



Fix Pension Poverty - Policy Position Commonwealth Rent Assistance

(June 2017)

"When the rent goes up I can make up for it a bit on food because my daughter will bring care packages from church which give you eight or nine meals for the freezer..."

Penrith focus group participant

Introduction

In 2016 The Benevolent Society, The Longevity Innovation Hub and Per Capita formed a partnership to produce the *Adequacy of the Age Pension in Australia* report which was launched at the National Press Club on 14 September.

The report found that, while the Age Pension works as an important support for many - particularly those whose lives have followed a particular path of lifetime employment, a coupled relationship and homeownership - it fails to enable a decent standard of living for many other older Australians who have not had this lived experience and who rely on it as their main source of income.

*The Adequacy of the Age Pension Report*¹ found three broad themes emerging from the research:

1. The Age Pension, by itself, is not enough to fully economically or socially participate in Australian society for anyone who lives independently;
2. The extent of hardship for pensioners depends greatly on their specific circumstances. Most notably, whether or not pensioners own their own homes is a strong determinant of their financial wellbeing;
3. The services offered by non-government institutions that are available - and that pensioners take advantage of - often make up the difference between poverty and financial security.

A clear and consistent message was that those older people who are renting, in particular those who are single and renting, frequently experience profound levels of deprivation relying on the Age Pension. Many of these are women without superannuation or other savings.

The report made eight recommendations designed to alleviate some of the hardship and improve the standard of living for older people living on the Age Pension. This draft policy paper is one of a suite of papers The Benevolent Society has developed to progress the adoption of these recommendations.

This paper

The *Adequacy of the Age Pension* report found that home ownership is the most important determinant of the wellbeing of people on the full age pension. The division in quality of life between people on the age pension who own their own homes and those who rent is starkly apparent, and even more so for single renters.

Targeted services and payments, such as Commonwealth Rent Assistance (CRA), while effective strategies in addressing the variations in circumstances, are currently not provided at rates adequate to provide security and wellbeing to those most at risk of poverty. The report singled out CRA reform as essential to reducing the gap in housing costs between renters and home owners, with two of the eight recommendations of the

report relating to changes to CRA:

Recommendation II: increasing the maximum rate of CRA; and
Recommendation III: indexing CRA to housing costs rather than CPI.

This draft policy paper on Commonwealth Rent Assistance in the context of Age Pensioners

- describes the background, nature and impact of housing costs for Age Pensioners;
- outlines what The Benevolent Society is doing in response
- recommends further action and options for addressing the issue

Background to the issue

The report clearly demonstrated that home ownership is the single most important determinant of the wellbeing for people on the full age pension. Older people who are paying rent cited rent 'as their biggest expense and the thing they struggled most with. Most renters, whether renting privately, or in public or social housing, expressed the belief that housing costs were rising faster than the pension'.ⁱⁱ

For older Australians on the full age pension, renting is the key barrier to a decent standard of living. For those relying on the private rental market due to the unavailability of social housing, the situation is most dire.

The Report found that while the pension is paid at the same rate to everyone with the same income/assets position and relationship status, expenses vary greatly between individuals. Targeted services and payments, such as Commonwealth Rent Assistance (CRA), are effective strategies in addressing the variations in circumstances, but are currently not provided at rates adequate to provide security and wellbeing to those most at risk of poverty.

The division in quality of life between people on the age pension who own their own homes and those who rent is starkly apparent, and even more so for single renters. *The Adequacy of the Age Pension* research highlighted many individual circumstances that make life more challenging for older people who rely on the age pension as their main source of income and who rent, for example: from unexpected repairs, medical conditions that incur substantial out-of-pocket expenses, caring responsibilities that significantly limited the carer's options and quality of life.

Critically, the report demonstrated the extent to which households are foregoing essential household expenditure for increased housing costs. On average, renters spend about \$8 per week less on transport, \$10 per week less on health and, if they're women, about \$15 per week less on food. Almost every expense item showed some gap between renters and home owners, as age pensioners who are renting meet housing costs by going without the basics. This has a notable impact on their quality of life.

The numbers of older people who are renting is increasing. Housing for the Aged Action Group (HAAG) has found that the rate of home ownership amongst older Australians decreased to 60.5 per cent in 2011 from 63.8 per cent in 2006. This trend is predicted to continue. There has been a significant increase in the number of older Australians who have to pay over 65 per cent of their total income on rent. Rental stress, housing insecurity and lack of affordable housing are key drivers of homelessness. Between 2006 and 2011 the number of homeless older Australians increased by 20 per cent.

HAAG notes further that ‘many older people, often women, have lived conventional lives but reach retirement with no housing security. Living on the age pension, a rent rise or eviction can be the tipping point that causes a downward spiral into couch surfing, sleeping in cars and on the streets’.ⁱⁱⁱ

Noted economist Saul Eslake, in a recent report prepared for the Australian Institute of Superannuation Trustees, confirms the ‘dubious’ nature of the longstanding assumption that the vast majority of retired people will have very low housing costs^{iv} and indicates that, according to current trends in home ownership and rentals:

‘an increasing proportion of retirees will be living in privately rented housing, spending a higher proportion of their income on rent, potentially generating political pressure for increases in the level of Commonwealth Rent Assistance, in the age pension itself, or both’^v.

Research by Professor Alan Morris also found that a large proportion of older private renters who are dependent on the age pension for their income, are having to use a large proportion of their income to pay for their rent. This is compounded by insecure tenure; once their lease ends they can be asked to leave at any time, ‘the resulting perpetual insecurity combined with the cost of their housing is the basis for enormous anxiety and distress’.^{vi}

Professor Morris’ research finds that an increasing proportion of older Australians on the age pension will be dependent on the private rental sector in coming decades...In 2013-14, 4.8per cent of couples aged 65-plus and 9.5per cent of people living by themselves were private renters. Among 55-to-64-year-olds, these proportions were almost double: 8.4per cent of couples and 20.7per cent of lone-person households in this age cohort were private renters. Almost all of these households will still be private renters when they become dependent on the age pension, so the prospects for this group are grim’.^{vii}

The Productivity Commission cites Australian and international research which ‘identifies a strong association between housing, health status, living standards and wellbeing (Thompson and Phibbs 2011; Morris 2010). A lack of adequate and affordable housing contributes to housing stress and homelessness, and is detrimental to people’s physical and mental health. Homelessness affects life expectancy, with homeless people estimated to live 15–20 years less than the mainstream population (Quine et al 2004).’^{viii}

AHURI’s research that shows there is evidence to suggest that effective housing assistance programs reduce the burden on health and justice services, leading to reduced expenditure for hospital, ambulance, police and court services.^{ix}

Commonwealth Rent Assistance (CRA)

Commonwealth Rent Assistance is a non-taxable income supplement payable to eligible people who rent in the private market or from community housing providers. Pensioners, allowees and those receiving more than the base rate of Family Tax Benefit Part A may be eligible for Rent Assistance.

Australian Government expenditure on CRA was \$4.4 billion in 2015-16, increasing from \$3.6 billion in 2011-12.^x

Rent Assistance thresholds and maximum rates are indexed in March and September each year to movements in the Consumer Price Index (CPI). CRA is paid at the rate of 75 cents for every dollar above the rent threshold until the maximum rate is reached.

The amount of CRA depends on a person's circumstances (single, partnered, children) and how much rent they pay. The maximum rate of CRA for people receiving the age pension as of March 2017 is \$132.20 for a single person, or \$124.60 for a couple, per fortnight.^{xi}

CRA maximum rates and eligibility criteria are set without reference to location and variations in housing costs. Median market rents in the private housing market vary significantly by capital cities, for example, median market rent in Sydney in July 31 2016 was \$595, Perth \$425 and Adelaide \$365 per week.^{xii}

CRA and rental stress

The CRA program aims to reduce the incidence of rental stress for people on low incomes. Rental stress is defined as more than 30 per cent of household income being spent on rent by households in the lowest 40 per cent of the income distribution.^{xiii} Although CRA is indexed to the CPI, 'rental costs have been increasing faster than the Consumer Price Index since 2008 (ABS 2016), so the real value of CRA payments has decreased for individuals in that time.'^{xiv}

Rent Assistance is successful in reducing housing stress for many people, but the inadequacy of the maximum rate and the decline in real value versus rental costs have seen the numbers of people experiencing housing stress increasing.^{xv}

Nationally in June 2016, 68.2 per cent of CRA recipients would have experienced rental stress if CRA were not provided - with CRA, this proportion was 41.2 per cent.^{xvi} The proportion of low income renter householders in Australia experiencing rental stress increased from 35.4 per cent in 2007-08 to 42.5 per cent in 2013-14.^{xvii}

There has been a 4.4 per cent increase in the 'income units'^{xviii} receiving CRA paying enough rent to be eligible for maximum assistance between 2012 and 2016.^{xix}

Of the 1,345,983 'income units' receiving CRA in 2016, 350,414 (or 26 per cent) are over 60 years of age.^{xx}

These worrying trends will be further exacerbated as rates of home ownership fall and more older Australians rent.

The National Welfare Rights Network argues that CRA 'has failed to keep up with surging rental costs... While many older people appeared to be faring better than their younger peers, it was deeply disturbing to find that three in four of every age pensioner in extreme housing stress paying more than half of their incomes in rent were older women living on the age pension'.^{xxi}

For those who are renting in the private market, CRA tends to cover less than half of additional housing costs they face when compared to home owners.

What could be done?

Many organisations have been advocating for a review of the Commonwealth Rental Assistance Scheme for some years. The Benevolent Society, Longevity Innovation Hub and Per Capita have made the following specific recommendations to alleviate the financial stress of people on the age pension who are renting.

- **Increase the maximum rate of rent assistance**

Recommendation II: We recommend an increase in the maximum rate of Commonwealth Rent Assistance (CRA) of at least 30per cent for couples and 50per cent for singles.

These increases would represent an initial step towards reducing the gap in standard of living between those who have been able to achieve home-ownership and those who have not.

Taking into account current CRA payments, full pensioners who rent are still, on average, \$40 (couples) to \$80 (singles) per week worse off than home owners when considering housing costs.^{xxii} In 2016 there were 258,543 people on the age pension receiving CRA (up from 231,292 people in 2014).

If this recommendation was implemented, including equivalent increases for all CRA recipients, it would add approximately \$1 billion per year to the CRA program cost.

CRA is not only available to tenants in private rental markets, who would get the most benefit from the increases, it is also payable to residents in community housing.

Community housing is non-government housing provided by non-for-profit agencies at rents set as a proportion of tenants' income as an alternative to private rental. Eligibility is targeted to low-income households, and rent setting captures the entirety of CRA payments. As such, the recommended increase in the maximum rate of CRA would act as an increase to the subsidy to community housing providers, and therefore their ability to provide more housing outside private rental markets for Australians on the age pension.

- **Index rent assistance to housing costs instead of CPI**

Recommendation III: We recommend indexing rent assistance to housing costs instead of the Consumer Price index.

CRA is inappropriately indexed to CPI, a broad measure of inflation that does not reflect either the real costs faced by older Australians or the housing costs that rent assistance is intended to address. Indexing CRA to actual housing costs would address the slow decline in the utility of the payment and reduce the pressure for older Australians forgo other essential expenditure in order to meet their housing costs.

Housing costs often change at very different rates to CPI and this indexing method has historically left many renters substantially worse off as rents rise faster than CRA. Inadequate indexation of CRA has eroded its value over time and rendered the payment increasingly ineffective in preventing housing stress. This has contributed to the rise in people on the full age pension living in housing stress.

Changes to the structure and payment of CRA that address the significant variation in housing costs across different locations should also be explored.

ⁱ The Benevolent Society, Longevity Innovation Hub and Per capita, *The Adequacy of the Age Pension, An assessment of pensioner living standards*, September 2016, https://www.benevolent.org.au/~media/Pension%20Adequacy_Final%20pdf.ashx

ⁱⁱ The Benevolent Society, Longevity Innovation Hub and Per capita, *The Adequacy of the Age Pension, An assessment of pensioner living standards*, p18, September 2016, https://www.benevolent.org.au/~media/Pension%20Adequacy_Final%20pdf.ashx

ⁱⁱⁱ Housing for the Aged Action Group (HAAG), *At the crossroads in retirement: Older people at risk of homelessness*, July 2016, <http://www.oldertenants.org.au/publications/crossroads-retirement-older-people-risk-homelessness>

^{vi} <http://www.older tenants.org.au/news/why-secure-and-affordable-housing-increasing-worry-age-pensioners>

^{vii} <http://www.older tenants.org.au/news/why-secure-and-affordable-housing-increasing-worry-age-pensioners>

^{ix} Cited by the Productivity Commission, in the Report on Government Services 2016, G.24-G.25, <http://www.pc.gov.au/research/ongoing/report-on-government-services/2016/housing-and-homelessness/rogs-2016-volume-g-housing-and-homelessness.pdf>

^x Productivity Commission, Report on Government Services 2017, G4, <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/rogs-2017-volume-g-sector-g.pdf>

^{xi} Australian Government Department of Social Services <https://www.dss.gov.au/housing-support/programmes-services/commonwealth-rent-assistance> accessed 24 April 2017

^{xii} RP Data, *CoreLogic Rental Review Snapshot August 9, 2016* <https://www.corelogic.com.au/news/rents-fall-in-july-and-are-0-6-lower-over-the-past-year>

^{xiii} Yates, J., Milligan, V. (2007) *Housing affordability: a 21st century problem*, AHURI Final Report No. 105, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/105> pg 18

^{xiv} Productivity Commission, Report on Government Services 2017, G4, <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/rogs-2017-volume-g-sector-g.pdf>

^{xv} National Welfare Rights Network, *The Impact of Rent Assistance on housing affordability for low income renters: Australia*, March 2014, p3

^{xvi} Productivity Commission, Report on Government Services 2017, <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/rogs-2017-volume-g-sector-g.pdf>

^{xvii} Productivity Commission, Report on Government Services 2017, G8, <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/rogs-2017-volume-g-sector-g.pdf>

^{xviii} An income unit may consist of: a single person with no dependent children, a sole parent with one or more dependent children, a couple (married, registered or de facto) with no dependent children, a couple (married, registered or de facto) with one or more dependent children. A non-dependent child living at home, including one who is receiving an income support payment in their own right, is regarded as a separate income unit. Similarly, a group of non-related adults sharing accommodation are counted as separate income units. G4, Productivity Commission, Report on Government Services 2017, <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/rogs-2017-volume-g-sector-g.pdf>

^{xviii} Productivity Commission, Report on Government Services 2017, Table GA.26, <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/rogs-2017-volume-g-sector-g.pdf>

^{xix} Productivity Commission, Report on Government Services 2017, Table GA.26, <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/rogs-2017-volume-g-sector-g.pdf>

^{xx} Productivity Commission, Report on Government Services 2017, Table GA.16, <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/rogs-2017-volume-g-sector-g.pdf>

^{xxi} National Welfare Rights Network, *A home on the range or a home out of range? How Commonwealth Rent Assistance fails low income Australians*, May 2013

^{xxii} The Benevolent Society, Longevity Innovation Hub and Per capita, *The Adequacy of the Age Pension, An assessment of pensioner living standards*, p18, September 2016, pg 37