The rising cost of age and health

The government's financial watchdog, the Office for Budget Responsibility (OBR), has been mulling over future healthcare and pension costs.

In January, as is often the case, the media was headlining stories about delays in A&E, cancelled operations and bed-blocking caused by lack of long-term care facilities. Coincidentally, in the middle of the month the OBR published its Fiscal Sustainability Report. This had originally been due in June last year, but its publication was put on hold after the Brexit vote.

The report is a long term look at future government cash flow and the consequences for public sector debt, starting at the point five years out where normal Budget projections end. It does not make attractive reading for the next generations of Chancellor. The first sentence of the press release accompanying the report says "Rising health care costs could make it harder for the Chancellor to balance the budget in the next Parliament and put the public finances on a sustainable path over the longer term in the absence of further tax increases or cuts in other public spending."

The cuts and/or tax increases the OBR reckons could be necessary are more than mere Budget tweaks. To get government debt back to a sustainable level (40% of Gross Domestic Product) by 2066/67 would require additional tax increases and/or spending cuts of either:

- A permanent one-off £75bn (in today's terms) in 2021/22; or
- £27bn (again in today's terms) in the early 2020s and in *each* successive decade.

To put those numbers in context, adding 1p to the basic rate of tax raises about £4.5bn, according to HM Revenue & Customs' ready reckoner.

The OBR numbers are projections and 50 years out the only certainty is that they will be wrong. However, the direction of travel is unlikely to change as the new state pensioners of 2067 (aged 69) have already left school. If you needed a reminder about reviewing whether your retirement provision is adequate, the OBR has supplied it.