

# Chapter One

## Population and Labour Force Trends

### Introduction

1.1 This chapter examines population and labour force trends in Australia and internationally and notes challenges facing Australia in relation to the transition from work to retirement. Those challenges are:

- a) The ageing of the Australian population and the growth of the 55-64 age cohort in the labour market; coupled with
- b) The current low levels of labour force participation by mature age workers in Australia (which is mirrored internationally).

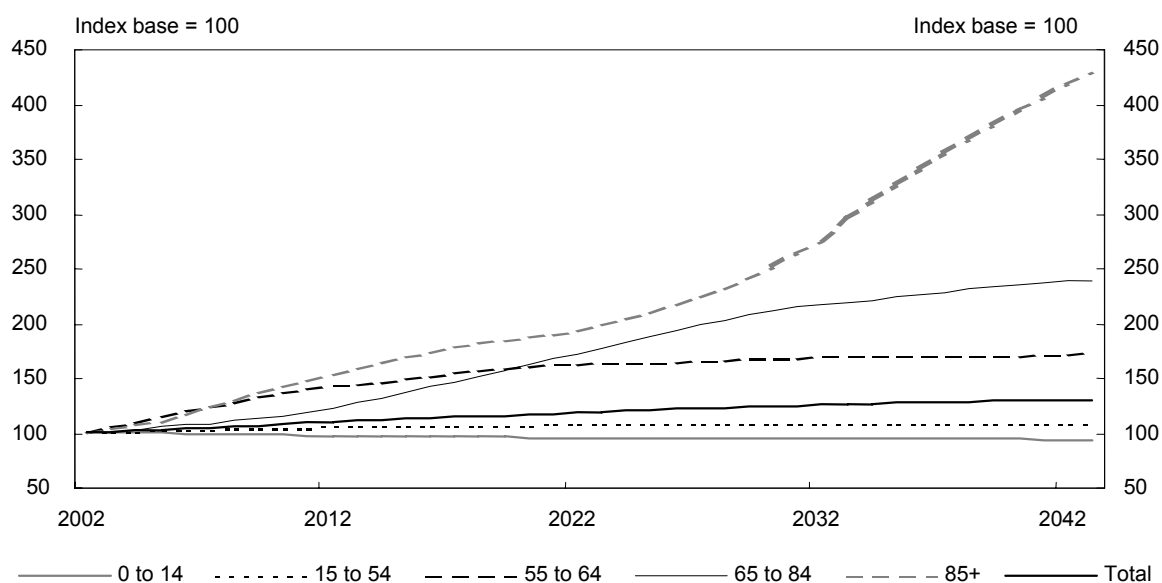
### Australian population trends

1.2 Australia's population is ageing. The proportion of the population aged 65 and over is forecast to almost double from the current 12 per cent to 22 per cent in 2031, and to increase to 26 per cent in 2051. The population aged 65 and over will grow from around 2.4 million people to around 6.5 million people over the same period, increasing the number of retired people relative to the number of working-age people.<sup>1</sup>

1.3 Chart 1.1 below shows projected growth by age group over the next 40 years in Australia.

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1 *Submission 38, FaCS, p. 4*

**Chart 1.1: Projected growth by age group over the next 40 years**

Source: Commonwealth Treasury, *Intergenerational Report 2002-03*, p. 23.

1.4 In the absence of significant migration, population growth in Australia is expected to continue slowing, from 1.2 per cent in 2000 to around 0.2 per cent by 2042. However, Chart 1.1 shows that while the size of the labour force is projected to grow by just 14 per cent over the next two decades, the number of people aged 55 to 64 is projected to increase by more than 50 per cent. This is expected to be the fastest growing group of labour force age.<sup>2</sup>

1.5 The Committee also notes that in common with other countries, the average life expectancy in Australia has increased considerably since the beginning of the last century. During the decade of 1901-1910, males aged 16 could expect to live to 64 and women aged 16 to 67. By comparison, males in 2000 aged 16 could expect to live to 77, and females to 82. Furthermore, average life expectancies are expected to improve by an additional 5 years over the next 40 years.<sup>3</sup>

## Australian labour force trends

1.6 The Committee wishes to cite evidence presented by Dr FitzGerald<sup>4</sup> to the Committee's earlier inquiry into superannuation and standards of living in retirement.<sup>5</sup> Dr FitzGerald indicated that mature age male participation in the labour force has fallen dramatically over the past half century, while the female labour force

2 Commonwealth Treasury, *Intergenerational Report 2002-03*, p. 22.

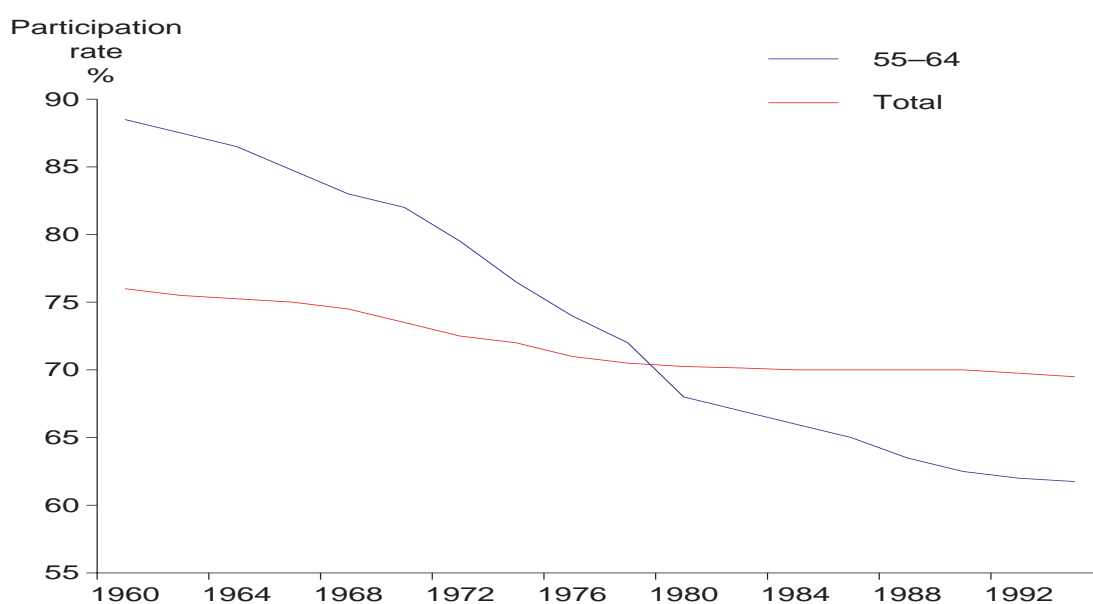
3 *Submission 29*, DEWR, pp. 1, 5-6. See also Commonwealth Treasury, *Intergenerational Report 2002-03*.

4 Co-Chairman of the Allen Consulting Group.

5 That evidence included material presented to the Business Symposium on the Economic and Business Implications of the Ageing of the Baby Boomers held on 4 October 2002.

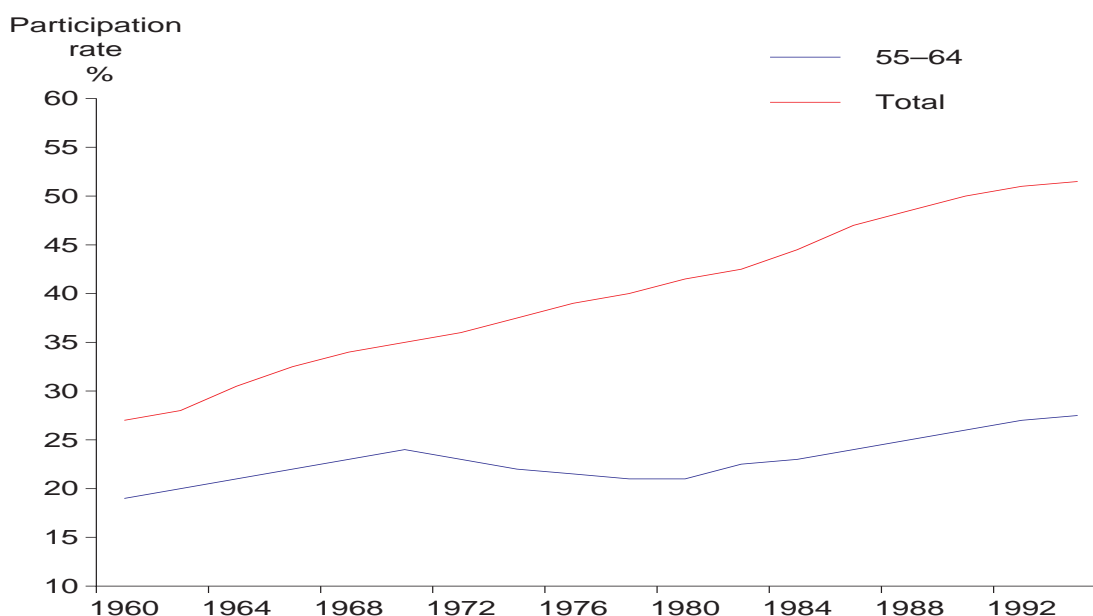
participation rate has increased from a low base. This is shown in Charts 1.2 and 1.3 below.

**Chart 1.2: Male labour force participation 1960 - 1996**



Source: D. Carey, 'Coping with Population Ageing in Australia', Economics Department Working Papers No. 217, OECD, 1999.

**Chart 1.3: Female labour force participation 1960 - 1996**

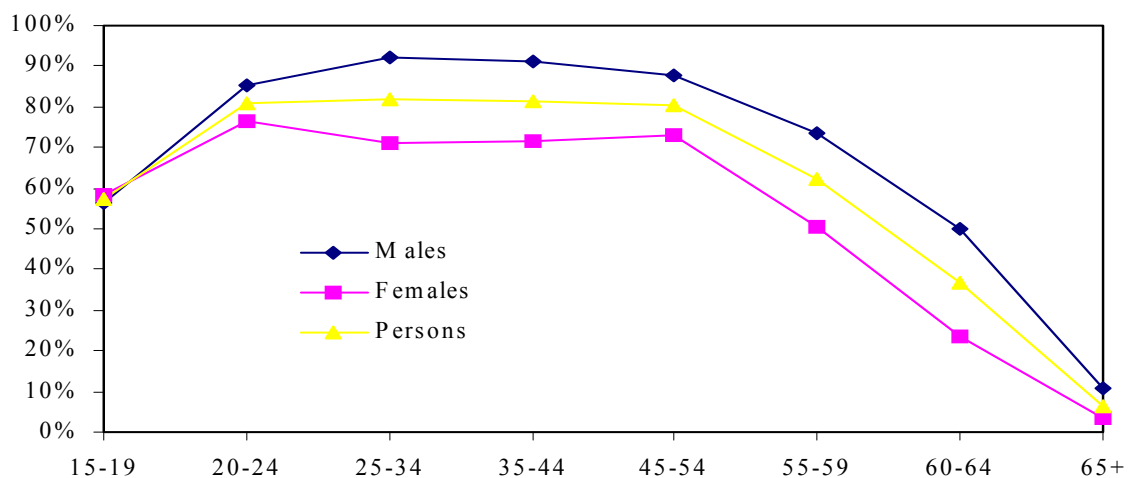


Source: D. Carey, 'Coping with Population Ageing in Australia', Economics Department Working Papers No. 217, OECD, 1999.

1.7 The Committee notes that several parties to this inquiry also highlighted the current low levels of labour force participation amongst mature age workers, especially men:

- a) The WA Department of Education and Training noted that for the 55-64 age cohort, the labour force participation rate for men has been falling over the last two decades, although the rate for women has been rising (from a low base).<sup>6</sup>
- b) The Australian Pensioners' and Superannuants' League Queensland cited research by the Centre for Public Policy at the University of Melbourne entitled *The Transition from Work to Retirement*. That research indicated that the percentage of men in full-time employment aged 55-64 dropped from over 75 per cent in the mid-1970s to just 50 per cent in 2002. Just 33 per cent of men age 60-64 are now in full-time employment.<sup>7</sup>
- c) The Department of Family and Community Services (FaCS) noted that for most people, retirement or withdrawal from the labour force comes earlier than anticipated, with participation rates in 2002 falling from 80.5 per cent for those aged 45-54 to 62.9 per cent for those aged 55-59, and 36.7 per cent for those aged 60-64.<sup>8</sup> This is shown in Chart 1.4 below.

**Chart 1.4: Labour Force Participation Rates, 2002**



Source: *Submission 38*, FaCS, p. 7.

1.8 The Department of Employment and Workplace Relations (DEWR) also noted in its written submission to the inquiry the decline in the number of men and women working up to and beyond age 55. DEWR indicated that amongst male

6 *Submission 37*, WA Department of Education and Training, p. 3.

7 *Submission 1*, The Australian Pensioners' and Superannuants' League Queensland Inc, p. 4.

8 *Submission 38*, FaCS, p. 7.

employees, only 73 per cent of those aged 55 worked in ‘traditional jobs’ compared to 83 per cent of those aged 45-54.<sup>9</sup>

## **International labour force trends**

1.9 The Committee notes that the decline in labour force participation of mature age workers in Australia is mirrored in other Organisation for Economic Cooperation and Development (OECD) countries.

1.10 With a few exceptions, the standard age of retirement in public pension systems across the OECD is 65. However, in almost all OECD countries, the average age of retirement for men is now between 60 and 63, although in Italy and France it is below 60.<sup>10</sup> This is shown in Table 1.1 below, which is drawn from the OECD report ‘Increasing Employment: The Role of Later Retirement’.

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9 *Submission 29*, DEWR, pp. 1, 7.

10 OECD: ‘Increasing Employment: The Role of Later Retirement’, *OECD Economic Outlook 72*, (OECD, 2002), p. 140.

**Table 1.1: Average Effective Retirement Age (Men)**

	1970-1975	1980-1985	1990-1995	1994-1999
Australia	63.8	61.1	61.8	62.3
Canada	-	62.6	61.4	62.2
Denmark	-	64.7 <sup>b</sup>	62.3	62.4
Finland	62.0	60.4	58.9	59.8
France	63.5	59.7	59.1	59.3
Greece	-	62.0	62.9	61.7 <sup>a</sup>
Italy	62.3	60.8	57.9	59.3
Japan	70.1	68.4	70.2	69.1
Korea	-	-	70.4	67.1
Netherlands	61.5 <sup>c</sup>	58.7	59.6	61.6 <sup>a</sup>
Norway	67.6 <sup>d</sup>	66.3	63.2	64.2
Poland	-	-	-	60.6
Portugal	65.1 <sup>f</sup>	62.7	64.7	65.3
Spain	64.7 <sup>d</sup>	61.4	60.3	61.1
Sweden	64.7	63.6	62.5	63.3
West Germany	62.8	62.2	60.1	60.5 <sup>a</sup>
United Kingdom	-	62.3 <sup>e</sup>	61.2	62.0
United States	64.2	63.7	63.6	65.1

a 1993-1998

b 1983-1988

c 1971-1976

d 1972-1977

e 1984-1989

f 1974-1979

Source: OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), p. 140.

1.11 The OECD also noted in its report 'Increasing Employment: The Role of Later Retirement' that in a number of countries, particularly in Europe, less than half the male population at age 55 to 64 is currently working. Furthermore, employment of mature age workers has fallen almost everywhere over the past few decades, although this trend appeared to come to a halt in many countries in the second half of the 1990s. This is shown in Table 1.2 below.

**Table 1.2: Employment rates of older male workers at age 55-64 as a percentage of the male population aged 55-64<sup>a</sup>**

	1970 <sup>b</sup>	1980 <sup>c</sup>	1990 <sup>d</sup>	1995	2000
Australia	-	66.6	59.2	55.3	58.5
Austria	-	-	-	42.9	40.2
Belgium	-	47.7	34.3	34.5	35.1
Canada	-	71.3	60.3	53.7	57.7
Czech Republic	-	-	-	51.1	51.7
Denmark	-	63.1	65.6	63.2	61.9
Finland	72.5	55.0	46.3	34.9	43.7
France	74.0	65.3	43.0	38.4	38.5
Germany <sup>e</sup>	78.9	64.1	52.0	48.2	48.2
Greece	-	-	58.4	58.9	55.3
Hungary	-	-	33.3	27.1	33.2
Iceland	-	-	92.6	88.8	94.2
Ireland	82.4	72.3	59.5	59.3	63.0
Italy	47.8	39.0	35.4	44.7	40.9
Japan	84.8	82.2	80.4	80.8	78.4
Korea	-	77.5	76.3	78.8	68.2
Luxembourg	-	37.9	42.9	35.1	37.9
Mexico	-	-	85.1	77.9	79.8
Netherlands	-	60.9	44.2	41.1	50.0
New Zealand	-	-	53.9	62.9	68.3
Norway	82.9	79.5	70.7	70.0	73.1
Poland	-	-	44.3	42.5	36.7
Portugal	-	74.2	65.0	57.7	62.5
Slovak Republic	-	-	-	38.1	35.4
Spain	82.7	71.5	57.2	48.4	55.2
Sweden	84.1	77.5	74.4	64.4	67.8
Switzerland	-	-	85.2	79.0	77.0
Turkey	-	-	58.8	58.4	51.0
United Kingdom	-	62.6	62.4	56.1	59.8
United States	80.7	69.7	65.2	63.6	65.6

a Employment rates for Italy based on male workers aged 60-64 instead of 55-64.

b 1971 for Ireland, 1972 for Norway and Spain.

c 1981 for Ireland, 1983 for Belgium, Denmark and Luxembourg, 1984 for United Kingdom

d 2001 for Canada, Iceland and Mexico, 1992 for Hungary and Poland.

e Western Germany before 1991.

Source: OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), p. 141.

1.12 Given the international trend towards earlier retirement (albeit the trend has perhaps stopped in some countries), the OECD noted that at the same time, people at retirement age across the OECD can expect to live 19-20 years, about 5-6 years longer than 30 years ago. As a consequence, retirees are now drawing on pensions for a much longer period than before.<sup>11</sup>

11 OECD: 'Increasing Employment: The Role of Later Retirement', *OECD Economic Outlook 72*, (OECD, 2002), p. 142.