

The Business of Ageing Update 2013

1 October 2013

This report provides an update to the following substantial 2011 report:

**The Business of Ageing – Realising the economic potential of older people
in New Zealand: 2011–2051**



MINISTRY OF
SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora



OFFICE FOR SENIOR CITIZENS
TE TARI KAUMĀTUA
Administered by the Ministry of Social Development

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Published

1 October 2013 by:
Ministry of Social Development
PO Box 1556
Wellington 6140
New Zealand
www.msd.govt.nz

ISBN

978-0-478-33580-4 (online)

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Background

This update is part of the Business of Ageing Project started in 2010. The project highlights the economic value and business opportunities our ageing population creates and aims to encourage discussion and further research.

The first project report in 2011: *The Business of Ageing – Realising the economic potential of older people in New Zealand: 2011–2051* presented research on the economic contribution of the population aged 65 and over. It found that in 2051 those aged 65 and over (termed older people in this report):

- would make up 7–10 per cent of the labour force, up from 3–4 per cent in 2011
- could have employment earnings of about \$10billion (b), compared with just over \$1b in 2011
- could pay \$1.8b in tax paid on these earnings, an increase from about \$200m
- would contribute unpaid and voluntary work to the value of \$22b, up from an estimated \$5-6b
- would spend over \$45b, compared with \$11b, including a four-fold increase in food and entertainment spending.

Why has this 2013 update been produced?

Since the 2010 research that generated the 2011 report, older people's labour force participation has increased and Statistics New Zealand has updated its projections of their future participation rates.

This means the 2011 report was conservative in its assumptions of participation. This updated report also factors in other changes since 2010, like changes to tax rates.

When preparing this update, the Ministry of Social Development also explored whether additional information on projections around age, gender, average hours worked, ethnicity, geographical differences and future housing scenarios could be incorporated into the model. No additional information has been generated, but the work will be relevant to people researching this area.

We recommend that people read this update in conjunction with the 2011 report, which contains substantially more figures, analysis and commentary.

New information since 2010

Population

The population changes between 2010 and this update are within the margins of forecasting error and can be disregarded. The projected population of older people in 2031 is 1.11m (compared to the 1.09m forecast in 2011) and 1.37m in 2051 (compared to 1.36m).

The only significant change is the projected increase in males aged 80 years and over (7000 more than the 2010 report suggested), and, to a lesser extent but still outside the margin of error, more females in this age group too (3500 more than the 2010 projection).

Labour force participation rates

Treasury revised the participation rate in its 2012–13 Long Term Fiscal Model (LTFM). This model is the basis for the projections in this update.

The LTFM has older people's average participation rates rising from about 19 per cent in 2011 to 31 per cent between 2031 and 2036, then falling to 29 per cent out to 2051. This fall reflects that the group aged 80 years and over becomes an increasing proportion of the ageing population.

The differences in projected participation rates of older women are significant, for example the 2011 report projected a 20 per cent participation rate in 2031, and the LTFM now projects 26 per cent by then. This reflects women's increasing participation in the workforce at all ages flowing through to the older age group.

Other changes incorporated

As well as factoring in the new participation and population projections, this update also includes:

- adjusted dollars from 2006 to 2011 values
- the increased Goods and Services Tax and decreased personal income tax rate
- other available new or updated data (for example household income sources, unpaid work).

Findings

Earnings

In 2012 there were about 70,000 older people receiving wages and salaries (compared to 57,200 in 2009). Average earnings for this group rose from \$469 to \$575 per week between 2009 and 2012. There were about 42,900 self-employed people earning an average of \$384 per week in 2010, compared to 24,700 earning about the same amount in 2009.

After factoring in the projected participation changes, the results show that in 2051 older people are predicted to earn:

- about \$13.38b from employment in 2051, up from about \$2.16b in 2011
- around \$6.42b in 2031 and \$9.99b in 2051 from wage and salaries, up from \$1.61b in 2011
- about \$2.18b in 2031 and \$3.39b in 2051 from self-employment, up from \$0.55b in 2011.

Based on older women working as many hours as men and having equal remuneration, their contribution to the earnings of all older people is expected to rise from 42.4 per cent in 2011, to 48.1 per cent in 2031 and 48.7 per cent in 2051.

Taxation

The update factors in the tax changes. The tax projections have been based on fairly basic assumptions, and more in-depth work could result in changed figures.

The GST rate has changed from 12.5 per cent to 15 per cent since 2010. The 2013 research projects older people will pay the following amounts in GST: \$1.76b in 2011, \$4.73b in 2031 and \$7.86b in 2051. This compares to the 2010 study which projected GST receipts at around \$1.2b in 2011, \$3.6b in 2031 and \$6.3b in 2051. Income tax rates have decreased since 2010. Older New Zealanders are projected to pay tax of around \$1.65b on their earnings from employment by 2051, compared with \$270m in 2011.

Factoring in this and updating the participation rates, older people are projected to pay total tax of \$3.48b in 2011, \$9.42b in 2031 and \$15.62b in 2051. This includes tax from wages and salaries, investments, benefits and pensions and GST.

The value of unpaid and voluntary work

When the 2010 data was rerun factoring in the updated participation rates and adjusting to 2011 dollar values, older people will contribute \$6.58b for 2011, \$15.18b for 2031 and \$25.65b for 2051. The 2010 research valued voluntary and unpaid work at \$10 an hour, the 2013 update valued unpaid labour at \$11.68.

These projections are slightly lower than those in the 2011 report, reflecting the expected impact of older people doing more paid work.

Spending

Older people's after tax income is projected to rise from about \$15.2b in 2011 to over \$68b by 2051. This includes income from all sources, including from Government, investment income, gifts, asset sales and employment earnings.

Spending by older people is expected to rise from \$13.5b in 2011, to around \$36.3b in 2031 and to \$60.3b in 2051.

These figures are substantially higher than those in the 2011 report. This reflects the increased participation and higher income due to economic growth, tax changes, and adjusting from 2006 to 2011 dollars.

Key results

The 2013 research shows that over the next four decades from 2011 to 2051, older New Zealanders are likely to make an even more significant contribution to the economy than the 2011 report predicted. Main areas of difference between the two reports are that in 2011:

- twenty-six per cent of older people were projected to participate in the workforce in 2031, whereas the 2013 update has revised this to 31 per cent
- eight per cent of the labour force was expected to be aged 65 and over in 2031, versus the 2013 figures projects 12 per cent
- twenty per cent of older women were projected to be labour market participants while the latest projection is for 28 per cent.

Overall, key projections from the 2013 research are that older people will:

- make up 12 per cent of the labour force by 2031, up from 3–4 per cent in 2011
- have a 31 per cent participation rate by 2031, up from the 19 per cent in 2011
- earn about \$13.38b by 2051, up from \$2.16b in 2011
- pay tax on wages and salaries of about \$1.65b by 2051, compared with \$270m in 2011
- pay total tax of \$15.26 billion by 2051, compared with \$3.48 billion in 2011
- contribute an estimated \$25.65b in unpaid and voluntary work in 2051, up from \$6.58b in 2011
- spend about \$60.28b in 2051, up from \$13.5b. Their food and entertainment spending is projected to increase four-fold.

What else we looked at

The Ministry also explored including the following additional information in the projections:

- regional data, as population and workforce ageing will vary considerably throughout New Zealand
- variations in characteristics between European and Other, Māori, Pacific and Asian ethnic groups and their possible impact on labour force participation and consumer expenditure
- the potential impact of older people buying smaller houses to release money for spending and/or a larger proportion of older New Zealanders facing higher housing costs if they have not secured a mortgage-free property during their working life.

The only available projections in these areas are:

- older people by region/territorial authority to 2031
- older people by ethnicity to 2021.

Given these projections do not look out to 2051, and that projections of labour market participation and expenditure differentiated by ethnicity or region are not available, they were not used in the update work. Projections around housing and its possible impact on consumer expenditure are extremely complex as the housing market is influenced by a number of supply and demand factors.

As part of this exploration, the Ministry did qualitatively assess some trends, which may be of use to researchers.

What the findings mean

The updated figures reinforce the conclusions on older people's economic value outlined in the 2011 report. Key points from this report's commentary follow.

Two sides to the coin

An ageing population presents both public spending challenges; and economic and social opportunities. As well as participation in paid work, experienced and wise older people contribute to their communities. They add value through their volunteer work and helping their families. Many older people support others to participate in paid work, for example, by caring for children.

The Business of Ageing Project highlights the need to act to make sure the ageing population increases productivity, economic growth and living standards, rather than constraining them.

Other countries' initiatives

Responses other OECD countries have implemented to realise the economic potential of its ageing population include:

- promoting age-friendly infrastructure
- creating flexible workplaces
- reforming pension systems
- introducing active ageing policies
- removing barriers to older worker employment such as removing mandatory retirement
- tax credits, and informing employers about the benefits of older workers.

Employers

Older workers may need more workplace flexibility than younger workers to juggle different priorities and competing demands. There are positive spin-offs for employers who lead the way in work-life balance.

The Government

The Government, as an employer, could encourage older New Zealanders to remain in paid work through workplace best practice and providing more flexible options. This will be especially critical in areas with looming skill and labour shortages. New Zealand will also need to respond to growing numbers of older people seeking work.

To deliver effective services, Government will also need to prioritise infrastructure, transport, housing and access to services to support older people maintaining wellbeing and independence.

Business

Market, design, and social research will help businesses target their products and services to the changing needs of the mature consumer market. With more money to spend, this market is important to all sectors.

Where can I get more information?

The accompanying technical report contains the data behind this update report, and our exploratory work on the age, gender, ethnic, housing and geographical variables.

We encourage people to contact us on businessofageing@msd.govt.nz if they have any questions or would like to make comments on the report.

Visit <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/research/business-of-ageing/index.html> for the more detailed 2011 report.

From this page you can also see factsheets on both the 2011 report and this 2013 update. These previous reports contain a bibliography and list for further reading.

Appendix one: Table of updated projections

Table of updated projections									
Older people 65+	2011	2016	2021	2026	2031	2036	2041	2046	2051
Population and workforce									
Numbers of Older People	587,020	702,310	823,590	966,980	1,106,740	1,216,070	1,281,520	1,314,500	1,366,490
Participating Males	65,490	96,610	124,740	155,400	178,820	190,430	190,690	189,170	201,350
Participating Females	48,380	78,540	108,000	140,610	166,410	182,420	185,050	184,070	191,260
TOTAL OLDER WORKFORCE	113,870	175,150	232,740	296,010	345,230	372,850	375,740	373,240	392,610
Participation Rate – Males	0.24	0.30	0.33	0.35	0.35	0.34	0.33	0.32	0.33
Participation Rate – Females	0.15	0.21	0.25	0.27	0.28	0.28	0.26	0.26	0.26
Overall Participation Rate	0.19	0.25	0.28	0.31	0.31	0.31	0.29	0.28	0.29
Older Workers % of Total Workforce	0.05	0.07	0.09	0.11	0.12	0.13	0.13	0.12	0.13
Value of Remunerated Work									
Paid Work (\$ Bn)	1.61	2.62	3.75	5.17	6.42	7.51	8.19	8.77	9.99
Self Employed (\$ Bn)	0.55	0.89	1.27	1.75	2.18	2.55	2.78	2.98	3.39
TOTAL VALUE (\$ Bn)	2.16	3.51	5.02	6.92	8.60	10.05	10.97	11.75	13.38
Value of Tax Paid (\$ Bn)									
Tax on Earnings from Remunerated Work (\$ Bn)	0.27	0.43	0.62	0.85	1.06	1.24	1.35	1.45	1.65
Tax on Government Transfers (\$ Bn)	1.01	1.27	1.61	2.04	2.49	2.97	3.38	3.74	4.21

Table of updated projections

Older people 65+	2011	2016	2021	2026	2031	2036	2041	2046	2051
Tax on Investments and Other Income (\$ Bn)	0.45	0.57	0.73	0.92	1.12	1.34	1.53	1.69	1.90
GST (all income spent)	1.76	2.32	2.99	3.86	4.73	5.61	6.34	6.97	7.86
All Tax including GST (\$ Bn)	3.48	4.60	5.95	7.68	9.41	11.15	12.60	13.85	15.62
Value of Unpaid Work	6.58	8.08	10.02	12.52	15.18	18.03	20.63	22.84	25.65
Total Income									
Remunerated Work (\$ Bn)	2.16	3.51	5.02	6.92	8.60	10.05	10.97	11.75	13.38
Government Transfers (\$ Bn)	9.58	12.12	15.31	19.47	23.74	28.24	32.22	35.64	40.11
Investments and Other (\$ Bn)	3.48	4.40	5.56	7.07	8.62	10.25	11.70	12.94	14.56
TOTAL VALUE (\$ Bn)	15.21	20.03	25.90	33.45	40.95	48.55	54.88	60.32	68.04
Expenditure (\$ Bn)									
Groceries, Clothing, Personal Care	2.96	3.90	5.04	6.51	7.97	9.45	10.68	11.74	13.24
Car and Transport	2.18	2.86	3.70	4.78	5.85	6.94	7.84	8.62	9.73
Entertainment	2.56	3.37	4.36	5.63	6.89	8.17	9.23	10.15	11.45
Overheads, Insurance, Medical	5.79	7.62	9.85	12.71	15.57	18.45	20.86	22.93	25.87
TOTAL VALUE	13.48	17.75	22.95	29.63	36.28	43.00	48.62	53.44	60.28

