New Zealand is facing a set of unprecedented demographic shifts that will radically alter the demands of public policy across the next few terms of Parliament. The most salient and far-reaching of these is population ageing. In the near future New Zealand will have many more older people compared to younger and working-age people to support them. This change is happening now and can’t be averted. At issue is how the country will afford to support and provide services to older people given the ratio of young people to older people may halve in the next 50 years.

The statistics are clear that ageing is already happening in New Zealand, as it is also occurring in many other developed countries (see figure 1 below). It’s tempting to think that migration will resolve the projected ageing but demographic experts increasingly believe that migration merely alters the overall size of the population rather than altering the age structure.

Ageing is primarily a consequence of the baby boom, which occurred very strongly in New Zealand compared to other countries due to high fertility (the number of births per woman) and improved infant survival rates in the decades after the end of World War Two. While New Zealand continues to have one of the highest fertility rates in the developed world, rates have declined from the peak of the baby boom from around 4 births per woman in 1961 to around 2.14 in 2010.

The baby boomers themselves had fewer children than their parents, and their children had fewer births again, meaning that they were not replaced in adequate numbers and older people became a higher proportion of the population. The continued culture of diaspora of young New Zealanders also contributes to the reducing proportion of young people.

Using a conservative population forecast, over 65 year olds are set to increase from 587,000 in 2011 to 921,000 in 2026 and the number of economically active people aged 16 to 64 years old from 2.9 million to just 3.1 million. This will change the ratio of 0.20 active workers per retiree to 0.30, and 0.39 by 2061, while a medium mortality estimate puts the ratio at 0.43 by 2061. Many baby boomers are now reaching 65 years, and are consequently retiring from work.

The consequences of ageing are many and far-reaching. Probably the most discussed is how future governments will provide universal superannuation funded through general taxation, when the cost may double or treble and relative tax revenue may fall. It is clear that health expenditure will increase given older people are more frequent users of health services. There will also be industry and labour market implications, such as how to retain workers in industries traditionally staffed by younger people due to low wages (such as retail), and how to supplement the supply of skills of older workers given a lack of new entrants to the labour market. How will government ensure an adequate supply of aged care workers? This may have implications for how education is provided in New Zealand.
Ageing will have serious implications for New Zealand’s economy, as one of its most important industries, agriculture, holds important occupations with high median age among workers and owners. Demographers have asked who will buy (or inherit) New Zealand’s grain, sheep and beef farms (for example) as older workers retire and relinquish them? Will foreign investors snap them up, if so, what are the consequences of the transfer of productive lands out of New Zealand ownership?

Population ageing also means the end of population growth as older people do not reproduce at the same rates (or at all) as younger people. The New Zealand population will grow at much slower rates than in earlier times, so economic growth strategies can no longer be predicated on population growth. Growth will quickly decline in many non-urban areas of New Zealand while the cities will continue to attract younger people. How will this change how New Zealand earns its living?

There are also the seemingly mundane aspects of population ageing to be considered. Most obviously there will be more requirements for facilities for older people, such as public transportation, through to freeing up land for cemeteries. Central government may have a part to play in both encouraging local authorities to think about these issues, through to providing incentives to them to solve problems associated with ageing.

Sources: N. O. Jackson, The demographic forces shaping New Zealand’s future. What population ageing really means. NIDEA working papers No.1. 2011

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