

The dangerous divide for our ageing population

Smart Investing
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If you want to understand the genesis of the next generational battleground you need read only one paragraph of Federal Treasurer Peter Costello's Intergenerational Report 2007.

This report updates the demographic challenges facing Australian society - and what the government is doing in response. The statistic that is possibly most sobering is that by 2047 there will only be 2.4 people of working age to support every one over the age of 65.

Today there are five people of working age to support everyone over the age of 65 and that starts to decline quickly from 2010 onwards - less than three years away.

Looking at those figures another way the aged-to-working-age ratio today is 20% and by 2047 will more than double to 42%. To state the extreme case imagine the conversations between parents and children in later years when young working Australians will be labouring to pay rising tax bills while their parents enjoy their tax-free retirement pensions.

Much has been written about the cost of funding the aged pension to support retired Australians but that is only one facet of the story. Health costs will be a much more significant cost than the aged pension. The Intergenerational Report forecasts health costs to hit 7.3% of Gross Domestic Product - almost double today's spending - by 2047. Now you could be forgiven for thinking that the rapid rise in health costs is down to our ageing population but that is not the main cause for the big increase according to the government. Non-demographic factors - the cost of new drugs and the investment in medical technology for example - account for almost two-thirds of the rising costs.

But for younger Australians the biggest issue is not the cost of providing the previous generation's pension or health care but rather the drop off in economic growth that is forecast over the next 40 years.

If you accept the forecasts in the Intergenerational Report we should all be celebrating our economic health of 2007 because it looks like a high point when you look at the projections over the next 40 years. The main influence is simply the baby boomer generation retiring from the workforce. The loss of that large demographic cohort out of the productive workforce simply means less people to drive the economy's growth at anything like the rate we have enjoyed in recent times. The decade beginning 2020 looks particularly grim on the GDP growth front.

That means some tough decisions ahead for politicians and voters alike. At stake are our standards of living - taxes could be raised to pay the higher bills and the government is predicting large federal budget deficits rather than the annual surplus we expect at the moment.

The message out of the intergenerational report is that significant challenges remain for our standard of living to be sustainable and that at least is something that will hopefully unite rather than divide younger and older Australians.

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