

# Big welcomes and long goodbyes

The impact of demographic change in the 2020s

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June 2022



## Acknowledgements

The author is grateful to the Nuffield Foundation for supporting this work. They would particularly like to thank Kathleen Henehan for her thoughtful comments and contributions throughout the report process. Any errors remain, of course, the author's own

### Citation

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M Broome, *Big welcomes and long goodbyes*:

*The impact of demographic change in the 2020s*, The Resolution Foundation, May 2022

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## The Economy 2030 Inquiry

The Economy 2030 Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, funded by the Nuffield Foundation. The Inquiry's subject matter is the nature, scale, and context for the economic change facing the UK during the 2020s. Its goal is not just to describe the change that Covid-19, Brexit, the Net Zero transition and technology will bring, but to help the country and its policy makers better understand and navigate it against a backdrop of low productivity and high inequality. To achieve these aims the Inquiry is leading a two-year national conversation on the future of the UK economy, bridging rigorous research, public involvement and concrete proposals. The work of the Inquiry will be brought together in a final report in 2023 that will set out a renewed economic strategy for the UK to enable the country to successfully navigate the decade ahead, with proposals to drive strong, sustainable and equitable growth, and significant improvements to people's living standards and well-being.

## The Nuffield Foundation

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## Summary

Demographic change can have a significant impact on economies. It influences the size and shape of the labour market, demand for public and private goods and services, economic growth, and ultimately, living standards. But discussion of the economic impact tends to fixate on the fiscal implications: specifically, the increased public spending pressures generated by the retirement – and ageing – of the large baby boomer generation. As a result, its wider implications are often overlooked. This briefing note, part of our Economy 2030 Inquiry, investigates how demographic shifts could affect the shape of the labour market and the goods and services we consume.

Between 2020 and 2030, the UK's population is expected to grow by 2.1 million – equivalent to 3.2 percent. Growth across different age groups varies substantially. The ageing of the baby boomers, in combination with longevity improvements, means that the number of people in older age (65 and above) is expected to increase by around 2.5 million (20 per cent). Projections indicate that between 2025 and 2035, the number of people in early working age (16-29) will also grow, albeit by a smaller amount (+860,000 or 7.4 per cent). Meanwhile, due to falling fertility rates, there will be fewer children by the end of the decade, with the number of people aged 15 and under projected to decline by 1.1 million (-9 per cent). According to official projections, it's positive net migration that will keep the UK's overall population growing. Still, the rate of the UK's overall population growth will begin to slow: from 6 per cent over the period 2011 and 2020, to 3 per cent between 2021 and 2030 and 2 per cent between 2031 and 2040.

These population changes will no doubt alter the size of the UK's labour supply and, by extension, its economic output. Over recent decades, both population growth and increases in economic activity rates, conditional on age, have been responsible for the UK's growing labour supply. For example, population growth among those aged 16 and older was responsible for 23 per cent of labour force growth between 2011 and 2019. Therefore, we would expect that the slowdown in 16+ population growth (falling from 6 per cent between 2011 and 2020 to 5 per cent between 2021 and 2030, and to 3 per cent between 2031 and 2040) to drag on the UK's labour supply. If growth in the number of people producing goods and services slows, we would expect growth in output to slow, too. Increasing economic activity rates could help to offset this drag – but with historically-high activity rates for most groups, bar those who are older, it is unclear how much room there is for economic activity grow.

Demographic change will also foster change in the composition, and mobility, of the UK's labour force. Over the next decade, we expect to see a steady rise in baby boomers exiting the labour market through retirement. This will be accompanied by an up tick in younger workers entering the labour market from the mid-2020s, as a rise in births in the

late 2000s and early 2010s filters through the working age population. Using the total number of people in each year reaching the State Pension Age (SPA) and the number of people turning 22 as a proxy for labour market exits and entrants, we find that 'lifecycle' flows in and out of the labour market could reach record highs in the coming decades: the number of people reaching SPA is expected to surpass 800,000 in 2028 for the first time ever while the number of people turning 22 will exceed 900,000 in 2032 for the first time this century.

There will be two impacts from these lifecycle flows in and out of the labour market. Firstly, it will inherently bring about labour market change as a result of new entrants bringing different skills, experiences and knowledge to the workforce. This has historically played an important role in the reallocation of labour in the UK. Secondly, it will offer a temporary boost to labour market flexibility because the age composition of the workforce will become marginally younger by the early 2030s (the share of workers aged 16-29 will increase by 1 percentage point between 2019 and 2035). Although we do not expect a dramatic impact from this relatively small change in the age composition, a younger workforce is typically a more flexible one, since young people are much more likely than their middle- and older-aged counterparts to move jobs, occupations and industries. However, these opportunities for labour market change and greater flexibility will be short lived: after the lifecycle labour market flows begin to slow from the mid-2030s, the share of the UK's workforce comprised of mid- and older-aged workers will begin to grow, dampening down the potential for job moves, including across occupation and industry.

We tend to fixate on the impact of rapid technological change, especially digital technology, when discussing changes to the structure of the economy. But what people spend their money on is also an important driver. Because young people and old people spend their money in different ways, we expect age-related shifts in the population to drive economic change through adjustments in the balance, and overall level, of private expenditure. By holding spending patterns by age group constant and adjusting for the projected change in the size of different age groups, we would expect the total amount of non-housing spending to rise by 3.8 per cent between 2019-20 and 2030. Although the relative distribution of spending across different goods and services does not change much under this scenario, we would expect the total amount of spending on recreation and culture would increase by 4.5 per cent. Similarly, the total amount of private health spending would grow by 6.7 per cent, reflecting a larger share of older people within the UK population.

Although sectors linked to recreation and culture may grow, changes in weekly expenditure on private health are unlikely to have a dramatic effect on the shape of

the UK's economy. Instead, the real impact from age-related shifts in the population will come from a huge rise in demand for – and employment of – health and social care workers. The Health Foundation estimate that by 2030-31, up to an extra 488,000 health care staff, and as many as 627,000 extra social care staff, could be needed to meet demand.<sup>1</sup> Therefore, the change in the shape of the economy will more likely be driven by pressures on the state rather than demographic driven changes in private spending.

Demographic change will indeed bring some challenges over the 2020s – particularly in the form of increased pressure on pension and health spending. But it also brings short-term opportunities in the form of labour market change and higher rates of labour market flexibility. Policy makers will need to address the demographic-driven challenges that are hitting now, while also seizing the opportunities that come with economic change.

## [Birth cycles can yield profound economic effects over time](#)

By 2030 the UK will have more people in old age than ever before

The size and shape of different birth cycles, and thus, generations can have profound consequences for society and the economy. For example, the large size of the baby boomer generation, compared to their predecessors, has led to innumerable discussions about their impact on education, housing and healthcare over the course of their lives. And as Figure 1 shows, the baby boomers are a far larger generation than any that came after them.

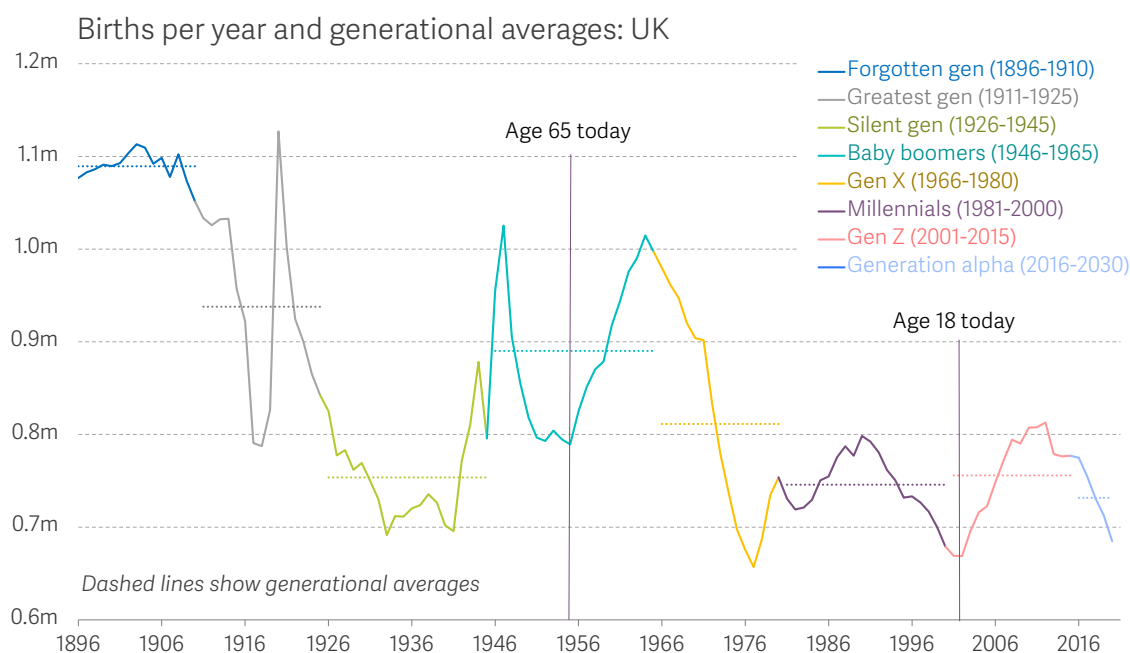
Birth cycles in the wake of the baby boomer generation fluctuated too, with falls in the 1970s and (relative) highs in the early 1990s and 2010s. These ebbs and flows bring change to the economy and public services in myriad ways: from changing levels of demand for education and health services, to changing levels of labour supply in the economy.<sup>2</sup> This note is focused on those implications, and specifically how the type and level of demographic change affecting the UK in the medium will affect the size and shape of its labour market and its spending on goods and services.

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<sup>1</sup> S Rocks, G Boccarini, A Charlesworth, O Idriss, R McConkey, L Rachet-Jacquet, [REAL Centre Projections: Health and social care funding projections 2021](#), October 2021

<sup>2</sup> For further discussion of these pressures, see: M Gustafsson & D Willets, [A return to boom and bust \(in births\): How birth cycles will affect public spending pressures over the coming decade](#), Resolution Foundation, October 2021.

FIGURE 1: Birth cycles have changed significantly over time



SOURCE: Analysis of ONS, Birth Characteristics (England and Wales); National Records of Scotland (NRS), Births Time Series Data (Scotland); Northern Ireland Statistics and Research Agency (NISRA), Live births, 1887 to 2018 (Northern Ireland).

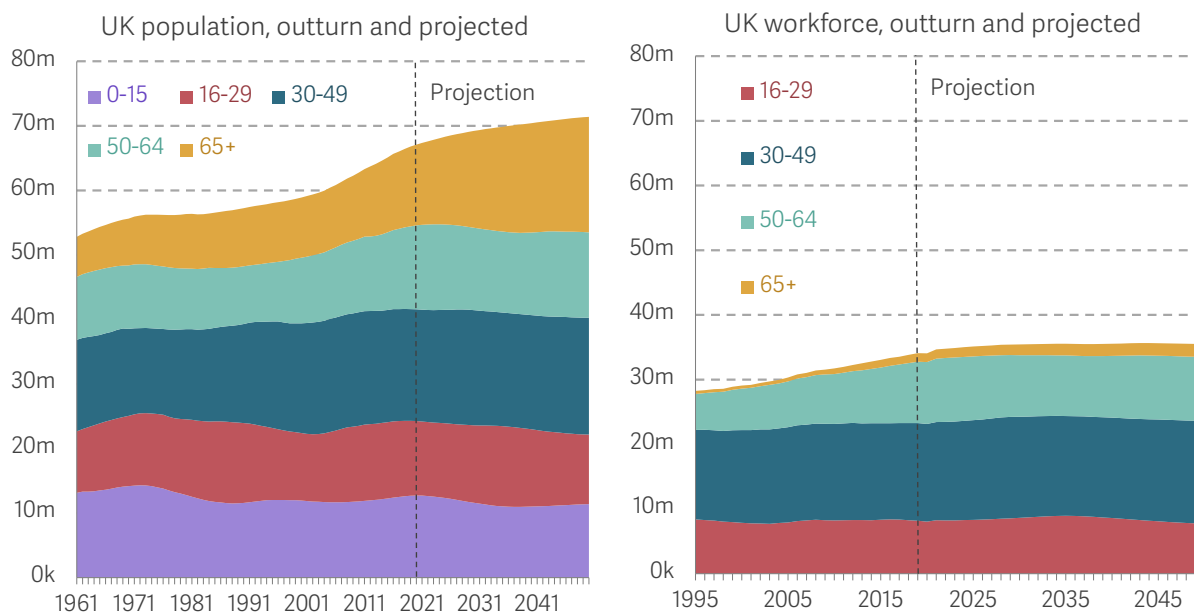
Demographic change has meant that the UK's population has grown steadily in recent decades. Between 1995 and 2019, the population rose by nearly 9 million (15 per cent) – with positive net migration making a significant contribution to growth. But as the large generation of baby boomers move into old age, the age-related composition of the UK's population is set to change.

In 2030, the last of the baby boomer generation will turn 65. The ageing of the baby boomers, in combination with longevity improvements, means that we can expect the number of people in older age (65 and above) to increase by around 2.5 million (20 per cent) between 2020 and 2030, as shown in the left-hand panel of Figure 2. By this time, adults aged 65 and older are expected to comprise 22 per cent of the population, up from 19 per cent in 2020.

Meanwhile, falling fertility rates mean there will be fewer children by the end of the decade: the number of people under the age of 15 is projected to decline by 1.1 million (-8.8 per cent) between 2020 and 2030. Given the combination of fewer births, and a growing older population, it's unsurprising that the ONS project the UK will enter into natural population decline (meaning there will be more deaths than births) from 2025. However, the ONS expect migration to play an offsetting role: with net migration estimated at 2.2 million between 2020 and 2030, they expect the overall size of the UK population to grow for the foreseeable future (for further discussion of the dynamics underlying UK population projections, see Box 1).

**FIGURE 2: The UK’s pensioner population will have doubled between the 1960s and 2030s, partially offset by a small, projected, increase among those of working age**

Historic and projected population estimates, by age group, 1995-2050: UK (left-hand panel); historic and projected workforce estimates, by age group, 1995-2050: UK (right-hand panel)



NOTES: Economic activity projections are calculated by holding 2019 estimates of economic activity by age from the Labour Force Survey constant and projecting forward using the age profile in the latest ONS population projections.

SOURCE: Left-hand panel: ONS, Estimates of the population for the UK, England and Wales, Scotland and Northern Ireland: Mid-2020 edition, June 2021; ONS, National population projections: 2020-based, January 2022; Right-hand panel: Analysis of ONS, Labour Force Survey and ONS, National population projections: 2020-based, January 2022.

### BOX 1: Migration will play a key role in offsetting the impact of falling fertility rates

The ONS estimate that, in the UK, women would need to have, on average, 2.075 children to ensure long-term ‘natural’ replacement of the population. In 2020 the Total Fertility Rate (TFR) was 1.56, and this is projected to fall further to 1.53 by the end of the decade.<sup>3,4</sup>

TFR estimates indicate that the UK will transition into a period of natural population decline, where there are more deaths than births, from 2025-26. Between mid-2020 and mid-2030, the ONS expect deaths to outnumber

<sup>3</sup> The ONS defines the total fertility rate as “the average number of live children that a group of women would bear if they experienced the age-specific fertility rates of the calendar year throughout their childbearing lifespan.” See: P Synowiec, *Births in England and Wales: 2020*, ONS, October 2021.

<sup>4</sup> J Robards, *National population projections, fertility assumptions: 2020-based interim*, ONS, January 2022.



births and that the natural change in the UK population will be -59,000.

In this context, migration becomes important to sustain the population. Over the next decade, net migration is expected to be sufficient to offset the negative natural change in the

population. The ONS project that net migration will lead to a total of 2.2 million people coming into the UK over the next decade (-5.6 million people will immigrate to the UK and 3.4 million people will emigrate from the UK).

Just as the UK's overall population has been growing, so too has its labour force. Thanks to a growing population and increases in economic activity, the number of economically active people aged over 16 grew by 5.8 million (21 per cent) between 1995 and the eve of the pandemic in 2019 (right-hand panel of Figure 2).

Uncertainties linked to population projections and future economic activity rates make it difficult to precisely project the future size of the labour market. However, if we were to hold economic activity rates constant at 2019 rates and apply these to the size of the projected population, we would expect the UK's workforce to could grow by 790,000 between 2021 and 2030 – equivalent to an increase of 2.3 per cent. Looking beyond the next decade, the UK's workforce is expected to peak at 35 million in 2035, before gradually declining (a factor which we turn to later in this note).

## BOX 2: Population projections are uncertain

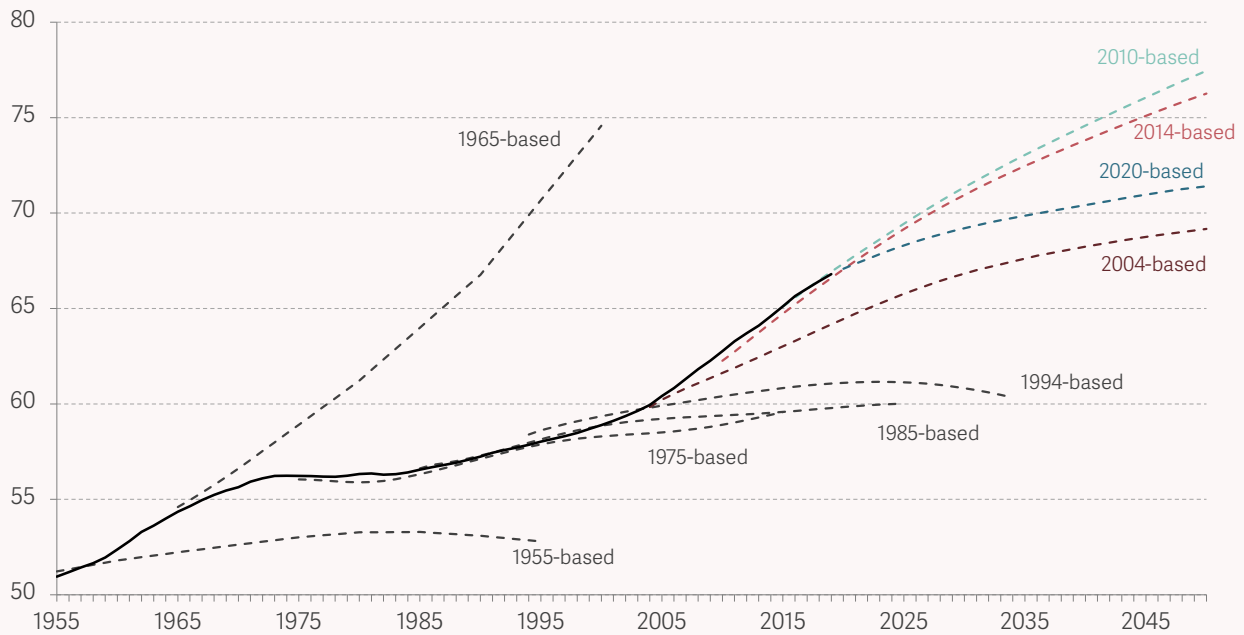
Precise population trends are difficult to predict. ONS's population projections are based on the latest mid-year population estimates together with assumptions of future levels of fertility, mortality and migration.

The ONS recognise that demographic behaviour is inherently uncertain, and therefore projections will inevitably differ from actual future population trends. Comparing projections with subsequent mid-year population

estimates provides an indication of the accuracy of past rounds of national population projections. Figure 3 shows how projections become increasingly uncertain as they go further into the future. This is because they cannot account for future political and economic changes, such as sharp shifts in government policy including those related to migration, or indeed exogenous shocks like health crises or wars.

**FIGURE 3: Historic projections have often differed widely from eventual outcome**

Population estimates and historic projections: UK, 1955-2050



SOURCE: ONS, Historical and current population projections.

The greatest inaccuracies in population projections are caused by sudden changes in the underlying drivers of population change. For example, the most recent population projections are based on the mid-year population estimates covering the period up to 30 June 2020, so they only capture some of the impacts on the UK population from the early part of the Covid-19 pandemic. Other factors that have made it difficult to precisely predict population trends and have historically

resulted in an underestimate of the population include government policy, such as higher-than-expected number of migrants moving to the UK following the 2004 enlargement of the European Union, and increases in longevity as a result of improvements in healthcare and future medical advances. However, despite their inherent uncertainty, population projections are important because they alert policy makers to major demographic trends and, ultimately, influence public policy.

## Changes in the population will influence the growth rate of the UK’s labour supply

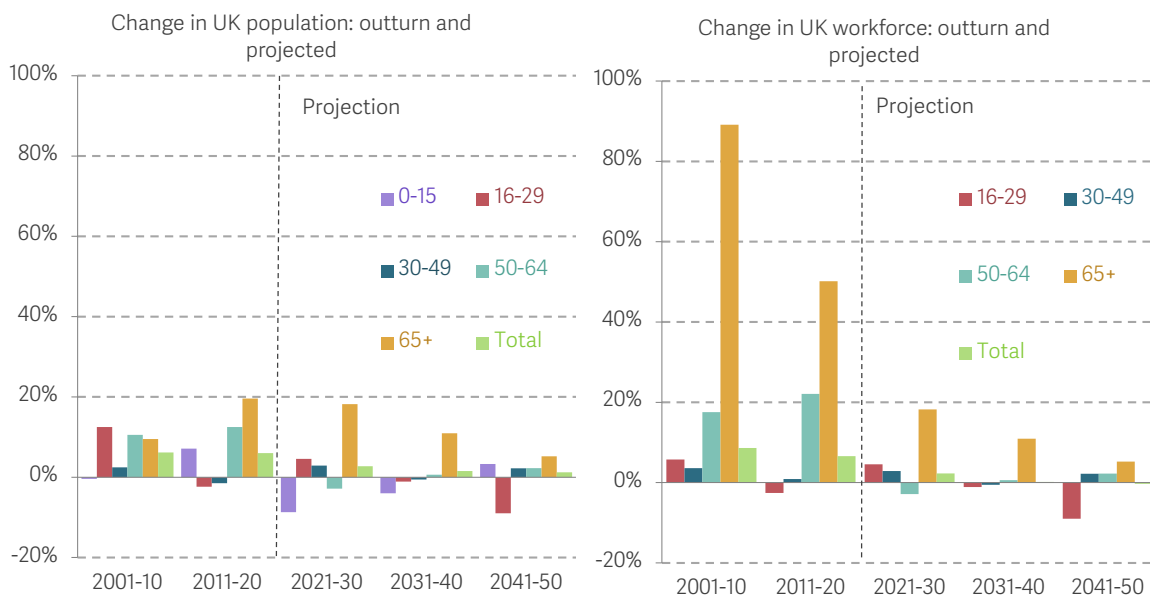
The rate of population growth is likely to slow considerably over the next two decades, with negative implications for output growth

Demographic change will influence the absolute size of the UK’s workforce, and its rate of growth. As Figure 2 indicates, the total size of the UK’s population, and its workforce, has grown markedly in recent decades and is projected to continue to increase during the 2020s and 2030s. However, Figure 4 shows that rate of both population growth (left-hand panel) and workforce growth (right-hand panel) has been slowing since the 2000-2010 period.

In fact, the rate of growth is expected to slow further in the coming decades. For example, between 2011 and 2020, the total population grew by 6 per cent. Projections indicate total population growth will slow to 3 per cent between 2021 and 2030, and fall further to 2 per cent between 2031 and 2040. Focusing only on those aged 16+ (those who are legally able to work), we would expect population growth to slow from 6 per cent between 2011 and 2020 to 5 per cent between 2021 and 2030, and to 3 per cent between 2031 and 2040.

**FIGURE 4: The UK’s workforce will continue to grow over the next decade, but the rate of growth will fall**

Historic and projected change of UK population, by age group, by decade: UK (left-hand panel); historic and projected change of economically active people, by age group, by decade: UK (right-hand panel)



NOTES: Economic activity projections are calculated by holding 2019 estimates of economic activity by age from the Labour Force Survey constant and projecting forward using the age profile in the latest ONS population projections.

SOURCE: Analysis of ONS, Labour Force Survey; ONS, National population projections: 2020-based, January 2022.

We find a similar pattern when focusing on the economically active population. Holding economic activity for different age groups constant at their 2019 rates and applying these to the size of the projected population indicates that the total workforce is expected to grow by 2 per cent between 2021 and 2030 before eventually flatlining between 2031 and 2040.

Although we should read projections over the longer-term with a degree of caution, these figures show that both population and workforce growth will, in all likelihood, continue to slow over the next two decades. And this slowdown is likely to drag on UK output.

The results of a shift share analysis, shown in Figure 5, illustrates that in recent decades, population growth among those aged 16+ and rising rates of economic activity (conditional on age) have both played a role in boosting the size of the UK's effective labour force. Population growth has historically played the more dominant role in increasing the labour supply. For example, it was responsible for 86 per cent of labour force growth between 1994 and 2000, and 71 per cent between 2001 and 2011. Economic activity has played the more significant role in the most recent period (accounting for 76 per cent of the rise in the labour supply between 2011 and 2019), which likely reflects the rise in economic activity among older women following an increase in the SPA for women – from 60 to 66 between 2010 and 2020. However, the significant role that both factors have played indicates that the slowing rate of population growth discussed above, is likely to drag somewhat on labour supply over the next two decades.

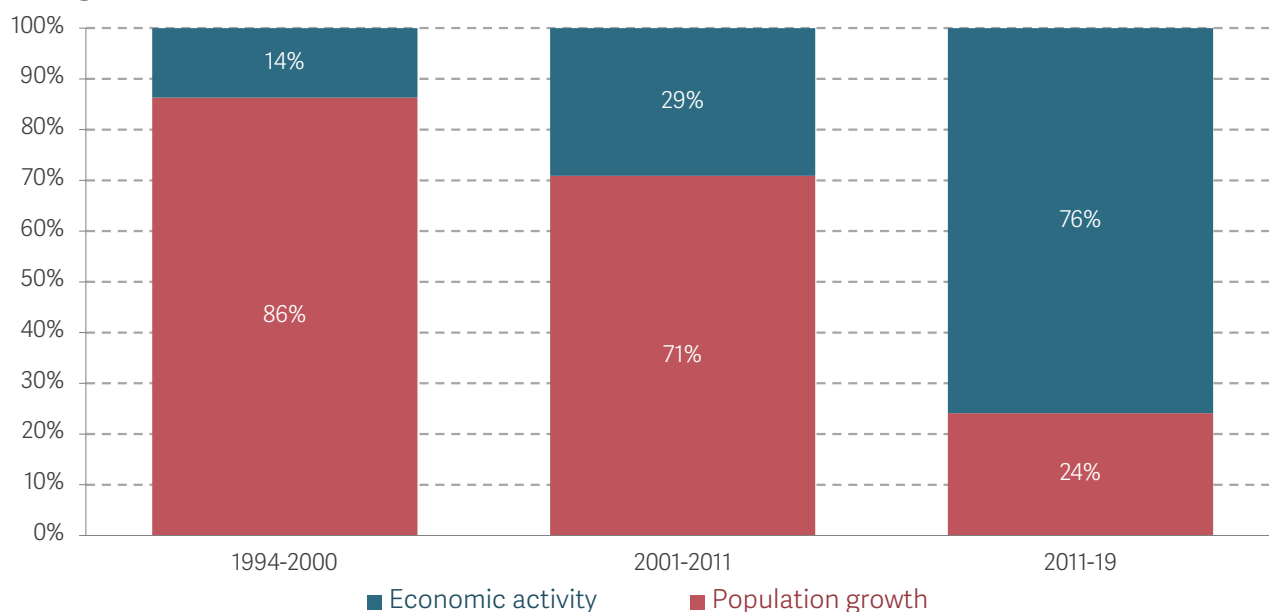
In the context of slowing population growth, increasing economic activity rates could help to offset this drag and help to increase the supply of labour. However, economic activity rates among the prime-age (aged 25-54) population are already very high, and indeed reached record highs on the eve of the pandemic. Economic activity rates among older workers, and pensioners specifically, were near record highs on the event of the pandemic as well. And although they have since fallen somewhat, it's unclear that they could rise significantly enough to offset the slowing rate of growth in the population – in the absence of a sharp rise in the State Pension Age.<sup>5</sup> As a result, we should expect downward pressure on output growth because, in simplistic terms, if growth in the labour supply falls, we can expect that growth in the number of people producing goods and services will decline as well.

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<sup>5</sup> The economic activity rate among 16-64-year-olds reached 76.9 per cent during December – February 2020; among those aged 65 and older, it reached 11.8 per cent during January – March 2020. The latest figures, for December – February 2022, show economic rates lower for both groups but especially for pensioners: 78.6 and 10.8 per cent, respectively. See: ONS, [A05 SA: Employment, unemployment and economic inactivity by age group \(seasonally adjusted\)](#), April 2022. Similarly, economic activity rates for young people are unlikely to improve as more people choose to stay in education longer. Economic activity rates for young people have fallen since the early 2000s reflecting the introduction of the Education and Skills Act which made it compulsory to stay in education or training until the age of 17 from 2013, and 18 from 2015 and record numbers of people going to university.

### FIGURE 5: Population growth has played an important role in boosting the UK's effective labour supply

Contribution of population growth and increases in economic activity to labour supply growth: UK



SOURCE: Analysis of ONS, Labour Force Survey; ONS, National population projections: 2020-based.

## Demographic change will bring both opportunities, and challenges, for the UK labour market

The large volume of lifecycle-related labour market entry and exit could bring welcome change, like greater labour market mobility, over the next decade

In recent years, the prominent stories about the implications of demographic change and baby boomer ageing have been focused on the fiscal pressures brought about by increased spending on State Pensions and health and social care (see Box 3). There has been significantly less focus on the medium-term implications of demographic change for the labour market: specifically, how the rising number of workforce exits (driven by baby boomers leaving the labour market through retirement) and workforce entrants (driven by a wave of young people entering the labour market) may bring about labour market change.

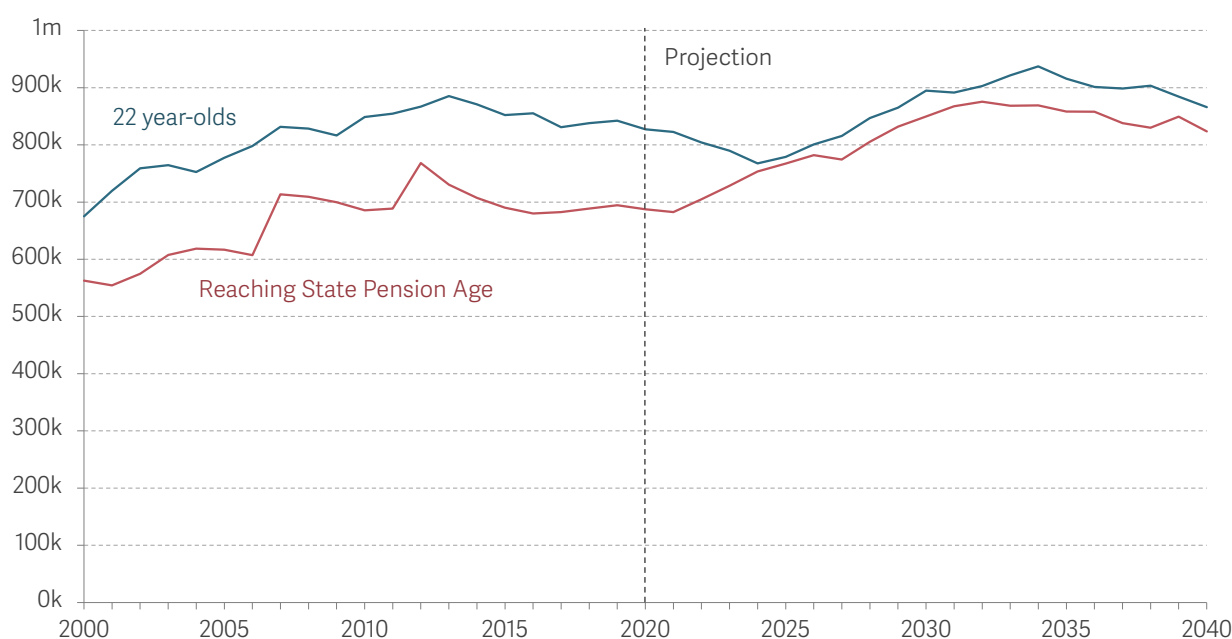
Figure 6 provides a simple illustration of how demographic change will likely drive up the number of both workforce exits and entrants during the 2020s. It shows the total number of people in each year reaching the SPA and the number of people turning 22 – an age at which many young people enter the labour market after completing higher education

courses.<sup>6</sup> It indicates that, due to peaks in the number of births in 1965 and 2012, the number of labour market entrants and exits will rise over the course of the next two decades. In fact, the number of people reaching the SPA and number of people turning 22 is expected to peak in the early 2030s.

In practice, many people will enter the labour market before the age of 22 and others will choose to continue to work after they reach SPA. However, this simple illustration highlights that ‘lifecycle’ flows in and out of the labour force are expected to grow in the coming decades. As a result, one positive impact of demographic change is that baby boomer retirement and the increase in younger workers entering the labour market during the late 2020s and early 2030s may help to facilitate labour market change.

**FIGURE 6: The 2020s will bring a significant amount of labour market exit and entry**

Number of UK residents turning 22 and reaching state pension age, outturn and projections



NOTES: Assuming that, for women the SPA is 60 between 2000-10, 61 between 2011-12, 62, in 2013, 63 between 2014-15, 64 between 2016-17, 65 between 2018-19, 66 between 2020-26, 67 between 2027-37, and 68 from 2038. For men, we assume the SPA to be 65 between 2000-19, 66 between 2020-19, 67 between 2027-37, and 68 from 2038.

SOURCE: Analysis of ONS, Estimates of the population for the UK, England and Wales, Scotland and Northern Ireland: Mid-2020 edition, June 2021; ONS, National population projections: 2020-based, January 2022.

<sup>6</sup> Figures published by UCAS indicate that the number of young people participating in higher education is at a record high. In 2021, 272,500 UK students aged 18 were accepted into university or college – representing a 7 per cent increase on 2020; 37.9 per cent of 18 year-olds in the UK were accepted onto a full-time undergraduate course in 2021, a new high surpassing the previous year’s figure of 36.4 per cent.

Indeed, previous Resolution Foundation research found that the lifecycle entry and exit (the balance of older workers leaving the workforce, and younger workers entering) is an important driver of labour market change. For example, the research found that lifecycle workforce entry and exit have tended to play a bigger part in the reallocation of labour away from manufacturing than played by 'within career' entry and exit (defined as individuals entering and leaving sectors to and from non-employment), particularly during the 1980s and 1990s.<sup>7</sup>

Despite the mass exit of older workers and growth in the number of younger workers, the age composition of the workforce will not change dramatically. The workforce is expected to be marginally younger by the early 2030s with the share of younger workers aged 16-29 increasing by 1 percentage point between 2019 and 2035. This is important because, as Figure 7 shows, younger workers are more than twice as likely as their older counterparts to voluntarily move jobs. And when they do move, they are several times more likely to move industry or occupation. For example, in 2019, 0.9 per cent of individuals aged 18-29 moved jobs in the previous three months compared to 0.4 per cent and 0.2 per cent for individuals aged 30-49 and 50-64 respectively. Similarly, between 2017 and 2019, 10 per cent of people aged 18-29 moved occupations and 12 per cent moved industries compared to around 3 per cent of people aged 50-64. Although the rates of job change among younger workers have fallen in recent years, and remain lower than they were before the financial crisis, a younger workforce could at least drive up the rate of job change in the UK economy.

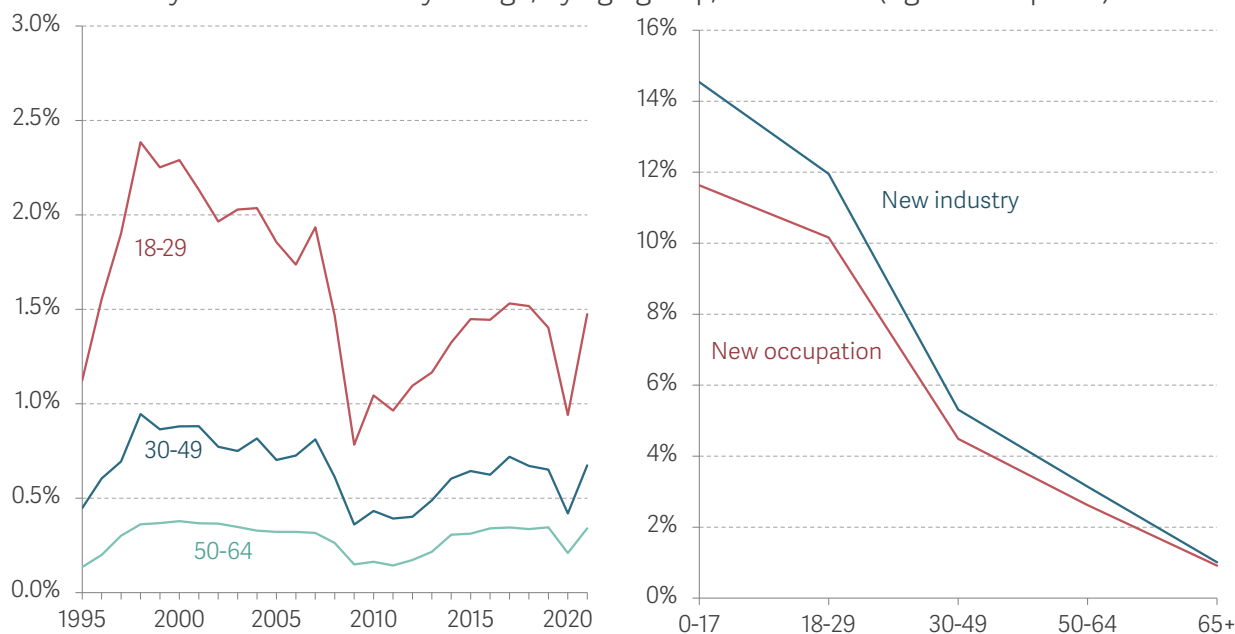
Taken together, the lifecycle flows in and out of the labour market should drive economic change into the mid-2030s to which the UK – as a result of the age-composition of the workforce – should be in an optimal position to exploit the opportunities that come with it.

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<sup>7</sup> N Cominetti, R Costa, A Eyles, T Moev & G Ventura, [Changing jobs?: Change in the UK labour market and the role of worker mobility](#), The Economy 2030 Inquiry, May 2021

### FIGURE 7: Younger workers are most likely to voluntarily move jobs, and when they do, are more likely to move occupations or industry

Proportion of people voluntarily moving jobs, by age group, 1995 to 2021: UK (left-hand panel); proportion of workers reporting that they worked in a new occupation or industry division from one year ago, by age group, 2017-19: UK (right-hand panel)



SOURCE: Analysis of ONS, Labour Force Survey.

### Ageing within the UK's workforce could depress job mobility from the mid-2030s

While natural entry and exit will drive labour market change, the opportunities for greater flexibility will be short lived. From the mid-2030s, most of the baby boomer exits will have taken place and the small increase in young people entering the labour market will have passed. As a result, the significant levels of labour market change resulting from lifecycle workforce entry and exit will have begun to slow. Figure 8 shows that as these lifecycle entries and exits begins to slow, there will be a slight decrease in the share of the economically active population that are young (16-29) and a slight increase in the share that are middle (30-49) and older-aged (50+). For example, the share of the workforce that are middle and older-aged is expected to rise from 75 to 77 per cent between 2035 to 2045.

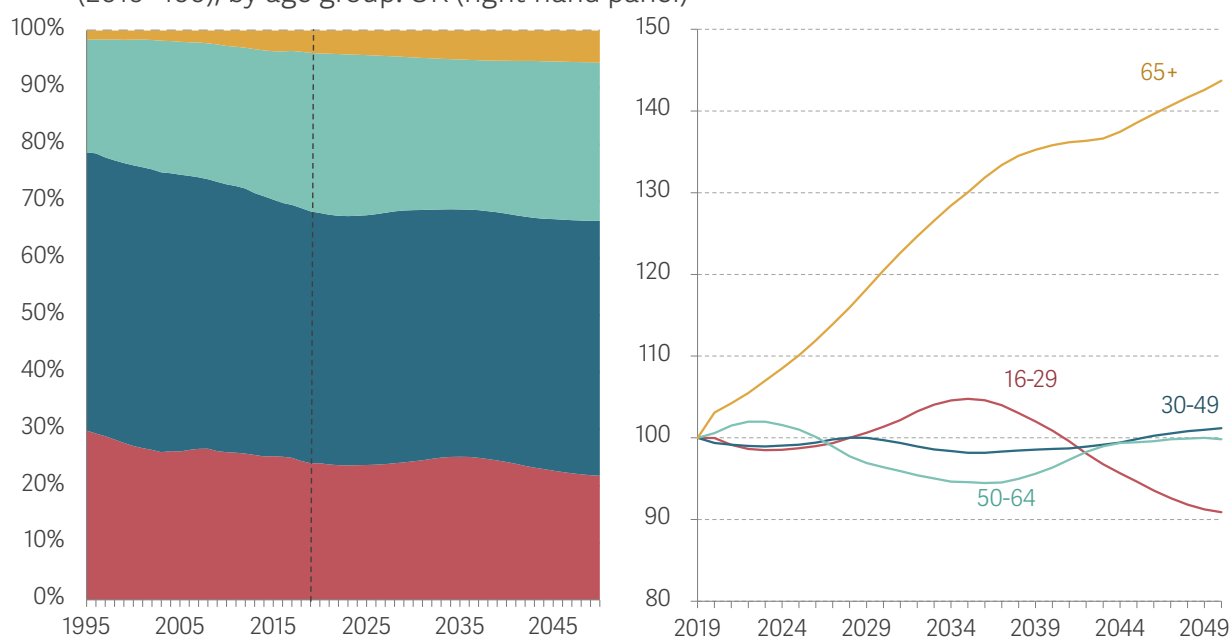
The rise in the share of middle and older-aged workers, who have lower rates of job mobility than their younger parts, could imply that the rate of job moves – within and across occupations and industries – could begin to slow from the mid-2030s. Although these changes are unlikely to be stark, given they are based off a 2 percentage point



change in the age-related composition of the workforce, they may play some role in hindering the UK economy's ability to embrace new technologies and industries as they emerge.

### FIGURE 8: The proportion of older workers will rise more sharply from mid-2030s

Historic and projected proportion of economically active people, by age group, 1995-2050: UK (left-hand panel); change in the proportion of economically active people (2019=100), by age group: UK (right-hand panel)



NOTES: Economic activity projections are calculated by holding 2019 estimates of economic activity by age from the Labour Force Survey constant and projecting forward using the age profile in the latest ONS population projections.

SOURCE: Analysis of ONS, Labour Force Survey; ONS, National population projections: 2020-based, January 2022.

## Change in the UK's age profile may alter the shape of the UK economy through a change in the goods and services required

Demographic change will drive demand for recreation and culture and health and social care

Beyond affecting the dynamics of the labour market and output growth, demographic change is likely to have significant impacts on other areas of the UK economy. It is well known that the boost in retirees that will continue through the 2020s (and the further ageing of baby boomers in the 2030s) will ratchet up the dependency ratio and bring

fiscal pressures (see Box 3). However, it is likely that demographic change will also impact the size of private expenditure, with some goods and services seeing significant increases in spending as a result of changes in the age composition of the population.

### BOX 3: Fiscal pressures in the 2020s

Recent research, undertaken as part of the Economy 2030 Inquiry, considered the sources of fiscal pressures over the coming decade, including the role of societal ageing. The ageing of the UK population is set to push up State Pension spending as the large 'baby boomer' cohort retire. The Office for Budget Responsibility estimates that spending on the State Pension is forecast to increase, in real terms, from just over £108 billion in 2022-23 to £132 billion by 2030-31.

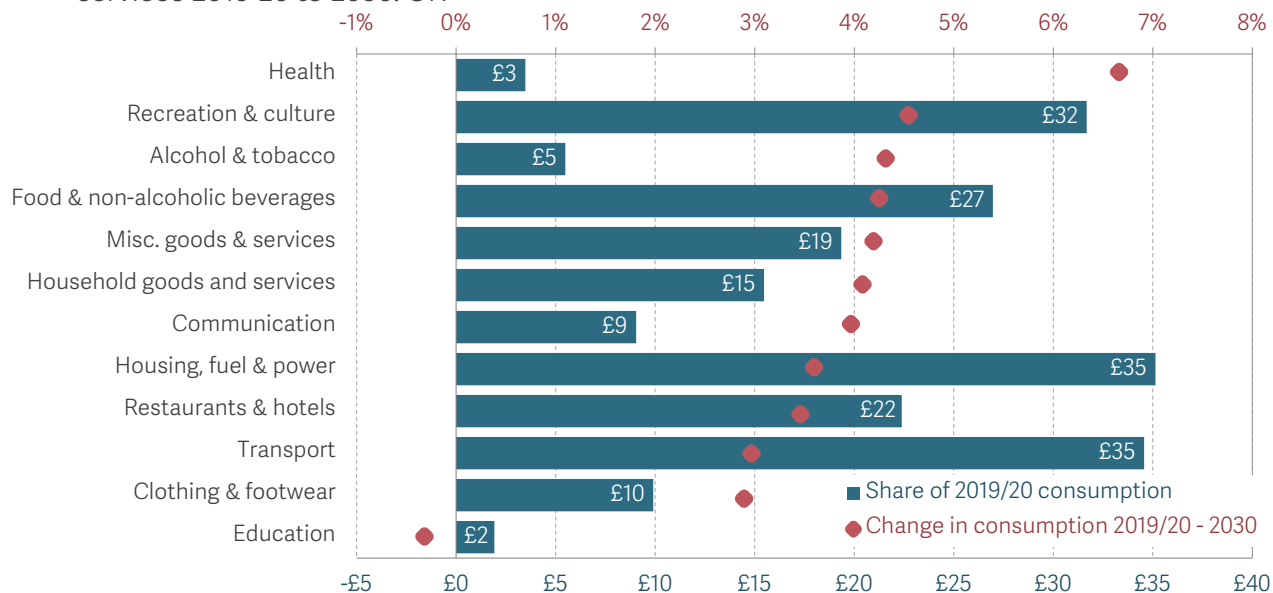
In addition to an ageing population, rising morbidity and technological

innovation will put continued pressure on health spending. Overall, the latest long-term forecasts suggest that health spending could increase from 7.3 per cent of GDP pre-pandemic to 9 per cent of GDP in 2030-31 and 10 per cent of GDP by 2035-36. This would imply a real-terms increase in health spending of £70 billion on pre-pandemic levels by 2030-31, or a £52 billion increase (a 40 per cent increase) compared to 2022-23 levels. These fiscal pressures bring difficult choices for policy makers in the 2020s, and raise the spectre of future tax increases to accommodate them.

It is difficult to precisely project changes in weekly household expenditure, but holding the balance of spending towards different goods and services (excluding housing) across age groups constant at 2019-20 levels, and factoring in demographic change to 2030 indicates that total private consumption spending could increase by 3.8 per cent. Although the relative balance of private spending on different goods and services is not expected to change much under this scenario, Figure 9 shows that with people aged 65+ accounting for a growing share of the population, the total amount of non-housing spending dedicated towards recreation and culture is expected to increase by 4.5 per cent. Similarly, the total amount of non-housing spending on private health (such as private medical and dental spending, NHS prescription charges and payments, purchasing medicines and medical equipment, etc.) is expected to increase by 6.7 per cent between 2019-20 and 2030.

### FIGURE 9: The changing age structure will drive greater expenditure on health and less on education

Average weekly household expenditure per person on goods and services 2019-20: UK; projected change in average weekly household expenditure per person on goods and services 2019-20 to 2030: UK



NOTES: Change in average weekly household expenditure per person is calculated by holding current estimates of average weekly household expenditure per person on goods and services, by age, from the Living Costs and Food Survey (April 2019 to March 2020) constant and projecting forward using the age profile in the latest ONS population projections.

SOURCE: Analysis of ONS, Living Costs and Food Survey: April 2019 to March 2020; ONS, National population projections: 2020-based, January 2022.

While sectors linked to recreation and culture may grow, changes in spending on private health are unlikely to have a dramatic effect on the shape of the UK's economy because actual average weekly household expenditure on private health was relatively small in 2019-20. Instead, the real impact from age-related shifts in the population will come from a huge rise in demand for – and employment of – health and social care workers. Therefore, changes to the shape of the economy will more likely be driven by pressures on public spending rather than demographic driven changes in private spending.

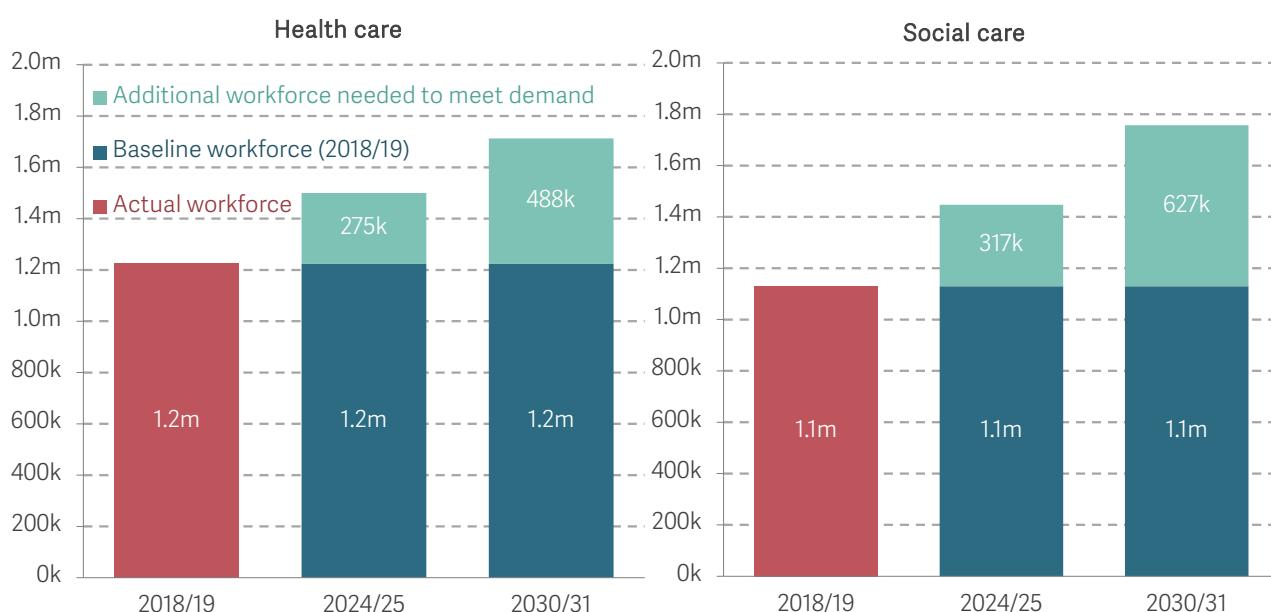
The Health Foundation's REAL Centre (Research and Economic Analysis for the Long term) has projected future health and social care funding requirements up to 2030-31. Their research uses 2018-19 patterns of service use in England as a baseline and makes assumptions about demand-side drivers (such as size and age structure of the population, births and deaths, and changes in morbidity) and supply-side drivers (such as expected future pay, productivity, and input prices) to project how much activity is needed to meet demand for health and social care services.<sup>8</sup> They estimate that by 2030-31, up to an extra 488,000 health care staff would be needed to meet demand

<sup>8</sup> S Rocks, G Boccarini, A Charlesworth, O Idriss, R McConkey & L Rachet-Jacquet, *REAL Centre Projections: Health and social care funding projections 2021*, October 2021.

pressures and recover from the pandemic. This is equivalent to a 40 per cent increase in the workforce – double the growth seen in the past decade. Alongside this, as many as 627,000 extra social care staff would be needed to improve services and meet need. This equates to a 55 per cent increase in the workforce over the next decade – four times greater than the increases of the past ten years (Figure 10).<sup>9</sup>

**FIGURE 10: By 2030/31, up to an extra 488,000 health care staff and up to 627,000 extra social care staff would be needed to improve services and meet need**

REAL Centre workforce projections for health care and social care, 2018/19-2030/31: UK



NOTES: Workforce numbers are for full-time equivalents.  
SOURCE: REAL Centre calculations, The Health Foundation © 2021.

These projections also come on top of existing workforce shortages. In 2018/19, there were 1.19 million funded posts in hospital and community care, with a vacancy rate of 8.9 per cent. The UK will need to find ways to meet additional demand for health and social care services by investing in training and recruitment, and in new technology and equipment. It will be vital for the sector to be seen as an attractive career option to encourage new people to join the profession and existing workers to stay.<sup>10</sup>

<sup>9</sup> These activity projections take no account of potential productivity gains, some of which may be labour saving. Nor do they allow for significant changes in demand – for instance, through better disease prevention and health promotion action and/ or radically different models of care.

<sup>10</sup> S Rocks, G Boccarini, A Charlesworth, O Idriss, R McConkey & L Rachet-Jacquet, *REAL Centre Projections: Health and social care funding projections 2021*, October 2021.

## Policy makers will need to address the demographic-driven challenges that are hitting now, while also seizing the opportunities that come with economic change

Demographic change will indeed bring some challenges over the 2020s – particularly in the form of increased pressure on pension and health spending in response to the ageing of the large ‘baby boomer’ cohort. But this briefing note has also shown how the changing age-related composition of the UK’s population – and workforce – will likely affect the dynamics of the labour market, have consequences for output, and also shift demand for different goods and services.

Policy makers will need to address the demographic-driven challenges that are hitting now, while also embracing the short-term opportunities that will come with labour market change. Despite these opportunities, policy makers will also need to take a long-term view and start laying the groundwork to address the challenges that will take longer to bite, for example, the UK having an older, less flexible workforce, and potentially slowing economic growth. Finding suitable policies to address demographic-driven challenges and ensure the UK is on track to achieve the necessary levels of economic growth to deal with the pressures associated with an older population will be discussed as part of the second phase of the Economy 2030 Inquiry.

# Reports published as part of The Economy 2030 Inquiry to date

All publications are available on the [Inquiry's website](#).

1. [The UK's decisive decade](#): The launch report of The Economy 2030 Inquiry
2. [Levelling up and down Britain](#): How the labour market recovery varies across the country
3. [Work experiences](#): Changes in the subjective experience of work
4. [The Carbon Crunch](#): Turning targets into delivery
5. [Trading places](#): Brexit and the path to longer-term improvements in living standards
6. [Home is where the heat \(pump\) is](#): The Government's Heat and Buildings Strategy is a welcome step forward but lower-income households will need more support
7. [Business time](#): How ready are UK firms for the decisive decade?
8. [Begin again?](#): Assessing the permanent implications of Covid-19 for the UK's labour market
9. [More trade from a land down under](#): The significance of trade agreements with Australia and New Zealand
10. [Social mobility in the time of Covid](#): Assessing the social mobility implications of Covid-19
11. [Changing jobs?](#) Change in the UK labour market and the role of worker mobility
12. [Social Insecurity](#): Assessing trends in social security to prepare for the decade of change ahead
13. [A presage to India](#): Assessing the UK's new Indo-Pacific trade focus
14. [Under pressure](#): Managing fiscal pressures in the 2020s
15. [Under new management](#): How immigration policy will, and won't, affect the UK's path to becoming a high-wage, high-productivity economy

16. Shrinking footprints: The impacts of the net zero transition on households and consumption
17. Enduring strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade
18. Listen up: Individual experiences of work, consumption and society
19. Growing clean: Identifying and investing in sustainable growth opportunities across the UK
20. Low Pay Britain 2022: Low pay and insecurity in the UK labour market
21. Bouncebackability: The UK corporate sector's recovery from Covid-19
22. All over the place: Perspectives on local economic prosperity
23. Right Where You Left Me?: Analysis of the Covid-19 pandemic's impact on local economies in the UK

# THE ECONOMY 2030 INQUIRY

SHAPING A DECADE OF CHANGE

The UK is on the brink of a decade of huge economic change – from the Covid-19 recovery, to exiting the EU and transitioning towards a Net Zero future. The Economy 2030 Inquiry will examine this decisive decade for Britain, and set out a plan for how we can successfully navigate it.

The Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics. It is funded by the Nuffield Foundation.

**For more information on The Economy 2030 Inquiry, visit**  
[economy2030.resolutionfoundation.org](https://economy2030.resolutionfoundation.org).

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