Actuaries Institute Podcast
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Speakers: Hugh Miller, Ramona Meyricke
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Introduction

Christa:

Hello, and welcome to the Actuaries Institute podcast, and this introduction to an important piece of Thought Leadership. My name's Christa Marjoribanks, and I'm a Fellow of the Actuaries Institute. Today, the Institute launched an Intergenerational Equity Green Paper. This is the first Green Paper released for 2020, and it's a very exciting one. It's an initiative of the Actuaries Institute, and it's been written by Ramona Meyricke and Hugh Miller, who are both joining me today on the podcast. Welcome, Ramona and Hugh.

Hugh: G'day, thanks for having us, Christa.

Ramona: Hi, Christa. Thank you.

Christa: **I'm really excited to talk about this one. But I thought we might just begin with, firstly understanding a few concepts about what we're talking about. So, what is actually meant by 'intergenerational equity'?**

Hugh: Yeah, it can vary, in terms of how people interpret it, but ultimately, it's about fairness between generations. And so, whether different generations are having the same sort of opportunities, and are being treated fairly by government, and by society, generally. And that can be defined a few different ways. So, you can think about fairness as whether everyone has similar standards of living today.

Hugh: So, whether old people are living well, compared to younger people. But, it also recognises that there are cohorts, characteristics and changes over time as well. So, whether young people today have the same sort of opportunities that older generations had when they were young. So, it has that point in time, cross-sectional view, as well as a longitudinal idea to it, I think.

Christa: **And why is this so important? And why are we, as the Actuaries Institute, talking about it?**

Hugh: Fairness is an important value in society. And, I think, when people don't think society is operating fairly, you can get a lot of tension. And that tension plays out economically, and plays out in other ways, as well. And we've seen that a little bit, over the past few years, I think. So, intergenerational equity probably is an important thing. There was a Pew survey a couple of years ago, that found that 69% of Australians thought that their children would be worse off, financially, than they were. And, that's up a long way, compared to surveys done in previous years.

Hugh: And there was a bit of an "OK, Boomer" meme that went around last year, as well, which was recognising that idea that, maybe, older generations don't get some of the issues that younger people are facing, whether it's about housing affordability, or climate change, and action on that.

Ramona: There's also this concept of a social contract, that comes up every now and then. And that is that younger generations will have opportunities for work, and employment, and gainful employment, and contribute through their taxes, to the supporting of the elderly when they retire. And, if the intergenerational balance gets too far out of whack, or the gap opens too widely, there are tensions on that social contract.

Christa: There's obviously been a lot written about this topic in the press, both here, and overseas. How do you think this topic's previously been talked about, or treated? And, how have you thought about that as you've gone into creating this index?

Ramona: So, different countries have looked at this issue in different ways. Across Europe, through countries in the EU, there's an Intergenerational Fairness Index, that was established around 10 years ago. And that has taken the approach of looking at conditions for the young, across areas such as, the economy, health, pensions, government debt, and the incomes for the young.

Ramona: And other countries. So, for instance, Canada has taken its own approach, and developed a similar index, or quantitative measurement, across various domains. And in New Zealand the concept of intergenerational fairness has been brought in as part of their Wellbeing Budget, as an important consideration for policy. So, we've sought to, likewise, maintain a focus on areas where policy can impact intergenerational equity through our index.

Christa: And so, in terms of designing, and building the Index, how would you describe the concept that you've used, in simple terms?

Hugh: We've thought hard about it, and taken a number of principles, I guess. So, one is that we've actually deliberately taken quite a broad view of wealth and wellbeing. So that means, we've actually introduced a bunch of different domains, so it's not all just about money. And, we also try and distinguish between absolute, and relative changes. So, we can ask the question, "Are things getting better in absolute terms? And, is the gap

between different age groups getting wider, or short and smaller?" So that distinction, I think, is useful.

Hugh: We tended to lean towards publicly available data, where possible, and looking at data sets where there's a long, robust, time series. So, we can actually track these things over a couple of decades.

Christa: It's quite an ambitious project, obviously, Hugh. Boiling all of those things you've talked about into a single index. Are there any limitations to this index, that you'd like to call out? I mean, actuarial caveats are always important.

Hugh: Yeah, so many limitations. So, I mean, indexes are always a little bit artificial. But still, if you're taking a bunch of different things, and sticking them together, and getting a single number then, by its nature, then it's a sum of its parts, and it can only really be understood when you understand what's driving it. And so, there's always that limitation in an index.

Hugh: And then, when you do that process of sticking things together, there's a lot of choices that you have to make along the way. So, how do you scale things, and weight them, and put them together? And that will, actually, affect the results. And, I think, that's particularly true of this one, because what we found is, that some domains, like health, are getting a lot better over time. Whereas, other domains are getting worse, and so the relative weights between them are actually quite important.

Hugh: And so, I think, we'll get there. But, one of the things we're trying to do with the website, that will support this Green Paper, is letting users play around with their weights, so you can actually see a different view, I guess, if you disagree with how we've weighted things. Another one of the challenges that, I guess, there are lots of indicators out there, and lots of important things, and you can't really include it all in an index. And so, in some cases, we've narrowed down, so we've got a few representative indicators.

Christa: What I'm excited to do now, is turn to actually what is the index telling us? So, can you just take us through the headline results, and what are the key messages from the Green Paper, and what you found in the research?

Hugh: Yeah, we'd love to. So, there are six domains that we put together. And so, they're economic, housing, health and disability's the third, social's the fourth, education and environment. And so, we've picked indicators from each of them, put them together into an overall index. And, the first thing that we get is what we call the "Absolute Index" and so, we've chosen three age groups. And so, those age groups are the 25 to 34-year-olds, and so, they're people today, who are, I guess, Millennials. And then, the second age group is 45 to 54, so a middle-age group, so Gen X, perhaps.

And then, the oldest group is the 65 to 74-year-old age band. And so, they're today's Baby Boomers, I guess.

Hugh: And for each of those age bands, what we've done is we've constructed an Absolute Index, for that age band, over time. And, what we see is that, particularly, over the last five to 10 years, the index value for the 65 to 74-year-old age bands, has increased a lot. And, there's a few things driving that. By contrast, the lines for the 45 to 54-year-olds, and the 25 to 34-year-olds, have actually been fairly flat, or even slightly downward, over the time.

Hugh: And so, when you start to look at the relative index, which is the difference between some of these absolute lines, what you can see is very much a widening gap between the 65 to 74-year-olds, and the other two age groups. And so, the index numbers themselves, because they're scaled, are a bit arbitrary. But what we found is, that the gap between the youngest age group and the oldest age group has grown from ten points in 2006 up to 46 points, which is just about the widest gap. And we actually see that in the last year of the index, that we've measured. So, we think that's quite a striking growth, and suggesting that we do have some issues that have been growing with intergenerational equity.

Christa: **That seems to line up with some of those young people and their memes, and what they were saying. But, it's obviously, a lot more complex than that. And, what I'd really like to do now is, dig down to that next level of detail, Hugh, and particularly these domains that I'm really interested in, that you talked about, like economic, and health. Do you want to take us through some of those domain level results, and how they bring some light to the intergenerational equity issue?**

Hugh: Yeah sure. So, I guess, I mentioned the six domains before. And what's really striking is that, it's almost three and three, in terms of contributing towards improving intergenerational equity, and making the gap wider. So, the three that have been really driving the widening of that gap are the economic domains, and the housing domain, and the environmental domain.

Hugh: So, in each of those, the indicators that we've got suggest that there are big issues that are getting worse, steadily, over time. And so, we can cover them, specifically, in a second. But, if I start off with the economic domain, we've got six or so indicators in there. To talk about a couple of them, one of the ones we've got in there is Real Household Net Wealth. And we've split that out by age band. And what you see is that, as you can imagine, the youngest age band has the least amount of net wealth, and so, that's in a sense, normal, because they've got more future years of earning, more time to develop wealth.

Hugh: But what's been interesting is just seeing how that net wealth has changed over time. So, for the oldest age band, so 65 to 74-year-olds,

their net wealth, about 15 years ago, was about $800,000 per household. But, that has increased by 87% over that 15 years. By contrast, net wealth for the 25 to 34-year-olds, would have been less than $400,000. But, that actually hasn't moved much at all, over 15 years, so it's increased by 20% over 15 years. And so that really shows that there's been this differential growth rate in wealth, where it's continued to grow for those who have more. And that's actually then played out in an intergenerational way, that means that that gap has been growing.

Hugh: A second economic indicator that we've got there is, that the portion of government spending, as a percentage of GDP, allocated to age bands. So, this required a little bit of work. And Ramona worked hard on doing some of the numbers. But, the idea is that some government spending tends to skew towards different age bands. So, you can imagine, Aged Care spending is predominantly older people, as you'd expect. The age pension, similarly. Conversely, things like childcare rebates, or education spending, tends to go to younger ages.

Hugh: So, we've picked up some estimates from other academics on how each of those sectors plays out. And then, we've actually then mapped that onto government spending changes over time. And what we've seen is that the proportion of GDP spent on the youngest and middle age bands has been relatively flat. But it has been steadily increasing for the oldest age band, 65 to 74 -year-olds. So, that's gone from 3.7% to 4.5% of GDP, so 20% increase there.

Hugh: And that's driven by a combination of things. It's the per capita spending has gone up, for that age band, in government. They are spending more on those types of services, per person. But what we've also seen is the change in what they'd sometimes call the "Dependency Ratio". So, the ratio of younger people in employment compared to older people, who tend to be supported in retirement. And so, that demographic change as well has contributed to that result, and it can create tension when it comes to the level of support that younger taxpayers are expected to provide for older people, if they're receiving the age pension.

Christa: **So, you said before, that the range of domains was important, and obviously, there's some really interesting findings there on the economic front. But what about health and social domains?**

Ramona: So, health was one of the good news stories, if you like, for young people. It was one of the domains where, relatively, while a lot of aspects of health have been improving for all generations, young people have seen the most pronounced benefit. And, some of the indicators, where this was most evident was life expectancy at birth. So, since 1920, life-expectancy at birth has increased around 20 years. Someone born today, is expected to live, on average, 20 years longer than someone born in 1920. And, that progression has been fairly steady. We've seen year-on-year increases in life-expectancy. So, young people are expected to live longer, and in addition, advances in medical technology, and health, public health

awareness campaigns, means they're expected to live longer, in a healthier state.

Ramona: And, I think, the last thing on health is, we did include an indicator of mental health, and that was suicide rates. Mental health is an increasingly important issue in society. You'll see a lot of, particularly, as part of COVID-19, a lot of thinking and discussion going into issues around mental health. But also, we're seeing increasing rates of diagnosis of anxiety and depression.

Ramona: That was a really difficult thing we tried to include in the index. But, we've got two factors contributing, you have an increase in awareness in society, which contributes to rates of diagnosis, and then you also have changing diagnostic practices in some fields. So as we learn and understand more about mental health, we might detect it at earlier ages, in more parts of the population than before. So that's definitely a limitation of the health domain, and something that more systematic and age-specific measures, through time, are needed for.

Christa: **I think the conversation's giving some really interesting insights into these different domains. Obviously, economic and health are very big, important areas. Now, your index has social, education, housing and environment, as the other four domains. You want to just call out a few highlights, or interesting findings from those four domains?**

Hugh: Yes, sure. In the social domain, we've got a couple of justice indicators in there. And crime is something that's been decreasing quite a lot, particularly property crime, over the years, which is a good news story. But, what a lot of people don't realise is that crime victims are disproportionately younger people, typically. So, when you talk about robbery, for instance, younger people are six times more likely to be the victim of a robbery, compared to the older people.

Hugh: Conversely, younger people are also more likely to be the offender. And what we see is that even though crime rates have been falling, levels of imprisonment and incarceration have been increasing, perhaps up 40% or so, over a couple of decades. And, younger people are eight times more likely to be in prison. And we thought that was quite interesting, and tied into that intergenerational story.

Hugh: On the housing side, the biggest story there is about affordability, and ownership, as you would expect, Christa. So, what we've seen is that for the 25 to 34-year-old band, the proportion of them who own a house has fallen from 51% two decades ago, down to 37%. Which is quite a remarkable and steep decline. And it's been very monotonic, I guess, in that evolution. And that's all about affordability. So, the amounts that you need to save, in terms of the deposit to buy a house, as well as the amount of income you need to support a mortgage, even with lower interest rates, mean that that has become much harder.

Hugh: And so that 14%-point drop compares to a two-percentage point drop for the oldest age band, and a seven-percentage point drop for the middle age band. So, you can see that that is a genuine intergenerational issue that seems to be coming through there.

Christa: Yeah, that's a very striking statistic. And you've touched on environment, as well. I was really pleased to see you include that in the index. Any particular findings from that?

Ramona: So, the environment was one of the major contributors to decline of the index. That is, the worsening of the gap between older and younger generations. We couldn't look at environmental measures on an age band measure. So, what that measures is comparison of the environment that people experienced in the past, in their youth, to the environment that youth today experience. And we measured that in terms of rainfall, in terms of average temperatures, in terms of atmospheric carbon, and in terms of biodiversity.

Ramona: And look, there really is no good news in the environment domain. On every single one of the measures we included in the index there's worsening. So, there's lower rainfall in the Murray-Darling Basin. In the report, we acknowledged that that does have, obviously, a cyclical component to it. So, Australia's been experiencing droughts for centuries, however, the droughts are more frequent, longer and more intense.

Ramona: Average temperatures in Australia are steadily getting hotter, and that has a number of serious consequences. Bushfire risk is increased because of rising temperatures. And there are serious consequences of higher temperatures for the health of Australians. If you think about people working outdoors, in the middle of summer, just the number of heatwave days that they have to endure, has increased steadily. And biodiversity, there's reliable information collected by the Department of Environment, on threatened and extinct species.

Ramona: We collected that data up to mid-2019, so before the east coast bushfires of 2019/20. And, there's a steady increase in the number of threatened and extinct species. And, I expect that isn't going to improve once the data is updated for 2020.

Christa: Thanks, Ramona. So, it does paint quite a concerning picture for intergenerational equity, particularly, for our younger Australians. Where to from here? We're obviously sitting here today, on a remote podcast, because of the COVID-19 world. How does intergenerational equity play out in the current world, and where do we take it from here?

Hugh: I mean, it's been fascinating how the COVID pandemic has sharpened, and highlighted, some of these issues. You could almost talk about all those domains, and how COVID has played out. But, to pick a couple, it's interesting unemployment is typically identified as an intergenerational

issue and it is built in the index. And, that is something where young people tend to have worse rates of unemployment and underutilisation. And, in an economic downturn through the COVID pandemic, you've seen much larger increases in unemployment, and underutilisation, amongst those younger people.

Hugh: Similarly, you've got the idea of government debt, and that being a burden that gets passed on to future generations. That, obviously, has a bit of nuance, because some debt is good debt, in the sense that it helps smooth out the current economic cycle, which is important. And debt used for infrastructure is obviously, can be a very, very good thing as well. But what we have seen is, is probably the largest budget deficit ever, and that'll be followed by some successive deficits, and that does actually, continue to add to, I guess, the debt pile that is inherited by future generations. And so, if interest rates do tend to pick up, that may be a substantial cost that needs to be paid for.

Christa: **So, there's a lot of food for thought in this Green Paper, and we've only really had time to touch on some of the findings. In terms of how this could be used, policy implications, do you have any final comments, or how do you think this will be useful in policy setting?**

Ramona: Look, the good news is there are a number of areas where policy can make a real difference to intergenerational issues. And we outline a few of those in the report. And a large number of suggestions have been put forward by the Actuaries Institute in Green Papers, by the Productivity Commission, by various government inquiries, into what we can do to improve intergenerational equity.

Christa: **Thanks, Ramona. And so, do you have any final comments about the overall index? Some favorite findings, or ways that you think that this will really add to the quite extensive debate on many of these issues in the media?**

Ramona: Look, we could have, I think, spent another year writing this report, and many of the domains in themselves, are worthy of their own report. So, look, we hope to update the index in the future, and potentially, be able to draw in some of these additional intergenerational issues.

Hugh: Just as a final comment, it's really been a joyful project to work on. It's really been interesting thinking about all these different things and how they contribute to intergenerational equity. And we've had a lot of good support from the Actuaries Institute, and from other experts, around this topic. And, I think, you can see that in the paper itself that there's been quite a lot of thought that's gone in to each and every component, which has been quite exciting.

Christa: **Thanks, Hugh. It's really great work. That's all we've got time for today. Thanks for joining us, Ramona and Hugh. It's great to hear about the research. And listeners, we hope you've enjoyed the discussion. Please do find out more about the Green Paper by**

visiting the Thought Leadership section of the Actuaries Institute website. You can see a link in our show notes, in the podcast description, where you've linked into it today. And, as always, please do write in with your questions and comments. I'm sure Hugh and Ramona, or myself, would be more than happy to respond. And, we'd really love to hear from you. Bye for now.