Old news

22 Oct 2004

Population: by gender and age, mid-2003

Source: National Statistics website: www.statistics.gov.uk

A new government report identifies a £57 billion gap between how much the British public are currently saving for their old age and the amount they actually need for a comfortable retirement.

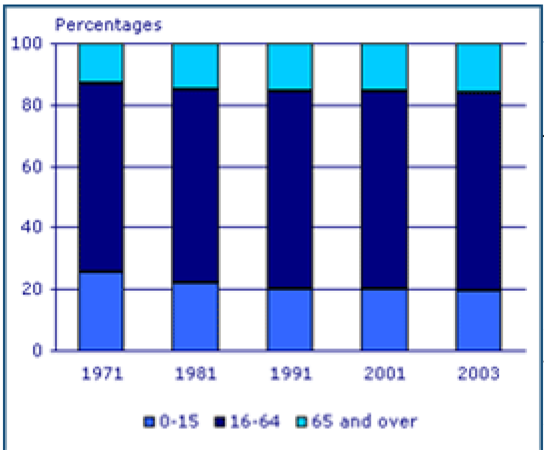
The Independent's headline says it all: the UK is facing a 'Pensions Crisis' (12 October 2004). This is a result of the nation having an ageing population, not all of whom have saved enough money to enjoy a carefree lifestyle when they stop working. Although the government guarantees a weekly income through the state pension scheme, this is a basic payment intended to cover necessities such as food, clothing and heating bills. It is not nearly as high as the average working wage that retiring people will have been used to. To enjoy their retirement, pensioners need to have savings of their own and it appears that many have not made adequate provision. To add to the problem, there are also growing concerns over how the state pension will be paid for in future, with fewer people working and paying taxes while more retired people are living longer.

Britain's population is ageing as a result of extended life-spans brought about by improvements to diet, health and safety during the Twentieth Century (see inset). At the same time, fewer people are born, as birth rates fall due to the 'professionalisation' of women and the weakening of religious beliefs, amongst other reasons (see Italy pays cash for babies for full explanation). Mothers now have 1.7 children on average compared with 2.5 in 1970. Already, 18% of the UK population are over pensionable age. By 2040 this is expected to rise to 25%. This rapid rise is also due to the post-war baby-boom generation of the late 1940s and early 1950s reaching retirement age. They are an unusually large cohort - the offspring of families re-united after the Second World War (1939-45).

Why are we all living longer?

Industrialisation has increased life expectancy and reduced the crude death rate (CDR) in the UK in three important ways since the 1700s:

1. *Food supply* The agricultural revolution allowed the intensification of food yields on existing lands and the extensification of production to remoter areas as transport infrastructure improved. For instance, between 1650 and 1750, important changes were made to crop rotation systems, allowing additional food to be grown.
2. *Health care* Disease prevention and cures have all improved. Well-planned economies such as the UK's can provide comprehensive care through the National Health Service. Accident and Emergency Departments provide immediate help for injured people while immunisation against polio has led to its eradication in the UK. Improved health care (along with hygiene and sanitation) has also contributed to a decline in infant mortality.
3. *Hygiene, sanitation* and *safety* Sewer systems were installed in Victorian cities (Joseph Bazalegette built London's during the 1860s). Provision of universal education raised public awareness of the means by which diseases are transmitted. UK and EU health and safety laws now carefully regulate all aspects of people's lives (insisting on car seat-belt use, safe food preparation in restaurants and fire exits from buildings, to name just a few). We live in a risk-averse society.



Population: by age, UK
Source: National Statistics website: www.statistics.gov.uk

What sources of income exist for retired people?

The situation is quite complicated. The government pays a state pension to men over 65 and women over 60 (this is set to rise to 65 soon). However, this is little more than a subsistence wage, currently only around £80 per week. Additional state benefits include subsidised housing for those on very low incomes as well as free medical care. However, people are expected to have their own savings as well if they want to continue living in the style they were accustomed to when working. In reality, most retired people get their income from a variety of different sources, which may include:

- *The state pension* This is a universal entitlement that is not means-tested. It was introduced in 1946 as part of the National Insurance Act. In return for regular contributions (with additional contributions paid by the employer and the government) every worker is entitled to a weekly state pension on retirement. Before 1946, very poor elderly people received an income under the Old Age Pensions Act (1908). Since 1946, reforms have made the situation more complicated. For instance, a system called the Pensions Credit can help supplement the state pension further. Unlike the basic entitlement, it is means-tested and a person needs to have saved £106,000 to qualify.
- *Other state benefits* Housing costs are paid to those pensioners with no savings. In addition, the government gives free TV licenses to the over-75s and a £200 winter fuel allowance is provided to the elderly for their heating bills. Local councils subsidise the cost of care homes for those that cannot look after themselves and many issue free travel passes for trains and buses. Council tax payments are sometimes subsidised.
- *Personal pensions* There are two main types of personal pension: (1) defined benefit, where a company continues to pay a retiring employee a proportion of his/her final salary for as long as they live (2) defined contribution, where a pot of money has been built up through contributions

at work or to a third party and, on retirement, an annual payment is made that is based upon the individual's life expectancy. Increasingly, as life expectancy figures improve, firms are trying to reduce their annual payments.

- *Continued employment* Many elderly people who have worked in skilled occupations such as banking, teaching, medicine, writing or acting continue to work into their seventies and eighties. They may serve as consultants, providing valuable advice to younger staff, perhaps on a part-time basis. Older actors are always needed to play older parts – such as the wizards in the *Harry Potter* and *Lord of the Rings* films!
- *Other investments* Many older people own their own houses and can therefore borrow money from banks. The banks reclaim their money upon the owner's death and the sale of the house. This is known as Equity Release. Older people may have stocks and shares and can continue to make fresh investments that yield new profits.
- *Family support* In poorer families, children may provide financial support. Of course, this work both ways. Older people with savings may help support younger members of the family – grandparents may help with school and college fees, for instance.

However, while many retired people have plenty of savings, the new government report voices fears that younger people (under 40) are not saving for old age in the way that their parents did. Apparently, they need to begin saving around one quarter of their income or else they will have to keep working much longer, perhaps to the age of 70 or beyond.

dependency ratio

The dependency ratio is calculated as:

(% under 15 + % over 65) ÷ (% aged 15 - 64) x 100

The formula compares the proportion of a population that is economically non-productive with the proportion that actually generates wealth. A score of over 100 suggests that there is a lack of balance, as there is more than one young or old dependent for every working person who is paying taxes.

The dependency ratio is currently rising in the UK as the numbers of retired people increase (although a fall in the number of children being born means it is not rising as fast as it could be). Currently, 60% of Britons are working to pay the state pensions of the 21% who are retired. In 2030, 56% of Britons will be working to pay the pensions of the 27% who are retired.

AS-level questions:

1. **Calculate the dependency ratio for the UK in (i) 2004 (ii) 2030 *(you will need to deduce the percentage of youthful dependents as part of this exercise, using the figures provided)*.**
2. **The formula uses the age of 15 as the limit for youthful dependency. Should this be changed in modern Britain? (*give reasons for your answer*)**

What are the consequences of an ageing population?

An ageing population is defined as one where the mean (average) age is increasing. There are many consequences of this, including:

- *Negative economic consequences* As this article explains, the tax burden placed on working people is likely to increase.
- *Positive economic consequences* In towns such as Worthing (where 40% are over 60) there are many opportunities for young people to work in care homes or services catering for older people. It is possible for a local multiplier effect to develop. The elderly have savings that they spend locally.

- *Negative environmental consequences* More housing is needed (in 1996 it was suggested that 4.4 million new homes would be needed in the UK by 2016). This is partly due to increases in life expectancy, meaning housing stock is occupied longer by each individual than in the past. Much of this building will take place in lowland areas, often floodplains, and contributes to growing flood risk, especially in southern England (impermeable surfaces promote run-off).
- What might the *political* and *social* consequences might be? (*Political* refers to possible changes in laws that politicians might have to make; *social* could refer to changes in the kinds of services available in a settlement, as well as covering aspects of social behaviour such as crime).

AS-level questions:

1. **Describe changes in the number of over-65s between 1971 and 1991 (3 marks)**
2. **Suggest possible reasons for these changes (4 marks)**
3. **Describe the shape of the UK's population pyramid (3 marks)**
4. **Suggest reasons for variations in the numbers aged between 50 and 60 (4 marks)**

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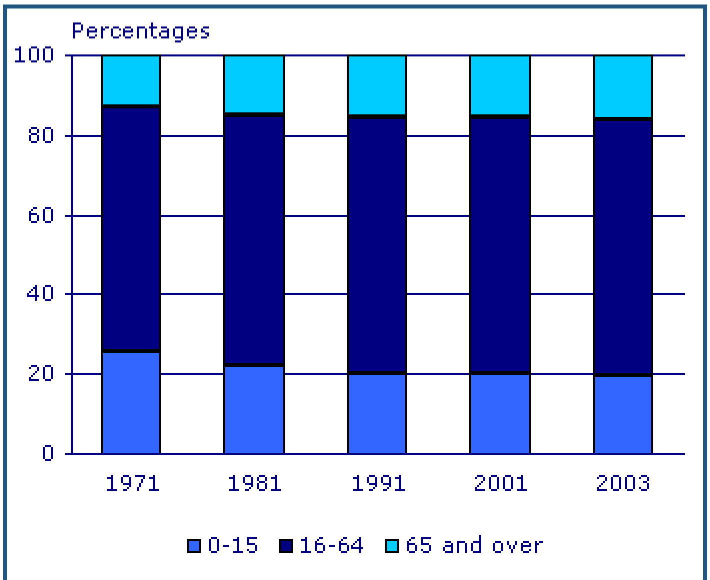
Figure 1 from http://www.statistics.gov.uk/cci/nugget.asp?id=949



Population: by age, UK

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2. Suggest possible reasons for these changes (4 marks)

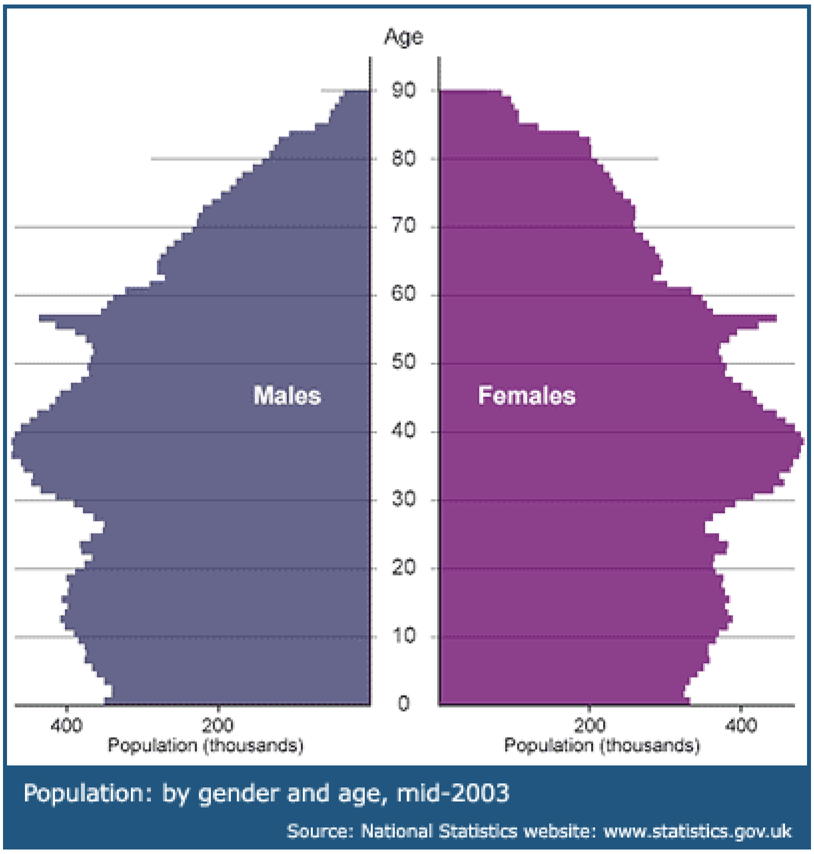

Figure 2 from http://www.statistics.gov.uk/cci/nugget.asp?id=6

3. Describe the shape of the UK's population pyramid

(3 marks)

4. Suggest reasons for variations in the numbers aged between 50 and 60

(4 marks)