issues Forum members considered the issues of whether such individuals should be forced to contribute to a Government-run earnings related pension fund. Such a scheme would in effect mean that Australia has a National Superannuation Scheme with a provision for opting out to a private superannuation scheme.

The sentiment amongst Forum members was that such an outcome should be avoided and that the mechanisms must be put in place to provide the necessary incentive to encourage an increase in superannuation coverage.

There was fairly general agreement amongst Forum members that the Federal Government had done much to increase superannuation coverage - the one lament was that so much of the burden of this increased coverage had fallen on employers rather than employees. The Forum members also expressed concern that a person must be employed to be eligible to take out private superannuation and to take advantage of the tax concessions on such contributions. It was felt that greater opportunity should be given to those who are not in the workforce or who regularly enter and leave, to prepare for their retirement through contributing to superannuation. The major group of recipients here would be non-employed women and part-time workers. Such an act would also ensure that women would have independent means when they retire.

Consideration should also be given to making annuities joint and survivor. That is, the annuity goes to the married couple and a portion to any one survivor. After all, this is in effect the case with lump sums. This would act to ensure a greater stability in family income and standard of living during retirement of both persons in a married couple.

Another area which will need to attract some attention in the future is how to encourage individuals to take annuities upon retirement rather than lump sums. Life offices will need to give greater emphasis to making their annuities more

attractive and flexible for individuals and be prepared to customise packages to clients' requirements.

6.2 Education

Both of the above issues raise the question of the role of education in the long term. Australia's education standards compared to overseas are rather poor. Although our retention numbers for completion of secondary education have risen, as a percentage of total population, from 27% in 1981 to 64% in 1990, we are still behind most OECD countries. In fact on a pro rata basis Australia is the most under trained nation in the OECD. In the 24-34 year age group it was found that those who had completed secondary education in 1988 comprised only 13.4% men and 11.7% women in Australia. This compares to a rate of 37% men and 41% women in Canada, 47.7% men and 55% women in Japan, 40.3% men and 43% women in the USA and 7% men and 7% women in the UK, in the same age group. In this regard, Australia needs to look at its formal training of the population.

It is recognised from comparison with overseas experience that there is a lack of formal education in today's workforce. In the projected future workforce, there will be a greater requirement for flexibility and adaptability along with the need for higher levels in basic literacy and education to cope with the rapid changes and advances in technology. It is recognised that existing forms of education do not provide for the ongoing educative processes now required to keep the working population up to date with the latest developments. Nor does it cater for special interest groups such as women re-entering the workforce or older workers obtaining re-education.

The 1989 survey of Australian manufacturing firms by Touche Ross showed that most firms relied on recruitment from other firms (40%) and public sector education and training (50%) to acquire their skills. Only 10% of the firms provided in-house training. Also, in the 1989 Australian Bureau of Statistics survey of employer expenditure on training, it showed that only 21.4% carried out any form of training. To encourage in-house training, the Government recently introduced a training guarantee levy, currently 1%, to increase to 2%. This move was applauded by Forum members as the need to give a high priority to the development of a skilled and professional ageing workforce is recognised.

This highlights the need for a redistribution of the mix between private and public funding in order to increase the basic levels of literacy and education of Australian workers, as well as to provide opportunities for special groups such as women and older workers to be reskilled and retrained to enable them to re-enter the workforce. It is recognised that the baby boom generation is better educated and will probably be more adaptable to reskilling and retraining, thus more able to remain in the workforce until an older age. Generally, they should be more flexible, mobile and capable than the older age groups of today.

Education can be provided either through State services or private industry services or a mix of both. It is estimated that the "fees for service" industry training market has the potential for growth of at least 50% in the next five years.

6.3 Health Care

The Australian health care bill is \$22 billion, which is nearly equally split in thirds between the Federal and State Governments and private services. Federal Government spends 13% of the total budget on health, 29% on social welfare and 16% on education. This is roughly 7.6% of the GDP, a figure which has remained stable over the last ten years. The over 65 age group contributes 15% to private health funds, but consumes one third of total hospital benefits. However on the whole, it was found that the majority of elderly people experienced good health and maintained their independence.

The Federal Government outlaid \$10,713 million in 1987/88 - 68% on health care which included medical, pharmaceutical and hospital benefits, and 13% on residential care for older people in nursing homes or hostels. Overall, 60% was received by females, of whom 39% were over 65 (11% of the population). The Federal Government spent an average of \$7,082 on each dependent aged compared to the States' \$924 per person.

Programmes provided by the Department of Community Services and Health comprise residential care (93%), home and community care (75%) which includes nursing at home, meals on wheels and home help, and health care (36%). Projected increases are 73% in real terms between 1977/78 - 2020/21 (with a population growth of 44% which is an annual growth of 2%, compared to an average real growth in Australian GDP of 2.9%). Therefore by the year

2020 the predicted growth would be: 105% real increase for home and community care, 118% real increase for residential care and 72% real increase in health care. It is also important to note that the rates of medical consultation increase significantly with age and are higher for females than males.

Therefore it is projected that there will be increased demands to the year 2001 because of the significant growth in the population aged over 75 years. The baby boomers will be reaching the over 65 age group between 2011 and 2041, creating further demands on expenditure in the areas of health care, residential care and home and community care.

Salaries and wages currently make up 75% of total hospital expenditure as the workforce has expanded to cope with the increasingly concentrated and sophisticated care provided. However, there are still gross inefficiencies within the hospital system which, if adequately addressed, could be streamlined to allow funds to be channelled to other areas. The length of stay in hospitals has been halved due to new techniques and better after care services, although this has consequently increased non-hospital costs. Because of the explosion of technology which has resulted in higher day patient surgery and faster recovery after hospital, there exists a hidden burden now resting on families and community services needed to support post-hospital patients.

In 1986 the Federal Government introduced reforms to try to implement new frameworks to cope with increasing costs:

- (a) geriatric assessment teams who ensure that only suitable applications for elderly who need nursing home care are approved, which has reduced the rate to 50% compared to 95-99% previously;
- (b) the implementation of a framework confining services to 100 residential places for each 1,000 people over 70, which has dramatically reduced the proportion of nursing home beds;
- (c) the enactment of legislation to increase the range of penalties for those who fail to provide appropriate levels of care;
- (d) equitable capital funding ensuring that those who can afford to pay hostel accommodation do so, helping the poorer sectors;

- (e) introduction of respite care services.

It was hoped that these reforms would help shift the increasing costs of an elderly population from the Federal Government to the State Governments and the private sector.

One aspect of the health care debate now the subject of considerable attention is the issue of health care insurance. This debate has two facets - one relating to the financing of health care services for the aged, and the other, long term care insurance.

Long term care insurance is a corollary of superannuation, but for health. Contributions are made into a health fund during one's working life and health costs are paid once retired without further contributions being required.

There is general acceptance that the burgeoning cost of the health sector to Government must be addressed now if it is not to become excessive in the future. The recent announcement of a \$2.50 charge for prescription by pensioners is an indicator of an underlying concern by Government about the health costs of the aged. For example, the aged use doctors twice as much as the rest of the population. This is likely to lead to a greater focus on the adequacy of Medicare and private health insurance as a means of financing health insurance.

One of the major directions of change is likely to be in long term care insurance. Such insurance will be requested by a greater proportion of Australians as they recognise the cost of health care in their old age. It will also be the product of a desire to demand a higher level of service than is normally available. This type of insurance is still in its early stages of development but will become more important as today's high income earners approach retirement. For Government, this will have the advantage of a lower level of demand on its services or at least the ability to charge a fee for the services it provides.

Health costs and provision is without doubt one area where major changes will occur along with our ageing population, not only due to cost considerations, but also because of the demands of the community. It is important to realise

that not all costs will necessarily increase eg. the per unit cost of many operations are declining due to non evasive surgical techniques.

For Government, our major recommendation is to be vigilant in monitoring health costs and provision and increase the funding of health promotion and preventative education. For industry, the recommendation is for it to be responsive to the changing health demands of the ageing population and recognise them as a demand of employees and as an opportunity for business.

7. Accommodation for the Elderly

As the number of elderly steadily rises over the next few decades, the issue of accommodation will become increasingly important. Despite widely held beliefs to the contrary, presently less than 5% of the elderly population actually require nursing home care, although as the percentage of less physically capable retirees grows there will be more demand for accommodation providing a higher level of care. As noted previously, under the current Government framework, there has been a dramatic reduction in available nursing home beds. If this policy continues, there will be a greater requirement for hostel accommodation and scope for the retirement village industry to considerably expand.

7.1 Nursing Homes

Currently in nursing homes the participation rate for the population aged 70 and over is 53 in 1,000; for the 85-89 age group 164 in 1,000; for the 90-94 age group 305 in 1,000 and for the 95-99 age group it is 440 in 1,000. Women tend to need greater care than men and widows are more likely to live in nursing homes than any other elderly sub-group. Two national surveys conducted by the ABS - in 1981 the Survey of Handicapped Persons and in 1988 the Survey of Disabled and Aged Persons - show there has been a marked increase in the number of disabled and handicapped people in the population. The 1988 survey showed that 15.6% of the whole population is disabled. 47% of this group is aged 60 and over and 82.9% is aged 85 and over. The survey showed that 13% of the population have some degree of handicap, with 37.9% being 60 and over and 80.6% 85 and over. (It is recognised that these figures ignore factors that could reduce the impact and number of handicapped or disabled in the total population.)

7.2 Hostels

It is found that the older and less physically capable tend to reside in lodgings/ hostel accommodation with a high level of care or nursing homes. The Government and social welfare activists want to encourage home support by increasing community support facilities such as meals on wheels, district nursing, home care and paramedical services through the Home and Community Care scheme (HACC). In addition to the HACC scheme, the use of privately paid services are expected to increase due to the increased wealth of retirees.

Restrictions by the Government on nursing home beds was a method of cutting costs as nursing homes average \$70 per person per day, whereas hostels average \$19 per person per day (with subsidies). Consequently, it is predicted that in the future nursing homes will be restricted to the critically ill. It is predicted that with the new Government strategies for the care of the aged that invites the restriction of the hostel programmes and the number of beds available in nursing homes, that there will not be enough accommodation provided by the Government and that private enterprise will be able to enter this field in a substantial way, providing resident funded, high quality hostels and serviced apartments. It is predicted that as the ageing population will be more affluent, we will see higher quality care service with emphasis on all facilities provided in modern luxurious apartments.

The quality of care is expected to increase as a continuum service is provided in one environment/location.

7.3 Housing

In 1985/86, three quarters of older pensioners had the security of owning their own home, 10% faced uncertainty and rising rents, 6% were public tenants but had security of occupancy and low rents and 8% lived rent free. Older people who do not own their own homes fall into two categories:

- (a) owners who sold their homes to realise their wealth, and
- (b) people who were too old to capitalise on the economic booms of the post-war period or were working class people or spinsters who could not afford to buy their own homes.

Kendig and Stephens (1987) found that 10% of the working class elderly live in public housing, whilst most non-English speaking elderly live with their families. Private tenants tend to be single women with low income paying high housing costs leaving little money for personal spending. On the other hand, it was found that home owners are likely to be married couples and high income earners.

Home ownership improves living standards because of favoured policy treatment. The non taxing of housing as an asset was found to be equivalent to an extra single pension rate, therefore discriminating in favour of home owners.¹³ In 1984 it was found that the household costs for owners, public tenants and private tenants were \$19.39, \$25.37 and \$39.88 per week respectively. The high home ownership rate for pensioners has allowed the Australian Government to pay a lower rate of pension in comparison to international standards. It has also allowed for reduction of costs on tax payers by reducing the need for public or private accommodation services.

Limited public housing is very significant for widows, the poor or those who cannot buy support in the private market. It is these groups that need to be provided for by the Government. There will always be a need for public housing, however support of owner occupation may be a short term cost but have long term benefits, particularly by reducing the cost of public housing. If home buying and employment prospects do not improve for young people, then in the next decades there will be an increased disparity between those pensioners who own their own homes and the middle-aged tax payers unable to buy their own homes and increase their independence after retirement.

7.4 Retirement Villages

Currently there are 530 retirement villages in Australia, with more being developed, that accommodate approximately 30,000 residents. This covers only about 5% of the elderly population, but these numbers are increasing.

It is found that couples tend to remain in their own homes as long as possible or move to self-care units, even if one has poor health, relying on their spouse for support. Couples moving together into serviced apartments make up less than 2%. The main reason for moving is usually a need for increased facilities, due to loss of mobility and failing health.

Therefore villages offer security, companionship and improved lifestyle as well as care and specialist needs. Currently there is greater emphasis on providing for a more diverse range of age groups, a trend which is resulting in accommodation becoming more spacious and facilities catering for more leisure hours.

Already the ground has been laid for the growth of the retirement village sector and there can be little doubt that in the future they will increase in importance and provide a broader range of services. Many retirement villages provide a wide range of facilities, ranging from independent living apartments right through to nursing home facilities. Such facilities will provide a significant enticement to the elderly in the future and their growth seems assured.

7.5 Rehousing The Ageing

As financial markets become more sophisticated, it will enable retirees to realise their assets while still occupying their own homes. This would allow them to renovate their existing homes to cater for changing needs as they grow older. As people become better informed and financial institutions encourage this practice, greater financial flexibility will be provided for the ageing.

The trends seem to be that care related facilities will no longer primarily be the responsibility of Government, charitable or religious institutions. Private enterprise will emerge as a significant force as an industry primarily catering for those who can afford and demand a level of services related to asset wealth, which is usually realised from the sale of their family home. Determination of an effective retirement income policy will be an issue of importance as the Government seeks to decrease financial commitments and increase personal financial planning in all areas of aged and health related services. It is likely that occupational schemes will become cornerstones of retirement income with progressive shifts towards pensions rather than lump sum payouts. Property ownership will remain very important, with private enterprise continuing to provide accommodation choices. These range from total independent living, independent living with personal care support, independent living with personal care support and medical nursing, and nursing homes.

People on fixed incomes will be able to trade off equity entitlement in units or apartments to supplement cost of care services. Specialist areas will arise to cater for the level of services required, creating retirement products for special

interest groups such as non-English speaking sectors of the community, golfers, bowlers, etc. Self promoted public relations spin-offs will arise as demand for highly skilled managers and competent staff increase. For example, the University of Western Sydney has set up a Bachelor of Applied Science in hospitality management with an emphasis on "hospitality lifestyle for the retirement industry".

For the young retirees seeking accommodation there will be new trends to be catered for by the building industry, such as:

- (a) a desire for a decrease in the time and cost of maintenance;
- (b) recognition of the need for more efficient space;
- (c) the ability to capitalise on major assets (their home) to free up surplus funds;
- (d) recognition of increasing concerns about security and safety;
- (e) provision for lifestyle enhancement and companionship.

The result will be a desire for more efficient accommodation closer to family and friends but cognisant of maintenance costs, security, companionship and lifestyle. Current choices available are units, villas and townhouses, residing with relatives or in retirement villages. This will mean that there will be a demand for an increase in specialised construction for accommodation for the elderly, both from the Government and the private sector. There will be a niche market in home renovations and refurbishment and also an increase in homes available, which will cut down the need for building of new homes. Also in the area of home maintenance, it was found in the ABS Disabled and Aged Persons Report that 55% of those women over 60 seek help with home maintenance, transport, home help and personal affairs compared to 20% of men over 60, who usually require mainly home help and meals.

Community and voluntary services provide less than 1% of assistance in home maintenance services compared to 5% of the commercial sources. 64% of such help is provided by someone else living in the same house and 30% is provided by people who are not residents (half of these cases is usually the daughter). It is recognised that due to the increasing labour participation of women in the workforce, there will be a need for the private sector or community services to move in and provide care for the elderly that was previously provided by daughters. Family members are arranging to purchase services rather than

relying on the Government and volunteer community services. Services such as meals on wheels and other volunteer services are having problems with the number of volunteers because this was traditionally women, who now are entering the workforce. Therefore the cost effectiveness of the community based services without volunteers is questionable. Therefore it would possibly be easier and more cost efficient to have private services provided in limited areas or close networks of groups, such as satellite cities or townhouses or retirement villages.

8. Future Opportunities for Business

The above discussion has highlighted the nature of the changes in the population composition in Australia over the next forty years, the implications for Government expenditure and direction of needed Government policy changes. This section briefly focuses on the implications for the business sector of the ageing of Australia's population.

Already we have identified some issues which are of importance to both business and Government, such as the training and retraining of the workforce and the development of flexible superannuation schemes for employees. However, in this section we wish to identify the growth opportunities for business in the future. Figure 1 (on the following page) details such opportunities.

The opportunities for business are broad ranging and must be seen in several contexts. Firstly, the needs of today's aged will be different to the aged in thirty years' time due to the changing composition and economic status of the elderly. Secondly, we should recognise that the expectations and needs of the elderly will differ considerably depending on the age group being examined. Some will have retired, others will be working part-time, and others will still be in full-time employment. Thirdly, the elderly's expectations will vary widely depending on their housing status, ethnicity, level of education and physical status. What each of these factors means - as shown in Figure 1 - is that the elderly are not one homogeneous group. They will need to be marketed to with an acute awareness of the diversity of the needs and expectations of this group.

BUSINESS OPPORTUNITIES FROM AN AGEING AUSTRALIAN POPULATION

Age	Needs/ Concerns	Housing	Health	Services	Finance	Leisure	Other
50's	Preparing for retirement Menopause	Home Repairs	Fitness classes Dental work Beauty recertification	Retirement Counselling	Superannuation Retirement advice Managed funds	Travel Boats Golf Tennis Education	
60's	Loneliness Location Finance Sex Safety facility management	Smaller home		Security	Long term care insurance	Television Bowls Voluntary work	Pets Food
70's	Health Finance Bereavement	Retirement village Hospice	Paramedical Equipment Hearing Disability Retraining Rehabilitation	Home maint. Home Care Transport Day Care Meals on Wheels		Passive recreation	Funerals
80's	Care Finance	Continuing care Hostel/ nursing home					
Overall business opps.	Counselling services		Eye services Hair/skin Day Surgery	Security Nursing	Crisis insurance		Single person packaging

Courtesy: Georgina Carnegie
Golden Marketing Pty Ltd

While we often hear reference to "grey power", the business community is still to identify and target this group in their future strategies. However in the United States, the elderly are clearly identified for their market potential and advertising is increasingly being targeted towards this group.

This report concludes that the business sector itself needs to target the elderly - with all its concomitant diversity - as a sector which offers them considerable growth opportunities in the future. Moreover, because such opportunities are likely to be much more evident in overseas countries where the ageing phenomenon will be more severe, proficiency in accommodating the needs of Australia's elderly could provide many businesses with the springboard to pursuing such opportunities overseas.

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