

## Chapter Eight

# Ageing Populations: Projections and Trends

*A combination of increasing life expectancy and declining fertility rates over the past half century have significantly altered the age structures of developed country populations. These forces are expected to continue, with a major consequence being a substantial rise in the size of the aged cohort in both absolute and relative terms in coming decades.*

*Although it is not possible to project the future population structure with certainty – and the uncertainties become greater the further into the future one looks – it is clear that average ages, and the proportion of the community in retirement ages, will increase substantially. This has implications for society and the economy in terms of burdens on Government budgets, decisions about labour force participation and hence labour supply, and patterns of expenditure on goods and services.*

*There have been substantial policy measures over recent years to address the budgetary pressures of an ageing population and, if persisted with, Australia would appear to be better placed than many other advanced nations to cope with budget pressures.*

*A rise in dependency ratios would appear to be unavoidable. However, policy measures already in place create some incentive for people to remain in the workforce longer. In any case, a significantly greater prevalence of fully funded retirement incomes should make higher dependency ratios more supportable.*

*Population ageing will increase demands for health and aged care services substantially. An older age structure will also reward marketers who can develop their products in ways that are relevant to older people.*

### 8.1 Introduction

This Chapter explores the potential economic impacts over coming decades of population ageing in Australia and South Australia.

By population “ageing” we mean a gradual change in the demographic structure of the population such that the

median age of the population rises. The next section presents population projections that illustrate this phenomenon.

Although South Australia’s population structure is “older” than the national average, it is not as old as in some other

developed nations. Furthermore, other Australian States are ageing too, and tend to reach South Australian levels with a few years' lag.

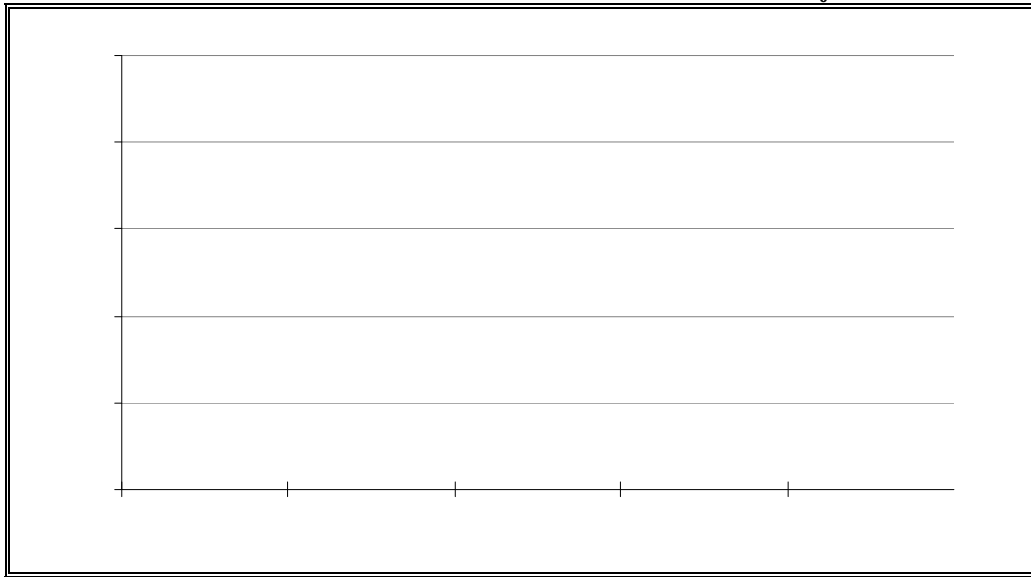
Population ageing has potentially significant implications for the future economic environment, for instance in terms of:

- burdens on Government budgets;
- decisions about labour force participation and hence labour supply; and
- patterns of expenditure on goods and services.

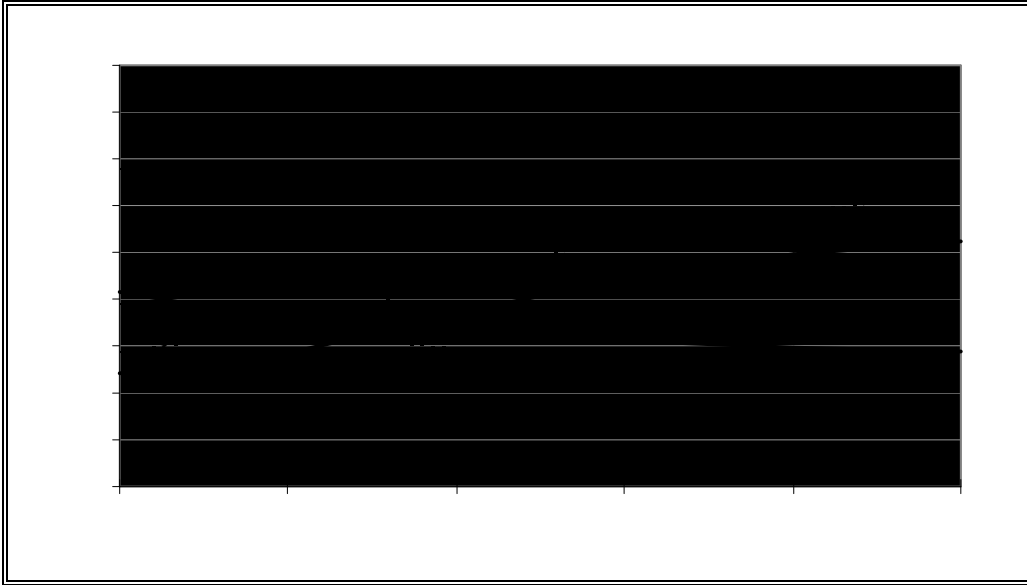
There have at times been alarmist messages about the implications of population ageing. However, the informed view is that major policy initiatives over recent years have placed Australia well to deal with the pressures arising from population ageing – but those policy settings will need to be maintained.

## **8.2 The Phenomenon: Population Ageing**

**Figure 8.1**  
**Projections of Median Age of Population**  
Australia and Selected States - 1999 to 2051 (Series II Projections)



**Figure 8.2**  
**Population Dependency Ratio Projections**  
Australia and South Australia - 1999 to 2051 (Series II Projections)



**Table 8.1**  
**Government Social Expenditures By Age Groups**  
 Per capita terms in 1998 prices (\$)

Age	Age Pension	Other Age Assistance	Unemployment Benefits	Other Social Benefits	Health	Education	Employment	Total
0-15	0	3	0	883	443	1,913	2	2,245
16-24	0	2	384	346	443	1,829	165	2,870
25-39	1	2	300	423	602	303	59	1,691
40-49	6	3	211	503	565	141	38	3,460.72

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projected for other OECD countries – e.g., 7 to 10 per cent for the US, New Zealand and Canada, and 14 to 20 per cent for Germany, France, Japan and Italy.

Given that expenditures on health are high in older age groups, an ageing population is likely to significantly increase health expenditures. Bacon also cites projections which show health spending's share of Australia's GDP rising from its current level of 8.5 per cent to 11.7 per cent in 2041 (with further increases possible as a result of demands for higher quality services).

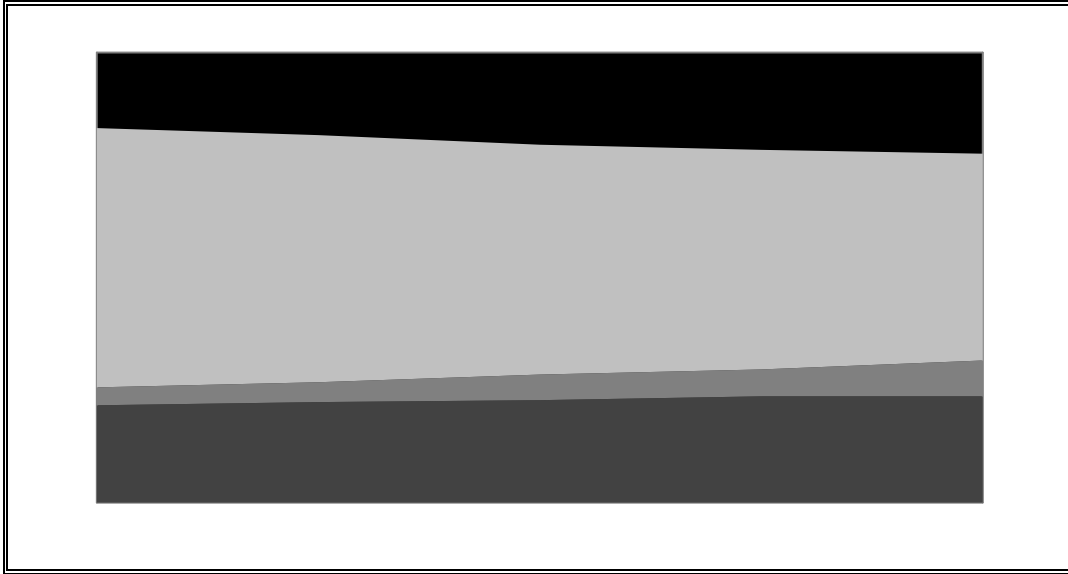
Funding arrangements in the health system are overwhelmingly on a pay as you go basis. This is true for the components provided directly by both the public sector and private insurance funds. Ageing population will mean that, for given service standards, contribution rates in both systems will need to increase over time, even if those contribution rates are still subject to community rating. In coming decades the working age population seems likely

retiring earlier, and spending more years in retirement at the expense of years in employment.<sup>9</sup> However, it needs to be recognised that this is an historical trend, and relates to a period when the progress of the baby boomers in working age groups boosted participation rates and reduced dependency ratios. This may in fact have contributed to the trend toward early retirement.

It is possible that rising dependency ratios will tend to arrest the downward trend in average retirement ages. There are already some signs of the policy environment adapting to support such a change – for instance through the introduction of age discrimination legislation and increased preservation ages for superannuation.

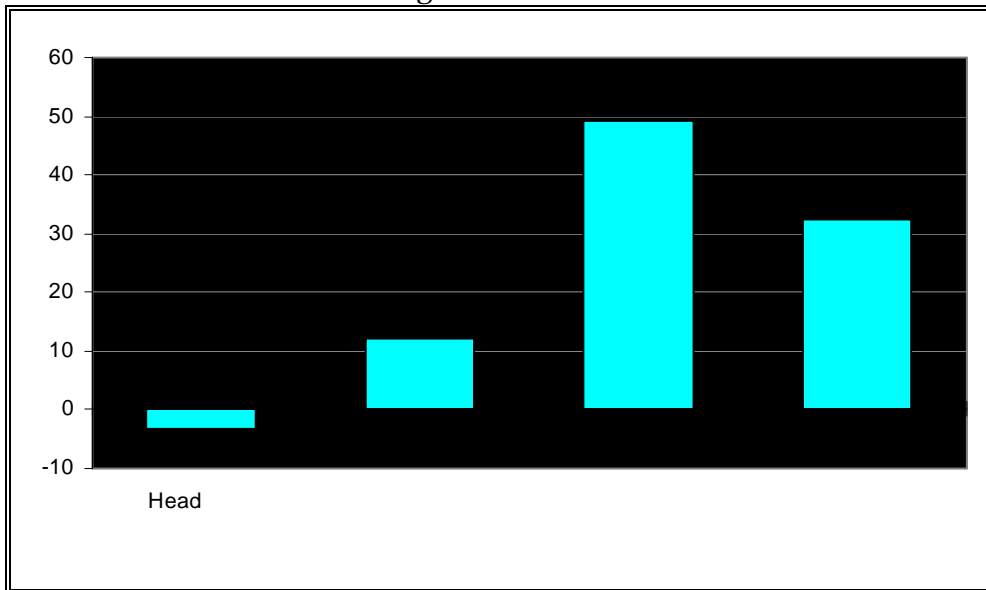
Furthermore, decisions about whether to work or not are to a significant degree economic decisions, and retirement

**Figure 8.3**  
**Decomposition Of Men's Life Course For An Average OECD Country\***  
1960 To 1995





**Figure 8.4**  
**Forecast Percentage Change in Number of Households by Age of Head**  
Australia - Change over Period 1993-94 to 2010



**Table 8.2**  
**Breakdown of household spending, 1993-94**

	Couple with Dependent Children only, Eldest Child 5 to 14	Couple Only, Reference Person 65 Years and Over	Lone Persons 65 Years and Over
<b>Broad Expenditure Group</b>	<b>As Percentage of Total Consumption Expenditure</b>		
Fuel and power	2.5	2.7	3.5

does this imply substantial increases in private spending on such items, but government funding commitments to pharmaceutical benefits, public hospitals and Medicare would also rise substantially.

An ageing marketplace will generate demand for products that accommodate older consumers' particular physical characteristics and needs, and businesses will need to consider this when designing products and services. For example, older people naturally possess less physical strength than younger adults, so products supplied in easy to open packages therefore possess inherent advantages over similar competing products. Also, older people have lower nutritional requirements than younger adults and consequently favour smaller serving sizes - an important consideration for restaurants and food companies.

Older people also possess greater amounts of discretionary time; an expanding aged cohort should therefore boost aggregate spending on

recreational and leisure activities. In part this reflects an expressed demand for "experiences" such as holidays rather than the physical items (e.g., cars, clothes etc.), which are preferred by younger customers.

Further impacts of demographic trends on the demand for goods and services are likely to arise in the housing industry. Previously, as baby boomers left home and formed large families, the effect was to dramatically boost demand for new family housing. Now, with the children of boomers leaving home, some boomers are finding that their existing homes exceed their needs and are demanding smaller homes. However, this pattern is gradual - other older couples wish to remain in their existing homes and are spending money on renovating their homes.<sup>12</sup> An ageing population, with slower (perhaps declining) growth in younger age groups, may therefore potentially shift demand within the housing industry from construction of new large family homes to smaller luxury homes and remodelling of existing homes.

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<sup>12</sup> Weaver, P., (1997), "How to Reach Older Consumers", *Nation's Business*, June, Vol. 85, No. 6, p. 35(2).

