

CHAPTER 4

COSTS OF CONCESSIONS

*'Utopia is great, but it is not affordable.'*¹

The cost of concession cards

4.1 Throughout the course of the Inquiry, the Committee attempted to ascertain the annual cost of concessions. As well as administrative costs to the Department of Social Security (DSS), which has primary responsibility for concession cards, the Committee also sought the total (global) cost of concessions, thus determining the cost to the taxpayer of concessions provided by the Commonwealth and by the States/Territories.

Global cost of concession cards

4.2 While DSS advised the Committee that it was difficult to arrive at an accurate sum for the global cost of concessions, a Commonwealth/State working party estimated this cost at \$2.3 billion in 1993, or \$4 billion when including the cost of public housing rental rebates.² This figure included the cost of concessions for people on a part pension.

4.3 DSS estimated that, based on the 1993 figure and taking into account the growing number of concession card holders and inflation, the global cost of concessions is now around \$5.1 billion per year (expressed in 1996 dollars).³ This is an estimate of the cost to Commonwealth and State/Territory governments of concession benefits, either through foregone revenue (eg PBS Safety Net concessions, reduced land rates) or offering free or discounted services (eg free hearing aids, free spectacles provided by States/Territories). This figure also includes the cost of public housing rental rebates. It does not include administration costs.

4.4 DSS advised that its administration costs for concessions amount to \$18.75 million per year. This sum includes card production and distribution, provision of claim forms and concessions information, processing card claims, legal costs for appeals and reviews, running the Client Confirmation Service

1 Association of Independent Retirees, Transcript of Evidence, pg FCA 408.

2 *Review of Concessions Arrangements, op.cit.*, pg 4.

3 Department of Social Security Supplementary Submission, pg FCA 477.

(States/Territories' eligibility verification) and telephone enquiry lines, as well as salary costs.

Cost to States and Territories

4.5 Four governments, Victoria, Queensland, the Northern Territory and the Australian Capital Territory (ACT), were able to supply the Committee with an annual cost of the concessions they provide. The estimates were:

- Victoria: \$450 million (current estimate);
- Queensland: \$400 - \$450 million (current estimate);
- Northern Territory: \$4.5 million (1994/95 budget); and
- ACT: \$10 million (current estimate).⁴

4.6 The Committee acknowledges the important role all States/Territories play in providing core concessions for holders of Commonwealth concession cards. This expenditure plays a vital part in ensuring all Australians have access to adequate living standards.

Management of concession expenditure

4.7 DSS told the Committee that current concessions expenditure cannot be measured in more accurate terms than the estimates outlined above. The DSS submission to the Inquiry said:

*...much of the national expenditure on concessions is 'hidden' expenditure, unable to be accounted for, and unable to be properly assessed. The consequence is that it is difficult to be definitive about the extent of variation in concession usage across regions.*⁵

4.8 When asked how it could formulate good concession policy without accurate expenditure detail, a DSS representative told the Committee that they use income support arrangements to generate data on concessions, as most concessions are accessed through income support eligibility.⁶ However, this

4 Submission no. 42 (pg FCA 292); Transcript of Evidence (pg FCA 377); Submission no. 33 (pg 176) and Submission no. 30 (pg 126).

5 Submission no. 32, pg 151.

6 Transcript of Evidence, pg FCA 22.

does not provide detail on which groups of pensioners/beneficiaries access various concessions.

4.9 The Victorian and Queensland State governments said that they attempt to maintain detailed statistics about take-up rates of State concessions by specific category of concession holder. However, the States also find it difficult to determine this specific level of information and it can be a costly exercise. For example, in 1996 the Victorian Government engaged a consultant to undertake an extensive review of household electricity, gas and water usage, including a breakdown of concessions.⁷ A Queensland Government representative told the Committee:

*There is some variability [in availability of statistics] between the agencies and the service deliverers...The message is one of variability - from fairly good to reasonably poor - which I guess makes planning a bit difficult. But we are attempting to improve the database all the time.*⁸

4.10 The Committee is concerned that a very large amount of public expenditure - estimated at \$5.1 billion per year - cannot be accurately accounted for. While it is acknowledged that the money is actually spent on providing concessions, there is a serious need for more detailed information for planning purposes and evaluation of current programs. This need exists at both Commonwealth and State/Territory levels, especially in light of partial Commonwealth funding of State/Territory concessions as agreed at the 1993 Premiers' Conference. The Committee believes the lack of management information on concessions expenditure would be resolved by implementation of smart card technology. This issue is discussed in Chapter 5.

The future - Australia's ageing population

4.11 Current statistical projections have confirmed that Australia, like most Organisation for Economic Co-operation and Development (OECD) countries, is entering an era of the aged. In the next 20 years, the proportion of Australia's population aged over 65 will increase dramatically. Statistical projections show that the 65-plus age group will grow from currently comprising 8.7 per cent of the total population to comprising 20.5 to 22.0 per cent in 2041.⁹

7 Victorian Department of Human Services, *Victorian Utility Consumption Household Survey*, Research Report (Reark Research), September 1996.

8 Transcript of Evidence, pg FCA 377.

9 National Commission of Audit, *op.cit.*

4.12 Governments and tax payers of the future will be faced with the substantial costs of supporting the ageing population. The National Commission of Audit reported to the Federal Government in June 1996 that:

A particular concern is the likely burden of existing and new social security measures on future generations at the individual taxpayer level.¹⁰

4.13 Some commentators believe the issue will become a political one, with the political strength of the elderly increasing and the influence of younger, salary earning citizens decreasing. School budgets must be approved of by the local voting population in the United States of America. Before being implemented, there have been recent examples of elderly citizens voting for less funding for primary schools in favour of more home nursing facilities.¹¹

4.14 The financial and social implications of Australia's growing proportion of aged citizens must be taken into account when examining and reforming the concession system. Any decision to implement an expanded national concession system will involve costs to Commonwealth and State/Territory governments now and in the future, due to the ageing population. While a national concession system of the future will cost more, due to the ageing population, this must be weighed against the community benefits of Australia's social welfare system for low income individuals and families.

The value of concession cards to their users

4.15 Pensioners view Commonwealth concession cards as being important for providing health care security and place a much higher monetary value on the cards than they are realistically worth.

4.16 The Australian Pensioners' and Superannuants' Federation (AP&SF) provided details of a study they undertook in 1992 which investigated actual versus perceived worth of concession cards for card holders. The report found that card holders often had an unrealistic or misguided idea about the value of concession cards.

4.17 The AP&SF's submission stated:

...research shows that many older people place a high degree of importance and value on the card, related to the security that it provides. Most older people,

10 *ibid.*

11 *Lateline*, ABC, 12 September 1996.

*pensioners and non-pensioners alike, overestimate the true monetary value of the card.*¹²

4.18 In their 1992 report, AP&SF found that a pensioner who owned a home and a car could save around \$1,000 per year (Commonwealth and State/Territory concessions) as a result of holding a Pensioner Concession Card. Pensioners who did not own a home or car saved around \$600 per year. Residents of nursing homes, hostels or retirement villages saved less than \$300 per year.¹³ The AP&SF report did not evaluate the savings achieved through holding a Health Care Card (HCC). However, as the HCC entitles the holder to fewer concessions, any savings would probably be less than those outlined above.

4.19 The AP&SF report also found that of all the Commonwealth and State/Territory concessions available, older people valued the security that the Pensioner Concession Card (PCC) provided for their health care. However, AP&SF commented that this was often because of a misguided belief that the PCC provided access to free hospital treatment and the PBS system, which are both available to all Australian residents regardless of income status.

4.20 The Association of Independent Retirees also highlighted the importance of concession cards to older citizens because of the health care concessions. The Association's representative told the Committee:

*We all need more health care when we get older. They [concessions] become very important, even more important than they really are financially.*¹⁴

Decreasing value of concessions

4.21 The Committee was told that the 1993 extension of the Pensioner Concession Card resulted in the value of some concessions, particularly State/Territory concessions, decreasing over time or not being made available to as many people. This problem is mainly confined to local government concessions.

Local government concessions

12 Submission no. 34, pg 184.

13 Mohr, R, *op.cit.*

14 Transcript of Evidence, pg FCA 404.

4.22 The Council on the Ageing (Australia) (COTA (A)) said that in some States/Territories the real value of concessions has been eroded over time, especially in States/Territories where concessions are of a fixed monetary value rather than a percentage rebate. COTA (A) cited South Australia as an example, where (according to COTA (A)) concessions are now worth 50 per cent of their original value.¹⁵

4.23 The Victorian Government argued that in their State, the real value of concessions had actually increased. This was due to the reform of local government, which led to a council rate reduction of 20 per cent.¹⁶

4.24 The 1995 report to the Commonwealth Government, *Trends in the Distribution of Cash Income and Non-Cash Benefits*, examined the real value of concessions (defined in the report as unbudgeted social wage benefits) during the years 1981-82 to 1993-94.¹⁷ The report found that the 'real' value of these benefits had increased from an average of \$2.29 per week for each recipient in 1981-82, to \$4.42 per week for each recipient in 1993-94.

4.25 However, the report acknowledged that the lack of information about concession expenditure, outlined earlier in this Chapter, meant that these figures were not entirely accurate. Reliable data, from which economic modelling exercises produced the above results, was only available for States. The report noted that 'unbudgeted social wage benefits' - ie concessions - comprise a very small percentage of the total 'social wage benefits' provided to Australians, including services such as public education, health care, the social security and income support system and public housing.

4.26 DSS explained that any reported drop in concessions is mainly due to local councils reducing the rate of their 'supplementary' concessions. These concessions are offered on a local basis, on items such as additional council land rates or municipal services such as rubbish collection or sewerage fees. The additional council subsidies are not part of the 'core' State/Territory concessions on water and electricity, land rates and public transport. Many councils have cut back on non-core concessions since the 1993 extension of the Pensioner Concession Card to all pensioners.

4.27 The Australian Council of Social Service (ACOSS) acknowledged that the decreases in concessions are mainly at a local government level. ACOSS also argued that the introduction of the State Seniors Cards has resulted in

15 Submission no. 23, pg 93.

16 Transcript of Evidence, pg FCA 362.

17 Johnson D, et. al, *op. cit.*

withdrawal or reduction of some concessions. The effect of the decrease in concessions, according to ACOSS, is that full-rate pensioners, who are in the greatest need of concessions, are effectively subsidising the 1993 extension of concessions to part-pensioners. ACOSS's submission said:

*Organisations may continue to provide the same overall level of concession, but its value to individuals is being reduced. Further extension could further exacerbate this trend.*¹⁸

4.28 Local councils counter these arguments by saying they are expected to provide concessions to more people without any increased funding. The AP&SF told the Committee that councils have raised these concerns with them:

*...some of the concession providers, and certainly some councils, say to us that some of their workers resent giving the council rate concessions to pensioners who may be people with a small pension when many of their employees who may be paying off mortgages are in more difficult financial circumstances.*¹⁹

4.29 The Committee recognises the difficulties local councils may face when expected to provide concessions to an increasing number of people. However, as pointed out by ACOSS, full-rate pensioners, who are in most need of concessions, are facing greater hardship as a result of a decrease in concessions. The 1993 Premiers' Conference agreement included partial Commonwealth funding for the extension of the Pensioner Concession Card, as outlined in Chapter 3. It appears that this funding has not prevented the erosion of some concessions.

Re-arranging assets to qualify for a card

4.30 Submissions and evidence presented to the Inquiry showed an emerging trend among some retirees to dissipate their assets in order to qualify for a part pension and therefore receipt of a Pensioner Concession Card. DSS acknowledged anecdotal evidence suggesting that this practice occurs, but said it cannot be substantiated. A DSS official stated that if retirees were attempting to qualify for a small part pension merely to qualify for a card, DSS would expect a bunching of pensioners receiving a very small amount - \$0 to \$10 per

18 Submission no. 24, pg 104.

19 Transcript of Evidence, pg FCA 121.

week. However, there is no evidence of a large number of people only receiving a small amount of pension.²⁰

4.31 DSS also stated that on introduction of the Commonwealth Seniors Health Card (CSHC), they had expected a reduction in the number of people receiving a small amount of part pension. This was because a pension was no longer needed to qualify for concessional pharmaceuticals under the PBS, so long as people met the CSHC income test (they could still own substantial assets). However, DSS's expectations were not realised and to date, the take-up rate of the CSHC has been slow.

4.32 Several interest groups affirmed their belief that retirees deliberately qualify for a part pension by dissipating their assets.

4.33 AP&SF said they receive a large amount of inquiries from older people asking how to reduce their income in order to obtain a Pensioner Concession Card (PCC). AP&SF has found that many older non-pensioners are attempting to gain access to a PCC on the misguided belief that it will save them substantial amounts of money, or allow access to health care to which they are not otherwise entitled. AP&SF told the Committee:

A lot of people do not know what they are entitled to and this in fact leads to a lot of confusion. There is a lot of confusion between the health card and Medicare, so that a lot of people on retirement believe that they need to divest themselves of assets to get this health card which will not do anything more than the Medicare card will do.²¹

4.34 The Association of Independent Retirees suggested that the DSS's own Financial Information Service may be encouraging dissipation of assets to qualify for a card. The Association's representative told the Committee:

It usually comes from...the Department of Social Security. People go in to see what they can get because they are short on income, and they find their assets preclude them from receiving anything. They are given the advice 'if you did not have those assets, you would be eligible'. So they immediately see what they can do about

20 Transcript of Evidence, pg FCA 497.

21 Transcript of Evidence, pg FCA 119.

*depleting their assets to be below the cut off point to get those concessions.*²²

4.35 The DSS Financial Information Service, available to all Australians, provides advice regarding how to best manage income and assets and advises people whether they are eligible for Commonwealth income support payments and concession cards. The funding allocation for the Financial Information Service was reduced by 25% in the 1997/98 Federal Budget. However, a DSS official assured the Committee that with the merging of DSS and DEETYA service delivery functions to the new Centrelink agency, there would be no loss in customer service for people seeking to use the services of the Financial Information Service.

4.36 The Committee expresses its concern that, according to the Association of Independent Retirees, the DSS Financial Information Service sometimes encourages retirees to dissipate their assets.

4.37 Evidence presented to the Committee by DSS and pensioner representative groups, also suggested that some commercial financial advisers overstate the value of concession cards to potential customers, in order to encourage them to invest or rearrange their assets. The Committee expresses its concern at this phenomenon and calls on the Financial Planning Association of Australia and other peak financial groups, to seek accurate advice from DSS regarding the value of concession cards and to encourage their members to give sound advice to retirees.

22 Transcript of Evidence, pg FCA 404.