



## What is the intergenerational report?

- The intergenerational report is produced by the Australian Government every 5 years to assess the sustainability of government policies over the next four decades.

## Making progress, though challenges remain

- The Australian Government's long-term fiscal sustainability has improved since the first intergenerational report (IGR1) in 2002.
- However, demographic and other factors will continue to pose substantial challenges for Australia's economic growth and long-term fiscal sustainability.

## Ageing of the population

- By 2047, Australia's population is projected to be 28.5 million. A quarter of the population is projected to be aged 65 and over, nearly double the current proportion.
- Currently there are 5 people of working age to support every person aged 65 and over, but by 2047 there will only be 2.4.
- Falling fertility rates and rising life expectancies are the main factors contributing to population ageing.

## Falling fertility

- Australia's total fertility rate fell rapidly in the 1960s and 1970s, from 3.5 births per woman in 1961.
- The current fertility rate is 1.8 births per woman, slightly higher than in 2001, and higher than in most developed countries.

## Rising life expectancies

- Since the 1900s, Australians' life expectancies have increased from 55 to 79 years for men and 59 to 83 years for women, and are now among the highest in the world.
- IGR2 projects life expectancies to increase further, reaching 86 years for men and 90 years for women by 2047.

## Economic effects of ageing

- Over the next 40 years, living standards are projected to continue to rise, although at a slower rate than over the past 40 years due to population ageing.

## Long-term fiscal sustainability

- By 2046-47, government spending is projected to exceed revenue by around 3½ per cent of GDP. This compares to a projected fiscal gap in IGR1 of 5 per cent of GDP by 2041-42.
- Spending pressures will be most significant in the areas of health, age pensions and aged care.
- Health spending is projected to nearly double as a share of GDP by 2046-47 due to ageing and, in particular, non-demographic factors.

## Slowing the rate of population ageing

- Reforms that help slow the rate of population ageing make it easier to adjust to long-term demographic change.
- The Government has increased support for families, expanded the Maternity Payment and increased the size of Australia's migration intake, shifting towards more skilled migration.

## Strengthening economic growth

- The Government has introduced reforms to strengthen incentives to participate in the labour force and improve the flexibility of the labour market.
- These include personal income tax cuts, workplace relations changes, Welfare to Work changes, family tax benefit adjustments and superannuation system improvements.
- The National Reform Agenda aims to further improve productivity and participation, building on the achievements of national competition policy and associated reforms.
- Continuing reforms to encourage higher labour force participation and increased productivity are needed.

## Managing spending pressures

- The Government has delivered budget surpluses, eliminated net debt and set up the Future Fund to provision for unfunded liabilities.
- It has also put in place a range of measures to better control government spending, including in the Pharmaceutical Benefits Scheme, the largest projected spending pressure in health.
- As a result, Australia is in a stronger position than most developed countries to face these fiscal pressures.
- However, ongoing management of spending pressures will be required, and future needs and pressures will need to be considered when making spending decisions.

## A sustainable health care system

- Australia's health system is world class. It is one reason for the high living standards and long life expectancies of Australians.
- We need to continue to prepare for the health care we want in the future, promote healthier lifestyles and ensure that health spending is as efficient and effective as possible.

## Environmental sustainability

- It is important to maintain the capacity of the environment to contribute to economic growth over the longer term.
- Since IGR1, Government spending on protecting the environment has more than doubled. Measures include funding for water conservation, alternative energy sources and support for low emissions technologies.

## Ongoing reform is required

- Steps to lift prospects for economic growth and help manage growth in government spending will need to continue to deal with the intergenerational challenge.