

Godalming Business Breakfast

Changing Demographics and Their Impact



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So, why is it important to consider this?

Why is this happening to us?

Looking briefly at the age demographic

Are the projections accurate?

So what can we do?

At the July breakfast meeting we were looking at the aspects of life and business that have been and may sooner or later be affected by changes in demographics.

Martin Ralph from the *Cartwright Group Limited*, kindly prepared the following information on this subject.

Changing Demographics and Their Impact

Demographic studies are used to identify systematic and other changes to various elements of the structure of a defined group of people.

We are largely concerned with the changing age and growth demographic of the UK population.

Before we go into the details of the UK, let's take a quick look at the global position. Global population is set to grow from 6.85bn to 9.15bn by 2050. This is a doubling of the total population over a 100 year period. Importantly, most of the growth is expected to take place in urban areas.

Europe's population (allowing for the current composition of the European Community) has increased from around 400m in 1960 to nearly 500m. It will continue to increase to around 520m by 2035 and then start to gradually decline. Net immigration has outstripped natural increases for the past 20 years and is projected to continue in this vein.

Taking the UK specifically, we have seen the population grow from 42m in 1911, to 53m in 1962 and then onto nearly 63m in mid-2010. It is projected to continue to increase to 77m by 2050 and then onwards to 85.1m by 2081. This reflects growth at an increasing rate over the next 50+ years.

So, why is it important to consider this?

If we look at the facts, there is no denying that the population of the UK is growing, and doing so at an alarming rate. We live on a relatively small island, yet we have one of the largest populations in Europe, and one which is projected to grow to become the largest within 50 years. At the same time, we as a population are getting older. In 2007 people aged over 60 outnumbered children for the first time.

Only 4 countries in Europe are set to grow at a faster rate than us - Norway, Luxembourg, Ireland and Cyprus. Similar size countries such as France, Spain and Germany are not predicted to grow at the same rate, indeed, Germany is set to see a 10m reduction in its population over the next 50 years.

Why is this happening to us?

It is partly due to immigration, but also to natural increases as a result of increasing life expectancy and birth rates. Experts suggest that these are due to us enjoying a higher

standard of living. Our net population increase, excluding immigration, is projected to be 7.7m. Apart from France, with an increase of 5.5m, the next largest rise is Norway, at 610,000. Most countries will see a fall in their birth rate. Why ours continues to increase we have no idea!

Increasing life expectancy however, has a significant influencing factor on the current middle-aged to at-retirement population, which is swollen due to the 'baby boomer' births of the 1950's and 1960's.

Looking briefly at the age demographic

If you plot population numbers by age bands you generally get what is known as a population pyramid, with a wide base representing the youngest members of society, children, rising in decreasing numbers, to the smallest population of the eldest members of society at the top. India has a classic pyramid with smoothly sloping sides.

However, do this for the UK now and what you get is a pyramid with a bulging midriff; a pyramid suffering from middle age spread and becoming increasingly top heavy. This is the so-called 'baby boomer' generation. Looking forward, the pyramid is expected to experience a bit of an hour-glass shape, as the current reduced crop of 10 - 40 year olds make their way up towards the top. Birth rates boomed during the 50's and 60's, tailing off from 1971. But, from 2001, we have seen steady increases in the birth rate, although it did fall slightly in 2009. Some 790,000 or so babies are being born each year and we may therefore see a return to a more normal shaped pyramid in future years.

Looking at it another way, the number of people turning 65 last year was 646,000, up just 6,000 from 2009. This year 685,000 turn 65 (up 40,000) and next year, the number jumps to 806,000 (an increase of 120,000). By 2030, it is projected that there will be over 5m more people aged over-65 than currently. By 2060, the number of over-65s is expected to increase by another 5m to over 19m. This will be 24% of the total population. Put another way, there are currently 4 workers for every pensioner, by 2030 there will be 3 and by 2060, there will be just 2.

Add to this, the improvements in life expectancy, and you can start to see the problem. In 1946, when the first baby boomers were born, you could expect to live for 13 years after age 65. Now it is 23 years. This is near enough a 45% increase in the number of years you will be retired - assuming of course, you can afford to retire!

What it will be in 20 or 30 years time, who knows. Some theorists suggest that we will live for hundreds of years. Indeed, it has been suggested that the first people to live to 1,000 have already been born!

What this all means is that we are experiencing record numbers of people reaching retirement age, and a gap in the population that needs to replace them.

As people of a working age meet most of the pension and public spending costs, this has a huge significance for the economy, for the public finances and for the country generally.

Since 2006, DWP spending on people over working age has risen by almost £14bn. This is set to increase further by another £4bn by 2016. Think about the reducing ratio of workers to pensioners - from 4:1 currently to 2:1 over the next 50 years - and you can get an idea of the scale of the impact on public spending.

Of course, financing this change is just one challenge. There are others including space, infrastructure, healthcare and employment.

Are the projections accurate?

Who knows! In 1965, it was projected that the population would reach 75m by 2000. This was based on the demographic circumstances at that time, which included the baby boomer birth rate. Current projections are based on the current circumstances. In fact, will we start to see a reduction in life expectancy in future years as today's less healthy lifestyles catch up with us?

So what can we do?

Regardless of what the future actually holds, some of these demographic changes are happening right now, and they affect all of us and will affect all of our businesses. We need to think about how we adapt to meet the challenge. Increased life expectancy is great, if we are healthy enough to enjoy it, and wealthy enough to pay for it. What happens what the money runs out?

Will we see a return to the social demographic of the late 18th and early 19th century when there were three or even four generations of a family all living under the same roof?

If today's children are going to live forever, will they inevitably stretch each cycle of their life out for many years to fill up the time? Will gaps years become gap-decades?

What about the impact on your workforce? Retirement ages are already increasing and you can no longer force someone to retire. But, if there is no-one to replace them anyway, is this actually a good thing? What do you do though, if your workforce becomes too old and inefficient, with increased illness and absence? Salary and compensation costs may become untenable for an older workforce.

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