

Measuring the economic impacts of illness - a microsimulation approach to measuring the impacts on governments and individuals

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The Australian government's economic policy is currently driven by the findings of the Intergenerational Report which found that that aging of the population coupled with strong growth in health and disability support pension spending would force the Australian Government unsustainably into deficit over the long term. One of the main solutions identified by the Australian government as a central part of its strategy to manage the anticipated costs of population ageing has been to increase the labour force participation of older workers. However, high rates of chronic illness amongst the older working age population currently reduce the potential of this policy for managing long-term government budget balances and for improving the living standards of older Australians.

In this paper we describe a new approach within Australia to measure the relationship between illness and the economy. Health&Wealth is a new microsimulation model designed to determine the economic impacts of disease on older workers aged 45 to 65 years. The model estimates the relationship between early retirement and illness — by costing the losses to individuals (through lost earnings and wealth accumulation including pension plans on living standards in retirement) and to the Australian Government (through lost taxation revenue and additional government pension and benefit payments and on national GDP). The future economic impacts of trends in chronic illness amongst older workers are also estimated. The importance of using microdata to deal with some of the challenging measurement issues such as capturing the socio-economic distribution of illness and co-morbidity and their relationship to economic impacts will be discussed.