

Mr David Tune  
General Manager, Social Policy Division  
Australia's Demographic Challenges  
The Treasury  
Langton Crescent  
PARKES ACT 2600

28 May 2004

Dear Mr Tune,

**Re: Australia's Demographic Challenges**

ACOSS is pleased to provide a submission responding to the Treasurer's discussion paper *Australia's Demographic Challenges* and is keen to participate in ongoing discussions on these important issues. Apart from this introductory letter, the bulk of our submission is contained in the attached documents, which outline our policies on a range of issues relevant to those raised in the discussion paper.

The national government in particular has a key role to play in identifying and dealing with the range of interrelated medium and longer term policy challenges emerging from changing social and economic patterns.

Thinking about and developing strategies to meet the demographic challenges ahead provides us with an opportunity to look beyond the electoral cycles and potentially make choices that can create a better Australia for the longer term.

Concern over the impact of Australia's well documented ageing population has been with us now for a number of years, especially for researchers and policy makers in areas of community and aged care. Part of the motivation for this has been to identify future population care needs, anticipate funding and program responses, and to manage, mine and support the pool of formal and informal carers associated with this burgeoning need. It was one of the main drivers for the reform of aged care funding in the eighties and nineties following the aged care review of the mid eighties and the subsequent establishment of the Home and Community Care program.

Prior to this the key watershed economic report of this type was arguably the 1965 Report of the Committee of Economic Inquiry (the Vernon Report) which presented a ten year outlook in relation to a range of demographic issues, and the role and pressures on areas like education, public health, physical infrastructure, natural resources and industry productivity.

The current debate provides a further opportunity to plan for and implement policies at the national level, particularly in terms of the

distribution of work, income, individual and community well being, and care needs.

In order to adequately tackle the challenges of the ageing population, a number of urgent issues need to be responded to in a flexible and timely manner. For ACROSS, the main concerns are: the problems of inadequate social security, unemployment and joblessness which have a profound negative impact on the current income levels, skill levels and the social connectedness of hundreds of thousands of Australians - as well as on future retirement savings, tax revenue and social security expenditure.

In developing strategies to address the potential costs associated with an ageing population it is important that there is the capacity to review policies and programs that represent lost revenue opportunities should they continue to be carried forward. These include for example, the 30% private health insurance rebate at a cost of more than \$2 billion per year, the failure to reintroduce petrol tax indexation at a cost of over \$1 billion per year, and inaction on measures to crack down on tax avoidance at a cost of at least \$700 million a year.

While policies directed at older people are critically important in managing population ageing, a whole of population focus is required if Australia is to sustain its social, economic, cultural and environmental health over the next forty years. Any analysis needs therefore to adequately factor in the full range of social, economic and demographic developments which are likely to have a significant impact on society and economy and for which new policy sets will need to be developed in response. This means, in particular, a progressive and adaptive tax system to underpin needed social expenditure.

As the population ages there will be greater demand for labour, and this provides many challenges and opportunities, especially for older people, young people and women. Young women today have much greater likelihood of completing secondary and tertiary education than their predecessors. In Australia, as MacDonald and Dowrick point out, females leaving year 12 have increased from 25% in 1970 to 78% in 1998. Their participation rate has also increased from 54% in 1970 to 70% in 1990 (latest available figures)<sup>1</sup>.

OECD countries with greater workforce participation by women and strong childcare, maternity leave provisions, and family friendly work policies have witnessed the least decline in fertility levels.

ACROSS supports measures to increase workforce participation among mature age people. This will help to shift employer attitudes towards the employment of older people and, with the right policy settings in place, should have a beneficial effect on the living standards of older people,

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<sup>1</sup> McDonald, P. and Dorwick, S.: ANU 2002.

costs to government and contributions to the economy both now and in the future.<sup>2</sup>

However, significant investment will be needed to enable older people to work, including investment in:

- life long learning, reskilling and employment experience for older people;
- community services (including transport) and health care for older people<sup>3</sup>;
- other community services, such as child care, respite care and in home care, as older people (many of whom provide unpaid care in the community) move back into the workforce or extend their working lives;
- targeted assistance and support for the work of carers; and
- more flexible work practices.

Developments in health technologies are likely to contribute to the potential pool of taxpayers in good health continuing to work way past 65. For people with early and late onset disabilities the role of health technology, along with access to other support services, is and will be, critical to increasing their participation rates, which are so poor today.

Health spending rises over time is a key area of concern for Government and is projected to double from 4 per cent of GDP to eight per cent, and aged care spending is set to rise from .7 of a per cent to 1.8% over the next forty years.

However, the largest single driver of rising costs relates to new medical interventions and drugs. It is important that the costs of health technology in particular be separated from the effects of population ageing. If we look at the likely impact of demographic change alone we arrive at an increase of close to .8 of a per cent over the forty years.<sup>4</sup>

In this context, we need to question how it is that the while the costs of other contemporary technologies would be largely predicted to fall, health technologies are assumed to be forever on the increase. We also need to examine what we are doing now and can do more of to address the costs of health technology.

Australia's Pharmaceutical Benefits Scheme (PBS) is widely regarded as successful in identifying 'value for money' drugs. There is a real

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<sup>2</sup> For a good summary of these issues please refer to the publication produced by Council on the Ageing (Australia) and the Committee for Economic Development of Australia, *Older Australians: A Working Future*, Vol 10/2000.

<sup>3</sup> This refers to the services needed to support older people in employment. For a separate discussion of the specific issues surrounding aged care, please refer to the work of the National Aged Care Alliance and in particular, the discussion paper prepared by Jan Webster, *Options for Financing Long Term Care for older people in Australia*, January 2002.

<sup>4</sup> Based on ACOSS analysis which appeared in the May June 2002 Issue of IMPACT, p.7.

concern that the threat of long term blow out of costs could lead to hasty decisions that could undermine what is an internationally respected public program and at the same time disadvantage working people on low incomes and income support recipients.

Moreover, expenditure on the PBS as a percentage of health expenditure is much lower than it was in the 1960s and the PBS is operating within parameters consistent with national drugs programs throughout the OECD.

Any arguments about consequences of the introduction of new drugs into the future, has to be seen in the context of past expenditure surges. While we have experienced a number of drug revolutions over the past twenty or so years, these have actually had a modest impact on the PBS as a proportion of health spend or GDP.

Developing strategies and options to contain health costs should be explored in much greater detail, such as: restricting the schedule to essential cheaper medicines only; curbing the tax incentives for drug advertising; and doctor and patient education. At present there are strong incentives for firms to promote expensive drugs. Another option would be to apply price/volume controls.

For various reasons (some administrative and some demographic) there has been a significant rise in the number of people of disability related benefits over recent years. A range of policy solutions need to be developed to meet the needs of people with disabilities –such as removing barriers to employment, especially at key life transition points, targeted and intensive employment assistance, work place redesign and accommodation, and employer and community education.

It should be noted, that Australia, like the US, has a relatively young population compared with many OECD countries. Peter Drucker's work shows for instance that by 2050 Australia's 60 plus population is likely to be between 25-29% with a life expectancy of 83 years, while European countries like Italy, Greece and Spain will experience levels of over 40%, Germany and Sweden between 35 and 39% and France, Canada, and the UK at around 30-34% of the population.<sup>5</sup>

Further, Australia has very high level of foreign born population compared to other OECD nations. Immigration has been and is likely to continue to be a central tool in encouraging cultural and economic growth. Australia, along with Switzerland and Canada, are the top three performers in this regard, with Australia having 23.4 % of its population born overseas in 1998. But for many countries around the world attempting to stem the decline in their workforce through immigration will require unprecedented levels of immigration. Most immigrants are young, and the birth rates of the first generation tend to be higher than in

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<sup>5</sup> Drucker, P: [A Survey of the Near Future](#), in The Economist, November 2001.

their new home. The cultural diversity that immigration brings is also seen by many futurists to be of economic advantage and the capacity to deal in a variety of global markets. All this aside, debates about the level of immigration and its contribution to growth vis a vis its tax on the environment, and call on existing resources are politically charged and highly controversial and need careful consideration.

The decline in the younger population will have significant effects on life experiences, markets and the political landscape across the world. Many people especially older workers are likely to continue to work beyond current retirement standards - most likely in part-time and contracted arrangements. Employment, will need to take on new patterns to attract and hold older people, especially those associated with the so called 'knowledge economy'. There is likely to be distinct work forces made up of older workers and younger workers with different needs relative to their point in the life course. A key policy issue will be to adapt and develop training, education and employment assistance to meet the range of population needs.

A critical issue here will be the role and capacity of informal carers, especially older workers, who will be increasingly attempting to balance caring for their parents with maintaining labour market attachment.

The current crisis in affordable housing will also need to be addressed to avoid an even greater crisis down the track. ACOSS analysis shows almost 90,000 low income Australians in the private rental market are now paying more than 50% of their income in rent. A decline in real terms of more than a quarter (28%) in Government investment in public and community housing has exacerbated the problem and ACOSS estimates it could take almost 70 years to clear the backlog of people waiting for public housing. A lack of stable and affordable housing traps many people in a cycle of poverty and joblessness.

Australia's aged care system remains heavily located in residential care, despite the development of the Home and Community Care (HACC) system. Alternative ways of funding and managing aged care costs need to be on the agenda. In many countries policy is increasingly focussed on separating provision of and payment for care from provision and payment for accommodation. This reflects recognition that that increased numbers of older people have improved health status, improved assets and increased capacity and preference for independent living. In Scandinavia for example nursing costs have been separated from accommodation which has allowed similar services regardless of living circumstances to be accessed. Home Care services have also been expanded to a 24 hour service. This has had the dual effect of reducing the need for costly institutionalisation and long term emergency admissions to hospital.

Education and child care costs are likely to fall due to a relative decrease in the proportion of younger people in the population. However, we are already facing shortages in key service professions in

areas such as nursing, child care, teaching, and community based care. The ageing of the population and growth in numbers of people with disabilities will only exacerbate this situation. It is appropriate to take a long-term view of the investment options to redress these problems and the employment opportunities these represent.

The state of Indigenous health, educational attainment, and employment prospects remains a national tragedy, despite the rapid growth in the numbers of Indigenous young people. As Graeme Hugo and others have noted the Indigenous population has a significantly younger age structure than that of non-Indigenous Australia with 40 per cent aged less than 15 years in 1996 compared with 22 per cent in the non-Indigenous population. The Indigenous population grew by 55 per cent in the ten years to 1996 compared with 12 per cent for the non-Indigenous population. Gray (1997) estimates that the population will increase to 497,181 in 2011, 2.4% of the total Australian population.

<sup>6</sup>These Australians must be a key focus for investment if the next generation is to be truly included in social and economic life.

Moreover, much more work needs to be undertaken to alleviate poverty and disadvantage and overcome exclusionary policies that mean:

- there are over 850,000 children are growing up in jobless families,
- the long term unemployment rate remains at around 380,000, the same as it was six years ago
- the average duration of a spell on Newstart is now 2 year and a half years
- the economy is not producing full time secure employment for those who want and need it.
- Disadvantage is increasingly being concentrated in particular locations and regions.

Yours sincerely



Andrew McCallum  
President

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<sup>6</sup> Gray, A.: Growth of Aboriginal and Torres Strait Islander Population, 1991-2001 and Beyond, CAEPR Discussion Paper No 150, Centre for Aboriginal and Economic Policy Research, ANU, Canberra, 1997.

**List of publications enclosed**

ACOSS, *ACOSS Budget Priorities Statement 2003-04*

ACOSS, *Fairness and flexibility: Reform of workforce age social security payments in Australia*, Submission in response to Government discussion paper, *Building a Simpler System*, 2003

ACOSS, *Fairness and flexibility: Making superannuation work for low and middle income-earners*, Submission to the Senate Select Committee on Superannuation's inquiry into superannuation and standards of living in retirement, ACOSS Paper 123, May 2002

ACOSS, *Inquiry into employment: increasing participation in paid work*, Submission to the House of Representatives Standing Committee on Employment and Workplace Relations inquiry into employment: increasing participation in paid work, September 2003

ACOSS, *Key Causes of the Rise in Disability Pensioners*, ACOSS Info Paper, 2002.

ACOSS, *Submission to the Productivity Commission inquiry into the Job Network model*, November 2001

ACOSS, *The Bare Necessities: Poverty and deprivation in Australia today*, ACOSS Paper No.127, 2003

ACOSS, *The Obligation is Mutual: New Directions for Employment Assistance in Australia*, ACOSS Paper 120, February 2002

Mitchell, M.: *Gazing into the fiscal crystal ball: the first Intergenerational Report*, in ACOSS Impact Budget Special, June 2002.