

The challenges and opportunities of an ageing society

Challenge Overview Sheet

Britain is facing a dramatic shift in its population age structure. Caused by both a declining fertility rate and a rising life expectancy rate. The consequences of this will be an ageing population. The impacts will include pressures on economic development, retirement, health and welfare provision. The discussion event at the Royal Geographical Society (with IBG) raised some of these issues and offered some debate as to how Britain should move forward.

Samira Ahmed opens the discussion by highlighting that for the first time in 2008 we reached a tipping point in the UK with the number of over 65s outnumbering the under 16s. With average life expectancy at 77 for men and 81 for women, what we should fear is living for 10 years in chronic ill health. The changes we are seeing in the UK's demography have resulted in changing health demands, which could result in the NHS going bust. Pensions are facing a major overhaul, with final salary pensions being scrapped. Changes in social attitudes have resulted in a greater number of women working and immigration has filled the gaps in the job market.

In his presentation **George Magnus** begins by pointing out that the issues, vital though they are; don't go to the heart of ageing populations. He explains that it is not just about people living longer but the unique change in the age structure of our population. The proportion of over 65s will double over next 30 years and the number of people of working age will stagnate or decline. This will have a number of significant consequences. The unique population age structure that Britain is experiencing is due to both the rise in life expectancy and a declining fertility rate. Ultimately, this will result in a situation where we have insufficient children to look after tomorrow. Incentives need to be available in order to encourage people to have more children. For example France, Russia, Spain and Denmark all offer financial incentives for families to have more than 2 children.

The first consequence that George Magnus discusses is that of economic growth. A steady labour supply is required if economic growth is to continue. So how can Britain ensure it continues to grow? The current economic climate sees rising pensioner poverty, a budget crisis, tax burden, dysfunctional companies and social friction. We are facing a solvency problem. People generally don't save enough for their pensions. In 2012 new legislation will be introduced. This coupled with increasing care costs means that in today's money we expect to need 350% of GDP. The age related costs of existing commitments are enormous. We need to find ways to meet these.

The solutions proposed include **immigration, participation and productivity**. We would need to double immigration from 250 to 400 thousand per year to meet the needs at current rate. Women and older citizens are under-represented in the workforce. In the UK 70% of women work but the current economic crisis may take its toll. In developed countries with highest rate of working women also have high fertility rates e.g. Scandinavia. Due to family friendly policies such as crèches, tax relief. Italy, Greece and Poland female participatory rate is less than 50%. Therefore, George Magnus argues that legislation is not the only solution. The solution is to change the work place in order to make it easier for women to work. Retirement age policies are largely based on those from the 1970's and 80's which were designed to alleviate youth unemployment. We are now faced with needing to extend working lives. George argues that 'cliff edge' retirement needs to change (the idea that you stop work on a Friday and have nothing to do on Monday). Flexible working and gradual retirement would relieve that state of financial stress. The final solution of increasing productivity requires state intervention to steer us. It will require an investment in human capital. George ends his speech by saying 'We are unprepared as individuals and a nation.'

Angela Eagle MP responds with a more positive outlook, stating that the ingenuity of human achievement has solved many of the problems that early economists presented and uses Thomas Malthus as an example. Changes in technology or a paradigm shift might be the solution. Angela goes on to discuss fertility and feminism; and points out that an absence of infrastructure in the workplace has not allowed women to have their needs met. For example, by allowing people with children or those caring for elderly parents to have careers breaks, we could reduce the care costs. Pensions in their current form are based on the Beverage Model i.e. they require a full time 40 year contribution – those mostly excluded from this are women. The government approach to doing nothing and allowing the shift from a ratio of non-working to working people from 1:8 in 1950 to 1:2 by 2050 is not a viable model. The Beverage Model was based on a retirement age of 65 but life expectancy was only 66.

Angela also highlights the need for greater inter-generation solidarity and a more atomised society. An atomised society means generations do not stay living together, we live in smaller groups (two generations as opposed to three generations for example) or often alone. There is an alienation and lack of understanding between generations and she points out that we have a lot to do culturally and socially; as well as setting the right legislation. The speech goes on to focus on pension policy and compares it to climate change; in that it is a re-engineering of an existing system. She concludes by saying 'we have to remember our optimism'. Challenges today have come about because of a great success of civilisation e.g. extending life expectancy and if we set off from that optimistic view that we can solve these issues.

Panel discussion

Q – *Scandinavia appears to have the perfect model, but they pay higher taxes. Could this work for Britain and the US?*

Responses – Angela offered the idea of informal care of children and the elderly; i.e. allowing families to be the carers. George provided an economist's view by saying that Scandinavia will eventually face the same age structure problems and we can not simply rely of taxation as a way out.

Q – *What impact will the recession have?*

Responses – In the long term the consequences will not remain. What the government is focusing on is healthy lifestyles (campaigns such as Change 4 Life).

Audience discussion

Q – *If you force young people to save for pensions, unless you restrict the ability to borrow money, you will achieve nothing. Would it be prudent to restrict borrowing?*

Responses - Angela – we have a very different regulatory regime than in the 1940's. There were imbalances with banks bingeing on credit from the Asian markets. I am not aware of any advanced government that has restrictions on borrowing. It is always left to the banks. It is a very different government that would get involved with restricting borrowing.

George – we have developed a culture of debt (deregulation – complex macro-economic issues) rather than thrift. We are going to see a change. Regulations need to be put into place.

Q - *It is hard to engage people in private savings when public sector is such a mess. The retirement age is increasing. Is it enough, is it soon enough. Will the percentage of GDP spent need to rise?*

Responses - Angela – legacy systems have to be run in parallel in order not to take away people's benefits.

George – We would like to see statutory retirement age to be abolished now, and introduce flexible retirement. The pension burden in the UK is not as big as many other countries. In act, pensions replacement in the UK is quite mean. Focus is on wider age related issues such as health care, old age care, disability benefits. We will probably need a rise by about 5% of

GDP. We have to find ways of generating these resources without putting too much burden on future generation.

Q - *The Venetian Empire saw doges of 70-85 years old. Would UK consider doing something radical? Should we halve tax for over 70's?*

Responses - Angela – ideas have to be put into the pot to be considered. How do we encourage more participation?

Samira – Can we learn from other cultures?

George – No. Japan for example has one of the highest rates of older workers but have no immigration and very low female participation. One way to compensate is development of robotics.

Q - *As people get older they get more cautious. Do we need to consider attitudes to risk (economic growth and re-engineering)?*

Responses - George – sociological evidence suggests that you become more risk adverse and less innovative. Not better or worse but different.

Angela – analysing risk going forwards can be done. How you assess and analyse risk needs more connections between long term policy making and choices. Economics only measures and values what is in the system. Why don't we value or take into account the work done to keep society going? Caring is excluded. If we are going to deal with the way our society is going to develop, we need to look at 19th Century analytical tools to see if we are including enough.