

CHAPTER 8

CONCLUSION

8.1 To ascertain older people's capacity to afford the cost of living, various factors must be taken into consideration. As has been discussed in this report, these most notably include the adequacy of pension and superannuation levels, as well as rises in expenses relevant to older people. Further, the indexation methodology underlying government benefits, payments, and concessions are also particularly important. The failure to adequately index these benefits, payments and concessions can have a substantial impact on the affordability of the cost of living for older people, especially in an increasingly user-pays environment.

8.2 Most of the research about adequate income levels calls for either a level necessary to achieve a certain standard of living based on meeting certain essential costs, and those based on an arbitrary percentage of pre-retirement income – each with its shortfalls. However, the evidence considered by the committee showed that many current retirees struggle to meet either measure. Older people on the lowest incomes are disproportionately affected by rises in costs of essentials - food, groceries, housing, household utilities, transport - as these form the majority of their expenses with often little discretionary income. This highlights the need for indexation to reflect the specific spending patterns of older people to identify changes in their needs that impact on their spending.

8.3 The attitudes of Australians towards retirement are changing but will need to continue to do so. Potentially, many will be required to take on new and different employment toward the end of their working lives. Older workers need to maintain skills relevance and development especially with respect to technology related skills. Governments will need to ensure appropriate policies are in place to facilitate the acquisition of new skills. Further, there needs to be recognition that as life expectancy increases and the population ages, many older people will have to work beyond the retirement ages experienced by preceding generations. Employers will need to ensure that they are open to employing older people. There must be the opportunity for such workers to take on attractive jobs with sufficiently adaptable and flexible working arrangements, and receive the investment of necessary training. In brief, Australians will need to work longer and save harder if they want a decent standard of living in retirement.

8.4 These points were outlined by the then Prime Minister John Howard in 2003. Delivering a speech to a symposium on the employment of mature-age Australians, he argued:

I think it also necessary when we look at this issue to accept that not only must business change its attitude and government change its attitude, but we must also recognise that one of the areas of contribution must come from the mature aged workers themselves because it is a partnership and there does need to be an accommodation at the workplace between the

needs of an individual business, the aspirations of the younger employees and also the desire of older employees to remain on the payroll. And that will increasingly, for example, mean that if people wish to remain beyond what are now regarded as customary retirement ages, there must be a greater willingness to be involved in part-time and contract work and the corresponding flexibility in relation to remuneration arrangements.¹

8.5 The Government will need to review the notion of retirement and age thresholds related to retirement entitlements, such as access to the pension or superannuation benefits, on an ongoing basis. In the past, retirement was often of short-lived duration, as life-expectancy was only a few years more. But in an economy supporting a larger proportion of retired people with increasingly longer life expectancies and with a static or constricting labour force, the Government will need to continue to review the appropriateness of the retirement age both with respect to the standards of living of older people and the impact on broader economic growth.² Sustained economic growth will require higher labour force participation, which will need to include mature age workers.

8.6 Various researchers have reported that the introduction of compulsory superannuation is having a progressively positive effect on the economic situations and self-reliance of older Australians. In 2002-03, one third of pensioners received a reduced pension due to high income or assets, compared to an expected two thirds by 2050.³

8.7 However, until the full benefits of the superannuation guarantee are realised, the Government will face a growing burden on the budget as a result of the aging of the Australian population. In many cases, Government policies have ensured that this burden will be met more easily in Australia than in many other Western countries. Still, even after the realisation of superannuation guarantee benefits, the Government will need to continue to provide part-pension support and full-pension support to those disadvantaged by terms of unemployment, caring responsibilities, chronic health problems and sustained tenure in poorly paid employment.

8.8 Despite the positive outcomes that compulsory superannuation is starting to yield, evidence to the inquiry clearly shows that many older people have inadequate retirement savings and superannuation. More needs to be done to increase these levels. The committee believes that additional measures to remove incentives for early retirement and provide additional incentives for delaying retirement are required.

1 The Hon. John Howard, Prime Minister, *Address to Symposium on Mature Age Employment*, 27 August, <http://www.pm.gov.au/media/Speech/2003/speech462.cfm>, (accessed 13 July 2007).

2 Simon Kelly & Ann Harding, 'Funding the Retirement of Baby Boomers', 2004, *Agenda Volume 11 (2)*, p. 111.

3 Hazel Lim-Applegate, Peter McLean, Phil Lindenmayer and Ben Wallace, 'New Age Pensioners—Trends in Wealth', 2007, *Australian Social Policy 2006*, p. 2.

Without such measures, the standard of living of retirees will suffer, greater drains will be placed on the ageing budget and economic growth will suffer.

8.9 Many current and soon-to-be retirees have not had a career of superannuation contributions. The evidence before the inquiry showed that women are particularly disadvantaged when it came to superannuation balances. This is the result of lower earnings and more irregular involvement in the workforce due to caring responsibilities for children and parents. The irregularity of labour force participation impacts on continuity of contributions and career development, which in turn has implications for earning capacity.

8.10 It is important to note that, as argued by NATSEM,⁴ the age pension was designed to be a social protection mechanism, not an income replacement measure. The Australian social security system remains aimed at alleviating poverty and hardship and uses various measures to determine eligibility. Therefore, the Government needs to focus attention on influencing community attitudes to ensure that this is how the pension is perceived, rather than as an entitlement following forty or fifty years of paying taxes. Future governments will not have the capacity to fund a universal system. In this respect, current retirees are more active than previous generations and appear to have substantially different expectations about retirement.

8.11 At the same time, the government must avoid the view that people without sufficient superannuation are a burden and have neglected to provide for their retirement. Private superannuation schemes are a recent historical phenomenon in Australia and the government must recognise that the current retired generation and those approaching retirement have had limited opportunities to accumulate superannuation savings. Further, as was raised during the inquiry, retirees are often not in a position to improve their incomes and standards of living. However, their contributions to Australia have been instrumental in helping to build and shape the country's current prosperity and relatively high standard of living. Many retirees continue to shoulder a substantial proportion of the burden of volunteer and unpaid caring responsibilities for the community, which alleviates pressures on government services and finances.

8.12 There will always be a need for a social safety net for older people, as opportunities to save for retirement are not always taken and in many cases trumped by caring responsibilities, unemployment and other financial situations often outside the control of individuals. Others may spend all or most of their working lives in full-time employment but earning low wages or several simultaneous low-paid part-time jobs.

8.13 The committee heard evidence about concerns about the erosion of benefits and thresholds as a result of a failure to apply indexation. This is often a tool of

4 Simon Kelly & Ann Harding, 'Retirement Incomes and Australia's Ageing Population', 2006, *Engaging the New World: Responses to the Knowledge Economy*, p. 362.

government seeking to maintain greater flexibility about budget allocations, especially in times of difficult fiscal management. However, the consequence of a failure to index payments or thresholds is that access or financial support is effectively limited or withdrawn. Indexation simply seeks to maintain the real value of a benefit and provide greater certainty to its recipients.

8.14 While evidence considered by the committee has highlighted some dramatic increases in the wealth of older people, it also has become apparent that there is a growing disparity and unevenness in the distribution of that wealth. Generally, older people are more likely to have lower average incomes and to be reliant on government allowances and pensions as their main source of income.

8.15 However, like any demographic of the Australian population, the financial circumstances of older persons and their capacity to accommodate cost of living pressures are diverse. Substantial differences in terms of income and expense patterns preclude, in some respects, consideration of them as a homogenous group.

8.16 This diversity of circumstances is highlighted by the situation of many older Indigenous Australians. Issues in relation to older Indigenous Australians were not a specific part of the inquiry and this was reflected in the limited number of submissions which addressed these issues. Nonetheless, the committee recognises the significant challenges which Indigenous Australians face as they age, including being less likely to have superannuation savings for retirement. If governments are successful in closing the gap in life expectancy then there will be an increasing number of ageing Indigenous Australians reliant on the age pension, many of whom may have ongoing chronic health issues.

8.17 One of the dilemmas for the committee during the inquiry has been trying to reconcile anecdotal reports of severe financial stress with the unarguable increase in the real value of the pension over the past decade. Conflicting information was provided to the inquiry about the adequacy of incomes for older people. As discussed in chapter three, FACSIA made a compelling case that pension incomes have outstripped cost of living rises since 1997. Further, FACSIA argued that those in financial stress are a minority, noting that those most likely to experience 'severe stress' are non-homeowners and people who have suffered multiple 'life shocks' placing them in unforeseen financial circumstances.⁵

8.18 Notwithstanding the evidence provided by FACSIA about the general financial position of older people, it was made apparent during the inquiry that some older people are experiencing genuine financial stress. The committee is also concerned at the possible under-reporting of financial stress, due to the greater propensity of older people to endure their circumstances without complaint.

5 Department of Families, Community Services and Indigenous Affairs, *Committee Hansard*, 20 September 2007, pp 15-16.

8.19 The committee heard that the wellbeing of older Australians was significantly improved by a strong and stable connection with the local neighbourhood and frequent social and community participation. While financial poverty is a determinate of the wellbeing of older Australians a strong connection with the local community is also important in improving wellbeing, health and reducing disadvantage. Government should therefore pursue policies that empower older Australians to fully participate in community life; it should act to ensure that all older Australians are socially included.

8.20 Whilst we may have seen an increase in the real value of the pension, the committee remains unconvinced that this level is sufficient to maintain a basic, decent standard of living. The committee is struck by the absence of a robust analysis determining the pension level required to purchase essential goods and services to achieve a basic standard of living. The committee firmly believes that such analysis and review is urgently needed.

8.21 Further, other factors, such as the decline in the value of concessions and the trend to user-pays systems, appear to have eroded the purchasing power of the pension and shifted costs on to individuals, including those who may not necessarily have a capacity to pay. A more comprehensive review of the adequacy of concessions and the shifts in cost accompanying an increasingly user-pays culture would assist in informing the committee of their effect on the cost of living of older people.

8.22 The committee notes that one-off payments have provided important support to older people in need, in times of economic growth and healthy budget surpluses. However, the committee is also conscious that one-off payments signal a problem without providing a long-term solution to address that problem.

8.23 While many older persons have experienced increasing cost pressures over the past decade, unsurprisingly these pressures have been particularly keen for those on the lowest incomes. Notably, this includes those on fixed incomes with limited or no capacity to increase earnings or adjust investment strategies to increase other income streams.

8.24 Those most at risk are single pensioners – especially women – receiving the maximum aged pension, and those in private rental accommodation. As discussed in chapter five, whilst the percentage of homeowners in the older population is currently relatively high, housing researchers predict that the numbers of older people who are low income, non-homeowners will increase significantly over time.

8.25 Other groups at risk of financial stress in the face of cost of living pressures include those with severe disabilities or chronic illnesses and those in residential aged care. Similarly, older people who have been receiving pensions for some period, especially those over 85 struggle because certain costs that have been deferred become necessities, such as house maintenance, appliance replacement costs and increasing medical bills.

8.26 The committee heard evidence about grandparents who had assumed the role of primary carer for their grandchildren. Grandparents often assumed these

responsibilities unexpectedly and in difficult circumstances. The committee heard that these grandparent families faced financial pressure as the grandparents attempted to raise a greater income to sustain the extra dependents. This was particularly challenging given they were rarely in a situation where it was easy to increase income. The committee also heard that these grandparent families faced social isolation as increased demands on their time and resources, as well as some stigma, restricted their social and community participation. It is in the interests of both the carers and those for whom they are caring that they be socially included and do not suffer disadvantage. It is therefore incumbent upon government to ensure that these families have the supports they need to fully participate in the social and economic life of the community.

8.27 Tightening of pension eligibility and entitlements has been necessary due to demographic changes including the growth in the proportion of older people in the population, longer life expectancies and projected proportional contraction of the population of working age. However, it must be acknowledged that these changes have had a real impact on the standard of living of some older people.

8.28 The failure to index adequately – and in some cases index at all - benefits and payments has an often detrimental impact on the real value of these benefits and the disposable incomes of social security beneficiaries and older persons. However, in some cases, the problems with indexation have been off-set by one-off raising of thresholds or more beneficial indexation arrangements. The committee considers that indexation should be applied to all recurring payments and benefits, which should be modelled, investigated and set at an appropriate level to deliver a particular objective. For instance, the level of the age pension should be investigated as to its adequacy in providing a reasonable basic standard of living and should be indexed accordingly.

8.29 Increasingly the policy approach towards older people has shifted from concessional eligibility to debt management. That is, rather than providing concessions for pensioners or retirees to cope with cost pressures, there has been a greater emphasis on temporary waiving of debts. This has been most evident on council rates, but also managing broader cost pressures that are causing reverse mortgages.

8.30 The committee was disappointed to review evidence of pensioners being charged exorbitant fees for overdrawn bank accounts. These individuals have limited capacity to afford such fees, which is why their accounts become overdrawn. The imposition of high fees more than covers the expense to the financial institution and is designed as a profit maximisation measure. This is unacceptable in terms of community standards because of the substantial effect it has on the quality of life and health of pensioners.

8.31 The committee considers that there is scope for a wide range of policy initiatives to improve the quality of life of a significant proportion of retirees. This would involve efforts made by the private sector, state and territory governments, as well as the Commonwealth. Along with government support, greater corporate

citizenship is instrumental to ensuring older people can continue to access services much of the rest of the community takes for granted.

8.32 There is little doubt that the Commonwealth Government has invested substantially in older persons. It is clear from the evidence, however, that more is needed. The committee considers that the Commonwealth Government should focus its efforts on those segments of the older population that are in most need - those most likely to be in, or vulnerable to, living in poverty. This should be the basis of delivery of a sustainable retirement system based on private contributions and designed to provide reasonable standards of living for all older people.

8.33 There are always difficulties in recommending and formulating social policy when dealing with economic realities. It is easier to identify funding shortfalls than to determine how existing gaps should be funded or identify areas receiving funding that are of lower priority. Some of the recommendations of this report are not necessarily cost neutral, and may necessitate the re-allocation of existing funds. The committee's recommendations identify areas that should receive greater weight in the funding priority, especially to target those in most need. Some of the recommended measures need to be implemented urgently to address severe disadvantage.

Base pension levels

Recommendation 1

8.34 The committee recommends that the Government review the suitability of the base pension levels through economic analyses of amounts required to achieve at least a modest standard of living for retired Australians, with particular consideration given to the adequacy of the percentage rate for single older people receiving the age pension compared to couples. (Chapter 3)

Standardisation of indexation

Recommendation 2

8.35 The committee recommends that:

- (i) the Government review and standardise the indexation methodology of pensions, social security and other government retirement benefits to ensure they maintain their relative levels. In particular, the Government should note limitations highlighted during the inquiry about the use of the Consumer Price Index, as well as other possible indexation mechanisms such as the Australian Bureau of Statistics' Household Expenditure indices.**
- (ii) the review should also address the particular financial disadvantage of single women, many of whom have had a life of broken working patterns and an inability to access superannuation arrangements.**

- (iii) while the review is undertaken and to ensure immediate relativity, the Government should index Commonwealth funded superannuation benefits and the military pension to Male Total Average Weekly Earnings or the Consumer Price Index, whichever is the higher, as is currently the practice with the age pension. (*Chapter 3*)

Superannuation

Recommendation 3

8.36 The committee recommends that the Government continues its review of incentives and initiatives related to superannuation savings, especially aimed at facilitating and encouraging greater savings for older people in vulnerable groups. In particular this review should consider measures that will ensure a reasonable standard of living for older people, especially women, those on below average incomes, those who have lived with long-term chronic illnesses and those whose earning capacity has been greatly limited by their caring responsibilities. (*Chapter 3*)

Reverse mortgages

Recommendation 4

8.37 The committee recommends that the Government monitor the usage and impact of older people accessing reverse mortgages and other similar products, including their effect on the eligibility of older people for government benefits and pensions. (*Chapter 2*)

Indirect benefits including concessions and rebates

Recommendation 5

8.38 In order to increase the capacity of indirect benefits to meet the needs and ameliorate financial stress experienced by older people, the committee recommends that:

- (i) the Government review the efficacy of indirect benefits.
- (ii) governments at all levels should provide services, subsidises, rebates and concessions for older people which recognise the limited incomes available to this age group and should ensure these indirect benefits are set at a fair and appropriate level and are sufficiently indexed to maintain their real value.
- (iii) the financial thresholds for eligibility for indirect benefits, including the Commonwealth Seniors' Health Card, should also be set at a fair and appropriate level, and be indexed to maintain their relative accessibility.
- (iv) in order to achieve greater national uniformity, Commonwealth, State, Territory and local governments work

together to develop a nationally recognised senior's card to provide concessions and benefits to eligible older people and to negotiate reciprocal arrangements across jurisdictions with respect to public transport concessions. (*Chapter 4*)

Residential aged care

Recommendation 6

8.39 The committee recommends that the Government review the access and funding arrangements for concession residents in residential aged care facilities under the hardship provisions of *The Aged Care Act 1997*. In particular, it should determine the amount required to finance basic needs such as pharmaceuticals – including medication not covered under the Pharmaceutical Benefits Scheme – clothing, toiletries, and some discretionary spending to allow necessary social participation and at least a decent quality of life. (*Chapter 6*)

Recommendation 7

8.40 The committee recommends the Government review the disparity in the fees paid by those people entering residential aged care requiring high level care and those requiring low care to ensure that all people in residential aged care are treated equitably. (*Chapter 6*)

Housing

Recommendation 8

8.41 The committee recommends that the Government review current arrangements, incentives and initiatives related to the housing of older people and develop a strategy to ensure a diversity of affordable housing options for older people. This strategy should include the availability of public housing, an enhancement of the capacity of housing associations, local government, religious groups, community organisations and the private sector to assist older people.

8.42 In particular, the review should consider initiatives that would improve the situation of those in the most vulnerable economic situations – such as the adequacy of rental assistance for pension recipients in private rental accommodation – and ensure that subsidies and rental assistance are adequate to cope with rental cost increases and allow access to affordable and appropriate housing. (*Chapter 5*)

Dental care

Recommendation 9

8.43 The committee recommends that the Government consider the appropriateness of current dental care arrangements for older people. The consideration should involve engagement with the State and Territory governments and aim to introduce measures to increase access to adequate dental care and include a cost-benefits analysis of the impact of inadequate access to dental care on other aspects of the health care system. (*Chapter 5*)

*Volunteers***Recommendation 10**

8.44 The committee recommends that the Government consider financial initiatives to assist older people in continuing to contribute to the community as volunteers. Such measures should recognise the benefits derived by the community from such participation and address the increasing cost burdens met by volunteers. (*Chapter 6*)

*Labour market participation***Recommendation 11**

8.45 The committee recommends that the Government continue developing initiatives and incentives to encourage greater involvement in the labour market among older people to improve the quality of life of their retirement, contribute to the economy's productivity and reduce the strain on the Government's social security budget. (*Chapter 7*)

*Same-sex couples***Recommendation 12**

8.46 The committee recommends that the Government amend *The Aged Care Act*, Commonwealth supported superannuation schemes, taxation measures and other relevant Commonwealth legislation and mechanisms to remove any actual or potential discrimination against same-sex couples. This should ensure such couples experience identical opportunities to heterosexual couples in achieving quality of life in retirement, meeting cost of living pressures and enjoying retirement benefits. (*Chapter 6*)

*Financial advice and other information***Recommendation 13**

8.47 The committee recommends that the Government review the range of financial advisory options for older people, including those planning for retirement, and enhance information programs that aim to inform and educate older people about their entitlements and ways to manage and maximise personal finances.

*Financial institutions, businesses and other professional services***Recommendation 14**

8.48 The committee recommends that the Government encourage financial institutions, businesses and other professional services structure their customer services, fees and penalties to take into account the position of pensioners and other older people with limited capacity to pay and, wherever possible, assist them to take advantage of low-fee plans and options.

*Kinship care***Recommendation 15****8.49 The committee recommends that:**

- (i) **the Government investigate the circumstances of grandparent carers, with particular concern for the type and level of support available to those taking on the role of primary carer though both formal adoption and informal kinship care.**
- (ii) **governments at all levels increase the level of support and respite available to older Australians undertaking kinship care, particularly for those taking on the role of primary carer to younger children. (*Chapter 6*)**

Senator Claire Moore

Chair

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