

# FINANCIAL REVIEW

**HD** Tomorrow's problems are here: Costello

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Chanticleer

More than a decade after he first sounded the alarm about the looming potential federal budget crisis from the costs of an ageing population, former Treasurer Peter Costello thinks Australians have slipped back into complacency.

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Costello, who is now chairman of the \$100 **billion** Future Fund, says Australians need to be reminded that the problem of the baby boomers moving into retirement is no longer something in the distant future. As he said in an interview with Chanticleer on Friday: "It's upon us and it's starting to happen now".

"We were warning 10 years ago it was starting to happen and by 2020 it's going to be fully in swing. That's going to be the thing that dominates Australia's budgets from 2020 onwards – it's going to be the ageing of the population and the pressure that is going to put on retirement pensions and medical expenses."

Australia's health expenditure was about 9.5 per cent of gross domestic product or \$140 **billion** in 2013, according to a report released this week by UBS analyst Andrew Goodsall.

He says the health bill has been rising at a compound annual growth rate of 8 per cent. The bill will hit \$170 **billion** in 2015 and the government will pay about \$66.9 **billion** of that amount.

Over the next 10 years, the proportion of the population over the age of 65 will rise from 14.4 per cent to 16.8 per cent. Goodsall says those aged over 65 consume healthcare services at two to three times the rate of the general population.

In fiscal 2013, the cohort aged over 65 accounted for 49 per cent of benefits paid under private health insurance despite representing just 15.5 per cent of the insured population. Of course, the UBS analysis was produced to encourage investors to consider putting their savings into a sector that should deliver 6 to 8 per cent growth in GP services and pathology and 7 to 8 per cent growth in private hospitals and diagnostic imaging.

Costello's concern is that Australians have lost sight of the economic and fiscal implications of an ageing population. He pioneered the publication of Intergenerational Reports which were prepared by Treasury and examined every economic aspect of the ageing population.

"I think the first couple of Intergenerational Reports were really good and they really helped people understand the problem but then they fell into disuse under Labor," Costello says. "I think it's important to bring them back and explain to people what the situation is now. The ageing of the population just means the call on government resources is going to grow year after year."

Thanks to the Charter of Budget Honesty, the federal government must publish a new Intergenerational Report every five years. The last one was published in January 2010 under then

Treasurer Wayne Swan. That report warned that unless real expenditure was restrained the fiscal gap associated with an ageing population would rise to 20 per cent of GDP by 2050.

Costello was speaking following the appointment of David Neal as chief executive of the Future Fund. He said Neal, who was previously chief investment officer, was chosen after a global search.

Two of the richest **mining** entrepreneurs in Perth, Tony Poli and Chris Ellison, are learning the hard way about the dangers of playing brinksmanship with one of the world's biggest steel makers, **Chinese company** Baosteel.

Baosteel is trying to take over Aquila in partnership with rail **company** Aurizon. Aquila is focused on developing the West Pilbara **Iron Ore** Project in Western Australia. It is special because it will involved 650 kilometres of new rail lines and a new port at a cost of \$6 **billion**.

The takeover deal was going nowhere for about a month with Poli, who owns 30 per cent of Aquila, unwilling to engage with the bidders in any meaningful way.

Then this week the takeover came alive when Ellison's **mining** services and contracting **company**, Mineral Resources, pounced on Aquila and bought a 12.78 per cent **stake**. Ellison paid \$3.75 a share, well above the \$3.40 offer made by Baosteel and Aurizon. In the wake of that **purchase** there was talk that Ellison had bought himself a seat at the table and could end up being a contractor on the project under the ownership of Baosteel and Aurizon.

But on Friday Baosteel made its offer final and declared the West Pilbara project was at an impasse. Baosteel and Aurizon said if the bid is unsuccessful Baosteel sees no meaningful prospect for being involved in the development of the project.

The **Chinese** have warned that it may sell out if the takeover is not successful. But with Baosteel owning 20 per cent and the bid having a 50 per cent acceptance condition the deal could yet happen.

However it is rare for a bidder to say an offer is final without also saying "in the absence of higher offer". That points to the **Chinese** frustration at what is happening.

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