

**The Economic Impacts of Retiring Early Due to Illness Now and in the Future:
Results for Australia from Health & Wealth MOD**

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As the population ages, those in the preretirement years of 45 to 64 will make up an increasing proportion of the labour force. However, early retirement due to ill health is a common occurrence for individuals in this age group, reducing the overall available workforce and has both immediate and long term economic impacts on individuals and governments. Using Health & Wealth MOD, an Australian microsimulation model specifically designed to analyse the impacts of ill health on labour force participation, personal income and wealth and government revenue, we estimated the immediate costs to government of lost taxation revenue and increased transfer payments and the costs to individuals of lost income and lost wealth, and in the long term, the reduced savings of those who have been forced to retire early due to ill health. It has been found that as a result of illness-related early retirement amongst the 45 to 64 year old population there is an annual national loss of income of over AU\$17 billion, an annual national increase of AU\$1.5 billion in spending on government support payments, and an annual loss of AU\$2.1 billion in taxation revenue. At the individual level, persons out of the labour force due to illness had significantly lower incomes (AU\$218 per week as opposed to AU\$1 167 per week for those employed full-time), and for those who retired early due to back problems (for example) had 87% less wealth than those in full time employment with no chronic health condition. It was estimated by the time they reach the traditional retirement age of 65 years, those who have retired early due to ill health will also have 97% less accumulated wealth with which to derive an income stream to finance their retirement. These findings highlight the need for effective prevention and treatment of illness to reduce the labour force impacts and follow on negative immediate and long term economic impacts of illness-related early retirement amongst older workers.