The Ageing Society: challenges, opportunities and unnecessary scares

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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

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Increased longevity</td>
<td>Increased savings rate to secure adequate income for longer retirement</td>
</tr>
<tr>
<td>(if no increase in pension age)</td>
<td>➢ K/L up</td>
</tr>
<tr>
<td></td>
<td>➢ Return on capital down</td>
</tr>
<tr>
<td>Lower birth rate</td>
<td>Generation 1 has to sell accumulated savings to smaller Generation 2</td>
</tr>
<tr>
<td></td>
<td>➢ Asset prices fall (relative to higher birth rate alternative)</td>
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</tbody>
</table>
## Percentage of adult male life spent after SPA*

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2050</th>
</tr>
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<tbody>
<tr>
<td>State Pension Age</td>
<td>65</td>
<td>68</td>
</tr>
<tr>
<td>Life expectancy after SPA (years)</td>
<td>19.4</td>
<td>20.9</td>
</tr>
<tr>
<td>% of adult life (18+) after SPA</td>
<td>29.2</td>
<td>29.5</td>
</tr>
</tbody>
</table>

* State Pension Age
Health status of US over 65 population

Productivity and innovation

- Older people less productive?
- Older people less entrepreneurial?
- Older people less innovative?
Employment rates for men and women aged 65-75
Policy levers to support increased participation

- Age discrimination legislation - current “back-stop” 65
- Shift to SPA+5 years?
- National Insurance
  - No employees’ NI above SPA
- 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

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1990</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>7.0</td>
<td>8.4</td>
<td>10.4</td>
</tr>
<tr>
<td>UK</td>
<td>5.6</td>
<td>6.0</td>
<td>7.8</td>
</tr>
<tr>
<td>US</td>
<td>8.8</td>
<td>11.9</td>
<td>15.2</td>
</tr>
</tbody>
</table>

Source: OECD Healthcare Data 2006
Ordinary and day case elective admissions by age

Source: Department of Health, Hospital Episode Statistics
Demographics and medical demand 1990 – 2000

No. of people

Elective admissions

Emergency admissions

CABGs*

% increase, 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

<table>
<thead>
<tr>
<th></th>
<th>Acute bed days per 1,000 population per year</th>
<th>Admissions per 1,000 population</th>
<th>Average length of stay (days)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>KAISER</td>
<td>NHS</td>
<td>KAISER</td>
</tr>
<tr>
<td></td>
<td>270 (adjusted for different age profile - 327)</td>
<td>1,000</td>
<td>69¹ (adjusted for different age profile – 84)³</td>
</tr>
</tbody>
</table>

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
<table>
<thead>
<tr>
<th>Philosophy</th>
<th>State Pensions</th>
<th>Publicly funded Health</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Means-testing to focus scarce resources</td>
<td>Means-testing (e.g. co-payments) unacceptable</td>
</tr>
<tr>
<td></td>
<td>Universalism unacceptably costly</td>
<td>Free at point of provision universalism a key principle</td>
</tr>
<tr>
<td>Public expenditure as % of GDP</td>
<td>6.25 → 7.75% over 2007-2050</td>
<td>6.2 → 8.0% over 2002-2007</td>
</tr>
<tr>
<td></td>
<td>After intense “affordability debate”</td>
<td>After little debate</td>
</tr>
</tbody>
</table>
UK Population growth: principal projection

Source: Government Actuaries Department