



Life After Blair public lecture series

The Ageing Society: challenges, opportunities and unnecessary scares

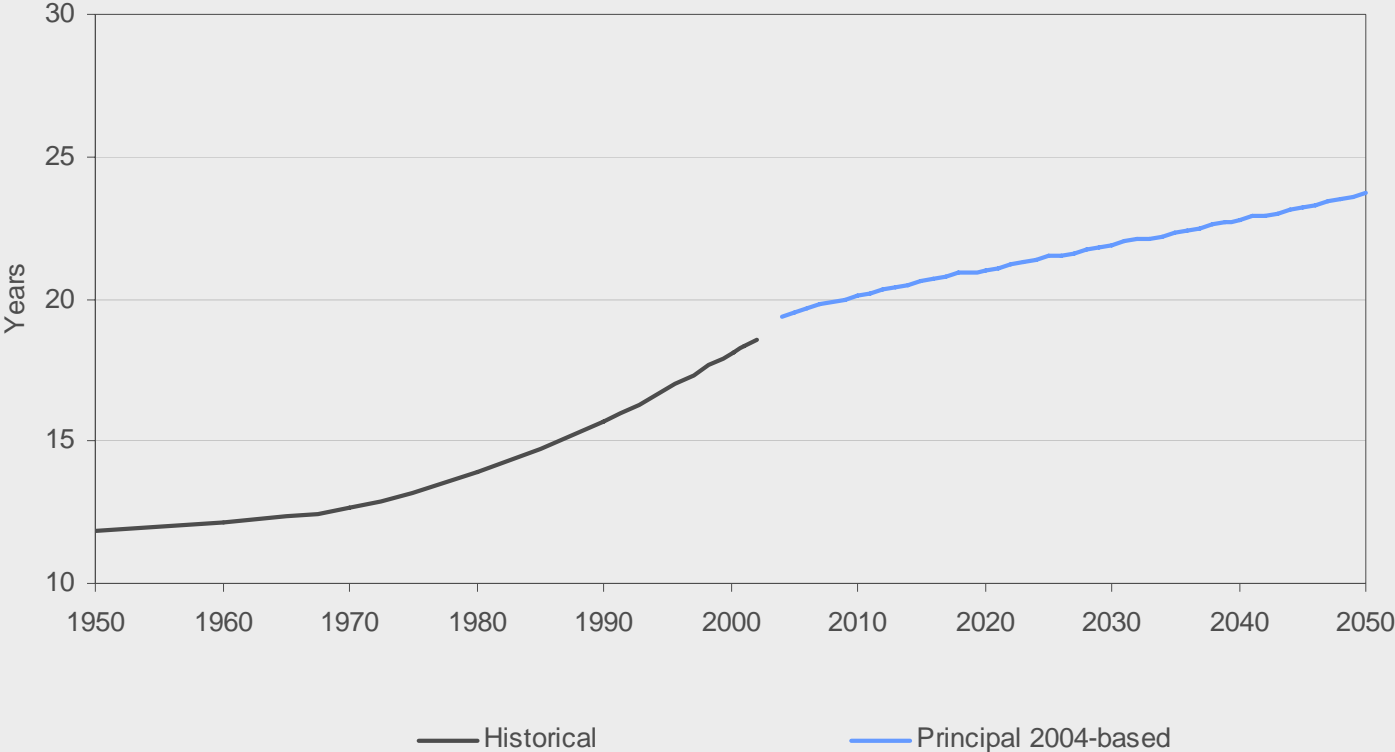
Lord Adair Turner

LSE and CASS Business School

Professor John Hills

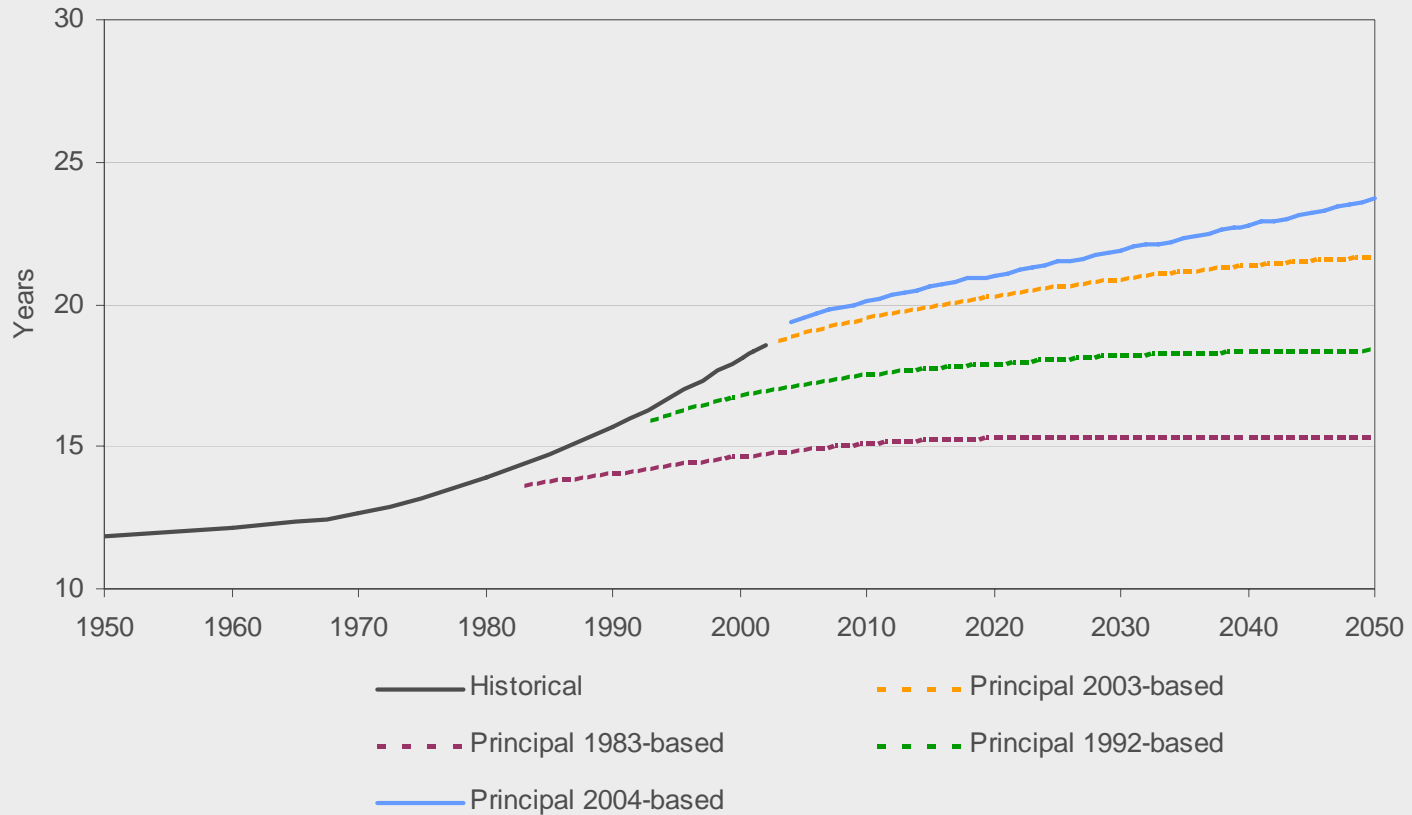
LSE, Chair

Male cohort life expectancy at 65



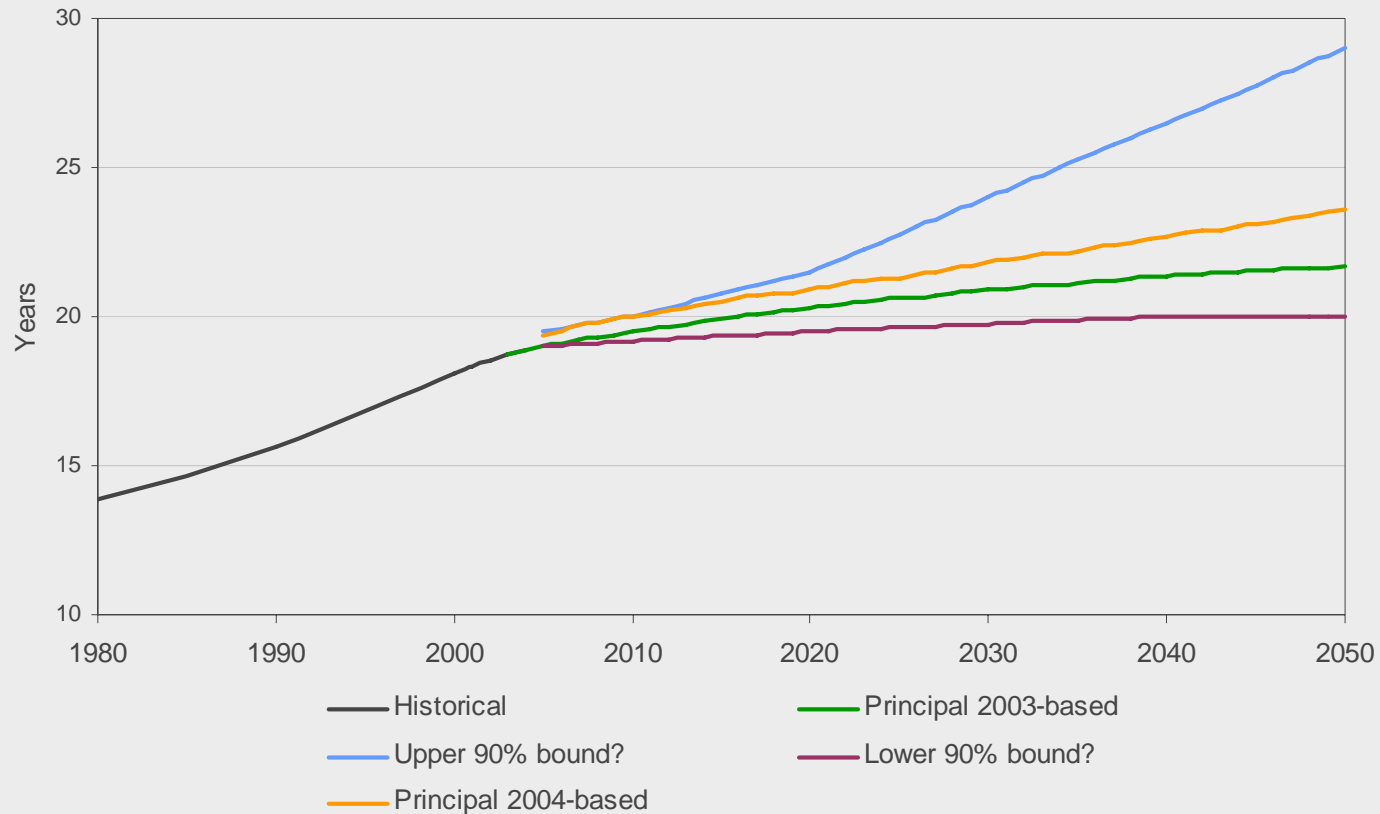
Source: GAD, UK

Male cohort life expectancy at 65



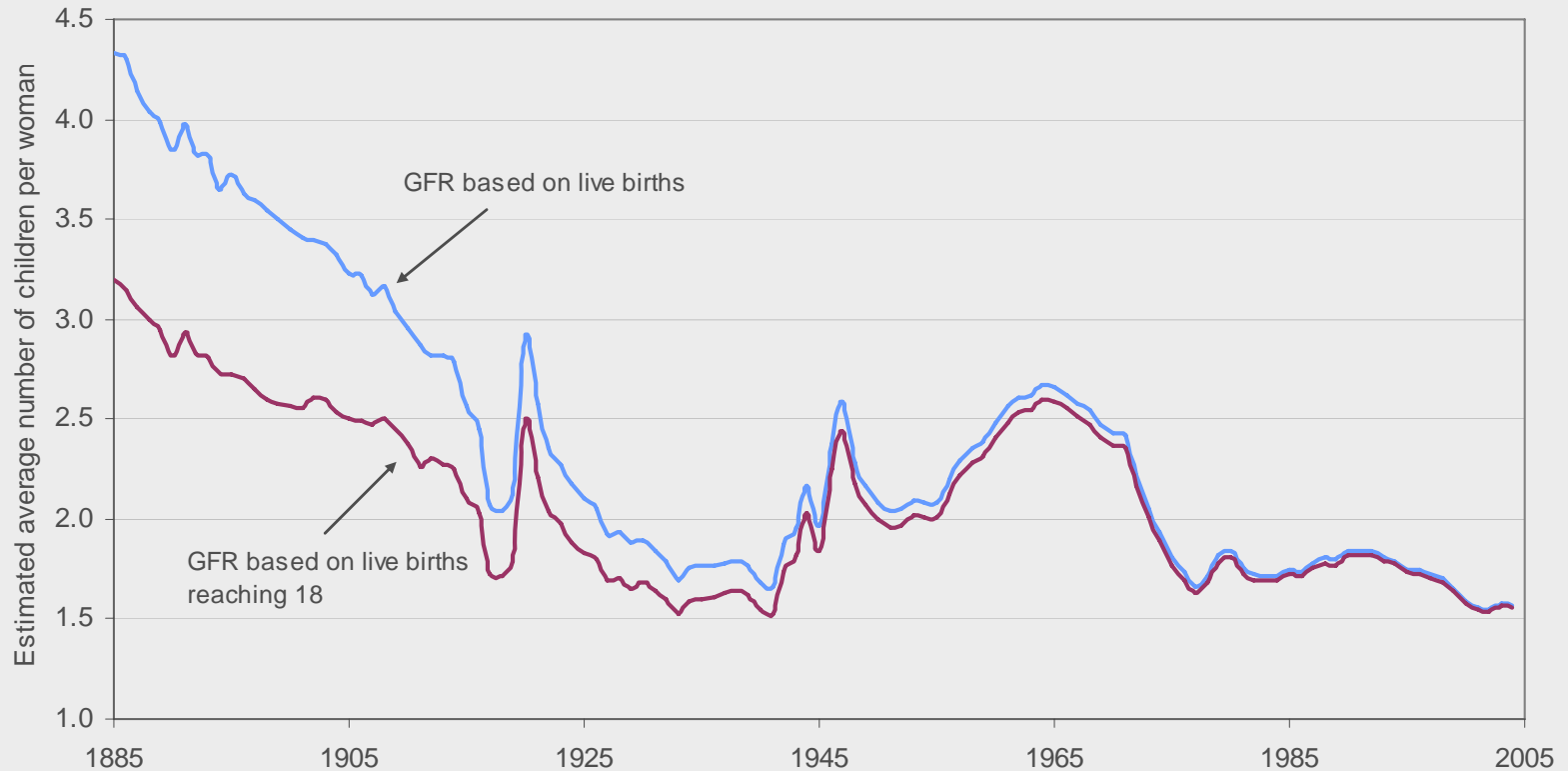
Source: GAD, UK

Male cohort life expectancy at 65



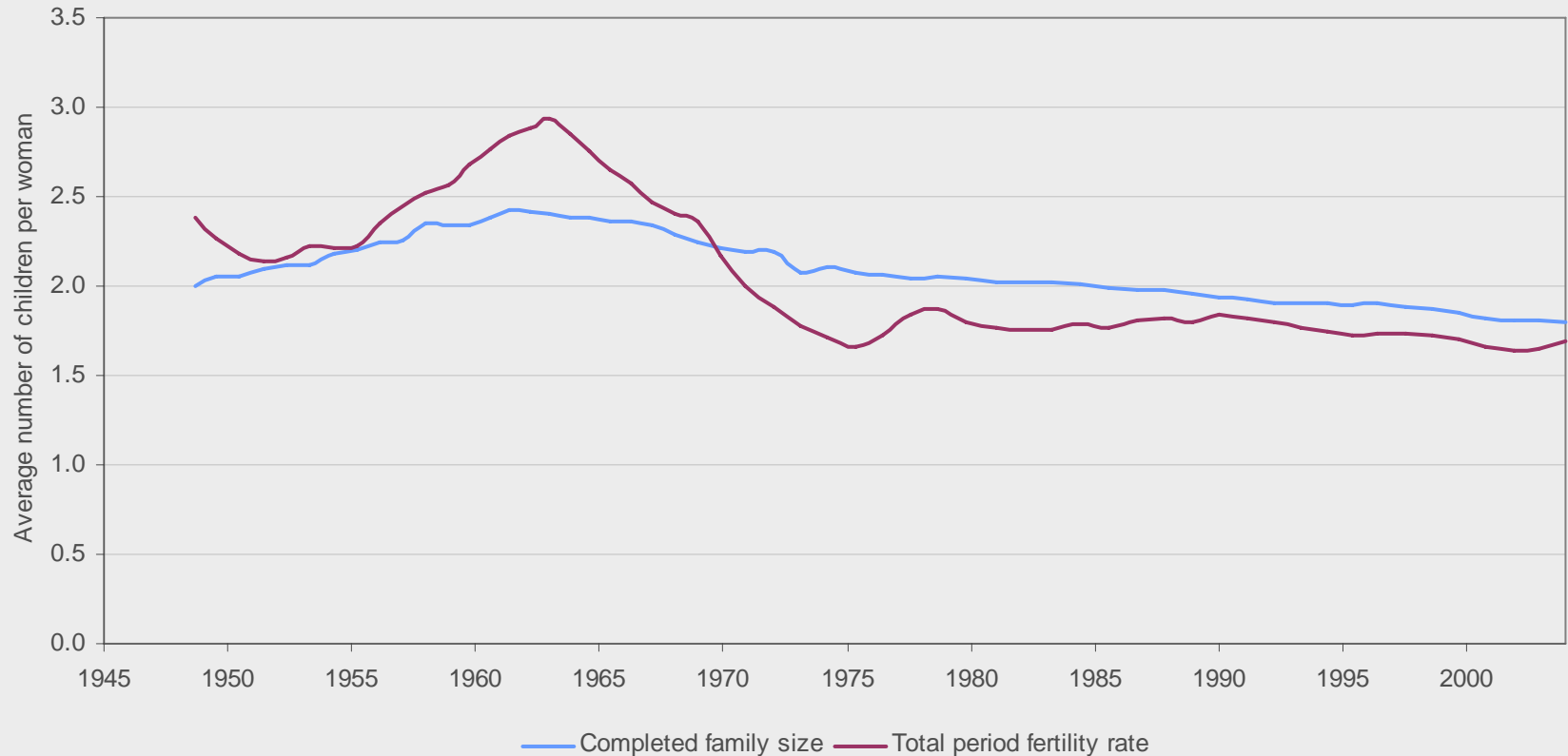
Source: GAD and Pensions Commission estimates, UK

The long-run evolution of the general fertility rate



Source: Pensions Commission

Comparison of total period fertility rate and completed family size measures of fertility

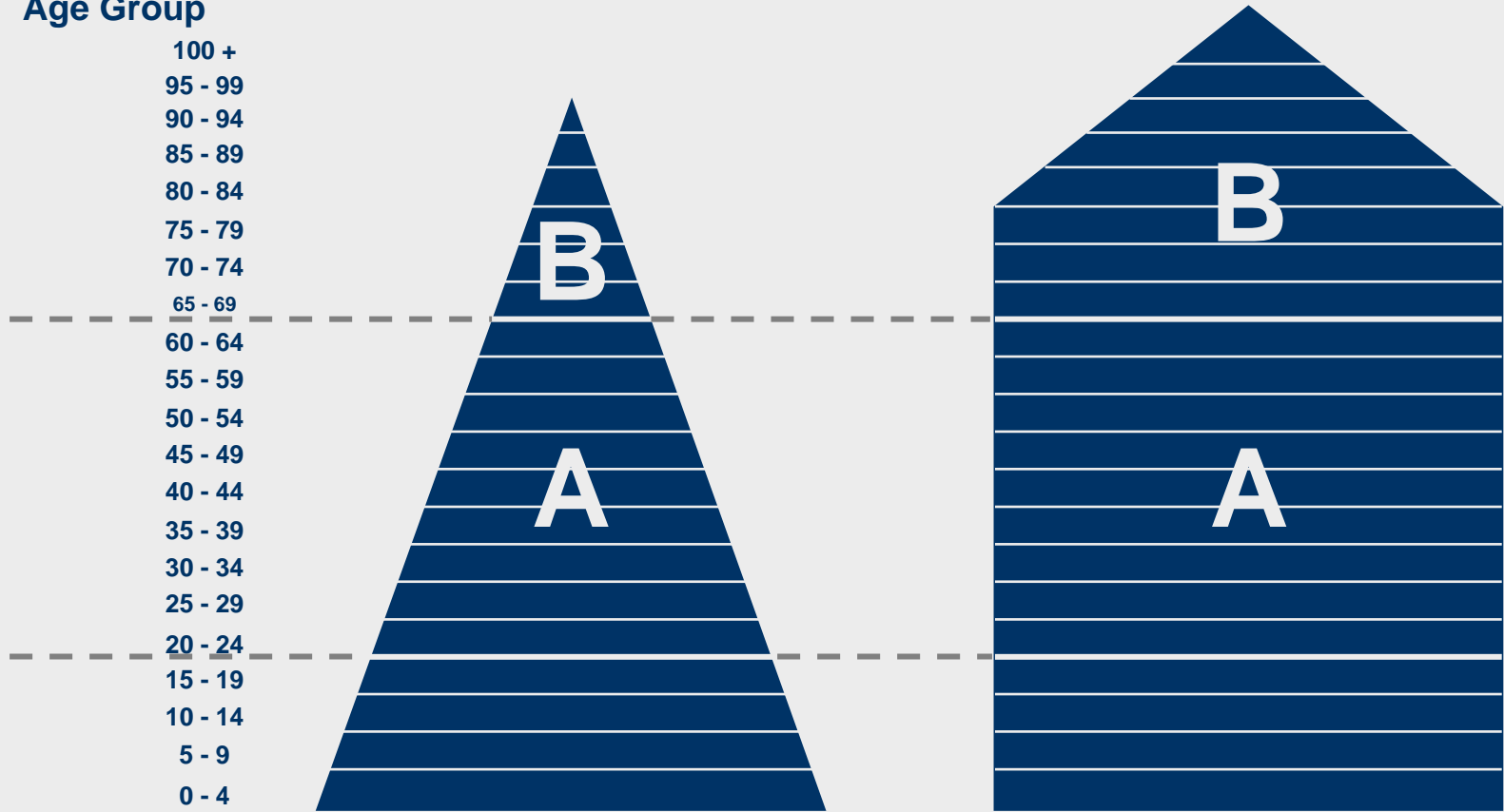


Source: ONS

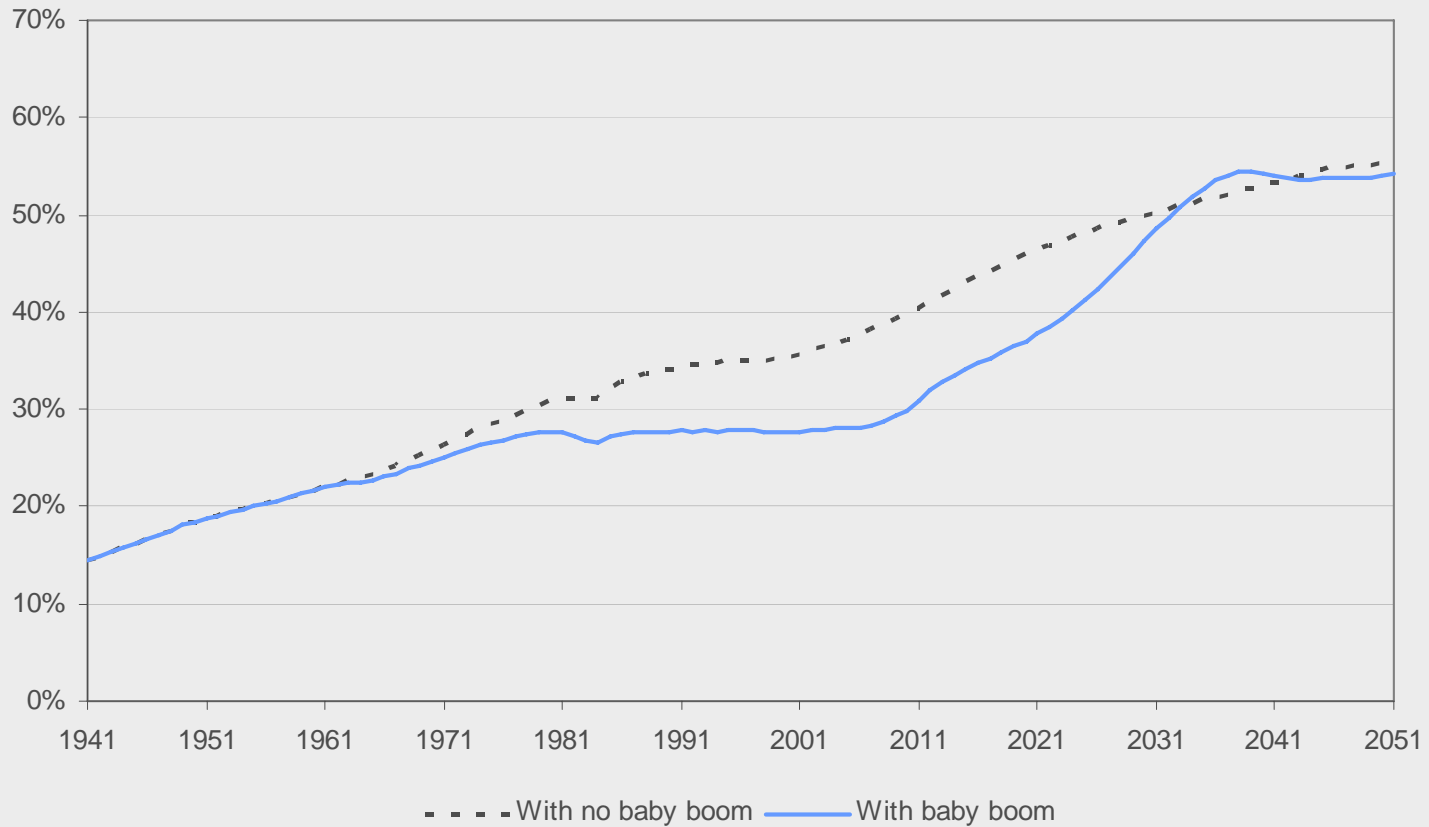
From Pyramids to Columns

Age Group

100 +
95 - 99
90 - 94
85 - 89
80 - 84
75 - 79
70 - 74
65 - 69
60 - 64
55 - 59
50 - 54
45 - 49
40 - 44
35 - 39
30 - 34
25 - 29
20 - 24
15 - 19
10 - 14
5 - 9
0 - 4



Impact of the 1940s-1960s Baby Boom on the old-age dependency ratio



Source: Pensions Commission

Challenges of an ageing population

- Pensions
- Healthcare
- Productivity, dynamism, innovation?

Demographic challenges to funded pension systems

Increased longevity
(if no increase in
pension age)

Increased savings
rate to secure
adequate income
for longer
retirement

- K/L up
- Return on capital down

Lower birth rate

Generation 1 has to
sell accumulated
savings to smaller
Generation 2

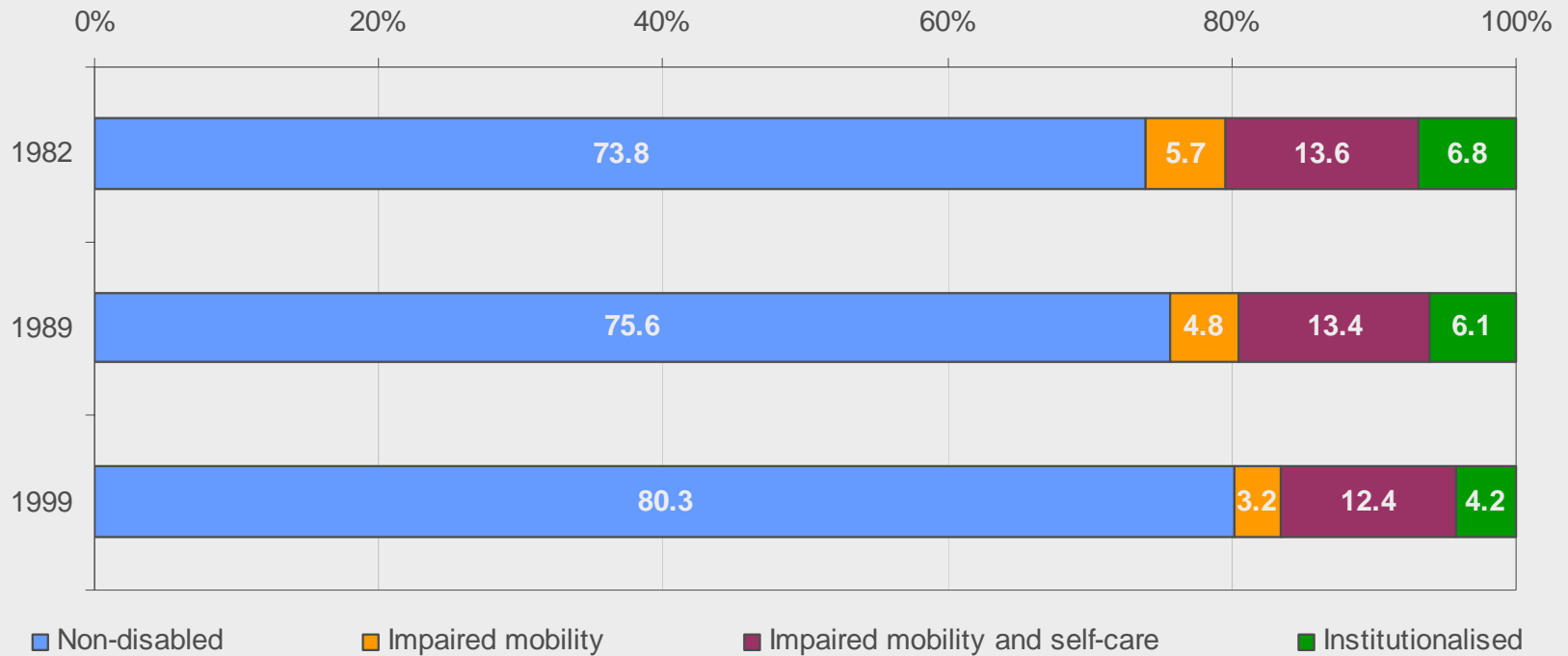
- Asset prices fall
(relative to higher
birth rate alternative)

Percentage of adult male life spent after SPA*

	2005	2050
State Pension Age	65	68
Life expectancy after SPA (years)	19.4	20.9
% of adult life (18+) after SPA	29.2	29.5

* *State Pension Age*

Health status of US over 65 population

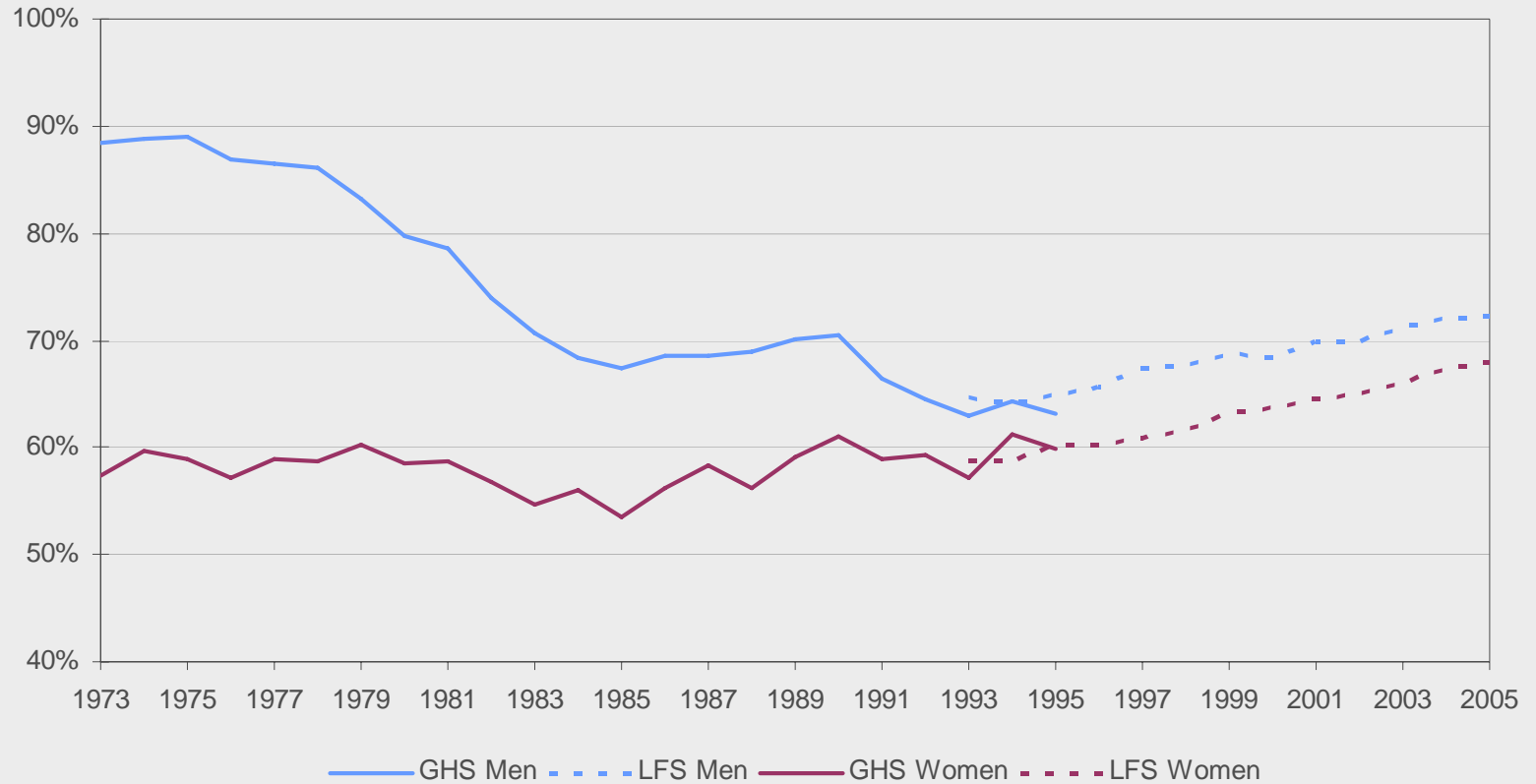


Source: National Long Term Care Surveys, 1982-1999, US. Manton and Gu (2001)

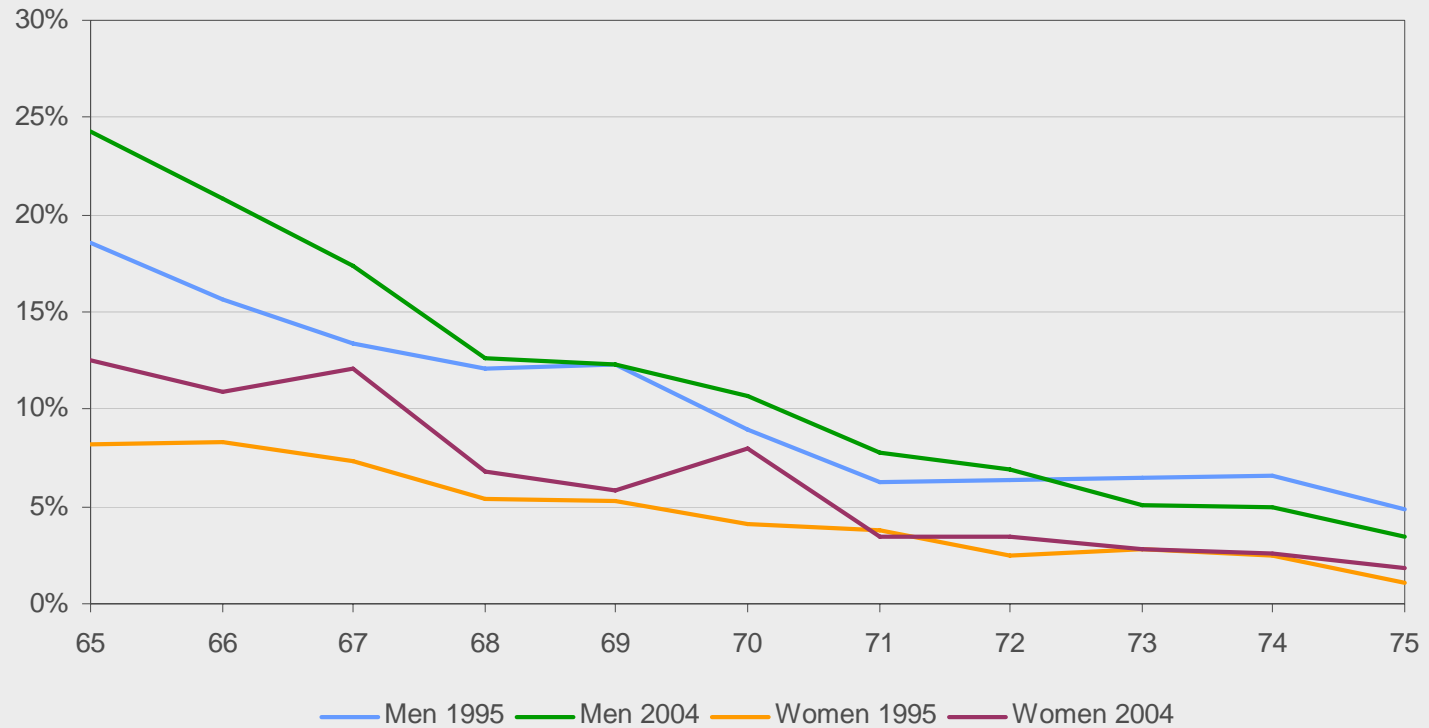
Productivity and innovation

- Older people less productive?
- Older people less entrepreneurial?
- Older people less innovative?

Employment rates for men and women aged 50-SPA



Employment rates for men and women aged 65-75

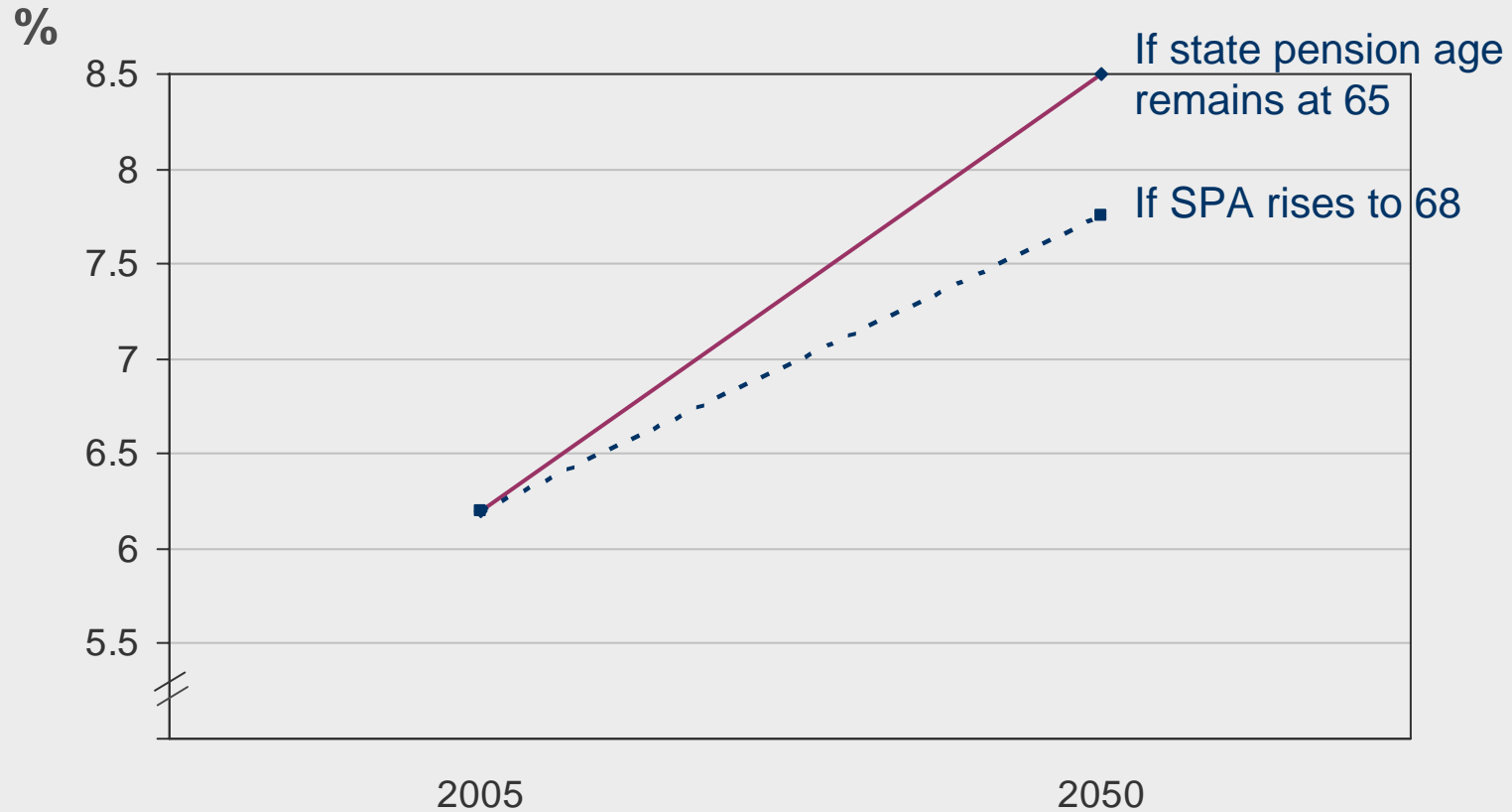


Policy levers to support increased participation

- Age discrimination legislation
 - current “back-stop” 65
- National Insurance
 - No employees’ NI above SPA
- Shift to SPA+5 years?
- Remove or reduce employers NI? (on a slice of income)

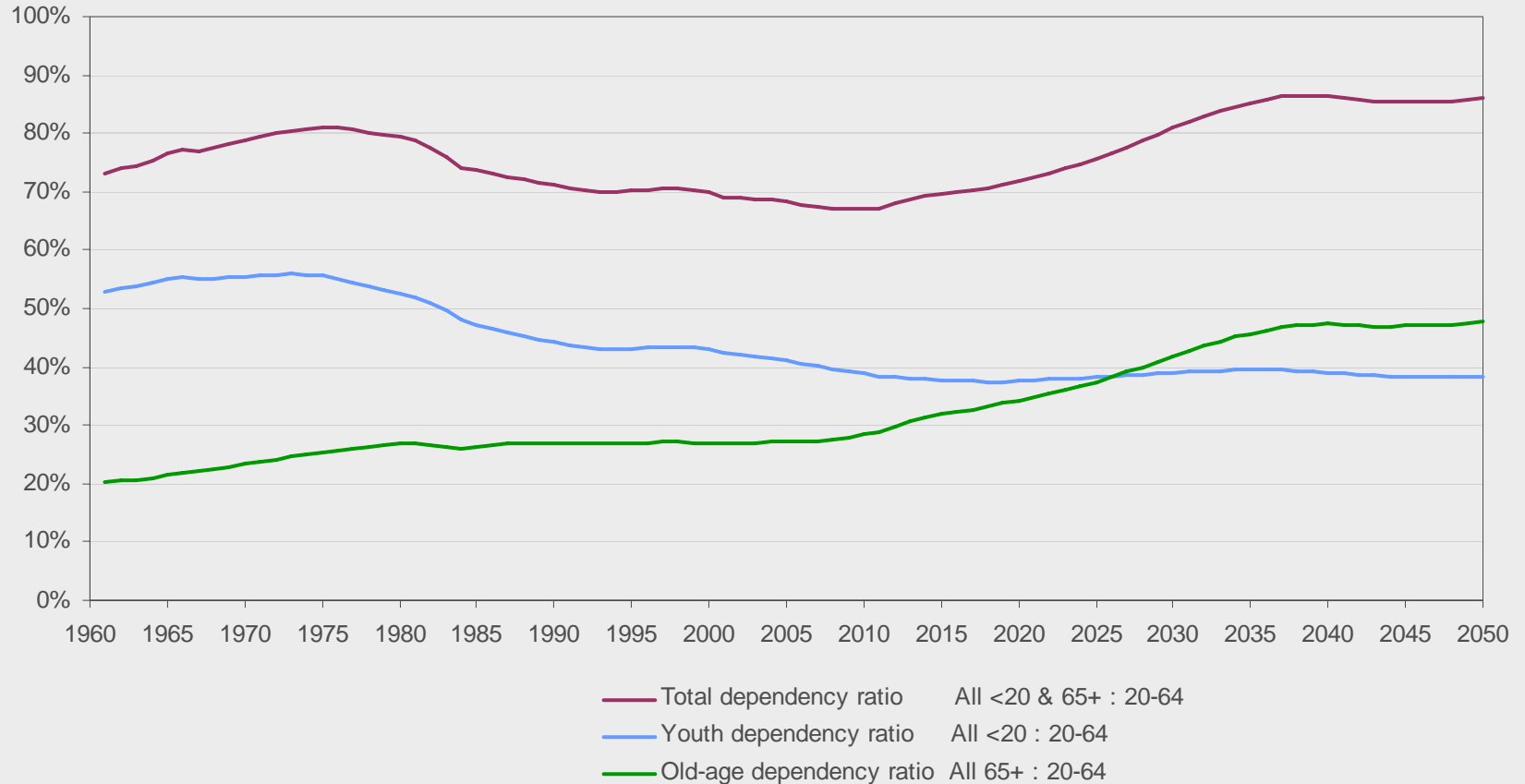
Share of UK GDP devoted to state pensions

Assuming state pensions rising in line with earnings



Source: Pensions Commission

Old-age, youth and total dependency ratios



Source: GAD 2002-based principal population projection
ONS Population estimates

Low birth rates & retirement provision: offsetting impacts

Macro Perspective

Higher tax / contribution rate required to support PAYG system

But offset by lower need for investment in new housing stock

Individual Perspective

Higher tax / contribution rate to support PAYG system

But inheritance of a greater share of housing either

- Reduces need for house purchase

OR

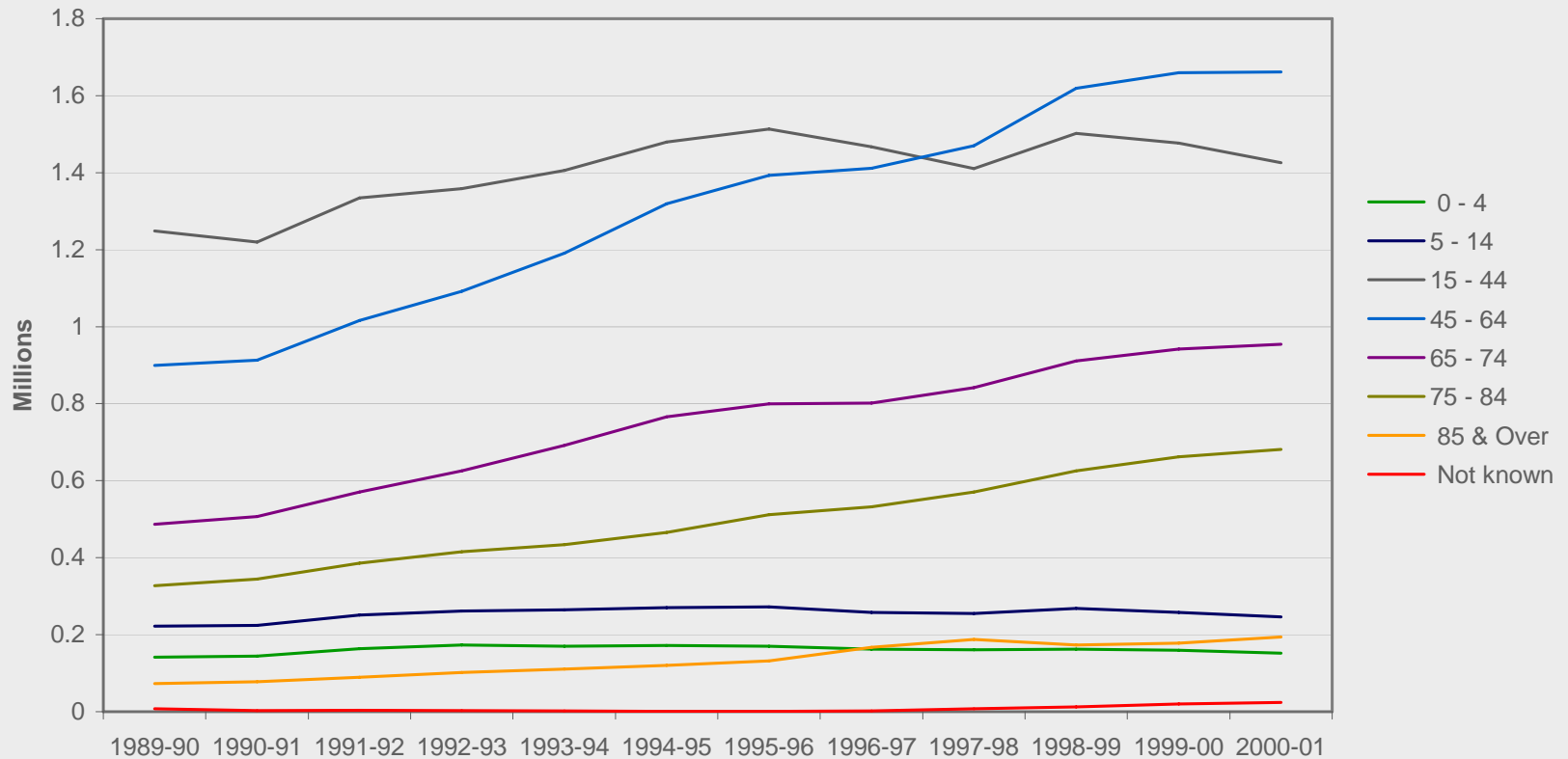
- Delivers assets available for consumption in retirement and thus reduces the need for private pension saving

Health expenditure as % of GDP

	1980	1990	2003
France	7.0	8.4	10.4
UK	5.6	6.0	7.8
US	8.8	11.9	15.2

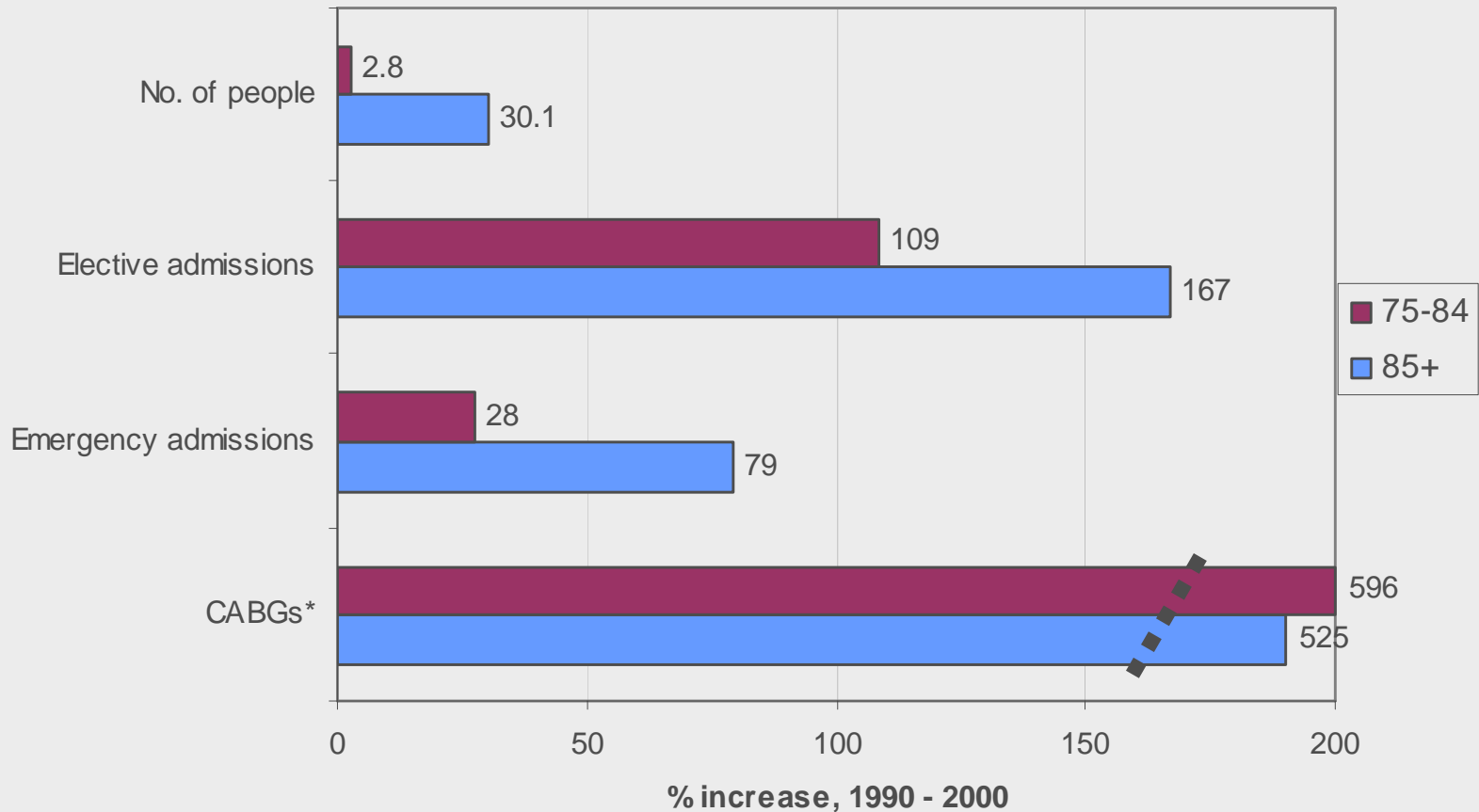
Source: OECD Healthcare Data 2006

Ordinary and day case elective admissions by age



Source: Source: Department of Health, Hospital Episode Statistics

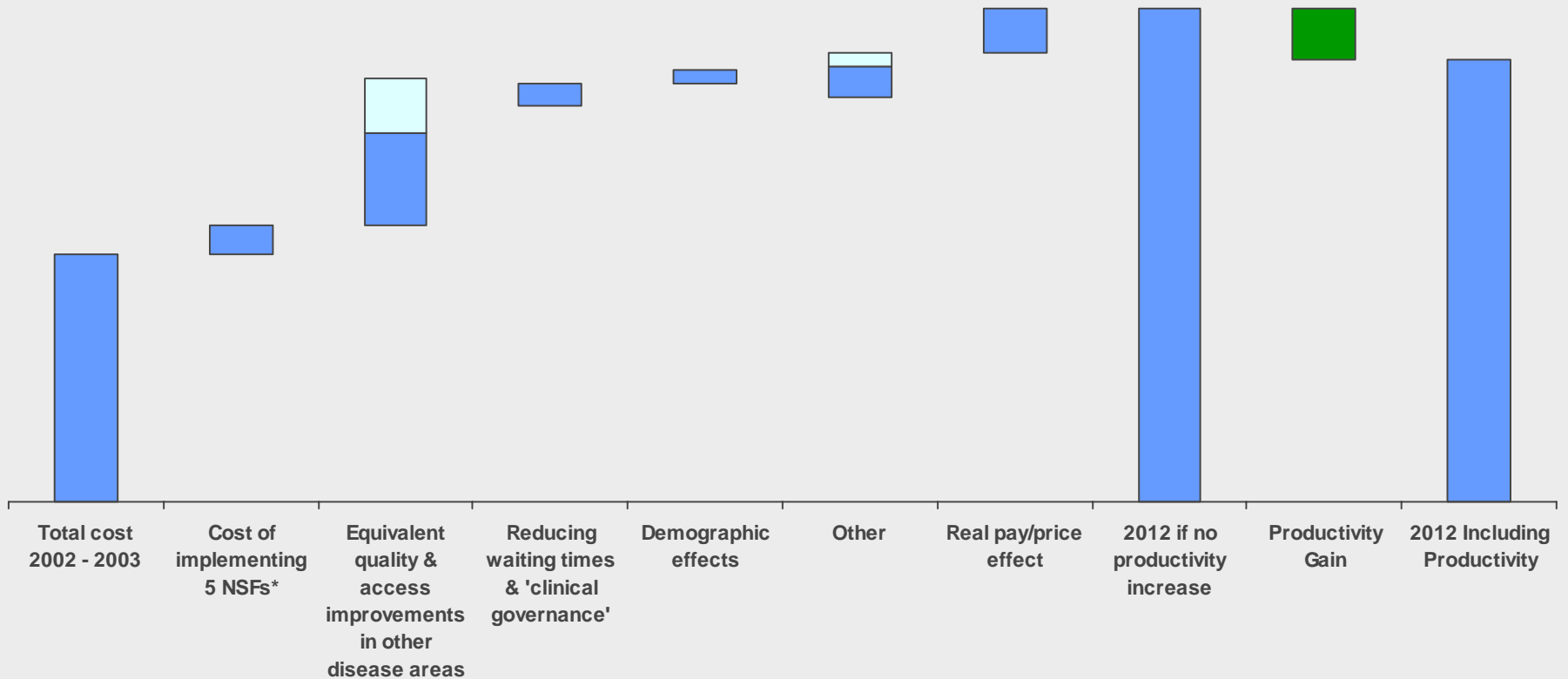
Demographics and medical demand 1990 – 2000



(*) Coronary Artery Bypass Grafts

Source: DH, ONS

Drivers of increased cost 2003 – 2013



(*) Cancer, mental health, renal, diabetes, CHD

Source: FSU analysis drawing on Wanless (2002)

Driving healthcare efficiency: what matters

- Evidence based medicine
- Skill mix changes
- Process redesign
- Reconfiguration
- Information technology

Hospital bed days – Kaiser & NHS



Acute bed days per 1,000 population per year	
KAISER	NHS
270 (adjusted for different age profile - 327) ³	1,000

Admissions per 1,000 population	
KAISER	NHS
69 ¹ (adjusted for different age profile – 84) ³	200 ¹



Average length of stay (days)	
KAISER	NHS
3.9	5.0 ²

¹ Figures calculated from data on average length of stay and acute bed days per 1,000 population.

² 1996 latest OECD data

³ age adjusted rate: Kaiser average of 270 bed days per 1,000 is made up of 193 days for those aged under 65 years and 1031 days for those aged over 65 years. The figure for the NHS is for all age groups. Feachem et al states that if Kaiser had the age distribution of the UK its acute bed days would be 327.

Driving healthcare efficiency: the role of markets?

UK Approach

Use contracting between primary and secondary care purchasers/providers to drive efficiency and innovation

The Kaiser example

Manage an integrated health system combining primary and secondary care

- without internal market contracting
- but facing external competition to the whole system

Pensions and health: divergent government philosophy

State Pensions

Publicly funded Health

Philosophy

- Means-testing to focus scarce resources
- Universalism unacceptably costly

- Means-testing (e.g. co-payments) unacceptable
- Free at point of provision universalism a key principle

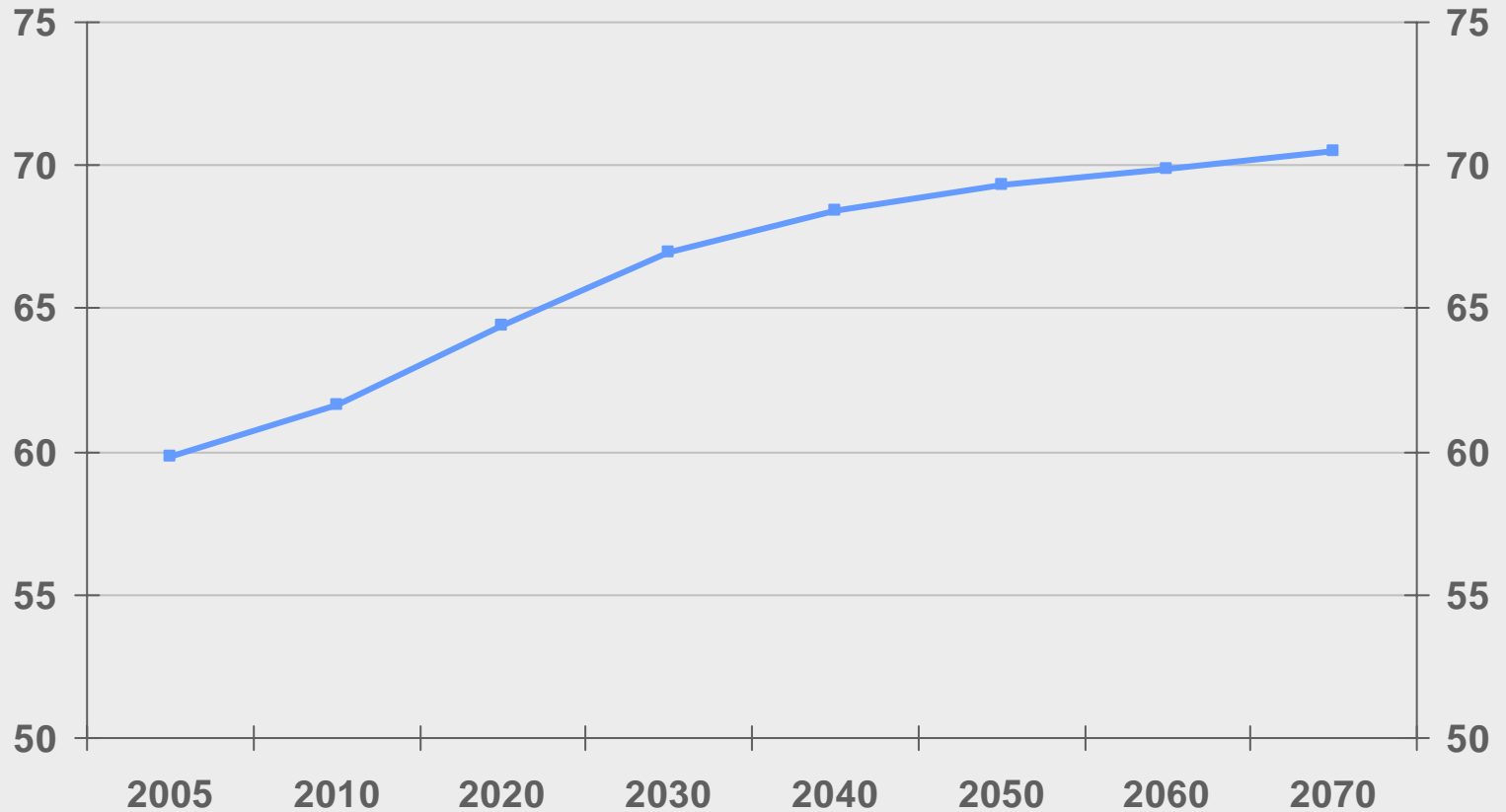
Public expenditure as % of GDP

- 6.25 → 7.75% over 2007-2050
- After intense “affordability debate”

- 6.2 → 8.0% over 2002-2007
- After little debate

UK Population growth: principal projection

Millions



Source: Government Actuaries Department