

# Inquiry into the cost of living pressures on older Australians

Department of Families, Community Services and Indigenous Affairs

Submission to the Senate Standing Committee on Community Affairs

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# Executive Summary

## Older Australians – key characteristics

The needs of older Australians are diverse, and their circumstances are not homogenous. However a statistical snapshot shows that overall they:

- ▶ are on average wealthier than other households;
- ▶ have much lower levels of debt than other households;
- ▶ have high rates of home ownership;
- ▶ have disposable incomes that are around half of the disposable incomes of all households, reflecting the fact that currently 75 per cent of older Australians receive a full or part-rate Age Pension (or equivalent veterans' payment); and
- ▶ generally self-report higher levels of prosperity and lower levels of financial stress than other groups.

The maturing superannuation system will deliver better retirement incomes than people could expect from a taxpayer funded Age Pension alone. Age Pension remains as a safety net for older people with little or low levels of retirement savings. Age Pension settings, such as the benchmarking of the pension to Male Total Average Weekly Earnings (MTAWE), will therefore continue to play a key role in increasing older Australians' disposable income.

## Cost pressures, the Consumer Price Index and household living cost indexes

The Australian Bureau of Statistics (ABS) has developed a set of living cost indexes to measure the impact of changes in prices on the out-of-pocket living costs of specific types of households including age pensioner households and self-funded retiree households.

ABS analysis shows that for the eight years between June 1998 and June 2006 the compound average annual growth rate for the age pensioner living cost index was 3.3 per cent and 3.0 per cent for the self-funded retiree living cost index. Between June 1998 and June 2006 the compound average annual growth rate for the Consumer Price Index (CPI) was 3.1 per cent.

The analysis also shows that, while at times the rate of growth in the living cost indexes for age pensioners and self-funded retirees has varied from that of the CPI, over the medium term the CPI is a good measure of changes to older Australians' purchasing power. Over the eight years between June 1998 and June 2006 the age pensioner living cost index increased by just 1.4 per cent more than the CPI. Over the same period, the self-funded retiree living cost index increased by marginally below (0.4 per cent less) the CPI.

However because Age Pension is benchmarked to at least 25 per cent of Male Total Average Weekly Earnings, the maximum single rate of pension is increasing faster than both the CPI and the ABS living cost index for age pensioner and self-funded retiree households.

## Australian Government measures to support the disposable incomes of older Australians

The Australian Government has made a number of policy changes over the last 10 years to the superannuation and taxation systems and the taxpayer funded Age Pension system that have, in real terms, increased the disposable income of older Australians.

In summary terms, cameos modelled by FaCSIA indicate that since 1996-97, the real disposable incomes of older Australians have increased by:

- ▶ 19.1 per cent for single older Australians with no income other than Age Pension;
- ▶ 19.4 per cent for an older couple with no income other than Age Pension;
- ▶ 32.2 per cent for a single older Australian with mixed income equal to 33 per cent of Average Weekly Ordinary Time Earnings (AWOTE);
- ▶ 34.0 per cent for a single older Australian with income from employment equal to 33 per cent of AWOTE;
- ▶ 38.0 per cent for an older couple with each member of the couple having mixed income equal to 33 per cent of AWOTE;
- ▶ 25.1 per cent for a single older Australian with income from employment equal to 67 per cent of AWOTE;
- ▶ 25.0 per cent for an older couple with each member of the couple having income from employment equal to 67 per cent of AWOTE; and
- ▶ 23.1 per cent for a single older Australian with income from employment equal to 100 per cent of AWOTE.

These cameos demonstrate the net effect of changes to superannuation, taxation and Age Pension settings on the disposable income of older Australians. More specifically, over the last 10 years:

- ▶ both maximum rate and part-rate age pensioners have benefited from the indexation arrangements for Age Pension. These arrangements ensure that pensioners are fully compensated for price increases as measured by the CPI, and that their living standards are enhanced in line with improvements in community living standards as measured by wages;
- ▶ pensioners and self-funded retirees have also benefited from bonus payments and new supplementary payments; and
- ▶ part-rate pensioners have benefited from changes to the pension taper rates.

Taxation changes, such as the Senior Australians Tax Offset (SATO) and the Better Super reforms, also contribute to improved living standards for older Australians. As a result of the Senior Australians Tax Offset, the Low Income Tax Offset and the Better Super reforms, most Australians will pay little or no tax in retirement.



The maturing Superannuation Guarantee system will also provide increased retirement incomes for older Australians. That is, over time, retirees will have received Superannuation Guarantee contributions for a larger portion of their working life.

Treasury modelling shows that the average income replacement rates for retirees are projected to rise significantly over time. For individuals with superannuation coverage, the replacement rate will increase from a little over 50 per cent today to over 70 per cent around 2020 and over 80 per cent in thirty years time.

Workforce participation is also important for older Australians' disposable incomes and therefore their living standards in retirement. Workforce participation before age pension age allows people to accumulate savings that can boost their living standards in retirement. Workforce participation after age pension age can allow people to supplement their retirement income, reduce the extent to which they draw down their retirement savings, and continue accumulating savings.

The Australian Government has introduced measures that encourage those older Australians who are willing and able to keep working past age pension age to do so. The Mature Age Worker's Tax Offset, Senior Australians Tax Offset, the Pension Bonus Scheme, transition to retirement measure and Better Super Reforms all may improve incentives for older Australians to continue working. Workplace flexibility will be important as it will allow more older Australians to transition to retirement (and assist employers to tap into a wider labour source). Workforce participation rates for older women and men are continuing to rise.

## Australian Government measures to reduce out-of-pocket expenses for older Australians

The Australian Government also provides support to older Australians through subsidies and services for health and aged care, and for housing costs that reduce the out-of-pocket expenses of older Australians and therefore help to boost their overall living standards.

The services and concessions funded by the Australian Government through the Health and Ageing portfolio are increasing in real terms and are a major component of the total assistance provided to older Australians. These services and concessions include:

- ▶ Pharmaceutical Benefits Scheme;
- ▶ Subsidised health care, through Medicare;
- ▶ Dental care;
- ▶ Private Health Insurance Rebates; and
- ▶ Aged Care, including Residential Care and Community Care.

The Australian Government funds concessions available through the Pharmaceutical Benefits Scheme for both Pensioner Concession Card and Commonwealth Seniors Health Card holders.

The Australian Government also provides assistance to older Australians by subsidising state and territory governments to provide concessions to holders of Australian Government Pensioner Concession Cards.

State and territory concessions are highly valued by pensioners and self-funded retirees alike. However, the value of the concessions to concession card holders is difficult to estimate. As the concessions are ultimately administered by the states and territories, the relevant government decides what concessions will be offered and whether they can be accessed by other groups apart from Pensioner Concession Card holders. The concessions available therefore vary according to both a person's individual circumstances and the state or territory in which they live. Conservative estimates of the value are:

- ▶ around \$1,600 a year for a Pensioner Concession Card holder; and
- ▶ around \$1,200 a year for a Commonwealth Seniors Health Card holder.

Direct assistance with the cost of housing is provided through subsidies for rental housing in the private, public and community sectors.

## Support for carers, including grandparents

The Australian Government provides additional support to carers, including older carers, through income support and supplementary payments as well as through respite care arrangements.

The Australian Government's support for carers and families can be used by grandparents who have primary care of their grandchildren.

The Australian Government supports grandparents providing primary care to grandchildren by providing them with access to the same financial assistance available to all eligible Australian families with children, primarily through access to Family Tax Benefit and Child Care Benefit. Additionally, specific measures to support grandparent carers include Grandparent Child Care Benefit for grandparent carers on income support, and access to a non-means tested foster child Health Care Card.

## Sustainability

Demographic change is contributing to spending pressures in health, Age Pensions and aged care. These issues are not discussed in detail in this submission. The *Intergenerational Report (IGR) 2* should be consulted for detailed analysis of these trends and pressures. However, it is important to note that the policy parameters in these areas put Australia in a better position than many other OECD countries to deal with these pressures. For example the means test for Age Pension means that Australia is better placed than many other OECD countries to deal with the pressure demographic change will put on government outlays on income support for older people.

Policy change in this area therefore needs to balance legitimate community expectations that the Australian Government assist older Australians with their living costs to the maximum extent possible, with the need to ensure that the overall system of support is fiscally sustainable in the long term.



# 1: Introduction

## 1.1 Australian Government support for older Australians

The Australian Government supports the living standards of older Australians in two key ways:

- ▶ an integrated retirement income system with three key pillars:
  - ▣ a publicly (taxpayer) funded Age Pension;
  - ▣ compulsory superannuation through the Superannuation Guarantee; and
  - ▣ voluntary superannuation contributions and other private savings; and
- ▶ providing subsidies and concessions, including for health and pharmaceutical discounts, aged care and rental housing that reduce older Australians' out-of-pocket expenses and therefore increase their total purchasing power.

This submission has been prepared by the Department of Families, Community Services and Indigenous Affairs (FaCSIA) to outline the support the Australian Government provides to the living standards of older Australians. It includes material provided by the Department of Veterans' Affairs (Chapter 4 and Appendix 2), the Treasury (Chapter 4 and Appendix 3) and the Department of Health and Ageing (Chapter 5 and Appendix 5).

The submission has five parts:

- ▶ a snapshot of the characteristics of older Australians;
- ▶ a discussion of cost pressures as measured by the Consumer Price Index and the ABS living cost indexes for older Australians;
- ▶ an outline of the Australian Government support provided for older Australians' incomes through Age Pension and associated payments, and through superannuation and taxation arrangements;
- ▶ an outline of the additional Australian Government support provided through subsidies, services and concessions for health and aged care, and rental housing; and
- ▶ an outline of Australian Government support for carers, including grandparent carers.

The submission generally uses the term 'older Australians' from the Senate Committee's Terms of Reference for its inquiry and takes the term to mean Australians of age (or veterans' service) pension age (in other words, men aged 65 and over (or 60 in the case of veterans' service pension) and women aged 63.5 and over (or 58.5 in the case of veterans' service pension)). Where the submission refers to an older household, it takes the term to mean a household in which the reference person is an older Australian.

Where time series data is used in the submission, it is generally presented over the last 10 years. This is consistent with the Terms of Reference for the inquiry.

## 1.2 Intergenerational Reports

Under the *Charter of Budget Honesty Act 1998* the Australian Government publishes an intergenerational report every five years that examines the implications of demographic change and trends over the coming four decades.

As outlined in *Intergenerational Reports 1 and 2*, Australia's population is projected to continue to age over the next 40 years, with the fastest rates of growth in the numbers of people aged 65 and over.

Demographic change is contributing to spending pressures in health, Age Pensions and aged care. These issues are not discussed in detail in this submission. The *Intergenerational Report (IGR) 2* should be consulted for detailed analysis of these trends and pressures. However, it is important to note that the policy parameters in these areas put Australia in a better position than many other OECD countries to deal with these pressures. For example, the means test for Age Pension means that Australia is better placed than many other OECD countries to deal with the pressure demographic change will put on government outlays on income support for older people.

Policy change in this area therefore needs to balance legitimate community expectations that the Australian Government assist older Australians with their living costs to the maximum extent possible, with the need to ensure that the overall system of support is fiscally sustainable in the long term.

## 2: Older Australians – Key Characteristics

The needs of older Australians are diverse, and their circumstances are not homogenous. However a statistical snapshot shows that overall they:

- ▶ are on average wealthier than other households;
- ▶ have much lower levels of debt than other households;
- ▶ have high rates of home ownership;
- ▶ have disposable incomes that are approximately half of the disposable incomes of all households, reflecting the fact that currently 75 per cent of older Australians receive a full or part-rate Age Pension (or equivalent veterans' payment); and
- ▶ generally self-report higher levels of prosperity and lower levels of financial stress than other groups.

This chapter presents a snapshot of the wealth, homeownership, income and well-being of older Australians. Chapter 4 discusses trends in the disposable income and wealth of older Australians in more detail.

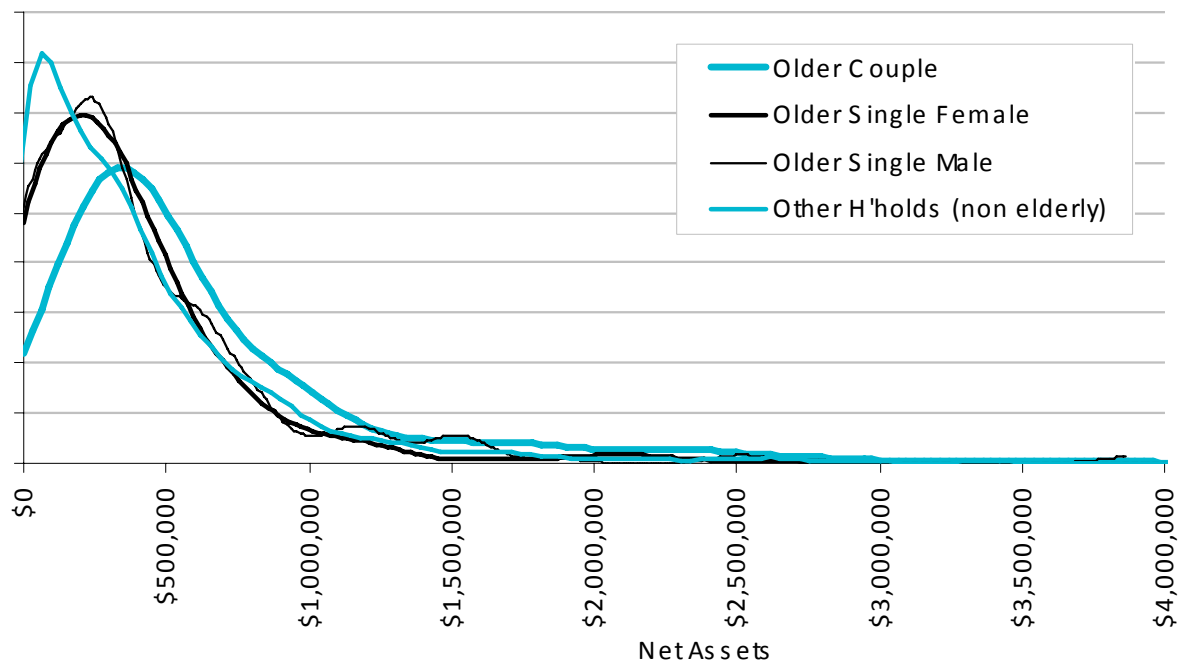
### 2.1 Wealth of older Australian households

Older Australian households are, on average, wealthier than other households.

- ▶ In aggregate, the 2003-04 ABS Household Expenditure Survey (HES) estimates that households headed by a person aged 65 years and over hold \$778 billion in net assets.
- ▶ In total, the wealth of all older households was above that of younger households, average assets of \$566,600 compared with \$453,700, and median assets of \$355,800 compared with \$282,900.
- ▶ Older couple households had average assets of \$686,600 compared with \$581,900 for other couples. Older couple households had a median value of assets of \$447,000, above the median for other couples of \$380,000.
- ▶ Amongst single person older households, while men tended to have slightly higher median assets of \$284,000 compared with \$278,300 for women, the situation was reversed when average assets are considered. Older single women had average assets of \$468,900 compared with the older men's average of \$425,700.
- ▶ In comparison with other households, older households have much lower levels of debt.

Figure 1 illustrates the extent to which older Australian households have higher average wealth levels than other households.

**Figure 1. Distribution of households by net wealth<sup>(a)</sup>, by household type<sup>(b)</sup>, 2003–04.**

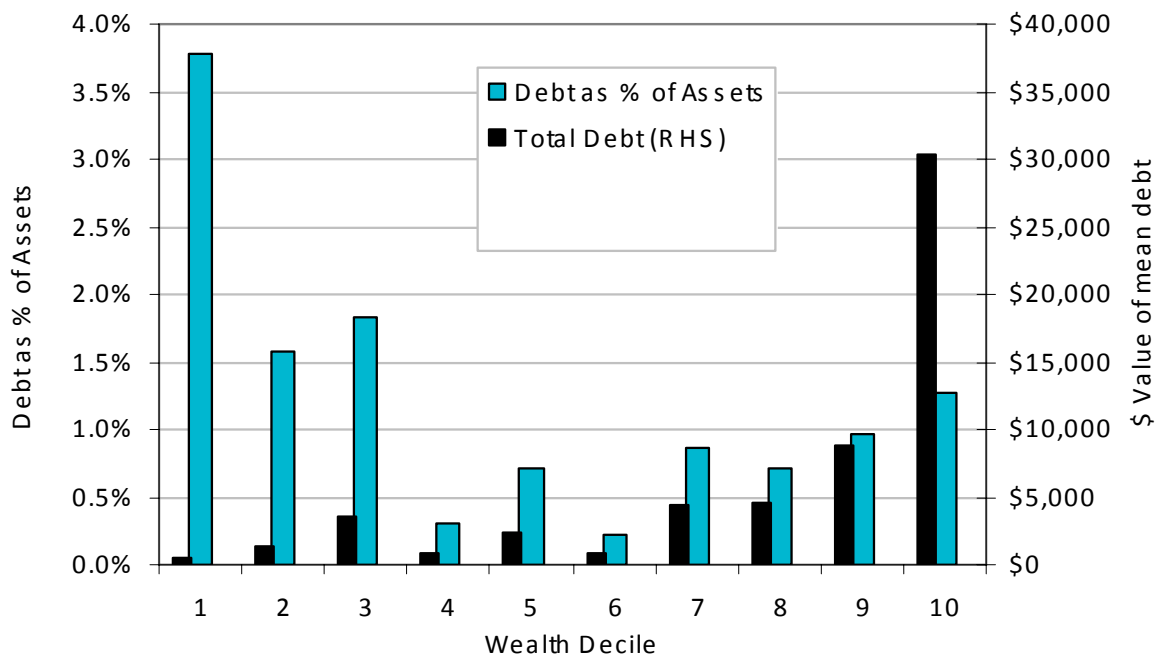


- (a) Distribution of wealth up to \$4 million (distribution smoothed using Kernel Density Function)
- (b) Households classified by age of household reference person. Older households have reference person aged 65 years and over

Source: ABS, Household Expenditure Survey Confidentialised Unit Record Files, 2003-04 (Cat No 6540.0, HES03B)

Figure 2 shows the debt level of older Australians, by value and as a proportion of their gross assets. It illustrates the low levels of debt among older Australians.

**Figure 2. Households with a reference person aged 65 years and over, level of debt, and debt as a proportion of gross assets, by wealth deciles<sup>(a)</sup> 2003-04.**



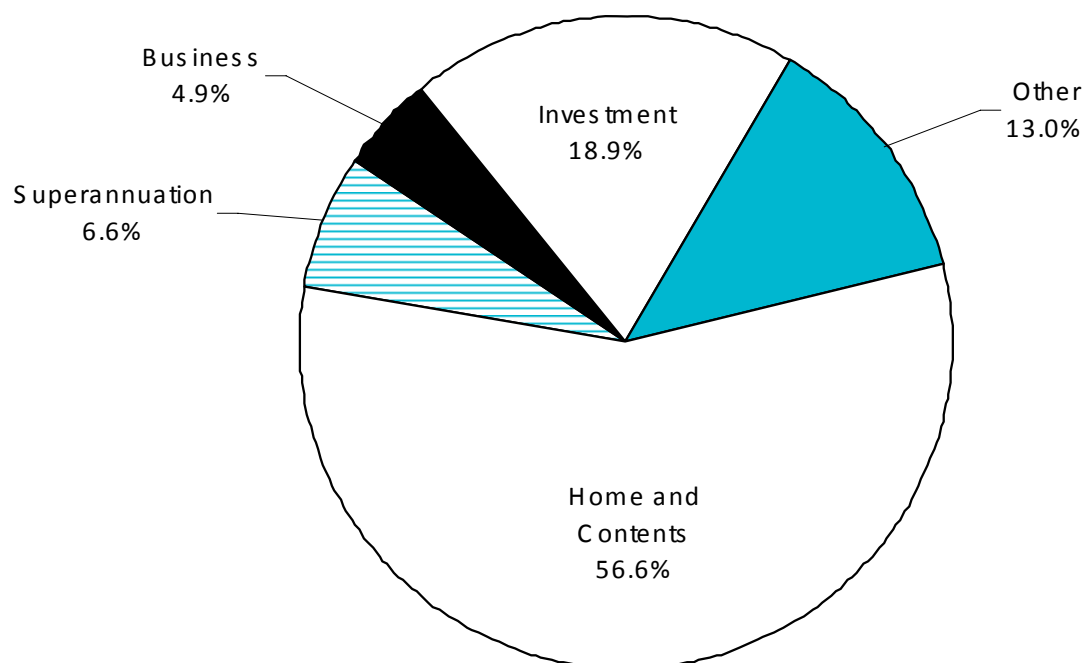
(a) Each decile represents 10 per cent of households with a head aged 65 years and over, ranked by household net wealth

Source: ABS, Household Expenditure Survey Confidentialised Unit Record Files, 2003-04 (Cat No 6540.0, HES03B)

The main asset of most older households is their home and contents – this accounts for 56.6 per cent of all assets. The composition of wealth of older households is shown in Figure 3.



**Figure 3. Households with a reference person aged 65 years and over, composition of net wealth, 2003-04.**



Source: ABS, Household Expenditure Survey Confidentialised Unit Record Files, 2003-04 (Cat No 6540.0, HES03B)

Superannuation assets currently represent 6.6 per cent of the wealth of older households. Many retired households will have converted superannuation lump sums into other asset holdings. Only a small proportion of older households will have had access to superannuation over their entire working lives and many would have had limited opportunity to accumulate significant savings since the introduction of the Superannuation Guarantee.

In terms of their net financial assets (i.e. including superannuation, bank accounts, and equity investments, but excluding the home), older single women have lower average and median values compared to older single men. Single women in the pre-retirement cohorts also have lower levels of financial assets, particularly superannuation, than single men.

It should also be noted that the wealth of older Australians retiring in the future will increase as the Superannuation Guarantee matures.

## 2.2 Home ownership

Homeownership is comparatively high amongst older Australians and this provides significant benefits for them. While there are costs associated with home ownership such as council rates and building maintenance, home ownership supports older Australians' living standards through, for example reducing their recurrent outgoings, compared with rental housing. Home ownership, apart from its intrinsic capital value, also provides greater stability for individual well-being by reducing the likelihood of unanticipated relocation expenses and experiences. In addition, stable housing arrangements, including home

ownership, are well known to support positive outcomes in a range of life areas including health and participation.

In a 2004 study of 7,000 older Australians<sup>1</sup>, homeowners were most likely to want to age in place, although for the majority, their attachment was not to the home but to the local area. Pleasure in and familiarity with the area and its facilities were important, as was proximity to people they know in the area. Nevertheless, one in three respondents had moved house in the past five years and a further one in three intended to move in the foreseeable future, many commenting that the change was or would be a lifestyle decision, for example to access better recreational facilities, move somewhere 'better' or 'warmer'.

In 2001, 12 per cent of Australia's population was aged 65 and over, and 23 per cent of private households were occupied by at least one person aged 65 and older. By 2021, it is estimated that 18 per cent of the population will be aged 65 years or older and 4 in 10 households will be occupied by at least one older person, the majority living alone or as a couple.<sup>2</sup>

The proportion of older households with savings invested in the home is high - overall 82.1 per cent of older households are owner occupiers. The rate amongst older couples was 90.4 per cent and 74.5 per cent for older singles. Though there are significant regional and market variations, the average home and contents value is around \$409,900 (ABS HES 2003-04).

Current rates of home ownership for age pensioners are more than 70 per cent. Recent estimates by FaCSIA (May 2006) indicate that the average value is \$367,000. Only some 10 per cent of age pensioners have home values more than \$600,000. The distribution of those 90 per cent of age pensioners' homes valued less than \$600,000 is even across the ranges above and below \$300,000.

According to ABS statistics on home ownership, 89 per cent of couple households with the reference person aged 65 and over own their home outright. The rate remains high for older single person households, with 75 per cent owning their home outright. These figures represent more than twice the national average. Relatively few older Australians are paying off mortgages (2-3 per cent of those aged 65 and over) reflecting a rate about one tenth of the national average.

The levels of equity that older Australians hold in their homes is contributing to a developing market for equity release products (reverse mortgages). However research undertaken in 2004<sup>3</sup> indicates a general dissatisfaction amongst older Australians with existing products and a concern over the lack of regulation of this emerging financial sector.

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<sup>1</sup> AHURI Research and Policy Bulletin, Issue 67, Ageing in Place: intergenerational and intrafamilial housing transfers and shifts in later life, October 2005

<sup>2</sup> AHURI Research and Policy Bulletin, Issue 43, Housing Futures in and Ageing Australia May 2004.

<sup>3</sup> AHURI Research and Policy Bulletin, Issue 67, Ageing in Place: intergenerational and intrafamilial housing transfers and shifts in later life, October 2005

## 2.3 Income

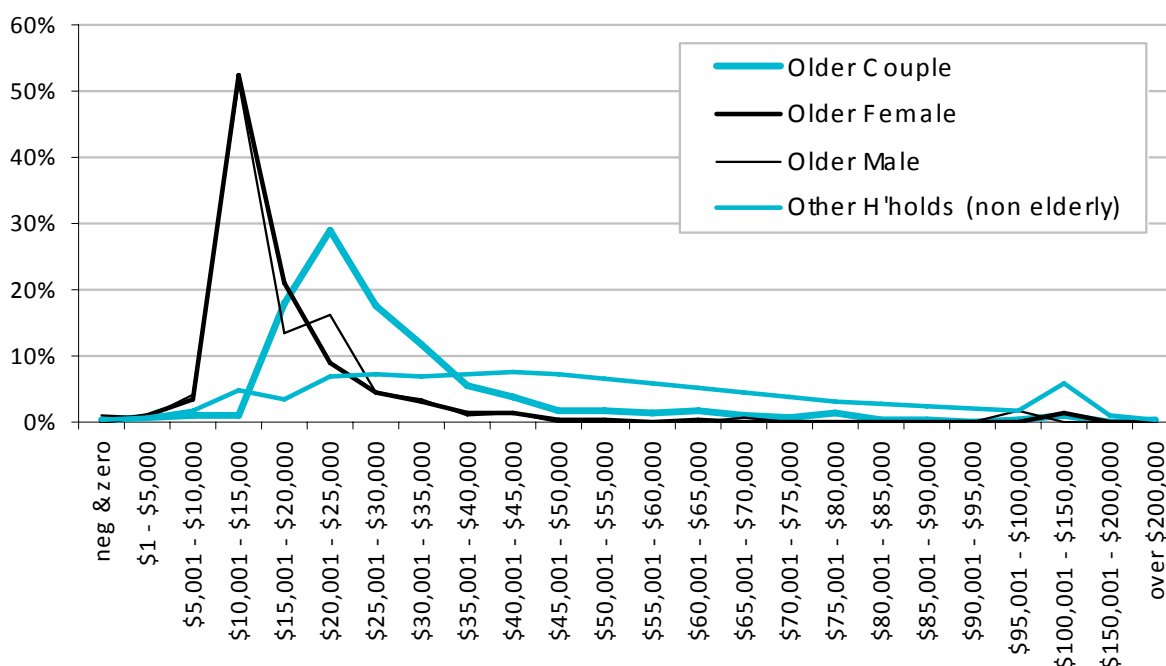
The 2003-04 ABS HES shows that the average disposable (after-tax) household income of households headed by a person aged 65 and over was \$23,800. The median income of these households was \$20,020.

These values reflect the high proportion of older Australians currently fully or partially reliant on Age Pension. In June 2007, 75 per cent of older Australians received some Age Pension or an equivalent veterans' payment. The average values for older Australian households are about half of the disposable incomes recorded in the HES for all households.

Figure 4 shows the distribution of older Australian households compared to other Australian households by the level of their disposable income. It illustrates that a large proportion of older Australians have disposable income in a range where they are fully or mostly reliant on Age Pension or similar payments.

The disposable income of older Australians is approximately half of that of all households, but around two thirds after adjusting for household composition (Table 1).

**Figure 4. Distribution of households by net disposable annual income<sup>(a)</sup>, by household type<sup>(b)</sup>, 2003-04**



(a) Gross income less income tax. Income shown is annualised current income.

(b) Households classified by age of household reference person. Older households have reference person aged 65 years and over

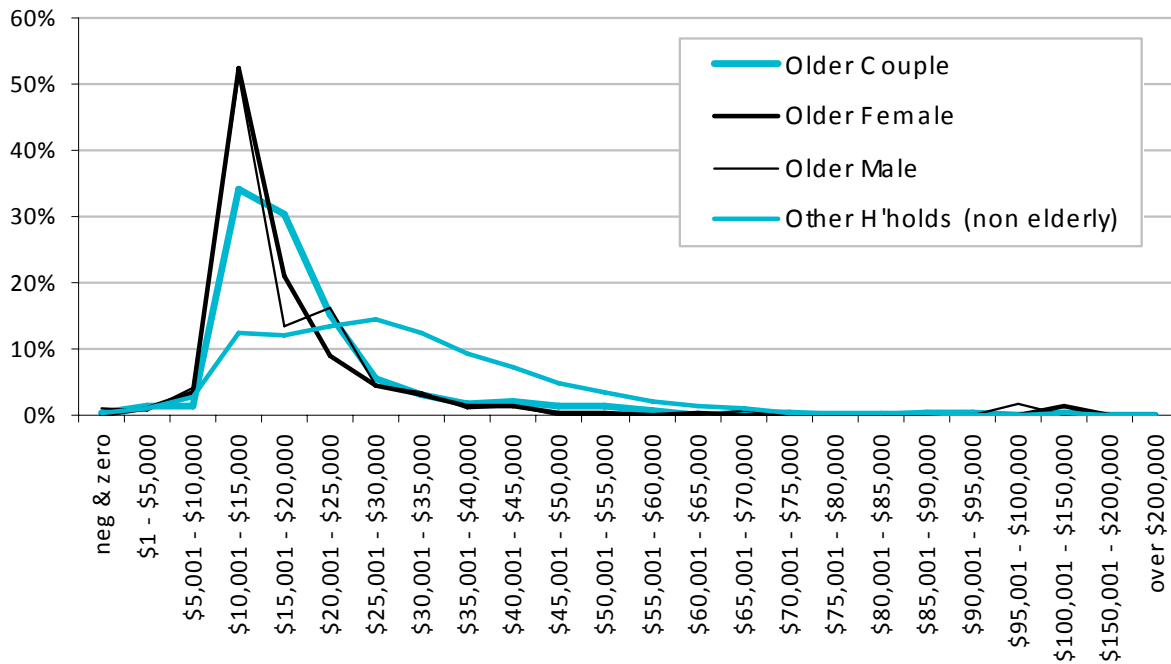
Source: ABS, Household Expenditure Survey Confidentialised Unit Record Files, 2003-04 (Cat No 6540.0, HES03B)

Figure 4 shows the raw distribution of disposable household income. However the needs of households are not homogenous. There are generally fewer people in households headed by someone aged 65 and over. As noted earlier, older Australian households have lower levels of debt and therefore lower levels of expenditure on financial services. They also

typically have lower transportation costs. However they may have higher comparative health costs.

If household incomes are adjusted to take account of the different compositions of households<sup>4</sup> the differences between the disposable incomes of types of households are reduced. (Figure 5.)

**Figure 5. Distribution of households by net equivalised annual disposable income<sup>(a)</sup>, by household type<sup>(b)</sup>, 2003–04**



- (a) Equivalised income has been derived by adjusting net disposable household income for the age and composition of household members using the revised OECD equivalence scale.
- (b) Households classified by age of household reference person. Older households have reference person aged 65 years and over

Source: ABS, Household Expenditure Survey Confidentialised Unit Record Files, 2003-04 (Cat No 6540.0, HES03B)

The mean and median incomes for older single men and women are quite similar, as are the average male and female incomes for the lowest 25 per cent. (Table 1.)

<sup>4</sup>This analysis uses a weighting of 1 for the first person in the household, and weightings of 0.5 for subsequent adults and 0.3 for children under age 15. The results are given in income per first adult equivalent – this means that the income for a couple household is 1.5 times that shown, and say for a couple family with two young children, 2.1. It was not possible to adjust for other variables such as financial commitments and health expenditure (Chapter 5 outlines the Australian Government’s measures to reduce the out-of-pocket cost of health expenditure).

**Table 1.** Households, original and equivalised annual disposable household income, distribution by household type, 2003–04

	Lower Quartile	Median	Upper Quartile	Mean
Original disposable Income				
Older couple	20,384	25,012	32,892	30,405
Older single female	11,985	14,198	18,466	17,738
Older single male	11,960	14,144	22,256	17,653
<i>All older households</i>	<i>13,832</i>	<i>20,020</i>	<i>26,962</i>	<i>23,801</i>
Other households	29,446	46,955	68,219	52,617
<b>All households</b>	<b>23,572</b>	<b>41,067</b>	<b>63,340</b>	<b>47,501</b>
Equivalised disposable income				
Older couple	13,589	16,674	21,928	20,270
Older single female	11,985	14,198	18,466	17,738
Older single male	11,960	14,144	22,256	17,653
<i>All older households</i>	<i>12,826</i>	<i>15,340</i>	<i>21,259</i>	<i>18,940</i>
Other households	18,346	27,830	38,132	30,142
<b>All households</b>	<b>15,756</b>	<b>25,212</b>	<b>36,052</b>	<b>28,153</b>

Source: ABS, Household Expenditure Survey Confidentialised Unit Record Files, 2003–04 (Cat No 6540.0, HES03B)

As is noted in Chapter 4, Treasury modelling projects that average income replacement rates will increase significantly in the future. This primarily reflects the maturing of the Superannuation Guarantee system, although increased workforce participation also adds to future retirement incomes. Age Pension settings are also increasing older Australians' disposable incomes, in particular the benchmarking of the maximum single rate of pension to 25 per cent of Male Total Average Weekly Earnings.

## Asset rich, income poor?

In most cases those older households with the highest wealth also have the highest income (Table 2). The results of the HES do not support the existence of a large group of asset rich but income poor older Australian households. Table 2 shows that 1.3 per cent of the population aged 65 and over had wealth in the highest quartile but income in the lowest quartile. Around 16 per cent of older households are in the top half of the distribution in terms of wealth, but the bottom 50 per cent of households in terms of income.

**Table 2.** Households with a reference person aged 65 years and over, Household wealth and equivalised disposable household income quartiles, distribution of households, 2003-04

Income Quartile	Wealth Quartiles				Total
	Q1 (Low)	Q2	Q3	Q4 (top)	
Households					
Q1 (Low)	126,133	125,439	74,662	17,296	343,530
Q2	95,527	119,996	92,066	36,287	343,876
Q3	68,676	69,250	117,193	88,031	343,150
Q4 (top)	53,929	29,883	57,246	201,674	342,732
Total	344,265	344,568	341,167	343,288	1,373,288
Distribution of households					
Q1 (Low)	9.2%	9.1%	5.4%	1.3%	25.0%
Q2	7.0%	8.7%	6.7%	2.6%	25.0%
Q3	5.0%	5.0%	8.5%	6.4%	25.0%
Q4 (top)	3.9%	2.2%	4.2%	14.7%	25.0%
Total	25.1%	25.1%	24.8%	25.0%	100.0%

Source: ABS, Household Expenditure Survey Confidentialised Unit Record Files, 2003-04 (Cat No 6540.0, HES03B)

Age pensioners who have assets that they are unable to realise to support themselves can be assisted in two ways:

- ▶ age pensioners in severe financial hardship can access assets test hardship rules that can allow Centrelink to disregard the asset if it would be unreasonable to expect them to sell it; and
- ▶ an equity release scheme, the Pension Loans Scheme, is available through Centrelink and the Department of Veterans' Affairs to some part-rate pensioners and self-funded retirees who own real estate. Under this scheme, a pensioner may be able to obtain a loan that has the effect of bringing their fortnightly pension payment up to the maximum pension rate. The loan is secured against any real estate they own and recovered from their estate, or when they sell the asset.

## 2.4 Financial well-being

Measurement and evaluation of outcomes related to living standards are difficult. However subjective 'financial well-being' can be reliably measured by using indicators of satisfaction and financial stress.

The Household, Income and Labour Dynamics in Australia (HILDA) Survey, and the ABS HES provide information on self-reported 'prosperity' and 'financial stress'.

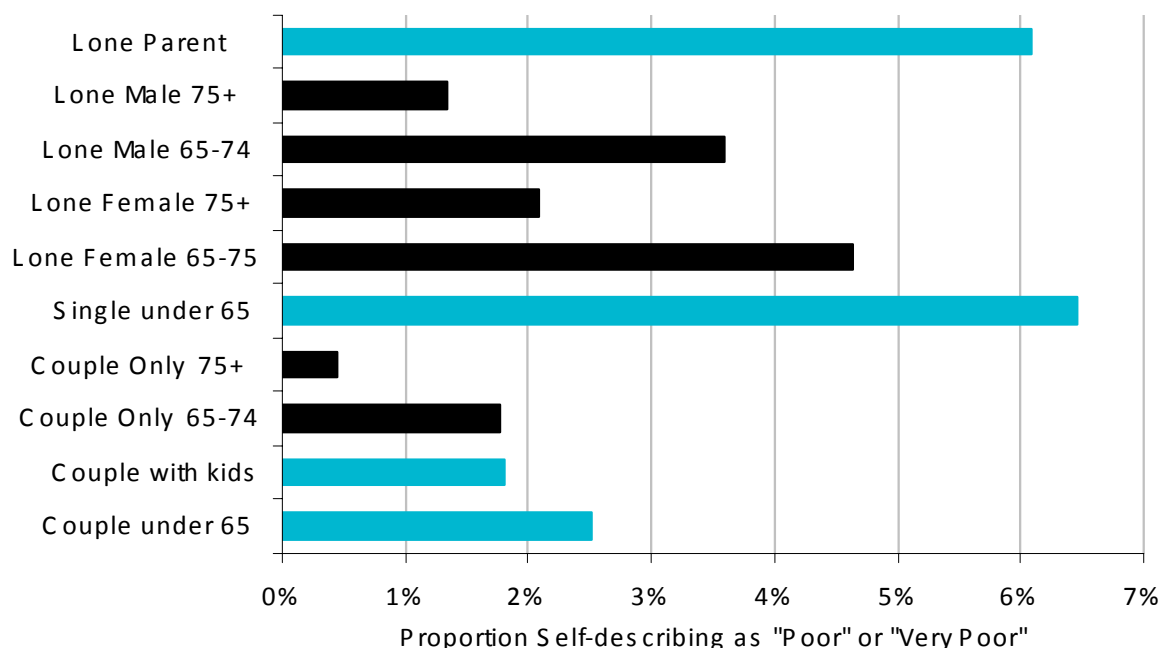
Older Australians generally report high levels of well-being. In the HILDA survey respondents are asked to self-report their level of prosperity on a six point scale, ranking from "Very Poor" to "Prosperous".

- ▶ Only 0.2 per cent of people aged 65 and over reported being 'very poor', with just 1.6 per cent reporting themselves as being 'poor'.
- ▶ 25.1 per cent described themselves as 'just getting along'.

- ▶ The majority, 59.8 per cent, classified themselves as ‘reasonably comfortable’, along with 12.4 per cent who chose the response ‘very comfortable’.
- ▶ 0.9 per cent stated that they were prosperous.

Across all household types, older Australians self-report lower incidences of low prosperity compared to others sampled in HILDA.

**Figure 6. Self-reported levels of prosperity, proportion of respondents indicating that they were ‘poor’ or ‘very poor’, 2005-06**



Source: unit record data from the HILDA Survey (Release 5.0).

Older Australians who are mostly reliant on income support self-report higher levels of prosperity than other age groups with similar levels of reliance on income support.

Older Australians also report low levels of financial stress. Table 3 reports on the incidence of financial stress in three categories:

- ▶ **Missing out:** This comprised questions on the capacity of a household to participate in a range of activities, including having family and friends over for a meal, special meals, second-hand clothing, hobbies and holidays away from home;
- ▶ **Cashflow problems:** Questions about inability to pay bills on time and needing to borrow money from friends and family; and
- ▶ **Hardship:** This comprised questions on being able to afford heating and meals, and having to pawn items or needing to obtain assistance from community organisations.

Responses are recorded at two levels: some incidence, when a household reported at least one item in a category, and multiple incidences, where two or more items were recorded.

The data in the table report on outcomes in 1998-99 and 2003-04 from the ABS HES.

Table 3. Incidence of aggregate indicators of financial stress, 1998-99 and 2003-04

	Couple 65+	Single 65+	Other age groups (<65)	Total
1998-99				
Some missing out	28.6%	31.8%	40.0%	38.4%
Some cashflow	3.4%	6.5%	23.8%	20.6%
Some hardship	*2.5%	*3.6%	9.2%	8.2%
Multiple missing out	14.8%	17.2%	23.0%	21.8%
Multiple cashflow	*0.8%	*1.2%	10.9%	9.2%
Multiple hardship	0.0%	**1.3%	3.6%	3.1%
2003-04				
Some missing out	27.2%	27.3%	37.5%	35.7%
Some cashflow	*3.2%	5.8%	22.7%	19.5%
Some hardship	*2.0%	3.6%	9.0%	7.9%
Multiple missing out	17.5%	15.9%	22.6%	21.5%
Multiple cashflow	*1.4%	*0.8%	10.6%	8.9%
Multiple hardship	**0.5%	**0.6%	3.1%	2.7%

\* = relative standard error (rse) ge 25% \*\* = rse ge 50%

Source: ABS, Household Expenditure Survey Confidentialised Unit Record Files, 1998-99 and 2003-04 (Cat No 6540.0, HES03B)

The table shows that levels of financial stress are statistically significantly lower amongst households headed by an older person than in other Australian households. The observed increase in cashflow and hardship indexes between 1998-99 and 2003-04 for couples and singles aged 65 and over is not statistically significant. None of the changes between the two surveys, other than the fall in those who report 'some missing out' in the 'other' and 'total' populations, are significant at a 95 per cent confidence level.

To the extent there is evidence of any significant financial stress, this was concentrated in areas that might be considered discretionary recreational and social activities, and it was only reported by a minority of households. The most frequently cited item of missing out on doing things because of a shortage of money was a holiday away from home once a year for one week or longer. Reported by 18.0 per cent of older couple households and 20.1 per cent of older single person households, these rates were well below the level of 27.1 per cent for other, younger, households. The second most cited item was not being able to have a night out once a week. This was cited by 16.5 per cent of older couples and 11.7 per cent of single older households. These rates were again well below the 20.1 per cent reported by other, younger, households. Only a very small proportion of older households, around 5 per cent, reported that they could not engage in other social activity, such as having a friend over for a meal, because of financial constraints.



# 3: Analytical Living Cost Indexes for Selected Australian Household Types

## 3.1 Introduction

As the Terms of Reference for the inquiry indicate, older Australians express concern that their incomes, and in particular Age Pension and equivalent veterans' payments, have not kept pace with price changes. Underlying this concern is often a view that the CPI does not adequately measure changes to age pensioners' purchasing power.

Because of the Australian Government's commitment to set the maximum single rate of pension to at least 25 per cent of Male Total Average Weekly Earnings, the single rate of pension is in fact increasing over and above the CPI increases.

Nevertheless, before discussing the measures the Australian Government has taken to support older Australians' living standards (Chapters 4 and 5), it is important to outline the available information on the cost pressures faced by older Australians.

Since this is an important component of the community discussion, and the CPI has been used in this submission to calculate real values, the issue of whether the CPI adequately measures changes to the cost of living for older Australians is also examined here.

## 3.2 The ABS living cost indexes

The ABS has developed a set of living cost indexes to measure the impact of changes in prices on the out-of-pocket living costs of specific types of households. These indexes have been designed specifically to answer the question: 'By how much would after-tax money incomes need to change to allow households to purchase the same quantity of consumer goods and services as purchased in the base period?' (ABS, Australian Economic Indicators, Cat. No. 1350.0 October 2003). The most recent publication updating these indexes was released in November 2006.

These indexes were developed by the ABS after public consultations on revisions to the CPI associated with the introduction of the 13th series of the CPI in September 1998. In these consultations various users argued that there were grounds for believing that different household types experienced significantly different rates of change in living costs and therefore there was a need for several living cost indexes. In response, the ABS decided that in recognition of the widespread interest in the extent to which rates of change in the cost of living vary across different groups in the community, the ABS would compile and publish analytical indexes specifically designed to measure changes in living costs for a range of population subgroups. These indexes, which were to be constructed using the outlays approach, would be published at approximately annual intervals. (Information Paper:

Outcome of the 13th Series Australian Consumer Price Index Review, Cat. No. 6453.0 November 1997.)

ABS considered that there were four groups of households for which it could construct suitable indexes:

- ▶ employee households;
- ▶ age pensioner households;
- ▶ other government transfer recipient households; and
- ▶ self-funded retiree households.

The ABS describes these indexes as “conceptually preferred measures for assessing the impact of changes in prices on the disposable incomes of households. In other words, these indexes are particularly suited for assessing whether the disposable incomes of households have kept pace with price changes.” (ABS, Analytical Living Cost Indexes For Selected Australian Household Types, June 2006 Cat. No. 6463.0.)

The construction of the cost of living indexes varies from the CPI in a number of ways:

- ▶ the goal of the indexes is to consider the impact of changes in prices on specific groups of households, rather than the household sector overall;
- ▶ reflecting this, the weights assigned to different commodities are based upon the actual levels of goods and services expenditure that these households experience;
- ▶ in addition ABS uses the pattern of expenditures of all households in these groups, not just those living in the capital cities, as is the case with the CPI, although the price changes applied are those experienced by capital city households; and
- ▶ there are some differences in the technical treatment of house purchases, and insurance. This differing treatment reflects an outlays basis, which is closer to the concept of a cost of living index.

As with the CPI, these indexes do not make provision for substitution between items in response to price changes. That is, as a number of items in the bundle of goods are close substitutes, consumers will often adjust to a price increase in one item by consuming less of this and more of another (though some substitution is allowed for at the item level, e.g. different types of apples). This type of behaviour is not reflected within a CPI series. This is particularly important in areas such as food, where prices may be quite volatile, and consumption can be easily varied – for example away from bananas to apples.

In terms of the overall construction of the indexes, ABS has indicated that the proportion of expenditure allocated to food is highest for age pensioner households, while self-funded retiree households have higher relative expenditures on household contents and services and recreation. Health costs also account for a significantly higher proportion of expenditure of age pensioner and self-funded retiree households. Table 4 shows, in percentage terms, the different expenditure patterns of household types.

**Table 4. Expenditure Weights (%) by Major Commodity Group and Living Cost Index Household Type at June Qtr 2005 Prices**

Commodity group	Living Cost Index Household Type			
	Employee	Age pensioner	Other govt transfer	Self-funded retiree
Food	16.4	21.1	19.0	16.8
Alcohol and tobacco	7.9	7.2	10.0	7.6
Clothing and footwear	4.3	5.1	4.8	4.0
Housing(a)	11.5	16.8	19.2	10.6
Household contents and services	10.1	11.3	10.5	12.6
Health	4.7	7.3	3.2	8.7
Transportation	14.7	11.4	10.9	14.7
Communication	3.6	3.8	4.5	3.0
Recreation	12.7	11.3	10.2	16.8
Education	2.9	0.2	1.8	0.6
Financial and insurance services(b)	11.1	4.7	6.0	4.6
Total	100.0	100.0	100.0	100.0

(a) House purchases are excluded.

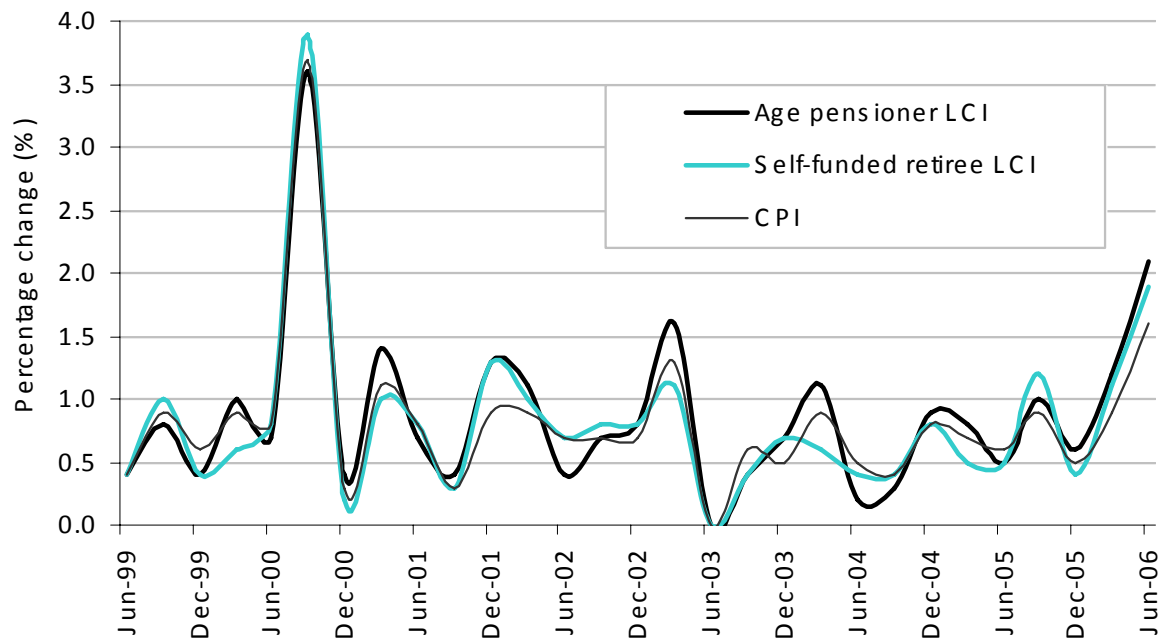
(b) Includes interest charges and general insurance. Interest charges are excluded from the CPI and general insurance is calculated on a different basis.

Source: ABS, Analytical Living Cost Indexes for Selected Australian Household Types, June 2006 (Cat No 6463.0)

### 3.3 Results for age pensioner and self-funded retiree households

The weights in Table 4 are the basis for the ABS living cost indexes for different household types. The most recent estimates of these indexes cover the period from the June quarter 1998 to the June quarter 2006. These were released by ABS in November 2006 in its publication Analytical Living Cost Indexes for Selected Australian Household Types, June 2006, Cat. 6463.0 (See Figure 7).

**Figure 7. Quarterly percentage changes: age pensioner households, self-funded retiree households and CPI compared**



Data smoothed.

Source: ABS, Analytical Living Cost Indexes for Selected Australian Household Types, June 2006 (Cat No 6463.0)

The small divergence between quarterly percentage changes in the cost of living indexes and the CPI over the first half of 2006 is in large part a result of the increase in the food index for age pensioners and self-funded retiree households, as well as the cost of fuel. The sensitivity of the index to these items reflects the higher relative expenditure on these items by these households. ABS notes that this is particularly the case with certain food items, such as fruit, which had relatively higher price increases through the year, while in contrast these households have less relative expenditure on eating out which had a relatively smaller increase. Both fruit and fuel had major increases in prices between June 2005 and June 2006, and this is reflected in the overall increases shown in Figure 7.

However since June 2006, the last point at which the ABS has calculated living cost indexes for age pensioner and self-funded retiree households, both fruit and fuel prices have fluctuated. For example, the index of the fruit component of the CPI rose from 148.3 in June 2005 to 243.5 in June 2006, before slipping back to 184.1 in March 2007 but increasing to 199.5 in June 2007. For fuel the corresponding figures are 182.6, 227.6, 199.9 and 218.1. These fluctuations in the fruit and fuel components of the CPI since June 2006 are not reflected in the ABS living cost indexes for age pensioners and self-funded retirees because these have not yet been calculated for this period. In the same way in which the analytical indexes were sensitive to these increases between June 2005 and 2006, it would be anticipated that they will be equally responsive to changes in these prices over the next period.

The recent quarterly changes in particular commodity groups are obviously influencing community perceptions of the effect of price changes on older Australians' purchasing

power. However it is important to note that the impact of price changes on the disposable incomes of households is the net result of the changes to all commodity groups.

Changes over the 12 months to June 2006 in the various commodity groups are shown in Table 5. This table shows that for every household type, and for the CPI index in total, changes in one commodity group above the average for the household type or the CPI are balanced by changes below the total averages. While food increased above the total index for age pensioner households, it was balanced by other commodity groups which decreased or increased at a slower rate.

**Table 5. Change in Living Cost Indexes by commodity group June quarter 2005 to June quarter 2006**

Commodity group	Living Cost Index Household type				CPI
	Employee	Age pensioner	Other government transfer	Self-funded retiree	
PERCENTAGE CHANGE					
Food	7.9	10.4	8.7	10.0	8.3
Alcohol and tobacco	3.7	3.6	3.9	3.5	3.6
Clothing and footwear	-1.8	-1.5	-1.8	-1.5	-1.7
Housing(a)	3.6	4.3	4.1	4.0	3.5
Household contents and services	1.4	0.8	1.1	1.0	1.4
Health	4.7	5.0	4.9	4.8	4.6
Transportation	7.9	9.7	10.9	8.2	7.7
Communication	-0.4	-1.1	-1.3	-0.6	-0.9
Recreation	1.5	2.2	1.0	2.4	1.5
Education	5.9	5.8	5.6	6.3	5.8
Financial and insurance	5.9	3.0	5.0	3.2	2.2
Total	4.5	5.0	4.6	4.6	4.0

(a) House purchases are included in the CPI but excluded from the population subgroup indexes.

(b) Includes interest charges and general insurance. Interest charges are excluded from the CPI and general insurance is calculated on a different basis.

Source: ABS, Analytical Living Cost Indexes for Selected Australian Household Types, June 2006 (Cat No 6463.0)

Obviously the same compositional effects occur for later CPI estimates. For example, the 'fruit' component of the CPI increased by 8.4 per cent in the June 2007 quarter; however the 'food' group increased by 1.7 per cent, and the CPI as a whole by 1.2 per cent.

The fuel 'component' increased by 9.1 per cent from in the June 2007 quarter and the 'transport' group by 3.0 per cent. Comparatively large increases in one component or group of the CPI do not necessarily translate into large increases in the overall cost pressures on households because of the balancing effects of other components or groups.

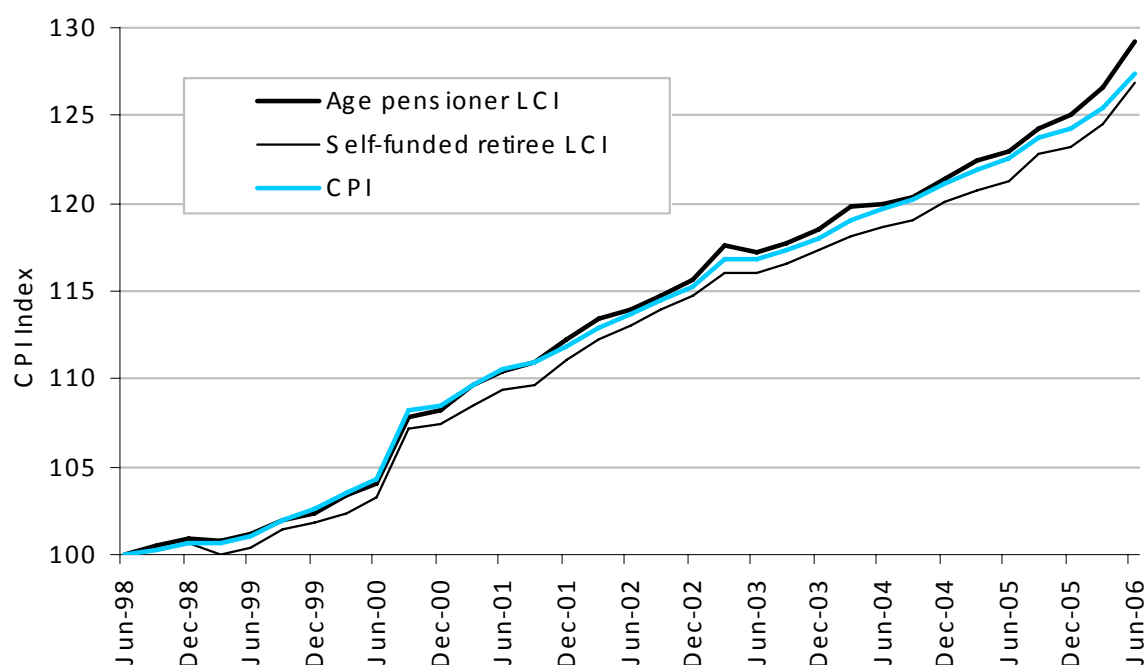
### 3.4 The cost of living indexes over time

ABS analysis of the living cost indexes allows average annual growth rates to be calculated for the age pensioner living cost index, the self-funded retiree living cost index and the CPI over the eight years between June 1998 and June 2006. Average living cost changes for both age pensioner households and self-funded retiree households are moderate over the eight years examined by the ABS.

- ▶ The compound average annual growth rate for the age pensioner living cost index over the eight years examined by the ABS was 3.3 per cent.
- ▶ The compound average annual growth rate for the self-funded retiree living cost index was 3.0 per cent.
- ▶ Between June 1998 and June 2006 the compound average annual growth rate for the CPI was 3.1 per cent.

It is also important to note that, while varying at particular points in time, in overall terms over the eight year period covered by the indexes, changes in living costs for age pensioner and self-funded retiree households were quite close to the CPI (Figure 8).

**Figure 8. Comparison of Index Numbers for living cost index of age pensioner households, self-funded retiree households and CPI**



Source: ABS, Analytical Living Cost Indexes for Selected Australian Household Types, June 2006 (Cat No 6463.0)

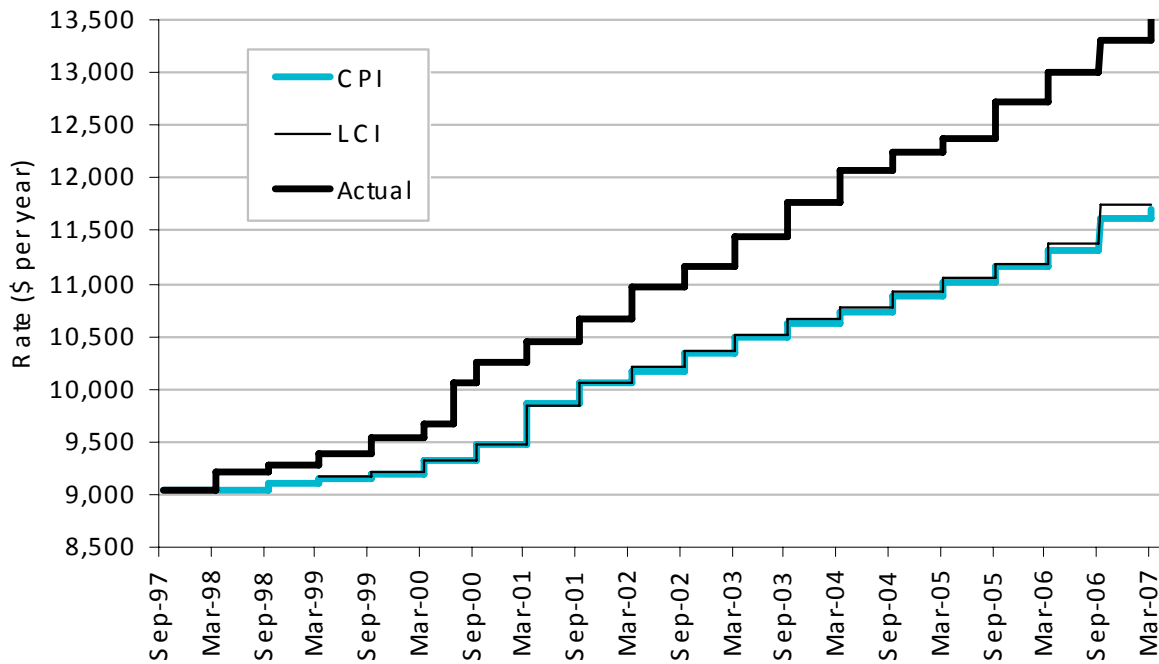
In aggregate between June 1998 and June 2006:

- ▶ age pensioner households experienced an increase of 29.2 per cent compared to a 27.4 per cent increase in the CPI; and
- ▶ self-funded retiree households experienced an increase of 26.9 per cent compared to a 27.4 per cent increase in the CPI.

What these price index changes mean is that in June 2006 an age pensioner would have needed \$129.20 to buy the same basket of goods that cost them \$100 in June 1998, just 1.4 per cent more than the \$127.40 that would be needed to buy the CPI basket of goods. The analysis also shows that a self-funded retiree would need \$126.90 to buy their \$100 basket of goods (0.4 per cent below the CPI).

However the indexation arrangements for Age Pension mean that it is increasing faster than both the CPI and the ABS living cost index for age pensioners. Figure 9 illustrates how much faster the single rate of age pension is increasing than the CPI or the ABS living cost index for age pensioners by comparing the actual rate, including the Pension Supplement, to what it would have been if it was indexed only in line with the CPI or the living cost index for age pensioners. This is due to the Australian Government’s legislated commitment to set the single rate of pension to at least 25 per cent of MTAWE, and the introduction of the Pension Supplement.

**Figure 9. Actual pension rates – increases compared to increases in line with CPI only, and ABS analytical living cost index for age pensioners only**



Source: FaCSIA modelling – actual pension rate in this figure includes the Pension Supplement but does not include Utilities Allowance or bonus payments.

# 4: Australian Government support for the disposable incomes of older Australians

## 4.1 Introduction

This chapter summarises changes to the disposable incomes of older Australians over the last 10 years and examines the support the Australian Government provides to the incomes of older Australians, and therefore to their living standards.

Australia has a three-pillar approach to retirement incomes:

- ▶ a publicly funded, means-tested age pension and associated social security arrangements;
- ▶ compulsory superannuation savings through the Superannuation Guarantee; and
- ▶ voluntary superannuation and other private savings.

Age Pension provides a safety net for older people with little or low levels of retirement savings, and for an increasing group, provides a supplement to their retirement incomes. It is designed to ensure individuals are able to afford the fundamentals to participate in society.

Australia's Age Pension is unlike the retirement income payments in most other OECD countries. Payments are funded from general taxation revenue, in other words by current taxpayers, rather than through accumulated individual contributions paid throughout working life.

This chapter examines the support that the Age Pension system provides to retirement incomes under the following headings:

- ▶ indexation arrangements;
- ▶ the bonus and supplementary payments linked to the pension;
- ▶ taper rates and effective marginal tax rates; and
- ▶ policy settings designed to enable and support age pensioners to make the best use of their private savings throughout their retirement.

The level of support provided to older Australians through Age Pension is increasing in real terms. In particular, indexation arrangements mean that age pensioners' living standards are enhanced in line with real wages growth. As a result of benchmarking Age Pension to Male Total Average Weekly Earnings, the maximum single rate of Age Pension is increasing faster than both the CPI and the ABS living cost index for age pensioner and self-funded retiree households.



While Age Pension remains integral to Australia's retirement income system, Superannuation Guarantee and additional voluntary savings enable Australians to achieve a higher standard of living in retirement than Age Pension alone.

The Superannuation Guarantee involves compulsory, concessionaly-taxed savings for retirement through an employment-based system. Contributions are made by employers on behalf of employees to superannuation funds managed in the private sector. The contribution required has gradually risen from 3 per cent of an employee's earnings in 1992 to a maximum of 9 per cent of earnings in 2002-2003.

This chapter outlines the Superannuation Guarantee and outcomes for older Australians. It also discusses the Australian Government's major reforms to both the superannuation and taxation systems to increase the disposable income of older Australians and therefore improve their standard of living in retirement.

## 4.2 Disposable Incomes

The policy changes the Australian Government has made over the last 10 years to the superannuation and taxation systems and the taxpayer funded Age Pension system have, in real terms, increased the disposable income of older Australians and therefore provided additional support for their overall living standards.

It is difficult to put a single figure on the effect of these changes, because circumstances of age pensioners are not homogenous, and because of the way that the changes interact. To provide a summary FaCSIA has modelled the following cameos. The cameos below demonstrate the increases in the real disposable incomes of older Australians between 1996-97 and 2006-07.

**Older Australians on the maximum rate of Age Pension have benefited from the MTAW benchmark and bonus and supplementary payments. Their real disposable income has increased by:**

- ▶ 19.1 per cent for single older Australians with no income other than Age Pension; and
- ▶ 19.4 per cent for an older couple with no income other than Age Pension.

**Older Australians on a part-rate of Age Pension have benefited from the MTAW benchmark and bonus and supplementary payments, changes to the taper rates and superannuation and taxation changes. Their real disposable income has increased by:**

- ▶ 32.2 per cent for a single older Australian with mixed income equal to 33 per cent of AWOTE<sup>5</sup>;
- ▶ 34.0 per cent for a single older Australian with income from employment equal to 33 per cent of AWOTE ; and

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<sup>5</sup> Where private income is expressed as a percentage of AWOTE, annual AWOTE has been projected as \$1,067.58 in 2006-07. The term 'mixed income' is used to describe income from a variety of sources. A person with mixed income is assumed not to be able to utilise the Mature Age Worker Tax Offset to reduce taxable liability and not to have an asset-test reduced rate of pension.

- ▶ 38.0 per cent for an older couple with each member of the couple having mixed income equal to 33 per cent of AWOTE.

These cameos also include benefits from real increases in AWOTE.

**Older Australians who are self-funded retirees have benefited from superannuation and taxation changes. Their real disposable income has increased by:**

- ▶ 25.1 per cent for a single older Australian with income from employment equal to 67 per cent of AWOTE;
- ▶ 25.0 per cent for an older couple with each member of the couple having income from employment equal to 67 per cent of AWOTE; and
- ▶ 23.1 per cent for a single older Australian with income from employment equal to 100 per cent of AWOTE.

Again, these cameos also include benefits from real increases in AWOTE.

### 4.3 Adequacy of retirement income

The adequacy of Australians' retirement incomes has been the subject of considerable debate over recent years. Much of the debate has centred on setting a benchmark for an adequate retirement income. However, the adequacy of retirement incomes depends on an individual's own circumstances, needs and expectations and accordingly the Australian Government has not set a 'one-size-fits-all' benchmark.

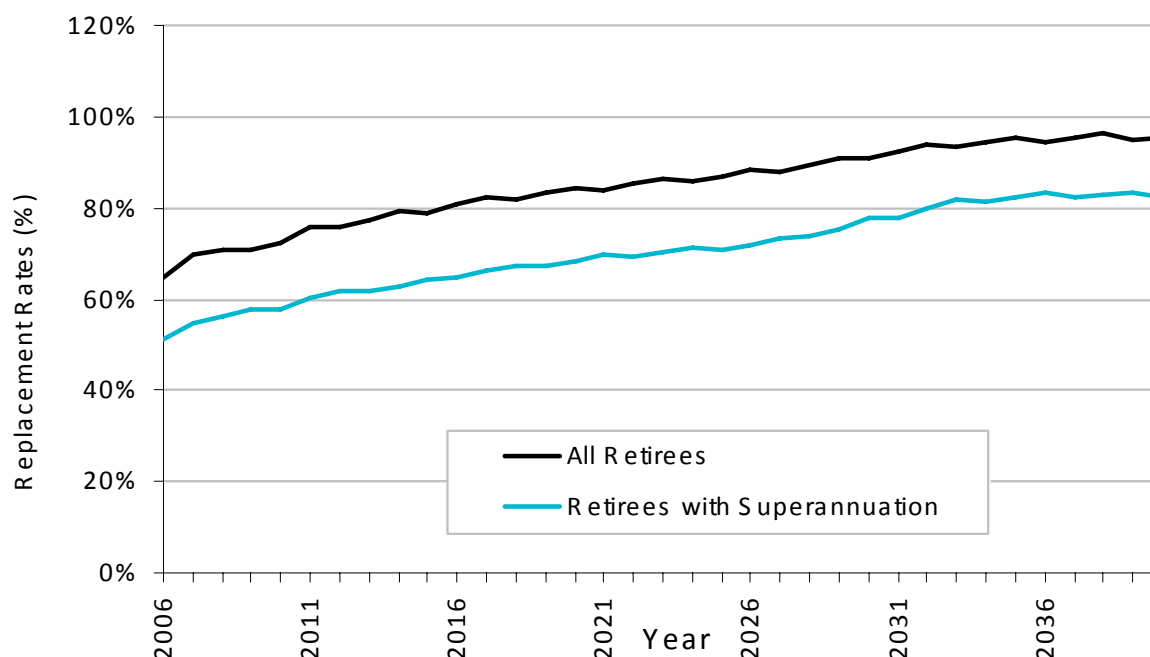
The adequacy of retirement incomes can be assessed against a relative framework using replacement rates. Replacement rates compare a person's income or spending power after retirement to before retirement. Replacement rates are discussed more at Section 4.5 and in Appendix 3.

#### Estimated average replacement rates

Figure 10 depicts projected average replacement rates for two cohorts of individuals – retirees with superannuation, and all retirees. The average replacement rates compare the average expenditure of retirees for the five years after pension age with the average income of individuals in the same group for the five years before pension age.

Average replacement rates capture the range of workforce experiences of a cohort of individuals, including unemployment and other breaks from the workforce, the range of retirement ages, and varying superannuation coverage. The average replacement rates take account of the income from Age Pension, mandatory and voluntary superannuation savings and other non-superannuation savings. However, average replacement rates exclude income received from reverse mortgages and work income received after retirement.

**Figure 10. Estimated Average Replacement Rates**



Source: Rothman, GP, The Adequacy of Australian retirement incomes – new estimates incorporating the Better Super reforms. As presented to the Fifteenth Colloquium of Superannuation Researchers, University of New South Wales, July 2007.

The average replacement rate for ‘retirees with superannuation’ seeks to represent the average retirement outcomes for people who were in the workforce and either had compulsory superannuation and/or had chosen to make voluntary contributions to superannuation.

Average replacement rates are higher for ‘all retirees’ as this group includes individuals outside of the workforce and those who were on other government benefits prior to reaching age pension age. For these individuals, Age Pension provides an income in retirement at least as high as their income before retirement.

## 4.4 Australian Government support for older Australians’ incomes - pensions and associated arrangements

### Background

Age Pension is designed to provide a safety net for older people with little or low retirement savings built up during their working life and to supplement the retirement incomes of an increasing group. Unlike the systems in many OECD countries it is not based on prior work history or contributions made to an insurance based scheme throughout working life. It is meant to support a modest but adequate standard of living in retirement and is designed to ensure individuals are able to afford the fundamentals to participate in society. The design of indexation arrangements means pensioners are protected against increases in prices as

measured by the CPI, and ensures that their living standards are enhanced in line with the growth in wages over time.

At 1 July 2007 the maximum rate of Age Pension was \$13,652.60 a year for singles and \$22,802.00 a year for a couple combined. Table 6 shows how much income or assets they can have before their pension is reduced (the free area) and the maximum amounts of income or assets they can have and still receive a part-rate of pension (disqualifying limits).

**Table 6. Pensions - Annual Free Areas and Disqualifying Limits**

	Free areas	Disqualifying limit	
		Current	Projected (a)
Income test			
Single	\$3,432.00	\$37,940.50	
Couple (combined)	\$6,032.00	\$63,414.00	
Assets test			
Homeowners			
Single	\$166,750	\$343,750	\$520,750
Couple (combined)	\$236,500	\$531,000	\$825,500
Non-homeowners			
Single	\$287,750	\$464,750	\$641,750
Couple (combined)	\$357,500	\$652,000	\$946,500

(a) Based on free areas and pension rates at 1 July 2007. Free areas are indexed from 1 July each year. Pension rates are indexed from 20 March and 20 September each year.

Source: FaCSIA data, July 2007

Over the last 10 years total expenditure on Age Pension has increased from \$17.1 billion (Dec 2006 dollars) in 1996-97 to an estimated \$22.8 billion in 2006-07.

## Single and partnered rates

Rates of pension and various add-on allowances, and income and assets test free areas are all affected by a person's status as a single person or as a member of a couple.

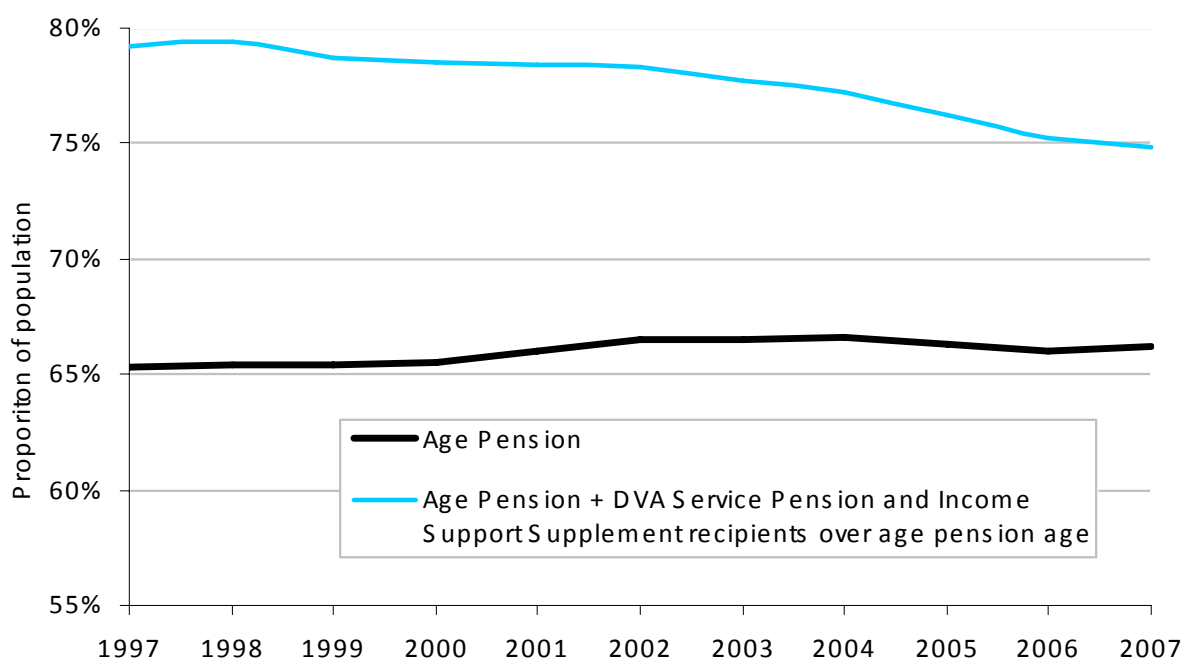
Each member of a couple receives around 83 per cent of the maximum single rate of pension. This ratio is reflected in the table of rates for Age Pension in the *Social Security Act 1991* and in the indexation provisions in the Act. Conversely, the maximum single rate of pension is around 60 per cent of the maximum rate that can be paid to a couple (combined).

Research on overseas practices suggests that in those countries that provide extra pensions for couples, the ratio between the single person's and married couple's pension tends to be similar across countries, with a single person's pension around 60–70 per cent of that for a couple. Some countries such as Germany, France and Sweden pay a single rate that is 56 per cent of the combined couple rate, while the United Kingdom, New Zealand and United States of America pay a single rate that is 66 or 67 per cent of the combined couple rate.

## Take-up rates

Three quarters of Australians aged 65 and over receive some Age Pension or an equivalent payment from the Department of Veterans' Affairs (Age Service Pension). Over the last 10 years the take-up rate for age and service pensions has decreased slightly (Figure 11).

**Figure 11. Persons of age pension age - take-up of age and service pensions, June 1997 to June 2007**  
(a)



(a) Figures do not include people over age pension age on other income support payments (eg, Disability Support Pension, Carer Payment etc).

Source: FaCSIA and DVA administrative data

The changes to the take-up rate and expenditure reflect the balance of increased income and asset levels among older Australians, increases in the population over age pension age, and the indexation arrangements for Age Pension.

The projections in IGR 2 show that under current policy settings, the ageing of Australia's population and indexation arrangements mean that real expenditure on Age Pension will increase further. As detailed in IGR 2 this will be moderated by increasing wealth levels and the means test. The net result of these policy settings, in the context of continued growth in GDP, is that Age Pension expenditure is estimated to grow from 2.5 per cent of GDP in 2006-07 to 4.4 per cent of GDP in 2046-47.

Within the age pension population the key outcome projected will be an increase in part-rate age pensioners. While the proportion of the population over age pension age who receive Age Pension is expected to fall slightly, the major projected change is an increase in the proportion of age pensioners who will receive a part (rather than full) rate of Age Pension.

Age Pension will therefore continue to be an important part of the retirement income system into the future. It will continue to provide a safety net for a smaller but still very significant group of older Australians with little or low retirement savings and, for an increasing group, provide a supplement to their retirement incomes. This safety net role will be particularly important for those who are outside the superannuation system, people who have periods out of the workforce because of caring responsibilities, and people who have broken periods of employment.

### 4.4.1 Indexation

The indexation arrangements for Age Pension are designed both to ensure that pensioners are fully compensated for price increases as measured by the CPI, and to enhance their living standards in line with improvements in community living standards as measured by wages. The indexation arrangements are a major driver of the increased real support Age Pension is providing to older Australians' disposable incomes.

#### Age Pension: indexed to CPI and benchmarked to MTAW

Pensions are adjusted twice each year in March and September in line with increases in prices as measured by the CPI. Also, in 1997 the government legislated to ensure that the maximum single rate of pension is set to at least 25 per cent of Male Total Average Weekly Earnings (MTAWE). The first increase under this legislation was paid from March 1998. The indexation arrangements are structured so that if MTAWE increases more slowly than prices over any particular period, the pension is increased on the basis of CPI increases to ensure that it maintains real purchasing power.

In addition, from July 2000, the Australian Government provided a permanent real increase to the pension with an extra two per cent increase over and above any usual pension rises that would have occurred over time. This increase is paid as the Pension Supplement, which is currently worth \$475.80 a year for singles and \$795.60 a year for couples.

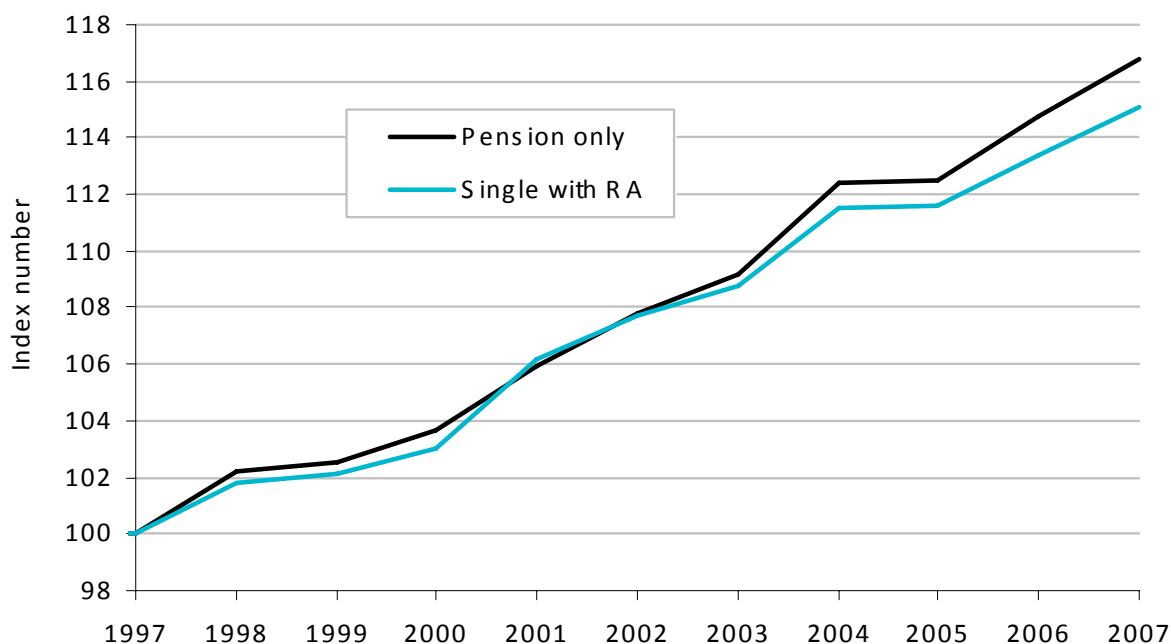
The Pension Supplement is indexed to CPI and was part of a broader package of measures that accompanied the introduction of the New Tax System on 1 July 2000. The broader package also included:

- ▶ increasing the maximum rate of Rent Assistance by 10 per cent;
- ▶ increasing other add on payments by two per cent over and above any other increases that would have applied;
- ▶ increasing income and asset free areas by 2.5 per cent;
- ▶ reducing pension and family assistance taper rates (from 50 cents to 40 cents for each dollar of income over the free area for pensions and from 50 cents to 30 cents for each dollar of income over the free area for family assistance); and
- ▶ payment of the Aged Persons Savings Bonus and the Self-Funded Retiree Supplementary Bonus for those who had income from savings or investments.

## Real increases resulting from the MTAWWE benchmark

The result of these indexation arrangements is that, over the last 10 years, Age Pension rates have increased by 16.8 per cent in real terms (i.e. after adjusting for CPI increases). Figure 12 shows the real increases (as an index based on 100) in pension rates over the last 10 years.

**Figure 12. Maximum payment (base pension plus Pension Supplement) to pensioners: index of real value, 1997 to 2007**



Source: FaCSIA administrative data

The real increases in Age Pension rates in Figure 12 have been driven by strong economic growth and low inflation. Wage growth above the CPI has meant that the MTAWWE benchmark has resulted in above-the-CPI top-ups of Age Pension on all indexation dates since 20 March 1998 except for:

- 20 March 2000;
- 20 March 2001;
- 20 September 2004;
- 20 March 2005; and
- 20 September 2006.

At these points the CPI was used to maintain the real value of Age Pension.

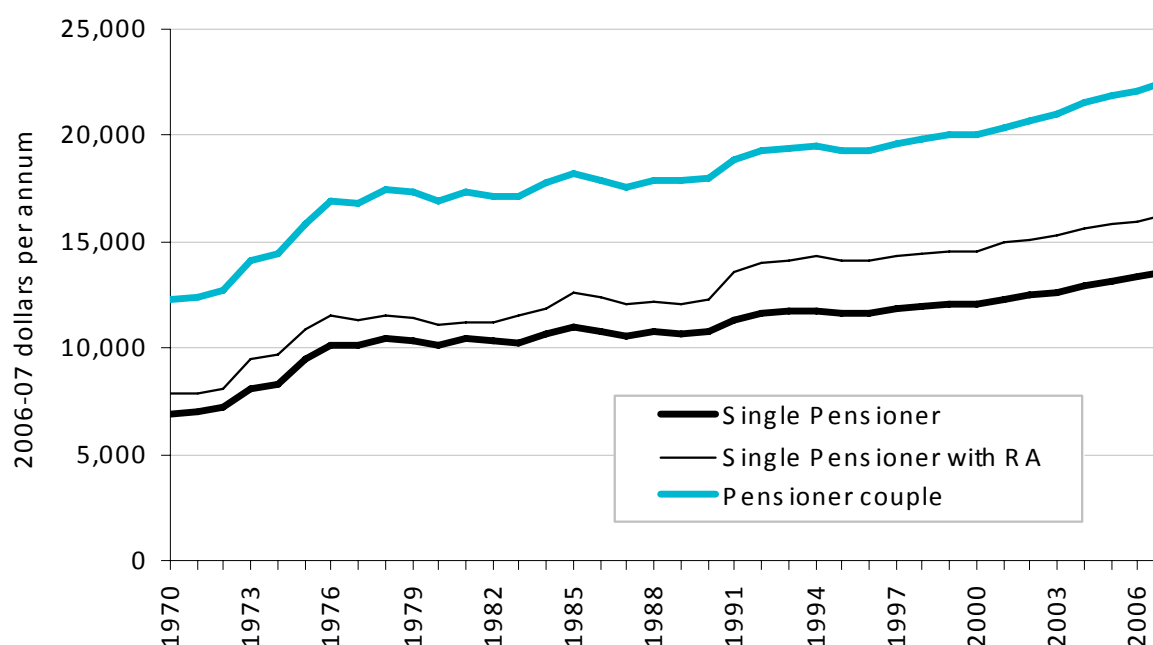
In aggregate, FaCSIA estimates that, since 1998, the total contribution the MTAWWE benchmark has made to Age Pension expenditure, over and above what it would otherwise have been, is \$12.99 billion (Dec 2006 dollars).

It is important to note as well that the MTAW benchmark is resulting in rates of increase above the ABS age pensioner living cost index. This is illustrated by Figures 9 and 14 but can also be demonstrated by comparing the CPI and the age pensioner living cost index to Age Pension rates for the eight year period covered by the ABS analysis.

- ▶ If the CPI is used as a price deflator, Age Pension rates (base pension plus Pension Supplement) have increased by 12.4 per cent in real terms (consistent with the analysis above, but for a different time period).
- ▶ If the age pensioner living cost index is used to estimate the real increase in Age Pension rates, a slightly lower real increase is calculated (10.9 per cent). It is clear that, no matter which index is used, Age Pension rates have increased significantly in real terms.

It should be noted that the post 1997 indexation arrangements continue the long term real growth in Age Pension rates (Figure 13).

Figure 13. Real value (\$2006-07) of Age Pension from 1970 to June 2007



Source: FaCSIA modelling

#### 4.4.2 Bonus and supplementary payments

The second major way in which a real increase in the disposable income of older Australians on Age Pension has been supported over the last 10 years is through the bonus and supplementary payments that have been paid on top of the base rate of Age Pension. These bonuses and supplementary payments are a new feature of the Age Pension system and have been introduced to assist pensioners with the costs of utilities and other large fixed expenditure.



The Australian Government has delivered new regular supplementary payments for pensioners and for self-funded retirees, and paid a number of bonuses to older Australians in recent years, including<sup>6</sup>:

- I. **Aged Persons Savings Bonus** - Available to 30 June 2001, the bonus was part of the government's compensation package for older Australians affected by the introduction of the New Tax System. It was a one-off, tax-free lump sum to eligible Australian residents aged 60 and over at 1 July 2000. The bonus was paid on the basis of one dollar for each dollar of income from savings and investments, up to a maximum of \$1,000. It started to decrease once retirement income exceeded \$20,000, with no bonus payable when income exceeded \$30,000.
- II. **Self-funded Retirees Supplementary Bonus** - Available to 30 June 2001, this was part of the compensation package for introduction of the New Tax System. It was paid to people aged 55 and over at 1 July 2000 provided they were retired, did not receive a taxpayer-funded income support payment and met certain income and activity criteria. The bonus was paid on the basis of one dollar for each dollar of income from savings and investments, up to a maximum of \$2,000. The bonus started to decrease when income exceeded \$20,000, with no bonus payable when income exceeded \$30,000. A self-funded retiree aged 60 and over could qualify for both the Self-funded Retirees Supplementary Bonus and the Aged Persons Savings Bonus.
- III. **One-Off Payment to the Aged** - the government provided a single lump sum of \$300 to Australians over pension age and on a pension or benefit or with a low income, at 22 May 2001. People on income support received payment automatically in June 2001. People not on income support and whose partner was not on income support may have qualified for payment if their taxable income for 2000–01 was below \$20,000 for singles, \$32,612 for couples and \$37,764 for illness separated couples.
- IV. **Utilities Allowance (UA)** provides additional support for pensioners, and was introduced in December 2004 as a government election commitment, with payments commencing in March 2005. UA is indexed to the CPI and paid in two instalments a year, in March and September. The March 2007 instalment was \$53.00 for a single person, or for an eligible couple (combined).
- V. **Seniors Concession Allowance (SCA)** - SCA was introduced in December 2004 as a government election commitment to assist Commonwealth Seniors Health Card (CSHC) holders. It is paid to those who have a CSHC under either the *Social Security Act 1991* or the *Veterans' Entitlement Act 1986*. Payment of SCA acknowledges that CSHC holders generally cannot access state and territory government concessions that are available to Pensioner Concession Card holders. At 1 June 2007 SCA amounted to \$214 a year.
- VI. **2006 one-off payments to older Australians** – In June 2006, to assist with the cost of household bills, the government provided an additional one-off non-taxable payment

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<sup>6</sup> Appendix 1 contains details of the nature, purpose and growth in the value of the regular supplementary payments (UA and SCA) as well as other add-on payments such as Telephone Allowance and Pharmaceutical Allowance.

equal to the maximum rate of Utilities Allowance (\$102.80) to each household with a person of age or service pension age eligible for Utilities Allowance on 9 May 2006. A \$102.80 payment was also provided to each self-funded retiree eligible for Seniors Concession Allowance on 9 May 2006.

- VII. **Additional payments to carers** - The efforts of Australian carers were also recognised with the payment of lump sum Carer Bonuses in 2004, 2005, 2006 and 2007. Carers (including older Australians) who received Carer Payment received a payment of \$1,000 and those who received Carer Allowance received a payment of \$600 for each eligible care receiver. Both 2006 and 2007 bonuses were extended to Carer Allowance recipients of Wife Pension or the Veterans' Affairs Partner Service Pension.
- VIII. **2007 one-off payments to older Australians** - The government provided a one-off non-taxable bonus payment of \$500 to each person qualified for Utilities Allowance or Seniors Concession Allowance on 8 May 2007.

This section analyses the effect of these bonuses and supplementary payments on the disposable income of age pensioners, and outlines additional supplementary payments for veterans, renters and those pensioners who have been recently bereaved.

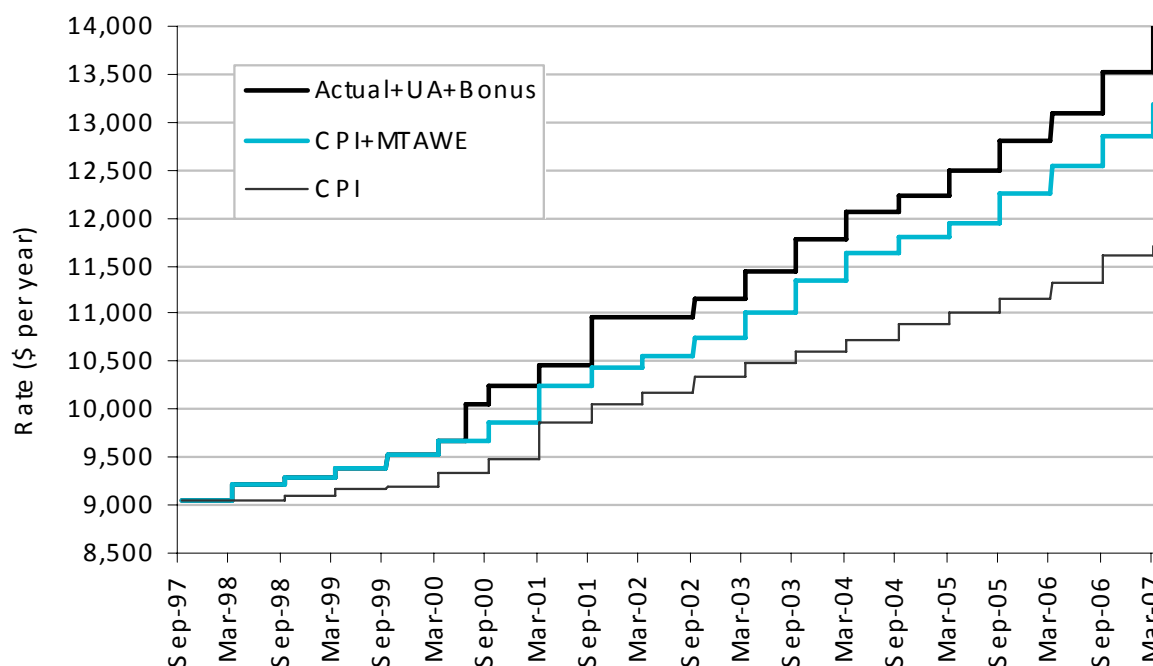
### Real income results for bonus and supplementary payments

The payments that have been made to pensioners on a regular or one-off basis have increased the real level of support for pensioners' living standards.

The effect of Utilities Allowance and relevant bonus payments to older Australians on the total annual amount of income support maximum rate pensioners receive is illustrated by Figure 14.

- ▶ The "CPI" line in Figure 14 is the base rate of Age Pension that would have been paid if Age Pension had only been increased in line with CPI changes.
- ▶ The "CPI+MTAWE" line shows the base rate of Age Pension indexed to the CPI and benchmarked against MTAWE. It shows the value of the MTAWE benchmark.
- ▶ The "Actual+UA+Bonus" line is the actual annual rate of Age Pension paid (ie, the base rate and Pension Supplement, plus Utilities Allowance and any relevant bonus payments). This line shows the effect of the Pension Supplement, the supplementary Utilities Allowance and relevant bonuses on the income of an age pensioner (over and above the impact of MTAWE).

**Figure 14. Increases to the single pension rate under actual and alternative scenarios, September 1997 to March 2007**



Source: FaCSIA modelling

Figure 14 shows that in 2007 the actual annual payment (including relevant bonus payments and Utilities Allowance) received by a maximum rate age pensioner is \$2,558.60 a year (\$98.40 a fortnight) higher than it would have been if Age Pension had been indexed only by the CPI.

## Rent Assistance

Rent Assistance (RA) is provided by the Australian Government as an additional payment to people who receive income support payments, including Age Pension, in recognition of the relatively higher costs faced by private renters.

RA rates are based on a customer's family situation and the amount of rent they pay. The structure of rent thresholds and maximum rates for various family types is designed to ensure that assistance is directed to those in most need.

As at 30 June 2007, there were 215,081 age pensioners receiving RA. In 2006-07 the Australian Government spent \$361 million on RA for age pensioners. This significantly improved their living standards as it reduced their housing related out-of-pocket living expenses.

In March 2007 RA meant that only 30 per cent of age pensioners who receive RA were paying over 30 per cent of their income on rent. Since the vast majority of age pensioners are homeowners, these figures mean that, in terms of the total age pensioner population, only 3.31 per cent pay more than 30 per cent of their income in rent. If RA was not available, but those pensioners paid the same amount of rent, 67 per cent of age pensioners

who otherwise would receive RA would be paying more than 30 per cent of their income in rent. Only six per cent of age pensioners who receive RA were paying over 50 per cent of their income on rent. This means that, in terms of the total age pensioner population, only 0.66 per cent pay more than 50 per cent of their income in rent. If RA was not available, but those pensioners paid the same amount of rent, 23 per cent of age pensions who would otherwise receive RA would be paying more than 50 per cent of their income in rent.

### Department of Veterans' Affairs (DVA)

DVA pays service pension on the grounds of age or invalidity to eligible Australian veterans and mariners, Commonwealth veterans and Allied veterans and mariners who have qualifying service, and to eligible partners, widows and widowers.

Age service pensions are paid five years earlier than social security age pensions, recognising that the effects of war service may be intangible and result in premature ageing and/or loss of earning power. The invalidity service pension may be granted at any age before the person turns 65.

In addition to the payments available to age pensioners, DVA pays an income support supplement to the war widow's pension for Australian war widows and widowers with limited means; the Defence Force Income Support Allowance to people who are qualified for an income support payment under the *Social Security Act 1991* who also receive a Disability Pension from DVA; and special rates of disability pension, depending on the severity of the illness or injury.

*Appendix 2* outlines the special concessions and rates available to veterans and their dependents through the Department of Veterans' Affairs.

### Transitional assistance for bereaved pensioners

A pensioner couple generally receive the combined couple rate of pension (each of a couple receives the partnered rate). After the death of his/her partner, the surviving member of a couple is transferred from the partnered rate to the single rate of Age Pension. Bereavement Payment provides an extra payment, equal to the difference between the combined couple rate of pension the couple were receiving and the single rate of pension the surviving partner will receive, for a period of 14 weeks following the death of his or her partner. Bereavement Payment can be paid either as a lump sum, or as a periodic payment. It helps the survivor to pay funeral expenses and to smooth the transition from the couple rate to the single rate during a time when the survivor may have bills to pay, such as electricity or telephone bills, that were contributed to by the deceased and that did not become payable until after he or she passed away. Therefore Bereavement Payment provides a period of adjustment for people who are reliant on social security by temporarily maintaining the level of financial help received before the bereavement occurred.

Each year bereavement payments of this kind are paid to approximately 24,000 surviving age pensioners at a total cost of around \$46.3m or \$1,927 per pensioner on average.

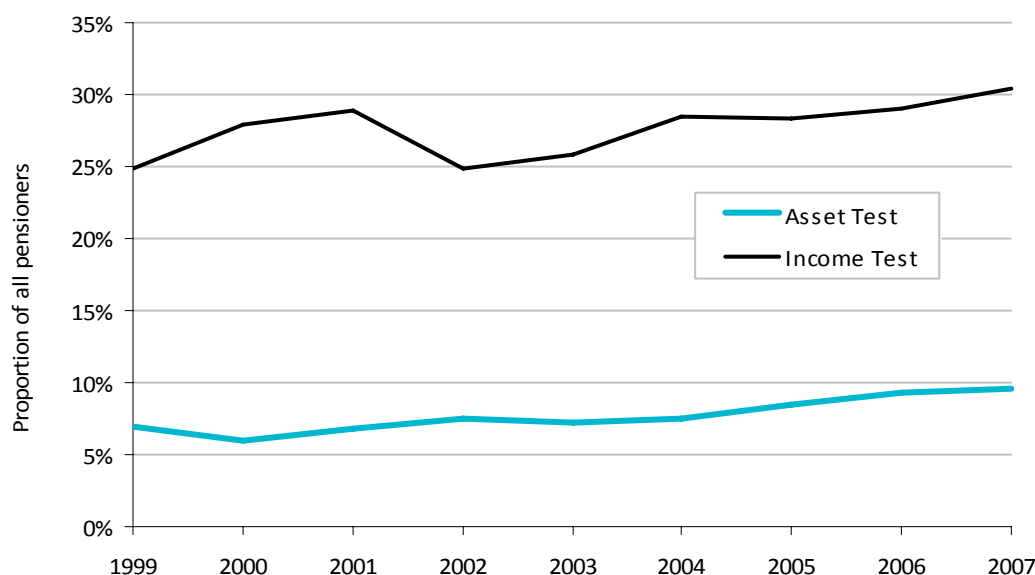
### 4.4.3 Taper rates

The third major way in which Age Pension policy settings are supporting a real increase in the disposable income of older Australians is through the changes that have been made to the pension taper rates.

Pensioners can have a certain amount of income or assets before their pension is reduced. These amounts are known as the “free area”. Once a pensioner’s private income or assets exceed the relevant “free area” their pension starts to reduce. The reduction is a gradual, or tapered, reduction rather than a dollar for dollar reduction. The rate at which pension is reduced is known as the ‘taper rate’.

Over time the levels of private income and assets of pensioners have been increasing, and this is reflected in an increasing number and proportion of pensioners being paid a part-rate of pension because of the operation of the income and assets tests (Figure 15).

**Figure 15. Age pensioners, Proportion in receipt of part-rate pension, by whether as a result of income or assets tests, 1999–2007**



Source: FaCSIA administrative data

This means that the taper rates are having an effect on the disposable income of more pensioners. As noted earlier, the number and proportion of age pensioners affected by the income and assets test taper rates are projected to increase in the future, so the taper rates will continue to be important to the standard of living of pensioners.

In the last 10 years the Australian Government has made two major changes to the taper rates that mean that part-rate pensioners now receive more Age Pension for a given level of private income or assets. As well as increasing the total disposable income of part-rate pensioners, reducing the taper rate faced by age pensioners means that some part-rate

pensioners will face lower Effective Marginal Taxation Rates<sup>7</sup> (EMTRs). These changes are therefore also increasing incentives to work and save for this group.

The analysis of the income and assets test tapers below use the current Age Pension free areas and current taxation arrangements (i.e. current taxation rates and any currently available offsets). It should be noted that over the last 10 years the Australian Government has made a number of changes to the taxation levels and offsets available to older Australians. These changes discussed in Section 4.3.4 below also have the effect of lowering the EMTRs and therefore increasing the final total income of age pensioners.

### Income test taper rate

As was noted above, in July 2000 the income test taper rate was reduced from 50 cents in the dollar to 40 cents in the dollar as part of the compensation for the introduction of the New Tax System. This means that pensioners with private income over the free area keep more of their pension – they now lose only 40 cents in the dollar of pension for each dollar of income over the free area. This change has increased the disposable income of part-rate income tested pensioners. For example, FaCSIA modelling shows that a person with \$20,000 in annual wage and salary earnings now has total income of \$27,060 a year. With a 50 per cent income test taper that income would be \$1,540 a year less.

The reduced taper rate results in more people receiving the pension than previously. Under the 50 cent income test taper a single pensioner lost 50 cents of pension for each additional dollar of private income earned over \$3,432 a year, with the pension cutting out when private income reached \$31,610. Under the new 40 per cent income test taper the same pensioner loses 40 cents of pension for each additional dollar of private income above the threshold, and the pension does not cut out until private income reaches the new higher cut out point<sup>8</sup>.

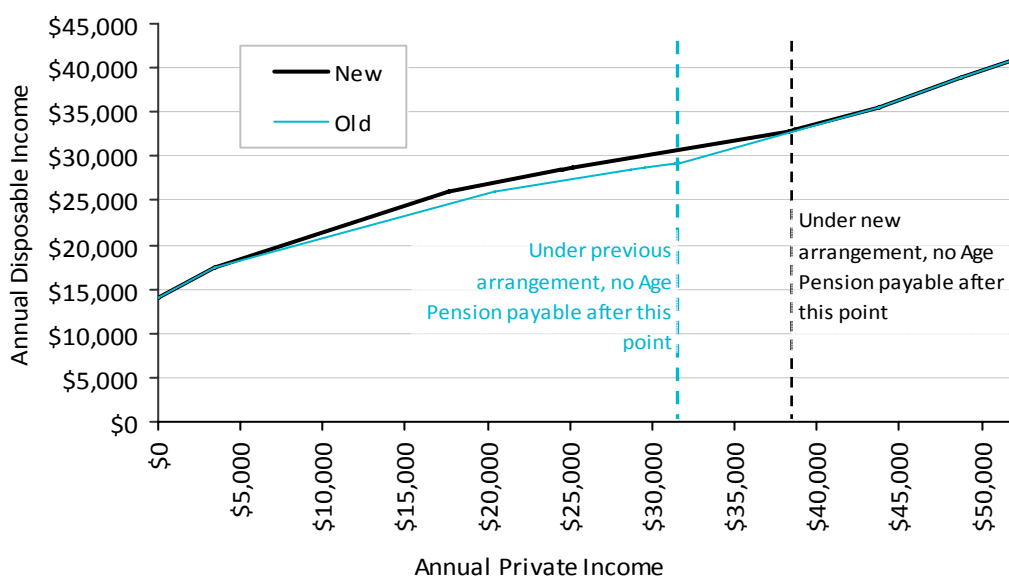
Figure 16 shows how cutting the income test taper rate increases the total income a part-rate income tested age pensioner receives for a given level of assessed income, and increases the disqualifying limit.

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<sup>7</sup> An Effective Marginal Tax Rate (EMTR) is a measure (usually expressed as a percentage) that shows, for a private income amount, how much of an extra dollar of income is lost because of the impact of (and interaction between) taxation, including offsets and the Medicare Levy, and the means tests that apply to various social security payments. An EMTR of 60 per cent means that for each extra dollar of private income a person has, they lose 60 cents because of taxation and the means test. Put another way, for each extra dollar of private income they keep 40 cents. High EMTR's can create disincentives for people to earn more income.

<sup>8</sup> Some middle income seniors may face higher EMTR's but have higher disposable incomes overall, because they now receive some pension, and have access to the Pensioner Concession Card. Some pensioners also pay tax at lower private income levels than previously, because the extra pension they retain under the new arrangements raises their taxable income.

**Figure 16. Age pensioner, total disposable income under new and old income test taper rates**



Source: FaCSIA modelling

The “New” line is the current 40 per cent income test taper rate, and the “Old” line is the previous 50 per cent income test taper rate. The extent to which the “New” line is above the “Old” line shows the increase in total income payable to a single age pensioner because of the reduction of the income test taper rate from 50 cents in the dollar to 40 cents in the dollar.

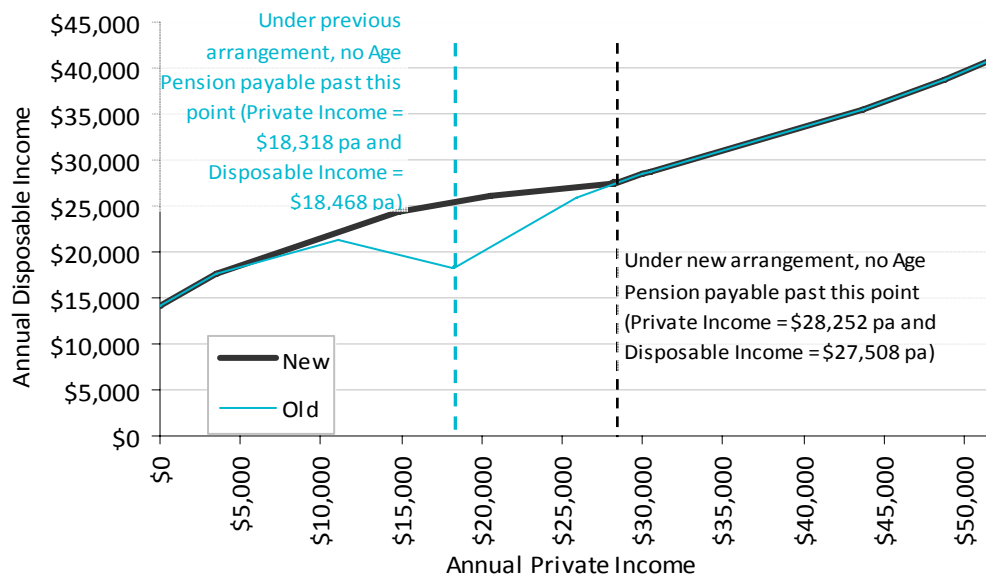
### Assets test taper rate

As part of the Australian Government’s Better Super reforms, from 20 September 2007 the pension assets test taper rate will be halved so that pensioners will only lose \$1.50 instead of \$3 in pension every fortnight for each \$1,000 of assets above the relevant assets test free area. In other words, pensioners who have assets over the free area will keep more of their pension. Some people with higher levels of assets (who were previously ineligible for any pension) may qualify for a part-rate pension.

This change is designed to increase incentives for saving for retirement and workforce participation by reducing the EMTRs faced by asset tested pensioners. However, it also increases the disposable income of part-rate asset tested pensioners. For example, FaCSIA modelling shows that a person with financial investments that earn income of \$20,000 will have total income of \$23,831 after 20 September 2007 with the \$1.50 assets test taper rate. With the \$3.00 assets test taper that income would be \$3,831 a year less.

Figure 17 shows how, as is the case for the income test taper reduction, cutting the assets test taper rate increases the total income received by an asset tested age pensioner (Figure 17)<sup>9</sup>.

**Figure 17. Increase in disposable income from new assets test taper rate**



Source: FaCSIA modelling

In Figure 17, the “New” line is the new assets test taper rate that will apply from 20 September 2007. The “Old” line is the assets test taper rate that applies now. The extent to which the “New” line is above the “Old” line shows the increase in total income payable to a single age pensioner because of the reduction of the assets test taper from the Better Super reforms.

It should also be noted that the cut in the assets test taper rate from 20 September will increase the amounts of assets that pensioners can have and still receive some Age Pension.<sup>10</sup>

<sup>9</sup> Figure 17 models the relationship between disposable income and income from financial assets for asset tested customers. It assumes that the financial assets earn income at the deeming rate. At the current deeming rate above the threshold, around \$945 of assets yield one dollar of income per week. There is a small range in this model where the income test applies.

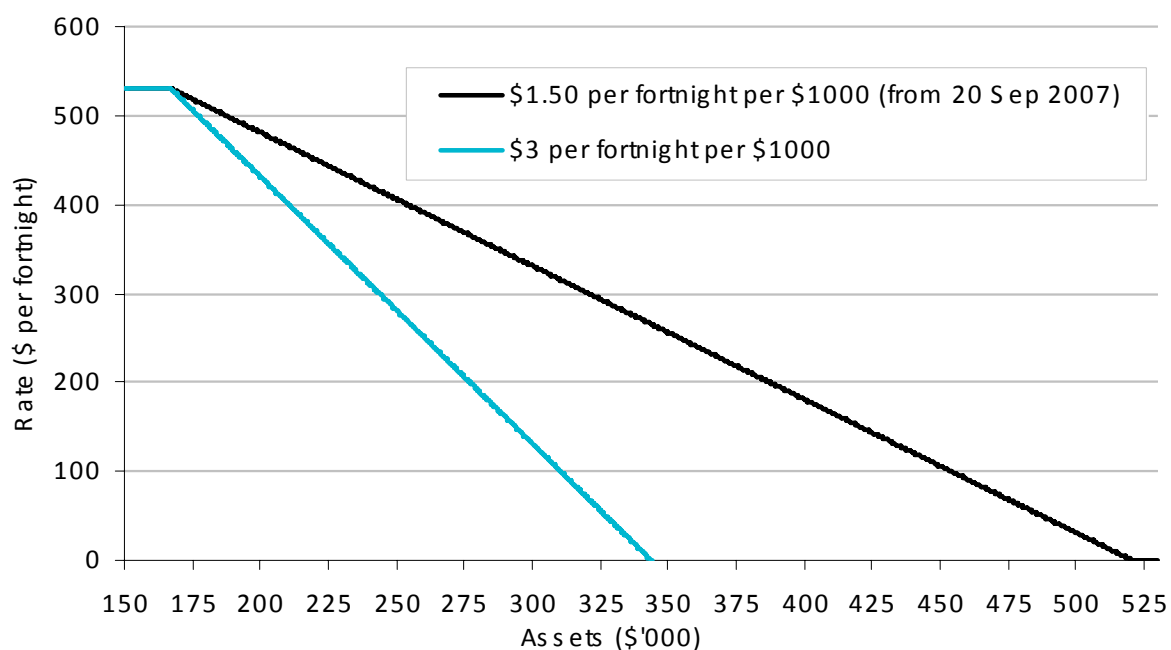
<sup>10</sup> Under the previous asset test taper, a single pensioner homeowner with financial investments earning at the deeming rate and resulting in income over \$11,080 a year would have had his pension reduced by around \$1.42 for each additional dollar of income, and would receive no Age Pension when income exceeded \$18,318 (income on a financial asset of around \$347,500 at the current deeming rates in 2007-08). Under the new asset test taper rate of \$1.50 a fortnight for each \$1,000 of assets, the pension is reduced by 71 cents for each additional dollar of income and cuts out when income exceeds \$28,252 (income on a financial asset of around \$528,000 at the current deeming rates in 2007-08). While, in practice, retirees are not necessarily able to vary their asset holdings readily in response to different means testing regimes, the new asset test taper rates improve incentives for individuals to accumulate assets to fund retirement, as more of each additional dollar of investment earnings is retained by the individual.



- ▶ Single pensioners who own their own home can currently have up to \$343,750 in assessable assets and receive a part-pension. Based on current rates and allowable assets limits, this figure will increase to \$520,750.
- ▶ Couples who own their own home can currently have up to \$531,000 in assessable assets and receive a part-pension. Based on current rates and allowable assets limits, this figure will increase to \$825,500.
- ▶ Single pensioners who do not own their own home can currently have up to \$464,750 in assessable assets and receive a part-pension. Based on current rates and allowable assets limits, this figure will increase to \$641,750.
- ▶ Couples who do not own their own home can currently have up to \$652,000 in assessable assets and receive a part-pension. Based on current rates and allowable assets limits, this figure will increase to \$946,500.

The increase in the asset test disqualifying limits is illustrated in Figure 18 for single pensioners who own their own home.

**Figure 18. Impact of September 2007 assets test taper rate on age pension withdrawal and disqualifying limit, single homeowner (a)**



(a) Comparison uses pension rates as at 1 July 2007  
Source: FaCSIA modelling

Figure 18 shows how the change in the assets test taper rate affects the pension rate of a single asset tested pensioner, and the point at which their pension would cut out. It can be seen that under the new assets test taper rate the pension is withdrawn more slowly than before and the point at which the person's pension cuts out is much higher than under the old taper rate.

## 4.4.4 Using retirement savings

Compulsory superannuation and voluntary savings are the key to higher incomes in retirement. However Age Pension also has a number of policy settings that are designed to enable and encourage older Australians to productively use their private savings to maximise their total income over the course of their retirement.

In particular, the Pension Bonus Scheme and Age Pension policy settings that support the regular consumption of capital also increase the total disposable income of older Australians over the full course of their retirement.

These settings are a necessary part of Age Pension's role in the retirement income system because unlike most other income support payments, Age Pension policy settings are designed for long term support. The average duration on Age Pension for current age pensioners is eight years for men and 12 years for women.

### The Pension Bonus Scheme

The Pension Bonus Scheme is an important component of the overall retirement income system because it helps to ensure that people who work beyond age pension age and defer claiming Age Pension are rewarded by increased total retirement income.

The Pension Bonus Scheme can provide a one-off, tax-free lump sum to people who defer claiming Age Pension and keep working, when they eventually claim and receive Age Pension. It can supplement the private retirement incomes of those with low superannuation balances.

As Table 7 shows, the average bonus is now \$12,292. There are currently 62,756 people registered in the Pension Bonus Scheme.

**Table 7.** Pension Bonus, Number of bonus payments and average bonus amounts paid by Centrelink, 2002–03 to 2006–07

	Bonuses paid	Average amount paid	Total Outlays (\$ million)
2002-03	5,646	\$7,390	\$41.72
2003-04	7,407	\$11,324	\$83.87
2004-05	8,052	\$11,302	\$91.00
2005-06	8,030	\$11,450	\$91.97
2006-07	8,514	\$12,292	\$104.66

Source: FaCSIA administrative data.

The average assessed assets of maximum rate pensioners is \$32,000. The average bonus amount is about a third of what a maximum rate pensioner has saved over their whole lifetime (over and above their home). It can therefore provide a significant boost to their overall retirement savings.

In the 2007-08 Budget the government announced a number of reforms to the Pension Bonus Scheme designed to make it easier for people to access their accrued bonuses.

FaCSIA estimates that these changes will result in an increase in the number and average amount of bonus payments at a total cost of \$46.4 million over four years.

## Consumption of capital

In addition to its role in ensuring Age Pension payments are targeted at those in need, the Age Pension means test also supports the regular consumption of capital over the full span of a person's retirement. These settings include the income test rules for deeming, income streams, lump sums, and the means test treatment of equity release products.

Modelling undertaken by FaCSIA suggests that even comparatively modest savings can significantly supplement Age Pension income if both the capital and income from the private financial assets are consumed in a regular pattern.

Net present value calculations are the best way to demonstrate the impact that consumption of financial assets can have on the total resources age pensioners can draw on to support their retirement. The following table shows the total private and Age Pension income singles and couples would receive in net present value terms, over the course of their retirement (Table 8).<sup>11</sup>

**Table 8.** Income for pensioners (in NPV terms) arising from drawing down assets over average life expectancy at age 65

	Single		Couple	
	Max Rate	Part-rate	Max Rate	Part-rate
Assets	\$30,000	\$100,000	\$60,000	\$230,000
Private Income	\$29,076	\$96,919	\$58,152	\$222,914
Age Pension	\$199,778	\$197,797	\$332,567	\$320,583
<b>Total Income</b>	<b>\$228,854</b>	<b>\$294,716</b>	<b>\$390,719</b>	<b>\$543,497</b>

Source: FaCSIA modelling

In the hypothetical scenarios above, maximum rate pensioners drawing down modest assets can increase their total income over the course of their retirement by 15 per cent and 17 per cent for singles and couples respectively compared to Age Pension only. The hypothetical scenarios for part-rate pensioners show even higher values. In the part-rate scenarios:

- ▶ the single pensioner achieved a 49 per cent increase over the pension entitlement they would have received if they had no assets; and
- ▶ couples achieved a 67 per cent increase over the pension entitlement they would have received if they had no assets.

<sup>11</sup> The calculations assume life expectancy of 18 years from retirement (approximately the average for 65 yr old males), using a discount rate of six per cent, and an earnings rate of six per cent. In the examples assets are depleted over life expectancy.

The modelling results in Table 8 deal with hypothetical scenarios (though the capital amounts are based on current average assets levels). The important point, in the context of support for living standards, is that even relatively modest financial assets can significantly increase the disposable income of age pensioners.

### 4.4.5 Conclusion – Age Pension

This section has set out the support the Australian Government provides for the incomes of older Australians and in particular the contribution that Age Pension is making to the living standards of older Australians through indexation arrangements; bonuses and supplementary payments; and taper rates.

Taken together the changes to indexation, bonus and supplementary payments and taper rates over the last 10 years have increased the support that Age Pension provides in real terms to the disposable incomes of older Australians and therefore to their overall living standards.

These results are important because of the high level of coverage of the Age Pension program. As Figure 8 shows, around 75 per cent of Australians who have reached age pension age receive an Age or Service Pension. Under the projections contained in IGR 2, age and service pension rates, supplementary payments and tapers will continue to play a vital role in supporting the living standards of older Australians into the future.

Therefore Age Pension will continue to be an important part of the retirement income system into the future. It will continue to provide a safety net for a smaller but still very significant group of older Australians with little or low retirement savings, and to provide a supplement for the retirement incomes of others. This safety net role will be particularly important for those who are unable to save enough through their working life, for people who have extended periods out of the workforce or broken periods of employment.

## 4.5 Australian Government support for older Australians' incomes - superannuation and taxation

The Superannuation Guarantee and voluntary savings are the second and third pillars of Australia's retirement income system. Superannuation Guarantee and voluntary savings enable Australians to achieve a higher standard of living in retirement than Age Pension alone. These elements of an individual's retirement income are closely linked to workforce participation and income, and government policies in relation to taxation, superannuation and saving.

The Australian Government has implemented major reforms to the superannuation and taxation systems to improve the standard of living of older Australians in retirement. Workforce participation contributes significantly to an individual's retirement income by increasing the capacity of the individual to save, having an employer make compulsory superannuation contributions on their behalf, and, for an older worker, reducing the need to draw on existing savings. The Better Super reforms and the Mature Age Worker Tax Offset provide incentives for increased workforce participation by older Australians.

A range of government policies assist individuals to achieve their retirement income objectives by providing incentives to save and contribute to superannuation. For example:

- ▶ the Australian Government introduced the superannuation co-contribution from 1 July 2003 for qualifying low- and middle- income earners. Since 1 July 2004, the matching co-contribution has been \$1.50 for each \$1.00 of eligible personal superannuation contributions, up to a maximum of \$1,500. The maximum co-contribution entitlement falls as income rises; and
- ▶ superannuation is taxed concessionally. The Better Super reforms, which commenced on 1 July 2007, have increased the concessionality of superannuation.

Older Australians also benefit from favourable taxation arrangements which enable increases in their spending capacity. As a result of the Senior Australians Tax Offset, the Low Income Tax Offset and the Better Super reforms, most Australians will pay little or no tax in retirement.

## Replacement rates

As noted earlier, the adequacy of retirement incomes depends on an individual's own circumstances, needs and expectations and accordingly the Australian Government has not set a 'one-size-fits-all' benchmark.

The adequacy of retirement incomes can be assessed against a relative framework using replacement rates. Replacement rates compare a person's income or spending power after retirement to before retirement.

The proposition underlying the replacement rate concept is that an individual's standard of living in retirement should be a reasonable proportion of his or her standard of living during working life. Net replacement rates based on net expenditure rather than gross income are better measures, because of the substantial differences in tax and saving before and after retirement.

The optimal replacement rate is a matter for individual judgement. It is generally accepted that for most people a replacement rate of less than 100 per cent is appropriate. Retirees typically do not face the major expenses incurred by people of working age, for example, mortgage repayments, education expenses, the costs of raising children and work-related costs. In addition, older Australians have access to many services and age-related concessions which reduce the costs of the goods and services they use.

Further discussion of replacement rates is provided at *Appendix 3*.

## Estimates of average replacement rates

An average replacement rate provides an estimated replacement rate for an entire cohort at a point in time. Projections of average replacement rates through time enable comparisons between the experiences of those retiring now with the experiences of those retiring in thirty or forty years. Average replacement rates capture the range of workforce experiences of a cohort of individuals, including unemployment and other breaks from the workforce, the range of retirement ages, and varying superannuation coverage.

Treasury modelling shows that average replacement rates are projected to rise significantly over time (see Figure 10). For individuals with superannuation coverage, the replacement rate increases from a little over 50 per cent in 2006 to over 70 per cent by 2020 and over 80 per cent in thirty years time. For the full population, replacement rates are estimated to rise from over 60 per cent in 2006 to over 80 per cent by 2016 onwards.

Average replacement rates are higher for 'all retirees' as this group includes individuals outside of the workforce and those who were on other government benefits prior to reaching age pension age. For these individuals, Age Pension provides an income in retirement at least as high as their income before retirement.

The increase in replacement rates over time primarily reflects the maturing Superannuation Guarantee system. Over time, retirees will have received Superannuation Guarantee contributions for a larger portion of their working life. Workforce participation rates for women and men are continuing to rise and this adds to future retirement incomes.

This section examines the drivers of improved retirement income outcomes through:

- Superannuation Guarantee and voluntary savings;
- workforce participation;
- incentives to save in superannuation; and
- taxation for older Australians.

### 4.5.1 Superannuation Guarantee and voluntary savings

The Superannuation Guarantee arrangements require an employer to make superannuation contributions on behalf of qualifying employees. Since 2002-03, the minimum level of employer superannuation support has been 9 per cent of an employee's notional earnings base.

The uptake in superannuation has grown significantly since the introduction of compulsory superannuation. Before award superannuation was introduced in 1986, around 39 per cent of the working population received superannuation contributions. Superannuation coverage now extends to around 95 per cent of full-time employees and 78 per cent of part-time employees.

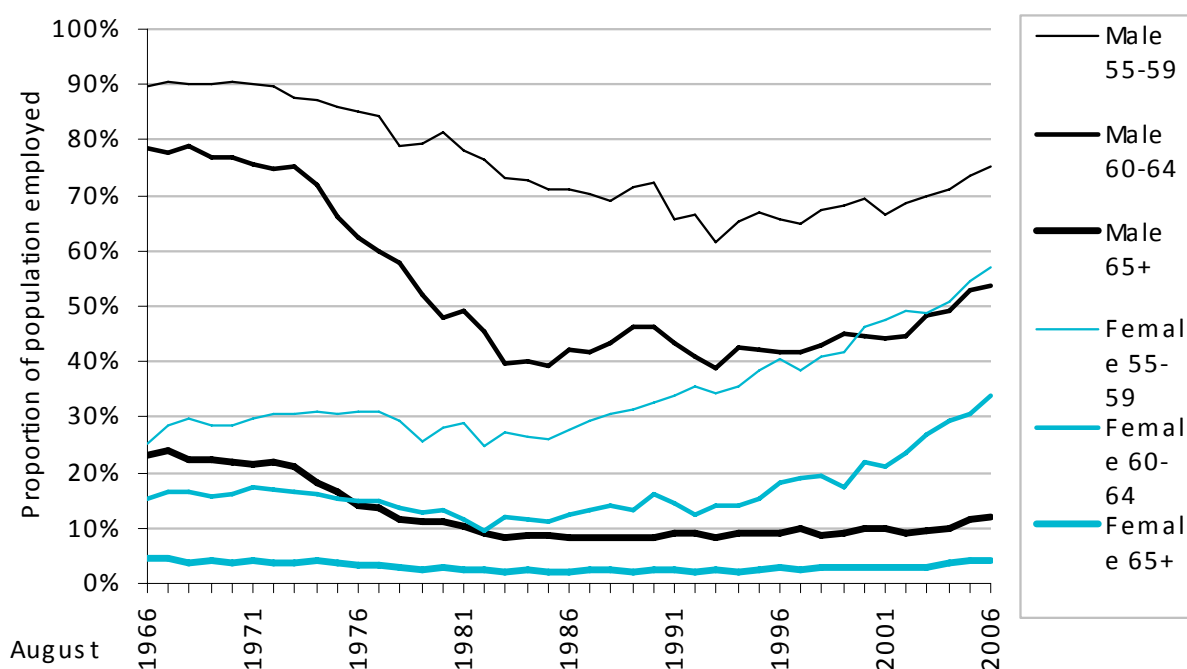
Voluntary savings play an important role where an individual's retirement income expectations are higher than would be provided by the Superannuation Guarantee and Age Pension. This is likely to include the self-employed and those who may not benefit fully from the Superannuation Guarantee system, including individuals with broken working patterns (for example women) and mature workers.

Voluntary savings include employer superannuation contributions above the Superannuation Guarantee, voluntary post-tax or pre-tax contributions to superannuation and other forms of saving.

## 4.5.2 Workforce participation

Improved retirement incomes are very closely linked to workforce participation. Compulsory Superannuation Guarantee contributions form part of an individual's remuneration and will therefore be affected by time spent working. An individual's ability to make voluntary contributions is also affected by their level of disposable income. Workforce participation also reduces the need to access existing savings. Figure 19 illustrates employment to population ratios for mature workers over the past 40 years.

**Figure 19. Employment to population ratios for older people (a)**



(a) August data points have been used to allow the inclusion of data from the ABS labour force survey prior to 1978. Source: Employment to population ratios derived from monthly series in: ABS, Labour Force (cat. no. 6291.0.55.001), Table 1, and the Labour Force Historical Time Series, Australia, 1966 to 1984 (cat. no. 6204.0.55.001)

Participation amongst older workers has risen significantly over recent years. The continued higher participation rates for older women (aged 55-64) suggest a sustained upward trend in participation, while the participation rates of men have begun to increase after a long term decline.

The ABS Retirement and Retirement Intentions Survey for August 2004 to June 2005 indicated that the average age at retirement of those already retired was 58 for men and 47 for women. However, the average retirement age of those who retired from the workforce in the five years preceding the survey was 61.5 for men and 58.3 for women.

The survey also indicated that the retirement age might increase for future cohorts of retirees. Of those aged 45 years and over in the workforce with a retirement age in mind the average intended age of retirement was 63 for men and 61 for women. (ABS, Retirement and Retirement Intentions, August 2004 to June 2005, Cat. No. 6238.0 February 2006).

The changes in trends and individual intentions could be explained by the economic climate, trends in educational attainment, retirement expectations and government policies.

Strong employment growth since 2004 has encouraged more people to enter and remain in the workforce. The strong labour market could also be causing fewer separations of older workers thereby reducing 'unplanned' retirement. There may also be a change in employer attitudes towards hiring older workers.

Increasing educational attainment of younger generations may contribute over time to higher participation rates. The higher rates may also reflect a behavioural response to increasing life expectancy and retirement income expectations.

Older workers may also be reducing their hours of work in their transition to retirement. Recent Australian Government measures have smoothed this transition. For example, 'transition to retirement' allows individuals who have reached preservation age to draw down a superannuation income stream while continuing to work. Other measures such as the Pension Bonus Scheme (discussed earlier) and the Mature Age Worker Tax Offset (see section 4.6 Taxation Arrangements for Older Australians) provide incentives to maintain a connection with the workforce.

More recently, the Better Super reforms and changes to the Pension Bonus Scheme announced in the 2007-08 Budget provide an incentive for older Australians to remain in the workforce.

Under Better Super, superannuation benefits are tax free for people aged 60 and over if they have paid tax on their contributions and earnings (which is about 90 per cent of Australians with superannuation). This provides an incentive for individuals to work to age 60 to receive tax-free benefits. For individuals aged 60 and above, tax-free superannuation benefits may also reduce the amount of tax paid on work or other income, which also increases the reward from working.

### 4.5.3 Incentives to save in superannuation

Superannuation is taxed concessionaly. Contributions made by employers are taxed at 15 per cent irrespective of the employee's marginal income tax rate. Superannuation fund investment earnings are also taxed at 15 per cent, although assets supporting an income stream are tax free. From 1 July 2007 benefits paid from a taxed source to someone aged 60 and over are exempt from tax. The value to taxpayers of these tax concessions is estimated at around \$20.3 billion in 2007-08.

Initiatives such as the superannuation co-contribution scheme are designed to encourage higher after-tax contributions by low- to middle- income earners. Under the scheme the Australian Government matches eligible personal superannuation contributions made by a person in the 2004-05 and later income years at \$1.50 for every dollar contributed. For contributions made in the 2007-08 income year the maximum co-contribution of \$1,500 is payable for individuals on incomes up to \$28,980. The maximum co-contribution is reduced at a rate of 5 cents for every dollar of income for co-contribution purposes over the lower threshold, and phases out at the upper threshold of \$58,980 per annum.



During the 2005–06 financial year the Australian Government made 1.2 million co-contribution payments totalling \$959 million. Of these payments, 57 per cent were made on behalf of women. In total, the Australian Government has contributed over \$3 billion into the superannuation accounts of Australians over the first three years of the Superannuation Co-contribution scheme.

## Better Super

The Better Super reforms increase retirement incomes, simplify the taxation of superannuation, and provide more flexibility and choice in how super can be accessed. The Better Super reforms also provide incentives for individuals to work and save. A number of key Better Super reforms commenced from 1 July 2007 including:

- ▶ making superannuation benefits tax-free for people aged 60 and over if they have paid tax on their contributions and earnings. This includes abolishing Reasonable Benefit Limits. This makes superannuation taxation easier to understand, potentially reducing the need for retirees to seek taxation advice in relation to their superannuation benefits; and
- ▶ extending the superannuation co-contribution to the self-employed and allowing them to claim a 100 per cent deduction for all contributions. This increases the incentives for the self-employed to contribute to superannuation. It also provides equivalent treatment for employees who can salary sacrifice into superannuation and the self-employed.

As discussed previously, the halving of the Age Pension assets test taper rate to \$1.50 per fortnight will commence from 20 September 2007. This change will remove a disincentive to save, as retirees will lose less of their Age Pension when their assets exceed the assets test free area.

The impact of the Better Super reforms on the replacement rates for a male retiring in 35 years is illustrated in Table 9 below, assuming compulsory Superannuation Guarantee contributions but no voluntary saving. The replacement rate compares average expenditure over retirement to expenditure in the last year at work. It is assumed the benefit is taken as an allocated pension.

**Table 9. Estimated replacement measure for a single male with and without the Better Super reforms. (a)**

Salary (as multiple of AWOTE)	Without Better Super	With Better Super
0.75	74%	80%
1.00	63%	70%

(a) With a working life of 35 years, retiring at age 65 in 2042-43. Hypothetical cases presented assume a 7 per cent per annum nominal rate of earnings (after fees but before tax), wage growth of 4 per cent per annum and inflation of 2.5 per cent per annum.

Source: Treasury Modelling

Under a fully mature Superannuation Guarantee system, a male on 0.75 times AWOTE, over a working life of 35 years, is projected to have an accumulated retirement benefit of \$294,136 in 2007-08 dollars. If the benefit was taken entirely as a pension, this person

would have on average \$64 a week more (also in 2007-08 dollars) in retirement expenditure as a result of the Better Super reforms.

Table 10 sets out the estimated replacement rate for a single male with an unbroken working career of 35 years with Superannuation Guarantee contributions and voluntary saving to superannuation of 3 per cent per annum of the gross wage. It shows that the increases in retirement incomes under Better Super are higher for individuals who make voluntary contributions to superannuation.

**Table 10.** Estimated replacement measure for a single male making an additional voluntary saving of 3 per cent of wages, with and without the Better Super reforms. (a)

Salary (as multiple of AWOTE)	Without Better Super	With Better Super
0.75	84%	95%
1.00	71%	83%

(a) With a working life of 35 years, retiring at age 65 in 2042-43. Hypothetical cases presented assume a 7 per cent per annum nominal rate of earnings (after fees but before tax), wage growth of 4 per cent per annum and inflation of 2.5 per cent per annum. In the 0.75 x AWOTE case the individual contributes 3% of their gross wage using a combination of the government co-contribution and salary sacrifice. In the 1 x AWOTE case the individual uses salary sacrifice to contribute 3 per cent of their gross wage.

Source: Treasury Modelling

Under a fully mature Superannuation Guarantee system, a male on 0.75 times AWOTE, over a working life of 35 years making additional savings of 3 per cent of gross wages, is projected to have an accumulated retirement benefit of \$424,981 in 2007-08 dollars, a gain of \$130,845 over what he would have had, had only Superannuation Guarantee contributions been made. Part of this improvement comes from the superannuation co-contribution. This would provide additional retirement expenditure of \$106 per week on average (in 2007-08 dollars), inclusive of Better Super reforms.

## 4.5.4 Taxation Arrangements for Older Australians

### Senior Australians Tax Offset

The Senior Australians Tax Offset (SATO), introduced in 2000-01, combined with the Low Income Tax Offset (LITO), enables eligible single older Australians to have income up to \$25,867 in 2007-08 without paying income tax or the Medicare levy.

Similarly a senior Australian who is a member of a couple can earn up to \$21,680 without paying income tax. This means that couples on equal incomes can have a combined income up to \$43,360 without paying tax, and can still benefit from part of the SATO at a combined income up to \$68,992.

Seniors who benefit from the SATO may also benefit from the increase in the LITO, announced in the 2007-08 Budget. From 1 July 2007, the LITO increased from \$600 to \$750, and begins to phase out from \$30,000 (previously \$25,000). As a result of these changes, the income limit up to which some of the LITO can be claimed has increased from \$40,000 to \$48,750.

## Mature Age Worker Tax Offset

The Mature Age Worker Tax Offset, introduced in 2004-05, provides a maximum annual tax rebate of \$500 for those senior Australians who choose to remain in the workforce at 55 years of age and over. Eligibility for the offset is based solely on income from working, so that mature age Australians with income from working who also derive significant income from passive sources, such as superannuation and shares, can still benefit from the offset.

The offset phases in from the first dollar of net income from working (income from working less any relevant deductions), with the full \$500 offset being available to all mature aged workers when net income from working reaches \$10,000. Mature aged workers with net income from working up to \$63,000 benefit from some offset.

## Net tax thresholds for senior Australians

Table 11 illustrates the increase in the income level at which senior individuals (or couples) become net taxpayers (that is, where income tax paid exceeds government benefits received). For example, the real net tax threshold of a single senior Australian has increased by 42.3 per cent since 1996-97. In this table the senior Australians are ineligible for the Mature Age Worker Tax Offset as they do not have income from working.

**Table 11. Improvements in the real net tax threshold for different senior household types since 1996-97**

Family type and investment income	Real net tax threshold (a) (\$2007-08)		
	1996-97	2007-08	% change
Senior single	\$21,389	\$30,444	42.3%
Senior couple (equal share of investment returns)	\$35,879	\$53,031	47.8%

(a) The net tax threshold is the private income at which taxes paid exceed cash benefits received.

Source: 2007-08 Budget Overview, Appendix A.

# 5: Support through cost subsidies

## 5.1 Introduction

The services funded through the Health and Ageing portfolio are a major component of the total assistance provided to older Australians by the Australian Government. Concessions and directly funded services support the living standards of older Australians by decreasing their out-of-pocket expenses.

The Australian Government also provides funding to state and territory governments to assist with providing concessions for rates, utilities, car registration and transport, and to provide for public and community housing. In particular the funding for public and community housing helps to provide accommodation at lower cost for those who pay rent in public and community housing, and helps to reduce the out-of-pocket cost for older Australians in public and community housing.

In essence the major programs of the Health and Ageing Portfolio (medical benefits, pharmaceutical benefits and aged care subsidies, contributions to free hospital treatment as a public patient and rebates on private health insurance premiums) are tax funded public insurance schemes which substantially lower or even eliminate the out-of-pocket cost at point of consumption of individuals' use of health and aged care. In general older people are higher users of health and aged care, and this is entirely appropriate. As a result older people are much greater beneficiaries of these programs than would be expected were it simply proportional to population numbers. This means in turn that these programs result in a net transfer of cost away from older people to the general taxpayer. It is also the case that overall outlays under these programs have been growing in real terms including in real terms per capita, and have been growing faster than total costs to end users. In real terms, total health and ageing outlays increased from \$27.3 billion in 1996-97 to \$48.5 billion in 2006-07. In short, not only do these programs substantially lower the cost to older people of accessing the health and aged care they need, but over time they have shielded older people from a relatively higher proportion of those total costs.

In 2005-06, the Australian Government paid nearly \$11.5 billion for the residential care services and community aged care packages required by those aged 65 and over, as well as the Medicare and Pharmaceutical Benefits Scheme services specified for them by health professionals. It is estimated that these older Australians contributed a further \$2-3 billion themselves for the provision of services of this nature in 2005-06.

Further very large amounts were contributed by the Australian Government in 2005-06 towards the provision of public hospital services and home and community care services, of which those aged 65 and over are prominent recipients in both instances, and in the increased levels of rebates now available for private health insurance, as well as other programs of importance to older Australians.

In recent years, specific initiatives have been taken to reduce the level of contributions asked of older Australians in the achievement of continuing improvements in their life

expectancy and healthy years of functioning, and strong safety nets are in place to assist those who are chronically ill. Without the funding arrangements applying to health and ageing services that are regularly extended to provide improved levels of care, many older Australians would find it beyond their means to access the services they need to function at maximum possible capacity and would themselves not be in a position to contribute extensively to the community, particularly through involvement in voluntary work.

This chapter examines the additional support provided for the living standards of older Australians, principally through support for health and aged care, under the following headings:

- ▶ Australian Government concession cards;
- ▶ Medicare;
- ▶ Pharmaceutical Benefits Scheme;
- ▶ Dental care;
- ▶ Private Health Insurance Rebates;
- ▶ Aged Care, including Residential Care and Community Care; and
- ▶ Housing assistance.

## 5.2 Australian Government Concession cards

The Australian Government provides substantial assistance to older Australians through concessions accessible with an Australian Government concession card. The government's main purpose in issuing concession cards is to provide access to Pharmaceutical Benefits Scheme prescription items, and certain Medicare services, at a cheaper rate (discussed below).

There are a number of different types of concession cards that give access to discounts. The concession cards that are issued by the Australian Government include:

- ▶ the Pensioner Concession Card (for all pensioners, and certain social security allowance recipients under specific conditions);
- ▶ the Health Care Card (generally for social security allowees and low paid workers);
- ▶ the Commonwealth Seniors Health Card (for eligible self-funded retirees of age pension age); and
- ▶ Gold and White cards issued by DVA to eligible veterans and war widows/ers (see Appendix 2 for details on DVA concession cards).

The Commonwealth Seniors Health Card (CSHC) was introduced in 1994 initially to provide self-funded retirees of age pension age access to Pharmaceutical Benefits Scheme medicines at the concessional rate. Holders of a CSHC or the equivalent DVA card are able to access the Seniors Concession Allowance and Telephone Allowance in addition to discounts on Pharmaceutical Benefits Scheme prescription items and certain Medicare services. Over the last 10 years, as a result of the Australian Government's changes that

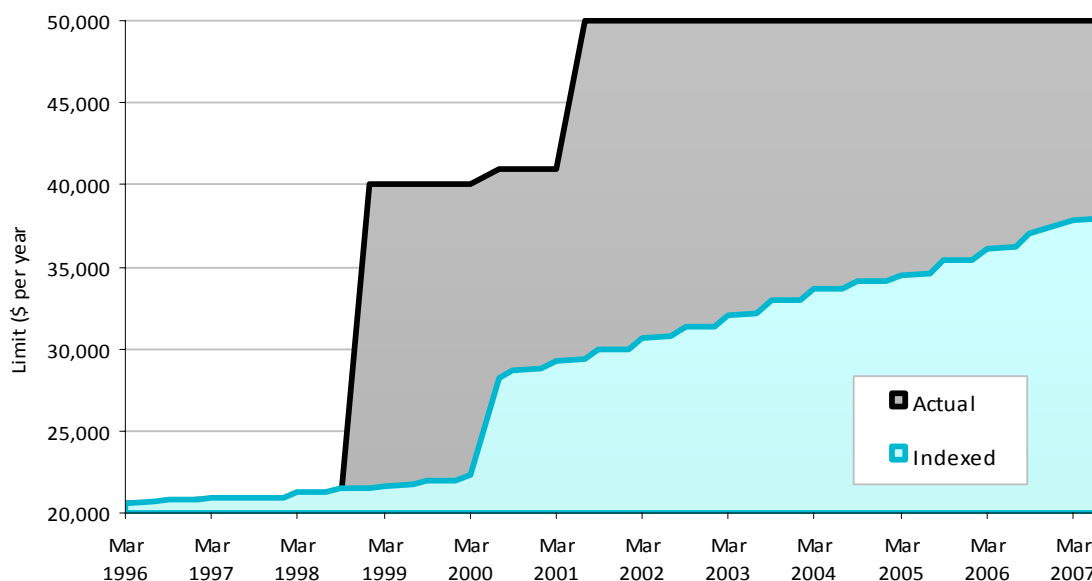
increased the income limits for access to the CSHC, the number of CSHC holders has increased from 35,000 to 318,000.

The changes that have been made to the CSHC income limits are shown in Figure 20. The CSHC income limits were indexed until 1999, at which time they were raised significantly and indexation ceased. The increase to the limits at this time was substantial – from \$21,320 to \$40,000 for singles, and from \$35,620 to \$67,000 for couples. In July 2001 the income limits were again increased to the current limits of \$50,000 for singles and \$80,000 for couples

Figure 20 also shows what the CSHC income limits would have been if these changes had not been made and the previous policy for setting income cut out points had been maintained (the CSHC income limit was tied to the Age Pension income test disqualifying limit).

Figure 20 shows how the CSHC income limits have been lifted over and above what they would have been had they continued to be indexed via the pension disqualifying limit.

**Figure 20. Income limits for access to a CSHC – actual limit compared with indexed limit, single person, March 1996 – July 2007**



Source: FaCSIA modelling

In addition to concessions funded and administered by the Australian Government, state, territory and local governments and some private organisations also offer a range of concessions to older Australians. The Australian Government provides funding via a special purpose payment to assist state and territory governments to provide ‘core’ concessions to Pensioner Concession Card (PCC) holders. This special purpose payment (approximately \$200 million in 2006-07) assists states and territories with the cost of providing concessions for rates, utilities (water, electricity and gas), car registration and public transport.

However, as the concessions are ultimately administered by the states and territories, the relevant government decides what concessions will be offered, and whether they can be accessed by other groups apart from PCC holders. Appendix 4 provides details of the state and territory concessions available to PCC holders and CSHC holders.

These state and territory concessions are valued by older Australians for the assistance that they provide by reducing their out-of-pocket expenses. However it can be difficult to estimate the value of the concession card to people. Its value to people (in terms of the concessions they can get) is dependent on the holder's individual circumstances and a range of other variables, including the state or territory in which he/she lives.

- ▶ The PCC attracts a broader range of concessions than the Health Care Card (HCC) or the CSHC. The PCC attracts concessions that include the 'core' concessions provided by state and territory governments on municipal and water rates, utilities, motor vehicle registration and public transport. A conservative estimate of the potential value of a PCC is around \$1,600 a year. This estimate is based on a comparison between the general rate and concessional rate costs for PBS benefits on the basis of a person who requires one prescription per week, and averaged savings from available 'core' concessions across all states.
- ▶ The CSHC is issued to self-funded retirees and does not generally attract the range of state and territory concessions available to PCC holders. The Australian Government introduced the Seniors Concession Allowance, currently \$214 per year, in recognition of that fact. A conservative estimate of the potential value of a CSHC is around \$1,200 a year. Access to concessions for CSHC holders can vary significantly from state to state. This estimate is based on a comparison between the general rate and concessional rate costs for PBS benefits on the basis of a person who requires one prescription per week; Seniors Concession Allowance; Telephone Allowance; and averaged savings from available 'core' concessions across all states.

## 5.3 Medicare

The Australian Government provides funding through Medicare to subsidise the cost of health services for all Australians. These benefits represent a direct outlay from government that, if not provided, would otherwise fall to patients.

Table 12 presents statistics, for people aged 65 and over, aged 75 and over, aged 85 and over, and for all ages, showing total Medicare services and services per capita for each of the years 1996-97 to 2005-06 (year of processing).

In 2005-06 Medicare Australia processed Medicare claims for 247.4 million services for all Australians or 11.9 services per capita.

In 2005-06 people aged 65 and over accounted for approximately 13.0 per cent of the Australian population. In that year, Medicare Australia processed claims for 72.6 million services for all Australians in this age group representing 29.3 per cent of all Medicare services.

Over the period 1996-97 to 2005-06, total Medicare services increased by 24.4 per cent or by 2.5 per cent a year, while services per capita increased by 11.3 per cent or by 1.2 per cent a year. In contrast, total services to people aged 65 and over increased by 54.7 per cent or by 5.0 per cent a year, while services per capita increased by 29.4 per cent or by 2.9 per cent a year.

**Table 12. Medicare – Numbers of Services, For persons 65 years of age and over, 75 years of age and over, 85 years of age and over, and all age ranges - total services and services per capita - 1996-97 to 2005-06 (year of processing)**

Financial year	Number of Services				Services per Capita			
	Age range				Age range			
	65 and over	75 and over	85 and over	All Ages	65 and over	75 and over	85 and over	All Ages
	Services							
1996-97	46,907,654	21,263,447	5,156,478	198,800,464	20.9	22.4	24.2	10.7
1997-98	48,905,567	22,225,662	5,454,557	202,218,467	21.3	22.5	24.2	10.8
1998-99	50,827,972	23,128,129	5,807,884	206,347,243	21.8	22.5	24.3	10.9
1999-00	52,996,585	24,127,980	6,235,558	209,565,815	22.3	22.6	24.7	10.9
2000-01	55,232,914	25,476,371	6,569,115	213,917,907	22.7	22.9	24.8	11.0
2001-02	58,303,697	27,276,625	6,904,687	220,704,353	23.5	23.7	25.2	11.2
2002-03	60,614,601	28,947,296	7,142,189	221,406,184	24.0	24.5	25.4	11.1
2003-04	64,041,948	31,146,169	7,434,594	226,382,151	24.8	25.7	25.9	11.2
2004-05	68,567,747	33,802,883	7,832,612	236,315,912	26.0	27.1	25.9	11.6
2005-06	72,554,878	36,411,334	8,457,686	247,366,876	27.0	28.5	26.3	11.9
	Percentage Change 1996-97 to 2005-06							
	54.7%	71.2%	64.0%	24.4%	29.4%	27.0%	8.6%	11.3%
	Average Annual Percentage Change 1996-97 to 2005-06							
	5.0%	6.2%	5.7%	2.5%	2.9%	2.7%	0.9%	1.2%

Source: Department of Health and Ageing administrative data July 2007

Tables 13 and 14 present statistics, for people aged 65 and over, aged 75 and over, and aged 85 and over, and for all ages, showing total Medicare benefits and benefits per capita in nominal (Table 13) and real terms (Table 14) for each of the years 1996-97 to 2005-06 (year of processing).

From Table 13, in 2005-06 Medicare Australia processed Medicare claims involving approximately \$11.0 billion in Medicare benefits for all Australians or \$530.22 per capita<sup>12</sup>.

In 2005-06, Medicare Australia processed claims involving approximately \$3.3 billion in Medicare benefits for all Australians aged 65 and over, representing 29.9 per cent of all Medicare benefits.

Over the period 1996-97 to 2005-06, total Medicare benefits in nominal terms increased by 78.2 per cent or by 6.6 per cent a year, while benefits per capita increased by 59.4 per cent or by 5.3 per cent a year. In contrast, total benefits to people aged 65 and over in nominal

<sup>12</sup> Per capita means per head of population rather than per claimant



terms increased by 113.7 per cent or by 8.8 per cent a year, while benefits per capita in nominal terms increased by 78.9 per cent or by 6.7 per cent a year.

From Table 14, over the period 1996-97 to 2005-06, total Medicare benefits in real terms increased by 37.8 per cent or by 3.6 per cent a year, while benefits per capita increased by 23.2 per cent or by 2.3 per cent a year. In contrast, total benefits to people aged 65 and over in real terms increased by 65.2 per cent or by 5.7 per cent a year, while benefits per capita in real terms increased by 38.3 per cent or by 3.7 per cent a year.

**Table 13. Medicare – Value of Services, for persons 65 years of age and over, 75 years of age and over, 85 years of age and over, and all age ranges - total benefits and benefits per capita (nominal) - 1996-97 to 2005-06 (year of processing)**

Financial year	Benefits Paid (Nominal \$M)				Benefits per Capita (Nominal)			
	Age range				Age range			
	65 and over	75 and over	85 and over	All Ages	65 and over	75 and over	85 and over	All Ages
Services								
1996-97	\$1,537.9	\$685.9	\$161.0	\$6,158.0	\$683.90	\$723.32	\$754.75	\$332.55
1997-98	\$1,618.9	\$723.0	\$171.3	\$6,333.5	\$706.57	\$732.33	\$761.47	\$338.49
1998-99	\$1,727.9	\$769.2	\$185.9	\$6,669.1	\$739.84	\$748.50	\$778.05	\$352.38
1999-00	\$1,842.1	\$821.6	\$204.6	\$6,945.0	\$774.22	\$768.63	\$809.90	\$362.60
2000-01	\$1,978.1	\$898.3	\$222.2	\$7,326.8	\$812.19	\$805.90	\$837.84	\$377.41
2001-02	\$2,149.2	\$993.7	\$240.8	\$7,829.5	\$865.52	\$865.08	\$878.16	\$398.35
2002-03	\$2,297.1	\$1,083.1	\$254.3	\$8,115.5	\$908.05	\$916.23	\$905.53	\$407.76
2003-04	\$2,515.2	\$1,206.8	\$272.9	\$8,600.0	\$975.55	\$994.76	\$949.90	\$427.01
2004-05	\$2,953.0	\$1,438.7	\$317.9	\$9,922.9	\$1,121.76	\$1,154.66	\$1,050.30	\$486.20
2005-06	\$3,287.0	\$1,634.0	\$362.5	\$10,976.3	\$1,223.26	\$1,277.74	\$1,125.92	\$530.22
Percentage Change 1996-97 to 2005-06								
	113.7%	138.2%	125.2%	78.2%	78.9%	76.7%	49.2%	59.4%
Average Annual Percentage Change 1996-97 to 2005-06								
	8.8%	10.1%	9.4%	6.6%	6.7%	6.5%	4.5%	5.3%

Source: Department of Health and Ageing administrative data July 2007

**Table 14. Medicare – Real Value of Services, for persons 65 years of age and over, 75 years of age and over, 85 years of age and over, and all age ranges – total benefits and benefits per capita real (a) – 1996-97 to 2005-06 (year of processing)**

Financial year	Benefits Paid (Real \$M)				Benefits per Capita (Real)			
	Age range				Age range			
	65 and over	75 and over	85 and over	All Ages	65 and over	75 and over	85 and over	All Ages
Services								
1996-97	\$1,896.3	\$845.8	\$198.5	\$7,593.0	\$843.28	\$891.88	\$930.64	\$410.05
1997-98	\$1,971.0	\$880.3	\$208.6	\$7,711.1	\$860.25	\$891.61	\$927.09	\$412.11
1998-99	\$2,098.3	\$934.1	\$225.7	\$8,098.9	\$898.45	\$908.97	\$944.86	\$427.93
1999-00	\$2,191.6	\$977.5	\$243.5	\$8,262.6	\$921.11	\$914.46	\$963.56	\$431.39
2000-01	\$2,253.3	\$1,023.2	\$253.1	\$8,345.9	\$925.17	\$918.00	\$954.38	\$429.91
2001-02	\$2,391.5	\$1,105.7	\$268.0	\$8,712.4	\$963.12	\$962.63	\$977.18	\$443.27
2002-03	\$2,481.9	\$1,170.2	\$274.8	\$8,768.3	\$981.09	\$989.93	\$978.37	\$440.56
2003-04	\$2,614.5	\$1,254.5	\$283.7	\$8,939.6	\$1,014.07	\$1,034.04	\$987.41	\$443.88
2004-05	\$2,953.0	\$1,438.7	\$317.9	\$9,922.9	\$1,121.76	\$1,154.66	\$1,050.30	\$486.20
2005-06	\$3,133.0	\$1,557.4	\$345.5	\$10,461.9	\$1,165.94	\$1,217.87	\$1,073.16	\$505.37
Percentage Change 1996-97 to 2005-06								
	65.2%	84.1%	74.1%	37.8%	38.3%	36.6%	15.3%	23.2%
Average Annual Percentage Change 1996-97 to 2005-06								
	5.7%	7.0%	6.4%	3.6%	3.7%	3.5%	1.6%	2.3%

(a) All values have been indexed to 2004-05 dollars using Non-Farm GDP deflator from National Accounts.

Source: Department of Health and Ageing administrative data July 2007

## 5.4 Pharmaceutical Benefits Scheme

The Pharmaceutical Benefits Scheme (PBS) is the mechanism through which the Australian Government subsidises the cost of medications used by the community. The PBS assists in greatly reducing the out-of-pocket cost of medication for all Australians, including older Australians, through a co-payment and safety net system. This therefore contributes to better living standards as people have more income after meeting their health expenses.

- ▶ The general patient co-payment is limited to \$30.70, while concessional patients including PCC and CSHC holders, pay \$4.90 for each prescription.
- ▶ Safety net arrangements also assist in reducing the cost of medicines. In 2007, after reaching the safety net threshold of \$1,059.00, general patients and their families pay the concessional rate of \$4.90 for each prescription. The safety net threshold for concession card holders is \$274.40, after which concession card holders are supplied with PBS prescriptions without charge.
- ▶ The Scheme also includes a range of new and expensive drugs for the treatment of chronic age related conditions including diabetes, arthritis, osteoporosis, Alzheimer's disease, macular degeneration and cancer treatments.

## Key statistics

Some key statistics are presented below. It should be noted that these statistics do not include prescriptions priced below the co-payment for general patients who have not reached the safety net. However, this is less of an issue for older people as the overwhelming majority (more than 70 per cent) of those aged 65 and over are Commonwealth concession card holders.

- ▶ Table 15 shows 2006 calendar year PBS expenditure for older Australians by three age subgroups.
- ▶ As these statistics show, the government covers the majority of the cost of PBS subsidised medicines for those aged 65 and over (approximately 88 per cent in 2006).

[Table 15. PBS Expenditure for older Australians by age subgroup - 2006](#)

	65 years and over	70 years and over	80 years and over
Total Govt cost	\$2,713,514,741	\$2,021,580,838	\$685,562,632
Average Govt cost per person	\$992.50	\$1,040.80	\$914.40
Govt share of total cost	88.4%	88.7%	87.7%
Patient share of total cost	11.6%	11.3%	12.3%
Average Govt cost per item	\$30.00	\$29.36	\$26.90
Average cost to patient per item	\$3.94	\$3.76	\$3.79

Data are not available to undertake a 10 year comparison of the cost of PBS medicines for these age groups.  
Source: Department of Health and Ageing administrative data July 2007

- ▶ It is important to note that while there have been increases in maximum patient charges over the last 10 years (see table at Appendix 5) this has occurred in the context of high growth in the overall cost of the PBS, due to the increasing volume and range of new and expensive drugs being subsidised.
- ▶ Despite this, the proportion of total PBS costs met by all concessional patients (which includes the majority of older Australians) has in fact fallen from 11.6 per cent in 1995-96 to 10.2 per cent in 2005-06.
- ▶ A pharmaceutical allowance of \$5.80 is paid fortnightly on top of the standard age and veterans' pension rates to help pensioners with the cost of PBS prescriptions. For indexation arrangements see Appendix 1.

## PBS listed items

The PBS continues to subsidise essential and expensive medicines for the aged. Significant recent additions include LUCENTIS and VISUDYNE for the treatment of age-related macular degeneration (\$629.5 million over four years) and ALENDRONATE to prevent bone fractures caused by osteoporosis (\$90 million over five years).

## 5.5 Dental Care

In recent years the dental health of older Australians has improved greatly, leading to improved living standards and greater ability to participate in the community.

More older Australians are keeping their teeth longer. Between 1988 and 2005, the number of people over 65 with fewer teeth than needed to sustain a healthy diet declined by one third, the proportion with no teeth halved<sup>13</sup>, and more of their dental problems received treatment (increasingly fillings rather than extraction)<sup>14</sup>.

At the same time, the number of people over 65 who had visited a dentist in the preceding 12 months grew by a fifth, from 54 per cent to 67 per cent – or, to look at it another way, the number of people who did not visit a dentist fell by a third<sup>15</sup>.

This was associated with a significant increase in disposable income among this group (see “Australian Government measures to support the disposable incomes of older Australians” above).

This increase in use of dental services, associated with an improvement in oral health, has been predominantly driven by growth in the private sector; levels of service provision in the public sector have remained relatively static [across most States and Territories<sup>16</sup>].

## Commonwealth Assistance through Private Health Insurance Rebates

Private-sector growth in services (and improvements in oral health), particularly among older Australians, have been associated with the Australian Government’s increased support for private health insurance arrangements through the 30 per cent rebate on premiums introduced in 1999.

From 1 April 2005, the Australian Government increased the rebate to 35 per cent for people aged 65 to 69 years, and 40 per cent for people aged 70 years and over, helping to provide affordable dental services for those aged over 65 years.

This has been associated with an increase in the proportion of people aged 65-74 with private dental insurance, from 31.5 per cent to 47.8 per cent between 1988 and 2005<sup>17</sup>.

## Other Commonwealth roles

In addition to the providing assistance to privately-insured patients via the rebate, the Australian government also:

- supports the training of dentists and other oral-health professionals;

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<sup>13</sup> AIHW National Survey of Oral Health 2004-05.

<sup>14</sup> While the total number of decayed, missing or filled teeth (DMFT) fell slightly among those over age 65, the average number of (untreated) decayed teeth fell by three-quarters, and the number of filled teeth almost doubled- Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Progress in the Implementation of the National Oral Health Plan in 2004/05, National Oral Health Plan Monitoring Group.

<sup>17</sup> AIHW National Survey of Oral Health 2004-05.

- funds dental care for specific population groups including veterans, Defence Force personnel and some Indigenous Australians;
- subsidises drugs prescribed by dentists under the Pharmaceutical Benefits Scheme;
- provides Medicare benefits for a limited range of medical services of an oral surgical nature; and
- provides Medicare benefits for a range of diagnostic and treatment services for people with chronic conditions and complex care needs who are being managed by their GP under an Enhanced Primary Care (EPC) plan.

## 2007-08 Commonwealth Budget – Dental initiatives

In the 2007-08 Budget, the Commonwealth Government announced a number of measures to strengthen support for persons with chronic and complex care needs; increase the supply of dentists and other oral health professionals, and public dental services, in rural and regional areas; and provide easier and more affordable access to dental services in these areas.

- \$378 million for improvements to the Enhanced Primary Care (EPC) dental items to provide higher Medicare rebates and more services to eligible patients, many of whom will be older Australians. Eligible patients will be able to claim Medicare benefits for a diagnostic dental consultation, as well as benefits for a range of dental treatment services up to a maximum of \$2,000 each calendar year.  
  
These new Medicare arrangements are expected to commence on 1 November 2007 (subject to the passage of legislation) and assist 200,000 people in the first four years.
- \$65.1 million over four years for a new School of Dentistry and Oral Health at Charles Sturt University, NSW, with pre-clinical and clinical facilities in Orange and Wagga Wagga and dental education clinics in Albury, Bathurst and Dubbo to deliver services to public patients. 240 new training places for dental and oral health students will be available over five years.
- \$12.5 million over four years to support up to 30 annual clinical placements for dentistry students in established rural training settings.

## Public Dental Services

State and territory government provided public dental services, primarily available to meet the needs of disadvantaged Australians (principally concession card holders), are meant to complement the Medicare services and the private sector services subsidised by the Commonwealth government.

In practice, however, many older Australians who are eligible for free or low-cost public dental services often face waiting lists of 2-3 years to access these services, and make use of private-sector services instead.

## 5.6 Private Health Insurance Rebates

A Private Health Insurance Rebate was introduced on 1 January 1999 to increase the affordability of private health insurance by reducing the cost of premiums by 30 per cent. All Australians are eligible to claim the 30 per cent rebate if they have an appropriate health insurance policy that provides hospital, general or combined cover.

A comparison of the 1998-99 and 2003-04 ABS Household Expenditure Surveys indicates that the average payments for private health insurance made by households headed by a person over age 65 increased by only 2.9 per cent over the five years in real terms. This reflects the combined impact of the introduction of the rebate (lowering costs by 30 per cent) and an increase in the number of people over age 65 covered by private health insurance from 843,000 to 1,054,000 (thus increasing the proportion of households making a payment and the average payment across all households).

Higher rebates for older Australians – 35 per cent for people aged 65-69 and 40 per cent for people aged 70 years and over – were introduced from 1 April 2005.

More than 1.2 million people over age 65 are now covered by private hospital insurance. The data indicate that the higher rebates have had a positive impact on private health insurance membership for people over age 65. As at March 2007, more than 100,000 extra people over age 65 were receiving the higher rebates, compared with the number of people receiving the higher rebates when they were introduced.

The higher rebates provide additional financial assistance for people over age 65, reducing the cost of living for older Australians, and provide an incentive for them to retain their private health insurance at a time in their lives when they are most likely to use hospital and other health services.

## 5.7 Aged Care

The Australian Government funds a range of programs that provide care to frail older Australians. This analysis focuses on the major care programs, namely residential aged care and community aged care.

Residential aged care comprises care and accommodation in aged care homes to people who have been assessed by an Aged Care Assessment Team as requiring either high level care or low level care. Low level care comprises accommodation and personal care services; high care comprises accommodation, personal care services and nursing services.

Residential care is predominantly financed by the Australian Government.

The Australian Government funds some community care directly, mostly in the form of Community Aged Care Packages (CACPs), Extended Aged Care at Home (EACH) packages, and Extended Aged Care at Home Dementia (EACH D) packages.

CACPs provide an equivalent of low level care services in people's homes. EACH and EACH D provide the equivalent of high level care services to people with more complex care needs.

EACH D packages include additional services for people with behaviours of concern and psychological symptoms associated with dementia.

The Australian Government also jointly funds community care with the states and territories through the Home and Community Care program (HACC), which provides services to people with disabilities, as well as to older people. HACC services for older people are generally directed at those with lower levels of care needs than those receiving residential care and community care packages, and assists older people defer or avoid the need for residential care or community care packages.

Table 16 below shows Australian Government expenditure on aged care programs from 1997-98.

Table 17 shows care recipients in each of the major programs, as at June 30 for the years 1997-98 to 2007-08.

Table 16. Aged care expenditure, 1997-98 to 2007-08

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Residential care	3,027,100	3,355,453	3,562,381	3,732,218	3,997,140	4,299,243	5,110,353	5,173,542	5,333,613	5,655,472	6,168,224
CACPs	84,119	121,758	148,949	194,620	246,282	288,359	307,759	327,770	356,579	404,862	471,204
EACH	-	-	-	8,431	8,947	10,368	15,465	33,318	65,256	103,939	123,489
EACH D	-	-	-	-	-	-	-	-	1,208	25,086	65,778
HACC	476,329	500,200	525,847	567,127	615,582	674,086	732,388	791,858	857,835	928,401	1,006,739
Other (a)	179,487	200,911	187,105	257,696	259,887	315,718	352,647	407,545	486,576	585,848	765,713
Total	3,767,035	4,178,322	4,424,282	4,760,092	5,127,838	5,587,774	6,518,612	6,734,033	7,101,067	7,703,608	8,601,147

(a) Other includes assessment programs, dementia programs and the National Respite for Carers Program

Source: Department of Health and Ageing administrative data July 2007

Table 17. Aged care recipients, at 30 June, 1997-98 to 2006-07

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Residential care	133,911	135,070	136,013	137,129	139,011	142,856	147,638	151,886	154,866	157,691
CACPs	9,583	13,154	16,642	20,817	24,592	26,532	27,618	28,854	31,755	34,508
EACH	-	-	-	-	-	-	707	1,227	2,136	2,850
EACH D	-	-	-	-	-	-	-	-	279	796
HACC (65+)	n.a.	n.a.	n.a.	n.a.	n.a.	510,627	540,750	565,533	588,687	n.a.

Source: Department of Health and Ageing administrative data July 2007



The following table (Table 18) provides an overview of the costs of providing aged care services and of the distribution of those costs between individuals, the Australian Government and State/territory governments.

**Table 18. Distribution of the costs of providing aged care services**

	Total Average Cost per place per year(a)	Distribution of cost (average share):		
		Care recipients	Australian Government	State/Territory governments
Residential care	\$33,435	28%	72%	Nil
EACH packages	\$39,600	4%	96%	Nil
EACH D packages	\$43,000	4%	96%	Nil
CACPs	\$13,500	20%	80%	Nil
HACC	Variable	Non-compulsory contribution	60% (b)	40% (b)
Other Aust. Government Programs (e.g. National Respite for Carers)	Variable	Non-compulsory contribution	100%	Nil

(a) Cost is estimated from income and does not take into account cross-subsidisation.

(b) Precise split varies between state and territories.

Source: Department of Health and Ageing administrative data July 2007

## Residential Care

The Australian Government's contribution to residential care is provided through subsidies paid directly to approved providers in respect of approved care recipients under the Aged Care Act.

- ▶ A care subsidy is paid at one of several levels dependent on the resident's care needs. An income tested subsidy reduction is applied for those residents who have been assessed by either the Department of Veterans' Affairs or Centrelink as having the capacity to contribute towards their cost of care.
- ▶ An accommodation supplement (the pensioner supplement) is paid to aged care homes towards the resident's basic daily care fees for residents in receipt of an Australian Government income support payment except for those pensioner residents who have paid an accommodation bond ten times greater than the annual pension amount.
- ▶ Additional accommodation supplements (the concessional and assisted resident supplements) may be paid in respect of residents with very few or no assets.
- ▶ An additional viability supplement is paid to aged care homes in some rural and remote areas in recognition of the higher costs of providing care in those regions.
- ▶ Some minor additional supplements are paid to residents with special needs.

Aged care residents who can afford to do so may be asked to make a contribution towards their daily living costs and the costs of their care. The government sets maximum levels for residents' basic daily fees and income tested care fees they may pay, which are determined by, among other things, a resident's income.

Residents may also be asked to pay an accommodation payment. In low level care (and for extra service places), the accommodation payment is in the form of an accommodation

bond, which may be paid as a lump sum, a regular periodic payment or a combination of both. In high care, the payment takes the form of an accommodation charge, which is payable as a daily fee. The maximum accommodation payment a resident may be charged is determined in relation to a resident's assets, rather than their income.

Details of the current fees and charges can be found at:

<http://www.healthconnect.gov.au/internet/wcms/publishing.nsf/Content/ageing-finance-resfees.htm-copy2>.

Table 19 compares government and client contributions to residential care between 1998-99 and 2006-07 and client contributions as a proportion of estimated disposable income to 2005-06. The estimate is based on the daily pension rate, weighted to reflect the care recipient population who have private income.

Accommodation bonds have not been included in client contributions, as the payment of a bond refers more to assets than the care recipient's income (but noting, however, that the accommodation bond is a real contribution by the care recipients who pay it in terms of interest foregone and the retention amount which is normally applied).

Between 1998-99 and 2006-07 the average resident's daily contribution increased in nominal terms from \$26.30 to \$38.26. However, as a proportion of the total expenditure on care the average resident's contributions remained relatively constant over the time period.

Similarly the average resident's contribution as a proportion of the estimated disposable income also remained relatively constant over the period. The estimated disposable income of all full-pensioners was taken as the pension rate (plus an average amount of rent assistance). The disposable income of part-pensioners and self-funded retirees was estimated by adding a weighted amount to the pension rate to reflect the average amount by which the ABS measure of individual disposable income exceeded the pension rate over the time period concerned.

Over the same period, government expenditure averaged more than three times the estimated disposable income which suggests that residential care would be beyond the means of most aged persons without the continued high level of government support.

It should be noted that in the time available to prepare this submission, some of the cost estimates had to be derived using approximating assumptions and the figures in the tables that follow should be taken as indicative only.

**Table 19. Residential care: Recipient contributions as a proportion of total residential care expenditure and as a proportion of estimated daily disposable income (permanent recipients aged 65 or more)**

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 <sup>(e)</sup>
Government expenditure on recipients aged 65 years or more (\$'000)	3,159,523	3,366,812	3,547,397	3,784,741	4,085,922	4,358,525	4,774,705	5,070,375	4,923,024
Total recipients aged 65 or more <sup>(a)</sup>	128,972	129,867	131,011	132,890	136,642	141,258	145,269	148,134	150,976
Residential care expenditure per recipient per day (\$)	67.48	71.25	74.83	78.77	83.38	85.88	91.60	94.86	98.79
Recipient contribution per day in nominal terms (\$) (b)	26.30	27.09	28.23	29.97	31.57	33.35	34.63	36.51	38.26
Recipient contribution as a proportion of total daily expenditure (%)	28%	28%	27%	28%	27%	28%	27%	28%	28%
Recipient contribution as a proportion of estimated daily disposable income (%) (c), (d)	84%	83%	83%	85%	84%	86%	86%	86%	84%

**Note:**

- (a) Recipient counts as at 30 June. Note that recipient days were used in calculations.
- (b) In addition to the recipient contribution included here, non-pensioner residents may be asked to provide an accommodation bond from which there is retention and interest earned.
- (c) Based upon the basic daily pension, weighted to reflect the number of individuals in residential care who have private income.
- (d) Over the period, government expenditure averaged more than three times the estimated daily disposable income which suggests that residential care would be beyond the means of most aged persons without the high level of government support.
- (e) 2006-07 figures do not include June. May 2007 was the latest data available.

In the time available, some of the cost estimates had to be derived using approximating assumptions and the figures in the table above should be taken as indicative only.

Source: Department of Health and Ageing administrative data July 2007

## Community care packages – CACPs, EACH and EACH D

The Australian Government's contribution is provided through subsidies paid directly to providers in respect of approved care recipients under the Aged Care Act.

The level of the care subsidy depends on whether the package is a CACP or an EACH package. It is not subject to an income test. There is no accommodation supplement for packages, but some additional supplements are paid to recipients of EACH packages with special needs. The care recipient's contribution is up to 17.5 per cent of the maximum pension plus up to 50 per cent of income above the pension. However, detailed records are not kept of recipients' contributions.

Hence, for Table 20, some of the cost estimates had to be derived using approximating assumptions and the figures in the tables that follow should be taken as indicative only.

The data does show that over the period, government expenditure averaged about 80 per cent (from 86 per cent down to 76 per cent) of the care recipient's estimated disposable income (or about four times that amount contributed by the care recipient), which suggests that the high level of government support provides the capacity for aged individuals to remain in their own homes as most choose to do.

## HACC and other community service programs

These programs are funded through block grants to organisations. HACC is jointly funded by the Australian and state and territory governments. State/territory governments manage HACC and set fees policy. Fees are estimated to cover around 5 per cent of the cost of HACC. In other words, the HACC program meets 95 per cent of the cost of the services provided to people through that program, all but eliminating the cost to recipients of those services.

**Table 20. Community Aged Care Packages: Recipient contributions as a proportion of total care expenditure and as a proportion of estimated daily disposable income (recipients aged 65 or more)**

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 <sup>(d)</sup>
Government expenditure on recipients aged 65 years or more (\$'000)	120,917	147,052	190,363	250,254	287,452	310,158	326,328	355,332	363,796
Total recipients aged 65 or more	12,187	15,475	19,435	22,802	24,582	25,685	27,017	29,931	32,657
Government expenditure per recipient per day (\$)	27.10	27.91	28.31	29.10	29.78	30.73	31.41	32.04	32.65
Recipient contribution per day in nominal terms (\$)	6.36	6.58	6.85	7.17	7.57	7.87	8.18	8.57	N/A
Recipient contribution as a proportion of total daily expenditure (%)	19%	19%	19%	20%	20%	20%	21%	21%	N/A
Recipient contribution as a proportion of estimated daily disposable income (%) (b) (c)	20%	20%	20%	20%	20%	20%	20%	20%	N/A

**Note:**

- (a) Recipient counts as at 30 June. Note that recipient days were used in calculations.
- (b) Based upon the basic daily pension, weighted to reflect the number of individuals in care who have private income.
- (c) Over the period, government expenditure averaged about 80% (from 86% down to 76%) of the estimated daily disposable income (or about four times that amount contributed by the care recipient), which suggests that the high level of government support provides the capacity for aged individuals to remain in their own homes as most choose to do.
- (d) 2006-07 figures do not include June. May 2007 was the latest data available.

In the time available, some of the cost estimates had to be derived using approximating assumptions and the figures in the table above should be taken as indicative only.

Source: Department of Health and Ageing administrative data July 2007

## 5.8 Australian Government hearing services program

The impact of the Australian Government's provision of free hearing services is significant for eligible Australians who have a hearing loss.

Eligibility to enter the Australian Government Hearing Service Program is mainly targeted to pensioner concession card (PCC) holders and veterans. Self-funded retirees are not eligible for the Program unless eligible for a part pension.

The Program provides a voucher that allows clients to access a range of high quality hearing devices and services at no cost other than an annual optional maintenance contribution of approximately \$36.

### Expenditure on Australian Government Hearing Services

**Table 21.** Australian Government Hearing Services Program – Total expenditure on clients through the Office of Hearing Services Voucher Program, Australia, 1998-99 to 2006-07

Year	Total Voucher expenditure			Average Voucher expenditure per person		
	Age group			Age group		
	65+	70+	80+	65+	70+	80+
1998-99	\$90,193,723	\$77,133,541	\$33,299,856	\$309.11	\$303.77	\$293.60
1999-00	\$105,772,089	\$91,530,558	\$40,162,899	\$376.95	\$373.28	\$363.07
2000-01	\$107,306,579	\$93,324,528	\$42,960,829	\$369.23	\$365.72	\$361.02
2001-02	\$123,135,231	\$107,223,033	\$50,770,957	\$388.53	\$383.98	\$375.98
2002-03	\$137,436,355	\$118,962,387	\$57,630,258	\$420.46	\$415.15	\$409.22
2003-04	\$155,977,917	\$134,868,309	\$67,302,526	\$447.59	\$443.89	\$438.90
2004-05	\$173,621,171	\$149,662,429	\$76,878,532	\$476.67	\$472.43	\$467.89
2005-06	\$183,222,268	\$158,648,376	\$83,933,227	\$484.24	\$480.87	\$476.86
2006-07	\$192,272,425	\$166,334,855	\$89,110,479	\$488.06	\$483.83	\$475.83
TOTAL	\$1,268,937,758	\$1,097,688,015	\$542,049,561	\$417.87	\$413.66	\$406.93

Source: Unpublished data, Office of Hearing Services Date table run: 18/7/07

## 5.9 Assistance for housing costs

In addition to Rent Assistance provided to supplement income support payments, the Australian Government provides assistance with housing costs through funding to state and territory governments for public and community rental housing.

### Public housing

Older people also make up a considerable proportion of people assisted by the Australian Government through the services delivered under the Commonwealth State Housing Agreement (CSHA) for public and social housing.

As at June 2005, income units on Age Pension made up 27.4 per cent of those living in public housing. Disability Support Pension recipients made up 27.8 per cent of all tenants and unemployment benefit recipients made up 8.5 per cent.<sup>18</sup>

As at June 2005, 27.6 per cent of public housing tenants were aged 65 and over, which is high when compared with the proportion of people aged 65 and over in the general population (12.6 per cent).<sup>19</sup>

In a number of states, low income households with a principal tenant aged 75 and over are given special needs status in relation to public housing eligibility. In the period 2004-05 1,287 new allocations to public housing were made on the basis of the principal tenant being aged 75 and over, consisting of 8.3 per cent of total allocations

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<sup>18</sup> Housing Assistance Act 1996 Annual Report 2004-05. Table A11

<sup>19</sup> 2006 census, ABS, 2067.0  
[http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/41ABF5554DB3E580CA25727200788725/\\$File/20670\\_Australia%20all%20persons%20QuickStats%20template%202006.xls](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/41ABF5554DB3E580CA25727200788725/$File/20670_Australia%20all%20persons%20QuickStats%20template%202006.xls)

Table 22. Public housing households, age of main tenant by State, at 30 June 2006

Age of main tenant	NSW	Vic.	Qld	WA	SA	Tas.	ACT	NT	Total
	number								
25 years and under	2 536	2 224	1 389	1 128	1 331	796	591	276	10 271
25-54	60 161	32 373	25 723	13 762	20 463	6 152	6 014	2 739	167 387
55-64	22 178	10 340	9 078	5 275	7 397	1 945	1 497	907	58 617
65-74	18 529	9 045	7 354	5 055	6 516	1 433	1 242	791	49 965
75 years and over	17 400	8 735	5 466	4 300	7 311	1 161	1 302	442	46 117
Unknown age	725	442	1	411	78	0	66	0	1 723
Total <sup>a</sup>	121 529	63 159	49 011	29 931	43 096	11 487	10 712	5 155	334 080
	per cent								
25 years and under	2.1	3.5	2.8	3.8	3.1	6.9	5.5	5.4	3.1
25-54	49.5	51.3	52.5	46.0	47.5	53.6	56.1	53.1	50.1
55-64	18.2	16.4	18.5	17.6	17.2	16.9	14.0	17.6	17.5
65-74	15.2	14.3	15.0	16.9	15.1	12.5	11.6	15.3	15.0
75 years and over	14.3	13.8	11.2	14.4	17.0	10.1	12.2	8.6	13.8
Unknown age	0.6	0.7	0.0	1.4	0.2	0.0	0.6	0.0	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Housing Data Agreement public housing minimum data set. Housing Assistance Act 1996 Annual Report 2004-05

The Australian Government does not make any age specific funding allocations for public housing and there are no figures on public housing expenditure on tenants aged 65 and over. However, an estimate can be made based on published information about the number of public households with a main tenant aged 65 and over, and the average operating expenses of each household.

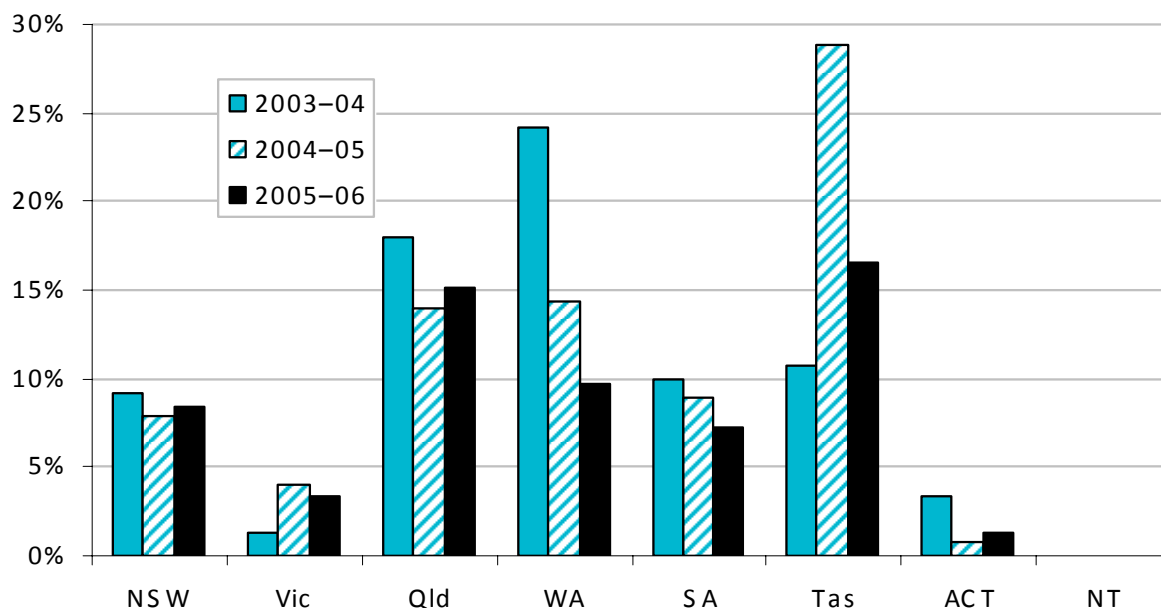
In 2005-06 there were 96,082 public housing households whose primary tenant was aged 65 and over. At this time, the average per dwelling operating cost was \$5,145 a year.

## Community Housing

Community housing, funded through the CSHA, is rental housing provided by non-government and local government organisations for people on low to moderate incomes, particularly for those with special housing needs. Figure 20 below demonstrates the proportion of households in community housing with a principal tenant who is frail aged.



**Figure 21. Proportion of households in community housing with a principal tenant who is frail aged**



Source: The *Commonwealth Housing Commonwealth State Housing Agreement national data reports* (2003-04, 2004-05 and 2005-06), compiled by The Australian Institute of Health and Welfare.

In 2005-06, community housing in Tasmania and Queensland had the greatest percentage of households with a Principal Tenant who is Frail Aged, at 16.5 per cent and 15.1 per cent respectively. The lowest were Victoria and ACT, at 3.4 per cent and 1.3 per cent respectively.

There is no information available about Australian Government expenditure on community housing tenants aged 65 and over. States and territories are only required to report on community housing tenants aged 75 and over, and there is no readily available information for tenants aged 65 and over.

In 2004-05 there were 2,670 community housing households with a main tenant aged 75 and over. Nationally the average cost of community housing assistance per dwelling was \$7,744 (excluding capital).

## Specific strategies

A number of the state and territory governments have specific strategies for the aged and frail aged, for instance: free home renovation inspections; modifications to public housing properties; provisioning of specific Aged Persons Units; and specifying allotments of aged persons' precincts in major redevelopments.

These strategies are at least partly funded through Commonwealth money contributed under the Commonwealth State Housing Agreement.

## Call for new and innovative approaches

The Australian Government is seeking to ensure that the money it provides for public and community housing is used more effectively.

On 26 July 2007 the Minister for Families, Community Services and Indigenous Affairs, the Hon Mal Brough MP, announced that he would be inviting expressions of interest from state and territory governments, the non-government sector and the private sector for their proposals and ideas on new and innovative approaches to using the available funds to increase housing supply. This will include ideas for innovative housing solutions for older Australians. To make a submission, interested parties must register with FaCSIA to receive an information pack.

All submissions must be received by FaCSIA by Friday, 28 September 2007. To register or obtain further information, email [socialhousing@facsia.gov.au](mailto:socialhousing@facsia.gov.au) or phone 1800 047 482.

## 6: Support for carers

### 6.1 Financial assistance

There are two forms of Australian Government financial assistance that may be available in a caring situation: Carer Payment and Carer Allowance.

- ▶ Carer Payment provides income support to people who, because of the demands of their caring role, are unable to support themselves through substantial workforce participation. Carer Payment is subject to income and assets tests and is paid at the same rate as other social security pensions (for example, Age Pension).
- ▶ Carer Allowance is an income supplement available to people who provide daily care and attention in a private home to a person who has a disability or severe medical condition or who is frail aged. Carer Allowance is not taxable or income and assets tested and can be paid in addition to a social security income support payment (such as Age Pension).

It should also be noted that grandparents caring for a child with a disability or severe medical condition may be eligible to receive one or both of these payments.

Table 23. Numbers of people aged 65 and over in receipt of Carer Payment and/or Carer Allowance, June 2006

	Male	Female	Total
Carer Payment	2,244	2,482	4,726
Carer Allowance	36,926	54,629	91,555

Source: Centrelink customer data

### 6.2 Other assistance for older carers

In recent years a number of measures have been introduced to assist older Australians who provide care for people with disability or a severe medical condition, or who are frail aged.

#### The new Disability Assistance Package

In June 2007, the Prime Minister announced a \$1.8 billion Disability Assistance Package, which includes initiatives that will provide practical support and peace of mind for older carers and their families. Under this new initiative, the Australian Government will commit \$962 million over five years to help older carers and their families, providing around 1,750 new supported accommodation places and 800 new respite places by 2012, as well as additional in-home support and respite to assist older carers to continue care at home. Transition support is also available to assist older carers and their families plan for the future.

#### Special Disability Trusts

In 2005 the Australian Government announced a \$230 million package to help families to make financial provisions for the future accommodation and care needs of their family

member with severe disability. From September 2006, immediate family members have been able to put up to \$500,000 into a Special Disability Trust without being affected by the social security or veterans' affairs means test.

## Respite

As part of the 2004-05 Budget, the Australian Government provided \$72.5 million over four years for additional respite services for older parent carers of people with disability, subject to matching commitments by state and territory governments. This measure is implemented through bilateral agreements with state and territory governments under the Commonwealth State and Territory Disability Agreement.

## Bonus payments

Additional payments to carers: the Australian Government's strong economic position over recent years has enabled it to recognise the efforts of Australian carers with the payment of lump sum Carer Bonuses in 2004, 2005, 2006 and 2007. Carers (including older Australians) who received Carer Payment received a payment of \$1,000 and those who received Carer Allowance received a payment of \$600 for each eligible care receiver.

Both 2006 and 2007 bonuses were extended to Carer Allowance recipients of Wife Pension or the Veterans' Affairs Partner Service Pension.

## 6.3 Grandparent carers

Under the Australian Constitution, support for children and young people in out-of-home care is primarily the responsibility of state and territory governments.

Each state and territory has its own legislation, policies and practices in relation to foster care and foster care payments. Many grandparents are caring for their grandchildren due to family circumstances that may be similar to those that lead to the involvement of state and territory child protection authorities, but because their care arrangements are not formalized they are not receiving the financial and other supports available for carers within the statutory child protection system.

Reliable information on the numbers of grandparents and other relatives or kin, which can include family friends, providing care for children, both inside and outside the statutory child protection system, is limited.

Information on relatives and kin providing care for children inside the statutory child protection system is reported annually in the Australian Institute of Health and Welfare (AIHW) report, *Child Protection Australia*, using data provided by the state and territory child protection authorities.

Information on all grandparents providing care for children is reported less frequently by the ABS. The ABS *Family Characteristics Survey 2003* reported 22,500 grandparent families were caring for 31,100 children aged 0-17 years in Australia in 2003. The *2006-07 Family Characteristics Survey* is expected to be released early in 2008.

According to the annual AIHW reports, increasing numbers of children inside the statutory system are being placed in home-based care and the proportion of children being placed with relatives and kin, has grown. Although the AIHW reports do not give a breakdown of the relationship of the relative/kin carers to the child, other research indicates that it is possible the majority of relative/kin carers are grandparents.<sup>20</sup>

An ABS article on grandparents providing care quoting from two non-ABS qualitative surveys on the issues faced by grandparent carers states that, "grandparents differ from other adults caring for children...on average they have lower financial resources and less physical stamina...The transition to being a grandparent carer may be sudden, and associated with high initial costs related to accommodating children...[and]... the ongoing cost of caring for children may not have been planned for and may affect the sustainability of the grandparent's retirement income."<sup>21</sup>

There is limited direct research currently available on the needs of grandparent and other relative carers. The Department of Families, Community Services and Indigenous Affairs is a partner agency in a research initiative led by the Social Policy Research Centre at the University of NSW to investigate the needs and special circumstances of both formal and informal grandparent carer families and the particular issues for Indigenous grandparent carer families. This research is expected to provide reliable evidence on which to base future policy making and service delivery.

Australian Government family assistance payments are generally paid to parents, because they have the legal responsibility for, and ongoing care of, their children. In cases where the parents are unable to fulfil their caring responsibilities (for example in cases of substance abuse), family assistance payments can be made to the person or organisation which has ongoing care of the children.

The Australian Government recognises diverse care arrangements by providing carers of other people's children (usually grandparents, other kinship carers or foster carers) with access to financial assistance on the same basis as all other families. Family assistance can

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<sup>20</sup> The Australian Institute of Health and Welfare (AIHW) report, *Child Protection Australia 2005-06*, notes "trends in recent decades of increased use of placements with relatives and kin or foster carers, and decreased use of placements in residential care," for children in out-of-home care. Data on out-of-home care placements in successive AIHW reports indicate that the proportion of children being placed by state and territory child protection authorities with relatives and kin has increased from 31% at 30 June 1998 to 40.5% at 30 June 2006. Peter Brandon in his analysis of children's living arrangements using Household Income and Labour Dynamics Australia (HILDA) 2001 data, estimated that of children aged 0-14 yrs, 0.71% were living with grandparents only, while 0.19% were living with other non-parent relatives. (Brandon, Peter. "Identifying the diversity in Australian children's living arrangements," *Journal of Sociology*, 2004, Vol 40(2): 179-192, p183). A FaCSIA analysis of Brandon's figures finds that, of those children living without a parent but with other relatives (0.9% of all children 0-14 years) almost 79% were living with grandparent carers.

<sup>21</sup> Australian Bureau of Statistics, "*Family Functioning: Grandparents Raising their Grandchildren*," p1 of 6, website <http://www.abs.gov.au/AUSSTATS/abs@.nsf/94713ad445ff1425ca25682000192af2/5e98bee015d25f60ca25703b0080ccb8!OpenDocument> downloaded 27/07/2007, referring to Council on the Ageing (COTA) National Seniors 2003, *Grandparents Raising Grandchildren*

be provided whether or not the carer has gained formal legal responsibility for the child, providing they have the day to day care and responsibility for the child.

Grandparents caring for grandchildren are eligible for the full range of Australian Government family payments such as Family Tax Benefit (FTB), Parenting Payment, Child Care Benefit (CCB) and for those on an income support payment, Grandparent Child Care Benefit (GCCB). In addition, if the child meets the definition of 'orphan', the grandparent carer may be eligible for Double Orphan Pension. Grandparent carers can also obtain a non-means tested foster child Health Care Card, which provides access to subsidised medications and bulk billing for medical consultations, for the children in their care. In some cases, grandparents caring for grandchildren may also be eligible for the non-means tested Baby Bonus. Young people from 15 to 25 years in grandparent care are also eligible for the Transition to Independent Living Allowance when they are about to leave, or have left care.

Although eligible, some carers may not receive the Australian Government payments to which they are entitled, because they are unwilling to apply for them. For example, grandparents may be reluctant to apply for Family Tax Benefit for fear the children will be taken back by the parent so the parent can continue to receive this income. Providing additional financial assistance to grandparent and other kinship carers inevitably involves withdrawal of assistance from parents as the Australian Government does not make payments twice for the same child. There are no clear solutions in situations where custody may be contested between the parents and the informal carers of the children (i.e. where there has been no change in legal responsibility).

In recent years, the Australian Government has substantially increased assistance to families through increased rates of Family Tax Benefit and more generous income testing arrangements to improve rewards from work. On average, eligible families receive around \$8,300 from FTB each year. Family Tax Benefit consists of two parts.

- ▶ FTB Part A helps with the direct cost of raising children. Payment is assessed on the family's combined income and is paid per child. Families with incomes below \$41,318 receive maximum support under FTB Part A.
- ▶ FTB Part B is extra assistance for families, including sole parent families, with one main income. Payment is based on the age of the youngest child and is assessed on the income of the family's lower income earner.

Child Care Benefit helps with the cost of approved or registered child care and is available to parents, or foster and grandparent/kinship carers. To make it easier for grandparents to access child care, the government has waived the CCB work, training, study test for eligible grandparent carers who have primary care of their grandchildren so they can access up to 50 hours of CCB for each child in approved child care per week.

Grandparent carers receiving an Australian Government income support payment may be eligible to receive a special Grandparent Child Care Benefit. This covers the full cost of the total fee charged by the child care service for up to 50 hours of approved care per child, per week. Grandparents do not have to meet the work, training, study test to receive the GCCB.

Double Orphan Pension provides financial assistance to guardians, including grandparents, or approved care organisations in meeting the costs of caring for children who are orphans, or who have parents incarcerated. The base rate for the payment is \$49.40 per fortnight. An additional component may be payable to increase the carer's FTB entitlement to the level payable for the young person immediately before they became a double orphan.

The Baby Bonus may be paid to a grandparent caring for a grandchild where the child comes into the grandparent's care within 13 weeks of its birth, and the grandparent will have ongoing care of the child for no less than 13 weeks. The Baby Bonus is a non-means tested, flat rate payment of \$4,133.

At the Community and Disability Services Ministers' Conference on 26 July 2006, all Ministers agreed on the need for a coordinated approach, across the country, to address the needs of grandparents caring for grandchildren, in order to ensure they understand their entitlements and are able to access the range of appropriate Australian Government payments and state-based services to support them in their parenting role. Subsequently, all jurisdictions agreed that there is a need for States and Territories to review the areas in which grandparents, who informally raise their grandchildren, experience disadvantage at the local level and to develop strategies to address these issues.

# Appendix 1: Information on Age Pension payments

## Including bonus and supplementary payments and thresholds (nominal \$)

Table 24. Information on payments (including bonus and supplementary payments) and thresholds (nominal \$)

Payment/threshold type	Indexed to	Indexed on	Single / Couple	Maximum rate on 20 March 1997 (CPI = 120.5)	Maximum rate on 20 March 2007* (CPI = 155.6)
Age Pension base	CPI and benchmarked against 25% of MTAW	20 March and 20 September	Single Couple (combined)	\$9,042.80 pa \$15,085.20 pa	\$13,652.60 pa \$22,802.00 pa
Age Pension Supplement - The supplement was introduced as part of the 1 July 2000 Tax Reform Package to ensure pensioners were not disadvantaged by price increases resulting from the GST. It amounts to a two per cent real increase in the pension base as at that date.	CPI	20 March and 20 September	Single Couple (combined)	\$387.40 pa \$644.80 pa (a)	\$475.80 pa \$795.60 pa
Pharmaceutical Allowance - This allowance is paid to pensioners to help with the cost of pharmaceutical prescriptions under the Pharmaceutical Benefits Scheme.	CPI	1 January	Single Couple (combined)	\$140.40 pa \$140.40 pa	\$150.80 pa \$150.80 pa
Rent Assistance (with no children). RA is a supplementary payment added on to the pension, allowance or benefit of income support recipients and low-income families in the private rental market, in recognition of the housing costs they face.	CPI	20 March and 20 September	Single Couple (combined)	\$1,944.80 pa \$1,835.60 pa	\$2,704.00 pa \$2,553.20 pa
Remote Area Allowance (with no children) - This allowance is designed to help qualifying pensioners with the additional costs associated with living in remote areas.	Not indexed but increase occurred with introduction of the New Tax System.	n.a.	Single Couple (combined)	\$455.00 pa \$780.00 pa	\$473.20 pa \$811.20 pa



Payment/threshold type	Indexed to	Indexed on	Single / Couple	Maximum rate on 20 March 1997 (CPI = 120.5)	Maximum rate on 20 March 2007* (CPI = 155.6)
Pension income free area (no dependent children) - This is the maximum amount of assessable income a pensioner can have before their pension is reduced.	CPI	1 July	Single Couple (combined)	\$2,548.00 pa \$4,472.00 pa	\$3,328.00 pa \$5,928.00 pa
Pension asset free area / assets value limit - This is the maximum amount of assessable assets a pensioner may have before their pension is reduced.	CPI	1 July	Single homeowner Couple homeowner (combined) Single non-homeowner Couple non-homeowner (combined)	\$124,000 \$176,000 \$212,500 \$264,500	\$161,500 \$229,000 \$278,500 \$346,000
Rent threshold amount (with no children). The rent threshold is the minimum amount of rent a person must pay before qualification for Rent Assistance commences.	CPI	20 March and 20 September	Single Couple	\$1,861.60 pa \$3,031.60 pa	\$2,407.60 pa \$3,915.60 pa
Deeming threshold - The deeming threshold is the amount of financial assets at which the lower deeming rate ceases to apply and the higher deeming rate applies.	CPI	1 July	Single Couple (combined)	\$30,000 \$50,000	\$38,400 \$63,800
Utilities Allowance is paid in two instalments a year to income support recipients of age (or veteran) pension age and to those in receipt of MAA, PA or WA to assist with their household bills.	CPI	20 March and 20 September	Single Couple (combined)	\$100.00 pa (b) \$100.00 pa (b)	\$106.00 pa \$106.00 pa
Telephone Allowance - This allowance is paid to qualifying pensioners quarterly to help with the cost of line rental.	CPI	20 September	Single Couple	\$61.60 pa \$61.60 pa	\$85.60 pa \$85.60 pa

## Appendix 1: Information on Age Pension payments

Payment/threshold type	Indexed to	Indexed on	Single / Couple	Maximum rate on 20 March 1997 (CPI = 120.5)	Maximum rate on 20 March 2007* (CPI = 155.6)
			(combined)		
Seniors Concession Allowance is paid to CSHC holders to assist with their household bills. SCA is paid in two instalments a year.	CPI	1 June and 1 December	Single Couple (combined)	\$200.00 pa (c) \$400.00 pa (c)	\$214.00 pa \$428.00 pa
Pension Bonus - The Pension Bonus Scheme was introduced on 1 July 1998. It provides an incentive for older Australians to defer claiming Age Pension and instead remain in the workforce. The Scheme can pay a tax-free lump sum to members when they claim and receive Age Pension.	The maximum bonus is a multiple of the sum of the Age Pension base and the Pension Supplement and increases in line with indexation increases to these amounts.		Single Couple (combined)	\$21,250.60 (after 5 years) (d) \$35,450. (after 5 years) (d)	\$31,083.60 (after 5 years) (d) \$53,584. (after 5 years) (d)
One-off payments including bonuses	One-off payments are not indexed.	n.a.	-	n.a.	n.a.
CSHC income limit p.a. (with no dependent children) - This is the maximum amount of income a person can have to qualify for a Commonwealth Seniors Health Card (CSHC).	Cut-out points increased substantially in 2001.	n.a.	Single Couple (combined)	\$20,841.60 pa \$34,798.40 pa (of income as defined in the <i>Social Security Act 1991</i> )	\$50,000 pa \$80,000 pa (of adjusted taxable income)

\*- Rate on 20 March 2007 includes a two per cent increase paid from 1 July 2000 when the New Tax System was introduced.

(a) At introduction on 1/7/2000)

(b) at commencement in March 2005)

(c) at commencement in December 2004

(d) after 5 years - at commencement on 1 July 1998)

Source: FaCSIA, July 2007

## Appendix 2: Information on payments available through the Department of Veterans' Affairs

### Income support

The Department of Veterans' Affairs provides income support, compensation (disability pensions), treatment and other benefits to veterans, their dependants and other eligible persons through the Veterans' Entitlement Act (VEA), the Military Rehabilitation and Compensation Act and the Safety, Rehabilitation and Compensation Act. However, this paper focuses on benefits and services available through the VEA.

[Table 25. DVA client population at March 2007](#)

Group	Population		Average age
	60 years and over	Total	
Service pensioners	191,378	214,672	76.4
Income support supplement (a)	84,513	85,138	81.8
War widows/widowers	108,779	111,212	81.3
Special Rate disability pensioners	17,772	28,235	63.7
Gold card holders	226,320	243,510	Not available
White Card holders	25,275	53,519	Not available

23.45% of war widows/widowers do not receive ISS, due mainly to income over the allowable limit.

Source: DVA administrative data, July 2007

DVA pays service pension on the grounds of age or invalidity to eligible Australian veterans and mariners, Commonwealth veterans and Allied veterans and mariners who have qualifying service, and to eligible partners, widows and widowers. Service pension provides a regular income for people with limited means. Recipients are subject to the same income and assets tests as people receiving Age Pension from Centrelink.

Age service pensions are paid five years earlier than social security age pensions, recognising that the effects of war service may be intangible and result in premature ageing and/or loss of earning power. The invalidity service pension may be granted at any age before the person turns 65.

Income support supplement (ISS) provides a regular income additional to the war widow's pension for Australian war widows and widowers with limited means. It is also subject to an income and assets test.

Allowances payable in association with service pension and ISS include pharmaceutical allowance, rent assistance, telephone allowance, utilities allowance and remote area allowance.

**Table 26. Maximum rate of DVA income support payments as at 1 July 2007**

Payment	Maximum amount
Service pension (not a member of a couple)	\$525.10 a fortnight
Service pension (partnered – each)	\$438.50 a fortnight
Income support supplement (ISS)	\$156.60 a fortnight
Rent assistance (not a member of a couple)(a)	\$104.00 a fortnight
Rent assistance (partnered – combined)(a)	\$98.20 a fortnight
Pharmaceutical allowance (not a member of a couple)	\$5.80 a fortnight
Pharmaceutical allowance (partnered – each)	\$2.90 a fortnight
Remote area allowance (not a member of a couple)	\$18.20 a fortnight
Remote area allowance (partnered – each)	\$15.60 a fortnight
Telephone allowance (not a member of a couple)	\$21.40 a quarter
Telephone allowance (partnered – each)	\$10.70 a quarter
Utilities allowance (not a member of a couple)	\$53.00 each 6 months
Utilities allowance (partnered – each)	\$26.50 each 6 months

(a) If pensioner has children, higher amounts of rent assistance are payable.

Source: DVA July 2007

**Table 27. Percentages on maximum and part-rate pensions**

Payment	Proportion on		Minimum rate	
	Maximum rate			
ISS recipients(a)	93.19%		6.81%	
Service pensioners	Married	Single	Married	Single
	55.65%	59.98%	44.35%	40.05%

(a) These amounts include the war widow's or widower's pension

Source: DVA July 2007

A single service pensioner who is a homeowner can have \$132 a fortnight in income or \$166,750 assets before their service pension reduces from the maximum rate. The tables below detail the limits for people in other situations.

**Table 28. Income pensioners may receive before service pension reduces**

	Income (a fortnight)
Singles	\$132.00
Couples (combined)	\$232.00
Illness separated couples (combined)	\$232.00

Source: DVA July 2007

**Table 29. Income ISS recipients may receive before ISS reduces**

	Income (a) (a fortnight)
Singles	\$1,053.25
Couples (combined)	\$1,641.50
Illness separated couples (combined)	\$2,074.50

(a) These amounts include the war widow's or widower's pension.

Source: DVA July 2007

**Table 30. Value of assets a pensioner may have before service pension reduces**

	Homeowners	Non-homeowners
Singles	\$166,750	\$287,750
Couples (combined)	\$236,500	\$357,500
Illness separated couples (combined)	\$236,500	\$357,500

Source: DVA July 2007

**Table 31. Value of assets an ISS recipient may have before ISS reduces**

	Homeowners	Non-homeowners
Singles	\$289,500	\$410,500
Couples (combined)	\$424,000	\$545,000
Illness separated couples (combined)	\$482,000	\$603,000

Source: DVA July 2007

A single service pensioner who is a homeowner can have \$1,459.25 a fortnight in income or \$343,750 assets before their service pension is no longer payable. The tables below detail the limits for people in other situations.

**Table 32. Income pensioners may receive before service pension is no longer payable**

	Income (a fortnight)
Singles	\$1,459.25
Couples (combined)	\$2,439.00
Illness separated couples (combined)	\$2,886.50

Source: DVA July 2007

**Table 33. Income ISS recipients may receive before ISS is no longer payable**

	Income (a) (a fortnight)
Singles	\$1,444.75*
Couples (combined)	\$2,424.50*
Illness separated couples (combined)	\$2,857.50*

(a) These amounts include the war widow's or widower's pension

Source: DVA July 2007

**Table 34. Value of assets a pensioner may have before service pension is no longer payable**

	Homeowners	Non-homeowners
Singles	\$343,750	\$464,750
Couples (combined)	\$531,000	\$652,000
Illness separated couples (combined)	\$590,500	\$711,500

Source: DVA July 2007

**Table 35. Value of assets an ISS recipient may have before ISS is no longer payable**

	Homeowners	Non-homeowners
Singles	\$342,000	\$463,000
Couples (combined)	\$529,000	\$650,000
Illness separated couples (combined)	\$587,000	\$708,000

From 20 September 2007 the maximum value of assets that a person can have before their pension is no longer payable will increase. A single homeowner will be able to have approximately \$525,000 of assets, in addition to their own home, before their pension is no longer payable.

Source: DVA July 2007

Defence Force Income Support Allowance (DFISA) is an income support payment made by DVA. It is payable to people who are qualified for an income support payment under the *Social Security Act 1991* who also receive a Disability Pension (DP) from DVA and meet one of the following criteria:

- ▶ their income support payment is reduced because of the impact of DP, or
- ▶ their income support payment is not payable because of the impact of DP.

The amount of DFISA is the difference between the rate of the person's income support payment and what the payment would be if DP were exempt from the assessment, but included in the calculation of any rent assistance entitlements.

## Disability pensions

A disability pension is paid to compensate veterans for injuries or diseases caused or aggravated by war service or certain defence service on behalf of Australia. It is tax-free and not means tested. The rate of disability pension payable depends on how severe the illness or injury is. There are four "categories" of disability pension payable:

- ▶ General Rate, payable in multiples of 10 per cent up to 100 per cent;
- ▶ Extreme Disablement Adjustment;

- ▶ Intermediate Rate; and
- ▶ Special Rate.

Special Rate Disability Pension (also known as “Totally & Permanently Incapacitated - TPI”) can be paid to veterans who cannot undertake paid employment totalling more than 8 hours per week solely because of the effects of their war or defence-caused disabilities. Intermediate Rate can be paid to veterans who cannot undertake any paid employment totalling more than 20 hours a week solely because of the effects of their war or defence-caused disabilities. If a veteran aged 65 years or over is claiming Special or Intermediate Rate, s/he must have been engaged in remunerative work after age 65 and they must have been engaged in the same business or employment for 10 continuous years. Special and Intermediate Rate are not payable if a veteran is prevented from working by any other reason.

The Extreme Disablement Allowance (EDA) can only be considered for veterans who have reached 65 years of age who are not eligible to receive a Special or Intermediate Rate of pension. As the name suggests, the degree of incapacity from war or defence-caused conditions must be extreme. The assessment only takes into account the medical impairment and lifestyle effects of a disability. It does not have regard to whether or not a veteran is employed, nor does it have any regard to income or assets.

Once granted, disability pensions are paid for life. Before 1976, indexation of disability pensions such as the Special Rate pension, was undertaken at the discretion of government. Since 1976 the disability pensions have increased in line with the CPI to keep pace with inflation.

In March 2004, the Government introduced new indexation arrangements for the Above General Rate component of the Special Rate, Intermediate Rate and EDA pension. The Above General Rate component, which is considered to be compensation for loss of income, is now indexed with reference to both the CPI and Male Total Average Weekly Earnings (MTAWE) index in the same way as service pension.

The General Rate component of disability pensions, paid as compensation for pain and suffering, continues to be indexed only in line with the CPI. The method of indexation introduced in 2004 has provided an additional \$19.00 a fortnight to the value of the Special Rate pension in comparison to the previous indexation arrangements.

The 2007-08 Budget provided for an increase of \$50 a fortnight to the Special Rate pension and \$25 a fortnight to Intermediate Rate disability pensions. Because Special Rate pension is compensation, not income support, recipients of SRP may also qualify for income support payment: 80 per cent do in fact receive both compensation and income support.

[Table 36. Amounts of disability payments](#)

Payment	Amount
Special rate disability pension	\$919.40 a fortnight
Intermediate rate disability pension	\$619.80 a fortnight
Extreme disablement adjustment	\$487.20 a fortnight
100% disability pension	\$318.70 a fortnight

10% disability pension	\$31.87 a fortnight
War widow(er)	\$550.10 a fortnight

Source: DVA July 2007

A partnered Special Rate veteran over 65 years who is not working and has no assessable income is entitled to the following fortnightly payments:

Special Rate disability pension	\$919.40
Service pension (each)	\$438.50 x 2
Pharmaceutical allowance	\$5.80
<b>Total</b>	<b>\$1,802.20</b>

Source: DVA July 2007

A single Special Rate veteran over 65 years who is not working and has no assessable income is entitled to the following fortnightly payments:

Special Rate disability pension	\$919.40
Service pension	\$525.10
Pharmaceutical allowance	\$5.80
<b>Total</b>	<b>\$1,450.30</b>

Source: DVA July 2007

Veterans in either of the situations described above would not pay any tax on these payments because of the Senior Australians tax offset.

Allowances which can be paid in association with disability pension include contributions to the cost of pharmaceuticals and recreational transport, and financial recognition of the award of certain medals and decorations.

A disability pension is not counted as income for the service pension income test. However, it is counted as income when assessing eligibility for rent assistance (an addition to the service pension) and for working out how much rent assistance is to be paid. The disability pension is counted as income for payments made under the *Social Security Act 1991* (SSA). If a person's pension under the SSA is reduced because of their DVA disability pension, they may be eligible for DFISA.

War widow's pension is paid to the partners of deceased veterans who had been receiving Special Rate pension, or were former prisoners of war, or whose deaths have been accepted as service-related. Pension can also be paid to dependent children of deceased veterans.

Since 1998 war widow's/widower's pension has been indexed with reference to both CPI and MTAW to retain its parity to single-rate service pension. Australian war widows and widowers are eligible to apply for Income Support Supplement.

## Health care

A broad range of health care and support services are available to eligible veterans and eligible dependants. Various health service providers provide these services on behalf on DVA.



Health care and support services include:

- ▶ general practitioner services;
- ▶ specialist services, including pathology and radiology;
- ▶ podiatry, physiotherapy and other allied health services;
- ▶ dental care;
- ▶ community nursing;
- ▶ spectacles and hearing aids;
- ▶ care in public and private hospitals;
- ▶ home support services;
- ▶ transport to approved treatment; and
- ▶ access to the Rehabilitation Appliances Program (RAP).

Holders of a Gold Card (the Repatriation Health Card - For All Conditions) are entitled to the full range of health care services at DVA expense, including medical, dental and optical care. They are also entitled to aids and appliances to help them, for example, to remain in their home. The average cost of a Gold card in 2006-07 was \$14,500 per card.

A Gold Card is issued to veterans of Australia's defence force who:

- ▶ are ex-prisoners of war;
- ▶ are mariners who served in Australia's merchant navy between 3 September 1939 and 29 October 1945 and are ex-prisoners of war;
- ▶ receive a disability pension at or above 100 per cent of the general rate;
- ▶ receive a disability pension at or above 50 per cent of the general rate and also receive any amount of service pension;
- ▶ receive a disability pension including an additional amount under section 27 of the *Veterans' Entitlements Act 1986* for specific service-related amputations or blindness in one eye;
- ▶ receive an age or invalidity service pension and satisfy the treatment income and assets reduction limit;
- ▶ receive an age or invalidity service pension and are permanently blind in both eyes;
- ▶ receive a service pension and have an impairment rating of at least 30 impairment points under the Military Rehabilitation and Compensation Act 2004 (MRCA);
- ▶ received a disability pension for pulmonary tuberculosis before 2 November 1978;
- ▶ served in World War I;
- ▶ are returned ex-servicewomen of World War II, that is, who served in Australia's defence force between 3 September 1939 and 29 October 1945 and who have qualifying service from that conflict;

- ▶ are World War II veterans who served in Australia's defence force and mariners who served in Australia's merchant navy, between 3 September 1939 and 29 October 1945, who are aged 70 years or over, and have qualifying service from that conflict; or
- ▶ are veterans who served in Australia's defence force after World War II, who are aged 70 years or over, and have qualifying service under section 7A of the *Veterans' Entitlements Act 1986*.

Some veterans of Commonwealth or allied forces with qualifying service are eligible for a Gold Card if they are:

- ▶ a veteran who served with a Commonwealth or allied force during World War II and who was domiciled in Australia immediately prior to enlistment in the Commonwealth or allied force; or
- ▶ a mariner who served on a Commonwealth or allied ship during World War II, if they or their dependants were residing in Australia for at least 12 months immediately prior to the commencement of their service on that ship.

Former members of the Australian Defence Force (ADF), cadets and reservists who have conditions for which liability has been accepted under the MRCA are eligible for a Gold Card if they:

- ▶ have been assessed as having a permanent impairment from accepted conditions of 60 impairment points or above; or
- ▶ satisfy the criteria for Special Rate Disability Pension, even if they have not chosen that pension.

Some dependants of veterans are eligible for a Gold Card if they are:

- ▶ a war widow or widower in receipt of the war widow's/widower's pension;
- ▶ a dependent child of a deceased veteran whose death has been accepted as war-caused, who is under 16 or between the ages of 16 and 25 and undergoing full-time education; or
- ▶ a child of a deceased veteran whose death was not war-caused and who had operational service, if the child is not being cared for by the remaining parent.

A wholly dependent partner or an eligible young person who was dependent on a deceased member is eligible for a Gold Card if the partner or child is entitled to compensation for the member's death.

Note that when a veteran, former member, cadet or reservist passes away, that person's Gold Card is not transferred to the surviving partner or any other dependant. Partners and other dependants who fall into the categories above would receive their own Gold Card.

Certain dependants have continuing eligibility under the *Repatriation Act 1920*:

- ▶ an invalid child of a deceased veteran whose death has been accepted as war-caused, who had treatment entitlement before 18 October 1985; or

- ▶ a widowed mother or widowed stepmother who was dependent on an unmarried deceased veteran whose death has been accepted as war-caused, who had treatment entitlement before 18 October 1985.

Note: No new treatment eligibility grants for these categories have been possible since 18 October 1985.

Holders of a White Card (the Repatriation Health Card – For Specific Conditions) are entitled to the full range of health care services at DVA expense but only in respect of those disabilities or illnesses accepted as service-related. A White Card may also be issued for treatment for non-service related cancer, pulmonary tuberculosis, post-traumatic stress disorder, clinical depressions or severe anxiety disorders, or the symptoms of unidentifiable conditions (Gulf War veterans only), without the need to submit a claim for payment of a disability compensation payment. The average cost of a White Card in 2006-07 was \$1,415.

## Aged Care

Aged care policy is administered by the Department of Health and Ageing. DVA provides the Australian Government subsidy for entitled veterans and war widows/widowers in residential aged care facilities. In 2005-06, the Department paid \$806.49 million towards veterans aged care accommodation. As at 30 June 2006 there were 25 563 entitled veterans and war widows/widowers in long-term residential care, an increase of 649, or 2.6 per cent, on the previous year.

Daily care and accommodation fees are payable by most residents in aged care facilities. For veterans with qualifying service, disability pension is not counted as income when assessing income tested aged care fees. Additionally DVA pays daily care fees for all former Australian prisoners of war (PoWs) who are receiving high- or low-level care. No income test applies to the payment of daily care fees for PoWs. In 2005-06, the Department paid \$2.938 million in daily care fees for PoWs, compared to \$1.913 million in the previous year.

## Appendix 3: Replacement Rates - Additional information

Treasury, as well as a number of key groups (including the Institute of Actuaries<sup>22</sup>), consider that a replacement rate measure based on a comparison of potential (net) expenditure before and after retirement is strongly preferable to a comparison of gross incomes before and after retirement. Some groups base their replacement rates on gross measures. Gross measures may be misleading because of substantial differences in taxation and saving before and after retirement.

The expenditure replacement rate is an after tax measure which takes account of the draw-down of capital during retirement. Replacement rates based on income only do not take account of drawdowns of capital. As a result, these measures understate the contribution of retirement savings to maintaining living standards in retirement.

By taking account of draw-downs of capital, expenditure replacement rates are consistent with the aim of retirement savings policy – that is, to defer some consumption during a person's working life in order to help fund consumption in retirement. Expenditure replacement rates are also able to capture the effects of the income tax concessions which apply to people of Age Pension age.

Treasury also favours a replacement rate which has regard to the real growth in Age Pension, and reflects increased Age Pension as a result of reduced asset test impact over retirement and to the varying levels of expenditure across retirement. For example, the ratio of average expenditure in retirement to the expenditure in the last year of full time working life meets these criteria. A comparison of expenditure levels in the first year of retirement and the last year of working life can often be unrepresentative of standards of living across the whole of retirement, particularly where superannuation benefits are taken as a lump sum.

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<sup>22</sup> 'Superannuation and Standards of Living in Retirement – Modelling Assumptions', Institute of Actuaries Report to the Senate Select Committee Inquiry into Superannuation and Standards of Living in Retirement, September 2002

## Appendix 4: Availability of concessions

Table 37. Pensioner Concession Card - state concessions 2007

Concession	NSW	Vic	Qld	WA	SA	Tas	ACT	NT*
Medical								
Ambulance**	✓	✓	✓	✓	✓	✓	✓	✓
Dental	✓	✓	✓	✓	✓	✓	✓	✓
Life Support Services	✓	✓	✓	✓		✓	✓	
Eye Care/Spectacles	✓	✓	✓	✓	✓	✓	✓	✓
Patient Transfer**	✓	✓	✓	✓	✓	✓	✓	✓
Household								
Electricity	✓	✓	✓	✓	✓	✓	✓	✓
Gas	✓	✓		&	✓		✓	
Water & Sewerage	✓	✓	#	✓	✓	^	✓	✓
Water Consumption		✓	#	✓				✓
Municipal Rates	✓	✓	✓	✓	✓	✓	✓	✓
Pet Registration	✓	✓	✓	✓	✓	✓	✓	✓
Emergency Services/Fire Levy			#	✓	✓		✓	
Transport								
Bus/Train/Ferry Travel	✓	✓	✓	✓	✓	✓	✓	✓
Motor Vehicle Registration	✓	✓	✓	✓	✓	✓	✓	✓
Driver's Licence	✓			✓	✓	✓	✓	✓
Country Rail Travel	✓	✓	✓	✓	✓			
Education								
Costs Assistance	✓	✓	✓	✓	✓	✓	✓	✓

\* NT concessions claimed through NT Pensioner and Carer Concession Scheme. PCC holders must apply for this card to receive concessions

\*\* Queensland Community Ambulance Cover levy is included in electricity bill

^ Tasmanian water and sewerage charges are included in municipal rates charge

# Queensland water, sewerage and emergency services fire levy are included in municipal rates charges

& WA offer an energy rebate for gas by application to Western Power (not through gas supplier)

no concession available or no information available

Source: FaCSIA July 2007 from information available from websites and brochures

Table 38. Commonwealth Seniors Health Card - state concessions 2007

Concession	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Medical								
Ambulance**	✓					✓		*
Dental	✓							
Life Support Services	✓						✓	
Eye Care/Spectacles								*
Patient Transfer**				✓		!		*
Household								
Electricity				%	!			*
Gas				%	!			
Water & Sewerage^			#	%				*
Water Consumption			#					*
Municipal Rates				%				*
Pet Registration			***					
Emergency Services/Fire Levy				✓				
Transport								
Bus/Train/Ferry Travel								*
Motor Vehicle Registration				%,@				*
Driver's Licence				%				*
Country Rail Travel	+	+			✓			
Education								
Costs Assistance								

% secondary criteria apply (applicant must also hold State Seniors card)

@ reduced rebate applies (50% of vehicle licence fee - pensioners receive 100% rebate)

! secondary criteria may apply

# Queensland water, sewerage and emergency services fire levy are included in municipal rates charges

+ certain routes only

^ Tasmanian water and sewerage charges are included in municipal rates charge

\* NT concessions claimed through NT Pensioner and Carer Concession Scheme. Any NT resident aged 65+ (males) and 60+(females) must apply for this card to receive concessions.

\*\* Queensland Community Ambulance Cover levy is included in electricity bill

\*\*\* no state rebate, individual councils set own policies

no concession available or no information available

Source: FaCSIA July 2007, from information available from websites and brochures

## Appendix 5: Pharmaceutical Benefits

### Co-payment and safety net changes – 1997 - 2007

Table 39. Table of PBS co-payments and safety net thresholds over 10 years

As at:	Concessional Patients		General Patients	
	Co-payment \$	Safety Net threshold \$	Co-payment \$	Safety Net threshold \$
1/1/1997	3.20	166.40	20.00	612.60
1/1/1998	3.20	166.40	20.00	612.60
1/1/1999	3.20	166.40	20.30	620.30
1/1/2000	3.30	171.60	20.60	631.20
1/7/2000	3.30	171.60	20.60	631.20
1/1/2001	3.50	182.00	21.90	669.70
1/1/2002	3.60	187.20	22.40	686.40
1/1/2003	3.70	192.40	23.10	708.40
1/1/2004	3.80	197.60	23.70	726.80
1/1/2005	4.60	239.20	28.60	874.90
1/1/2006	4.70	253.80	29.50	960.10
1/1/2007	4.90	274.40	30.70	1,059.00

Source: <http://www.health.gov.au/internet/wcms/publishing.nsf/Content/health-pbs-general-pbs-copayment.htm>