

baby boom is a timebomb

Despite all that has been written about the inadequacy of Australians' retirement savings, there is still a dangerous lack of awareness about the demographic timebomb that is ticking slowly but surely away.

After World War II ended in 1945, Australians started to produce a new generation that became known as the baby boomers.

The breeding frenzy continued until the mid 1960s when the advent of the contraceptive pill, and changing attitudes to women in the workforce, caused the birth rate to drop.

The baby boomer generation represents a unique demand bubble that is slowly moving through our society. If you wanted to make a fortune when the baby boomers were young, you would have brought shares in companies that made baby food and toys; if you wanted to make a fortune when the baby boomers were teenagers, you would have brought shares in McDonalds. Now the big money is in lifestyle services and health care.

This is why wine shares are booming and why banks are moving into management funds.

The baby boomers' demand for homes pushed up real estate prices between 1970 and 1990, and the demand for loans to finance those properties pushed up interest rates to record levels.

In 1960, when the oldest baby was 14, interest rates were where they are now.

This is good news. Because the youngest baby boomers are now 43, and have almost certainly brought a house, their need for home loans are over. Sure, there will be periods of strong real estate demand such as we are experiencing today, but this represents a large amount of future buying brought forward and also a reaction to the boom.

Yes, the Reserve Bank will tinker with rates, but the good old days of high rates are gone for good.

There were few people over 70 back then and how the perfect pyramid shape meant that the population in the workforce was increasing. This meant a growing stream of taxes to help keep the older generation.

Now comes the bad news. The baby boomers are now aged between 43 and 61 and are at their peak earning capacity. Their taxes are funding our extremely generous social security system that enables millionaires earning \$52,000 a year to get a part aged pension and for single pensioners earning \$20,000 a year to pay no tax. But this utopian state of affairs cannot continue.

Even with a relatively small number of people in the elderly bracket, the pressure on nursing homes and hospitals is severe.

So how have our governments faced the challenge of the ageing baby boomers?

In 1983, the Hawke Government took the positive step in making superannuation compulsory and imposed a 30 percent exit tax on lump-sum super. The Coalition opposed compulsory superannuation.

In 1988, the Keating Government levied a 15 percent tax on superannuation contributions.

In 1996, the Howard Government tried to fix the crisis in the nursing-home industry with accommodation bonds. The scheme was dropped after a successful Labor scare campaign.

Last year the Howard Government tried to reduce the superannuation surcharge but the Bill was defeated by Labour in the Senate even though, until then, it had been Labor policy to abolish it.

In the 2002 budget, the Government tried to deal with the Pharmaceutical Benefits Scheme blowout where costs had risen from \$1 billion in 1990 to a staggering \$4.5 billion today. One measure would have increased the cost of medicine to the consumer. Non-government MPs and pressure groups screamed.

The raw numbers are scary. This year, there are 2.5 million Australians over 65 and 13.2 million aged 15-65. In 30 years, Treasury projection indicate we will have 5.6 million people over 65 and 15.3 million between 15-65. In other words, the ratio of over-65s to 15-65s will almost double from 19 per cent to 37 per cent.

Serious hardship is inevitable unless action is taken now. The pressure on the budget will grow. There'll be longer waits in hospitals and nursing homes. Health premiums will continue to rise.

Expect the politicians to bicker while most Australians think it's their right to pay \$29 for a prescription that costs \$400.

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