

14th July 2007

The Secretary
Senate Community Affairs Committee
PO Box 6100
Parliament House
Canberra ACT 2600

SENATE COMMUNITY AFFAIRS COMMITTEE

SUBMISSION : INQUIRY INTO THE COST OF LIVING PRESSURES ON OLDER AUSTRALIANS

My submission to the Committee relates to section (d) of the terms of reference, in particular a desire to have the Committee recommend to the parliament a pension and income tax bracket indexation procedure which will ensure that older Australians in the future will be able to maintain an "acceptable" standard of living. In accord with this aim, it is suggested that the Committee request the government for funds in order for the ABS to :-

1. Undertake a detailed survey of the expenditure pattern of older households, with particular attention being given to subgroups of households. The older households should be differentiated on the basis of a number of important interactive criteria - with at least three of these being - (i) age cohort , (ii) income per capita and (iii) home ownership. The number of types of household categories examined would be determined by the product of the number of divisions selected (or defined) within each of the criteria. Note the determination of the divisions within each criteria could well be decided by the Committee, once information has been obtained from part (a), (b) and (c) of their terms of reference.
2. Analyse the survey data obtained in step 1 in order to quantify (or assess) the relative magnitudes of the substitution and income effects of price movements in basic food costs, and health and energy costs for each of the different groups of households. This analysis is important in order to determine (a) the extent to which households have the ability to substitute alternative products when the price of a basic good changes, and (b) what impacts flow from price changes in basic goods on the "discretionary " income of each of the categories of households. From general observation it is clear that there are major differences in the substitution and income impacts between the various categories of older households. However, without such analysis it is not possible to draw conclusions as to the magnitude of these differences. Note since the goods under examination by this inquiry can be gauged to be basic, it is unlikely that a majority of households would use price as a measure of quality when determining the amount of satisfaction (or utility in economic terms) gained from the purchase of a given item, which simplifies the analysis required by the ABS.

Given the fact that the expenditure pattern underlying the CPI is one generally not followed by older households, it is not an appropriate measure of movements in their cost of living. In accord with this defect, it is recommended that the results of the ABS analysis suggested above be used to develop a set of indices that more appropriately reflect the movements in the cost pressures placed on older households. The need for this is clearly evident with respect to the significance of health related expenditure which really cannot be avoided. Firstly health costs make up a greater proportion of older household expenditure. At the same time the relatively high rate of increase in such costs means that the extent of the impact of health costs on the "discretionary" income of older households in "absolute" terms has been growing at a much greater rate than for younger households. Thus, just on the basis of health costs alone, it is evident the base expenditure pattern underlying the suggested new price indices for older household pension and taxation bracket rate adjustment should be revised relatively frequently.

In summary I would like to make a submission that the Committee request the government for funds, so that more appropriate measures (rather than the CPI) of movements in the cost pressures confronting the various categories of older households can be developed. Further that these then be applied to develop indices which could be used as the basis for the indexation of pensions and taxation rates (bands). The growth in computer power would allow a number of indices to be generated and thus ensure that the well-being of aged people has greater future protection than that afforded by the indexation methods currently applied.

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