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Trends in the incomes and living standards of older people in Australia

Peter Whiteford

Draft Report for the Department of Families, Housing, Community Services and Indigenous Affairs

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University of New South Wales
November 2008

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Trends in the incomes and living standards of older people in Australia

1 Executive Summary

Introduction

- In common with other wealthy societies, Australia has a complex system of social protection for retirement and old age. This system includes government income support mainly provided through the Age Pension and Service Pension, mandatory superannuation contributions and tax concessions for superannuation, the public health system, community services such as homes and hostels for the aged and public housing, plus other social institutions including private home ownership.
- The most important objectives of government assistance are to alleviate poverty and to assist individuals to maintain adequate living standards. Other important objectives include encouraging self-provision and avoiding undesirable incentive effects.
- The Australian public pension system differs from those in most similar societies by giving greater priority to the objective of poverty alleviation, achieved through a general revenue financed system that provides flat-rate and means-tested benefits. The distinctive nature of the Australian system makes concerns about adequacy of payments particularly salient.
- In assessing the implications of population ageing for income support and related policies, it is important to have a soundly based analysis of the effectiveness of existing policies in achieving distributional objectives. To assist in such analysis, this paper provides a detailed description of trends in the incomes and living standards of older people in Australia, using a wide range of indicators and alternative approaches to measuring living standards.

Assessing income distribution and pension adequacy—conceptual and measurement issues

- This paper argues that it is necessary to have a comprehensive framework for measuring material living standards. This framework should include all components of cash income, and should also take account of government services and subsidies and indirect taxes. It is also important to take account of household wealth.
- In addition, in analysing levels of living standards and trends in wellbeing, it is useful to use a number of measures and indicators. A multi-indicator approach may capture a broader range of circumstances, and it is important to be aware of the sensitivity of measured outcomes to the choice of measures of wellbeing.

The Age Pension—assessing adequacy

- Close to 75 per cent of the eligible population received an Age Pension in June 2008. Around 55 per cent of age pensioners have incomes below the pension free area, and around 45 per cent have incomes above the free area. Male age pensioners are more likely to have additional income than female pensioners.

Around 4 per cent of age pensioners have no additional income, and so are completely 'dependent' on the pension.

- Since the mid-1960s, the real value of the basic pension has increased by more than 80 per cent for single people and 60 per cent for couples. Over the same period, the standard pension has increased from 22 to 25.7 per cent of male total average earnings. The pension has fluctuated widely as a percentage of GDP per capita and as a percentage of Household Disposable Income per capita, although in both cases the long-term trend appears to be a reduction. The standard rate of pension has also fluctuated as a percentage of the 'Henderson Poverty Line' for a single older person, but is currently at its lowest level relative to this indicator. Variations in the rate of pension relative to these indicators reflect the differential movements in their real values, the effects of economic cycles, and the differing composition of income measures used.
- While the concept of replacement rates is not entirely relevant to a flat-rate, means-tested payment such as the Age Pension, it can be calculated that the current pension rate of 25.7 per cent of male average earnings provides higher replacement rates after tax is netted out, higher rates for women and for low-paid workers, and higher replacement ratios when housing costs and employee superannuation contributions are taken into account.

Private incomes and assets of age pensioners

- The proportion of age pensioners with incomes above the free areas has increased from around 10 to 15 per cent in the 1960s to one-third in the late 1990s and 45% in 2008. There have been wide fluctuations in the intervening period, reflecting changes in income testing policy. The most common form of income is from savings and investments in banks, building societies or credit unions (90 per cent), and around 10 per cent of age pensioners have incomes from superannuation.
- Two-thirds of age pensioners own their own home. Ninety-seven per cent of pensioners have additional assets (including personal effects). In 2008, the mean value of these assets was just over $50,000. Just over 40 per cent of pensioners have assets (not including the home) of $50,000 or more, but about 15 per cent have no assets or assets of less than $5,000, including personal effects. Women have lower asset levels than males, particularly divorced, separated or single female pensioners.

Trends in the cash incomes of older people

- This paper reviews trends in the cash incomes of the older population since the early 1980s using Australian Bureau of Statistics' (ABS) Income Surveys. The average total incomes of older people have increased at a faster rate than for the population generally (13 per cent compared to 2 per cent). As a result, the average income of older people has risen from 50 to 55 per cent of the average for the entire population. The main factor associated with this appears to be an increase in the 'other private income' of couples, mainly from superannuation, property and investments. This has resulted in a decline in the proportion of older couples who receive between 50 and 90 per cent of their income from

government benefits, but little change in the proportion who rely more substantially on government benefits. The income composition of single older people appears to have changed only to a limited extent.

- Home ownership rates have increased for both older singles and couples, although ownership rates remain considerably higher for couples.
- Older people are very highly concentrated in the lowest 40 per cent of the income distribution, but somewhat less concentrated when account is taken of their lower family size. The degree of their concentration in the poorest income quintile is highly dependent on the equivalence scale used to adjust for family size.
- The reason for this sensitivity is that the older population is extremely concentrated around the level of the pension or slightly above. The degree of this concentration appeared to reduce significantly between 1986 and 1990—probably reflecting the effects of high interest rates around 1990. Concentration increased again between 1990 and 1996, but not back to the 1986 level.
- Comparative analysis suggests that the cash income distribution for older people in Australia is more concentrated (in this sense) than in many European countries and in North America.
- This paper presents a further range of data where incomes are 'equivalised'—adjusted for the number of people in the income unit. The main conclusion drawn from this analysis is of apparent relative stability in the income circumstances of older people over the period 1986 to 1995-96, although trends between 1986 and 1990 were partly reversed in the 1990s. The analysis of equivalent incomes shows, for example, that the relative incomes of older people compared to the rest of the population have not changed greatly, and that around half of the older population remain in the bottom 30 per cent of the overall income distribution in each of the three years analysed. Inequality among pensioners appears to have fallen slightly, but this may reflect changes in the composition of the pensioner population rather than changes in incomes within pensioner groups.

Trends in household expenditure levels

- This paper uses Household Expenditure Survey data to analyse trends in expenditure levels of older households between 1984 and 2003-04. Trends in household incomes and expenditures over this period are significantly affected by changes in household size, which have fallen, but more substantially for younger households than for older households.
- Over this period, the per capita real incomes of older households fell by 6.6 per cent, but real expenditure per capita rose by 15.6 per cent. This compares with a real increase of 0.4 per cent in the real incomes per capita of all households and an increase of around 10 per cent in real per capita expenditures. This underlines the propensity of older people to 'dis-save' over time.
- As a result, the average incomes per capita of older households appear to have fallen from 83 to 76 per cent of the per capita household income of the population as a whole. On the other hand, the expenditure trend has been

stable, with per capita expenditures of older households remaining at just under 90 per cent of the population generally.

The impact of non-cash benefits and indirect taxes

- Government non-cash benefits in the form of services and subsidies also have a substantial impact on the living standards of the population generally, and particularly on older people. The ABS has estimated that in 2003-04 the value of government services and subsidies for households with a reference person aged 75 years and over was $281 per week compared to cash benefits of $257 per week. Indirect taxes paid by older households are estimated to be roughly two and half times their income tax liabilities.
- Health benefits and other welfare services are most significant for the older population and education benefits are most important for the younger population.
- Taking account of these services, subsidies and indirect taxes has a significant impact on the measured living standards of older households. For example, in 2003-04 the private income of older households was only 35 per cent of that of all households. Government cash benefits increased this ratio to 52 per cent, and the higher income taxes paid by younger households increased this further to 59 per cent. After taking account of services, subsidies and indirect taxes the ratio rose to 65 per cent. Put another way, the cash disposable incomes of older households are about 73 per cent of their final incomes.
- Between 1984 and 1993-94, indirect benefits and taxes became slightly more 'pro-aged'. This appears to reflect an increase in the relative contribution of public health benefits for older couples and older single person households, and an increase in the relative contribution of other welfare services for older couples.
- In contrast, between 1993-94 and 2003-04the system has appeared to become less pro-aged, mainly due to increases in spending on families with children, both because of higher cash benefits and increased spending on education, and also because of the rising level of indirect taxes, which was relatively higher for older persons.

Trends in relative low incomes

- In assessing trends in the wellbeing of the Australian population, a common form of analysis is to estimate how many people have incomes below some measure of poverty or of relative low income. This paper includes a number of estimates of the level of relative low income among the older population and trends over time.
- The different measures produce different results. For example, for single older people, the proportion with relative low incomes ranges from 32 per cent using the Henderson Poverty Line to 14 per cent below half median annual income and 5 per cent below half median weekly income. Including the effect of non-cash benefits and indirect taxes reduces the low-income rate to around 2 per cent for older single people.

- Part of the variability of these results reflects technical choices made in measurement, the interaction between these choices and the very high degree of concentration in the incomes of older people that were discussed earlier. Because so many older Australians have incomes in a relatively narrow income range of between 40 and 60 per cent of average income, small differences in the level of the low-income line used can have a large impact on rates of low income.
- The Henderson Poverty Line shows the largest increase in poverty over the period 1981-82 to 1995-96. A major contributor to this is that the Henderson line has been rising faster than average incomes in the income surveys, because it includes imputed income from owner- occupied housing and the earnings of superannuation funds—neither of which are taken into account in income surveys. There are also doubts about the comparability of the annual income data in the ABS Income Surveys from 1994-95 onwards.
- Studies using the Henderson line give a mixed picture of trends in the circumstances of older income units. King (1998) estimates that between 1972-73 and March 1996 the Henderson poverty rate (before housing costs) among single older people rose marginally (but was more than 30 per cent in both periods) and among older couples it fell slightly (from 5 to 3.8 per cent). After housing costs, poverty rates were substantially lower for singles but not for couples, and they fell over this period. In contrast, Saunders (1994) estimated that between 1981-82 and 1989-90 'Henderson poverty' increased from 10 per cent to 28 per cent, while among older couples it increased from 4.3 to 6.7 per cent.

Housing wealth

- A significant factor contributing to the living standards of older people is their ownership of homes. Home ownership is widespread among the older population, and the level of home ownership is more equally distributed by income level than most other forms of private income.
- The value of dwellings owned by people aged 65 years and over is lower than among most of the younger population, but the level of loans outstanding is much lower than for most groups of younger people. As a result, older people have higher average equity than people under the age of 45 years.

Conclusions

- The picture that emerges from this analysis is mixed. The average incomes of older people have increased at a faster rate than the population generally. As a result, their average incomes have risen as a proportion of the average for the community as a whole. The average expenditures per person among older people have also increased. Taking account of government non-cash benefits would further improve the relative position of older people.
- At the same time, administrative data suggest that there are sizeable proportions of the age pensioner population who have little or no income apart from their pension, and little or limited assets. However, the extent to which

this is the case appears to have decreased over time. Older people are also over-represented in the lower income quintiles of the population.

- One of the most striking features of the incomes of the older population is the degree of concentration of incomes around pension levels. This complicates interpretation of trends in incomes and the relative position of this age group, including their vulnerability to low incomes.
- In considering future trends in the circumstances of older people, it is necessary to take account of factors impacting on the distribution of incomes of those in the pre-pension age groups. The wellbeing of the older population in future is likely to be enhanced by a wide range of factors, including increasing superannuation coverage, increasing labour force participation among women, higher real wages, and higher average levels of housing wealth. At the same time, there are trends that may tend to offset these, including the long-term decline (until the early 1990s) in the workforce participation of men aged 50 to 64 years, and higher wage inequality among those of working age. In addition, family trends, including the growth in the incidence of sole parent families, may also have adverse effects. Separated, divorced and single older women appear to have lower incomes and assets in retirement than men or couples. The compression of life course events related to women being older at the birth of their first child and increased educational participation among young people may also impact on people's capacity for self-provision in retirement.
- In terms of future monitoring of these and related trends, it is desirable to have improved information about the dynamic processes that are associated with these developments. This would be best achieved through an ongoing longitudinal survey. To capture the diversity of outcomes among the older population, it is also necessary to use a broad range of indicators to monitor trends.

1. Introduction

All developed societies have a range of policies to provide for income protection in retirement and old age. The Australian retirement income system includes income support provided through the Age Pension and the Service Pension, plus the mandatory superannuation system and tax concessions for superannuation. The public health and health insurance systems; concessions to defray certain costs (such as for health, public transport or utilities); community services and other services (such as public housing and institutional and community care); and other social arrangements (such as private home ownership) are also important components of social protection for older people[1]. The retired may also benefit from private transfers in cash or in kind from their families.

Government activity to promote social protection for older people has a range of objectives, including the alleviation of poverty or the maintenance of pre-retirement living standards (Donald 1984; Foster 1988); the encouragement of self-provision; the avoidance of undesirable incentive effects; or the minimisation of government expenditures. Typically, systems have multiple objectives, with the result that objectives may conflict.

The Australian social security system differs from those in most other countries. One of the most striking features of the Australian system is the extent to which it distinguishes the poverty reduction objective from the income replacement objective of retirement provision, with the public system concentrating on poverty alleviation and the second and third pillars concentrating on income replacement. Consequently, the level of public pension spending is low by the standards of the OECD countries with which Australia is usually compared, reflecting the provision of flat-rate and means-tested benefits. At the same time, coverage of the system is comprehensive. The system is also highly redistributive to groups often poorly served by social insurance systems, such as women, those with long-term disabilities, low wage earners and others with marginal or incomplete attachment to the labour force.

The design features of the Australian system give rise to a number of questions about the effectiveness and efficiency of current arrangements. As noted by Creedy and Disney (1989, p. 357), such a system has a number of built-in tensions, including between the adequacy of benefit levels at the very low end of the income distribution and the high marginal tax rates implied by means-testing. The tension between concerns for adequacy, efficiency and incentives is likely to remain important as the Australian population continues to age over the next half century or more. The Age Pension is the largest income support program currently provided by the Commonwealth Government. Between 1965 and 1998, spending on age and related pensions increased from $2,900 million to $13,100 million (in $1996-97), or from 1.65 to 2.45 per cent of GDP. Concerns about the adequacy of the Age Pension have

[1] For the purposes of this report, older people are persons of Age Pension age or over—currently 63.5 years for women and 65 for men, although the pension age for women is rising gradually to 65 years by 2014. However, much of the published data refer to persons aged 65 years and over, or persons in households where the reference person is aged 65 years and over.

been significant contributors to this increased spending. On average, real expenditure grew by around 5 per cent per annum between 1965 and 1995, with increases in real rates of payments estimated to result in an average increase of 1.9 per cent per year in Age Pension spending over this period (Whiteford and Morrow, 1998).

Despite the insights arising from the more intense policy investigations of the past decade or so, there remains some ambiguity about the living standards of older people. For example, the 1988 OECD report on Reforming Public Pensions noted that 'old age has always been associated with a fall in economic status, deprivation, destitution and poverty' (1988, p. 44). But the report also points out that 'the income level of the retired population has improved significantly in many OECD countries. In some countries this improvement has brought the disposable per capita income of retirees above the equivalent income of working families with children' (p. 7). Similarly, the World Bank in *Averting the Old Age Crisis* (1994) claims that it is now a 'myth' that old people are particularly vulnerable to poverty (p. 11). Nevertheless, the OECD report emphasised that 'despite the recent decrease in poverty among the elderly, the incidence remains surprisingly high in most OECD countries' (1988, p. 48).

The OECD's 1996 report on ageing in OECD countries summarised policy findings with the caveat that 'Because there are so many differences among older people, any statement that treats older people as a single group should be treated with caution. Nevertheless, it is generally true that, in many member countries, their economic status has improved over the past two decades relative to workers' (p. 13). Between nations, the variation in outcomes for older people is amply demonstrated in the OECD's 1998 outline of policy challenges in Maintaining Prosperity in an Ageing Society. For Australia and three other of the 12 nations for which estimates were cited, the relative disposable income of individuals in older households fell over the period 1975 to 1994, while their overall share of income rose, contrary to the overall trend of rises in both relative income and income shares for the other countries (p. 57).

International experience and local considerations indicate considerable policy significance in assessing how well off or poorly off the older population is. In 'Demographic Change in Australia-Conference Background Paper' for example, the authors note that among the issues to be considered with the public expenditure implications of ageing are 'the need to scale back pension payments and coverage', the 'inter-generational equity implications of various pension/superannuation scenarios', and the 'implications of the rising incidence of one-parent families within an ageing population for future income support requirements' (PC&MIAESR 1999, pp. 493, 495). In considering these or related issues, it is crucial to have a clear understanding of the effectiveness of current arrangements in securing the living standards of older people. It is also important to understand the distribution of income within the older population, particularly the importance of choosing measures of income and the technical decisions these entail.

The objective of this paper is to provide information for assessing the current distributional impact of Australian public pension arrangements. The main basis for this assessment is an analysis of trends over time in the incomes of persons of age

pension age. The paper presents a wide range of alternative indicators of living standards, showing that different indicators can reveal quite different pictures of the position of older people.

The paper is structured as follows. Section 2 discusses conceptual and measurement issues involved in assessing the adequacy of pensions and their impact on the incomes and living standards of the older population. The paper argues that to assess changes over time (and differences in outcomes between countries) it is necessary to have a comprehensive framework for measuring living standards. Without such a framework, comparisons are likely to be misleading, leading to incorrect conclusions about the effectiveness of public policies.

Part 3 provides a range of measures of the adequacy of the basic pension for those completely reliant on social security income. Part 4 provides data on the private income and assets of age pensioners. Part 5 then presents results of an analysis of trends in the disposable incomes of the older population using ABS data from the Income and Housing Surveys. This part includes an analysis of trends in the proportion of the older population with cash disposable incomes below a number of alternative measures of relative low income, including the 'Henderson Poverty Line' and 50 per cent of median and mean incomes for the population as a whole. This part also explores the sensitivity of outcomes to these different approaches to the measurement of living standards. Part 6 presents a range of alternative measures of living standards drawn from Household Expenditure Surveys, including data on trends in the relative expenditures of older people. Part 7 discusses the impact of government non-cash benefits and indirect taxes on the relative living standards of the older population. Part 8 looks at estimates of relative low income among the older population and Part 9 briefly summarises information on the housing wealth of older people. The paper concludes with a summary of the main findings and a discussion of the information required to monitor the distributional impact of public pensions in the future.

2 Assessing income distribution and pension adequacy-conceptual and measurement issues

2.1 Measuring living standards

How have the living standards of older people[1] in Australia developed over time, and how do they compare with those of older people in similar societies? In attempting to answer these questions, a number of measurement and technical issues must be addressed. These include what is the measure of resources-income, expenditure or consumption-and how is wealth to be taken into account? What is the unit that is assumed to share resources-household, family, benefit unit, or person? How should we treat units of different types or composition- by using equivalence scales? What is the period of assessment-current, annual or lifetime? What is the low-income standard, and how is it defined?

A different choice in relation to any one of these issues will alter results, perhaps to a significant degree. Indeed, a major objective of this paper is to show that very different conclusions flow from these different methodological choices, in particular the measure of resources used. The choices between different approaches will depend upon research objectives, what is practicable, and researchers' judgements about what is technically more correct. For example, as noted by Atkinson (1989), living standards can be measured either by income or expenditure, and a particular indicator may understate or overstate living standards in different cases. It can also be argued that, for some purposes, resources should be assessed over a very long period, perhaps the lifetime (Creedy 1992, 1994; Piggott 1987). But the requisite data for such an analysis are uncommon, although there have been recent studies simulating lifetime income (Harding 1992).

The comparative literature has usually taken 50 per cent of median income as the measure of relative low income. Such a choice is arbitrary. Again, the precise choice of equivalence scales can have a strong effect on estimates of the extent of relative low income, but there is no universally accepted set of equivalence scales. In these circumstances, it is appropriate to highlight the sensitivity of the results to differing choices of equivalence scales, but it should not be thought that there is one correct answer. In analysing living standards, it is also necessary to use specific measures to compare standards of living. Quinn (1987) notes that measures to assess the adequacy of incomes available to older people include absolute measures, such as how do resources compare with what is needed to achieve a satisfactory life. Relative measures include how the resources of older people as a group compare with the rest of the population, or how individual resources after retirement compare with those available to the same person or family before retirement. In summary, Atkinson (1990) has suggested that it is most useful to present a range of estimates, based on different approaches. That is the approach adopted here.

2.2 Assessing trends in income distribution

Figure 1 compares two ways of analysing data on the distribution of income. One is employed in most standard income distribution studies. The other is used by the ABS in its series *The Effects of Government Benefits and Taxes on Household Income* (ABS catalogue number. 6537.0).[2] In the standard approach, income from wages and salaries, self-employment and property add up to 'factor incomes'. Factor incomes plus superannuation or occupational pensions give 'market incomes'. Public transfers, private transfers, and any other cash income, when added to market income, produce 'gross income'. Gross income minus personal income tax and employees' social security contributions (in other countries) gives 'net cash income'. The degree of redistribution effected either by public transfers or by income tax (and social security contributions) can be assessed in several ways. These include calculating the relative change in income levels for different individuals or by calculating income shares at different stages in the 'process' described above.

Like the standard methodology, the framework of the ABS studies of government benefits and taxes is well known and widely accepted. The ABS also sets out its methodology in the way shown in Figure 1. The concept of final income is a more comprehensive measure of living standards, which includes all impacts covered by the standard disposable or 'net cash income' measure, plus the effects of indirect taxes and other government social spending on subsidies or services to households.

One obvious point to be made from these comparisons is that a household's resources can be measured in a range of ways, with neither of the two measures shown here being fully comprehensive. The major gap in both frameworks is the failure to take account of household wealth. This may have significant implications for the relative wellbeing of the older population, in part because of the life cycle pattern associated with wealth accumulation. The potential importance of taking account of wealth in the framework for assessing the relative wellbeing of the older population is illustrated by the alternative definitions of pension replacement rates, shown in Figure 2. International comparative studies of retirement income systems commonly use pension replacement rates as the basis for ranking the relative generosity of different pension systems. Replacement rates are usually calculated by comparing the levels of statutory entitlements to some measure of incomes in work, thus showing what percentage of earnings is 'replaced' by benefits.

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[2] This approach is in turn derived from the United Kingdom Central Statistical Office (CSO) Fiscal Incidence Studies (CSO, 1990).

Figure 1: Comparison of different income concepts

Income distribution surveys	Fiscal incidence studies
Wages and salaries and self-employment income	Wages and salaries and self-employment income
+	+
Investment and property income	Superannuation and annuities
=	+
1. Factor income	Investment and property income
+	+
Occupational pensions and annuities	Other income (for example, alimony)
=	=
2. Market income	1. Private income
+	+
Government cash benefits	Government cash benefits
+	=
Private transfers	2. Gross income
+	-
Other cash income	Income tax
=	=
3. Gross income	3. Disposable income
-	+
Income tax (and employees social security)	Benefits in kind (health, education, and so on)
=	=
4. Net cash income	4. Disposable income plus indirect benefits
	-
	Indirect taxes
	=
	5. Final income

Sources: Adapted from the Australian Bureau of Statistics The Effects of Government Benefits and Taxes on Household Income (ABS, 1996) and the UK Central Statistical Office *Economic Trends* (UKCSO, 1991)

Figure 2 shows how conventional replacement rate measures could be augmented to provide more appropriate indicators of pension adequacy. Conventional replacement rates are usually calculated by reference to only the top panels in the figure. A more comprehensive approach would take account of the complete range of income sources and costs before and after retirement. Attempting to implement this broader approach to the measurement of living standards is complex. There is no single study that incorporates all of these components of material living standards. Therefore, the discussion that follows looks first at the simplest measures of social security adequacy. This is followed by an analysis of cash disposable incomes, and then the analysis incorporates indirect benefits and taxes. Some of the available information on the relative asset holdings of older people is then discussed.

Figure 2: The definition of the net replacement rate in retirement

Numerator: post-retirement consumption	Denominator: pre-retirement consumption
Positive items:	*Positive items:*
Cash benefits	Labour earnings
Negative items:	*Negative items:*
Direct taxes	Direct taxes Social insurance contributions
Possible refinements to the definition of the net replacement rate	
Additional positive items:	*Additional positive items:*
Occupational and private pensions	Investment income - Interest income - Imputed rent on owner-occupied housing
Investment income - Interest income - Interest portion of annuity income - Imputed rent on owner-occupied housing	Government non-cash benefits - Health - Housing - Education - Transport
Government non-cash benefits - Health - Housing - Education - Transport	*Additional minus items:*
	Indirect taxes
Dis-saving - Drawing down savings - Capital portion of annuity income - Sale of house or reverse annuity mortgage	Work-related expenses
	Saving - Bank deposits - House downpayment, capital portion of mortgage payments
Additional minus items:	
Indirect taxes	Private and occupational pension contributions

Source: Adapted from Wolfson (1987)

3 The Age Pension-assessing adequacy

3.1 The current system

Table 1 provides details of the Australian Age Pension system at September 2008. In addition to the basic rates of payment set out in Table 1, pensioners qualify for a pension concession card and may qualify for additional assistance, depending on their circumstances. This includes Rent Assistance, Pharmaceutical Allowance, Telephone Allowance, Remote Area Allowance and pension concession cards. Pension concession cards entitle the cardholder to Commonwealth health concessions, such as low-cost pharmaceuticals. State-based concessions may include reductions in property and water rates; reductions in energy bills; reduced fares on public transport; reductions on motor vehicle registration; and other health, household, educational and recreational concessions. These concessions are provided and funded by State and local governments (the former with Commonwealth assistance) and some private organisations, and the type of concession may vary between States.

The Age Pension rate is indexed in September and March, in line with movements in the Consumer Price Index (CPI). The Government has also legislated to maintain the single rate of pension at the indexation rates at a minimum of 25 per cent of Male

Total Average Weekly Earnings (MTAWE) with flow-ons to the married rate of pension. While CPI indexation is intended to protect the real purchasing power of the pension, maintaining the pension at 25 per cent of MTAWE is intended to enable pensioners to share in community living standards. Rent Assistance and the Utilities Allowance are adjusted at the same time as the base rate of pension, while the Pharmaceutical Allowance is adjusted if necessary in January, and the Remote Area Allowance is adjusted by changes in legislation.

Table 1: The Australian Age Pension system, 2008

Feature	**Value at September 2008**	
Standard (single) pension rate	$562.10 per fortnight	
Married pension rate (each)	$469.50 per fortnight	
Supplementary rental assistance	Up to $110.20 per fortnight single, $103.80 per fortnight couple	
Pharmaceutical Allowance	Non-taxable payment of $5.80 a fortnight for single and $2.90 a fortnight for each eligible member of a couple ($5.80 combined	
Telephone allowance	The basic rate, effective from 20 September 2008, is $23 paid every three months to qualified income support recipients or Commonwealth Seniors Health Card holders. The higher rate, effective from 20 September 2008, is $34.60 paid every three months to qualified income support recipients or Commonwealth Seniors Health Card holders. Non taxable.	
Utilities Allowance	Utilities Allowance is a **non-taxable payment**. The annual rate is $257 per member of a couple and $514 for single people (or members of a couple separated by illness). It is paid in 4 instalments over a 12 month period to qualified income support payment recipients.	
Remote Area allowance	Remote Area Allowance is a non-taxable fortnightly payment of: • Single: $18.20 • Couple: $15.60 each • Plus $7.30 for each dependent	
Free areas (disregards)		
Single	$138.00 per fortnight	
Combined married	$240.00 per fortnight	
Cut-out points		
Single	$1,557.75 per fortnight	
Combined married	$2,602.00per fortnight	
Assets test	Allowable assets	No rate paid above
Single home owners	$171,750	$550,500
Single non-home owners	$296,250	$675,000
Married home owners	$243,500	$873,500
Married non-home	$368,000	$998,000

owners		

Source: Centrelink (2008) www.centrelink.gov.au

Table 2 shows the number and characteristics of age pensioners and spending on age pensions since 1965. At 30 June 2008, there were a total of 2.04 million age pensioners. The Age Pension is received by close to three-quarters of the population of pensionable age. Apart from Veteran's Affairs pensions, a small number of people receive other benefits, but the bulk of the remainder are excluded from payments by their private incomes or assets.

Over the past 43 years, the number of age pensioners has more than trebled, rising from 5.5 per cent to 9.6 per cent of the total population. Coverage of the pensionable population has fluctuated markedly, reflecting changes in policy towards income and assets testing. In recent years, fewer people reaching Age Pension age qualify for a DVA Service Pension as the cohort who served in the Second World War have now all retired. Consequently, a higher proportion of those reaching retirement age qualify for the Age Pension, a factor reflected in the increasing coverage (from 58 to 67 per cent) since the late 1980s, and over 70% since 2000.

Over the period, the characteristics of age pensioners have changed. Until the early 1970s, around 60 per cent were single and 40 per cent married. The proportion who are single fell to around 43 per cent by 2008. The percentage receiving a reduced rate (because their incomes are over the 'free area') has fluctuated, but there has been an increase in the proportion receiving a reduced rate from 10 to 15 per cent in the 1960s to one-third in the 1990s and has since increased to around 44 per cent in 2008. This reflects both an increase in the receipt of private income by pensioners and extensions of the cut-out point for payments, due to increases in payment rates and reductions in the pension withdrawal rate in the income test.

The proportion who are completely dependent on the Age Pension (nil income assessed) appears to have fallen significantly from around one in five in the mid-1970s to around one in ten in the 1990s and only 4% in 2004 (more recent figures are not available). Also over the same period, the proportion with some income under the free area has risen from one-fifth to more than half.

The 4 per cent of age pensioners who are completely dependent on the pension comprise about 3per cent of the population of Age Pension age. In addition, there are DVA service pensioners with nil private income, plus a very small number receiving other payments with no private income. There is also a further small group with extremely low private incomes (under $1 a week). For these groups, it is the level of the Age Pension itself that is the primary determinant of their incomes in retirement.

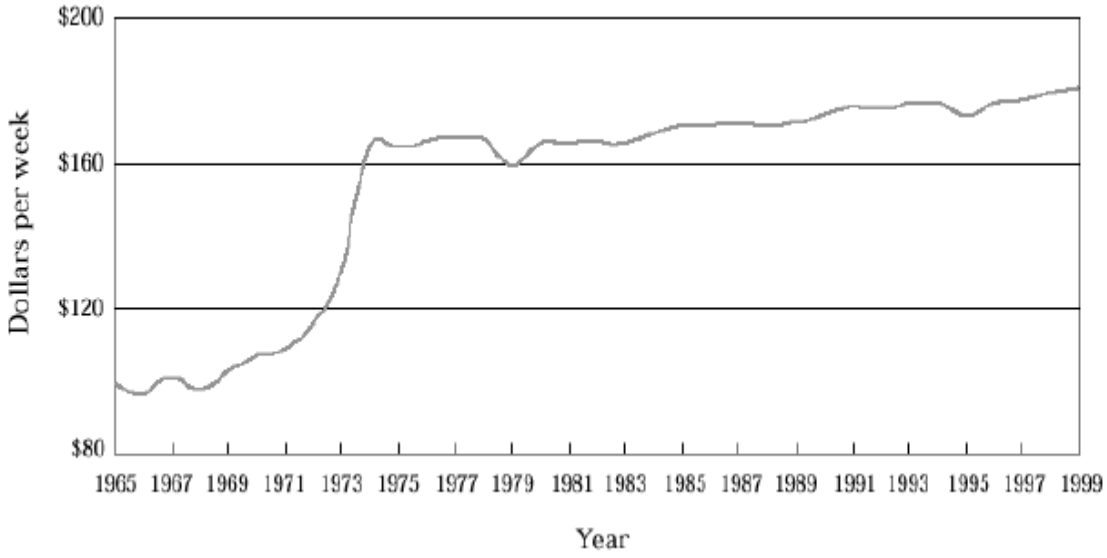
Table 2: Number and characteristics of age and service pensioners, Australia, 1965 to 2008

	1965	1970	1975	1980	1985	1990	1996	2000	2004	2008
Age Pensions	628.1	779	1,092.20	1,321.90	1,331.80	1,340.50	1,602.80	1,738,215	1,876,250	2,039,300
Wives	3.5	6.6	21.9	30.8	22.9	23.8	41.1	n.a.	n.a.	n.a.
Total Social Security (DSS) pensioners and beneficiaries	849.2	1,054.70	1,707.70	2,338.20	2,848.50	2,808.80	3,912.40	n.a.	n.a.	n.a.
DVA pensions	65.2	74.4	121.6	264.7	412.3	440.5	335	n.a.	n.a.	n.a.
Total of DSS and DVA cash benefits	914.4	1,129.10	1,829.30	2,602.90	3,260.80	3,249.30	4,247.40	n.a.	n.a.	n.a.
Characteristics of age pensioners (including wife/carers)										
% of total population	5.56	6.21	8.06	9.21	8.51	7.92	9.03	9.08%	9.32%	9.58%
Coverage (%) of pensionable population	53.2	60.3	72.6	76.8	66.5	58.2	64.7	73.1%	72.7%	73.8%
Single rate	61.1	61.1	57.4	55.2	56	57.2	46.9	n.a.	44.4	43.2
With Rent Assistance (%)	10.8	13.4	14.9	14.1	16.2	18.2	15.6	n.a.	10.3	10.9
Reduced rate (%)	13.4	20.6	10.4	33.5	28.7	29.5	34.6	n.a.	35.9	43.9
Nil income assessed (%)	n.a.	n.a.	19.4	9.5	14.9	11.2	15.1	n.a.	4.3	n.a.
Spending on Age Pensions 1996-97 $ million	2,918	3,765	7,205	9,339	10,005	9,844	12,551	n.a.	n.a.	24,577
% of GDP	1.65	1.65	2.60	2.91	2.70	2.22	2.41	n.a.	n.a.	2.18%

Sources: Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years

Figure 3 and Table 3 show trends in the real level of the Age Pension, in 1996-97 terms. Since 1965, the real value of the single rate of pension has increased by 79 per cent, while for couples there has been a 63 per cent real increase. For those receiving Rent Assistance, total real payments have doubled for single people and increased by 75 per cent for couples.

Figure 3: Single pension, constant 1999 dollars



Sources: Australian Bureau of Statistics *Consumer Price Index, Australia* (ABS, 1999a) and Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years

Table 3: Trends in the real value of social security payments for different family types, 1965 to 2008

$ per year ($ 2008)										
Year	**1965**	**1972**	**1976**	**1982**	**1983**	**1989**	**1996**	**1997**	**1998**	**1999**
Pension, no Rent Assistance										
Single, no children	5,156	6,014	8,629	8,637	8,600	8,873	9,178	9,193	9,311	9,396
Couple, no children	9,453	10,544	14,330	14,396	14,338	14,793	15,312	15,336	15,534	15,683
Pension, with Rent Assistance										
Single, no children	6,016	6,673	9,675	9,569	9,644	9,903	11,155	11,170	11,275	11,367
Couple, no children	10,313	11,203	15,376	15,328	15,382	15,823	19,041	19,068	19,242	19,396

Sources: Rates are estimated at September each year. Australian Bureau of Statistics *Consumer Price Index, Australia* (ABS,) and Australian Government, *Guide to Social Security Law*, http://www.fahcsia.gov.au/guides_acts/ssg/ssguide-5/ssguide-5.2/ssguide-5.2.2/ssguide-5.2.2.10.html

Most of the real increase in pension rates was achieved in the early and middle part of the 1970s. After 1976, price indexation has generally maintained the real value of the pension, with an upward trend reflecting an 'indexation lag effect', [3] plus a number of explicit policy decisions to increase the real value of the payment, including the formal linking of pensions and average weekly earnings from 1997.

Figures 4 to 7 compare the single rate of pension with a range of alternative indicators of community living standards. This includes GDP per capita and Household Disposable Income per capita (HDIPC); male total average weekly earnings; the process worker's wage (Metal Trades Award C13); and the Henderson Poverty Line for a single person of Age Pension age. These indicators give a more mixed picture of pension trends.

The pension reached its highest point relative to GDP per capita in 1974, and again exceeded 40 per cent of GDP per capita in 1975 and 1978. Over the past 10 years, the pension rate has fluctuated between 30 and 35 per cent of GDP per capita. The position in regard to HDIPC is broadly similar in showing substantial fluctuations, but in contrast to the inflation-adjusted series, they show a downward trend. As the Henderson Poverty Line is adjusted by HDIPC, the relative shifts are the same as for the base series. The single rate of pension was above the Henderson line in five years since 1965, but it is now at an historic low relative to this indicator.[4] As discussed below, this relationship is very significant in influencing trends in the proportion of the older population with incomes below this low income measure. In contrast, the single rate of pension has increased relative to MTAWE and in relationship to the process worker's wage (for unskilled workers not in labouring jobs).

By definition, the contrast between these trends and the trend in the value of the pension adjusted for inflation reflects variations in the real values of alternative indicators. For example, while the real value of the single pension increased by 79 per cent between 1965 and 1997, GDP per capita and HDIPC increased by even larger amounts. The real value of male total average earnings increased by some 60 per cent, and the real value of the process worker's wage increased by 37 per cent over the period.

One of the main reasons for the disparity between indicators is that the National Accounts include income components not taken into account in the wage indicators. In the case of HDIPC, the two most important components are the earnings of superannuation funds and imputed income from owner-occupied housing. Imputed rent is not relevant to the wage indicators, although it should be noted that a high proportion of age pensioners own their home outright, including among those completely dependent on the pension. In contrast, increasing superannuation coverage

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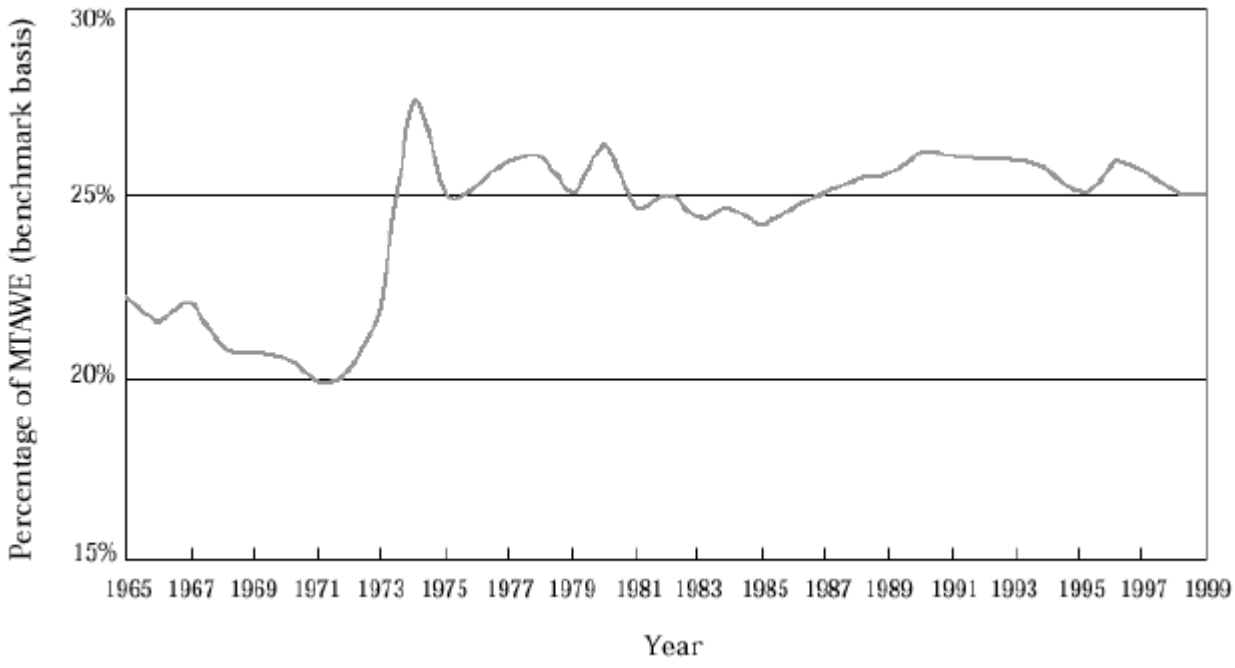
[3] During periods of falling inflation, the lag between the period used as the base for an indexation increase and inflation in the period of measurement means that the real value of the payment will rise to a small extent.

[4] No Australian government has ever endorsed the Henderson poverty line as a measure of adequacy. As discussed below there are significant conceptual problems with this measure.

among persons of workforce age would mean that the 'average earner' and the low-paid workers would have enjoyed greater real increases in their remuneration than is indicated by earnings alone. However, some comparisons are problematic, in that the apparent 'generosity' of the pension rises when HDIPC and GDP per capita fall during recessions, as occurred in 1991. The same effect is evident in the wage indicators, although not to the same extent.

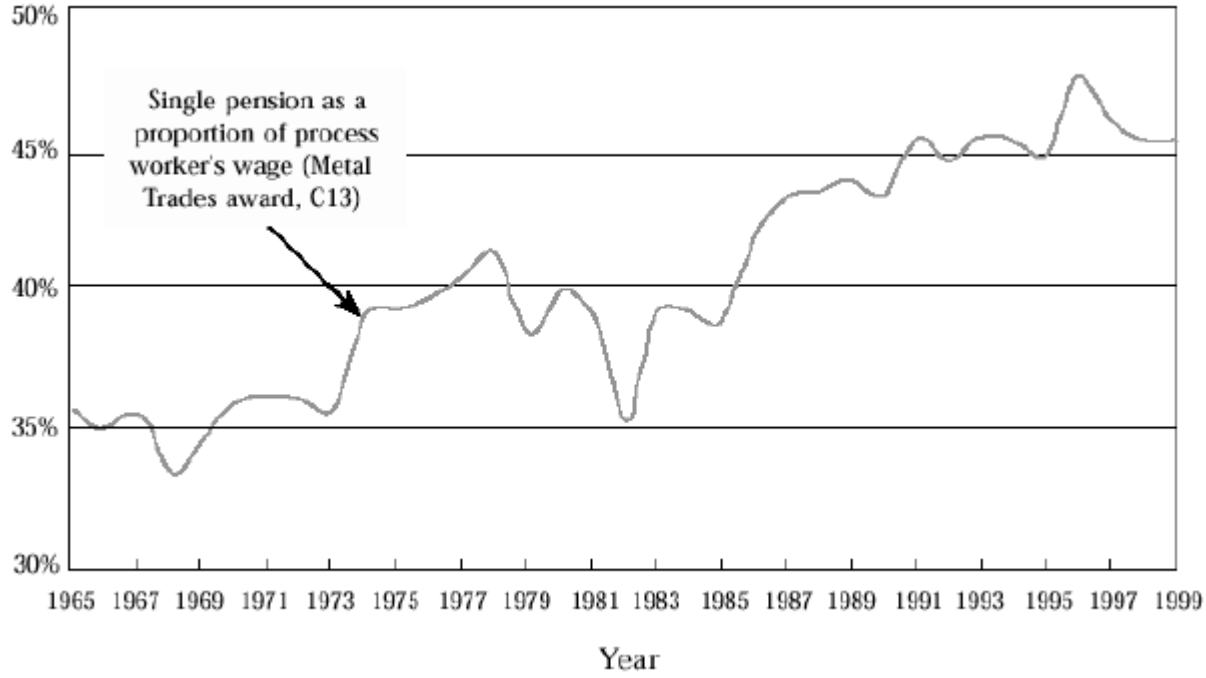
The difference between the relativities compared to average earnings and process worker's earnings highlights that the replacement rate offered by the pension will vary, depending on the earnings indicator chosen. Since the Australian Age Pension is flat-rate and directed to poverty alleviation not earnings replacement, it is not entirely appropriate to use replacement rates as a measure of adequacy (Johnson 1998; Whiteford 1995). Despite this, it is sometimes noted that the standard rate offering replacement of only 25 per cent of average earnings is far below the replacement rates apparently available in the earnings related social insurance systems of most other OECD countries. However, for a range of reasons, this is not a fully accurate picture of the generosity of the Australian system.

Figure 4: Single pension rate compared to Male Total Average Weekly Earnings (MTAWE benchmark basis) 1965 to 2008



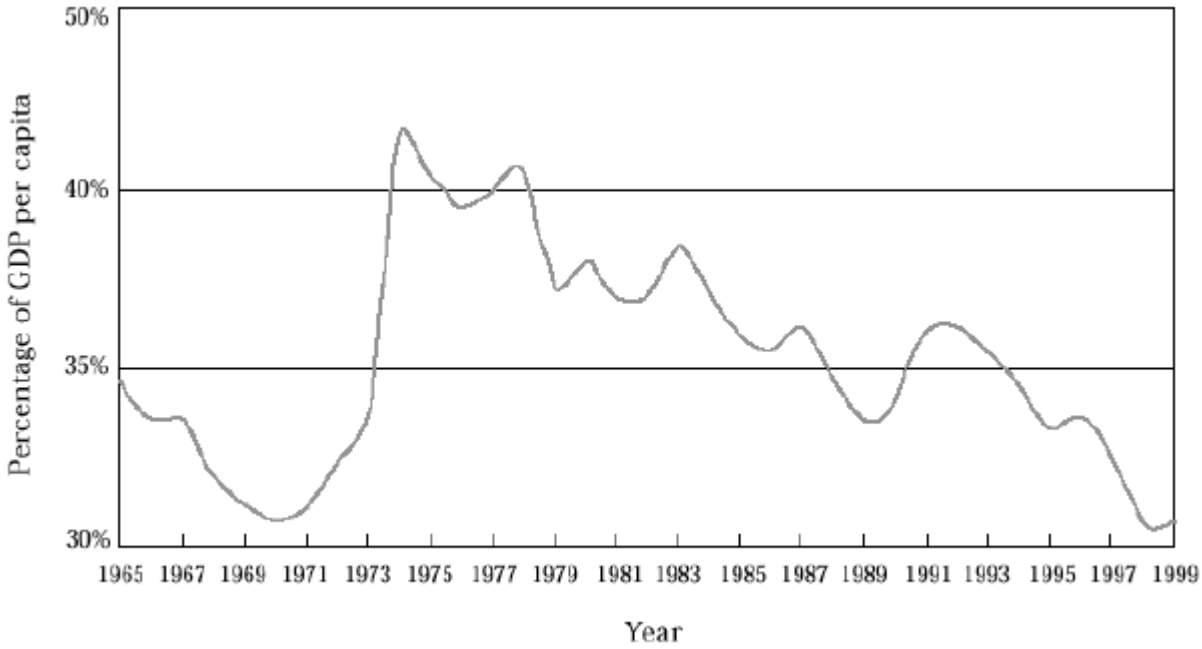
Sources: Australian Bureau of Statistics *Average Weekly Earnings, Australia* (ABS, 1999b) and Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years

Figure 5: Single pension rate compared to low wages 1965 to 2008



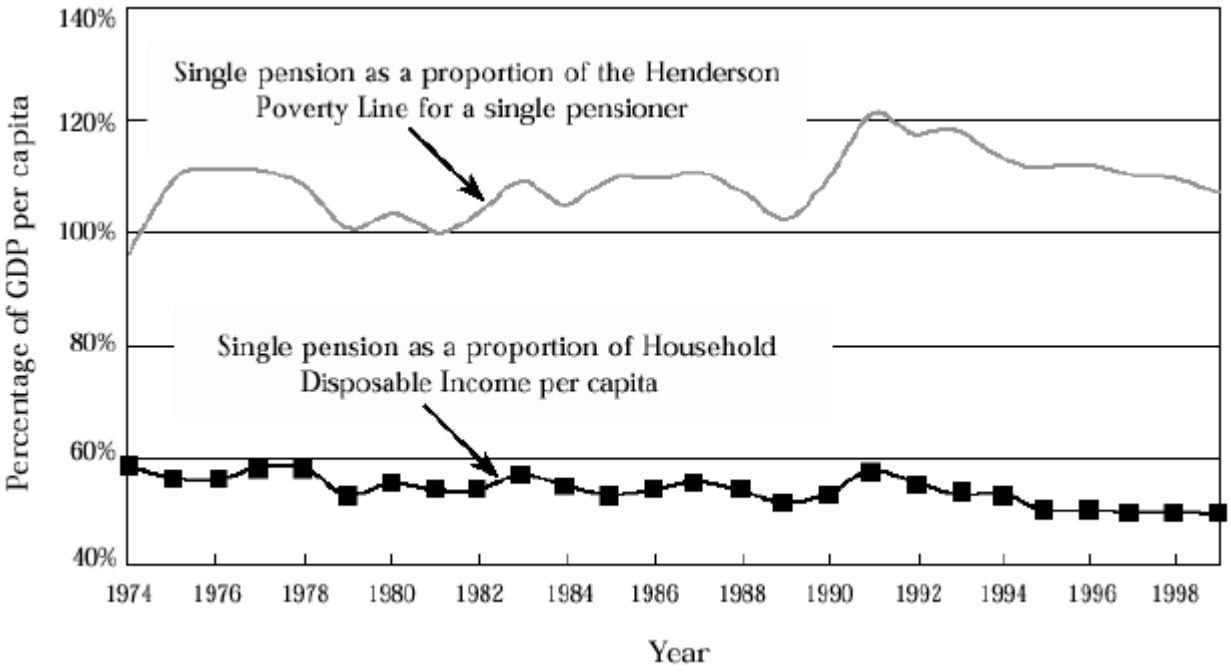
Sources: Metal Trades Industry Association and Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years

Figure 6: Single pension rate compared to GDP per capita 1965 to 2008



Sources: Australian Bureau of Statistics *Australian National Accounts* (ABS, 1999) and Department of Social Security, *Ten Yearly Statistical Summary, annual reports, and DSS Customers: A Statistical Overview*, various years

Figure 7: Relative pension rates 1974 to 2008



Sources: Melbourne Institute of Applied Economic and Social Research, *Poverty Lines: Australia, December Quarter 1999* (MIAESR, 1999) and Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years

As a starting point, it can be noted that the 25 per cent standard provides greater assistance to those receiving less than average male earnings, which is more than half of the employed male workforce, and a higher proportion of women. Table 4 provides calculations of the effective replacement rates of the Age Pension for a range of different circumstances, which are illustrated in Figure 8. For example, the standard replacement rate for a single person is 25.7 per cent of gross MTAWE. This is equivalent to 39.4 per cent of average gross female earnings. The combined pension for a couple is 42.9 per cent of gross MTAWE. Moreover, as noted above, someone completely reliant on an Age Pension would pay no income tax, while workers do. Thus, the 25 per cent gross replacement rate is equivalent to a replacement rate of 32.3 per cent of net earnings. Again, for a minimum wage worker, the single pension replacement rate is 58 per cent of net earnings (and higher for a single income couple on the minimum wage).

Table 4: Alternative definitions of pension replacement rates*

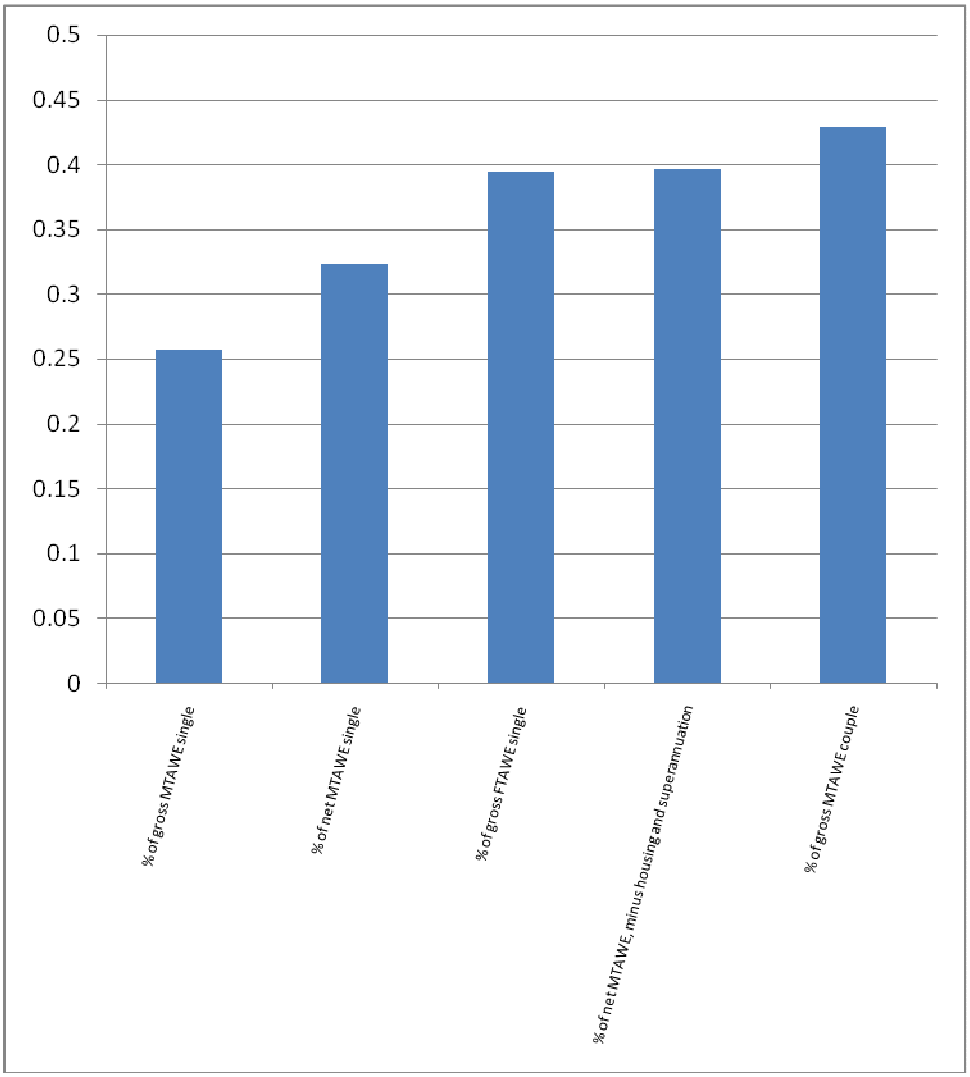
Alternative definitions	Replacement rate %
% of gross MTAWE (single)	25.7
% of gross MTAWE (couple)	42.9
% of gross FTAWE (single)	39.4
% of net MTAWE (single)	33

% of gross minimum wage (single)	
% of net minimum wage (single)	
% of net MTAWE, net of employee superannuation contributions, and housing costs**	39.7

Note: *Calculations are at September 2008. **Assumes that pensioner is an outright home-owner and pays 19 per cent of gross pension rate in housing-related expenses; assumes that worker is purchasing a home and is paying 29per cent of gross income in housing-related expenses and superannuation contributions. These ratios are derived from the 2003-04 ABS Household Expenditure Survey.

Finally, the table shows the effects of taking account of employee superannuation contributions and housing costs, which increase the net replacement rate for an average earner to 40 per cent. The reason for taking account of these is that most working people will face these costs, but retirees are unlikely to be making superannuation contributions or paying mortgages.

Figure 8: Selected pension replacement rates September 2008



Source: See Table 4.

In summary, simple measures of pension adequacy should be regarded with caution. The discussion has shown that components of living standards for those in retirement and those in work are much broader than either the pension alone or a single measure of incomes for those of workforce age. More reliable indicators of living standards need to adopt a comprehensive approach.

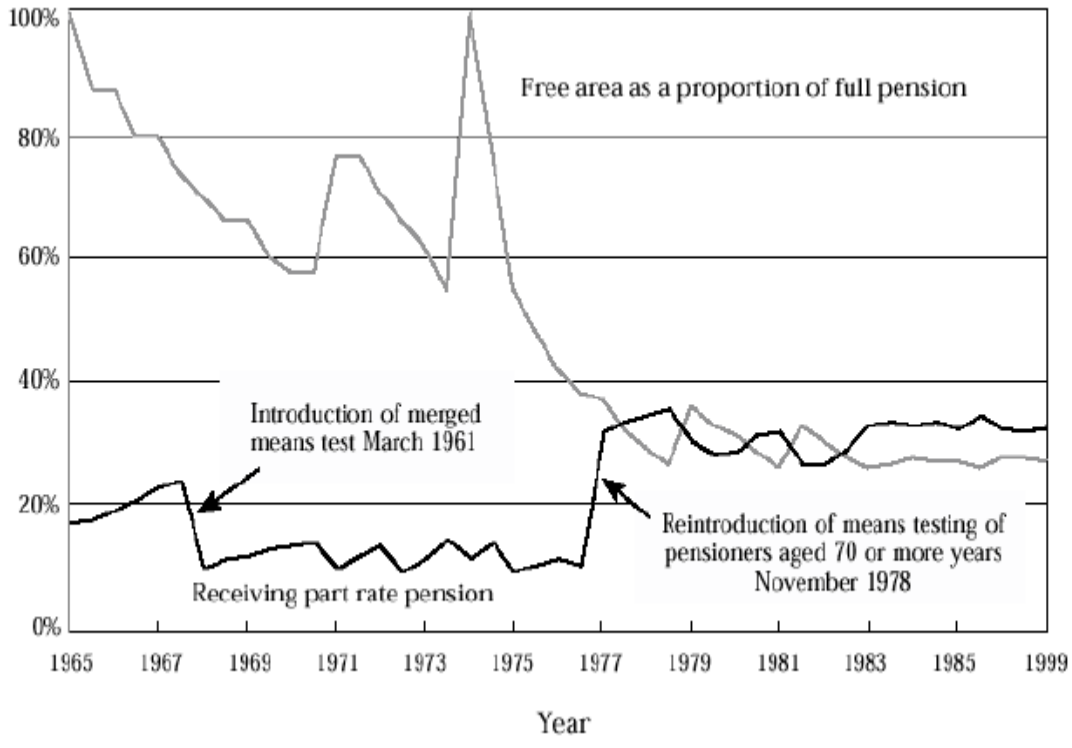
4 Private incomes and assets of age pensioners

4.1 Trends in private incomes

While the proportion of age pensioners completely dependent on the pension is fairly low, the largest group is those with incomes under the free area-$100 per fortnight for a single pensioner and $88 per fortnight for each member of a couple at June 1999, at which time around 68 per cent of age pensioners had incomes within the free area range. Unpartnered women (74 per cent) are more likely to have income in this range than couples (70 per cent) or unpartnered men (73 per cent). The most common form of private income is from savings and investments-usually from banks, building societies or credit unions. In 1998, around 90 per cent of age pensioners had incomes from this source. Currently, around 10 per cent of pensioners have incomes from superannuation (7 per cent of females and 14.5 per cent of males), an increase from around 7.5 per cent of pensioners in the late 1980s.

The proportion of age pensioners receiving a reduced rate of payment reflects access to private income and assets among the retired, and changes in income test parameters. Table 2 showed that the proportion of age pensioners with a reduced rate fell from around 20 per cent in 1970 to 10 per cent in 1975. This resulted from the abolition of the income test for pensioners aged 70 years and over. The reintroduction of the income test in stages from 1978 correspondingly resulted in an increase in the proportion paid at the part-rate, as can be seen in Figure 9.

Figure 9: Percentage of age pensioners receiving reduced rates 1955 to 1999



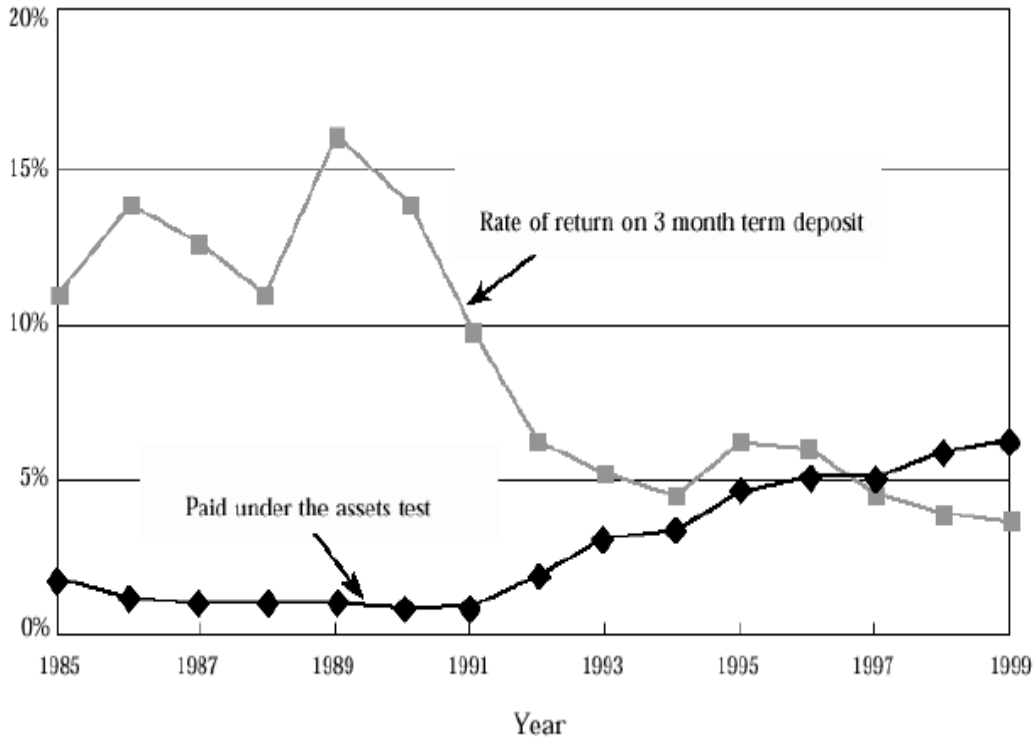
Source: Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years

Figure 9 also shows the effects of fluctuations of the real value of the free area over time. Generally, peaks in the value of the free area correspond to troughs in the proportion of pensioners receiving a reduced rate (and vice versa) as in 1967, 1973, 1983 and 1988. The free area was equal to the standard pension rate late in 1972. This fell substantially thereafter, because it was not indexed in line with inflation, while from 1976 onwards the pension rate was. In 1982, the free area was 39 per cent of the pension, falling to around 28 per cent by 1990. Since 1991, the free area has also been indexed and has remained around 28 per cent of the standard rate, with the rate for couples being about 30 per cent of their basic payments. Nevertheless, the general increase in the proportion of pensioners with reduced rate payments in part reflects this fall in the real value of the free area.

4.2 Pensioners' assets

As noted by Foster (1988 p. 41), asset ownership confers a number of advantages on some older people. Assets can be invested to produce an income, or in the case of home ownership can reduce the need for income to pay rent. Assets can also be sold to meet consumption needs. The assets test on pensions was introduced in 1985 to better target assistance to those with greater needs, and to ensure the effective operation of the income test. The rate of pension is calculated under both the income and assets tests, with the test that results in the lower rate being the one applied. While the majority of pensioners have payments assessed under the income test, the proportion directly assessed under the assets test has increased from under 2 per cent in the late 1980s to just over 6 per cent in 1999 (see Figure 10 below).

Figure 10: Proportion of age pensioners paid under the assets test 1985 to 2008



Source: Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years

The increase is most likely due to falling nominal rates of return from investment. From 1992, rates of return have dropped so that, for an increasing proportion of pensioners, the assets test reduces their rate of pension by a greater amount than, for instance, the income from their assets reduces their pension under the income test. Hence, they are paid under the assets test.

Administrative data on assets are collected from all pensioners. Tables 5 and 6 provide details of the distribution and average value of assets held by age pensioners at June 1998 and June 2008, as well as the proportion of those with assets who own their own home. At June 1998, around 92 per cent of age pensioners were recorded as having positive assets (not including the family home).

Table 5: Distribution of assets of age pensioners, June 1998 and June 2008

Percentage of age group by asset holdings								
June 1998								
Age	**$0.01 to $1,000**	**$1,000 to $5,000**	**5,000.00 to $10,000**	**10,000.00 to $20,000**	**20,000.00 to $50,000**	**50,000.00 to $100,000**	**More Than $100,000**	**With assets as % of total**
60-64	7.3	8.7	8.8	13.8	25.9	23.0	12.4	93.7
65-69	6.8	8.64	8.5	13.7	26.7	22.9	12.9	94.0
70-74	8.0	10.2	9.9	15.8	27.2	18.4	10.5	92.8
75-79	10.3	13.8	12.1	17.9	23.4	13.5	8.9	90.7
80-84	10.6	15.8	13.0	17.7	21	12.4	9.5	89.8
85-89	9.6	16.2	13.1	17.2	19.4	13.1	11.4	89.3
90 plus	8.6	15.7	12.2	15.9	18.5	14.6	14.6	88.0
Total	8.3	11.3	10.3	15.6	24.8	18.4	11.2	92.2
June 2008								
63.5-64	2.3	7.8	9.1	13.9	21.9	17.2	27.2	99.5
65-69	3.7	7.9	8.4	12.5	20.8	17.6	27.2	98.2
70-74	4.1	7.7	8.0	12.5	22.1	19.3	23.4	97.2
75-79	4.3	7.7	7.9	12.6	23.4	19.9	20.9	96.8
80-84	4.8	8.1	8.0	13.0	24.1	19.0	19.3	96.3
85-89	5.5	9.0	8.3	13.2	23.0	17.4	19.5	95.8
90 plus	5.1	8.9	8.3	12.4	22.3	16.6	22.2	95.7
Total	4.2	7.9	8.2	12.7	22.4	18.6	23.2	97.2

Sources: Research and Analysis Section, Retirement Programs Branch, Department of Family and Community Services, 1999; SuperCross Pensions Cube (06June08) by Data Support & Analysis Section, SMT, FaHCSIA.

Table 6: Average assets of age pensioners, June 1998 and June 2008

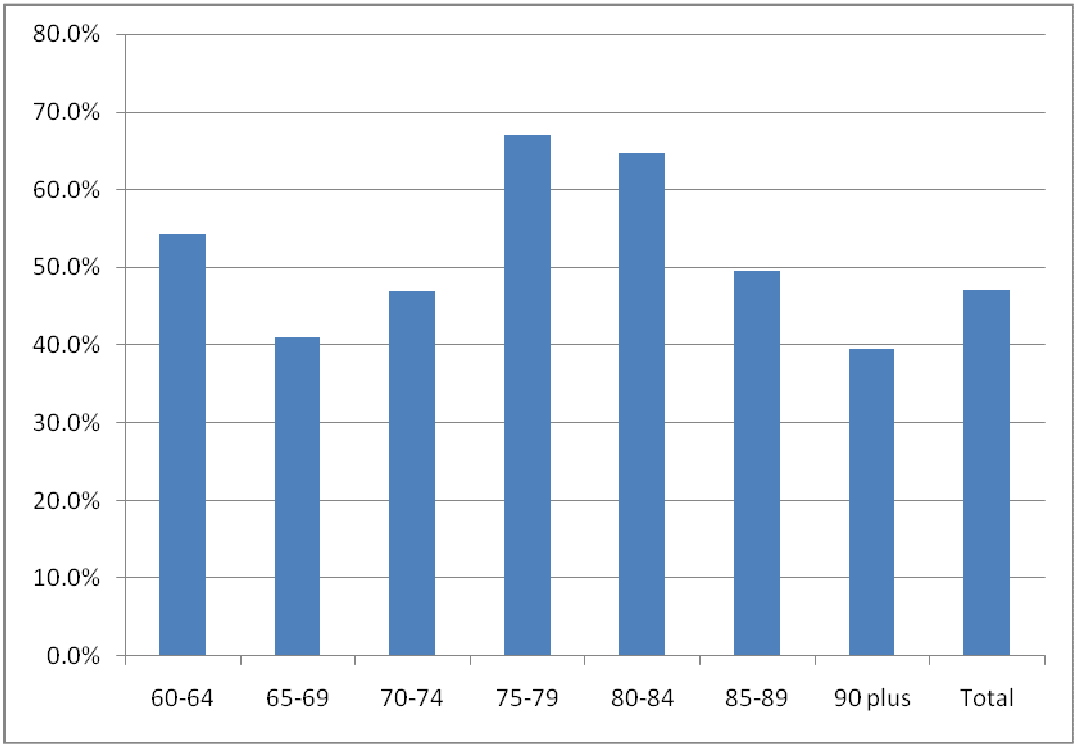
June 2008 $

Age	Home owners ( )	Mean assets of those with positive assets ($)	Mean assets of all pensioners ($)	Median assets of those with positive assets ($)
1998				
60-64	78	61,620	57,810	42,310
65-69	78	62,710	58,900	43,670
70-74	75	54,820	50,880	33,460
75-79	69	46,520	42,170	24,210
80-84	61	46,250	41,490	20,810
85-89	50	51,150	45,710	21,500
90 plus	33	59,850	52,640	25,030
Total	67	55,500	51,150	..
2008				
63.5-64	76	..	89,250	..
65-69	76	..	83,020	..
70-74	76	..	74,750	..
75-79	73	..	70,450	..
80-84	67	..	68,330	..
85-89	57	..	68,330	..
90 plus	43	..	73,460	..
Total	67	..	75,250	..

Source: Research and Analysis Section, Retirement Programs Branch, Department of Family and Community Services, 1999 and SuperCross Pensions Cube (06June08) by Data Support & Analysis Section, SMT, FaHCSIA.

The proportion of customers with assets falls from 94 to 86 per cent from age 65 to age 95 and over. Average assets held begin to decline around age 66 and continue to be less for each of the age categories until the 85-89 category where average asset holdings again begin to increase.

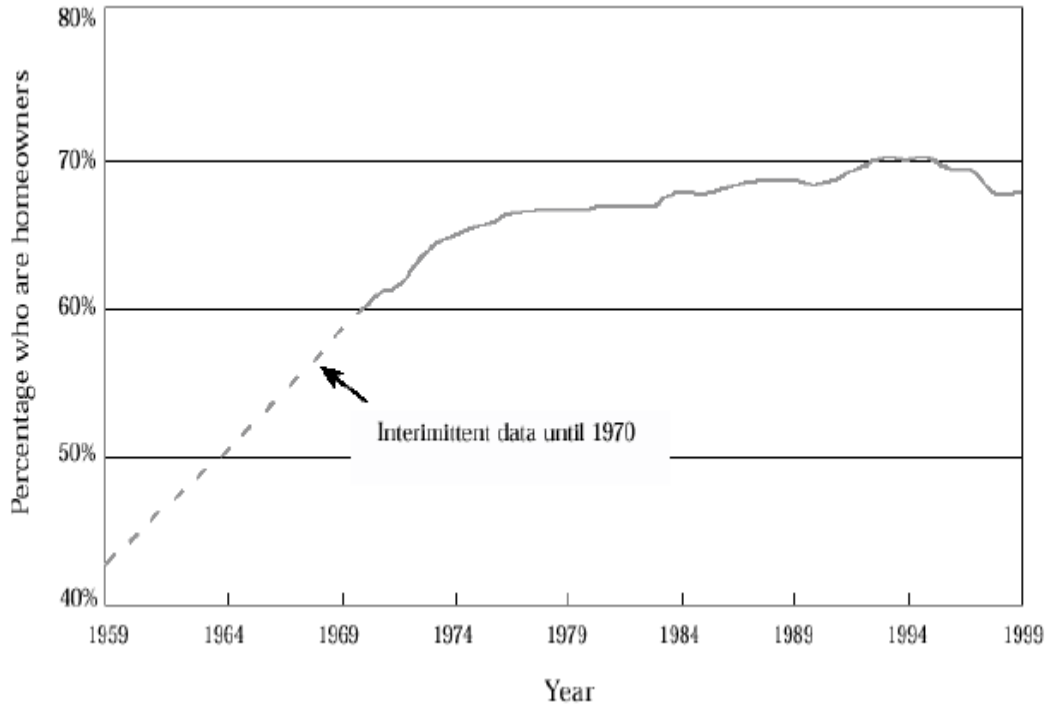
Figure 11: Change in real mean value of pensioner assets, 1998 to 2008



Further analysis of the position of women finds that divorced, separated and never married women are less likely to have assets than widows, who are less likely to have assets than married women (16, 17, 11 and 4 per cent respectively of these groups having no recorded assets). Overall, around 45 per cent of divorced or separated age pensioners and 38 per cent of single female age pensioners have no assets or less than $5,000 worth of assets.

Overall, the data suggest around one-quarter of all of those with assets have holdings of between $20,000 and $50,000, with around 45 per cent having assets below this level and 30 per cent having assets of $50,000 or more. However, it can be noted that by including those with no recorded assets, roughly one-quarter of all age pensioners have assets of less than $5,000, including personal effects.

Figure 11: Percentage of age pensioners who are home owners 1958 to 2008



Source: Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years

As Figure 11 shows, in 1999 around 68 per cent of age pensioners owned their home, the proportion having dropped slightly from its peak of 70 per cent in the early 1990s. The chart shows the substantial increase in home ownership after the Second World War and the sustained high levels among age pensioners since the mid 1970s.

Among age pensioners, patterns of home ownership vary according to age, sex and other characteristics. For instance, for those with other assets home ownership is above 70 per cent up until ages 75-79 where it is slightly lower. For those aged 80 years or more, home ownership is substantially lower, down to around 50 per cent for those aged 85-89 years, and 33 per cent for those aged 90 years or more. The age groups at which home ownership is lowest coincide with the ages around which average assets held begin to rise.

Recent administrative data on pensioners' assets and living arrangements support the idea that older pensioners tend to sell their home and move to live with family members, in nursing homes or make other arrangements for accommodation under which they are no longer classified as home owners. In particular, when comparing pensioners aged 80 years or more with younger pensioners, there is an increase in the proportion classed as 'non-home owner in government-funded aged care' and a corresponding fall in the proportion who are home owners. However, at this time there is insufficient earlier data from which to determine trends or to further differentiate changes in assets and tenure.

Recent fluctuations in the rates of home ownership among age pensioners are therefore likely to be the result of many factors, including the increased longevity of men, the associated increase in the greater proportion of married couples and fluctuations in returns from investment income. At present, there is no definite trend to increase or decrease rates of home ownership among this group.

5 Trends in the cash incomes of older people

5.1 Trends in gross incomes

Table 7 summarises trends in the incomes and characteristics of older income units from 1982 to 1997-98. The table is derived from the published results of the ABS Income Surveys. Results refer to income units, or nuclear families, and the income data are gross (before tax) and not adjusted for income unit size (equivalized).[5]

In 1997-98, older income units made up just over 17 per cent of all income units. Their mean income was around 52 per cent of the total mean income for the population. Around three in four older income units have government pensions and allowances as their main source of income, compared to just under 30 per cent of the total population. Nearly three-quarters of older income units own their home without a mortgage, compared to around 31 per cent overall. Older households are only half as likely to be renters (16 compared to 35 per cent), but are slightly more likely to be renting public housing (7 per cent compared to 4.5 per cent). More than half of all older income units are single people, and very few have dependent children. Older income units have increased from 15 to 17.5 per cent of all income units over this period. Single person units have declined slightly from 58 to 56 per cent of older income units, and women as a proportion of older single people have fallen from 78 to 72 per cent.

The real average income of older couples has increased by 5.7 per cent, while the real average income of older single people has increased by 6.7 per cent, compared to a real increase of 4 per cent for the population as a whole. These trends are shown in Figure 12. As a result, the average incomes of older people have increased as a proportion of the average incomes of all income units in the population—slightly more for singles than for couples.

As Figure 13 shows, recent trends appear quite volatile, suggesting that one should be cautious about apparent year to year changes. At the same time, there does not appear to be a particularly strong long-term trend in pensioner incomes, with the average for older people increasing only from 50 to 52 per cent over this 15-year period. It should also be remembered that the very substantial long run increases in real pension levels are not captured in this figure. Most of the real increase in pension rates occurred in

[5] It should also be noted that the ABS Income Surveys cover people in private and special dwellings. They exclude people in institutions such as hospitals, nursing homes and hostels and retirement villages.

the late 1960s and early to mid-1970s. Thus the impression of relative stability in incomes shown in Figure 13 is consistent with the modest increase in real pension rates over the 1980s and 1990s shown in Figure 4.

Nevertheless, there appears to be a significant decline in the proportion of older couples for whom government benefits are the principal source of income, and correspondingly a significant increase in the role of other private income (from property and investments). In contrast, there appears to be very little change for single older income units in the role of different income sources.

Further disaggregation reveals that, for couples, the overall decline in reliance on pensions and allowances is associated with a fall in the proportion who receive between 50 and 90 per cent of their gross income from pensions. The proportion receiving 90 per cent or more of their income from government payments is virtually unchanged over the period, although showing fluctuations in different years.

Inequality of gross incomes measured by the Gini coefficient (a single figure measuring inequality of income distribution)[6] has increased for older couples and for older singles, but the overall level of inequality among older people is substantially lower than among the population generally.

Finally, Table 7 summarises trends in housing tenure. The level of outright home ownership among older couples has increased from 80 to 84 per cent, with the proportion with a mortgage or renting from public authorities falling. The proportion of private renters appears to have been broadly stable at under four per cent. Home ownership rates also increased among single older income units, but are substantially lower than for couples. There has been a small increase in the percentage of single older people in public housing. Among the total population, there has been an increase in the proportion owning their homes outright, and a fall in the proportion with a mortgage. The proportion of the total population renting privately also increased over this period.

In summary, this table suggests that the older population has had larger increases in incomes than the overall Australian population since the early 1980s, and as a result their incomes have increased relative to the population generally. This trend has been stronger for couples than for singles. The trend also appears to have been associated with a reduction in 'partial dependence' among older couples, with the proportion of older couples receiving 90 per cent or more of their income from government benefits little changed over this period.

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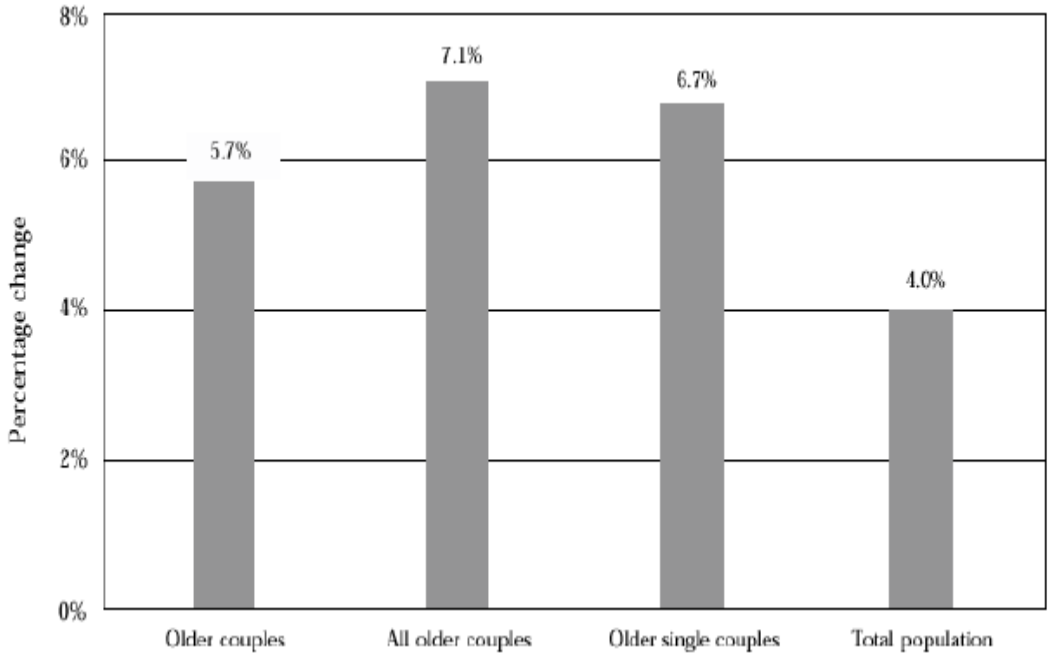
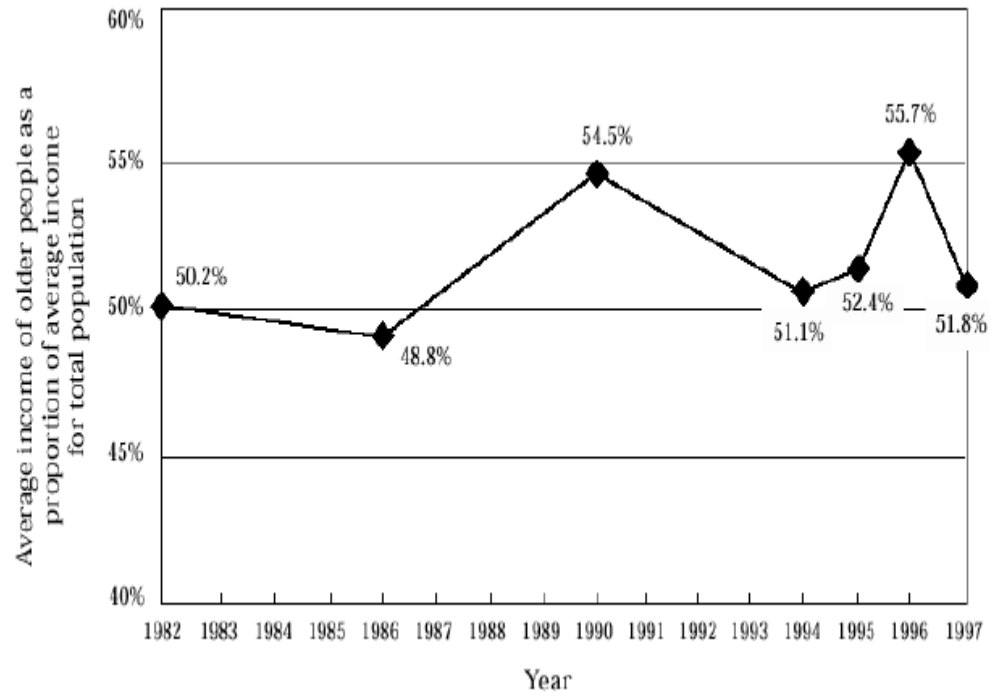
[6] The Gini coefficient 'is a measure of the expected difference between the incomes of any two units in the population and has been scaled to lie between zero and one. It has the value zero when income is distributed equally and the value one when one unit receives all the income.' (ABS 1998, *1996-97 Income Distribution Australia*, catalogue number 6523.0, p.61.)

Figure 12: Change in real average income 1982 to 1996-97



Source: Australian Bureau of Statistics, *Income Distribution, Australia*, various years

Figure 13: Trends in average incomes of all older people, 1982 to1997-98



Source: Australian Bureau of Statistics, *Income Distribution, Australia*, various years

Table 7: Trends in incomes and characteristics of older income units, Australia, 1982 to 2005-06

	1982	1986	1990	1994-5	1995-6	1996-7	1997-8	Change
No. of older income units								
Couples	439.2	521.5	591.4	643.9	684.8	691.6	701.5	+59.7
Singles	600.3	643.3	733.4	840.6	811.4	867.2	896.4	+49.3
All older	1,039.5	1,166.2	1,327.7	1,484.8	1,496.8	1.561.9	1,597.9	+53.7
of all income units								
Couples	6.3	7.0	7.4	7.2	7.7	7.6	7.7	+1.4
Singles	8.6	8.6	9.2	9.4	9.1	9.5	9.8	+1.2
All older	15.0	15.6	16.6	16.5	16.8	17.2	17.5	+2.5
Singles as of:								
all older income units	57.7	55.2	55.2	56.6	54.2	55.5	56.1	-1.6
people in older units	40.6	38.1	38.3	39.5	37.2	38.5	39.0	-1.6
Females as of older singles	n.a.	78.1	77.1	72.2	73.9	73.0	72.3	-5.8
Mean income ($pw)								Real
Couples	$208	$270	$423	$410	$429	$481	$460	+5.7
Singles	$111	$143	$214	$208	$226	$242	$248	+6.7
All older	$152	$200	$307	$296	$319	$348	$341	+7.1
Total Population	$303	$410	$563	$579	$609	$625	$658	+4.0
Mean income (of total)								
Couples	68.6	65.9	75.1	70.8	70.4	77.0	69.9	+1.3
Singles	36.6	34.9	38.0	35.9	37.1	38.7	37.7	+1.1
All older	50.2	48.8	54.5	51.1	52.4	55.7	51.8	+1.6
Principal source of income of older couples								
Wage or salary		3.6	4.3	3.7	4.6	5.0	5.1	+1.5
Own business/partnership	n.a.	2.2	2.5	2.9	3.0	3.1	3.1	+0.9
Other private income		19.6	23.3	24.7	21.8	26.2	25.8	+6.2
Government pensions and allowances		74.7	69.8	68.3	70.2	64.9	65.4	-9.3
Principal source of income of older singles								
Wage or salary		*0.3	*0.6	*1.4	*1.1	*0.4	*1.0	*0.7
Own business/partnership	n.a.	*0.9	1.1	*0.8	*0.8	*1.5	*1.4	*0.5
Other private income		16.7	16.7	17.4	17.4	15.6	17.3	0.6
Government pensions and allowances		82.1	81.6	80.0	80.0	81.4	79.7	2.4
Pensions and allowances as of gross income of older couples								
50 and less than 90	n.a.	31.0	31.2	18.4	18.6	20.8	21.1	-9.9
90 and over		43.3	37.9	48.9	50.9	43.1	44.1	0.8
Pensions and allowances as of gross income of older singles								
50 and less than 90	n.a.	18.4	27.1	12.3	16.0	17.2	12.8	-5.6
90 and over		63.7	54.1	71.3	63.8	63.9	66.2	+2.5

Gini coefficient								
Older couples	-	0.30	0.34	0.29	0.31	0.33	0.31	+0.02
Older singles	-	-	-	0.22	0.25	0.26	0.27	+0.05
Total population	0.40	0.41	0.42	0.44	0.44	0.44	0.45	+0.01
Tenure of older couples								
Outright owner	80.0	77.1	81.2	84.9	85.2	84.1	84.9	+4.9
With mortgage	7.3	10.0	6.5	5.5	4.2	4.9	3.8	-3.5
Public renters	4.3	3.9	3.8	*2.0	3.0	*2.5	3.1	-1.2
Private renters	3.6	2.5	3.3	3.5	3.9	3.2	4.3	0.7
Tenure of older singles								
Outright owner	59.8	60.9	64.5	62.9	64	67	63.9	+4.1
With mortgage	3.5	3.1	3.5	4	*1.9	2.6	2.6	-0.9
Public renters	7.2	8.3	7.9	10.4	9.2	9	10.1	+2.9
Private renters	6.9	6.9	5.6	6.8	7.3	5.7	5.4	-1.5
Tenure of total population								
Outright owner	27.6	29.2	32.5	32.9	32.4	31.3	30.6	+3.0
With mortgage	25.4	24.3	22.5	20.7	21.9	21.4	23.6	-1.8
Public renters	3.9	4.1	4.5	4.2	4.7	4.4	4.5	+0.6
Private renters	15.7	14.2	15.6	17.5	19.9	20.6	19.8	+4.1

Note: Subject to very high sampling variability

Source: Australian Bureau of Statistics, *Income Distribution Surveys*, various years

5.2 The equivalent incomes of older people

Adjusting for family size can have a substantial impact on the measured living standards of the older population. Table 8 illustrates the effects of differing income adjustments on the position of older people in the overall income distribution. The first panel shows the distribution of older people by overall gross income quintiles. Nearly 60 per cent of older single persons fall in the lowest quintile (20 per cent) of the overall distribution, with a further 30 per cent in the second quintile. Older couples fall into the second and third quintiles. Subtracting income tax to determine disposable income moves just under 10 per cent of older couples from the second to the third quintile, but appears to have virtually no effect on older singles.

The table uses two different equivalence scales to adjust disposable income. The main effect of the Henderson equivalence scale is to increase the proportion of older couples whose incomes fall into the lowest equivalent income quintile, and to move a substantial proportion of single older people from the first and second quintiles to the second and third quintiles. The effects of using the OECD equivalence scales is even more striking. On these equivalences, a higher proportion of couples than singles are in the lowest quintile, and nearly a quarter of older single people are in the third quintile, compared to around 5 per cent when unadjusted incomes are used.

Table 8: Distribution of older people by weekly income quintile, Australia, 1996-97 to 1999-2000

Percentage of income units by quintile group		
	Weekly income quintile	**All**

	Lowest	Second	Third	Fourth	Fifth	income units
1996-97						
Gross income						
Older couples	5.1	52.4	26.1	9.2	7.1	100.0
Older singles	59.8	31.7	5.6	1.6 *	1.2 *	100.0
Disposable income						
Older couples	5.1	43.3	32.3	11.0	7.8	100.0
Older singles	58.3	33.0	5.8	2.0 *	0.9 *	100.0
Henderson equivalent						
Older couples	10.4	44.2	27.8	8.3	9.4	100.0
Older singles	39.0	33.2	16.8	5.7	5.2	100.0
OECD equivalent						
Older couples	24.9	35.0	26.4	6.9	6.8	100.0
Older singles	18.3	49.0	23.4	5.3	4.1	100.0
1997-98						
Older couples	7.3	50.4	26.2	11.2	4.9	100.0
Older singles	58.9	31.9	5.3	2.8	1.0	100.0
Disposable income						
Older couples	7.2	42.3	32.7	11.6	6.1	100.0
Older singles	58.6	32.6	4.7	3.2	0.8	100.0
Henderson equivalent						
Older couples	11.9	41.0	29.8	10.9	6.5	100.0
Older singles	39.1	31.7	18.6	5.7	4.9	100.0
OECD equivalent						
Older couples	26.4	33.4	27.5	8.1	4.7	100.0
Older singles	15.3	51.2	24.0	5.4	4.1	100.0
1999-2000						
Gross income						
Older couples	6.5	56.7	19.3	9.6	7.9	100.0
Older singles	63.2	28.3	4.9	1.3	2.3	100.0
Disposable income						
Older couples	6.5	47.9	26.2	10.5	8.9	100.0
Older singles	61.1	30.8	4.1	2.2	1.7	100.0
Henderson equivalent						
Older couples	11.4	48.8	22.3	6.4	11.0	100.0
Older singles	41.3	35.1	13.3	5.7	4.5	100.0
OECD equivalent						
Older couples	24.4	41.1	19.2	7.9	7.4	100.0
Older singles	22.8	48.2	20.4	4.4	4.2	100.0

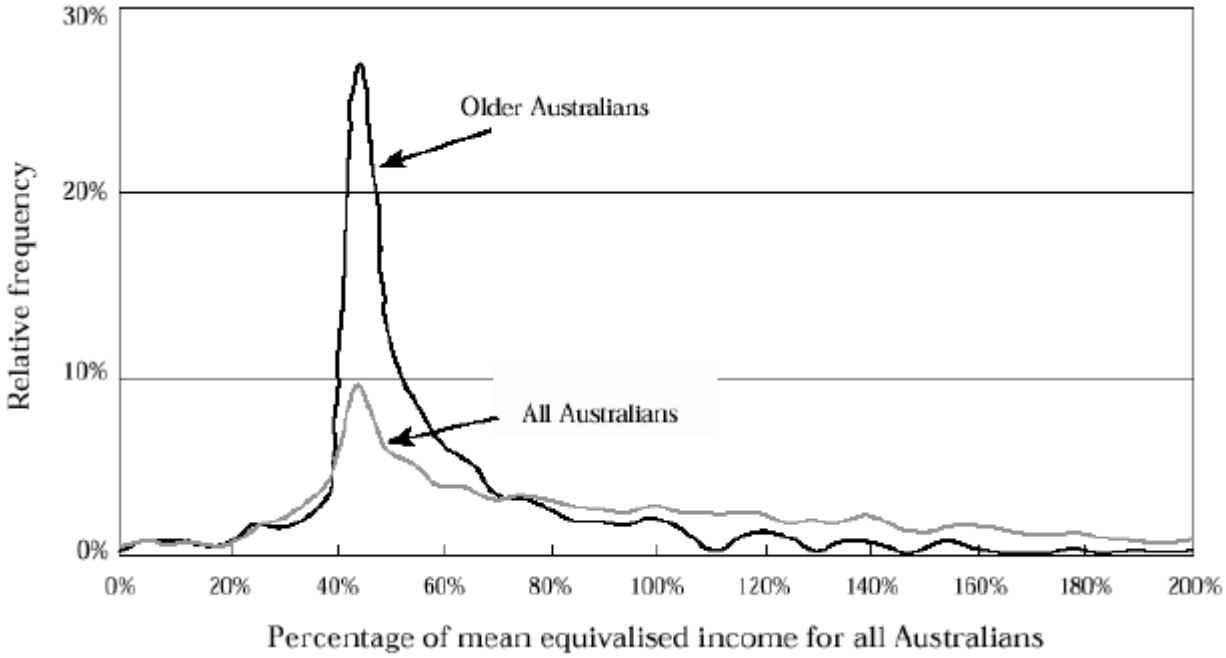
Note: *Subject to relative standard error greater than 25 per cent.

Source: Australian Bureau of Statistics, *Income Distribution, Australia, 1999-2000*, catalogue number. 6523.0, Table 26, pp. 37-38.

Overall, this suggests that conclusions about the relative position of older people are sensitive to the adjustment for family size and also sensitive to the precise choice of equivalence scale. The reason for this sensitivity is shown in Figures 14 and 15.

Figure 14 shows the distribution of equivalent income of older people, adjusted with the OECD scales, as a percentage of the average equivalent income of the total population in 1995-96, compared to the distribution for the total population. Figure 15 shows the same figure for older people, but for 1986 and 1990, as well as 1995-96. The extreme concentration of older people with between 40 and 60 per cent of average income is clearly evident. This range encompasses all of those completely dependent on the Age Pension or Service Pension, plus those with relatively small amounts of private income.

Figure 14: 1995-96 income distributions—older people and all Australians

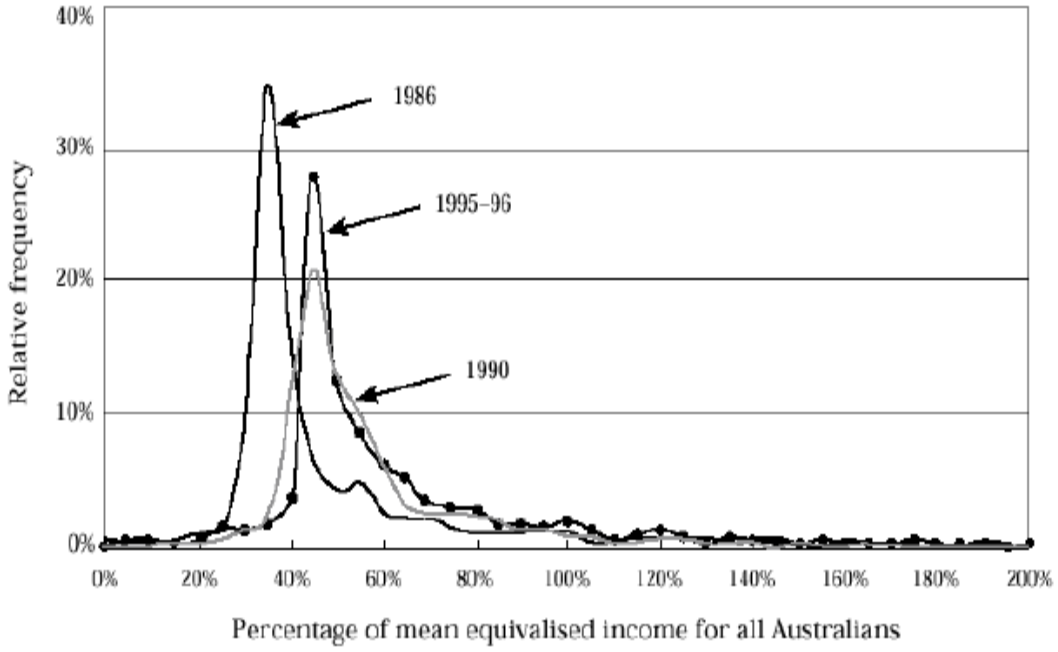


Source: Estimated from unit record files, ABS *Income Survey 1995-96* (catalogue number 6541.0.15.001)

Figure 15 overleaf shows that the modal value for the equivalent incomes of older people has increased relative to those of the population generally, and that there was a very large shift in this modal value and a decline in the degree of concentration, between 1986 and 1990. Between 1990 and 1995-96, the modal value did not appear to increase relative to the average incomes of the population, but the degree of concentration again increased, although not back to its 1986 level.

The extreme degree of concentration of equivalent cash incomes of the older population has the effect of making many measures of living standards very sensitive to small differences in measurement. As discussed below, estimates of relative low income or 'poverty' vary substantially over time and according to the low-income standard or equivalence scale used.

Figure 15: Income distributions for older Australians—1986, 1990 and 1995-96



Sources: Estimated from unit record files, ABS Income Surveys 1980 and 1990 (catalogue number 6543.0) and 1995-96 (catalogue number 6541.0.15.001)

It can also be noted that this feature appears to distinguish Australia from other countries. Figure 16 shows the equivalent [7] disposable cash income of older people (of pension age) expressed as percentages of the mean equivalent disposable income of the total population for a range of countries. The shape of the distribution of income of older people falls into two groups. Countries that emphasise earnings replacement (France, Germany, Italy, and apparently the United States)[8] share a similar, fairly flat income profile, while those countries with substantially flat-rate pension systems compress the incomes of older people into narrower peaks. It is clear that the Australian distribution of disposable income is more compressed than that of any other of these countries, with more than 30 per cent of the older Australian population falling between 40 and 60 per cent of average income, compared to around 20 per cent in other countries in this group, and under 15 per cent in the European welfare states and the United States.[9]

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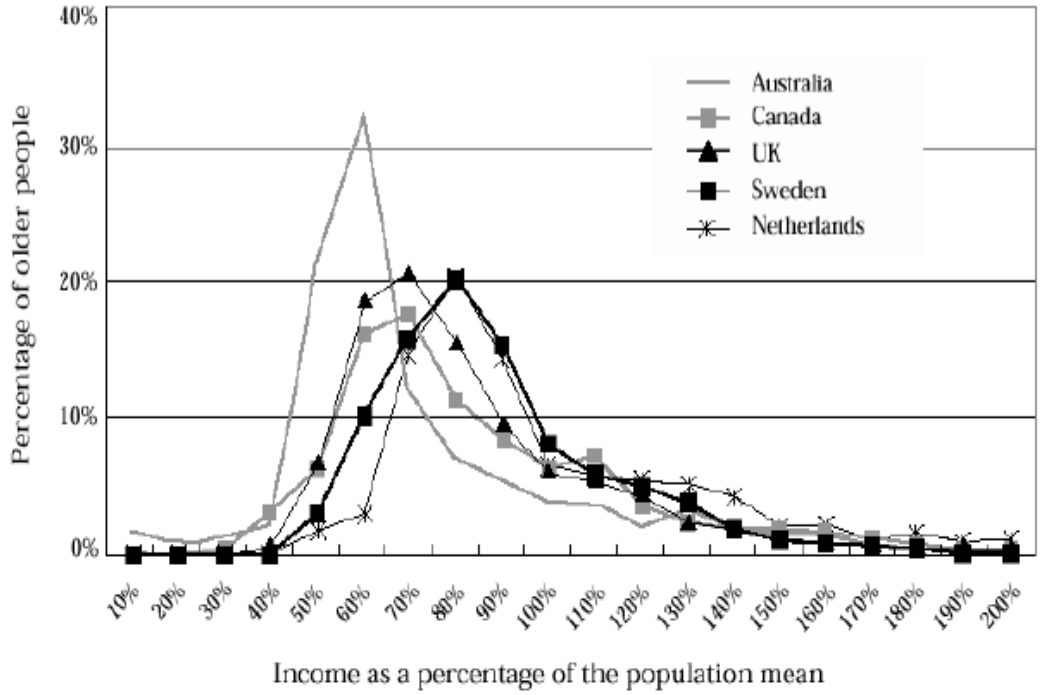
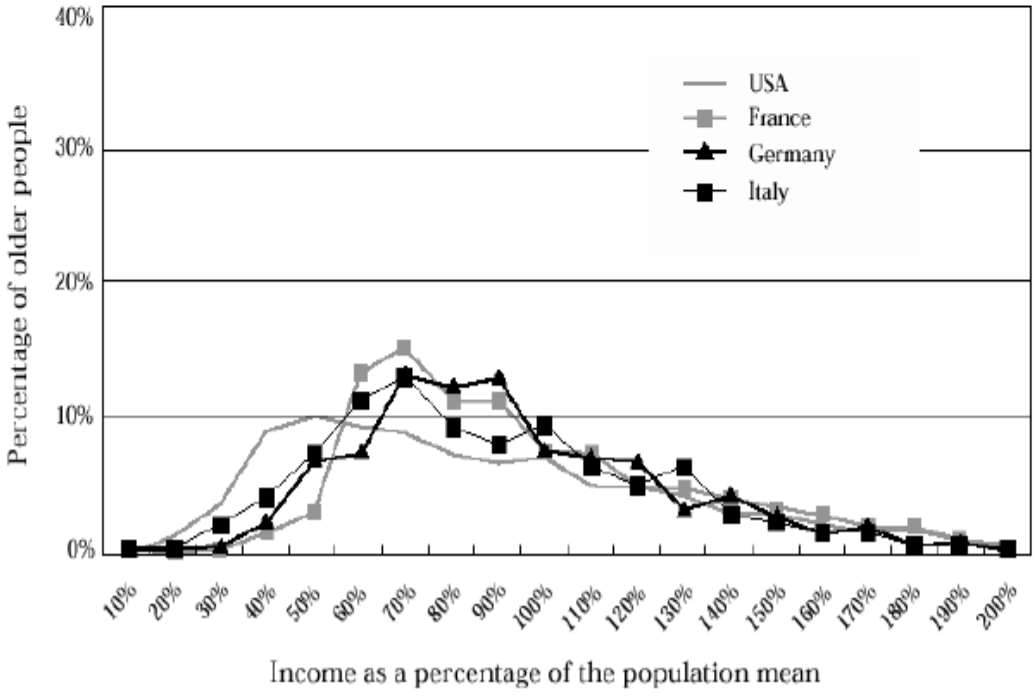
[7] Equivalized using the McClements equivalence scale. The methodology used conforms as closely as possible to the United Kingdom series of *Households Below Average Income* statistics. See Whiteford and Kennedy (1995) for details.

[8] It may be that the United States does not emphasise earnings replacement, but that its pension system does not substantially alter the distribution of income.

[9] This also means that estimates of poverty among the older population in Australia are more sensitive to the choice of poverty line than in other countries.

Figure 16: Comparison of income distributions of older people, around 1985





Source: Estimated from Luxembourg Income Study datafiles by Whiteford and Kennedy 1995.

Table 9 shows average pensioner incomes as a proportion of the average income of non-pensioners, adjusted using OECD equivalence scales. [12] Couples tend to have higher equivalent incomes than single people do, although in 1990 single men have about the same equivalent incomes as couples, and in 1995-96, single men are

apparently the most well-off group. In 1995-96, those aged 75 years and over appear to be substantially worse off than those under 75 years, but in the two earlier periods this does not appear to be the case (except for single men in 1990).

Table 9: Incomes of pensioners as a proportion of the incomes of non-pensioners by age group and income unit type, 1986 to 1995-96

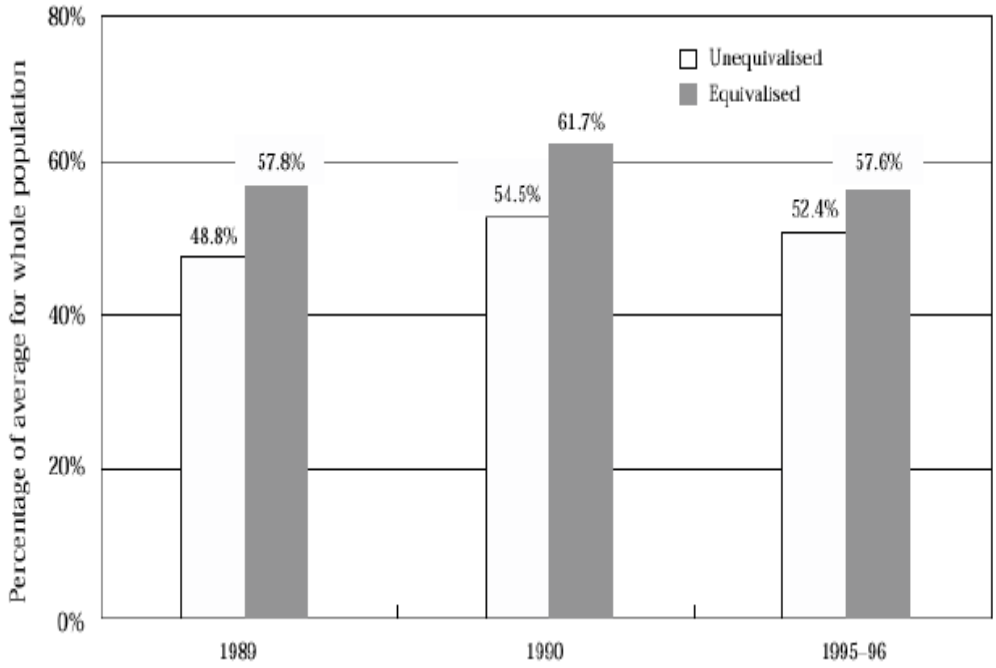
	60 to 64	65 to 69	70 to 74	75 plus	All pensioners
1986					
Couples	59.7	57.2	56.0	57.3	57.6
Single men*	81.0	68.4	55.4	50.0	65.3
Single women	65.4	53.7	52.5	53.2	55.4
All pensioners	65.3	57.2	54.5	54.2	57.8
1990					
Couples	61.1	67.0	64.2	64.3	64.4
Single men*	51.9	65.4	74.9	58.5	62.3
Single women	60.7	58.2	59.5	57.1	58.4
All pensioners	59.6	63.6	64.0	59.9	61.7
1995-96					
Couples	53.7	60.9	62.4	58.7	59.2
Single men*	53.4	68.3	70.7	62.6	63.9
Single women	51.4	58.0	60.5	49.1	53.4
All pensioners	53.0	61.0	62.7	54.6	57.6

Note: *Subject to very high sampling variability.

Source: Estimated from unit record files, ABS Income Surveys 1980 and 1990 (catalogue number 6543.0) and 1995-96 (catalogue number 6541.0.15.001)

Figure 17 shows how estimates of the average relative incomes of older people are affected by equivalisation. Adjusting for income unit size increases the average relative incomes of older people, by about 10 percentage points in the mid-1980s and five percentage points in the mid-1990s. The decline in this effect is probably due to the increasing share of older people who are couples and the decline in family size among the younger population. While the effect of equivalisation may not appear large, it can be noted that it is actually greater than the trend increase in the relative incomes of older people over this period.

Figure 17: Relative incomes of older people, unequivalised and equivalised



Source: Estimated from unit record files, ABS Income Surveys 1980 and 1990 (catalogue number 6543.0) and 1995-96 (catalogue number 6541.0.15.001)

Table 10 shows the average incomes of quintile groups of persons of pension age as percentages of the average income of the non-pensioner population.

Table 10: Incomes of pensioners as a proportion of the incomes of non-pensioners, by pensioner income quintile, 1986 to 1995-96

Average income of quintile group as percentage of average for non-pensioner population

	1986	**1990**	**1995-96**
Lowest	30	31	29
2nd	37	40	40
3rd	41	46	45
4th	53	58	57
Highest	120	134	117
All pensioners	58	62	58

Source: Estimated from unit record files, ABS Income Surveys 1980 and 1990 (catalogue number 6543.0) and 1995-96 (catalogue number 6541.0.15.001)

The relative position of the poorest quintile has been generally stable. On average, the higher relative income of pensioners in 1990 appears to be associated with a substantial increase in the relative position of the richest quintile of pensioners. Correspondingly, the decline in the average incomes of all pensioners appears to be a result of the richest quintile losing this advantage. This probably reflects the high interest rates applying in 1990, and the effects of declines thereafter. In contrast, the

second, third and fourth quintiles of have maintained most of their relative improvement. In this context, it is worth noting that the second quintile of pensioners have a higher degree of reliance on government income support than do the first quintile, primarily because the first quintile include persons of pension age who have low incomes from self-employment. It is also notable that the average income of all pensioners is higher than the average income of the fourth quintile of pensioners in each year. This implies that the distributions are highly skewed, presumably reflecting the coexistence of the high concentration of pensioners around the statutory rates of pension and a very long tail of high incomes.

Table 11 shows the distribution of persons of pension age by (OECD) equivalent income quintile. It can be seen that nearly half of all pensioners are in the lowest 30 per cent of the total income distribution. The table suggests that there has been relatively little change in this situation over the past decade, although the proportion in the richest 30 per cent of the population may have increased slightly.

Table 11: Distribution of pensioners by equivalent income decile, 1986 to 1995-96

	Proportion of pensioners in each income decile		
	1986	**1990**	**1995-96**
Lowest	19.1	20.0	19.6
2nd	15.6	15.8	14.7
3rd	14.4	14.3	13.8
4th	13.0	12.8	12.4
5th	11.2	11.1	10.9
6th	9.0	8.9	9.1
7th	7.1	7.1	7.3
8th	5.2	5.2	5.8
9th	3.7	3.4	4.2
Highest	1.9	1.5	2.3

Source: Estimated from unit record files, ABS Income Surveys 1980 and 1990 (catalogue number 6543.0) and 1995-96 (catalogue number 6541.0.15.001)

Table 12 shows income inequality among pensioners by age and income unit type, using the ratio of the incomes of the 90th percentile of each group to the 10th percentile of each group. Inequality among single retired men aged 60 to 64 is highly variable, because of the small sample size of the group. Overall, this measure suggests a small decline in inequality, although the trends for different age and income unit types diverge. Generally, the highest degree of inequality is among the 60 to 64 year age group, inequality is usually greater among single men than single women, and inequality is lowest among those aged 75 years and over.

Table 12: Inequality among pensioners—ratios of the 90th to the 10th percentiles of pensioner incomes

	60 to 64	**65 to 69**	**70 to 74**	**75 plus**	**All pensioners**
1986					
Couples	3.0	2.8	2.5	1.7	2.0

Single men*	4.4	3.6	2.7	2.4	3.0
Single women	3.9	2.5	2.6	2.5	2.5
All pensioners	3.6	2.8	2.7	2.6	3.0
1990					
Couples	2.2	1.9	1.7	1.7	2.9
Single men*	7.1	2.9	2.4	2.1	2.8
Single women	3.1	2.3	2.6	2.1	2.6
All pensioners	3.4	3.1	3.0	2.4	2.8
1995-96					
Couples	2.7	2.9	2.8	3.2	3.1
Single men*	2.9	3.4	2.3	3.1	3.1
Single women	3.1	2.5	3.2	2.0	2.4
All pensioners	2.8	2.7	2.8	2.6	2.6

Note: *Subject to very high sampling variability.

Source: Estimated from unit record files, ABS Income Surveys 1980 and 1990 (catalogue number 6543.0) and 1995-96 (catalogue number 6541.0.15.001)

Table 13 shows trends in pensioners' income sources by equivalent income quintile. The notable patterns here are the continued dominance of government income support up into the fourth quintile of pensioners. Overall, income support provides just over half the total cash income of older people in 1995-96.

Table 13: Pensioners' income composition by quintile, 1986, 1990 and 1995-96

	Per cent of quintile income by source					
	Wages	**Business**	**Income support**	**Investment**	**Super**	**Other**
1986						
1st	1	1	92	6	0	0
2nd	0	0	95	4	0	0
3rd	1	0	85	13	1	0
4th	5	2	60	23	10	1
5th	23	7	12	42	15	1
All	10.9	3.5	51.2	25.5	8.4	0.5
1990						
1st	1	0	88	10	1	0
2nd	1	0	90	8	1	0
3rd	1	0	80	15	3	0
4th	6	2	56	23	13	0
5th	20	5	11	48	14	1
All	10.3	2.7	47.7	29.6	9.3	0.4
1995-96						
1st1	1	92	6	0	0	
2nd	0	0	96	3	1	0
3rd	1	1	86	9	3	0
4th	4	1	63	16	15	0

5th	26	9	13	31	21	1
All	11.6	3.6	53.8	18.1	12.4	0.4

Source: Estimated from unit record files, ABS Income Surveys 1980 and 1990 (catalogue number 6543.0) and 1995-96 (catalogue number 6541.0.15.001)

Results for 1990 differ significantly from the other years, particularly in the greater significance of investment income. The role of investment income for the highest quintile group is much lower in 1995-96 than in either 1990 or 1986, apparently reflecting a large increase in the contribution of superannuation and a more modest increase in the role of earnings. Over the whole decade, between 1986 and 1996, the contribution of investment income has fallen from 25 to 18 per cent. Most of this declining share matches an increase in the contribution of superannuation income.

6 Trends in household expenditure levels

There are strong arguments that measures of consumption are more appropriate than incomes as indicators of household living standards. This is because incomes may reflect temporary variations, which may be smoothed by borrowing or saving or by running down assets. This is particularly important in the case of older people, who typically have lower incomes than the non-retired population, but who have had the opportunity to accumulate wealth. To the extent that such smoothing is possible, it would be expected that consumption and incomes would diverge, with consumption being the better indicator of long-term living standards. However, available data are limited to household expenditures rather than consumption. The most notable problem with available expenditure data is that it does not include the flow of services from ownership of durables, including the family home. The data should be considered as an imperfect indicator of consumption, albeit in the same way that income is an imperfect indicator of economic resources

Table 14 shows trends in the income and expenditure levels of older households between 1984 and 2003-2004. Over this period, trends in household incomes and expenditures are significantly affected by changes in household size, which have fallen, but more substantially for younger households than for older households. To partly adjust for this, the table also shows trends in income and expenditure per person.

Table 14: Trends in household incomes and expenditures, Australia, 1984 to 2003-2004

	1984	**1988-89**	**1993-94**	**1998-1999**	**2003-2004**
Households with reference person 65 years and over					
Average income	$229.48	$323.01	$348.68	$384.67	$550.00
Average expenditure	$196.23	$273.44	$335.81	$395.93	$509.42
Income per capita	$133.42	$187.80	$211.32	$234.56	$338.15
Expenditure per capita	$114.09	$158.98	$203.52	$241.42	$313.20

Food share of total expenditure	22.60%	21.90%	21.30%	20.38%	19.98%
All households					
Average income	$453.60	$636.05	$723.23	$879.22	$1,128.00
Average expenditure	$361.84	$502.71	$602.11	$698.97	$883.45
Income per capita	$159.72	$228.79	$274.99	$338.24	$445.05
Expenditure per capita	$127.41	$180.83	$228.94	$268.90	$348.57
Food share of total expenditure	19.70%	19.10%	18.40%	18.17%	17.30%
Older households relative to all households					
Ratio of average incomes	50.60%	50.80%	48.20%	43.75%	48.76%
Ratio of per capita incomes	83.50%	82.00%	76.85%	69.35%	75.98%
Ratio of average expenditures	54.20%	54.40%	55.80%	56.64%	57.66%
Ratio of per capita expenditures	89.50%	87.90%	88.90%	89.78%	89.85%

Source: Calculated from Australian Bureau of Statistics, *Household Expenditure Survey, Australia* (catalogue number 6537.0) various years.

Figures 18 and 19 illustrate these trends. Real per capita incomes of older households rose by around 17 per cent, but real expenditure per capita rose by nearly 27 per cent. This compares with an increase for all households of 29 per cent in real income per capita and 27 per cent in real per capita expenditures. As a result, the average income per capita of older households has fallen from 84 to 76 per cent of the per capita household income of the population as a whole. On the other hand, the per capita expenditures of older households remained remarkably stable at around 90 per cent of the population generally.

Figure 18: Trends in real household expenditures and incomes, Australia, 1984 to 2003-04

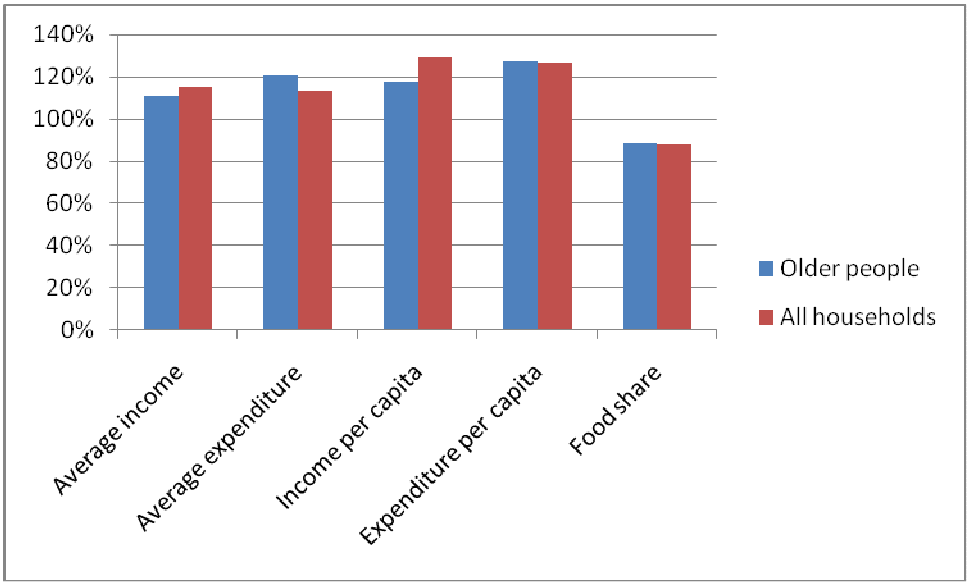
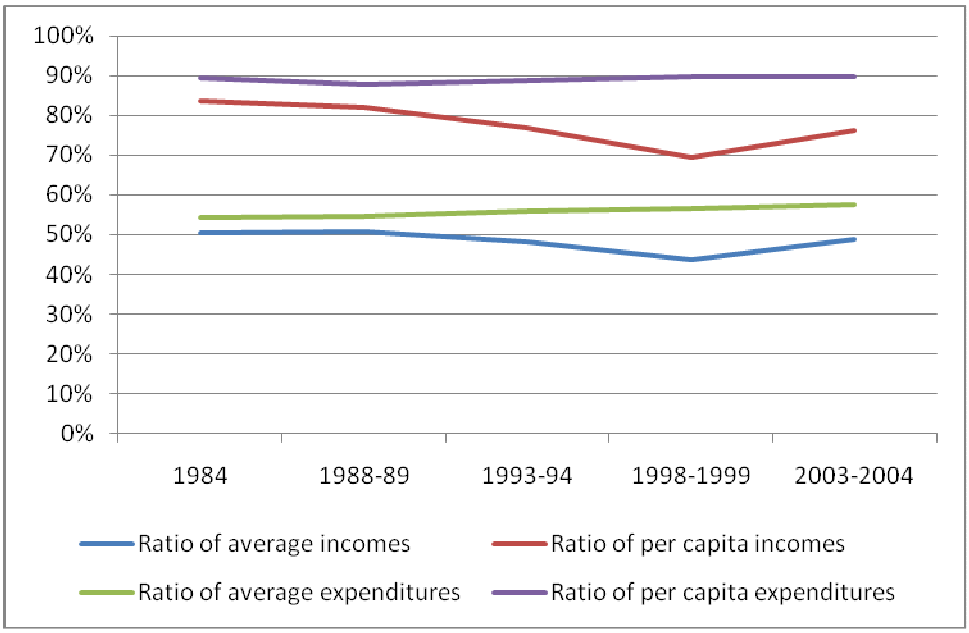


Figure 19: Trends in relative household expenditures and incomes, Australia, 1984 to 2003-04



Source: See Annex.

The differences in the income trends shown here and those found in the earlier tables are likely to reflect a number of factors. The periods covered differ to some extent and in addition, these results refer to household incomes and earlier results to income unit incomes.

7 The impact of non-cash benefits and indirect taxes

Government non-cash benefits in the form of services and subsidies have a substantial impact on the living standards of the population generally, and particularly on those of older people. The ABS (catalogue number 6537.0) has estimated that in 2003-2004 the value of government services and subsidies for households with a reference person aged 75 years and over was $281 per week, compared to cash benefits of $257 per week. On average, indirect taxes paid by these older households are estimated to be roughly &72 per week compared to income tax liabilities of $29 per week. Health benefits and other welfare services are most significant for the older population and education benefits are most important for the younger population. The average value of direct government cash benefits is greater than average private income for these older households, and is particularly significant for older single-person households.

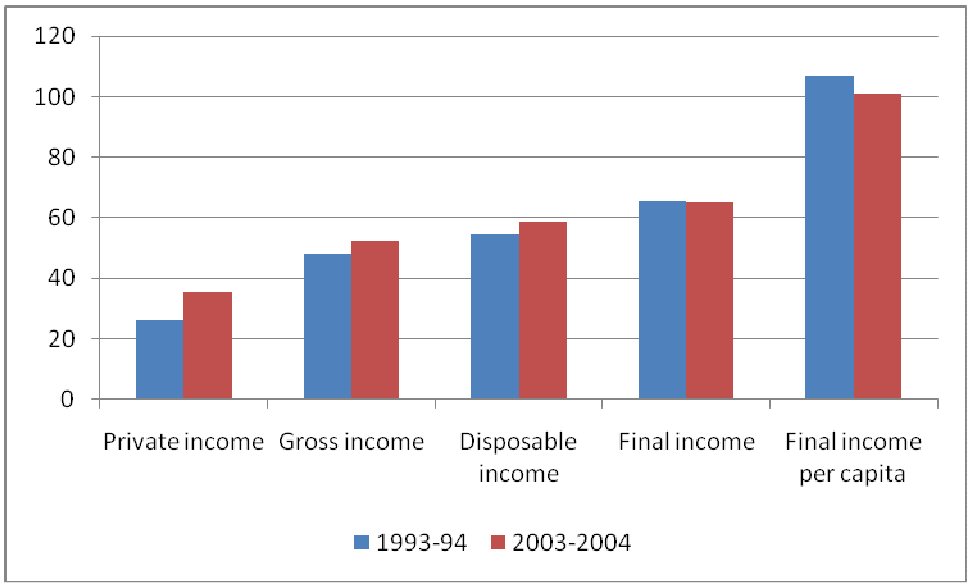
These estimates can be used as broader indicators of household living standards, incorporating the impact of a more comprehensive selection of government policies. However, it should be emphasised that these estimates are the result of many assumptions. They do not show the redistributive impact of the welfare state in an economic sense (Piggott 1987). Nevertheless, they are useful for illustrating that government impacts on living standards encompass much more than cash benefits.

Table 15 compares income components for older household groups with the average for the population generally. For example, in 2003-04, the average private income of older households was only 35 per cent of that of the total population. After including cash income support, this ratio rises to 52 per cent, and after taking account of income taxes it increases to 59 per cent. The addition of indirect government benefits and the subtraction of indirect taxes further increases the ratio to 65 per cent. Figure 19 illustrates these effects, and also shows the significance of adjusting for household size.

Figure 19 also compares these effects in 1993-94 and 2003-04. For example, it can be seen that there were improvements in relative private incomes for older households between 1993-94 and 2003-2004, and also in relative gross and disposable incomes, but relative final incomes and final incomes per capita had fallen slightly.

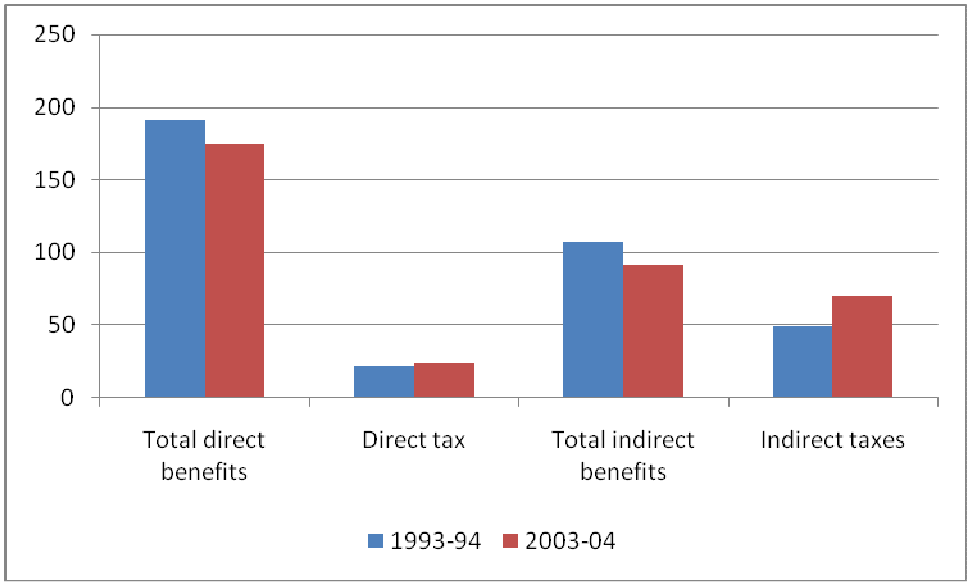
Figure 19: Comparisons of different household income concepts, 1993-94 and 2003-04

Incomes of households with reference person 65 years and over relative to all households



Sources: Calculated from ABS, Household Expenditure Survey, Australia, various years and *The Effects of Government Benefits and Taxes on Household Income*, ABS catalogue number. 6537.0, 1993-94 and 2003-04.

Figure 20: Effects of benefits and taxes on household income, 1993-94 and 2003-04



Sources: Calculated from ABS, Household Expenditure Survey, Australia, various years and *The Effects of Government Benefits and Taxes on Household Income*, ABS catalogue number. 6537.0, 1993-94 and 2003-04.

Figure 20 shows how the relative impact of different parts of these systems has changed over time. For example, in 1993-94, direct benefits to older households were 191% of the overall average, but a decade later they were around 174% of the overall

average; direct taxes have increased marginally in relative terms; indirect benefits have fallen and indirect taxes have risen. These changes all reflect rather complex developments. First, it should be noted that all these estimates are in relative terms – that is how the benefits received and taxes paid by older households compare with those of households generally.

Another way of considering these issues is to compare the composition of final incomes across households. Thus, Table 16 shows the income components as a percentage of the 'final income' for each household type. It can be seen that, in 2003-04 private income was around 54 per cent of the final income of older households, but 98 per cent of the final income for the population as a whole. Cash benefits for older households raised this ratio to 90 per cent of final income. Income tax reduces this somewhat, so that the cash disposable incomes of older households are about 82 per cent of their final incomes. Indirect benefits net of indirect taxes then contribute the 'remaining' 18 per cent of final income.

Overall, between 1984 and 1993-94 the net effect of indirect benefits and taxes became slightly more 'pro-aged'. This can be seen in Table 16. While the relative contribution of indirect benefits remained stable for all households (20.3 to 20.4 per cent of final income), they rose for older households from 26 to 34 per cent of final income. This appears to reflect an increase in the relative contribution of health benefits for older couples and older single person households, and an increase in the relative contribution of other welfare services for older couples. Between 1993-94 and 2003-04in contrast direct cash benefits fell more sharply as a share of income for older households, probably because their private incomes increased so significantly. Income tax had roughly the same impact in both years, but indirect benefits rose more for the general population than for the older population, while indirect taxes rose significantly overall, but more so for the older population.

Table 15: The effects of government benefits and taxes on household income compared to all households, 1984 to 2003-04

Income, benefits and taxes	Couple only, reference person 65 and over	Single person 65 and over	All households, with reference person 65 years and over	All households
1984				
Private income	28	12.4	30	100
Total direct benefits	239.5	159.5	208.9	100
Gross income	52.3	29.4	50.6	100
Direct tax	23.2	12.2	27.2	100
Disposable Income	59.7	33.8	56.5	100
Indirect Benefits				
Education			8	100
Total health benefits	141.2	89.2	122.5	100
Other welfare	212.2	222.9	221.9	100
Total indirect	81.1	61.1	77.5	100
Indirect taxes	52.4	24.2	46.7	100
Final income	64.7	40.2	61.7	100
1993-1994				
Private income	29.7	10.4	26.1	100
Total direct benefits	210.9	153	191.4	100
Gross income	53.9	29.5	48.2	100
Direct tax	22.4	10.1	22.1	100
Disposable income	61.3	34	54.3	100
Indirect benefits				
Education	-	-	4.9	100
Total health benefits	195.3	115.5	159.5	100
Other welfare	267.5	168.9	227.1	100
Total indirect	127.1	79	107.7	100
Indirect taxes	62.3	25.7	49.1	100
Final income	74.6	43.9	65.7	100
2003-2004				
Private income	33.8	19.6	35.4	100.0
Total direct benefits	208.8	136.0	173.9	100.0
Gross income	54.9	33.7	52.2	100.0
Direct tax	17.9	11.6	23.7	100.0
Disposable income	63.5	38.8	58.7	100.0
Indirect benefits				
Education	0.3	0.5	5.4	100.0
Total health benefits	213.1	122.3	142.5	100.0
Other welfare	169.2	87.1	142.7	100.0
Total indirect	126.7	73.7	91.9	100.0
Indirect taxes	74.7	40.6	70.7	100.0
Final income	76.8	46.8	64.9	100.0

Sources: Calculated from *The Effects of Government Benefits and Taxes on Household Income*, ABS catalogue number. 6537.0, various years.

Table 16: The effects of government benefits and taxes on household income by household type, 1984 to 2003-04

Income, benefits and taxes	Couple only, Reference person 65 and over	Single person 65 and over	All households, with reference person 65 years and over	All households
1984				
Private income	42.7	30.5	48	98.6
Direct benefits				
Age Pension	34.5	42.8	32.5	4.5
DVA pension	11.3	6.7	8.2	1.8
Total direct benefits	47.4	51	43.4	12.8
Gross income	90	81.5	91.4	111.4
Direct tax	-8.1	-6.8	-9.9	-22.5
Disposable income	82	74.7	81.5	88.9
Indirect Benefits				
Education	*	*	1.2	9.3
Total health benefits	18.9	19.2	17.2	8.7
Housing benefits	0.5	1.7	0.8	0.6
Other welfare	5.8	9.8	6.4	1.8
Total indirect	25.5	30.9	25.6	20.3
Indirect Taxes	-7.5	-5.6	-7	-9.3
Final Income	100	100	100	100
1993-94				
Private income	37.7	22.4	37.7	94.8
Direct benefits				
Age Pension	26.7	39.3	29.4	4.5
DVA pension	13.1	11.1	10.6	1.6
Total direct benefits	41.4	51	42.7	14.6
Gross income	79.1	51	80.3	109.4
Direct tax	-6.2	-4.8	-7	-20.7
Disposable income	72.9	68.6	73.3	88.7
Indirect benefits				
Education	*	*	0.6	7.9
Total health benefits	23.6	23.6	21.8	9
Housing benefits	*	1.7	0.9	0.6
Other welfare	10.5	11.3	10.1	2.9
Total indirect	34.8	36.7	33.5	20.4
Indirect taxes	-7.7	-5.3	-6.8	-9.1
Final income	100	100	100	100
2003-2004				
Private income	43.3	41.3	53.8	98.5
Direct benefits				
Age Pension	29.8	30.8	30.5	4.4
DVA pension	5.4	8.2	1.9	1.1
Total direct benefits	36.8	39.3	36.3	13.5
Gross income	80.1	80.7	90.1	112.1
Direct tax	-4.9	-5.2	-7.7	-21.1
Disposable income	75.2	75.4	82.4	91.0
Indirect benefits				
Education	0.0	0.1	0.7	8.7
Total health benefits	31.0	29.2	24.5	11.2
Housing benefits	0.3	1.5	0.6	0.3
Other welfare	7.6	6.5	7.6	3.5
Total indirect	39.0	37.2	33.5	23.7
Indirect taxes	-14.2	-12.7	-15.9	-14.6
Final income	100.0	100.0	100.0	100.0

Note: * Subject to high sampling variability. **Sources:** Calculated from ABS *Household Expenditure Survey, Australia*, various years, and *The Effects of Government Benefits and Taxes on Household Income*, ABS catalogue number. 6537.0

8 Trends in relative low incomes

In assessing trends in the wellbeing of the Australian population, a common form of analysis is to estimate how many people have incomes below the Henderson Poverty Line or other measures of relative low income. [13] This is to be expected in a system that gives priority to assisting those most in need and emphasises poverty alleviation. There is considerable controversy about the nature of poverty in wealthy societies such as Australia. Much of the controversy is concerned with whether poverty is purely relative, whether it has an irreducible absolutist component, or whether these terms are at all useful. To review the literature on this topic is outside this paper's scope. We emphasise that our analysis simply refers to relative low income, and does not provide direct evidence on the extent of hardship or deprivation among low-income groups. When discussing the new results, we do not use the term poverty, but refer to relative low income. However, other researchers using the same data and similar methods have described their results as showing estimates of poverty, so when discussing their research, their term is adopted.

Studies using the Henderson line give a mixed picture of trends in the circumstances of older income units. King (1998) estimates that between 1972-73 and March 1996, the Henderson poverty rate (before housing costs) among single older people rose marginally (but was more than 30 per cent in both periods) and among older couples it fell slightly (from 5 to 3.8 per cent). After housing costs, poverty rates were substantially lower for singles but not couples, and they fell over this period. In contrast, Saunders (1994) estimated that between 1981-82 and 1989-90 'Henderson poverty' increased from 10 per cent to 28 per cent, while among older couples it increased from 4.3 to 6.7 per cent. Part of the explanation for these differences is the different time periods used. However, to be consistent this would imply a reduction in poverty among older people between 1972-73 and 1981-82, an increase in the 1980s and a fall for couples in the 1990s.

The variability of these results also reflects technical choices made in measurement, and the interaction between these choices and the very high degree of concentration in the incomes of older people discussed earlier. Because so many older Australian have incomes in a relatively narrow income range of between 40 and 60 per cent of average income, small differences in the level of the low-income line used can have a large impact on rates of low income.

The sensitivity of poverty and low-income estimates to these technical choices is well illustrated in Tables 17 and 18, which give a wide range of estimates of the level of relative low income among the older population and trends over time. All the results in Table 17 refer to incomes over the relevant financial years. Table 17 shows trends over time using the Henderson line, plus half-median income adjusted by different equivalence scales, and a half average income measure. This last measure uses household incomes and is consistent as far as possible with the Households Below Average Income Statistics produced by the United Kingdom Department of Social Security (referred to as the HBAI measure).

The Henderson Poverty Line shows the largest increase in poverty over the period 1981-82 to 1995-96. The low-income rate for older couples rises from 5 per cent to 21.4 per cent over the period, for singles from 11 to 32 per cent, and for the total population from 13 to 21 per cent. As is well known, a major contributor to this is that the Henderson line has been rising faster than average incomes in the income surveys. When the Henderson measure is adjusted only to reflect price changes—as is the case in the second panel of results—then the increase in the overall low-income rate is from 13 to 14.9 per cent, and the increase is much lower for older income units, particularly older singles.

The most consistent result is that low-income rates for older income units are always above those for the non-aged population, although the extent of this difference varies widely. In addition, all the results—except those using half-median income and the 'DSS equivalence scales'—show increases in low-income rates over this period. However, the extent of this increase varies enormously. The results using the standard Henderson measure show an increase of eight percentage points for the population as a whole, while the half-median line with the OECD equivalence scales shows an increase that is only 0.8 percentage points.

Table 17: Alternative estimates of trends in the extent of low income, Australia, 1981-82 to 1995-96

Percentage of various groups with low income by low-income measure

	1981-82	1985-86	1989-90	1994-95	1995-96
Henderson detailed					
Older couples	5.0	5.6	6.9	16.7	21.4
Older singles	10.8	24.5	27.9	31.1	31.7
All non-older	13.6	15.3	16.1	19.1	20.3
Total population	13.0	15.1	16.1	19.6	21.0
Henderson detailed (CPI-adjusted)					
Older couples	5.0	4.8	5.3	14.1	16.9
Older singles	10.8	14.2	13.7	20.6	17.1
All non-older	13.6	14.0	13.2	15.6	14.6
Total population	13.0	13.4	12.7	15.7	14.9
Half-median, Henderson equivalence					
Older couples	3.5	3.8	4.1	12.9	14.9
Older singles	4.5	4.6	6.8	16.9	13.9
All non-older	9.4	9.4	9.6	12.1	10.5
Total population	8.8	8.8	9.1	12.4	11.0
Half-median, McClements equivalence					
Older couples	5.3	4.6	6.2	14.9	16.8
Older singles	4.9	5.9	9.1	17.8	14.9
All non-older	11.2	10.7	10.8	13.0	11.4

Total population	10.6	10.0	10.4	13.4	12.0
Half median, OECD equivalence					
Older couples	5.0	3.8	5.2	13.9	15.8
Older singles	3.9	3.9	6.6	16.8	13.8
All non-older	11.1	10.8	10.3	12.7	10.6
Total Population	10.4	10.0	9.8	13.0	11.2
Half median, DSS equivalence					
Older couples	50.5	7.3	10.0	17.7	21.3
Older singles	66.4	15.7	14.2	18.1	17.6
All non-older	10.2	10.1	10.1	12.2	9.5
Total Population	15.4	10.2	10.3	12.9	10.8
Half mean, households, HBAI					
Older couples	8.9	17.7	21.3	20.0	24.5
Older singles	25.5	40.3	36.4	26.6	28.4
Total population	13.2	14.5	15.4	15.6	15.1

Source: Estimates prepared by the Social Policy Research Centre, University of New South Wales, using ABS Income Surveys, unit record files, various years.

Table 18: Alternative estimates of low-income rates, Australia, mid-1990s

Percentage of the older population with low income

	Annual income		Current income		Final income
	Income units	Households	Income units	Households	Households
Henderson detailed	21.4 31.7	-	10.8 34.8	-	-
Henderson, CPI	16.9 17.1	-	-	-	-
Half-median, Henderson	14.9 13.9	-	-	-	-
Half-median, McClements	16.8 14.9	17.3 17.9	7.9 5.7	8.6 7.3	-
Half-median, OECD	15.8 13.8	16.5 16.3	7.3 5.3	8.4 7.2	-
Half-median, DSS	21.3 17.6	21.8 19.7	-	-	-
Half-mean, McClements	24.0 22.2	24.5 28.4	12.0 9.7	12.9 13.5	-
Half-mean, OECD	23.1 17.7	23.4 20.7	11.2 7.7	11.7 9.8	-
Half-median, 1993, disposable	-	-	-	-	5.7 3.2 8.2

Half-median, 1993, disposable plus social wage	-	-	-	-	2.6 2.6 4.2
Half-median, 1993, disposable plus social wage per capita	-	-	-	-	2.8 2.3 4.9

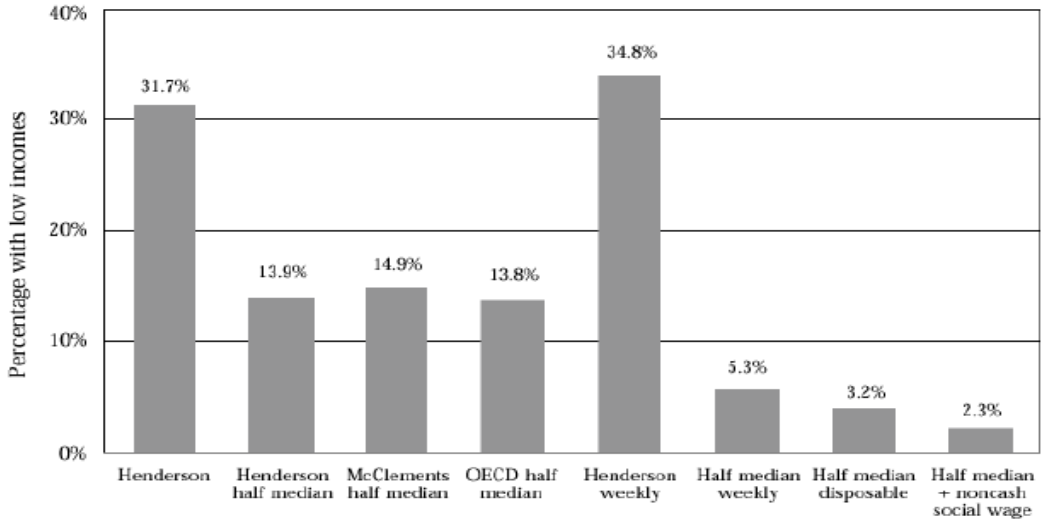
Note: The first number in each series is the low-income rate for older couples, and the second number is for older single people. For 'final income' the third number in each set is the estimate for the total Australian population.

Source: Estimates prepared by the Social Policy Research Centre, University of New South Wales, using ABS Income Surveys, unit record files, various years.

Between 1990 and 1994-95, all measures except the HBAI results show an extremely large jump in low-income rates for older couples and most also show a jump for older couples. As noted by Harding and Szukalska (1999), there are doubts about the comparability of the annual income data in the ABS Income Surveys from 1994-95 onwards due to a change in the ABS treatment of those who altered family or labour market status during the year.

Table 18 and Figure 20 show there are also substantial differences between estimates of low-income rates at the same point in time, using a wider range of methodological variations. The first column shows results for older couples and older singles, respectively, which are the same as for the corresponding results in Table 17. Table 18 then shows results using households rather than income units, and then using current weekly income rather than annual income. Two general conclusions can be drawn. The use of households rather than income units gives slightly higher low-income rates for all other technical choices. Using current rather than annual income gives very much lower low-income rates, except for single older people using the standard Henderson methodology.

Figure 20: Alternative estimates of low-income rates for single older people, mid-1990s



Source: See Table 18

A final set of percentages in the last column of Table 18 shows estimates of relative low income after taking account of non-cash services and subsidies and indirect taxes. Here the relevant income concept is 'final income' as used in the preceding section of this paper. The first set of estimates is simply of the level of low income using half-median equivalent disposable cash income, with subsequent estimates adding the value of non-cash benefits per household and per capita, respectively. These low-income rates are lower for older households than for the population generally.

In summary, these results show that estimates of the size of the low-income population are sensitive to the precise choice of methodological approach made in measuring 'poverty'. Again, this reflects the concentration of older people in a relatively narrow income range around the statutory pension rates. However, a number of conclusions can be drawn from these technical choices. On the basis of cash incomes, low-income rates among older people are higher when households are used as the unit of analysis rather than income units. Similarly, using cash incomes, older people are more likely to experience relative low income than is the non-aged population. Finally, using current weekly income rather than annual income appears to produce lower estimates of relative low income.

9 Housing wealth

Table 19: Tenure of older people and the total population 1982 to 2005-2006

	1982	1986	1990	1994-5	1995-6	1996-7	1997-8	1999-2000	Change 1982 to 2000	2000-01	2002-03	2003-04	2005-06	Change 2000-2001 to 2005-06
Tenure of older couples														
Outright owner	80.0	77.1	81.2	84.9	85.2	84.1	84.9	85.8	5.8	88.5	88.7	85.2	86.4	-2.1
With mortgage	7.3	10.0	6.5	5.5	4.2	4.9	3.8	4.5	-2.8	3.3	3.8	4.0	5.9	2.6
Public renters	4.3	3.9	3.8	*2.0	3.0	*2.5	3.1	2.6	-1.7	3.5	2.1	4.0	2.1	-1.4
Private renters	3.6	2.5	3.3	3.5	3.9	3.2	4.3	3.1	-0.5	2.3	3.2	4.6	3.3	1.0
Tenure of older singles														
Outright owner	59.8	60.9	64.5	62.9	64.0	67.0	63.9	64.9	5.1	73.7	71.7	74.4	74.0	0.3
With mortgage	3.5	3.1	3.5	4.0	*1.9	2.6	2.6	4.9	1.4	2.8	1.6	2.2	3.5	0.7
Public renters	7.2	8.3	7.9	10.4	9.2	9.0	10.1	7.6	0.4	9.2	10.2	9.6	7.8	-1.4
Private renters	6.9	6.9	5.6	6.8	7.3	5.7	5.4	6.9	0.0	7.1	8.0	8.0	8.5	1.4
Tenure of total population														
Outright owner	27.6	29.2	32.5	32.9	32.4	31.3	30.6	29.8	2.2	38.2	36.4	34.9	34.3	-3.9
With mortgage	25.4	24.3	22.5	20.7	21.9	21.4	23.6	25.0	-0.4	32.1	33.1	35.1	35.0	2.9
Public renters	3.9	4.1	4.5	4.2	4.7	4.4	4.5	4.4	0.5	5.0	4.9	4.9	4.7	-0.3
Private renters	15.7	14.2	15.6	17.5	19.9	20.6	19.8	19.5	3.8	21.0	22.0	21.2	22.0	1.0

Note: Subject to very high sampling variability. **Source:** Australian Bureau of Statistics, *Income Distribution Surveys*, various years.

The most important form of household wealth is home ownership, which is estimated to have accounted for 49.5 per cent of household assets in 1993 (Baekgard 1998). Home ownership is a significant factor contributing to the living standards of older people. Home ownership is widespread among the older population. Table 19 shows the level of home ownership, with and without mortgages, by life cycle groups in 1996-97.

Table 19: Dwelling tenure type by selected life cycle groups, Australia, 1996-97

Percentage of income units by type of ownership		
	Owner without mortgage	Owner with mortgage
One person, under 35 years	1.7	5.6
Couple without dependent children, reference person under 35 years	5.2	46.4
Couple with dependent children by age of oldest child		
Under 5	21.2	44.8
5-14	24.1	53.5
15-24	42.4	43.4
One-parent families	11.8	18.7
Couples without dependent children:		
Reference person 55-64	72.8	15.5
Reference person 65 years and over	84.0	4.9
One person aged 65 and over	67.0	2.6
All units with reference person 65 and over	74.5	3.7
All income units	31.3	21.4

Source: Australian Bureau of Statistics, *Income Distribution, Australia, 1996-97.*

Among the older population, the level of home ownership is more equally distributed by income level than most other forms of private income. Table 20 shows levels of home ownership by equivalent income quintile among the pensioner population in 1986, 1990 and 1995-96. While home ownership increases with income, the extent to which this occurs is relatively slight.

Table 20: Pensioners' housing tenure by income quintile

Percentage of ownership		
	Owned	**Other**
1986		
1st	72	28
2nd	73	27

3rd	78	22
4th	79	21
5th	81	19
1990		
1st	75	25
2nd	75	25
3rd	79	21
4th	77	23
5th	88	12
1995-96		
1st	78	22
2nd	76	24
3rd	77	23
4th	76	24
5th	87	13

Source: Estimated from unit record files, ABS Income Surveys 1980 and 1990 (catalogue number 6543.0) and 1995-96 (catalogue number 6541.0.15.001)

Table 21 shows ABS estimates of dwelling values and equity by age group in 1995-96. The value of dwellings owned by people aged 65 years and over is lower than among most of the younger population, but the level of loans outstanding is much lower than for most groups of younger people. As a result, older people have higher average equity than people under the age of 45 years.

Table 21: Dwelling value and equity in the home for owner-occupiers, 1995-96

	Mean dwelling value	**Mean loan outstanding**	**Mean equity**	**Owner-occupier households**
Age group	**$000**	**$000**	**$000**	**000s**
Under 35	147.6	62.3	85.3	787.3
35-44	179.0	46.7	132.3	1,082.1
45-54	188.8	22.7	166.1	1,063.5
55-64	179.2	6.7	172.5	750.2
65 and over	156.2	1.1	155.1.	1,106.2
Total	170.8	27.1	143.7	4,789.3

Source: ABS, *Australian Social Trends 1998*, catalogue number 4102.0, p. 155.

By modelling imputed income from owner-occupied housing, the benefits of home ownership can be taken into account in the income distribution. The most notable Australian study to do so is Yates (1991). Whiteford and Kennedy (1995) used Yates' estimates of imputed income and applied them to the 1985-86 Income Survey (in the

Luxembourg Income Study). For older people, imputed income from owner-occupied housing (plus the relatively small imputed rental subsidy for those in public housing) was equivalent to 26.7 per cent of cash disposable income, compared to the corresponding value of 8.9 per cent for the population as a whole. The inclusion of imputed income plus non-cash government benefits raised the average income of older people from 73 to 86 per cent of the population mean.

10 Conclusions

A mixed picture emerges from this analysis. The average incomes of older people increased at a faster rate than for the population generally. As a result, their average incomes have risen as a proportion of the community average. Among older people, average expenditures per person have also increased. Taking account of government non-cash benefits further improves the relative position of older people, as does imputed income from owner-occupied housing. At the same time, administrative data suggest that there are sizeable proportions of the age pensioner population who have little or no income apart from their pension, and little or limited assets. However, the extent to which this is the case appears to have decreased over time. Older people are also over-represented in the lower income quintiles of the population. The most striking feature of the incomes of the older population is the degree of concentration of incomes around pension levels. This complicates interpretation of trends in incomes and the relative position of this age group, including their vulnerability to low incomes.

In considering likely future trends in the relative position of older people, it is necessary to take account of a wide range of factors impacting on the distribution of incomes of those in the pre-pension age groups. In future, the wellbeing of the older population is likely to be enhanced by a wide range of factors, including increasing superannuation coverage, increasing labour force participation among women, higher real wages, and higher average levels of housing wealth. At the same time, there are trends that may tend to offset these, including the long-term decline and then flattening of the labour force participation of men aged 50 to 64 years (Ingles 1998), and higher wage inequality among those of working age. In addition, family trends, including the growth in the incidence of sole parent families, may also have adverse effects on wellbeing in retirement. Separated, divorced and single older women appear to have lower incomes and assets in retirement than men or couples. The trend for women to defer childbirth until later in life and the consequent compression of their prime working years, along with increased educational participation among young people, may also impact on capacity for self-provision in retirement (Jackson 1998).

In terms of future monitoring of these and related trends, it is desirable to have improved information about the dynamic processes that are associated with these developments. This would be best achieved through an ongoing longitudinal survey. To capture the diversity of outcomes among the older population, it is also necessary to use a broad range of indicators to monitor trends. Finally, the main message of this paper is that the concept of economic resources used in analysing trends in living standards is of fundamental importance. Future analysis should pay particular attention to modelling and measuring comprehensive income measures.

Appendix A: Pension levels, 1965 to 2008

Table A1: Trends in the level of the standard pension

	Single pensions as of:				
Year	**GDP per capita**	**HDIPC**	**MTAWE***	**Process worker's wage**	**Henderson Poverty Line, single pensioner**
1965	34.5	n/a	22.7	35.5	n/a
1966	33.5	n/a	23.7	35.0	n/a
1967	33.5	n/a	21.9	35.4	n/a
1968	31.9	n/a	22.3	33.1	n/a
1969	31.1	n/a	22.1	34.4	n/a
1970	30.7	n/a	20.9	35.8	n/a
1971	31.0	n/a	20.6	36.0	n/a
1972	32.1	n/a	23.7	35.9	n/a
1973	33.7	n/a	22.7	35.5	n/a
1974	41.3	57.9	25.9	39.0	94.9
1975	40.2	55.7	26.6	39.3	109.1
1976	39.3	55.4	26.0	39.7	110.7
1977	39.7	57.4	26.6	40.4	110.1
1978	40.3	57.1	26.4	41.4	107.7
1979	37.0	52.7	26.7	38.4	100.1
1980	37.8	54.7	26.7	40.0	103.0
1981	36.8	53.6	25.4	39.0	99.3
1982	36.9	53.7	24.0	35.2	102.0
1983	38.2	56.4	25.0	39.1	108.1
1984	37.0	54.1	23.9	39.1	104.3
1985	35.7	52.8	24.6	38.8	108.8
1986	35.4	53.5	24.0	42.0	109.0
1987	35.9	54.7	24.9	43.3	110.3
1988	34.6	53.6	24.9	43.6	107.1
1989	33.3	51.6	25.7	44.0	101.8
1990	33.9	52.5	26.2	43.4	108.6
1991	35.8	57.0	26.5	45.5	120.5
1992	36.0	54.8	25.6	44.7	116.5
1993	35.3	53.4	25.8	45.6	117.2
1994	34.3	52.3	25.7	45.4	112.7
1995	33.2	50.0	25.7	44.9	110.4
1996	33.6	50.3	25.8	47.8	111.5
1997	32.5	49.7	25.3	46.2	109.6
1998	30.5	49.3	25.0	45.4	108.6
1999	30.5	49.3	25.0	45.4	106.4

Note: *This is the value of the standard rate of pension at September each year compared to the relevant MTAWE benchmark as legislated in November 1997.

Sources: Australian Bureau of Statistics Consumer Price Index, Australia, Average Weekly Earnings, Australia, and Australian National Accounts , Metal Trades Industry Association, Melbourne Institute of Applied Economic and Social Research, and Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years