

# CHAPTER 1

## INTRODUCTION

### Terms of reference

1.1 On 14 June 2007 the Senate referred the issue of the cost of living pressures for older Australians to the Committee for inquiry and report by 13 September 2007. The reporting date was subsequently extended to the last sitting day in March 2008. Following the 2007 election and change in government the inquiry was formally re-adopted by the Senate on 14 February with a reporting date of 20 March 2008. The full terms of reference for the inquiry required the committee to inquire into and report on the following matters:

- (a) the cost of living pressures on older Australians, both pensioners and self-funded retirees, including:
  - (i) the impact of recent movements in the price of essentials, such as petrol and food,
  - (ii) the costs of running household utilities, such as gas and electricity, and
  - (iii) the cost of receiving adequate dental care;
- (b) the impact of these cost pressures on the living standards of older Australians and their ability to participate in the community;
- (c) the impact of these cost pressures on older Australians and their families, including caring for their grandchildren and social isolation;
- (d) the adequacy of current tax, superannuation, pension and concession arrangements for older Australians to meet these costs; and
- (e) review the impact of government policies and assistance introduced across all portfolio areas over the past 10 years which have had an impact on the cost of living for older Australians.

### Conduct of the inquiry

1.2 The inquiry was advertised in *The Australian* newspaper and on the committee's website. Invitations to provide a submission were also sent to government institutions, community groups and other interested stakeholders, commentators and organisations. The committee received 239 public submissions and 21 confidential submissions. A list of the individuals and organisations that made public submissions to the inquiry has been included as Appendix 1.

1.3 The committee held public hearings in Melbourne on 23 August 2007, Canberra on 20 September 2007 and Brisbane on 8 February 2008. The list of witnesses who gave evidence to the committee at the public hearings has been

provided in Appendix 2. Copies of the Hansard transcript are available through links at [http://www.aph.gov.au/Senate/committee/clac\\_ctte/older\\_austs\\_living\\_costs/hearings/index.htm](http://www.aph.gov.au/Senate/committee/clac_ctte/older_austs_living_costs/hearings/index.htm).

## **Acknowledgement**

1.4 The committee received substantial assistance during the inquiry and thanks those organisations and individuals who made submissions, gave evidence at the public hearings and otherwise provided assistance.

## **Structure of the report**

1.5 The report has been structured into eight chapters, which discuss the key income and cost pressures faced by older people, their consequences for quality of life and community participation, and key government policies and initiatives that impact on these issues. The inquiry was undertaken prior to the change of government following the 2007 election. References to government policies in accordance with term of reference (e) refer to the former Coalition Government. An update on the policy initiatives of the new Labor Government since the election is at Appendix 3.

1.6 This chapter provides the context for the inquiry including details regarding its conduct, the terms of reference and background on the ageing population. Chapter 2 outlines the general financial situation of older people, particularly with respect to assets and debt levels. Chapter 3 provides a review of the various income streams available to older people, notably pensions and superannuation, and their adequacy. It also reviews the other payments available and the prevailing indexation methodology that applies to incomes and payments. Chapter 4 discusses the concessions and rebates provided to older people, their significance for affording the costs of living and issues surrounding their indexation. The array of cost pressures faced by older people is outlined in chapter 5. This includes general inflationary pressures, the expenditure patterns of older people, as well as movements in the prices of specific goods and services. Chapter 6 outlines the quality of life experienced by older people, especially as a result of caring responsibilities and rising cost pressures, as well as their effect on community participation and social isolation. A general review of government initiatives and policies to assist older people in meeting cost of living pressures is provided in chapter 7. Chapter 8 summarises the committee's view and provides recommendations on possible policy initiatives and areas for further investigation.

## **Background**

### *Defining older people*

1.7 As was mentioned in the submission from the Department of Families, Community Services and Indigenous Affairs (FACSIA)<sup>1</sup> and provided in evidence to

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1 Following the 2007 election FACSIA became the Department of Families, Housing, Community Services and Indigenous Affairs

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the inquiry by a range of witnesses, identifying and defining retirees and older people has become more complex. Most of the submissions did not clearly define older people. However, unless otherwise stated, in this report older people are considered to include Australians in retirement or of retirement age. Retirement age includes men of 65 or over, men in receipt of a veterans' service pension aged 60 or over, women aged 63.5 and over and women in receipt of a veterans' service pension aged 60 or over. The Committee acknowledges that National Seniors represents people aged 50 and over and that their background is across the board.

1.8 There is now a substantial emphasis on managing retirement, career egress and departure from the workforce. Retirement is no longer a fixed date whereby individuals stop working, but often now involves continued work in some capacity to suit lifestyle or financial imperatives. Consequently, the demographics of retirees and older people incorporate diverse segments of the population, distinct age-cohorts and people of different financial means. For instance, despite the nominal retirement ages of 65 for men and 63.5 for women, 24 per cent of Australians aged 45-64 have completely retired and 9 per cent are partly retired.<sup>2</sup>

### ***Demographic change and economic and social challenges***

1.9 Living standards and their sustainability for older people are of growing importance to Australian society. This is due to Australia's anticipated demographic change over the coming decades, which will result in a higher proportion of older people in the population than ever before. This is a common trend among Western countries as fertility rates fall and life expectancy increases, especially as a result of medical breakthroughs, technological progress, higher incomes and less manually intensive labour. Life expectancy has been extended to 80 for men and 84 for women.<sup>3</sup> At the same time, years spent in retirement have increased to 16.8 years for men and 22.6 years for women.<sup>4</sup> It is important to note that these demographic characteristics do not yet hold true for Aboriginal and Torres Strait Islander peoples.

1.10 The 2007 *Intergenerational Report* reported that the proportion of the population over 65 will double to approximately 25 per cent over the next 40 years. During this period, total labour force participation rates are expected to decline as a result of the majority of this age-group entering retirement.<sup>5</sup> This shift in the age

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2 AMP & the National Centre for Social and Economic Modelling, 'May the Labour Force Be With You', November 2005, *AMP.NATSEM Income and Wealth Report Issue 12*, p. 20.

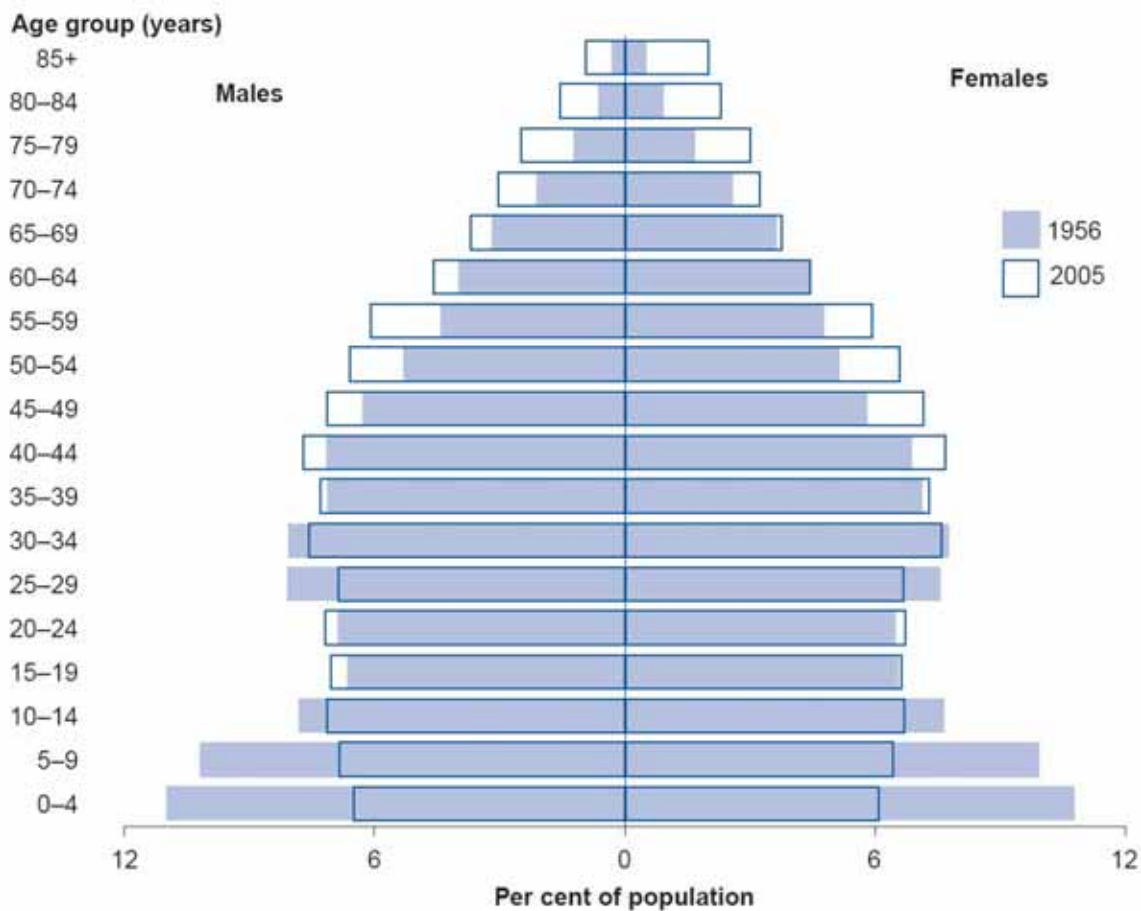
3 Hazel Lim-Applegate, Peter McLean, Phil Lindenmayer and Ben Wallace, 'New Age Pensioners—Trends in Wealth', 2007, *Australian Social Policy 2006*, p. 1; Greg Coombs and Brian Dollery, 'The Ageing of Australia: Fiscal Sustainability, International Equity and Inter-temporal Fiscal Balance', November 2004, *Australian Journal of Social Issues, Volume 39*, p. 460.

4 Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference*, Centre for Public Policy, University of Melbourne, p. 4.

5 The Hon. Peter Costello MP, *Intergenerational Report 2007*, April 2007, pp. ix-xi.

structure of the economy will continue the trend over the last fifty years captured in Figure 1.1. Currently, there are 5.25 people of working age in the labour market for every person aged 65 or more. However, if we assume current working age participation rates continue, this will fall to 2.2 by 2050-51. The ageing of the population will disproportionately affect some States, with South Australia and Tasmania particularly affected following their historical propensity to have younger people migrate.<sup>6</sup>

**Figure 1.1: Age structure of the Australian population, 1956 and 2005**



Note: The age group 85+ includes all ages 85 years or over, and is not directly comparable with other five-year age groups.

Source: ABS 2005a.

Source: AIHW, Australia's Health 2006, p.16.

1.11 These shifts in Australia's demography have various potential impacts, especially on the performance of the economy, the characteristics of the electorate, the nature of services required, as well as costs associated with health, aged care, pensions and other aspects of public administration. The sustainability of economic growth will be put under pressure as a result of lower labour force growth, lower productivity, skills shortages and budget pressures, as older people require greater government

6 Productivity Commission, *An ageing Australia: Small Beer or Big Bucks?*, 2004, pp. 1-3.

spending than younger ones. Spending on age pensions is expected to rise from 2.9 per cent to 4.6 per cent of GDP between 2002 and 2042, with rises in the number of eligible recipients (though offset to a certain extent by enhanced superannuation accumulation). Similarly, health and aged care spending is projected to rise from 4 per cent to 8.1 per cent of GDP over this period, as older people have greater requirements for medical treatment and pharmaceuticals. The lower labour market participation that would ensue will be ameliorated to an extent by a (declining) pool of new young workers, increasing participation from women, immigration, improved education and the consequent greater participation rates created, and greater encouragement for older people to work.<sup>7</sup>

### ***The significance of cost of living rises for older people***

1.12 The terms of reference for the inquiry are fundamentally aimed at assessing the standards of living for older people, the capacity of the government to influence these factors and the efficacy of past measures taken for this purpose. There are various factors relevant to calculating standards of living that are intangible and difficult to measure, such as social networks. For this reason, the terms of reference seek to ascertain the effect of cost pressures on some of these aspects of community participation. Clearly, cost of living pressures are fundamental factors in determining the proportion of income and expenditure required on essentials, the remaining resources for disposable income and discretionary spending.<sup>8</sup>

1.13 Since the early 1990s, Australia has experienced continuous economic growth, moderate inflation, high business investment, improved wages, record low unemployment and sustainable enhancements in living standards.<sup>9</sup> However, the strength of the economy has highlighted the need to ensure that all Australians have shared in the benefits and that certain segments have not been specifically disadvantaged or left behind. Economic growth can sometimes be associated with rises in the cost of living, which can be particularly felt by those on lower incomes, such as pensioners and self-funded retirees.

1.14 Of particular importance to this inquiry, older people, and particularly retirees, are often more vulnerable to rises in the costs of living than many other

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7 Productivity Commission, *An ageing Australia: Small Beer or Big Bucks?*, 2004, pp. 4-5; Greg Coombs and Brian Dollery, 'The Ageing of Australia: Fiscal Sustainability, International Equity and Inter-temporal Fiscal Balance', November 2004, *Australian Journal of Social Issues*, Volume 39, pp. 461-462; Megan O'Connell, 'The Role of Training in Preventing the Labour Market Exclusion of Older Workers', February 2005, Refereed paper presented to the *Transitions and Risk: New Directions in Social Policy Conference*, Centre for Public Policy, University of Melbourne, p. 3.

8 Harry Greenwell, Rachel Lloyd and Ann Harding, 'An Introduction to Poverty Measurement Issues', December 2001, *National Centre for Social and Economic Modelling Discussion Paper No: 55*, pp. 11-12.

9 The Hon. Peter Costello MP, *Address to Australian Businesses, Ensuring Australia's Economic Prosperity: The Intergenerational Report*, 10 April 2007, p. 2.

people. Those that are still working have limited time to improve their financial situation before entering retirement. Those that are in retirement often receive fixed incomes and can be extremely sensitive to even small rises in the cost of living. Consequently, this report explores the general change to costs of living that have been experienced across the Australian community, the financial capacity of older people to meet these costs and the impact on living standards and quality of life.

1.15 The financial well-being of older people depends on numerous factors, which will be explored throughout this report and include degree of wealth, retirement income, availability of concessions and costs incurred. Older people represent a very diverse group, which means that their well-being depends on their personal circumstances. However, there are various trends common to the demographic, which are affecting these issues. The FACSIA submission to the inquiry acknowledged that the needs of older Australians are diverse, and their circumstances are not homogenous, and provided a statistical snapshot of the general characteristics of older people. These include that older persons are on average wealthier, have lower levels of debt, have high rates of home ownership, have disposable incomes that are approximately half of the disposable incomes of all households, and tend to report experiencing higher levels of prosperity and lower levels of financial stress than other groups.<sup>10</sup>

1.16 FACSIA also argued older people were less likely than other demographics to experience financial stress. The level of financial stress declines with age to about 5 per cent in those over 70. Other findings of its research included that older people have very low levels of subjective poverty. That is, very few (less than two per cent) consider themselves to be poor.<sup>11</sup>

1.17 However, these findings were contradicted in personal evidence provided to the inquiry by many submissions from older people and community organisations involved in the provision of services for older people. St Vincent de Paul Society research into cost pressures on various households since 1990 concluded:

Increased cost pressures have disproportionately impacted upon various households depending upon the stages of their life cycles and income source. It [St Vincent de Paul's report: *Winners and Losers: the Story of Costs, Social Policy Issues Paper 2*] finds that since 1990 there has been a growth in inequality due to changes in the cost burdens of various goods and services. Of particular concern is the impact these cost pressures have on the aged, parents and those reliant on the rental housing market and public transport.<sup>12</sup>

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10 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 3.

11 Department of Families, Community Services and Indigenous Affairs, *Social Policy Research Paper 29: Income Poverty, Subjective Poverty and Financial Stress*, 2007, pp. ix-xi, 25, 33.

12 St Vincent de Paul Society National Council, *Winners and Losers: the Story of Costs, Social Policy Issues Paper 2*, 19 December 2004, p. 1.

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## Conclusion

1.18 The demographic change anticipated in Australia over the coming decades has highlighted the importance of this inquiry. The shrinking of the labour force and increased proportion of people in retirement will have substantial impacts on the costs of public administration and the quality of life of older people.

1.19 Also, the contradictory evidence highlighted above regarding the general financial situation and well-being of older people has reinforced the importance of the inquiry and was characteristic of the broader evidence presented to the committee. In part, this was the result of different focuses and methodologies employed in the research. It also reflected distinct findings when personal and anecdotal evidence was compared to broader statistical analysis and general overviews of the older population. This has highlighted the different demographics, entitlements, financial situations and quality of life characterising different segments of the older population.

1.20 Evidence before the committee highlighted that older Australians from culturally and linguistically diverse backgrounds have complex needs. It is important that those delivering services are conscious of the cultural and linguistic diversity of older Australians. It needs to be recognised that the homogeneity of particular culture groups also varies and it should not be assumed that all members of the group hold the same values and beliefs. Service providers need to recognise that not be aware of all the potential linguistic and cultural barriers to ensure they provide effective and appropriate assistance.<sup>13</sup>

1.21 Many older Australians who speak English as a second language revert to their primary language as they age. Service providers need to be conscious of this fact and tailor services to ensure that any language barriers can be overcome.

1.22 The committee also heard that many elderly Indigenous Australians have complex health needs. There is a need for Aboriginal people to have timely access to aged care services and other supports. The appropriateness of those services can be diminished without attention to individual needs and responsiveness.<sup>14</sup>

1.23 The following chapters of this report examine the differing circumstances that highlight the distinct experiences of different segments of the older population in relation to cost of living pressures. They will focus on key aspects of coping with cost of living pressures including the incomes and wealth of older people, the role played by concessions and subsidies, the movement in the costs of living both recently and over the past decade, as well as the impact these factors have on quality of life and community participation.

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13 Ethnic Communities Council of Victoria, *Submission 53*, p.2.

14 Council of Social Service of NSW, *Submission 54*, p.10.

