

# Australia's Demographic Challenges

*Australian Federal Government – Department of the Treasury*

The Australian Government's Intergenerational Report (IGR) projects that over the next 40 years, the proportion of the population aged over 65 years will almost double to around 25 per cent. At the same time, growth in the population of traditional workforce age — 15 to 64 — is expected to slow to almost zero.

This will have a profound effect on the economy and, potentially, on our living standards. The recent stagnation of the Japanese economy has been at least partly driven by its rapidly ageing population, and provides a warning to Australia to start preparing for these issues now. Over time, the ageing of our population will result in a greater demand for Age Pensions and health and aged care spending. And the need to keep up with changing technology and community expectations of accessing the most advanced diagnostic tests and medical treatments is putting ever increasing demands on health spending. The IGR projects that these pressures will continue.

Some people argue that we don't need to take steps now to address the ageing of the population. After all, some of these demographic changes have a long way to go before they fully work out. But just as demographic change takes a long time to take effect, so too does the policy response to the change require a long time to take effect. The people who will be carrying the tax system in 40 years time have already been born. There are long lead times in implementing change in the area of their retirement incomes. To achieve worthwhile change in 30 or 40 years time requires action now.

## The Australian population is ageing

In the past Australia was a relatively youthful country. In 1970-71, 31 per cent of the population was aged 15 years or younger, while by 2001-02 this proportion had dropped to 22 per cent. The proportion of Australia's population aged over 65 years has grown from 8 per cent in 1970-71 to 13 per cent in 2001-02. This is a permanent change – moving to 25% in 40 years. Barring an unprecedented change in fertility rates, the age structure of the population is likely to stabilise with a far higher proportion of older Australians.

While these overall demographic considerations will drive national outcomes, there will be differences between regions. For example, some regional areas attract retirees and will experience a more rapid ageing of their populations. In others there is migration of many young adults from rural and regional areas to metropolitan areas. In addition, the demographic profile of indigenous Australians is strikingly different. More than half of the indigenous population (57 per cent) are under 25 years of age, compared to 34 per cent for the general population.

However, these differences do not affect the overall outcome. Between now and 2040 every State and Territory is expected to experience a significant ageing of its population. Ageing is an issue in which everybody has an interest.

## Why is the population ageing?

The ageing of the population is caused by two factors. Firstly, Australian families are, on average, having fewer children. Birth rates started declining in the late 1960s, and have been falling ever since (Chart A1). For the last 20 years or so the birth rate has fallen below the replacement rate — meaning that without migration Australia's population would eventually begin to fall.

The decision to have children is certainly an individual one — it is not (and should never be)

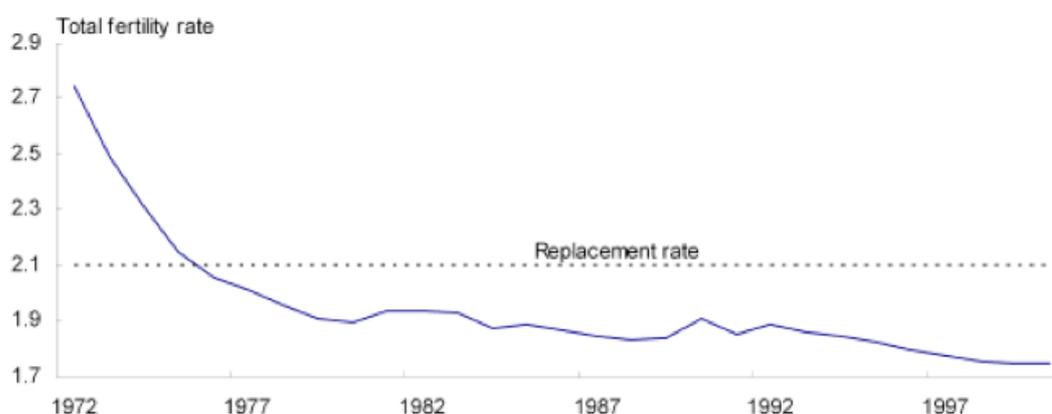
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the role of governments to tell citizens how many children they should have. However, governments can ensure that programs are in place to assist parents in bringing up their children.

The Government has already introduced extensive changes to taxes and benefits to assist families. Analysis has shown that the tax and social security system is neutral in its treatment of dual versus single income families. That is, the balance of the system is about right.

The Government is now looking at how assistance to families may be further improved so that there is maximum choice available to parents in balancing work and family responsibilities. One aspect of this choice is ensuring that employers and employees have the flexibility to reach mutually beneficial working arrangements — including through part time or flexible work.

*Chart A1: Australia's historical fertility rate*



The second factor contributing to the ageing population is that we are living longer. For example, in 1960 life expectancy for males at birth was around 68 years. Today it is 78 years, and in 2042 the IGR projects it to be around 83 years. Similar increases in life expectancy have occurred for females.

With fewer babies being born, and more people living longer, it is inevitable that the population will get progressively older.

## Immigration

Some have argued that immigration levels can be increased to address population ageing. Because migrants are predominantly of workforce age, migration will assist in keeping up workforce growth. Moreover, if they are skilled they will raise general skill levels and productivity. This is in fact happening. The Government recognises that the greatest gains to Australia come from young skilled migrants, and has shifted the balance of Australia's Migration Program from less than 30 per cent skilled in 1995-96 to more than double that proportion in 2002-03.

But increased migration cannot prevent our population from ageing. This is because migrants who come to Australia will age along with the rest of the population. To maintain Australia's existing age structure through immigration would require increases in immigration every year — and the increases would need to become progressively larger and larger to take account of the ageing of the migrants themselves. While there are undoubted benefits in maintaining net overseas migration, migration cannot stop the ageing of our population.

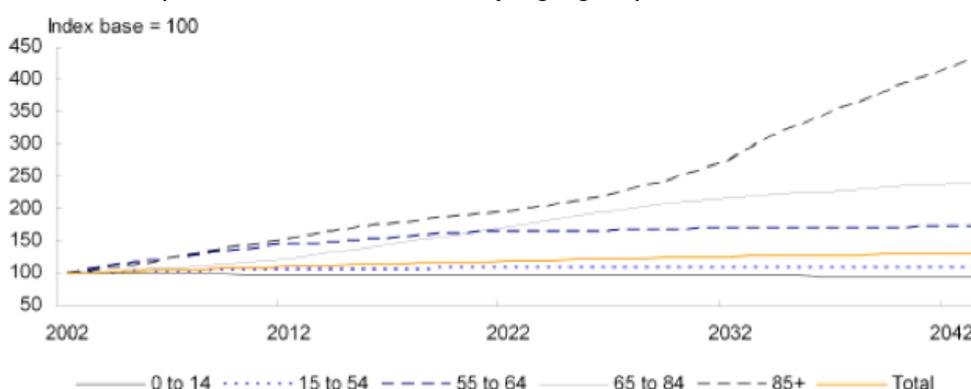
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### Should we be concerned that the population is ageing?

Yes — the decisions that we take today will affect our children and their children. Our society will look quite different to what it does today. Quite simply, there will be many more older Australians than there are today. The number of Australians aged 65 and over is expected to increase rapidly, from around 2.5 million in 2002 to 6.2 million in 2042. That is, from around 13 per cent of the population to around 25 per cent. For Australians aged 85 and over, the growth is even more rapid, from around 300,000 in 2002 to 1.1 million in 2042 (Chart A2).

At the same time, growth in the number of people of workforce age is expected to fall from around 1.2 per cent per annum over the last decade to almost zero in forty years' time. In 2002 there were more than five people of working age to support every person aged over 65. By 2042, there will only be 2.5 people of working age supporting each person aged over 65.

Chart A2: Population Growth Indices by age group

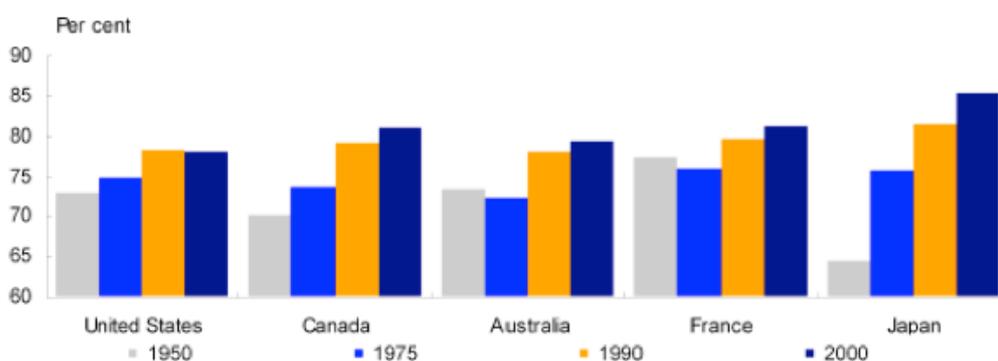


### The experience of other countries

Falling birth rates are not unique to Australia. In fact, birth rates have been falling in all the advanced industrial countries — and many are currently lower than Australia's. Low birth rates largely reflect increased choices available to women, including access to birth control, access to education and employment, and higher living standards.

Chart A3 below shows how the proportion of the population aged over 15 has changed in Australia, the United States, Canada, France and Japan. This ratio has generally risen over time in each country.

Chart A3: Proportion of Population Aged Over 15



Data Source: World Population Prospects Database, United Nations Population Division