

Imagine you are a Dragons' Den judge. The CEO of (a fictional) 'Grey Enterprises' is pitching for investment to enable further expansion in its consumer goods business. The firm's customer base (the over 65s) has grown by one-quarter over the last decade with 1 in 6 of the Northern Ireland population using the product.



Robust growth for the next 10-20 years is not so much projected as guaranteed. 1 in 5 people are expected to need Grey Enterprises' products by 2028 with demand rising to 1 in 4 by 2044. Furthermore, the target market is underwritten by a range of long-term government guarantees which mitigate against risk and uncertainty.

Following the brief pitch all of the dragons are likely to be keen to invest in this 'no-brainer'.

With the number of pensioners (>65yrs) rising so significantly in Northern Ireland, the 'grey

market' and the 'grey pound' represent an increasingly lucrative opportunity for businesses.

Now consider that you are not a private business but a public sector provider of services to this client base. No fees and charges are allowed. As a result, it is a case of quids out rather than quids in! Northern Ireland's ageing population is a potential boon for businesses, but a ticking timebomb for the public finances.

This issue was recently brought to the fore with the TV licences for over-75s. Last month the BBC announced that it would be scrapping the free TV licences for up to 3.7 million people from 2020. Instead, a form of means testing will be introduced whereby only low-income households in receipt of pension credit will be eligible. This new scheme will cost about one-third of the £745m for the existing arrangement. The latter would account for one-fifth of the BBC's overall budget.

Public opinion has been divided on these plans with outrage in many quarters. The BBC Chairman described it as "the fairest and best outcome". So is it?

Given the demographic realities of an ageing population, the BBC faced the challenge that this open-ended subsidy would account for an ever increasing share of their budget. At the same time younger (paying) viewers of the BBC are expected to continue to drop off.

Let's look at the demographic pressures from a local perspective. When free TV licences were introduced in 2000 the number of over-75s in Northern Ireland stood at 99k or 1 in 16. By 2018 the corresponding figure was 140k - a rise of 41%. By 2028 this figure will increase by another third to 186k with 1 in 10 of Northern Ireland's population eligible for a free licence. Another decade (2038) takes the figure up to 1 in 8.

That's just the demographics. What about need? Is it still justified?

It is perhaps worth returning to the original context of the free TV licence. It was introduced by Gordon Brown in 2000 as part of a package of measures aimed at tackling pensioner poverty. Other initiatives followed such as the pension triple lock guarantee (2010), whereby the basic state pension would rise by a minimum of either 2.5%, the rate of inflation or average earnings, whichever is highest.

In 2000 the incomes of the over 75s were 20% behind the rest of the population. Today, according to the Institute for Fiscal Studies (IFS) that gap has narrowed to just 8%. Significantly, however, incomes in this age-group are above working-age families with children and households where the oldest person is under the age of 34. In 2000, the median incomes for these two groups were respectively 9% and 10% higher than the over 75s. By 2016, their average incomes were respectively 8% and 7% *below* the average income for the over 75s. The latter also have lower poverty rates than the under 75s and have the highest rates of home-ownership.

Younger generations bore the brunt of the last recession and the fiscal austerity that followed. This led to a collapse in rates of home-ownership that has only started to recover. While pensioner benefits were protected, a range of working-age benefits have been cut, capped or means tested. For example, child benefit is means tested and now only applies to the first two children.

The end of the universal free TV licence for over-75s is significant and potentially the tip of the iceberg for reviewing similar subsidies / public spending for the elderly.

Free public transport is another policy being challenged by the ageing population. Again it was primarily a measure to tackle pensioner poverty. Northern Ireland introduced it in 2001 for pensioners aged over-65 years. Prior to 2001, the over-65s were only eligible for half-priced fares. In 2008 the Stormont Executive lowered the age-limit to 60 years, increasing

the numbers of people eligible from 248k to 339k - a rise of 37%. By 2018, the number of potential beneficiaries increased by a further 73k (+22%). By 2028 an *additional* 108k over-60s will be entitled to this freebie making the total number eligible some 520k.

Since the free public transport subsidy for pensioners was introduced in 2001 the percentage of the population eligible has increased from 13% to 22% in 2018. Assuming the same policy remains, within 5 years it will rise to 1 in 4 and to 1 in 3 by 2058. That policy is completely unsustainable and given the lack of means testing, the beneficiaries of this subsidy are on average better off than most of those paying full fares!

If only Northern Ireland could increase its tax revenue base as fast as the numbers entitled to subsidies.

Devolution in Northern Ireland was characterised by introducing fiscal giveaways (*free prescription charges, public transport etc*). As has been highlighted above, the costs of these are spiralling and the justification for them needs to be reassessed.

The challenges facing the UK and Northern Ireland's ageing population are huge. Back in 2015, it was noted that 42% of the total Health and Social Care budget in Northern Ireland went on pensioners. With the latter set to soar, so will the budgets.

Last month the Department for Health's top civil servant Richard Pengelley highlighted that NI's health service funding model is unsustainable. "At the moment to run the same service this year as we did last year and next year, it's about 6% increase per annum....If we continue on that trajectory, within about 20 years the health service will need virtually all the money that's available to the Executive."

Taking back subsidies and giveaways will have to happen as our public finances cannot

continue to write cheques that our demographics cannot cash. Free public transport and TV licences are the low hanging fruit.

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