

Intergenerational Report 2023: Australia’s future to 2063

ACCPA analysis for member consideration

31 August 2023

This analysis by the Aged and Community Care Providers Association (ACCPA) provides an overview of key considerations for aged care providers for future drivers and projected trends of the Australian economy, as highlighted in the Intergenerational Report 2023 (IGR).¹

Population Ageing

Australians are living longer, with more years in full health. However, the number of years lived in ill-health has also increased, which has contributed to demand and government spending for health and aged care services and more time using government-funded services. As such, population ageing will reinforce the trend towards a services-based economy that centres on health and aged care services. This will include complimentary and interfacing community-based service infrastructure.

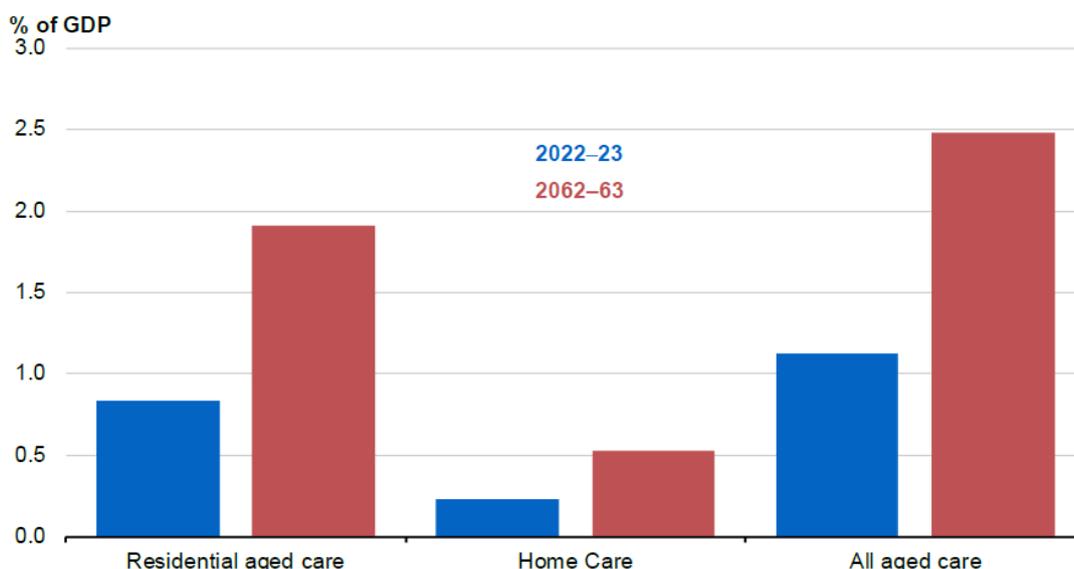
Over the next 40 years, life expectancy at birth is projected to continue to increase, from 81.3 years for men and 85.2 years for women in 2022–23, to 87.0 years for men and 89.5 years for women by 2062–63. In the same period, the number of people aged 65 and older will more than double while the number aged 85 and older will more than triple.

Around 40 per cent of the projected increase in Australian Government expenditure from 2022–23 to 2062–63 is estimated to be due to demographic ageing. With the number of people aged 80 and over expected to increase to more than 3.5 million people by 2062–63, this demographic will exert considerable pressure on aged care spending.

Aged Care Expenditure

Australian Government spending on aged care is projected to increase as a proportion of GDP from 1.1 per cent in 2022–23 to around 2.5 per cent in 2062–63 (see Figure 1). It is unclear, however, whether these projections include consideration of changing consumer and client preferences and the impact of the aged care system reforms under the New Aged Care Act.

Figure 1. Composition of Government aged care spending.



¹ [2023 Intergenerational Report | Treasury.gov.au](https://www.treasury.gov.au/intergenerational-report)

Growth in spending on residential aged care is the main contributor to the increase, although spending on community care is also projected to rise significantly. The growth in the older population accounts for around 70 per cent of the projected increase in real spending on aged care per person. As the IGR Report 2023 notes, 'Additional future demand for aged care will require funding approaches that support a fair and equitable aged care system.'²

The bulk of the growth in costs as a proportion of GDP and per person occurs in the latter part of the projection period, where population ageing is most pronounced. This is caused mainly by projected increases in spending on residential care, in line with the growth in the number of people aged 80 and over (see Figures 2 and 3).

Figure 2. Australian government aged care spending as a share of GDP.

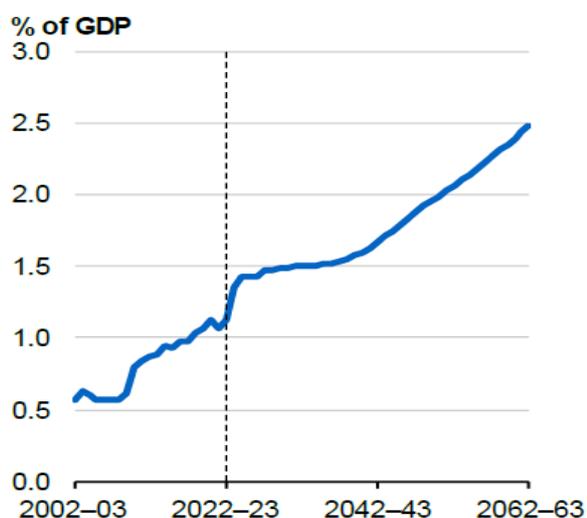
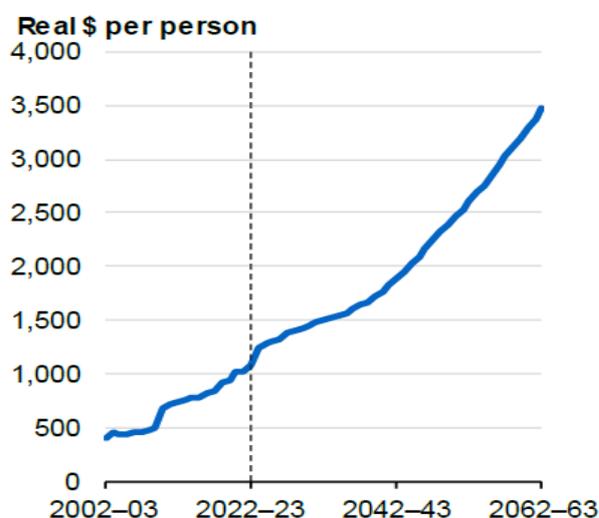


Figure 3. Real Australian Government aged care spending per person.



Health Expenditure

People aged 65 or older currently account for around 40 per cent of health spending, despite being about 16 per cent of the population.³ With population ageing, Australian Government health spending is projected to grow from 4.2 per cent of GDP in 2022-23 to 6.2 per cent of GDP in 2062-63. From 2022-23 to 2062-63, real total health spending on those aged over 65 years is expected to increase around six-fold. Over the same period, real total health spending on those over 85 years is expected to increase around nine-fold. This highlights the importance of aged care reform having a strong focus on the interface between aged and health care service delivery in response to demand for care recipient access to the highest standards of care and responsive technological innovations.

Disability Expenditure

Total Australian Government spending on the NDIS is projected to grow from 0.9 per cent of GDP in 2022-23 to 1.8 per cent by 2033-34. It is projected to be 2.1 per cent of GDP at maturity in 2043-44 and remain stable until 2062-63. The significance of Australian Government disability expenditure projections for aged care providers is important as both aged and disability care providers will be delivering services that draw from the same care and support workforce for providing in-home care as well as the application of similar technological innovations to support quality of life. Models of dual service delivery and efficiencies to be realised will likely become prominent for in-home care.

² Ibid., p. 159.

³ Australian Institute of Health and Welfare (AIHW) (Commonwealth of Australia) 'Disease expenditure in Australia 2019-20', AIHW, (2022), <https://www.aihw.gov.au/reports/health-welfare-expenditure/disease-expenditure-in-australia-2019-20/contents/about>, accessed 6 July 2023.

Retirement Income system

Australia's retirement income system has three pillars: the compulsory Superannuation Guarantee; Age Pension; and voluntary savings.

Almost 70 per cent of people over Age Pension age received some form of Australian Government pension or other income support payment in 2022–23. While the total number of Australians of Age Pension age and over is expected to roughly double to around nine million by 2062–63, a smaller proportion of this group will receive a government pension or other income support payment, declining by around 15 percentage points by 2062–63. Age and Service Pensions is projected to fall from around 2.3 per cent of GDP in 2022–23 to 2.0 per cent of GDP in 2062–63. Additionally, there will be a shift towards more people receiving a part rate pension that is projected to rise from 40 per cent currently to 60 per cent in 2062–63.

In this regard, the Aged Pension will continue to provide a safety net into the future for those who do not have the financial means to support a minimum standard of living in retirement. However, as the superannuation system matures, a greater share of superannuation assets will be held by retirees who will be able to draw down on this capital to fund their retirement. The Age Pension will increasingly supplement retirement income to assist retirees in maintaining their standard of living.⁴

Australia currently has the fourth largest pool of retirement assets in the world, with total superannuation balances projected to grow from 116 per cent of GDP in 2022–23 to around 218 per cent of GDP by 2062–63. As superannuation balances increase over time, superannuation will become the primary source of retirement income for many future retirees. Drawdowns from superannuation are estimated to increase over time from around 2.4 per cent of GDP in 2022–23 to 5.6 per cent of GDP in 2062–63. The proportion of people with accounts in the retirement phase, from which they are drawing a superannuation pension, will increase 11 percentage points (from 8 per cent in 2022–23 to 19 per cent in 2062–63). By comparison the proportion of the population over 65 will increase by only 6 percentage points (from 17 per cent to 23 per cent).

High rates of home ownership have historically played an important role in supporting retirement outcomes for Australians. However, home ownership rates have been falling for several decades for those of pre-retirement age. We are yet to see the long-term impact of recent government policies designed to support more people into home ownership.⁵

Economic considerations for aged care providers

By 2062-63 the national economy is projected to be around two and a half times larger than today, and real incomes around 50 per cent higher than today. However, like other countries, the Australian economy is projected to grow at a slower pace over the next 40 years when compared with the past 40 years. Real GDP is projected to grow at an average annual pace of 2.2 per cent – 0.9 percentage points lower than the average of the past. This mainly reflects slower projected population growth and declining participation in productivity as the population ages. Slower economic growth increases pressure on the budget. This in turn will influence the unfolding funding design of aged care as the nation grapples with the challenge of fiscal sustainability in aged care. ACCPA notes the work of the Aged Care Taskforce in this regard.

Capped activity-based funding is emerging as the immediate go-to approach of Government in managing fiscal pressures in the context of aged care funding reform. The Independent Health and Aged Care Pricing Authority will recommend prices to Government based on market strategy, monitoring, and analysis over time. Client contributions to the cost of aged care will come into increasing focus, playing an important role in mitigating budgetary pressures in the context of population ageing. Media attention following the release of the IGR has been centred on the need for tax reform to account for the projected

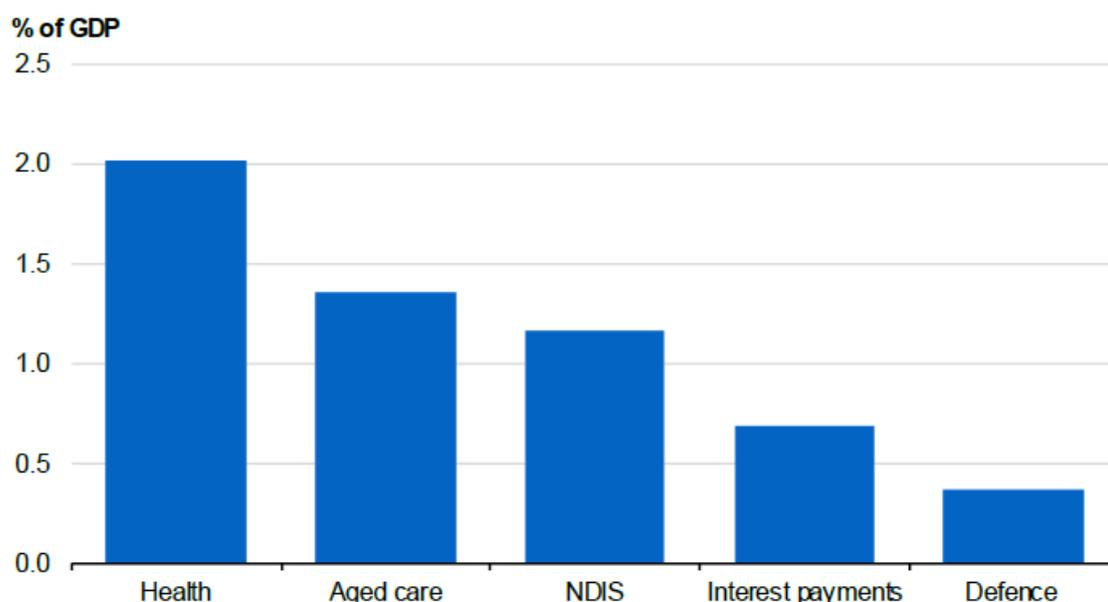
⁴ Ibid., p. 165

⁵ Ibid., p. 172

increase in government spending and acknowledgement of an increasing balance in superannuation assets to draw down on in funding retirement.

Government payments over the next 40 years are projected to increase by 3.8 percentage points, from 24.8 to 28.6 per cent of GDP in 2062–63. The five fastest-growing payments are health, aged care, the NDIS, interest on government debt, and defence (see Figure 4). Combined, these payment categories increase from around one third of total government payments today to around one half by 2062–63

Figure 4. Increase in government payments across the five main spending pressures (2022-23 to 2062-63).



Note: 'NDIS' refers to Australian Government participant payments, excluding state contributions. 'Interest payments' are interest payments on Australian Government securities.

Source: Treasury.

Care and Support Workforce

With population ageing likely to reinforce the trend towards a services-based economy, the Government is committed to a sustainable and productive care and support economy that delivers quality care.⁶ This has been reflected through reforms to strengthen Medicare, funding better pay for aged care workers and introducing stronger standards for care. The Government is also delivering the National Care and Support Economy Strategy⁷ and established the NDIS Review.⁸

Meeting the demand for care will require ongoing investment and improvements in delivery. The IGR indicates that a care and support workforce twice the size it was in 2020–21, could be needed to meet demand in 2049–50.⁹ This presents strong future job opportunities, but at the same time is a workforce planning challenge. Appropriate skills and training pathways, plus wages that reflect the value of care work, will be critical to encourage worker participation in the care and support sector.¹⁰

Natural population increase – births minus deaths in a given year – will continue to support labour participation but natural population increase will decline from 123,000 persons per year in 2022–23 to

⁶ Ibid., p. xvii

⁷ [National Strategy for the Care and Support Economy | PM&C \(pmc.gov.au\)](https://www.pmc.gov.au/national-strategy-for-the-care-and-support-economy)

⁸ [Working together to deliver the NDIS | NDIS Review](https://www.ndis.gov.au/working-together-to-deliver-the-ndis)

⁹ National Skills Commission (Commonwealth of Australia) *Care Workforce Labour Market Study* (Canberra: 2022), 10.

¹⁰ Ibid., p. 8

80,000 persons per year in 2062–63. Older Australians have seen the largest increases in labour participation rates over the past 40 years, particularly women in their 50s and early 60s. A paid job benefits people in many ways, including financial security, establishing and developing social connections, and contributing to a sense of purpose.¹¹

The share of employed people working part time has risen from around 17 per cent in 1982–83 to 30 per cent in 2022–23. With a larger share of women and older workers in part-time employment, as well as greater take up of part-time work among men, this is projected to increase further to around 33 per cent in 2062–63.

Older Australians have more options to participate in paid work should they wish to do so thanks to a combination of improved health and greater availability of less physically demanding jobs. Changes to Age Pension eligibility are also likely to have affected the participation decisions of older Australians.¹² In addition, the rise in older women’s participation reflects the changing mix of generations in the labour force, with younger generations of women more likely to participate and for longer. The continuation of these trends is expected to further increase the participation rates of older Australians over the next 40 years, although by a smaller amount than in the past.

Migration continues to be an important driver of population growth with migration having historically fluctuated with the economic and policy landscape of the time. Net overseas migration is expected to sit near 235,000 persons per year across the next 40 years while actual net overseas migration outcomes over the coming decades will depend on several factors, including future migration policy settings and future economic conditions. Over the next 40 years, net overseas migration is expected to account for 0.7 percentage points of Australia’s average annual population growth, falling from 1.0 percentage points in 2024–25 to 0.6 percentage points by 2062–63. The average growth rate over the next 40 years is the same average rate that was experienced over the past 40 years.

Trends in labour force participation over the next 40 years will largely reflect changes in the type of work people do and how they do it. New technologies have made it possible to automate some of the more routine aspects of work and allows workers to produce more with less, freeing up time for workers to focus on more complex tasks. This is an important ongoing operational and business development consideration for aged care providers.

Technological change will require an increasingly skilled and adaptable workforce. Continued innovation, particularly the adoption of and adaptation to new data and digital technologies, will reshape many industries and occupations at a global level.¹³ These technologies have the potential to significantly improve productivity growth, but will also influence the types of occupations, skills and tasks demanded in the labour market as well as how people work.¹⁴

Digital Technologies

The Government is creating conditions that will support increased adoption of digital technologies. This includes increasing access to high-speed internet, particularly in regional, rural, and remote Australia, helping businesses adopt new digital technologies, and investing in cyber security.¹⁵

Emerging data and digital innovations, such as cloud computing, machine learning and artificial intelligence, have the potential to transform the future of work by automating routine tasks, such as staff

¹¹ Ibid., p. 62

¹² Gustafsson, L., *Australian Labour Force Participation: Historical Trends and Future Prospects*, (Canberra: Treasury, Commonwealth of Australia, 2021), 18.

¹³ World Economic Forum, *Future of Jobs Report 2023*, (Geneva, 2023), 5.

¹⁴ Ibid., p. 74

¹⁵ Ibid., p. 90

rostering, and improving worker capability, through assistive technologies.¹⁶ Application of these innovative technologies will need to be incentivised to address workforce supply challenges.¹⁷

Given the gap between Australian firms and the global productivity frontier, there are significant opportunities for supporting a dynamic and competitive business environment that incentivises the adoption of new innovations.¹⁸ Importantly, it is recognised that investment in transformative ideas, processes, and brands are difficult to account for initially, in terms of productivity and cost benefit realisation because they are treated as expenses rather than additions to the capital stock – unlike investments in more traditional capital like plant and machinery. Newer technologies like artificial intelligence and large language models may also require complementary intangible investments such as business reorganisation and the building of organisational knowledge – investments which are not always captured in balance sheets – and whose benefits take a longer time to manifest. This can lead to an underestimation of productivity in the early years of these technologies, with a productivity surge later when technology investments reach maturity. As such, data and digital technologies pose several challenges to productivity investment justification and measurement.¹⁹

Investing in digital technology and complementary infrastructure, skills, policies, and processes would benefit the whole economy. This includes ensuring accessible, secure, and inclusive digital platforms. Aged care provider engagement with current and emerging data and digital opportunities can support more informed choices by consumers, enhance manufacturing by businesses, and progress the delivery of quality care and other services in partnership with government.¹⁶

Economic Stewardship

A strong economy and fiscal sustainability will be critical to supporting the quality of life for all Australians and the sustained provision of government services across the next 40 years. While traditional economic indicators will be vital for measuring progress, the government is developing a framework of economic, social, and environmental indicators for a deeper understanding of how Australians are faring; the *Measuring What Matters Statement*. It will support more informed discussions about what needs to be done to improve people's lives and may help to inform policy development across all levels of government.²⁰

With the introduction of the first iteration of the Framework, the government has developed an important foundation on which they can build – to understand, measure, and improve on the things that matter to Australians. Government will be looking for opportunities to embed the Framework into government decision making. This will involve guidance for agencies to inform policy development and evaluation. The Framework could also be used in areas of policy that require different levels of government to work together.²¹

¹⁶ Ibid., p. 87

¹⁷ [A new program for in-home aged care – Discussion paper | Australian Government Department of Health and Aged Care](#)

¹⁸ Andrews, D. et al., 'Reaching for the stars: Australian firms and the global productivity frontier', *Treasury* (7 Feb. 2022), 1–16, <https://treasury.gov.au/sites/default/files/2022-02/p2022-243535.pdf>, accessed 27 July 2023.

¹⁹ Ibid., p. 83

²⁰ Ibid., p. 4

²¹ [Measuring what matters | Treasury.gov.au](#)

Measuring What Matters

The Measuring What Matters Framework is being developed to identify the best available indicators to measure Australians' wellbeing. The Framework has five wellbeing themes.

- **Health:** A society in which people feel well and are in good physical and mental health, can access the services when needed and have the information they require to take action to improve their health.
- **Secure:** A society where people live peacefully, feel safe, have financial security and access to housing.
- **Sustainable:** A society that sustainably uses natural and financial resources, protects, and repairs the environment and builds resilience to combat challenges.
- **Cohesive:** a society that supports connections with family, friends and the community, values diversity, and promotes belonging and culture.
- **Prosperous:** A society that has a dynamic, strong economy, invests in people's skills and education, and provides broad opportunities for employment and well-paid, secure jobs.

Consultation on development of the Framework underscored the importance of inclusion, equity, and fairness across all five themes. The themes are supported by 12 dimensions and 50 key indicators to monitor and track progress. Indicators have been disaggregated by age, gender, ethnicity (including for Aboriginal and Torres Strait Islander people), where reliable data that highlights distributional differences is available. Importantly, the indicators for the Framework are intended to deepen understanding of how Australians are faring and inform decisions by all levels of government about what needs to be done to improve Australians' lives.

ACCPA also notes that the IGR references that current productivity measures provide an incomplete picture of the care and support sector's performance. This is because of challenges in fully capturing the value of these services to those benefiting from them. Productivity is currently measured based on hard-to-quantify outputs of the care and support system that do not include important outcomes such as care recipient satisfaction or outcomes.²² Quality adjusted measures of care and support could play a bigger role in measuring productivity improvements over time and provide a fuller understanding of care sector advancements.²³

²² Ibid., p. 23

²³ Productivity Commission, (Commonwealth of Australia) '5-year productivity inquiry: Advancing Prosperity Inquiry Report Volume 2' *Productivity Commission* (17 Mar. 2023), 45, <https://www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume2-keys-to-growth.pdf>, accessed 26 July 2023.