

The New Super Landscape

– What Lies Ahead for Wealth Managers

SEMINAR



Institute of Actuaries of Australia

Thursday, 30 November 2006

AMORA JAMISON SYDNEY, 11 JAMISON STREET, SYDNEY

Population Ageing, Government Budgets and the Baby Boomers

Ann Harding

Presentation to the

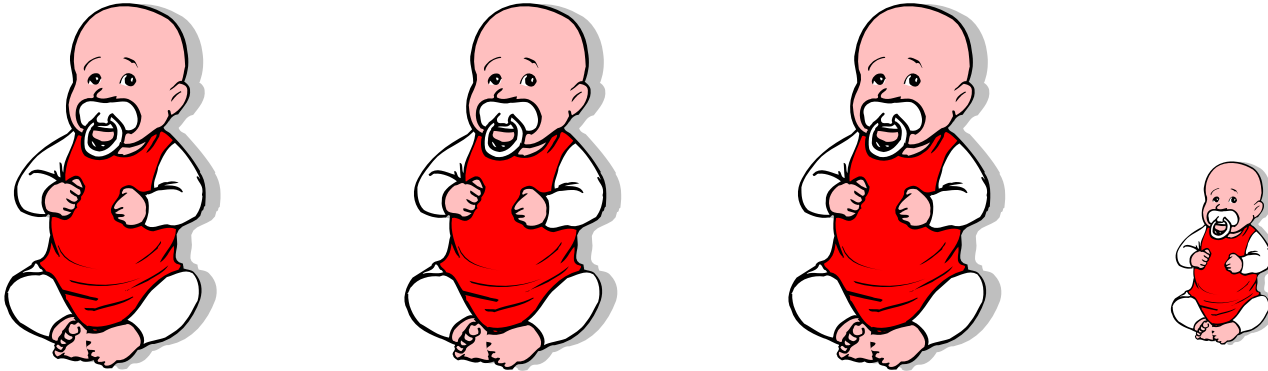
**Institute of Actuaries of Australia Conference on ‘The
New Super Landscape’, Sydney, 30 November 2006**

NATSEM, University of Canberra

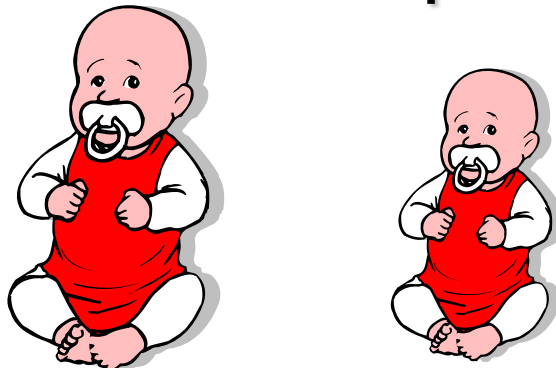


Fall in fertility

- 1961: 3.5 births per woman

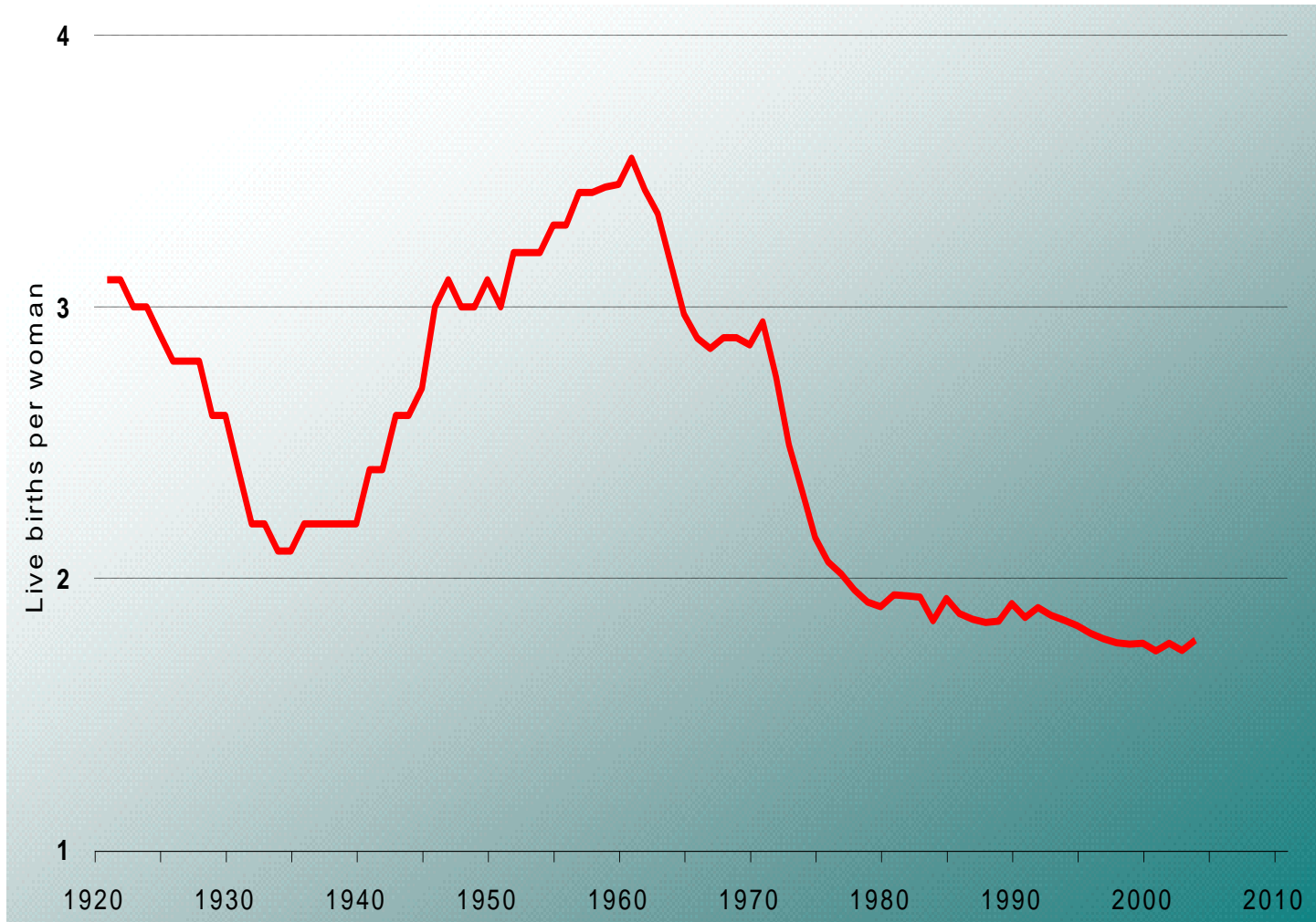


- 2002: 1.8 births per woman



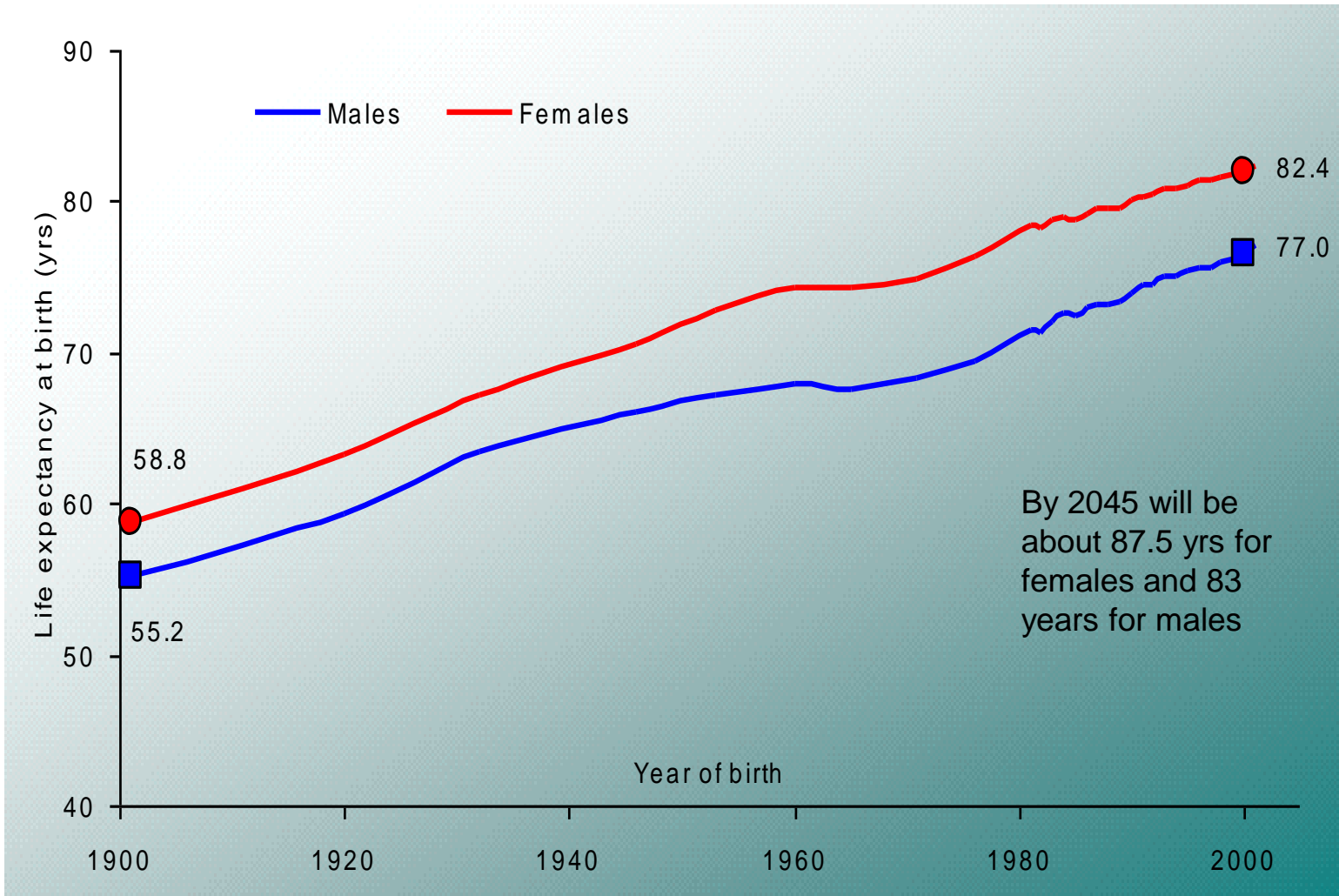


Baby boom followed by baby bust





Increasing life expectancy





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One retiree



1960 (<1 million aged 65+)

7.3 working age





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2040 (6.58 million aged 65+)

One retiree

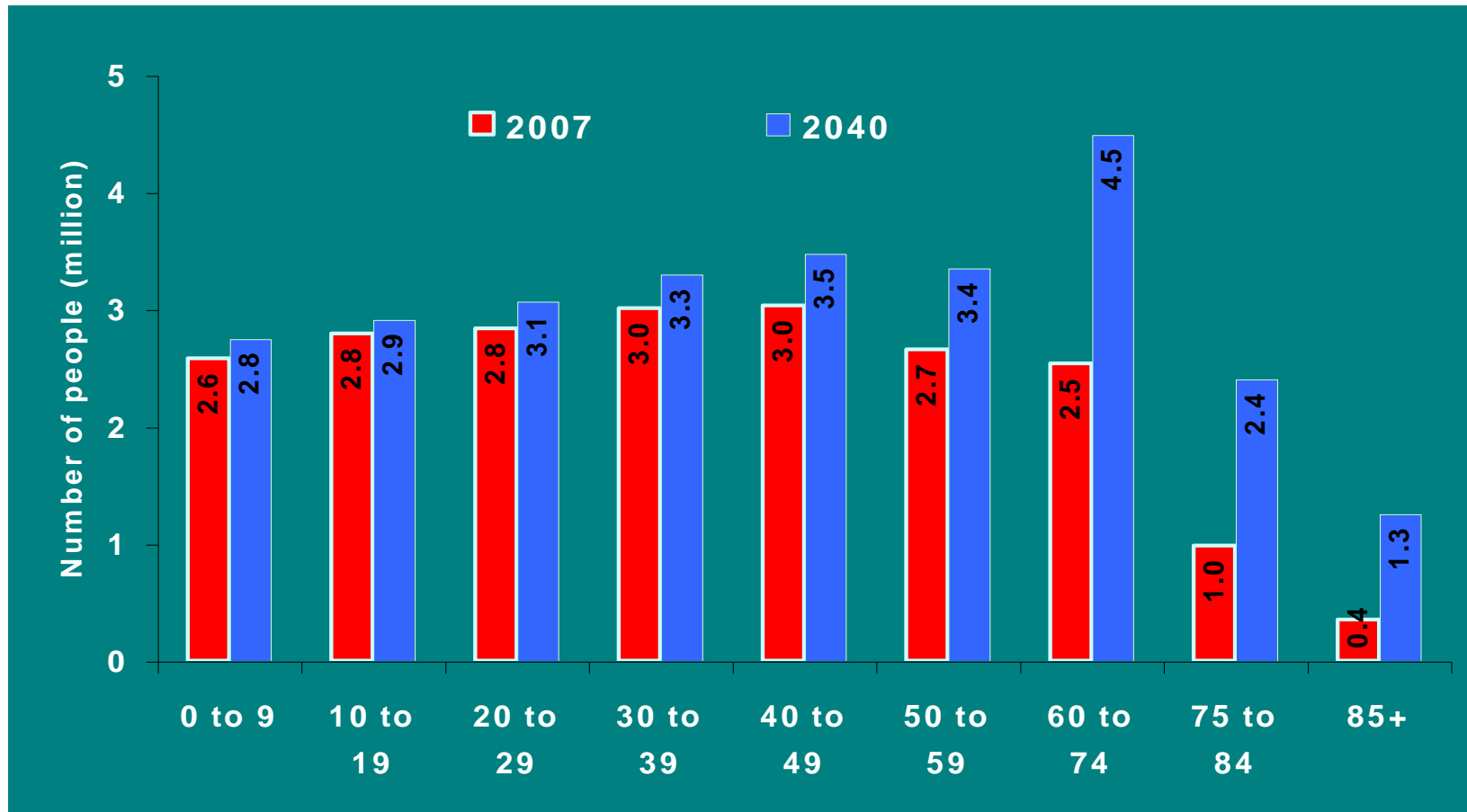


2.4 working age





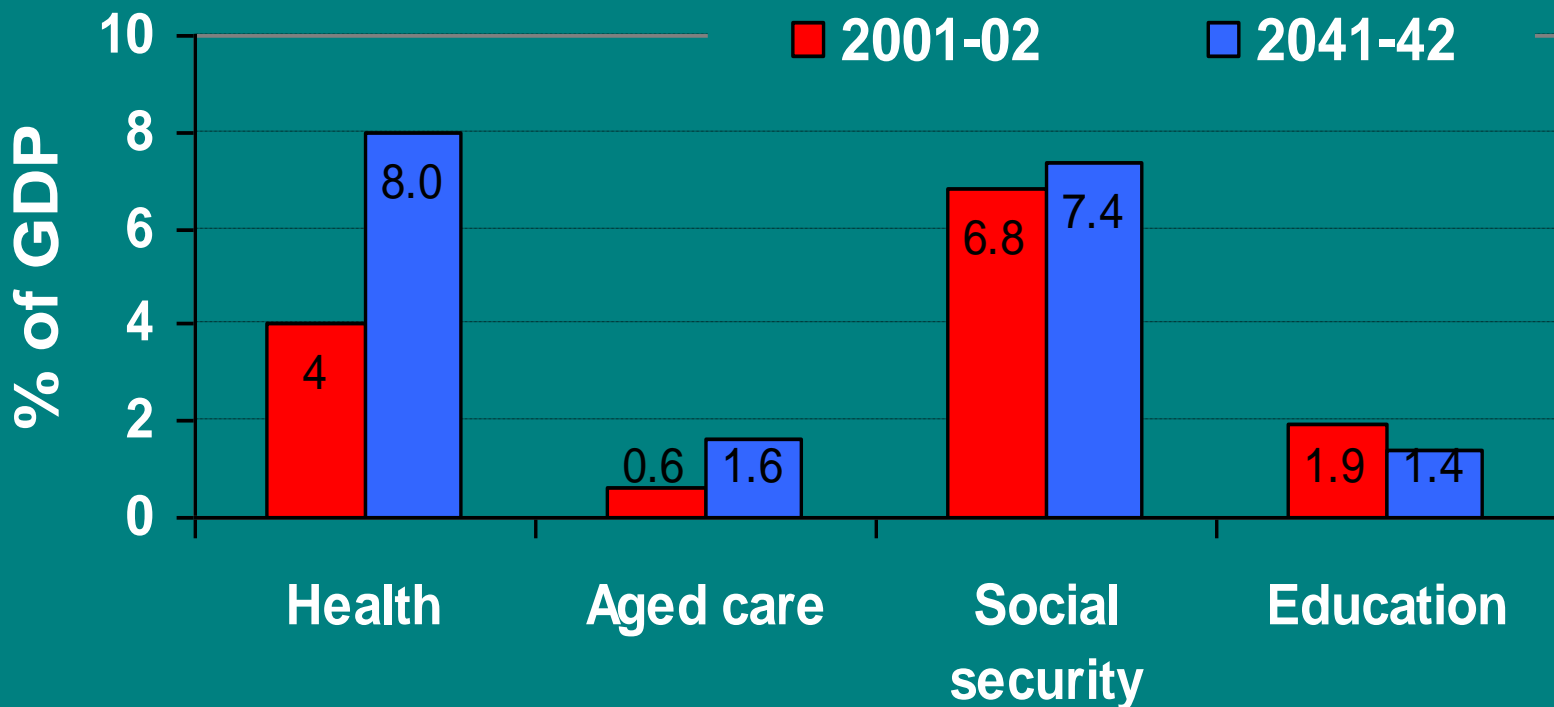
Growth in the 'old' old





Resulting in much higher health and aged care costs

Projected Commonwealth spending by category

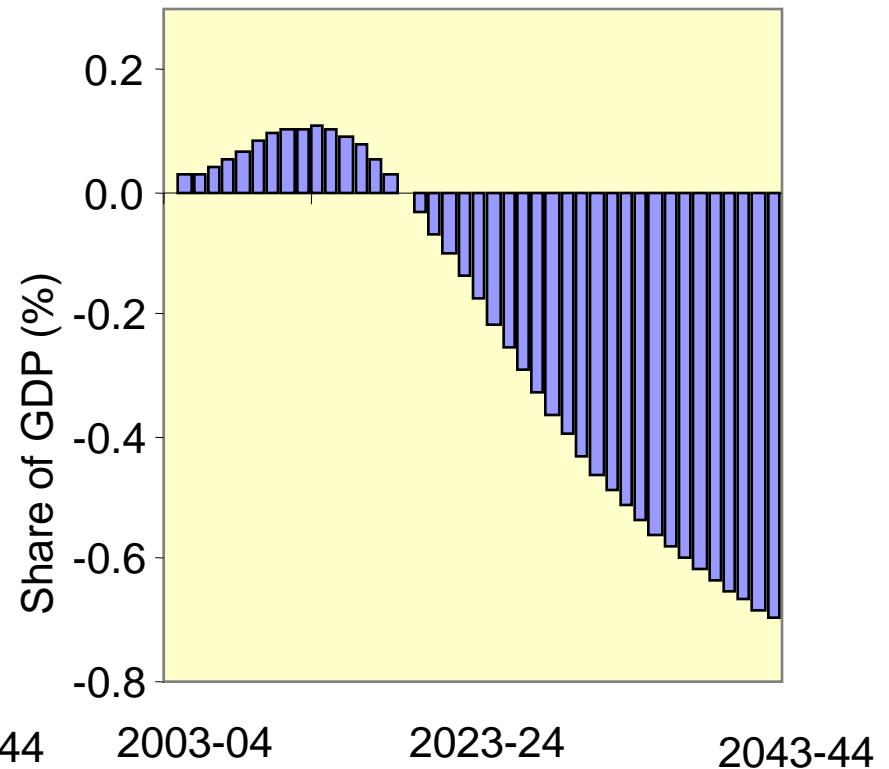
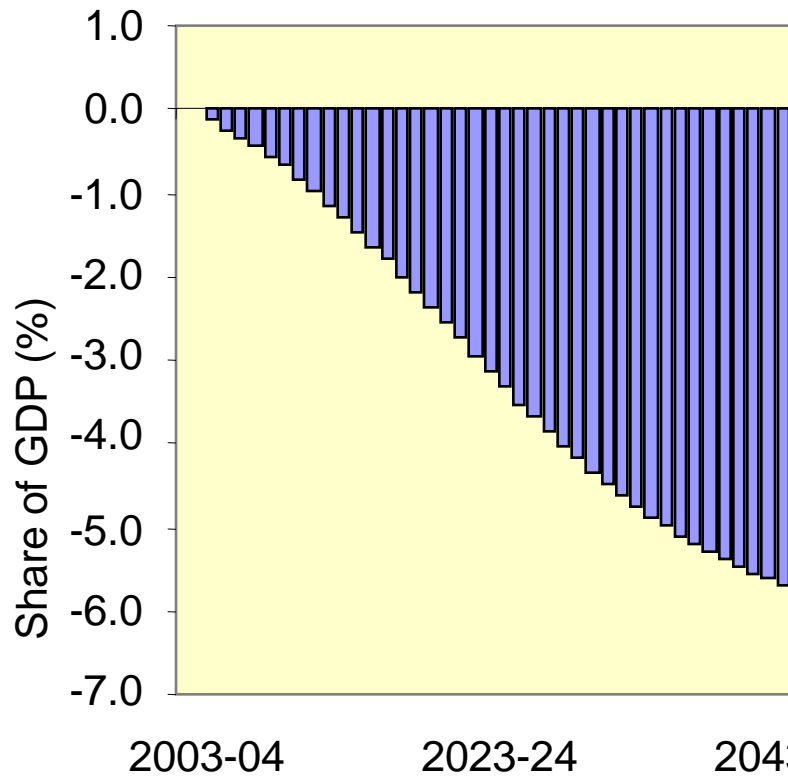




The future fiscal gap by level of Govt

Australian Government

Combined States





The policy response?

- ‘Future generations of taxpayers would face higher taxes ... or governments would need to reduce the projected growth in spending’ (IGR, p. 6)
- Projected magnitude of gap of 5% of GDP in 2042 equals ‘the entire amount allocated to health’

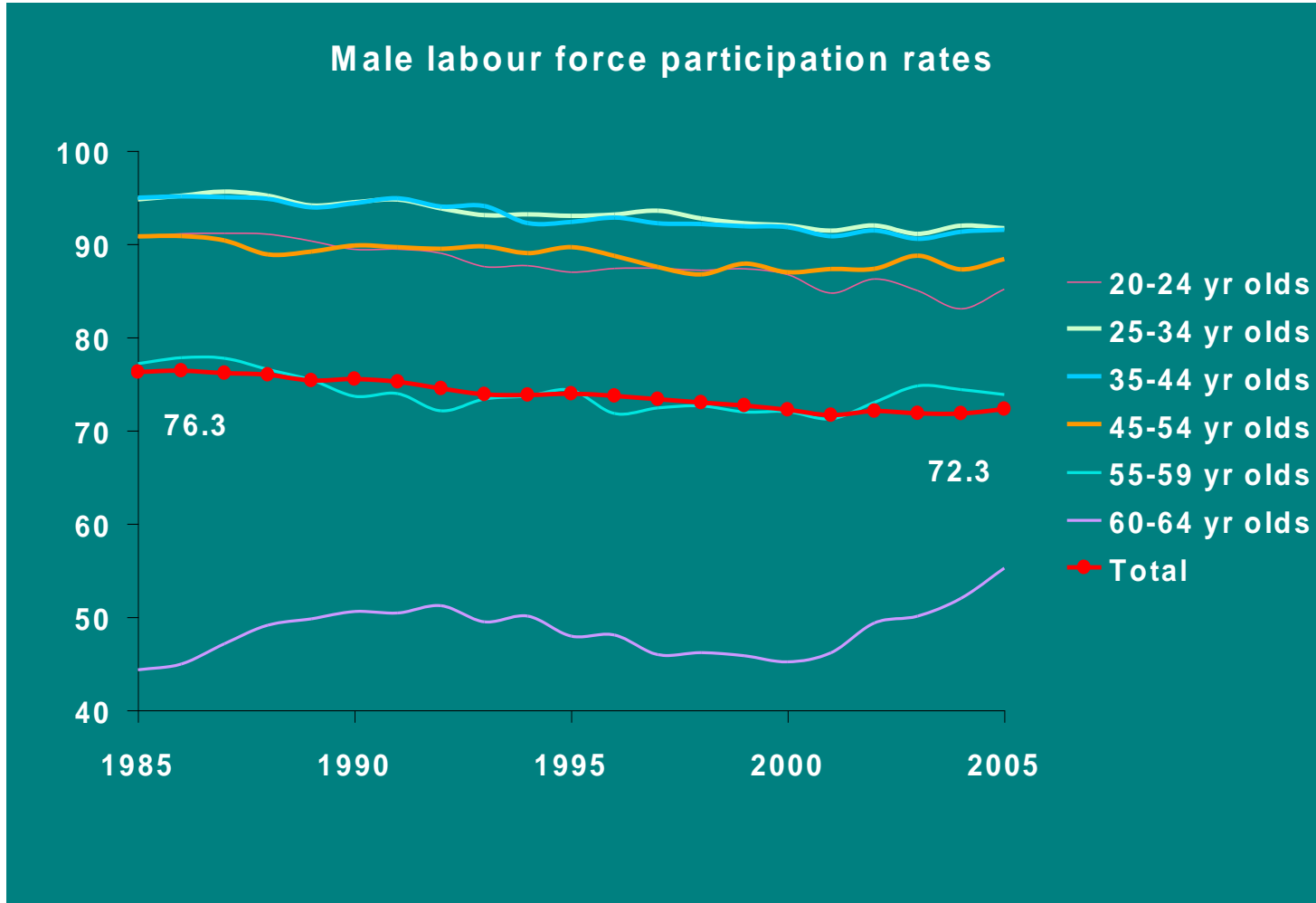


The ageing population and future labour supply



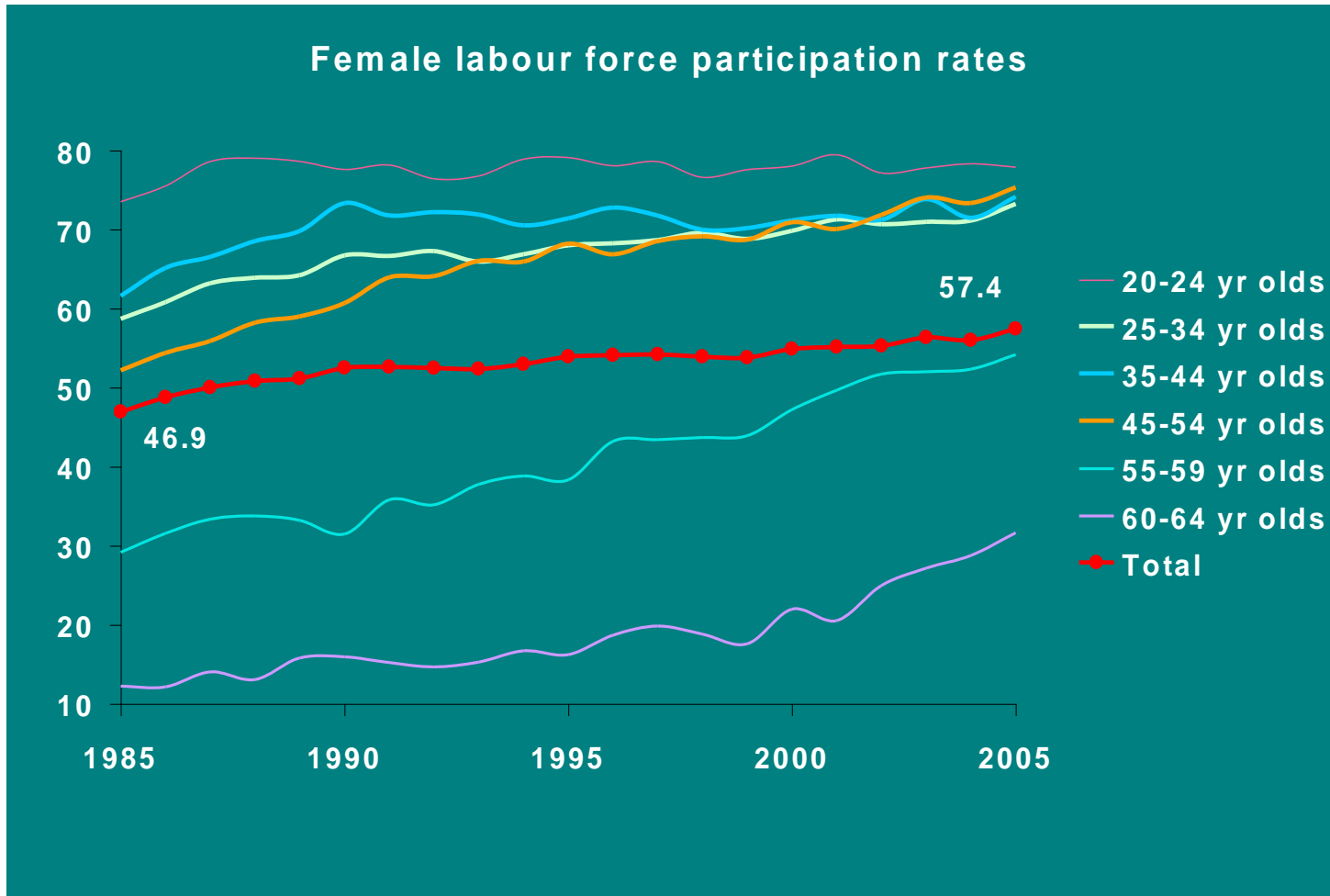


Males drop out of the labour force



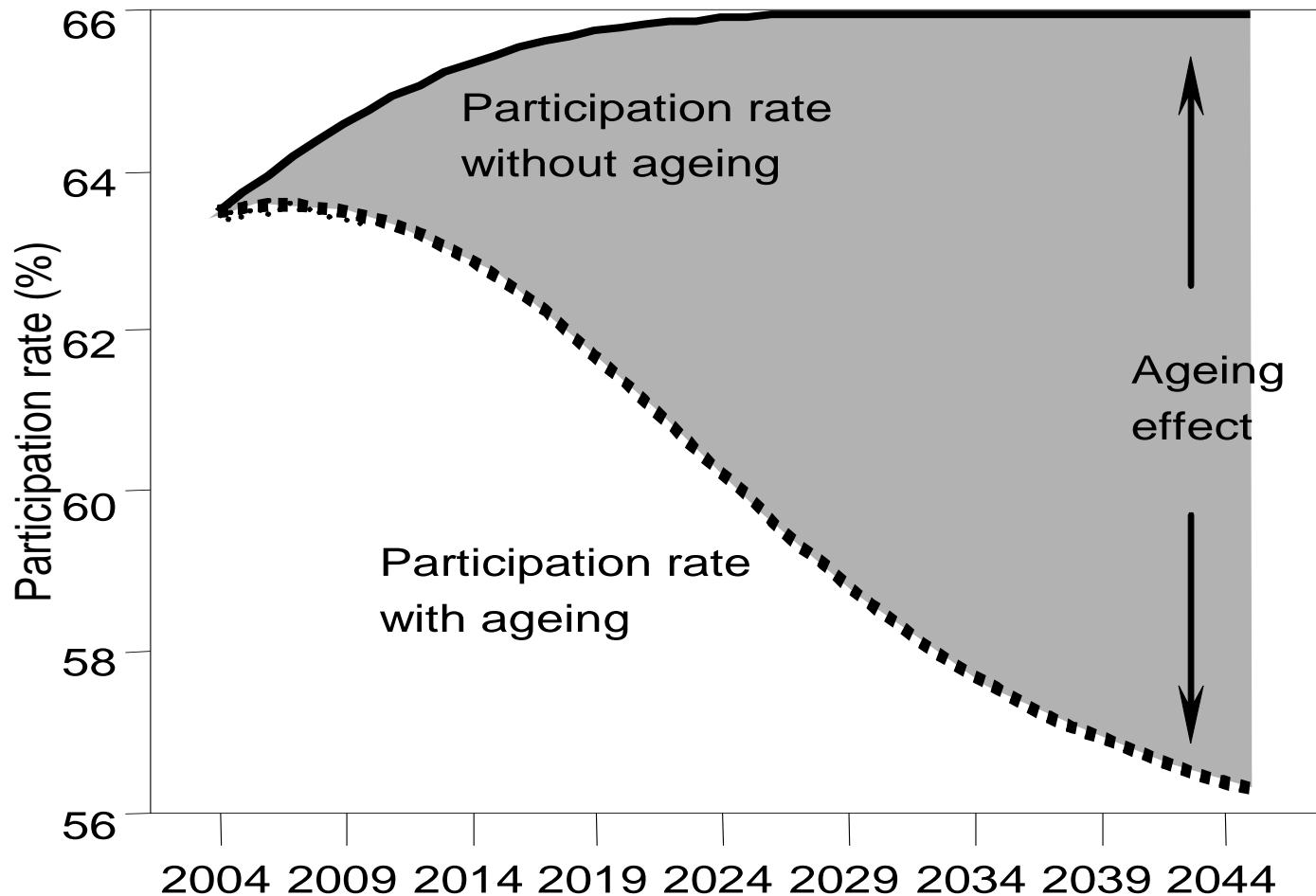


While women join the labour force



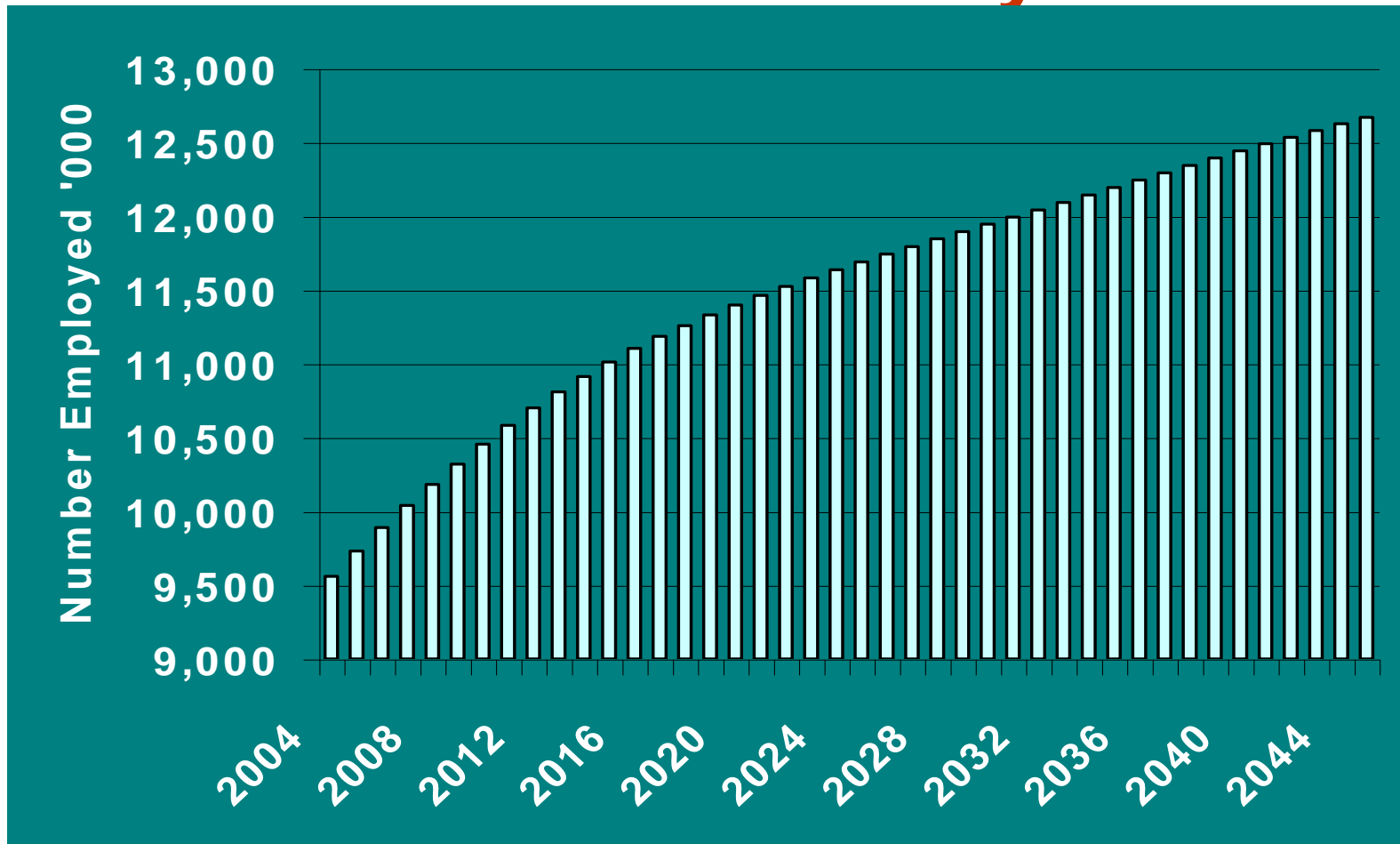


Decline in future participation rates





Total number of workers to increase much more slowly





Overall impact ...reduced economic growth over next 40 years

- Average growth rate last 40 years

3 ³/₄ % per year

- Average growth rate next 40 years

2 ¹/₄ % per year



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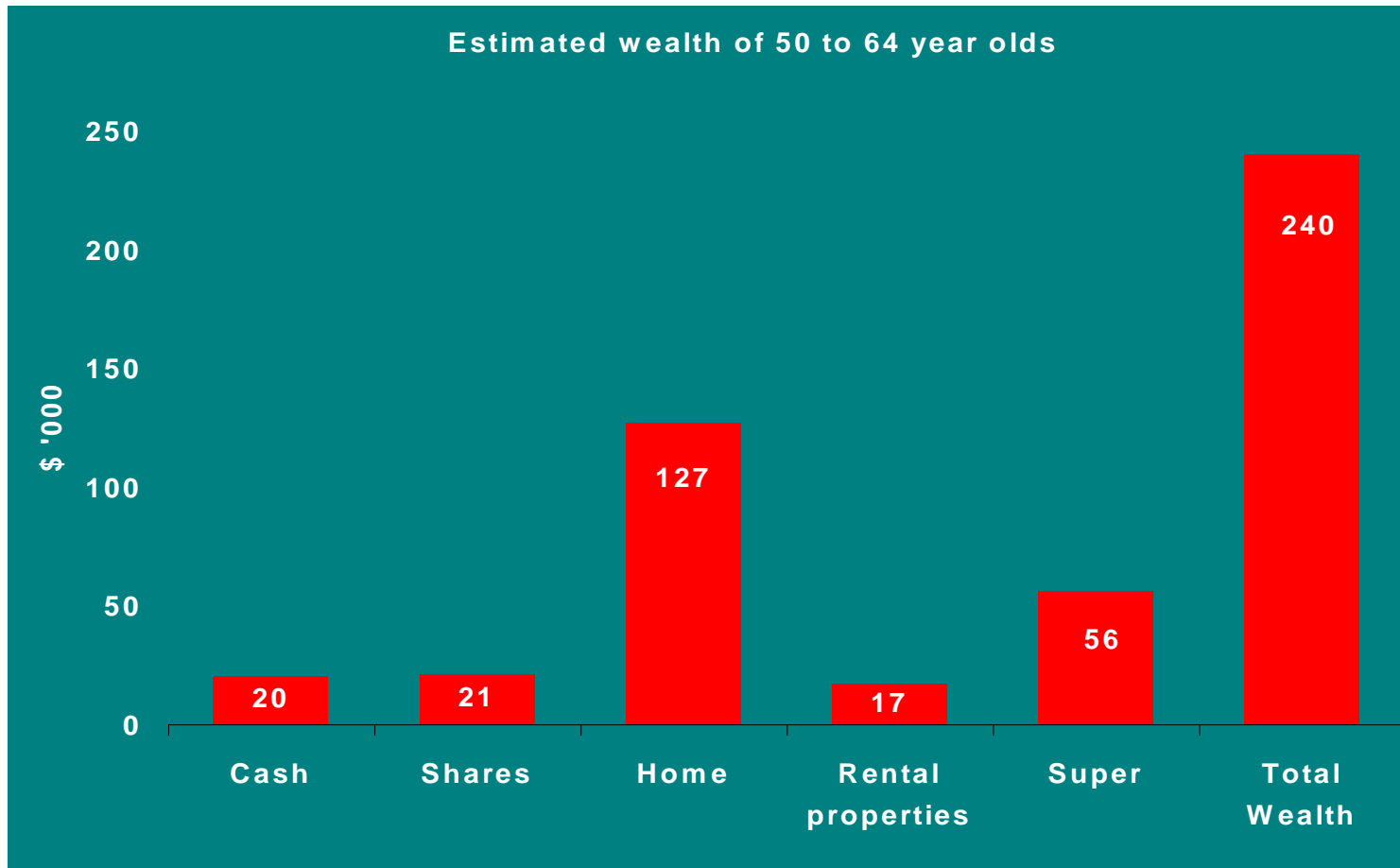
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A comfortable retirement for the boomers?

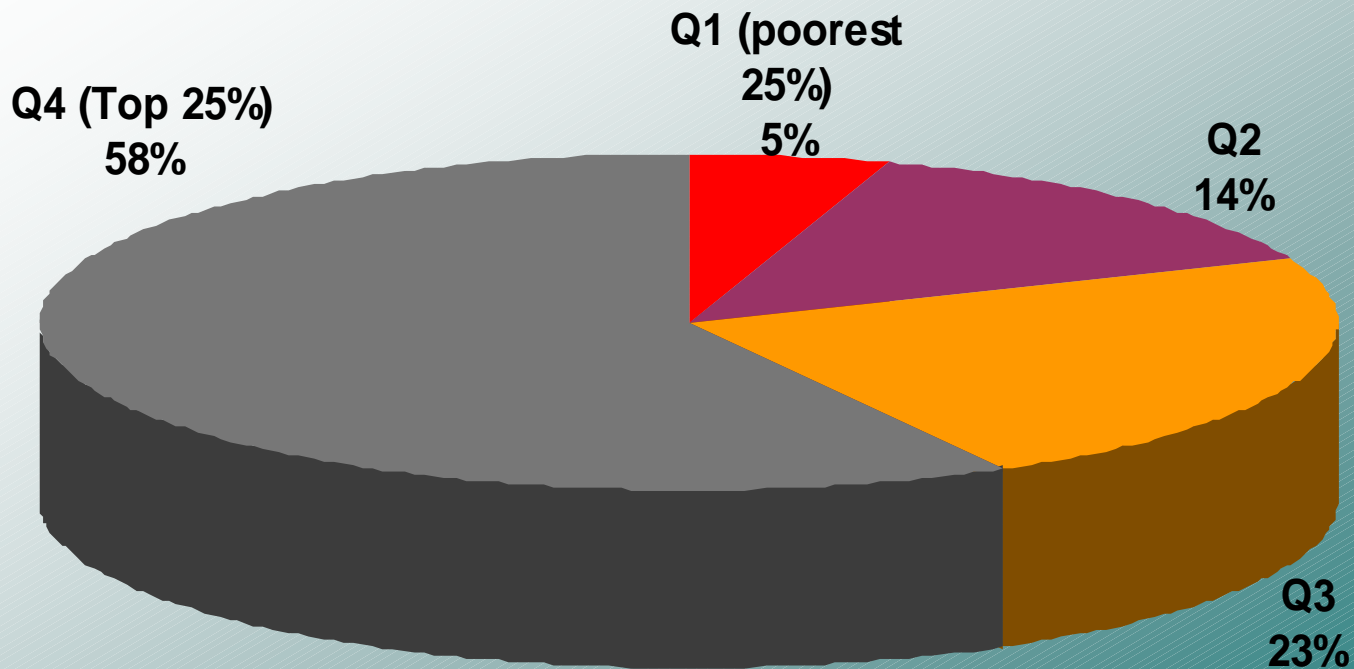


Baby boomers have not saved enough for a comfortable retirement





Distribution of wealth, 50-64 yr olds



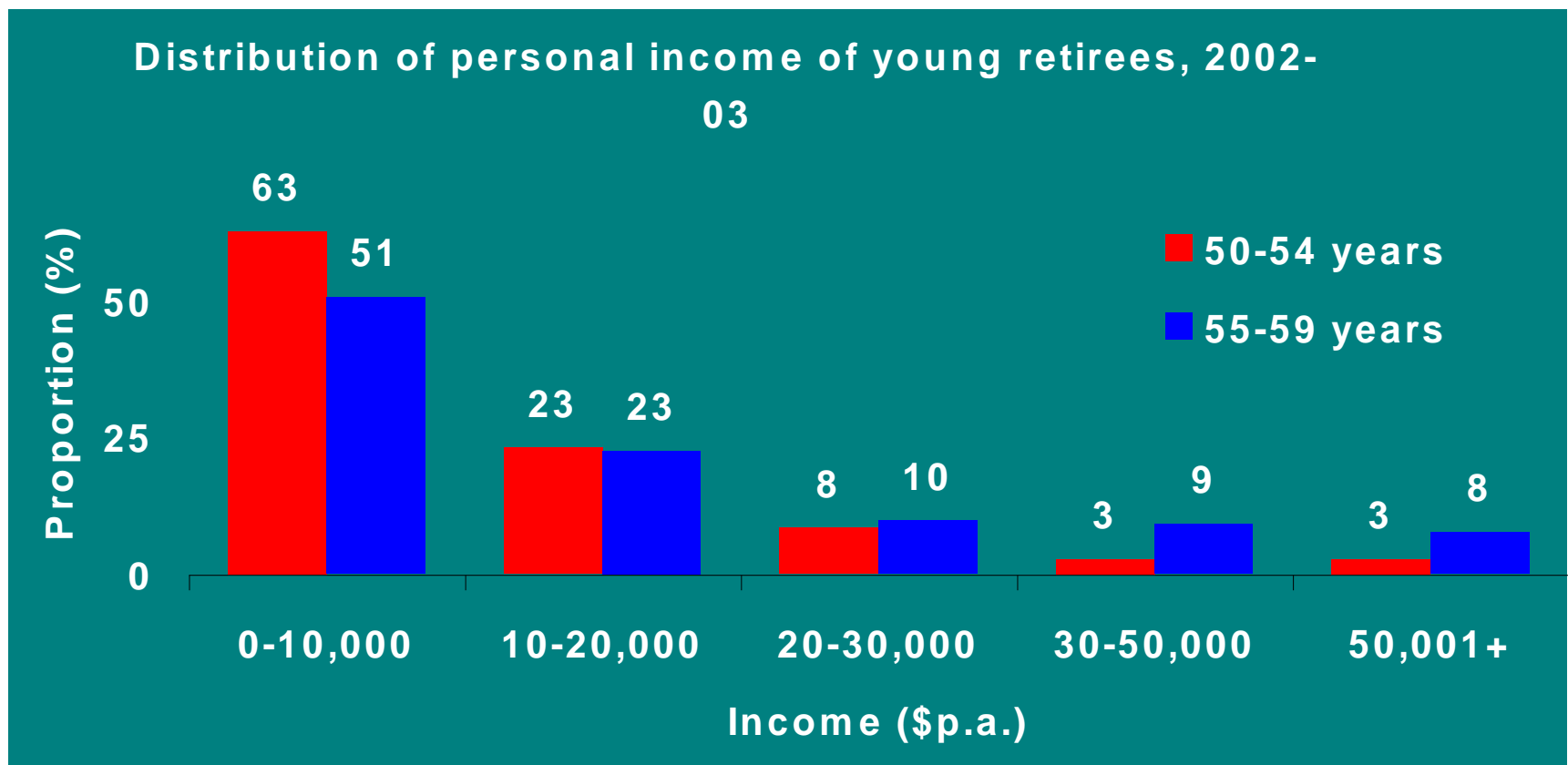
*Estimated proportion of total wealth of 50-64 year olds, by quartile, January 2002

Source: AMP.NATSEM Income and Wealth Report No 2, p.9



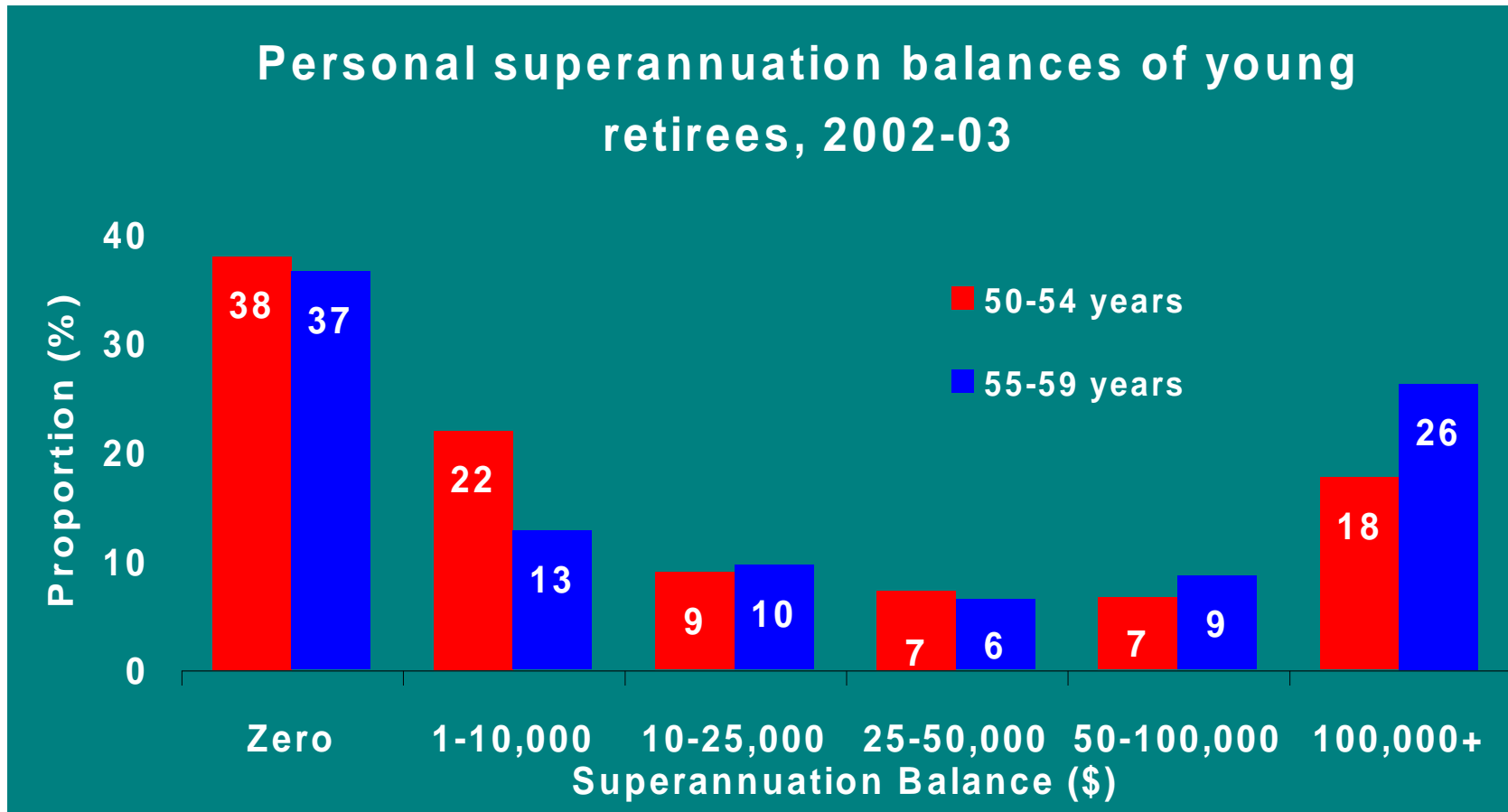
Early retirees have very low incomes

1/4 of men, 1/2 of women retire before age 60





And almost no superannuation





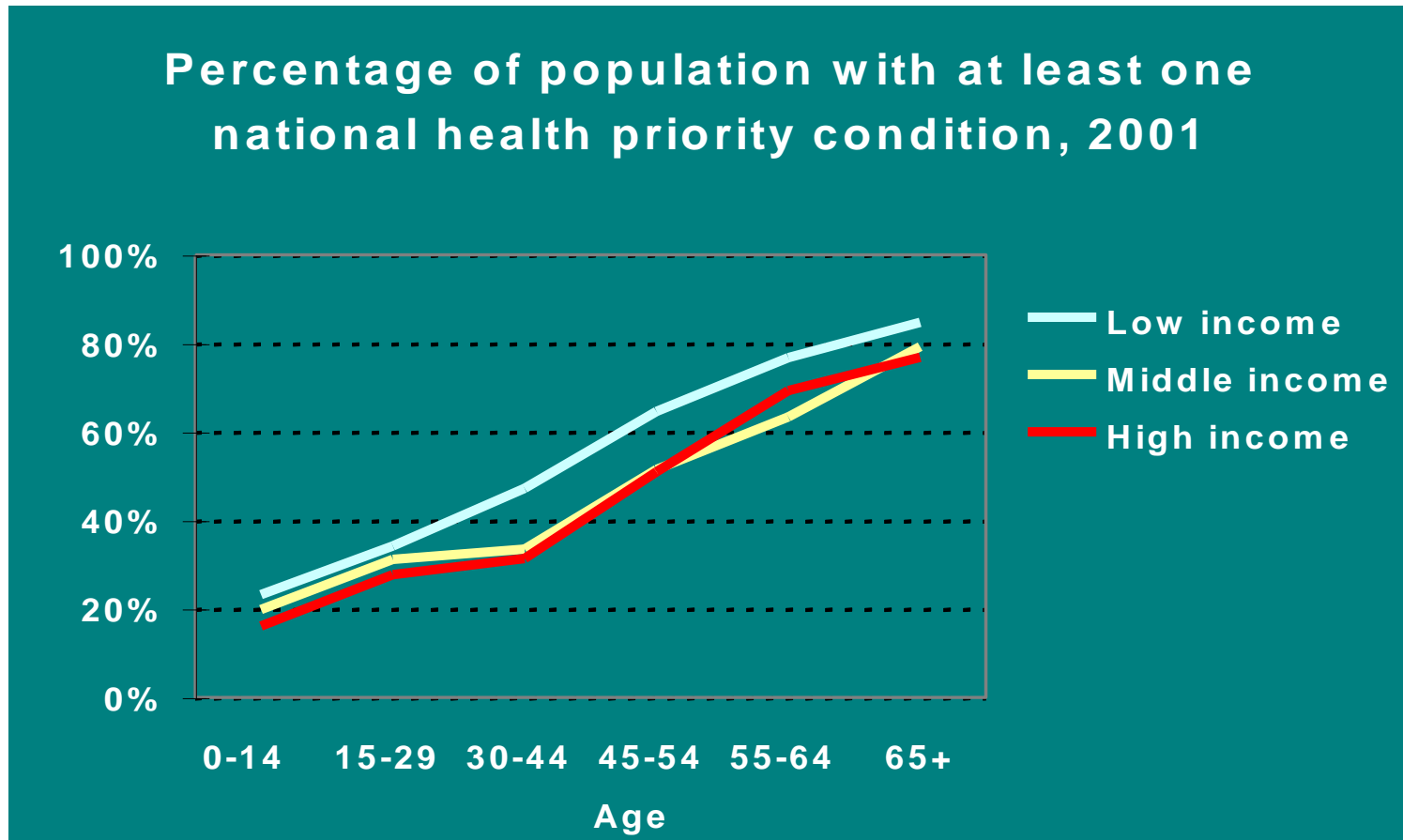
Treasurer's view

“As our retirement income system matures, is it fair to allow those with superannuation assets to retire early, run down their assets and then rely on taxpayers to fund the major part of their retirement? This is an important issue that we will need to consider very carefully.”

Costello, 2004



Improving health to allow longer working years now a high priority

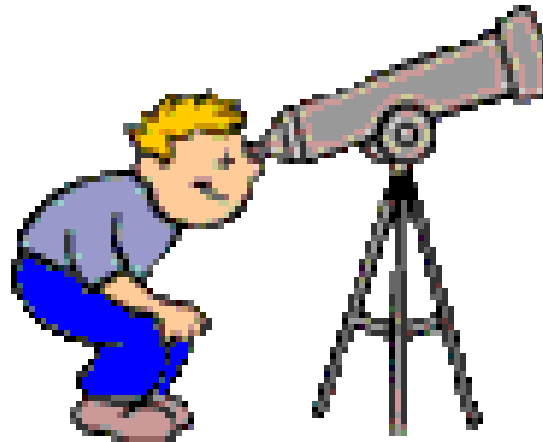




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Projecting the future

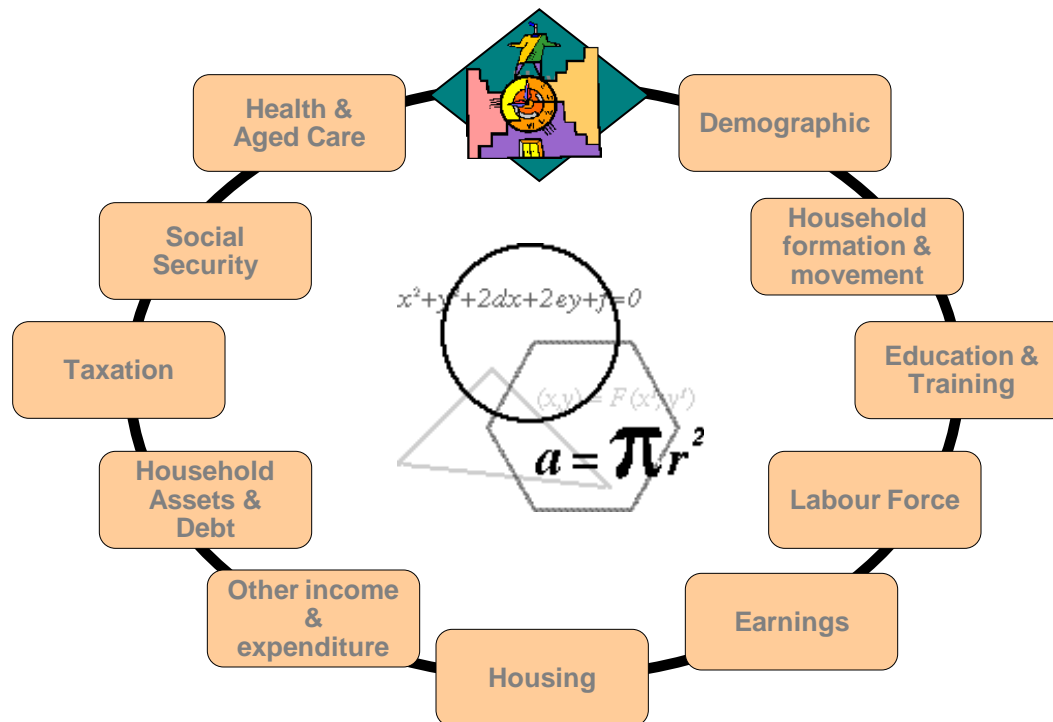


Dynamic microsimulation: assessing the future distributional impact of policy

- Modelling underlying the IGR is at an aggregated level: cannot be used to predict distributional consequences of possible policy options that will be on the table
- Dynamic microsimulation models of *individuals* that project population forward through time are required
- Such models now exist within govt in the US, Canada, Norway, Sweden, the UK, France, Italy, Austria, the Netherlands, and Denmark
- NATSEM and 13 Comm govt agencies last year started 5 year project, with ARC funding, to develop APPSIM (the Australian Population and Policy SIMulation model)



APPSIM design – lifecycle simulation





Developing modelling infrastructure to look at equity issues associated with population ageing

- Who will pay the increased taxes predicted in the IGR?
- Who will pay more for their pharmaceuticals, medical services, education, child care, or aged care?
- What will be the impact between the different generations?
- Modelling to help ensure that we cope with the impacts of population ageing in the fairest and most efficient way



Policy responses to population ageing

- Treasury's 3P's - population, participation, and productivity
 - Govt focussing on welfare, workplace and labour market reform
 - Reforming super'n; encouraging business to look at older/disadvantaged employees; chronic diseases and LFP
 - Immigration very partial solution
- Age pension reforms
 - Impose an upper limit on exemption of home from the pension means test
 - Raise age at which get pension beyond 65 yrs



Conclusions

- Effective labour supply growth to slow sharply in less than 10 years time
 - Lower labour force participation rates
 - Reduced average hours
 - Slower growth in worker numbers
- But about 1/4 of men and 1/2 of women retire before age 60
- Most 50-64 year olds have not saved enough for a financially comfortable retirement
- Many baby boomers will need to work longer and save harder if they want a comfortable retirement
- Economic growth to slow and fiscal pressures on govt to increase



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