

Demographic destiny

Addressing the challenges of an ageing population



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Speaker Presentation

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MINISTER FOR WORKFORCE PARTICIPATION

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Addressing the Challenges of the Greying Workforce

“An opportunity not a threat”

CEDA’s Demographic Destiny 2006 Conference

**State Room, Level 2
Hilton Hotel Sydney
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Sydney**

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Thank you for your kind introduction, Greg Meek

ACKNOWLEDGE

Senator Penny Wong, Shadow Minister for
Employment and Workforce Participation

Australia's Changing Demographics

Australia, like many developed countries is facing the significant challenge of an ageing population. How we respond to our demography will facilitate our continuing prosperity, or it will impede our productivity and growth.

The impact of the Baby Boomers retiring, lower replacement birth rates and the demand for extra human capital to sustain a booming economy, have us reaching for new ways to increase the availability of labour.

We are already enjoying the lowest unemployment rates in more than thirty years, at 4.8%. But workforce participation is at unprecedented levels, the unmet demand for labour is already constraining expansion, in some sectors.

Our migration policies will assist in some skilled areas, but global competition for skilled workers and our own annual brain drain means migration may ameliorate, but not solve the problem.

The most cursory glance at the population pyramid of 1945, and then the 2045 projection reveals it all.

By 2045 one quarter of Australians will be aged 65 or more, about double the present population proportion.

According to a recent Productivity Commission Report to COAG a decline in workforce participation could pull down per capita income growth, regardless of productivity growth.

Even with a productivity growth rate of 1.75% the Productivity Commission believes that growth could fall to about half its recent rate, by the mid 2020. ⁵

Also significant are the fiscal pressures that are building as we care for a burgeoning older population. Older women in particular, have low levels of savings and independence.

- In 2004 only 11% of women over 80 lived in a private dwelling with a partner.
- 82% of lone women over 65 depend on government pensions as their principal source of income.

A recent AMP.NATSEM Report¹ showed that on average 50 to 64 year olds had superannuation nest eggs of only \$56,000 – far less than needed to provide a financially comfortable life in retirement.²

It also found that about one quarter of men and one-half of women retire early, before they reach the age of 60, and, worryingly, half of all 55 to 59 year old retirees had personal incomes of less than

¹ Kelly, S. and Harding, A., 2002, 'Live Long and Prosper? The Income and Wealth of Those About to Retire', *AMP.NATSEM Income and Wealth Report*, Issue No 2, May. (available from www.amp.com.au/ampnatsemreports) –cited in Dr Ann Harding - Analysing Australia's Ageing Population: A Demographic Picture. NATSEM paper for Australia's Ageing Population Summit 2005' 27 September 2005

² *ibid*

\$10,000 a year.³ On average most Australians will have 20 years or more of retirement to live.

These facts alone mean that amongst other measures, we need to pursue policies that support mature age Australians to continue in the workforce for longer periods, to help them accumulate savings and superannuation. .

The Howard Government has responded with intensive awareness raising campaigns and reforms to superannuation, access and accumulation: They include:

- *superannuation benefits paid from a taxed fund either as a lump sum or other income stream to be tax free for people 60 and over;*
- *greater flexibility in drawing down superannuation in retirement.*
- *deductible superannuation contributions have been extended up to age 75.*

As well to encourage people to defer retirement we have:

- *Abolished a compulsory retirement age in the Commonwealth public service;*
- *implemented a more generous income test for Age Pensioners;*

³ Kelly, S., Farbotko, C., and Harding, A., 2004, 'The Lump Sum: Here Today, Gone Tomorrow', AMP. NATSEM Income and Wealth Report, Issue No 7, March. (available from www.amp.com.au/ampnatsemreports)

- *changed taper rates for unemployment payments, to remove return to work disincentives.;*
- *We have increased access to the Senior Australians Tax Offset;*
- *we have implemented a Pension Bonus Scheme which provides a tax-free lump sum to those who would be eligible, but who defer claiming the Age Pension and continue to work.*
- *And we have made sure employers understand that aged discrimination is unlawful.*

Let me now focus on how we aim to increase the workforce participation rates of our pool of working age, not employed, and why.

The mature aged workforce

Over the last decade Australia's work force participation rates for 55 to 64 year olds have improved and are now just above the average participation rates for the same age cohort in the OECD countries. But they remain significantly below the rates of Canada, New Zealand, the United States and the United Kingdom.

Australia also has the third highest rate of jobless families (two-thirds are sole parent families) in the OECD and amongst the lowest employment rate for people receiving disability benefits.

As our government considered the characteristics of those of working age not in the workforce, it became patently obvious welfare policies of previous generations had come to deliver undesirable, unintended and unsustainable consequences.

Australians views about welfare have evolved from the 1940s when the first working age pensions reflected the dominant moral code and the expectation that women would remain supported in the home.

For example, in 1942 when Australia's first widow's pension was introduced, it was for widowed wives, de facto widows, deserted wives, divorced women and women whose husbands were in institutions for the insane. However single mothers, wives of prisoners, women deserted by de facto husbands and women who had deserted their husbands, or who had agreed to separate, were not eligible. Pensions were for the decent and deserving.

From the late 1950s through to 1997 there was broader based access and sense of entitlement but with little emphasis on reviewing the individual's ongoing need for support or mutual obligation.

Any welfare system needs to be comprehensive and generous enough to provide an adequate living for those without adequate means of support for themselves and their family. However, it is important that welfare policy does not lock those with work capacity away from rehabilitation and regaining all or some self sufficiency.

Hence a number of drivers led to the major “Welfare to Work” policy reforms implemented from 1 July this year. I am responsible for delivering this \$3.6 billion program. The policy drivers included:

Firstly a concern for the social, psychological and financial wellbeing of long-term unemployed or underemployed Australians, and his or her family.

Secondly, an understanding of the economic imperatives of increasing our workforce participation at this time.

Thirdly, the steeply rising trend in recent decades of working age welfare dependency.

And **finally**, the realisation that there has never been a better time to break a cycle of unemployment and poverty, as employers are driven to consider diversifying their workforce, and making the workplace more flexible. We must seize the day.

Let’s consider the first driver or consideration.

We recognise that working age people who depend for long periods on welfare have increased risks of financial hardship, social exclusion and low self esteem. We know that unemployment negatively impacts on a person’s mental and physical well-being.

Significant international and Australian research, in particular by Dr Geoff Waghorn, from the University of Queensland, has established that people are rehabilitated faster, after an accident or

disability, if they can remain in or quickly return to work. This is true for both physical and mental health problems.

As well long term unemployed are less likely to partner, and 600,000 children are growing up in Australian households today where there is no one in the paid workforce. Most of these households are headed by single women.

Typically a work ethic or work-related social skills are learned at home, like parenting. If there are no worker role models the next generation can be left with few employability skills and so are less competitive when job seeking.

As well, 50% of Australian jobs are never advertised, making it difficult for those who are socially isolated or excluded from the workplace to even hear about vacancies, traineeships or apprenticeships.

Hence unemployment extends to the second and third generation in too many Australian families, in particular in indigenous communities.

The nine Welfare to Work programs train, counsel, mentor and find jobs for the unemployed. Programs are individually tailored and delivered one on one.

Two of the programs for example, those assisting people who are the most highly disadvantaged, with for example, drug and alcohol problems, mental health issues, homelessness, victims of violence

or some ex offenders, are not expected to be able to step into work. Rather, their program providers are paid on outcomes which show that the lives of the clients are more stable, and the person can move on to a program that will help them start to look for work.

The old CES had shown itself not able to do more than shift clients between training courses. Our job network and other providers are paid on achieving a real job outcome with their clients. It has been hugely successful.

Job Network has placed over 600,000 people in real jobs in the last 12 months. In the last 6 months our system placed more people in positions than the Labor government's CES placed in the last 6 years. Welfare to work is a \$3.6 billion package over 4 years, so it is well resourced but it is also interesting to compare that each job placement costs the old CES \$12,000. Job Network has had greater success and outcomes have been achieved at a cost of only \$3,000.

The second policy driver for Welfare to Work was to increase workforce participation to counter the impacts of an ageing population and the increased demands for labour in a booming economy. As I have said, we have an unprecedented opportunity to help the unemployed into work, given many sectors have positions where people can be trained on the job, after tailored short courses. These sectors include hospitality, tourism, retail, manufacturing, the transport sector, the construction sector, the caring professions and agriculture. Specifically funded projects see people in industry bodies and individual businesses partnering

with our Welfare to Work program providers. The vacant positions are identified, then the skills or training required and then our unemployed clients are recruited on the basis that if they complete the course they have their new position. Whyalla is a case in point, so is our relocation trial.

To encourage upskilling and to give relevant work experience, the 6 month Work for the Dole, introduced in 1997, has been extended beyond its original emphasis on Mutual Obligation and re-familiarisation with the culture of work, to a more training based experience. Work for the Dole projects must now reflect local work force needs, and wherever possible, structured and certified training outcomes will be delivered.

The third policy driver for Welfare to Work was the consequence of the shrinking welfare dependent to tax-payer ratio.

Despite the workforce shortages we have around 2.5 million people of working age receiving welfare payments, a legacy of previous policies where, for example, supported parents could remain on payments until their youngest turned 16, and where people with a disability remained on the DSP until an aged pension rolled around, even if the individual had a part-time work capacity.

In the last 40 years welfare dependency has increased by more than 500%. Of the 2.5 million of working age on welfare, about ½ million are unemployed and are looking for work.

Another 700 000 receive the disability support pension, and 600 000 receive parenting payments.

Australia spends over \$20 billion annually on working age welfare payments.⁴

While we have seen a decrease in workplace accidents, epidemics and morbidity in Australia, the number of disability support pension recipients, has grown by over 60% in the last 11 years.

66 per cent of mature age men receiving welfare are on the DSP, compared to about 33 per cent of women. The most common disability for mature age men on DSP is musculoskeletal problem, most are of unskilled background.

In the past blue collar workers left behind by structural change, and damaged by years of hard labour, tended to be recommended by their doctors to move on to the DSP, rather than be vocationally rehabilitated and/or re-skilled to remain in the work place.

This thinking persisted, especially during the times when unemployment peaked. In 1993 for example, the then Minister for Employment Mr Beazley was concerned by the burgeoning number of over 55's unemployed, so he proposed that they be transferred immediately to the old age pension.

The balance between tax payers and working age welfare claimants has shifted from the 1960's, when 3% of the working age population was on welfare, to around 17% today.

⁴ 2006-7 DEWR portfolio budget statements

In the 1960's, there were 22 tax payers supporting 1 person on welfare. Today, this ratio has collapsed to 5 tax payers for every 1 on welfare.

Clearly these trends would compound the impacts of the ageing population. To slow these trends, since July 1st 2006 we have moved from a disability pension eligibility based on an inability to work full time (i.e 30 hours) to an ability based assessment which tests to see if the client can at work at least 15 hours a week in open employment within two years of rehabilitation and support.

Those who have at least a part time capacity are put on to Newstart Allowance (not the disability pension) and given special job seeker support through the Disability Employment Network, or vocational rehabilitation programs.

An on-going subsidised wage support system allows employers to pay less than the full award wage to a disabled person if their productivity is assessed as below 100%. The employee then retains some of their welfare payment to ensure they have an appropriate income.

Employers can be offered short term wage subsidies for any long-term unemployed person on Newstart Allowance, as an inducement to trial the worker, and work experience can be arranged with the Commonwealth paying the workplace insurance.

600,000 parents currently receive supported parenting pensions. Over 80% are single supporting mothers. Until the recent welfare

to work reforms parents could stay on the pension until their youngest child turned sixteen. While obviously well-intentioned, and steeped in earlier notions of the women's place in the home, these old welfare access rules had the effect of keeping women out of the workforce for so long that their previous work experience and skills became devalued, and re-entry to paid work as a mature aged person was much more difficult. Times have changed women's aspirations have changed and we know the intergenerational impacts of families without a bread winner. Our new Welfare to Work rules support mothers to retrain and up skill and return to work, at least part time, when their youngest turns 6.

Unfortunately the mature age worker faces significant and unique barriers when attempting to re-enter the workforce or upgrade.

Stereotypes of older workers include the belief that:

- older people are difficult to re-train;
- older workers are opinionated and inflexible;
- they have more time off than younger workers;
- they can't take orders;
- they are technologically illiterate.

Surveys conducted by the Human Rights and Equal Opportunity Commission showed a common reason for discrimination against mature age workers was the preferred 'young and dynamic' image that the company wished to project even when the product or service was aimed at all ages.

A search of popular recruitment sites will show you endless examples of advertising that projects the impression that only the young need apply.

We need employers to understand that mature age workers can bring a maturity of outlook, a capacity to mentor the young, loyalty (and so less job churning), great interpersonal skills and an ability to relate to the demographic with the greatest capacity to consume (i.e the over 45's). Mature age workers can be a company's most valuable human resource.

International and local research shows that, with the exception of work involving intense physical effort, there is little measurable difference in capacity as an employee ages.

Clearly there is a misalignment between perception and reality in relation to the capacity to adapt and the value of mature aged workers. This needs to change.

The Australian Governments' new \$700 million "Skills for the Future" program clearly targets mature aged workers who want to change careers, or up skill. It recognises that nearly 2/3 of unemployed Australians have less than year 12 qualifications and their need to build skills to match the work in demand.

For many people, particularly mature age workers with dependents, making the switch to a trade, and hence an apprentice salary for 3 or 4 years, carries a real financial penalty.

\$307 million is committed to help with mid-career apprentice wage subsidies.

Within Welfare to Work mature aged workers are targeted with a new Employment Preparation service available on a demand-driven basis. This includes 5000 places for those not on income support.

We have also extended eligibility for the New Enterprise Incentive Scheme to over 50 year olds, including self funded retirees or others not receiving welfare payments, so that more may receive the training, mentoring and income support needed to help start a new small business.

The days when functional English and literacy and numeracy for work were not essential, are fast disappearing. Most jobs require effective English communication and competency in operating computers and digital technology. Needless to say, our system of teaching English to newly arrived humanitarian refugees is under review. All of our Welfare to Work programs offer language, literacy and numeracy education.

But how are we aiming to encourage employers to rethink the age, gender and other characteristics of their preferred recruit?

As part of Welfare to Work \$50 million has been allocated over four years to the Employer Demand and Workplace Flexibility Strategy. Another \$12 million specifically targets employer attitudes to the employment of the mature aged.

These strategies include:

- workshops, information dissemination, and demonstration projects of innovation and best practice aimed at recruitment, training and retention;
- There is also *Age Management Training* for managers to help them develop flexible workplace practices to encourage mature age people to remain in the workforce and implement a more phased retirement.

Workplace Relations Reforms

Our Industrial Relations reforms are also a critically important part of the Australian Government's response to the ageing population.

As labour shortages become more apparent, employers will need to be more flexible to compete for workers, who may demand more work-life balance. Older workers, especially those of traditional retirement age may be attracted back or defer retirement through part-time, home-based, or job shared work. Others may prefer more variable start and finish times or averaging working hours over weeks, months or a year.

Our industrial relations reforms have made such flexibility much easier, particularly with the removal of the unfair dismissal laws.

In conclusion

Our ageing population is a challenge and an opportunity, not a threat.

As the former Disability Discrimination Commissioner, Dr Sev Ozdowski, has said, forward-thinking, “dynamic” organisations cannot afford to wait to see the economic detriment of their current practices and policies in the new demographic landscape before considering change.⁵

One of our key challenges must be to change employer attitudes towards the recruitment and retention of mature aged workers.

Mature aged women, in particular, need careful support. We must establish a culture of flexibility in the workplace, life-long learning and re-skilling, in order to harness the full potential of every Australian. Through increasing workforce participation we can achieve a more inclusive society, and one with the human resource necessary to sustain our way of life.

Certainly the Australian Government has thought long and hard about all the challenges of an ageing population. We have made significant policy change, and investments, and we intend to make a difference.

We can't allow our demographics to derail our destiny.

⁵ 'Addressing age discrimination' Dr Sev Ozdowski OAM - <http://www.austlii.edu.au/au/other/alrc/publications/reform/reform81/03.html>