CHAPTER 3

INCOMES

3.1 The Commonwealth Government assists in enhancing the living standards and ameliorating the cost pressures faced by retirees through the retirement income system, as well as supporting the provision of subsidies and concessions. The retirement income system is primarily comprised of what are considered to be three pillars: the public funded age pension, compulsory superannuation through the Superannuation Guarantee, and voluntary superannuation contributions and private savings.[1] Older people can also be on a variety of other pensions including the disability support pension, veteran's pension and carer payments.[2]

3.2 The inquiry highlighted to the committee the increasing importance of other measures outside the three pillars for assisting older people in meeting the costs of living. These include the taxation system, taper rates and concessions in assisting the capacity of older people to cope with the cost of living. In particular, the Commonwealth Government provides substantial funding for subsidies and concessions, including health services and pharmaceutical discounts, aged care and rental housing, which contribute to reducing expenses for older people and increasing their disposable incomes.

Superannuation savings

3.3 Superannuation is the key vehicle of the retirement income system and allows older people to maintain a higher standard of living than offered by the pension system alone. It involves compulsory savings through employment with contributions by employers on behalf of employees. Although many, and an increasing number of retirees, have some superannuation to supplement a part pension, the majority of retirees have limited benefits from compulsory superannuation. According to FACSIA, superannuation assets constitute 6.6 per cent of the wealth of older households. This is the result of the conversion of superannuation lump sums into other assets and the restricted capacity of current retirees to accumulate savings, due to the limited access to the superannuation system over the course of their working lives.[3]

3.4 According to research by NATSEM, half of 50-64 year old Australians have very little wealth with which to support their retirements. The financial situation for early retirees is bleak according to this research. In 2004, half of retirees aged 55-59 had incomes of less than $10 000 per year and very little superannuation, forty per

1 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 1.

2 Combined Pensioners & Superannuants Association (CPSA), *Submission 66*, p. 2.

3 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 6.

cent had no superannuation and 25 per cent had less than $25 000.[4] In 2004, almost half of retired couples had a combined income of less than $20 000 per year. The incomes of many retirees generally rises as they reach preservation age and gain access to superannuation, but then falls within about five years, possibly as their superannuation is exhausted.[5] Only one quarter of retirees aged 55-59 had more than $100 000 in accumulated superannuation, according to 2005 research.[6]

3.5 There are various reasons for the inadequate levels of superannuation among much of the retired Australian populace. Most importantly, compulsory superannuation was not introduced until 1992. FACSIA submitted that prior to the introduction of award superannuation in 1986, approximately 39 per cent of the working population received superannuation contributions. Compulsory superannuation now extends to 95 per cent of full-time employees and 78 per cent of part time employees.[7] The rate of superannuation guarantee contributions was lifted to nine per cent of wages on 1 July 2002.

3.6 However, for many retirees, and those of or approaching retirement age, these reforms were insufficient and introduced too late to make a substantial difference to their retirement incomes. Numerous submissions to the inquiry highlighted that current retirees worked during a very different policy environment and had limited opportunities to generate superannuation to enhance their quality of life in retirement.[8] These retirees left the labour market before compulsory superannuation was introduced and/or had sufficient time to produce tangible benefits. The level of compulsory contribution was designed to provide an income stream of approximately 40 per cent of final salary on retirement after 40 years full-time employment. Current retirees did not contribute to their retirements for this period. Future retirees also potentially face similar problems if out of the full-time employment market for

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4 Ann Harding, *Analysing Australia's Aging Population: A Demographic Picture*, 27 September 2005, Paper presented to 'Australia's Ageing Population Summit 2005', Financial Review Conferences, p. 3.

5 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, pp 4-5.

6 Ann Harding, *Analysing Australia's Aging Population: A Demographic Picture*, 27 September 2005, Paper presented to 'Australia's Ageing Population Summit 2005', Financial Review Conferences, p. 3.

7 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 43.

8 These included Mr John Thomas, *Submission 10*, p. 1; Mr Frank and Mrs Louise Ogden, *Submission 79*, p. 2; Ms Mary Maxwell, *Submission 34*, p. 1; Ms Patricia Strachan, *Submission 186*, p. 1; Name withheld, *Submission 123*, p. 1; Mr Ron Warpel, *Submission 124*, p. 1; Name withheld, *Submission 174*, p. 1; Mr James Naylor, *Submission 176*, p. 1; Ms Rosemary Taylor, *Submission 197*, p. 3; Ms Jeanette Lindsay, *Submission* 229, p. 1; Australian Seniors Finance, *Committee Hansard*, 23 August 2007, p. 12; Australian Council of Social Service (ACOSS), *Submission 211*, p. 1.

extended periods. This can be the result of contract and casual employment, caring responsibilities or long periods of absence due to education.[9]

The importance of employment patterns

3.7 Research has shown that women in retirement or of retirement age have been particularly disadvantaged on average, with less than half the superannuation balances of men.[10] FACSIA's submission to the inquiry also noted that single women in both retirement and pre-retirement cohorts have lower average and median superannuation balances than single men.[11] Catholic Social Services Australia submitted that almost 90 per cent of women aged 60-64 in 2003-04 had balances of under $100 000 and 75 per cent had less than $40 000—considered to be a low level.[12]

3.8 Women are more likely to have accumulated lower retirement savings than men, due to their employment patterns. These include greater career interruptions as a result of family responsibilities, lower gender-based pay rates, lower average wages, greater concentration in casual and low paid employment and, prior to the introduction of compulsory superannuation, greater likelihood of employment in industries or occupations where employers did not contribute to superannuation. These findings were provided in a report by the Commonwealth Government in conjunction with the University of Melbourne and the Melbourne Institute of Applied Economic and Social Research. The report highlighted:

> Women, particularly women living alone, currently have very limited capacity to provide for themselves financially in retirement and are more prone to live in poverty or on a low income in retirement.[13]

3.9 Evidence provided to the inquiry in submissions also argued that women had often historically been compelled to resign from employment when they married or became pregnant.[14]

3.10 The Aids Council of NSW (ACON) argued that sufferers of chronic illnesses, such as HIV/AIDS, also experience interruptions related to their employment, which impacts on their financial status in retirement.[15]

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9 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. 12.

10 Simon Kelly & Ann Harding, 'Funding the Retirement of Baby Boomers', 2004, *Agenda Volume 11 (2)*, pp 100-101.

11 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 6.

12 Catholic Social Services Australia, *Submission 95*, p. 9.

13 Australian Government Office for Women, *Women: Aspects of Retirement for Older Women*, 2006, p. 8.

14 Australian Seniors Finance Limited, *Committee Hansard*, 23 August 2007, p. 13; Ms Valerie Applegarth, *Submission 16*, p. 1; Ms Catherine Laing, *Submission 173*, p. 1.

3.11 The financial difficulties in preparing for retirement as a result of chronic illness were illustrated by Mr Bede Haywood who submitted:

> Getting hereditary cancer at the age of 30 yrs impacted on my whole life. It put an end to securing Bank and house loans, I was not allowed to increase my superannuation, personal insurance was a no go area and getting another job just about impossible particularly if it required a medical. So saving for retirement was not an option and being forced to leave the workforce early did not help.[16]

3.12 Only 29 per cent of people aged 45 and above who have not yet retired, believe they will need to rely on government benefits.[17] However, there is a discrepancy between expectations about life-style and vehicles for funding retirement, and the reality. Although many of those in retirement and those about to retire have only limited superannuation savings, the National Institute of Accountants argued that workers almost consistently underestimate their financial needs in retirement and many underestimate their life expectancy.[18] Along with this, some lack the necessary financial and investment skills to adequately prepare for their retirement.

Pension provisions

3.13 The age pension provides a safety net for older people with limited retirement savings and increasingly has a role as an income supplement. It is means-tested and designed to support a modest standard of living and ensure recipients can afford basic level participation in society. As at 1 July 2007, the full pension rate was $13 652.60 per year for singles and $22 802 for a couple.[19] This equates to $262.55 per week and $438.50 per week for single and couple pensioner households respectively.

3.14 Government benefits—primarily the age pension or veterans' payments—remain the principal source of income for three-quarters of Australians aged 65 and above. Only 10 per cent rely primarily on superannuation.[20] The Hobsons Bay City Council submitted that 80 per cent of its residents aged 65 and above are reliant on the age pension.[21]

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15 Aids Council of New South Wales, *Submission 212*, p. 6.

16 Mr Bede Haywood, *Submission 152*, p. 1.

17 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*, pp 2, 20.

18 National Institute of Accountants, *Submission 67*, p. 4.

19 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 25.

20 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 8; 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*, pp 2, 20.

21 Hobsons Bay City Council, *Submission 3, Ageing Community Profile: Ageing Well Strategy 2007-2017*, February 2007, p. 6.

3.15 FACSIA submitted that the means-testing of eligibility for the age pension encourages regular consumption of capital over the course of retirement. It maintained that even modest savings can have a substantial effect on retirement income of age pensioners if consumed regularly, enhancing total income by 15 per cent for singles and 17 per cent for couples over the age pension alone. FACSIA reported that its economic modelling suggests part pensioners experience even greater benefits. This includes a 49 per cent increase over the pension entitlement for singles and 67 per cent increase for couples.[22]

3.16 The Department of Veterans' Affairs (DVA) pays pensions on the basis of age or invalidity to eligible veterans and partners, widows and widowers, as well as income support supplement for war widows and widowers with limited means and an income support allowance for eligible recipients of the disability pension. The DVA age service pensions are paid according to the same income and assets test as recipients of the age pension, but are paid five years earlier than the social security age pension. This reflects the effects of war service and impact on ageing and earning power. The invalidity pension may be paid at any age before a person turns 65 and is not means tested. Service pensions also have eligibility for pharmaceutical allowance, rent assistance, telephone allowance, utilities allowance and remote area allowance.[23]

The increase in partial-pension recipients

3.17 While the number of retirees receiving pensions has increased, this is due to a gradual increase in the proportion of older people receiving partial pensions. At the same time, there has been a decrease in the proportion receiving the full pension. Those receiving a part pension have their incomes supplemented by superannuation and generally receive a higher level of income than those receiving the full pension.[24]

3.18 Over the past 10 years, the Australian Government has altered the pension taper rates to ensure part-rate pension recipients receive greater pension payments for a given level of private assets or income. Along with this is a higher cut-out point. Consequently, a greater proportion of pensioners have become eligible for part pensions.[25]

3.19 In July 2000 the income test taper rate was reduced from 50 cents to 40 cents in the dollar to compensate for the introduction of the new tax system. This has increased the disposable income of part-rate income tested pensioners and increased

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22 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 40.

23 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 33, 80.

24 Parliamentary Library Economic, Commerce and Industrial Relations Section, *An Adequate Superannuation-based Retirement Income?*, 16 March 2006, pp. 16, 22; Hazel Lim-Applegate, Peter McLean, Phil Lindenmayer and Ben Wallace, 'New Age Pensioners—Trends in Wealth', 2007, *Australian Social Policy 2006*, p. 1.

25 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 34.

the number of people eligible to receive pension payments. For a person with a $20 000 annual wage, the changed taper rates yield a benefit of $1 540 per year.[26]

3.20 Under the Better Super reforms, from 20 September 2007, the taper rate will ensure the pension is withdrawn more slowly and the point at which the pension cuts out is much higher. The pension assets test taper rate will be halved, so that pensioners only lose $1.50, rather than $3, for each $1000 over the asset test threshold. The changes will also make some that were previously ineligible for any pension to qualify for a part-pension. FACSIA submitted that the changes have been designed to increase incentives for saving for retirement and increase workforce participation by reducing the effective marginal tax rate. It also increases the disposable income with a person with investments yielding a $20 000 income benefiting by $3 831 per year.[27]

3.21 The value of assets held without losing pension eligibility has increased. FACSIA submitted that single pensioners that own their own home have had assessable assets increased from $343 750 to $520 750, and couples from $531 000 to $825 500. Similarly, single pensioners that do not own their own home will have their asset threshold raised from $464 750 to $641 750 and couples from $652 000 to $946 500.[28]

Indexation of retirement benefits

Pension indexation

3.22 The age pension is means tested and indexed twice each year (in March and September) to protect its value against inflationary increases in prices and rises in wages growth. In particular, the pension is indexed according to the higher rate of the Consumer Price Index (CPI) or 25 per cent of male total average weekly earnings (MTAWE). The addition of the indexation to reflect values in MTAWE commenced in 1998, as a result of legislation introduced in the previous year.

Effect of indexation linked to earnings

3.23 From 1982 to 1997-98, the real average incomes of older people rose as a proportion of average incomes for the population as a whole, according to research by FACSIA. This included a rise of 5.7 per cent for older couples and 6.7 per cent for older singles, compared to a real increase of four per cent for the broader population.[29]

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26 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 35.

27 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 36, 38.

28 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 37-38.

29 Hazel Lim-Applegate, Peter McLean, Phil Lindenmayer and Ben Wallace, 'New Age Pensioners—Trends in Wealth', 2007, *Australian Social Policy 2006*, pp 5-6, 13.

3.24 FACSIA provided evidence that the indexation of the pension to at least 25 per cent of MTAWE has ensured that the real value of the pension has increased above the CPI and the age pension cost of living index. That is, the pension rate has increased by 48 per cent, compared to a rise of 30.2 per cent for the CPI and 32 per cent for the pension cost of living index. This increased the payments to single pensioners by $72.80 per fortnight and to couples by $122.60 per fortnight.[30]

3.25 The indexation arrangements have coincided with high growth in the economy. Over the past five years, this has translated into wages growth outstripping the CPI and, consequently, a rise in the real value of the pension, due to the pension indexation arrangements. This coincided with a reduction in the proportion of older people for whom government benefits were the principal source of income—from 74.7 per cent to 65.4 per cent for couples and from 82.1 per cent to 79.7 per cent for singles—and a rise in the significance of other forms of income.[31]

3.26 Pension increases have exceeded CPI increases on 11 of the 16 indexations between 1997 and the time of the inquiry. On the other five indexations (20 March 2000, 20 March 2001, 20 September 2004, 20 March 2005 and 20 September 2006), the pension increased in line with the CPI, which increased at a greater rate than MTAWE. FACSIA has estimated that the indexation of the pension to MTAWE has increased age pension expenditure by $12.99 billion (in December 2006 dollars) than it otherwise would have been.[32] Figure 3.1 highlights the growth in the real value of the pension compared to rises in the CPI.

3.27 In addition to FACSIA, other evidence to the inquiry strongly supported the benefits of indexation of the age pension to MTAWE. The Brotherhood of St Laurence told the committee:

> With the introduction of MTAWE, many of the concerns of our organisation in relation to the financial wellbeing of older people were essentially being addressed by government policy directions.[33]

3.28 Despite this evidence, the committee received numerous anecdotal submissions that the pension is not maintaining its real value in the face of increasing cost of living pressures. The Combined Pensioners and Superannuants Association acknowledged the rise in the real value of the pension. However, the association argued that full rate pensioners still experienced financial stress.[34] Both Catholic Social Services Australia and Ms Beth Butler maintained that this was because the

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30 Department of Families, Community Services and Indigenous Affairs, *Committee Hansard*, 20 September 2007, pp 2, 4.

31 Hazel Lim-Applegate, Peter McLean, Phil Lindenmayer and Ben Wallace, 'New Age Pensioners—Trends in Wealth', 2007, *Australian Social Policy 2006*, pp 5-6, 13.

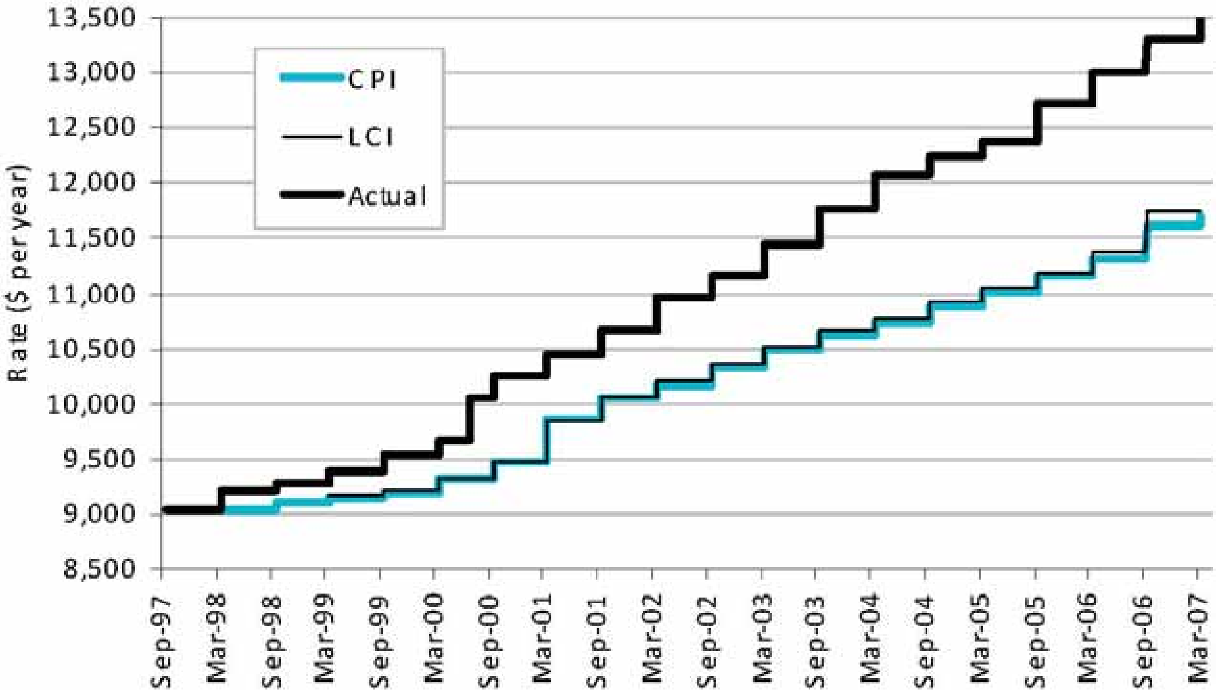
32 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p.28.

33 *Committee Hansard*, 23 August 2007, p. 27.

34 Combined Pensioners & Superannuants Association (CPSA), *Submission 66*, p. 6.

indexation level of MTAWE of 25 per cent was simply insufficient to provide an adequate standard of living for age pensioners.[35]

Figure 3.1: Actual pension rates – increases compared to increases in line with CPI only, and ABS analytical living cost index for age pensions only



Source: Submission 138, p.19 (FaCSIA).

3.29 According to evidence provided by the NIA, the increase in the real value of the pension following its indexation to MTAWE contrasts with the norm in various other OECD countries where the level of pension allocations are being reduced as a means of encouraging better retirement planning.[36] Similarly, Australia Fair research notes that Australia has relatively good minimum wages compared to other OECD countries,[37] which emphasises the value to pensioners of indexation to wage growth.

3.30 Also, despite the evidence of the real growth in the value of the age pension over the past year, some submissions raised concerns about the longevity of this result. Concerns were expressed about any decline or suppression of wage levels and the use of non-wage remuneration to accommodate increases in the costs of living, such as tax cuts, for workers. In particular, the Defence Force Welfare Association (DFWA) highlighted that MTAWE excluded superannuation contributions, fringe benefits and work-life trade offs. DFWA used the example of the introduction of the

35 Catholic Social Services Australia, *Submission 95*, p. 9; Ms Beth Butler, *Submission 104*, p. 2.

36 *Committee Hansard*, 23 August 2007, p. 12.

37 Australian Council of Social Service, *A Fair Go For All Australians: International Comparisons, 2007*, p. 47.

Superannuation Guarantee Charge in the early 1990s, which resulted in a slowing of wage rises, although workers received monetary remuneration with rises in their superannuation balances.[38] Various submissions highlighted that those in the labour force had been compensated for cost of living pressures through adjustment of taxation scales.[39] However, these benefits did not accrue to pensioners because they did not pay tax, despite being faced with many of the same cost of living pressures.

3.31 Similarly, some submissions to the inquiry raised concerns about the impact on the indexation and retirees' lifestyles as a result of the Coalition Government's Workplace Relations reforms allegedly suppressing wages growth.[40] The Australian Pensioners' and Superannuants' League Queensland (APSL QLD) highlighted information allegedly leaked from the Government, which suggested that many workers experienced the elimination or reduction of additional payments from workers' earnings and did not receive pay rises over the life of workplace agreements.[41]

The suitability of CPI indexation

3.32 The potential for future economic downturns and declines in wages growth brings to the fore the importance and validity of the other indexation measure for age pensions—the CPI. However, concerns were expressed in a large number of submissions about the suitability of the CPI for measuring the cost of living rises for older people.

3.33 FACSIA acknowledged that pensioner households have comparatively higher expenditure on food, health and housing, and less on transportation, education and financial and insurance services than other households. Self-funded retirees have comparatively higher expenditure on household contents, recreation and health, and lower expenditure on education, financial and insurance services. However, FACSIA argued that the cost of living indexes for pensioners and self-funded retirees were only marginally above the CPI for the year between the June quarters in 2005 and 2006. FACSIA argued that quarterly changes in certain commodities influenced community perceptions of the effect of cost pressures on the living standards of older persons.

3.34 Both FACSIA and the ABS have noted that the differences between the cost of living indexes and the CPI between June 1998 and June 2006 were moderate (see

38 The Defence Force Welfare Association, *Submission 38*, pp 2-3.

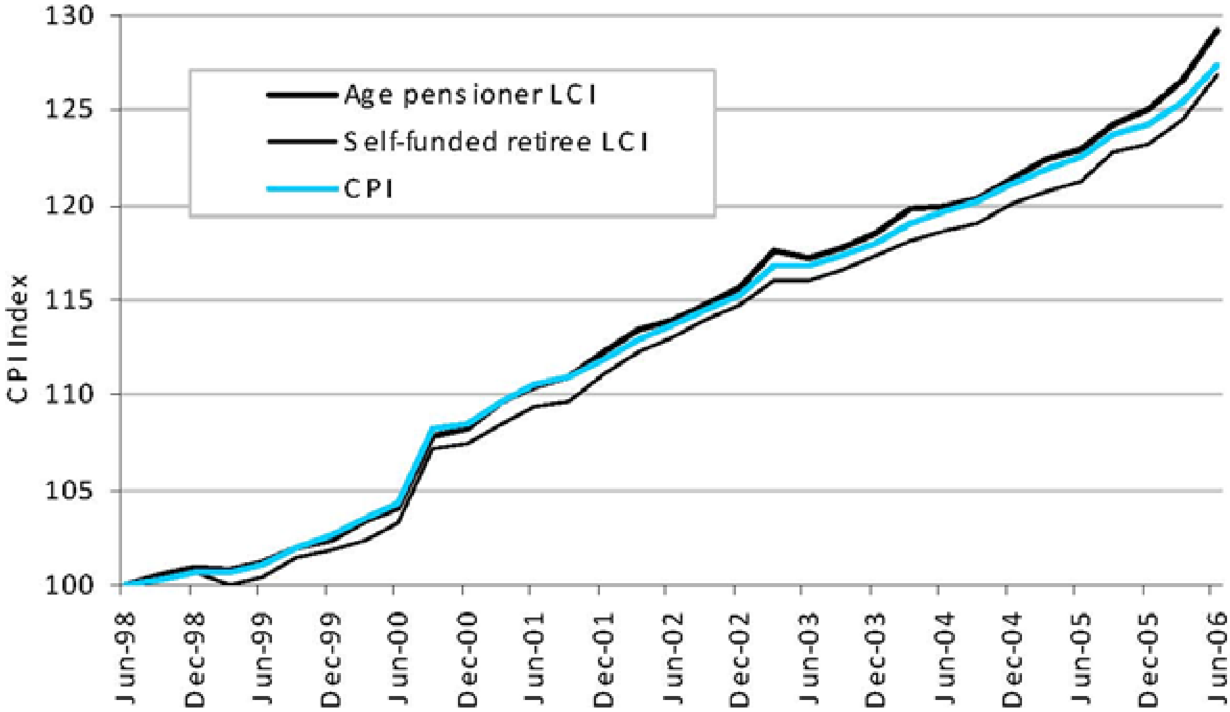
39 These included Mr Bernard and Mrs Barbara Murray, *Submission 86*, p. 3; Mr Alan and Mrs Elizabeth Hutchins, *Submission 83*, p. 1; Mr Tula and Mrs Chandra Wati Ram, *Submission 23*, p. 2; Mrs Sukhraji Prasad, *Submission 31*, p. 1; Mr Cy D'Oliveira, *Submission 131*, p. 2; Mr John Neve, *Submission 144*, p. 1.

40 Australian Pensioners' & Superannuants' League QLD Inc, *Submission 1*, p. 4; Australian Manufacturing Workers' Union, *Submission 204*, p. 18; Ms Anne and Mr Bill Byrne, *Submission 1*, p. 1; Mr Richard Sims, *Submission 26*, p. 1.

41 Australian Pensioners' & Superannuants' League QLD Inc, *Submission 1*, p. 4.

figure 3.2). The pensioner living cost index average was 3.3 per cent, the self-funded retiree index average was 3.0 per cent and the CPI average was 3.1 per cent. This resulted in overall rises of 29.2 per cent, 26.9 per cent and 27.4 per cent respectively.[42]

Figure 3.2: Comparison of Index Numbers for living cost index of age pensioner households, self-funded retiree households and CPI



Source: Submission 138, p.19 (FaCSIA).

3.35 Nevertheless, numerous submissions expressed concerns about the accuracy of the CPI as a reflection of inflation experienced by pensioners and retirees and the consequential erosion of the value of their incomes.[43]

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42 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 15-19; Australian Bureau of Statistics, 6463.0 – Analytical Living Cost Indexes for Selected Australian Household Types, June 2007, http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/6463.0?OpenDocument, (accessed 29 August 2007).

3.36 The St Vincent de Paul Society argued that the standard CPI data is of 'limited use' in understanding the impacts of price changes on different sectors or sub-groups of the community. CPI is a measure of broad economic or inflationary trends, with the 'CPI basket' representing the average expenditure of all private households in the eight capital cities. It does not, however, recognise household sub-groups and therefore cannot assess the differing impacts of price changes on household sub-groups.[44] The St Vincent de Paul Society argued that as a result of 'the anomaly between average and actual households', government transfers that are indexed to the CPI give rise to either 'over generous payments' or 'payments which underestimate the actual cost of living'.[45]

3.37 The St Vincent de Paul Society pointed out that household consumption patterns are influenced by stages in the life cycle and various life styles. It was argued that different consumption patterns affect the cost of living of different households. The relevance of the CPI – that is, how well an individual household's cost of living 'correlates with the official CPI' – depends on how closely the household consumption pattern reflects the CPI consumption pattern.[46]

3.38 More specifically, Dr Paul Henman observed that the CPI may not accurately reflect the spending patterns of older people:

> [T]he ABS's CPI basket of goods and services is chosen to be representative of Australian households as a whole, and as such, may not reflect the basket of goods and services that older Australians are likely to purchase.[47]

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43 These included St Vincent de Paul Society National Council of Australia, *Submission 92*, p. 6; Australian Council of Social Service (ACOSS), *Submission 211*, p. 1; Combined Pensioners & Superannuants Association (CPSA), *Submission 66*, p. 6; Association of Independent Retirees, *Submission 2*, p. 4; Australian Pensioners' & Superannuants' League QLD Inc, *Submission 1*, p. 3; The Defence Force Welfare Association, *Submission 38*, p. 2; Women's Action Alliance, *Committee Hansard*, 23 August 2007, p. 48.; Ethnic Communities' Council of Victoria, *Submission 53*, p. 2; Brotherhood of St Laurence, *Committee Hansard*, 23 August 2007, p. 32.; COTA Over 50s, *Committee Hansard*, 23 August 2007, p. 76.; Wide Bay Women's Health Centre, *Submission 55*, p. 8; Mr Robert Shortridge, *Submission 84*, p. 1; Mr Klaus and Mrs Christina Bernhard, *Submission 74*, p. 1; Name withheld, *Submission 48*, p. 1; COTA Over 50s, *Submission 96*, p. 3; Catholic Social Services Australian, *Submission 95*, p. 5; Ms Beth Butler, *Submission 104*, p. 2; Mr Peter and Mrs Mary Wright, *Submission 118*, p. 1; Mr Ian Mudge, *Submission 122*, p. 1; Mr Robert McShane, *Submission 128*, pp 1-2; Mr Dean and Ms Patricia Cornish, *Submission 150*, p. 1; Name withheld, *Submission 149*, p. 4; Mr Tom Hayes, *Submission 157*, p. 1; Ms Virginia Boskovic, *Submission 160*, p. 1; Mr Bert Hoebee, *Submission 213*, p. 1; Name withheld, *Submission 123*, p. 2; Mr Peter McSpadden, *Submission 127*, p. 20; Mrs V Melville, *Submission 178*, p. 1; Mr John Daniels, *Submission 75*, Appendix: Extracts from report written by Dr. Richard Denniss; Ms Norma Gardner, *Submission 121*, attachment 2.

44 St Vincent de Paul Society, *Submission 92*, p. 4.

45 St Vincent de Paul Society, *Submission 92*, p. 5.

46 The St Vincent de Paul Society, *Submission 92*, p. 5.

47 Dr Paul Henman, *Submission 218*, p. 3.

3.39 By way of example, Dr Henman went on to note that older Australians might be more likely to spend less on housing costs and more on health services.[48] Similarly, other witnesses pointed to basic essential costs, such as food, petrol and fares, electricity, medical fees and pharmaceutical prices, as being of greater importance in the costs of living for retirees.[49]

3.40 COTA argued that people on low and fixed incomes, such as age pensioners, exhibit expenditure patterns that are markedly distinguishable from those of the average person. It was noted that the ABS reported that between 1998 and 2006 the living costs for age pensioners showed the greatest increase of any household type.[50] COTA argued:

> We estimate that for some groups of pensioners costs may have increased by 15 points more than is reflected in the CPI over a 15 year period. Indigenous older people and those from culturally and linguistically diverse backgrounds are over-represented amongst these groups.[51]

3.41 COTA and the Ethnic Communities Council of Victoria cited similar research from St Vincent de Paul to highlight the changes in the CPI compared to costs more directly relevant to older persons. Weightings emerging from this study indicated that from 1990 to 2005 the CPI rose to 148.8 while the cost of living for age and disability pensioners (who were home owners and used private transport) increased to 153.99. For those in rental accommodation, it rose to 162.93. This was due to large rises in transport costs, health costs, dental services, insurance, utilities, dairy products and bread.[52] The Ethnic Communities Council also argued:

> This specialised research seems to match the anecdotal and very vocal feedback we have received from our membership that their income levels are declining and that they are suffering significant disadvantage and hardship despite Australia’s generally high level of economic prosperity over the last 15 years.[53]

3.42 However, FACSIA expressed reservations about the methodology underpinning the cited St Vincent de Paul research at a public hearing in Canberra[54] and expanded on these concerns in a supplementary submission to the inquiry. Based on the St Vincent de Paul's published material - *Winners and Losers* – the newly

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48 Dr Paul Henman, *Submission 218*, p. 3.

49 See for example, ACOSS, *Submission 211*.

50 COTA Over 50s, *Submission 96*, p. 10.

51 COTA Over 50s, *Submission 96*, p. 3.

52 COTA Over 50s, *Submission 96*, p. 9; Ethnic Communities Council of Victoria, *Committee Hansard*, CA 40, 23 August 2007.

53 Ethnic Communities Council of Victoria, *Committee Hansard*, 23 August 2007, p. 40.

54 Dr N Hartland, *Committee Hansard*, 20 September 2007, pp 5-6.

named FaHCSIA (Department of Families, Housing, Community Services and Indigenous Affairs) identified several factors that, it believes:

> limits the usefulness and applicability of the Society's RPI modelling', and leads to questions about the Society's claim that some groups face increases in their cost of living of 30 per cent above the CPI.[55]

3.43 The DFWA made the point that the CPI does not take account of changing spending patterns, notably that: technological and economic progress often means that items previously considered luxuries can become norms; cost pressures often result in the purchase of qualitatively inferior products; and market changes can require additional spending, such as reductions in public transport services requiring greater reliance on private transport.[56]

3.44 Similarly, Dr Henman argued that consumption is not a static thing:

> There is a number of factors which mean that the basket of goods and services Australian households consume change over time'. These factors include 'growing living standards', 'technological change' and 'changing social dynamics.[57]

3.45 Dr Henman noted that, in particular, certain price pressures have not been adequately captured in the CPI basket. These price pressures include banking fees and charges; mobile phone services; internet access; and the reduction in bulk billing by GPs.

3.46 The ABS confirmed the limits of the CPI as a measure of the cost of living and argued that the analytical cost of living indexes are more appropriate mechanisms. The analytical cost of living indexes, including the ABS Pensioner Price Index, draw on information from the Household Expenditure Survey and have been designed to determine the necessary rise in income to allow continued purchases of the same quantity of consumer goods and services. The analytical cost indexes consider the impact of price changes on a particular household demographic (rather than a community average), use the national expenditure patterns for this group (rather than just in capital cities), and accommodate items such as house purchases and insurance in a way to better reflect a cost of living index:

> The indexes represent the conceptually preferred measures for assessing the impact of changes in prices on the disposable incomes of households…The Australian CPI, on the other hand, is designed to measure price inflation for the household sector as a whole, and as such, is not the conceptually ideal measure for assessing the impact of price changes on the disposable income of households.[58]

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55 FaHCSIA, *Submission 138*, supplementary information, 12 March 2008, p. 12.

56 The Defence Force Welfare Association, *Submission 38*, p. 2.

57 Dr Paul Henman, *Submission 218*, p. 4.

58 Australian Bureau of Statistics, *Submission 43*, p. 3.

3.47 The CPSA submitted that the ABS Pensioner Price Index was a more suitable measure of inflation experienced by pensioners than the CPI. CPSA highlighted that from 2001-2002, the ABS Pensioner Price Index began increasing at a rate higher than the CPI. However, the CPSA argued that the ABS Pensioner Price Index still has deficiencies. The ABS Pensioner Price Index measures actual expenditure – that is, it captures the spending behaviour of pensioners rather than creating a 'normative' basket of goods and services that reflects what 'experts' believe pensioners need.[59] However, as the CPSA pointed out, the focus on actual expenditure does not take into account the expenditure required but unaffordable to pensioners.[60] Similarly, the Brotherhood of St Laurence and the Ethnic Communities Council of Victoria raised concerns during the inquiry about the differences between ABS data, including on the household indexes, and anecdotal reports that the cost of goods and services are outstripping the CPI.[61] The Brotherhood of St Laurence called for more detailed modelling of the movement in the costs of goods and services.[62]

3.48 Along these lines, Dr Paul Henman stressed the difference in living standards for older Australians who own their homes outright and those in the private rental market, who 'face quite different and accelerating financial pressures'. Accordingly, he suggested that the ABS develop a CPI index for privately renting older Australians on the full-rate Age Pension.[63] Further, Dr Henman noted that Australia does, in fact, already have 'high quality research tools and datasets'[64] to undertake up-to-date assessments of the cost of living pressures and the impacts of these on older Australians, including sub-groups of older Australians (homeowners, private renters and social housing renters for example).[65]

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59 Dr Paul Henman, *Committee Hansard*, 8 February 2008, p. 4.

60 Combined Pensioners & Superannuants Association (CPSA), *Submission 66*, p. 6.

61 *Committee Hansard*, 23 August 2007, p. 40..

62 *Committee Hansard*, 23 August 2007, p. 32.

63 Dr Paul Henman, *Submission 218*, additional information, 19 February 2008, p. 2.

64 Notably these research tools include a range of equivalence scales. That is, 'measures of the relative amount of total expenditure or disposable income required by households of different compositions and in specific circumstances to attain the same standard of living', T.N Binh & P. Whiteford, 'Household Equivalence Scales: New Australian Estimates from the 1984 Household Expenditure Survey, *The Economic Record*, 1990, p. 221.

65 Dr Paul Henman, *Submission 218*, p. 1.

Indexation of other retirement benefits

3.49 Concerns about the indexation of retirement benefits were also raised in relation to military pensions and commonwealth superannuation.[66] The indexation of disability pensions was similarly raised, although there was bi-partisan support during the 2007 election campaign to index these in line with the age pension. It was argued that the acknowledgement of the utility of MTAWE in ensuring the age pension maintains its real value by community living standards, underscores the need for a similar mechanism for other retirement benefits. Many of these benefits remain indexed solely according to rises in the CPI and have had their comparative value eroded, if not their real value. In particular, frustration was exhibited at the maintenance of Commonwealth superannuation and some defence payments at their existing level on 5 July 2007, due to the CPI not increasing.[67]

3.50 DFWA noted that the difference between military pensions indexed at the CPI rate and the MTAWE was 29 per cent since 1990 in the favour of MTAWE.[68] Similarly, Mr Bert Hoebee argued that since June 1997, the age pension had risen by 51 per cent, compared to military pensions by 30 per cent. He submitted:

> There is clear evidence of the annual decline in Defence retirees' pensions' purchasing power and many of us therefore feel like second-class Australians, facing a continuing decrease in our standard of living as we grow older, despite years of loyal service to the nation.[69]

3.51 This was echoed by military retiree Mr Ray Gibson, who submitted that over the last decade military pensions have fallen approximately twenty percent behind rises in the age pension.[70]

3.52 The Superannuated Commonwealth Officers' Association argued that as Commonwealth superannuants' superannuation incomes are indexed by the CPI they are unable to keep pace with charges, such as some government fees, which are indexed at a higher rate. For example, Motor Vehicle Registration fees in the ACT are indexed according to MTAWE.[71]

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66 These included the Defence Force Welfare Association, *Submission 38*, p. 3; Superannuated Commonwealth Officers' Association Inc, *Submission 52*, p. 10; Mr Warren Woodcock, *Submission 158*, p. 1; Name withheld, *Submission 163*, p. 1; Mr Bert Hoebee, *Submission 213*, p. 1; Mr Ray Walters, *Submission 103*, p. 1; Mr Wayne Koch, *Submission 164*, p. 12; Name withheld, *Submission 169*, p. 1; Mr Robert Shortridge, *Submission 84*, p. 3; Mr Ian Mudge, *Submission 122*, p. 1; Mr John Daniels, *Submission 72*, p. 1; Mr J S O'Neill, *Submission 214*, p. 1; Mr Stephen Thompson, *Submission 215*, p. 1, Mr Ray Gibson, *Submission 226*, pp 1-3.

67 Mrs V Melville, *Submission 178*, p. 1.

68 The Defence Force Welfare Association, *Submission 38*, p. 3.

69 Mr Bert Hoebee, *Submission 213*, p. 1.

70 Mr Ray Gibson, *Submission 226*, p. 3.

71 Superannuated Commonwealth Officers' Association Inc, *Submission 52*, p. 10.

3.53 The 2002 *Report on Superannuation and Standards of Living in Retirement* by the Senate Select Committee on Superannuation recommended that commonwealth superannuation be indexed in the same way as benefits such as the age pension, to the higher of MTAWE or CPI. However, the Government's response to the report stated that it considered the CPI to provide an 'equitable and satisfactory method over a period of years for increasing pensions'. This was based on ABS data between June 1998 and June 2004, indicating the CPI had increased by 19.7 per cent, compared to 18.6 per cent for the cost of living index for self-funded retirees. The Government also reported that altering the indexation arrangements would have a substantial fiscal impact on the budget that would be difficult to sustain.[72]

3.54 Against the (former) Government's response noted above, Mr Coleman from the Superannuated Commonwealth Officers Association told the committee that there is 'ample evidence' that bringing superannuation indexation arrangements in line with indexation arrangements for the Age Pension is 'fair, affordable and long overdue'.[73]

The adequacy of income levels for older people

3.55 A key aspect of measuring the cost of living for older people is ascertaining the adequacy of the incomes and their capacity to keep pace with movements in the price of basic and essential goods and services. As has already been established, older people form a very diverse demographic and incomes can be wide-ranging.

3.56 The inquiry received numerous anecdotal submissions about older people experiencing financial stress. However, most of the research data seems to suggest that many older people have the means to provide a frugal but modest standard of living. This was illustrated in the submission of the Brotherhood of St Laurence. The submission pointed out that unlike younger singles and families receiving income support, income received from the age pension was higher than the poverty line. Couples who received the full pension and owned their own home were $150 per week above the poverty line and singles who did not own their own home were $29 per week better off.[74]

3.57 FACSIA submitted data and statistics on trends and the general circumstances of older people. FACSIA pointed to ABS data that highlighted that the average after-tax income of older households was $23 800 with the median $20 020 in 2003-04. FACSIA submitted that the disposable income of older persons was approximately

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72 Commonwealth Government of Australia, *Government Response to the Recommendations of the Senate Select Committee on Superannuation Report, 'Superannuation and Standards of Living in Retirement'*, 14 February 2005, p. 19.

73 Mr John Coleman, Superannuated Commonwealth Officers Association, *Committee Hansard*, 8 February 2008, p. 8.

74 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 9.

half of that of all households, although this was increased to two-thirds after factoring in lower responsibility for dependents.[75]

3.58 Other research by FACSIA suggests that older people are less likely to experience income poverty than younger people, although these findings are dependent on the measure employed. On before-housing poverty measures, poverty was found to be higher in the youngest cohort (18-24 year olds) and the two oldest age cohorts (65-70 and 70 and older). Of those 18-25 years, 20 per cent lived in poverty, while 30 per cent of those older than 70 lived in poverty. This was compared to less than 4 per cent of those aged 25-54 living in poverty. But the research found that age was negatively associated with after-housing income poverty and financial stress, which reflects the lower housing costs of older households.[76]

Measures of retirement income adequacy

3.59 Most of the research about adequate retiree income levels calls for either a level necessary to achieve a certain standard of living based on meeting certain essential costs, or a level based on an arbitrary percentage or replacement rate of pre-retirement income.

3.60 ASF highlighted that it considered the Australian pension scheme to be 'one of the best schemes in the world' and, unlike many other countries, remained affordable. However, it raised the issue of the lack of investigation into the adequacy of the pension. It provided the following evidence:

> There has never really been a guide—a basket of goods and services—that sets the age pension. It has been a little bit of guesswork. It was the CPI increase and then it was average weekly earnings…There is nothing magic about 25 per cent of average weekly earnings. When we talk about doing something on the adequacy of the age pension, there needs to be a basket of goods and services looked at so that we do have a base, which we do not now.[77]

3.61 Consequently, most research into the adequacy of retirement incomes focuses on replacement rates. FACSIA submitted that a replacement rate less than 100 per cent is generally considered acceptable for retiree incomes because retirees do not typically face the major expenses incurred by people of working age. This includes mortgage repayments, education expenses, child care fees and work-related costs. Further, older people also often have access to concessions and other age related

75 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 8-9.

76 Australian Government Department of Families, Community Services and Indigenous Affairs, *Social Policy Research Paper 29: Income Poverty, Subjective Poverty and Financial Stress*, 2007, pp ix, 13, 23, 34.

77 *Committee Hansard*, 23 August 2007, p. 11.

services. Replacement rates are anticipated to rise as a result of the maturation of the superannuation system from over 60 per cent in 2006 to 80 per cent by 2016.[78]

3.62 It has been suggested that these replacement rates would potentially provide older people with higher standards of living in retirement than experienced during their working lives. In particular, working people generally do not have access to these proportions of their income as disposable income.[79]

3.63 A level of 65 per cent of full-time pre-retirement income has often been cited as necessary to achieve an adequate retirement life-style. However, research by AMP and NATSEM has determined that most retirees rely primarily on the age pension and have an income of less than half of this amount.[80] This was echoed in evidence before the inquiry with most of the submissions from age pensioners highlighting difficulties in meeting cost of living expenses considering the provisions of the age pension. While the proportion of retirees reliant on the full age pension is likely to decline over time as superannuation matures, the current situation of some retirees remains of concern.

3.64 COTA argued that people 65 years and above have the lowest average incomes in Australia.[81] According to Queensland Shelter, Australians over the age of 65 are concentrated at the bottom of the income spectrum and constitute 43 per cent of low income households.[82] The Brotherhood of St Laurence submitted that older Australians are more highly represented in the lowest two income quintiles than in the higher quintiles.[83]

3.65 Some submissions suggested that the benchmark for the level of income required should be the Westpac-ASFA Retirement Living Standard amount required to ensure a modest standard of living in retirement. A modest income involved a basic standard of living that excluded eating out, travel, private health insurance, running a motor vehicle or entertaining at home. Some submissions raised concerns at the discrepancy in the Westpac levels and those of the maximum age pension.[84] ASF

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78 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 42-43.

79 Parliamentary Library Economic, Commerce and Industrial Relations Section, *An Adequate Superannuation-based Retirement Income?*, 16 March 2006, p. 11.

80 AMP & the National Centre for Social and Economic Modelling, 'The Lump Sum: Here Today, Gone Tomorrow', March 2004, *AMP.NATSEM Income and Wealth Report Issue 7*, p. 4; 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*, pp. 2, 20.

81 COTA Over 50s, *Submission 96*, p. 7.

82 Queensland Shelter, *Submission 45*, p. 2.

83 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 9.

84 Association of Independent Retirees, *Submission 2*, p. 4; Australian Seniors Finance Limited, *Submission 42*, p. 6; Women's Action Alliance (Australian) Inc, *Submission 93*, p. 3.

noted that the shortfall was 13 per cent for pensioner couples and 35 per cent for single pensioners per year.[85]

3.66 The Combined Pensioners and Superannuants Association has developed its own definition of low retirement income thresholds. This includes the levels of $18 500 per annum for single retirees and $25 500 for couples, which are similar to the Westpac levels. The current full rate pensions fall below these thresholds—the rate for singles is $13 652 per annum and couples is $22 802. Pensioners in receipt of the full rate of pension are entitled to earn some additional income—$3 432 for singles and for couples $6 032 per annum. The Combined Pensioners and Superannuants Association submitted that the allowable additional income puts the couple pensioner earnings over the low income threshold, but not singles. It was argued that 70 000 single full rate pensioners have no additional income and that 600 000 have some, though not necessarily the maximum, additional income.[86]

International comparisons of pension systems

3.67 Similarly, Catholic Social Services Australia argued that public spending on age pensions is low compared to most other OECD countries.[87] The Australian Manufacturing Workers' Union (AMWU) asserted that poverty rates among older persons in Australia were among the highest in the developed world and social security replacement rates were at the lower end of the OECD rankings.[88] Other research of international comparisons undertaken by Australia Fair has shown the financial situation of older Australians compares poorly with older people in other OECD countries. This research highlights that the proportion of older people living in low income households is above the OECD average. Almost 25 per cent of older Australians were deemed by the report to be living in poverty (on less than 50 per cent of median income).[89] The report stated:

> In OECD nations, people in retirement and aged 65 and over generally have lower relative income compared to those under 65. However, Australia stands out as having the lowest relative income of older people in the OECD and in 2000 Australia had the 6th highest poverty rate for older people in the OECD. Major reasons for this are that our age pensions are set at a low flat rate ($263 per week for a single pensioner in June 2007) while many other OECD countries pay a proportion of their previous wage, and

85 Australian Seniors Finance Limited, *Submission 42*, p. 6.

86 Combined Pensioners & Superannuants Association (CPSA), *Submission 66*, pp 2-3.

87 Catholic Social Services Australia, *Submission 95*, p. 17.

88 Australian Manufacturing Workers' Union, *Submission 204*, p. 7.

89 Australian Council of Social Service, *A Fair Go For All Australians: International Comparisons, 2007*,p. 3.

superannuation in Australia has only become available to a majority of workers in the last decade or so.[90]

3.68 However, FACSIA noted that the Australian pension scheme is distinct from the retirement income system in most OECD countries because the system is funded by general taxation revenue rather than individual contributions made throughout the working lives of recipients.[91] According to the Productivity Commission, Australia is better prepared to deal with the budget impacts of an ageing population on pension spending.[92] Further, NIA explained that the OECD trends are changing. In particular – as noted earlier - NIA provided evidence that in other OECD states, pensions are being reduced and eligibility is being tightened. This includes a renewed focus on supporting the lower paid workers, less generous pension indexation, pension ages being raised to 65, the introduction of defined contribution pensions where the private pension benefit depends on contributions and investment returns, as well as other measures being introduced to preserve the sustainability of the systems.[93]

The second world of retirement

3.69 The age pension is only designed to provide sufficient income for a frugal standard of living, so finances for pensioners will always be tight. However, anecdotal accounts and some of the evidence submitted to the inquiry highlight that there is a minority of older people experiencing severe financial stress. For instance, according to the Council of Social Service of New South Wales, 13.9 per cent of the retired New South Wales population cannot raise $2 000 for an important requirement, compared to 7.9 per cent of full time workers.[94]

3.70 Dr Paul Henman made the point that many retirees must live on a limited, relatively-fixed income for an extended period of time. During this time, household durables such as cars and whitegoods wear out and need to be replaced. For those with limited or no savings (and no capacity to save) these additional costs are a significant financial burden. To this end, Dr Henman recommended that a 'Pension savings account' be established, which would operate in a similar way to the Savings Account in the Newstart allowance. That is, Government would pay a notional ten dollars per week for each Age Pensioner, which would accrue and could be withdrawn as needed to meet large, one-off costs.[95]

90 Australian Council of Social Service, *A Fair Go For All Australians: International Comparisons, 2007,*p. 46.

91 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 21.

92 Productivity Commission, *An ageing Australia: Small Beer or Big Bucks?*, 2004, p. 16.

93 National Institute of Accountants, *Submission 67*, pp. 6, 11.

94 Council of Social Service of New South Wales, *Submission 54*, p. 4.

95 Dr Paul Henman, *Submission 218*, p. 7.

3.71 ACOSS argued that the incomes of the top 20 per cent of retirees have risen substantially over the past two decades, creating a gap in the living standards of those with investment assets and other retirees.[96] NATSEM research reached similar conclusions:

> This raised the prospect of the 'two worlds of retirement'…there will be one group of retirees who will be holidaying in camper vans and eating out at restaurants—and a larger group who will be living for some decades on the age pension with only limited personal resources to boost their living standards.[97]

3.72 In its submission, the Brotherhood of St Laurence highlighted research that suggests on average the incomes of older people grew slightly more than for younger people from 1986-1997. However, this growth in incomes was not evenly distributed. The income share of the upper quartile of older Australians increased, while the share of the bottom quartile decreased.[98] Further, the Brotherhood of St Laurence argued that the trend in increased income for older people has not continued. It maintained:

> In the 1990s, we grew increasingly confident that disadvantage amongst older people was declining...However, experience this decade is suggesting that the level of pensions and benefits is not keeping pace with costs of living.[99]

The plight of the single pensioner

3.73 As has previously been outlined in this chapter, rates of pension, allowances and income and assets test thresholds are determined by whether a person is a single or part of a couple. The maximum single rate of the pension is around 60 per cent of the maximum combined rate than can be paid to a couple. FACSIA argued that the Australian rate is similar to overseas standards, which average 60-70 per cent. This includes rates of approximately 56 per cent in Germany, France and Sweden to 66 or 67 per cent in the UK, New Zealand and the US.[100]

3.74 But the evidence considered by the inquiry and discussed in this chapter underlines that international comparisons for the pension system can be misleading, including the relationship between the single and couple pension rates. As has already been established in this chapter, the Australian pension system is funded through different means and performs a different function than in other OECD countries.

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96 Australian Council of Social Service (ACOSS), *Submission 211*, p. 2.

97 Ann Harding, *Analysing Australia's Aging Population: A Demographic Picture*, 27 September 2005, Paper presented to 'Australia's Ageing Population Summit 2005', Financial Review Conferences, p. 3.

98 Brotherhood of St Laurence, *Submission 57: Background Paper, Disadvantage and Older People*, p. 6.

99 Brotherhood of St Laurence, *Submission 57*, p. 1.

100 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 25.

Consequently, Australian public spending on pensions, their replacement rates and the relative incomes of older people tend to be lower. Therefore, the committee retains concerns about the appropriateness of the level of the single pension and the appropriateness of its proportion of couple entitlements.

3.75 These concerns were shared by several submissions and witnesses to the inquiry - particularly with respect to the relative pension rates, allowances and additional earning thresholds, and the capacity of single pensioners to afford the costs of living.[101] It was argued that the support provided to single pensioners is inadequate leaving them either living in poverty or at extreme risk of falling into poverty. These submissions asserted that income differences between singles and couples did not reflect the benefit from cost sharing by couples. A number of costs that changed little whether incurred by single or couple households were outlined including: car registration and maintenance; petrol; insurance; gas; electricity; water; telephone costs; council rates; body corporate fees; rent; house maintenance; home appliances and furniture. COTA called for the rate of the single pension to be lifted to 70 per cent of the couple income, based on advice from the retirement income industry.[102] Dr Paul Henman told the committee that research indicates that single retiree home owners require 64 to 76 per cent of the couple pension to maintain a reasonable standard of living, while private renters need even more. He noted that the seven per cent difference between the Australian rate of 60 per cent and the OECD modified equivalence scale rate of 67 per cent is significant.[103] According to evidence presented to the inquiry, single households constitute 44 per cent of older households.[104]

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101 These included Australian Pensioners' & Superannuants' League QLD Inc, *Submission 1*, p. 3; Australian Council of Social Service (ACOSS), *Submission 211*, p. 1; The Australian Family Association, *Submission 7*, p. 1; Salvation Army Australia Southern Territory, *Submission 136*, p. 9; The Corrimal Pensioners and Superannuants Association, *Submission 177*, p. 1.Combined Pensioners & Superannuants Association (CPSA), *Submission 66*, pp. 2-3; Australian Council of Social Service (ACOSS), *Submission 211*, p. 1; Older People Speak Out, *Submission 94*, p. 3; Women's Action Alliance, *Committee Hansard*, CA 49, 23 August 2007; Australian Seniors Finance, *Committee Hansard*, CA 2, 23 August 2007; Brotherhood of St Laurence, *Committee Hansard*, 23 August 2007, p. 27; COTA Over 50s, *Committee Hansard*, 23 August 2007, pp 63-64; Ms Beth Butler, *Submission 104*, p. 1; Ms Norma Gardner, *Submission 121*, p. 1; Mr Cy D'Oliveira, *Submission 131*, p. 1; Name withheld, *Submission 162*, p. 1; Mrs D Lindsay, *Submission 165*, p. 1; Ms Denise Scassola, *Submission 166*, p. 1; Name withheld, *Submission 188*, p. 1; Ms Marion Vann, *Submission 202*, p. 1; Mrs Victoria Ingleby, *Submission 98*, p. 1; Name withheld, *Submission 125*, p. 1; Ms Constance Weller, *Submission 171*, p. 1; Name withheld, *Submission 192*, p. 1; Ms Rosemary Taylor, *Submission 197*, p. 3; Miss P A Robb, *Submission 151*, p. 4; Ms Janet Boddy, *Submission 17*, p. 2; Ms Beth Butler, *Submission 104*, p. 2; Ms Dorothy Ratnarajah, *Submission 156*, p. 1; Mrs Zoe Ray, *Submission 75*, p. 1; Mrs Margaret Ryan, *Submission 100*, p. 2.

102 COTA Over 50s, *Submission 96*, p. 3.

103 Dr Paul Henman, *Committee Hansard*, 8 February 2008, p. 2.

104 Mr Wayne Koch, *Submission 164*, p. 11.

3.76 The Australian Family Association argued that research by the Australian Government Office for Women shows that the majority of retirees feel financially secure and are able to adjust to receiving the lower income that comes with retirement, except for single retirees.[105] This was also reflected to a certain extent in the FACSIA submission, which provided data on self-reported levels of prosperity. The demographics most likely to describe themselves as poor or very poor were singles under the age of 65, single parents, and single men and women aged 65-74.[106]

3.77 Some of the submissions used quantitative data and statistics to highlight the precarious financial position of single pensioners. COTA noted that key characteristics of the lowest income quintile groups are a greater proportion of single households and greater reliance on government pensions and allowances as the key source of income, such as the age pension.[107] Similarly, the Combined Pensioners and Superannuants Association argued that on its measure of low retirement income thresholds, single rate pensioners fall well below these levels even if earning the maximum allowed additional income.[108] The Women's Action Alliance (WAA) highlighted that single pensioners fall below the Henderson Poverty Line (produced by the Melbourne Institute of Applied Economic and Social Research at the University of Melbourne) for March 2007 of $285.55 per week with an income of $265.45.[109] These accounts were reflected in anecdotal evidence provided to the inquiry. For example, Ms Janet Boddy relayed her problems in managing the costs of living:

> Those who are single incapacitated without family and living on in their own homes on an age pension are acutely vulnerable. And I am one of those people. At times I didn't know how I was going to have enough for food let alone anything else I might require such as wood for the fire, clothing etc.[110]

Single women

3.78 Evidence highlighted that single pensioners dependent on government benefits were most likely to be single women.[111] A report by the Commonwealth Government in conjunction with the University of Melbourne and the Melbourne Institute of Applied Economic and Social Research submitted:

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105 The Australian Family Association, *Submission 7*, p. 1.

106 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 12.

107 COTA Over 50s, *Submission 96*, p. 8.

108 Combined Pensioners & Superannuants Association (CPSA), *Submission 66*, pp. 2-3.

109 Women's Action Alliance (Australian) Inc, *Submission 93*, p. 4.

110 Ms Janet Boddy, *Submission 17*, p. 2.

111 Australian Government Office for Women, *Women: Aspects of Retirement for Older Women*, 2006, p. 5.

> There is a pattern emerging in all the three themes – retirement transitions, aspects of life in retirement and financial circumstances in retirement – that single women appear to be facing disadvantage…Single women had lower disposable incomes and lower superannuation balances and rely most heavily on government pensions in retirement.[112]

3.79 Some of the submissions sought to explain the greater representation of single women in disadvantaged financial positions. They argued that the precarious financial position of single women was the result of government policy, corporate norms and social pressures prevailing at the time, rather than a choice not to prepare for retirement. Miss P A Robb submitted:

> Women, particularly unmarried women, in my day were forced into low-paying jobs at 60% of the male rate of pay…Banks until recent times would not allow a single woman to borrow for a house. Married women were forced out of the work force when two million men from the armed services were demobilised after World War II, and jobs had to be found for them.[113]

3.80 Similarly, reflecting on the former circumstances of older people aged sixty-three and over and on the full age pension Ms Jeanette Lindsay wrote:

> Women in particular were deliberately excluded from superannuation, called "temporary", and denied fair promotion or equal pay with male peers. In the 1960s and beyond this occurred even when these women were likely to be breadwinners with children…Male divorcees took their superannuation with them, and very often did not pay support for their children of a previous marriage.[114]

3.81 Government research has shown that as a result of these greater financial pressures, retired single women are more likely than retired single men or retired couples to sell their home and move to lower cost accommodation.[115]

Pensioners that suffer the loss of a partner

3.82 The inquiry also received evidence about the impact of the death or displacement to care of a partner on the financial stress of the remaining partner. In many cases the remaining partners were women. FACSIA highlighted the availability of the Bereavement Payment, which applies to surviving partners for a period of 14 weeks following the death of a partner. Each year 24 000 age pensioners receive the payment, which amounts to approximately $1 927 per pensioner and $46.3 million for the government. It is designed to help fund funeral expenses and smooth the transition

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112 Australian Government Office for Women, *Women: Aspects of Retirement for Older Women*, 2006, p. 5.

113 Miss P A Robb, *Submission 151*, p. 3.

114 Ms Jeanette Lindsay, *Submission 229*, p. 5.

115 Australian Government Office for Women, *Women: Aspects of Retirement for Older Women*, 2006, p. 5.

from the couple rate to the single rate of the pension, particularly to cope with the cost of bills incurred by the deceased partner but not received until after the death.[116]

3.83 However, most of the submissions that addressed the impact of the loss of a partner argued that the difficulty in surviving on a single pension is particularly pronounced.[117] The remaining partner is required to meet similar costs from a much reduced income, as well as coping with death, or serious illness or health deterioration that accompanied entry into care of a partner. The Combined Pensioners and Superannuants Association described the loss of a partner as 'the pension trap'. The Association argued that there are 600 000 single full rate pensioners in this situation, largely widows in their 70s and 80s.[118] Mrs Zoe Ray recounted her difficulties in managing the cost of living pressures after the death of her husband. She submitted:

> When my husband died, my age pension was virtually cut in half, as was my earning capacity and the amount of investments I was allowed to have. I would like to point out that it is almost as cheap for two people to live as one. Housing, utilities, etc., are the same for two people as it is for one. Food is more expensive for one as, unless you buy in bulk, the price goes up and there is also more wastage.[119]

3.84 Similarly, Mrs Margaret Ryan relayed her experience on the widow allowance. She had not been employed since 1994 but the passing of her husband in 2005 changed her financial situation dramatically. Although she qualifies for the widows allowance ($424.30 per fortnight), as she does not receive a pension she is ineligible for many of the pensioner concessions such as on council rates, water rates, telephone bills and utility expenses.[120]

3.85 The inquiry also received evidence that in many cases widowed pensioners face additional expenses with a much reduced income. It was argued that widowed women are required to finance house and car maintenance and repairs that previously were undertaken by their late husbands.[121]

Additional payments and taxation benefits

3.86 Over the past 10 years, the Government has increased the disposable incomes of age pension recipients through bonuses and supplementary payments, particularly those designed to assist in meeting the costs of utilities and other large fixed

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116 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 33.

117 See for example, Mrs Norma Bettridge, *Submission 225*, p. 1.

118 Combined Pensioners & Superannuants Association (CPSA), *Submission 66*, pp. 4-5.

119 Mrs Zoe Ray, *Submission 75*, p. 1.

120 Mrs Margaret Ryan, *Submission 100*, p. 2.

121 Women's Action Alliance (Australian) Inc, *Submission 93*, pp. 3-4; Name withheld, *Submission 125*, p. 2.

expenditure. The value of these payments has increased the real value of the pension by $2 558.60 per year. These payments include:

- The Aged Persons Savings Bonus and the Self-Funded Retirees Supplementary Bonus in 2001 to enhance retirement savings and income (up to a maximum of $1000 and $2000 respectively)
- the One-Off Payment to the Aged in 2001 worth $300 for those on pensions or low incomes
- the Utilities Allowance from 2004 (indexed to CPI and paid in two instalments each year with the March 2007 instalment valued at $53)
- the Senior Concession Allowance from 2004 to compensate for the lower accessibility to concessions (as at July 2007 worth $214 per year)
- one-off payments to Older Australians in 2006 and 2007 to meet household bills
- additional payments to carers from 2004 to those receiving the Carer Payment (up to $1000 or $600 per carer).[122]

3.87 Other payments that may be available to older people include the bereavement payment, carer allowance, carer payment pension bonus scheme, pensioner education supplement, remote area allowance and rent assistance. There is also the disability support pension, lump sum advance payment, partner allowance, pension loan scheme, utilities allowance and widow allowance.[123]

3.88 The Pension Bonus Scheme provides for a one-off, tax-free lump sum to people who receive the age pension if they have deferred claiming the age pension to continue working. According to FACSIA, the average payment is $12 292 and there are currently 62 756 registered on the scheme. The average bonus provides a substantial addition to eligible pensioners' retirement savings and is approximately one third of the total savings for a maximum rate pensioner's average assets above the family home.[124]

3.89 Aged & Community Care Victoria (ACCV) and the Wide Bay Women's Health Centre highlighted the value of the one-off lump sum payment of $500 to all seniors in the May 2007 budget. They argued that this constituted a relief to many residents in aged care, but would have been of greater benefit if introduced earlier and that it was not sufficient to cover all increasing costs.[125] Similarly, the Ethnic Communities' Council of Victoria argued that the payment did not provide a

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122 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, pp 29-32.

123 National Institute of Accountants, *Submission 67*, p. 4.

124 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 39.

125 Aged & Community Care Victoria, *Submission 41*, p. 4; Wide Bay Women's Health Centre, *Submission 55*, p. 8.

sustainable solution to cost pressures on older Australians and difficulties experienced by those dependent on the age pension.[126] The Superannuated Commonwealth Officers' Association argued that one-off bonuses have provided important assistance to retirees. However, it was argued that they are insufficient to alleviate ongoing weekly budget pressures.[127]

Conclusion

3.90 The evidence before the committee is highly persuasive that the real incomes of recipients of the age pension and superannuation have experienced substantial growth over the past decade over increases in inflation. In the case of the age pension, the indexation of pension levels to MTAWE has been responsible for a substantial increase in the real value of the pension. In part, this has been the result of the growth in real wages that has partly been a product of the Government's workplace relations reform over the past 11 years. Similarly, since the introduction of compulsory superannuation in 1992, the rise in the level of the guarantee in 2002 and the growth in real wages, superannuation balances have inexorably grown.

3.91 However, the capacity of retirees to afford rises in the cost of living also depends on various other factors, including the suitability of the level of the retirement payment. Some of the submissions to the inquiry disputed the appropriateness of the current level of retirement benefits, most notably the age pension, though no submissions identified a more specific replacement level. Similarly, no evidence was provided to the committee to justify how the current levels of payments were arrived upon or their suitability in meeting the costs of living. The FACSIA submission discussion of adequacy of retirement income levels was confined to replacement rates, rather than the amount required for a certain standard of living.[128]

3.92 It is not evident to the committee that the current pension levels provide or ever provided a sufficient income with which to accommodate the costs of living. It is clear that a review is needed to ascertain what level of payment is required to achieve a subsistence level and – as discussed below – determine a method for adjusting this payment level to meet actual living cost increases. This may alleviate the need for some of the one-off payments that have been essential for older people to meet cost of living pressures over recent years and at the same time avoid the administrative costs associated with processing one-off payments. The necessity of such one-off payments suggests there are problems with the existing level of income payments. It is important to note, as was submitted by the Thirroul Retired Mineworkers' Association, retired people do not have the same capacity as working Australians to seek a better paying job, an additional job or extra hours to earn supplementary income to cover rises.[129]

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

127 Superannuated Commonwealth Officers' Association Inc, *Submission 52*, p. 10.

128 Department of Families, Community Services and Indigenous Affairs, *Submission 138*, p. 23.

129 Thirroul Retired Mineworkers' Association, *Submission 4*, p. 1.

3.93 The committee accepts that many retirees feel financial stress and must exhibit great care in managing their incomes and expenses. In many respects older people, especially those on pensions, have demonstrated substantial financial prudence. The Australian Family Association submitted that older Australians are better equipped than other low income earners to cope with rises in household costs.[130] However, the committee has particular concerns about some segments of the retired population. In particular, it has concerns about the adequacy of the single pension to provide the necessary assistance in providing even a basic subsistence living without assistance from charities, family or friends. The committee considers that the single pension's proportion of the couple pension needs to be reviewed with a view to lifting it to achieve greater equity.

3.94 Other factors influencing the capacity of retirees to afford the costs of living include the availability and indexation of concessional arrangements, retirees' individual circumstances- especially home ownership status - and the fluctuations in particular lifestyle and essential costs. These will be explored in later chapters of this report.

3.95 Along with concerns about the adequacy of pension and other payment levels is concern with how they are updated over time. The committee considers it important that the indexation arrangements for government benefits reflect the cost pressures associated with those households. Although the pensioner cost index has been similar to CPI cost fluctuations, since 2001 the age pensioner cost index has consistently been higher than the CPI (see figure 2). In particular, age pensioners are on a subsistence income and even a small discrepancy between the CPI and household living costs can cause substantial financial stress. Such stress will particularly be felt if in future wage increases moderate, removing for pensioners the insulating effect of MTAWE indexation. Older people have a much more limited capacity to improve their financial situations. Therefore, if those discrepancies continue over the course of a number of years, as has been the case with the age pension, the recipients of those benefits will find it increasingly difficult to avoid experiencing financial stress. Consequently, an analysis of expenditure patterns specific to older demographics should be conducted to ascertain divergences from CPI, as well as the impact of continual divergence, even if minor. The use of the household expenditure survey for assessing age pensioner and self-funded retiree households should be investigated with consideration given to concerns raised during the inquiry about the use of this measure.

3.96 As discussed earlier in this chapter, it is unclear why retirees receiving government payments are subjected to different indexation mechanisms. Although this has clear implications for the Government's budget, this practice is inconsistent with principles of equity and fairness, and undermines the maintenance of the comparative value of many retirees' incomes. This was made apparent during the course of the inquiry when the Coalition Government agreed to change the indexation for the remaining veterans' affairs disability rates to bring them into line with the higher of

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130 The Australian Family Association, *Submission 7*, pp 1-2.

the CPI or MTAWE. The FACSIA submission to the inquiry made an excellent case for the benefits that have accrued to recipients of the age pension as a result of indexation of the MTAWE. However, this also underscored the increasing divergence between the recipients of this indexation method, and retirees and older people whose incomes are simply indexed to the CPI.