# Inquiry into the cost of living pressures on older Australians

## Supplementary Submission

to the Senate Standing Committee on Community Affairs

Department of Families, Housing, Community Services and Indigenous Affairs

March 2008

Reverse cover

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# Executive Summary

The then Department of Families, Community Services and Indigenous Affairs was asked by the Senate Standing Committee on Community Affairs at a hearing of its Inquiry into Cost of Living Pressures on Older Australians on 20 September 2007, to provide written analysis of the Relative Price Indexes presented by the St Vincent de Paul Society in its submission to the Committee[1].

The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) was unable to obtain the detailed modelling and methodology underpinning the Relative Price Indexes (RPI). The analysis provided by FaHCSIA is therefore based on the available published material, and its understanding of that material.

The submission notes that, even if the claims made on the basis of the RPI are taken at face value, pension increases over the period far exceeded the estimates of price increases generated by the model, and also were well above the rate of inflation derived from the Consumer Price Index (CPI) and increases in the cost of living for Age Pensioner Households suggested by the Analytical Living Cost Index (ALCI) produced by the Australian Bureau of Statistics (ABS).

The Government's election commitment to index pensions in line with increases in the CPI, the ALCI for Age Pensioner Households produced by the ABS or Male Total Average Weekly Earnings, whichever is greater, will provide extra assurance for pensioners that their purchasing power will be protected.

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[1] Official Committee Hansard, Senate Standing Committee on Community Affairs, Reference: Cost of living pressures on older Australians, Thursday 20 September 2007, page CA6

# 1: Introduction

This supplementary submission by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) responds to the request of the Senate Standing Committee on Community Affairs for the then Department of Families, Communities and Indigenous Affairs (FaCSIA) to provide written analysis of the Relative Price Indexes presented by the St Vincent de Paul Society in its submission to the Committee[2].

## 1.1 Scope of supplementary submission

In this supplementary submission, in addition to presenting material related to cost of living indexes, FaHCSIA also provides details of recent Government initiatives and commitments that have a bearing on matters being considered by the Committee. These are:

- a commitment to incorporating the Analytical Living Cost Index (ALCI) for Age Pensioner Households produced by the Australian Bureau of Statistics (ABS) into the indexation process for Age Pension;
- increasing the rate of Utilities Allowance to $500 a year, the rate of Telephone Allowance to $132 a year for people with a home internet connection and the rate of Seniors Concession Allowance to $500 a year;
- extending eligibility for Utilities Allowance to certain groups of pensioners and veterans, irrespective of age;
- a commitment to establish *National Reciprocal Transport Concessions* to ensure State and Territory Seniors Card holders can travel at concessional rates anywhere in Australia;
- appointment of a full-time Petrol Commissioner who will be responsible for overseeing the Australian Competition and Consumer Commission's monitoring of fuel prices; and
- the establishment of a public inquiry by the Australian Competition and Consumer Commission (ACCC) into the competitiveness of retail prices for standard groceries.

## 1.2 Structure of supplementary submission

This supplementary submission comprises 4 sections as follows:

- background on the ABS Consumer Price Index (CPI) and the ALCI for Age Pensioner Households;
- comments on the analysis of price changes provided to the Committee by the St Vincent de Paul Society;
- details of recent Australian Government initiatives that support the living standards of older Australians; and
- updated data on changes in the Age Pension and the cost of living.

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[2] Official Committee Hansard, Senate Standing Committee on Community Affairs, Reference: Cost of living pressures on older Australians, Thursday 20 September 2007, page CA6

# 2: The ABS CPI and Analytical Living Cost Indexes

A central question to the Committee's considerations is the trends in prices faced by older Australians.

This section provides additional background on the characteristics of the ABS CPI and the associated ALCI. These series were drawn upon extensively in the FaCSIA Submission to the Committee (Submission 138), and are also discussed in the Australian Bureau of Statistics' Submission (Submission 43).

## 2.1 The Australian CPI

The ABS describes the CPI as: "The Australian CPI is specifically designed to provide a general measure of price inflation for the household sector as a whole"[3]. This specific focus was adopted in the 13th Series Review of the CPI in 1997[4]. With this change the CPI also moved from being concerned with a basket of goods representative of wage and salary earner households in capital cities, to being more representative of all households in these locations. This expanded the scope of the CPI from 29 per cent[5] to 64 per cent of Australian households.

### The structure of the CPI

In essence the CPI comprises two components.

- A weighted pattern of consumption of goods and services – referred to as the 'basket'. The composition of this is primarily based on detailed information on household spending derived from the ABS Household Expenditure Survey (HES). The HES is currently conducted every 6 years and the 'basket' is reweighted after each survey. In this process the ABS makes a number of adjustments to the data reported by households. This includes adjusting for the under-reporting of some expenditure, especially alcohol and tobacco. The treatment of housing and the cost of banking and insurance in the CPI also differ from the simple expenditures reported by households.[6]

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[3] Australian Bureau of Statistics (ABS) 2005, *Australian Consumer Price Index: concepts, sources and methods*, Cat. no. 6461.0, ABS, Canberra, p. 45.

[4] In considering the purpose for the CPI, ABS had three main choices – as a measure of inflation for macro-economic purposes; as an input to income adjustment processes; and for general indexation of public and private contracts. ABS chose the first, recognising increasing requirement for a measure of inflation.

[5] ABS 1997, *Outcome of the 13th Series Australian Consumer Price Index Review*, Information Paper, Cat. no. 6453.0, ABS, Canberra, p. 1.

[6] Housing: The weighting for this is based upon the net increase in the volume of owner-occupied housing, including extensions. The price change for this element is derived from the ABS index of cost of newly constructed project homes. It should be noted that both the volume of additional housing, and the change in prices, strictly relate to the house itself and do not include the value of land – or changes in the value of land. Financial Services: This takes into account bank charges, and the interest rate margin between borrowing and

The basket contains 90 expenditure classes grouped into 33 sub-groups and 11 major groups.

- Price change data which is then applied to the weighted basket of goods to derive a quarterly CPI. To enable this, the ABS collects over 100,000 separate price quotations each quarter. This price data is then aggregated into an estimate of price change within each of the 90 expenditure classes[7].

The CPI provides to government a consistent, transparent and broad measure of price inflation for the household sector as a whole. In addition the ABS produces an ALCI of four household types, one of which is age pensioner households. These indexes can be used for estimating cost of living changes.

## 2.2 Analytical Cost of Living Indexes

In the 13th Series CPI Review, when the ABS changed the principal purpose of the CPI to measuring price inflation, it also recognised that there was "an ongoing demand for indexes for the purposes of assessing changes in living costs. Further, there was a demand for indexes for subgroups of the population. Accordingly the ABS committed to prepare such indexes for selected household types using an outlays approach[8]."

ABS produces the ALCI to meet this demand. These indexes are produced for four household types:

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

In each of these cases the household is classified on the basis of the main source of income of the household.

These ALCI are described by ABS as having been designed 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 that they purchased in the base period?"

The differences between the ALCI and the CPI are two fold:

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lending (not the interest rate itself.)
Insurance: The CPI adjusts the weighting of HES data on insurance to obtain a net value – that is gross premiums less claim payments.

[7] In addition to reflecting price changes, for a certain number of items, including pharmaceuticals, child care and private rental, the ABS also calculate the value of particular government payments which are considered to be direct subsidies to the consumers of these items.

[8] ABS 2005, *Australian Consumer Price Index: concepts, sources and methods*, Cat. no. 6461.0, ABS, Canberra, p. 46.

- the first is that the ALCI are produced for specific sets of households, and as such are based on a different weighting pattern for the 'basket of goods', intended to make them more representative of the consumption patterns of these specific households; and
- the second is the design of the ALCI as an 'outlays' type measure. This is clear in the way in which housing and financial and insurance services are treated. While house prices *per se* are excluded from the ALCI, interest charges are included, with changes in interest rates (rather than the change in the margin between bank borrowing and lending) being reflected in the index.

In addition, when updating the ALCI for price changes, the ABS, while relying on the same source data on price changes, use specific commodity level price changes where possible, for example, over 55 insurance, concession transport fares, for the particular household type the ALCI relates to.

Because the ALCI are produced for population subgroups, to obtain a robust enough sample size to estimate consumption, the ABS uses all relevant records from the HES, including households outside capital cities.

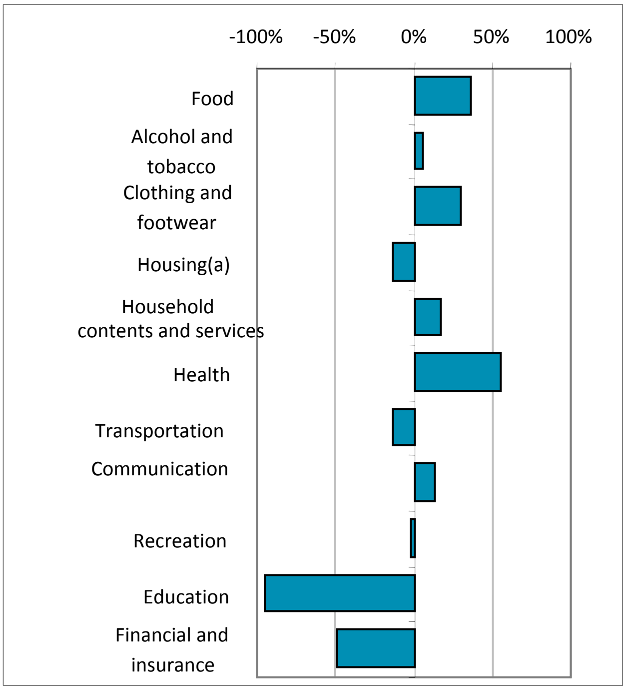
## 2.3 Comparing the structure of the CPI and ALCI

It is understood that the consumption patterns of age pensioner households vary from those of Australian households overall.

Figure 1 provides an overview of the differences between the weighting given to the pensioner group in its ALCI relative to the CPI at the 'Main Group' level. The more detailed differences, that is at the 'Expenditure Class' level, between Age Pensioner Households and households overall are shown in Figure 2.

It is clear that age pensioner households proportionately spend a considerably larger proportion of their budget on health, food and clothing and footwear. They also spend proportionately more on household contents and services and communications. In contrast they spend proportionately less of their budget on education and on financial and insurance services, and somewhat less on housing and transportation.

**Figure 1. Weighting pattern of Age Pensioner Households relative to the CPI (percent variation)**

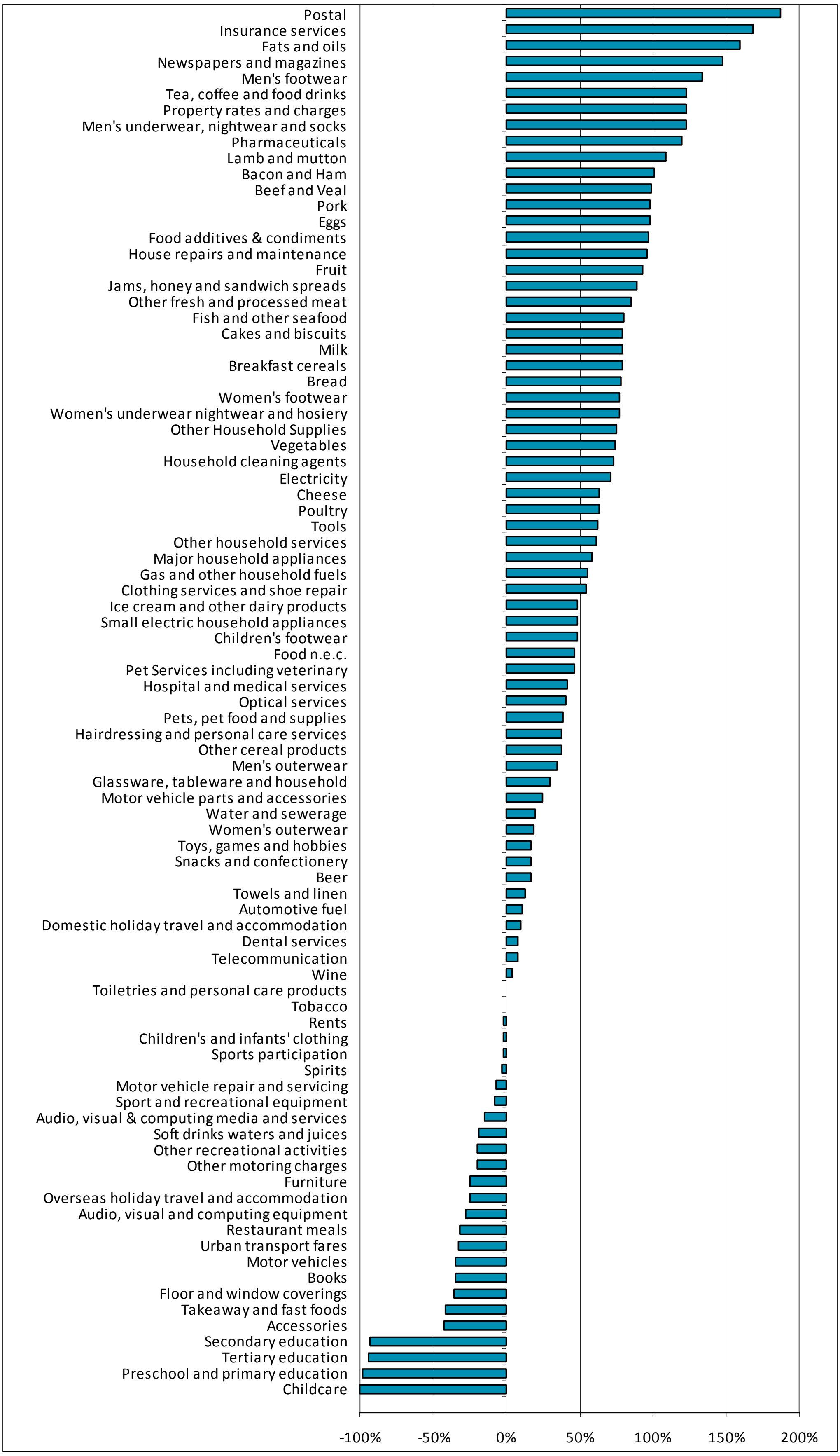



Source: FaHCSIA graph based on data from
(a) ABS 2007, *Analytical Living Cost Indexes for selected Australian household types, Jun 2007,* 'Table 2: Expenditure Weights, By Major Commodity group and household type', Cat. no. 6463.0, viewed 6 March 2008, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/7EC590E06DB36AB8CA25722F001B1050?OpenDocument>; and
(b) ABS 2005, 'Appendix 1 Weighting pattern for the CPI—June quarter 2005', table, *A Guide to the Consumer Price Index: 15th Series,* Cat. no. 6440.0, ABS, Canberra, p. 30.,
using the formula, Percentage = [(ALCI weight – CPI weight)/CPI weight] x 100.

Figure 2 particularly highlights the detailed analysis of spending that underpins the ALCI. For example, within the food group the age pensioner households spend a much higher proportion of their budget on tea, coffee and food drinks, and meat including beef, lamb, pork and eggs. They spend much less on soft drinks, and fast food.

In making this comparison, it should be noted that some items have been excluded from the Age Pensioner ALCI, so there may be some overweighting within the Age Pensioner ALCI. The items which are in the CPI (but not in the ALCI), and their weighting include Deposit and Loan Facilities (4.47 per cent), Other Financial Services (3.34 per cent), and House Purchase (7.88 per cent)). The relative weighting of insurance services, which is shown on the chart as being much higher for age pensioners, may be as a result of this different treatment. In addition the Age Pensioner ALCI has a weighting of 0.67 per cent for interest charges, with this item not being part of the CPI.

## Figure 2. Variation in weighting of Age Pensioner ALCI compared with CPI



Source: FaHCSIA graph based on data from
(a) ABS 2007, Analytical Living Cost Indexes: 15th Series Weighting Pattern, Sep 2005, 'Table 2: Percentage Contribution to Age pensioner households All Groups index, June Quarter 2005', data cube: Excel spreadsheet, Cat. no. 64650DO003, viewed 6 March 2008, <http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/A71869A911552247CA257368001D3D27/$File/6465.0%20data%20cube_200509.xls>; and
(b) ABS 2005, Consumer Price Index: 15th Series Weighting Pattern (Reissue), Sep 2005, 'Table 1: Percentage Contribution to All Groups CPI, June Quarter 2005, Eight Capital Cities', data cube: Excel spreadsheet, Cat. no. 6430.0, viewed 6 March 2008, <http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/5424C607D189A7B5CA257097000636B0/$File/6430.0%2015th%20series%20weighting%20pattern.xls>
using the formula, Percentage = [(ALCI weight – CPI weight)/CPI weight] x 100.

# 3: Analysis of alternative estimates of changes in the cost of living for older Australians

The Committee has been given some alternative estimates of the extent of cost of living changes for older Australians in submissions and evidence. These include the "Relative Price Index" (RPI) referred to in the submission of the St Vincent de Paul Society.

This section examines increases in the Age Pension relative to RPI estimates and examines the material available on the RPI.

## 3.1 Increases in the Age Pension

Before analysing the information available on the RPI, it may be useful to place the apparent results in context.

Table 1 below compares the rate of claimed increases in costs derived from the RPI, which covers the period March 1990 to March 2005, with the actual increase in the rate of the Age Pension over that period.

Table 1. Growth rates March 1990 to June 2005

| | Mar-90 | Jun-05 | Percentage Growth over period: Total | Annualised |
|---|---|---|---|---|
| | Index numbers | | - % - | |
| Relative Price Index (St Vincent de Paul) Age & Disability Pension: | | | | |
| Lower limit - homeowner & private transport | 100.0 | 154.0 | 54.0% | 2.9% |
| Upper limit - renting & public transport | 100.0 | 162.9 | 62.9% | 3.3% |
| CPI All Groups | 100.9 | 148.4 | 47.1% | 2.6% |
| | $ annual | | | |
| Age Pension Payment rates: | | | | |
| Single Age Pensioner | $6,947 | $12,714 | 83.0% | 4.0% |
| Single Age Pensioner with RA | $7,987 | $15,262 | 91.1% | 4.3% |
| Age Pensioner couple | $11,580 | $21,010 | 81.4% | 4.0% |
| Age Pensioner couple with RA | $12,620 | $23,413 | 85.5% | 4.1% |

Source: FaHCSIA table derived from:
(a) Dufty, G 2005, *Winners and losers: the implications of changing cost pressures on various household types and income groups,* St Vincent de Paul Society, Melbourne, p. 25.
(b) ABS 2005, '1 ALL GROUPS, Index numbers', table, *Consumer Price Index, Australia, June 2005*, Cat. no. 6401.0, ABS, Canberra, p. 8.
(c) ABS 1994, 'Table 1: Consumer Price index: all groups index numbers', *Consumer Price Index, Dec 1993*, Cat. no. 6401.0, ABS, Canberra, p. 4.; and
(d) FaHCSIA calculations of Age Pension rates (including: Pharmaceutical Allowance, Pension Supplement, Utilities Allowance, and Bonus Payments, Telephone Allowance included since 1992).

This clearly shows that the rate at which the Age Pension was paid between March 1990 and June 2005 increased at a rate well above the increase in the CPI or any of the rates of increase hypothesised by the RPI.

Increases in the rate of Age Pension in line with increases in earnings through the 25 per cent of Male Total Average Weekly Earnings (MTAWE) benchmark mean the real purchasing power of age pensioners has increased substantially above the increase in the CPI and any of the estimated increases in costs derived from the RPI.

## 3.2 The "Relative Price Index"

The RPI was presented to the Committee in the submission of the St Vincent de Paul Society. The purpose of the measure is given as "to contextualise the applicability of the Consumer Price Index (CPI) as an accurate cost pressure indicator for a variety of household groupings within the community"[9] such as those renting and using public transport, compared with homeowners who use private transport.

[9] Dufty, G 2005, *Winners and losers: the implications of changing cost pressures on various household types and income groups,* St Vincent de Paul Society, Melbourne, p. 25.

As indicated in evidence presented to the Committee, the Department has reservations about the approach adopted in this analysis and the validity of some of the outcomes.

FaHCSIA has not been able to obtain a copy of the full methodology underpinning the St Vincent de Paul Society's model, although the Society was willing to discuss its approach. A thorough review of the detailed methodology and working through the approach would have provided FaHCSIA with a full understanding of the model and the reasons why it generates its results. In the absence of this, in preparing this supplementary submission, FaHCSIA has based its comments on the published material, primarily the 2005 St Vincent de Paul Society paper "Winners and Losers" and its understanding of the material.

From the information available, there are a number of factors which FaHCSIA believes limits the usefulness and applicability of the Society's RPI modelling, and leads to questions about the Society's claim that some groups face increases in their cost of living of 30 per cent above the CPI.

- It appears to have been built at the major group level rather than at the expenditure class level. This makes it less sensitive to the detailed differences in consumption between household types and unresponsive to changes in price within the groups.
- The weighting pattern does not appear to have been adjusted for known problems in the HES data; for example, under reporting of items such as tobacco and alcohol.
- While the results are compared with the CPI, the methodology is not benchmarked against the CPI; that is, it is not possible to determine to what extent differences are due to the methodology underpinning the RPI, or the effect of differing consumption patterns, or the set of price changes being modelled.
- The hypothetical estimates for particular types of household consumption do not take account of the actual expenditure pattern of the types of household for which the estimate is provided.
- The presentation and interpretation of some of the results could be misleading, if the reader is not aware of the limitations of the analysis.

These issues are discussed in more detail below.

## Group level data

Given the way in which the CPI and ALCI are constructed, compared to the way FaHCSIA understands the RPI is constructed, the ABS model is more sensitive to the differing consumption patterns of particular household types than the RPI.

From the information available to FaHCSIA, it appears that, when the RPI is updated for changes in food prices, rather than adjusting the index for the changes in the prices of the actual items that pensioners buy, it is simply adjusted for the average change in price for all the food items that all households buy. The ABS ALCI, on the other hand, better reflects the specific change in prices of items that pensioners buy.

## Weighting pattern

The CPI makes certain changes to the weights derived from the HES for known problems of under-reporting of items such as alcohol and tobacco. It is not clear that such reweighting has occurred in the RPI. This can give a misleading picture of the pattern of consumption of households. It also reduces the comparability of estimates drawn from the CPI and ALCI, with those drawn from the RPI.

## Lack of benchmarking

Simple comparisons between the effect of price changes measured by the RPI for particular subgroups and the effect of price changes measured by the CPI for the broader population are not possible. From the information available, it is not possible to determine to what extent differences are due to the methodology underpinning the RPI, or the effect of differing consumption patterns, or the set of price changes that the RPI is attempting to model.

For example, the Society's analysis suggests that the RPI for an age/disability pensioner who is a home purchaser using private transport has risen to 153.99 compared with growth in the CPI of 148.4[10]. However, from the information available, it is not possible to establish whether this difference is a result of the weightings that have been used for the age/disability pensioner who is a home purchaser using private transport, or a result of the basic methodology of the RPI, even when these differential weights are not used. FaHCSIA is not in a position to know whether there has been any benchmarking of the model on a 'whole population' basis[11].

As such while the model might possibly inform about the relativity of particular subgroups it models, the basis for comparing results for these subgroups with the CPI as a whole is not clear.

## Hypothetical household types

A key goal for the St Vincent de Paul Society in developing the RPI was to enable the impact of price changes on households in particular circumstances to be estimated – for example those renting who also use public transport relative to those who own their own homes and who use private transport.

From the material available, it appears that this is done by substituting the more detailed ABS sub group or expenditure class price index for the group index, but applying it to the whole group.

For example, the ABS price data at the sub-group level indicates that private motoring costs increased by 43.0 per cent between March 1990 and June 2005, while the increase in public transport prices was 103.8 per cent over the same period. It appears that these two alternative rates of increase are then applied to the 11.3 per cent share of expenditure that the RPI uses for transport, to estimate the different outcomes for a private motorist relative to a public transport user.

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[10] One minor point is that while it appears that the RPI is based at 100 in March 1990, the actual value of the CPI in that quarter was 100.9.

[11] To validate the model in this regard it would be necessary to run the RPI for the same population as ABS uses for the CPI, that is all capital city households, and ensure that it was generating the same estimate of price increases for these households as indicated by the CPI.

This approach assumes that both the private transport user and the public transport user both spend 11.3 per cent of their budget on transport. However, this is not the case - in fact these types of households spend quite different proportions of their budgets on transport. Data from the 2003-04 HES indicates that:

- the 62.5 per cent of age pensioner households[12] who rely on private transport (that is, they report having had no public transport expenditure, including taxi fares, at all over the period of collection of HES data) spend 15.5 per cent of their weekly expenditure on private transport; and
- in contrast the 12.5 per cent of age pensioner households who only use public transport (including taxis) spend just 3.0 per cent of their household budget on transport. (Within this group the 7.1 per cent who use public transport only – excluding taxis – spend just 1.8 per cent of their budget.)

However the weighting pattern in the model assumes that the public transport user spends 11.3 per cent of their budget on transport. The model appears to be weighted on the basis that they spend some 4 to 8 times more of their budget on transport than they actually do.

To construct hypothetical estimates of price impacts, it would be more accurate to use appropriate weighting patterns for particular types of households rather than using a standard set of weights.

A further limitation, is that even at the detailed expenditure class level, the price data published by ABS is not adequate to differentiate the changes in prices for a particular good or service where the price is dependent upon household characteristics. For example, in this case, the overall change in the price of public transport may be a very poor guide to changes in the price of public transport tickets available to age pensioners (net of concessions). For this reason, when constructing the ALCI, the ABS uses price movements at the lower level commodity categories - rather than using all CPI items.

## Presentation of results

In the analysis of the RPI, the Society suggests that, for example, age or disability pensioners renting and using public transport have experienced price increases around 30.0 per cent higher than the CPI. Similarly it is reported that costs have risen around 11.5 per cent more than the CPI for a pensioner who owns their home and relies on private transport.

This analysis could be misleading for the reader. The analysis suggests that the CPI has risen from 100 to 148.4, the index for an age or disability pension renting and using public transport has increased from 100 to 162.93 and the index for a homeowner reliant on private transport has increased from 100 to 153.99.

In other words, this suggests the CPI has risen by 48.4 per cent, the renting/public transport index has increased by 62.9 per cent and the homeowner/private transport index by 54.0 per cent. In terms of difference between these groups the renting/public transport index has actually risen by 14.5 percentage points more than the CPI (62.9 per cent - 48.4 per cent = 14.5 per cent), not 30.0 per cent greater. This latter figure is based upon taking a percentage difference of a percentage change (ie 62.9/48.4 = 1.2996). In the case of the

[12] Households that have the Age Pension as their main source of income.

homeowner/private transport index the price increase is 5.6 percentage points higher than the CPI (54.0 per cent - 48.4 per cent = 5.6 per cent).

In terms of relative growth, this can be illustrated using a ‘basket of goods’. The Society’s figures imply that to purchase a basket of goods worth $100 in the base year, a person would now have to spend $148.40, while a person using the renter/public transport index would have to pay $162.90. That is, the costs for someone in this second group would be 10 per cent higher than those faced by the first group ((162.90-148.40)/148.40 = 0.0977). While it is possible to express these cost changes in a range of different ways, the use of the ‘30 per cent higher cost’ derived by taking a percentage difference of a percentage change (ie 62.90/48.4 = 1.2996) gives a misleading impression of the actual outcome.

## 3.3 Summary

As FaHCSIA has not had access to the detailed modelling done by St Vincent de Paul, it has not been possible to provide in depth analysis of the model, its methodology or related issues. The discussion by FaHCSIA therefore presents its views on, and understanding about, the model based on the published material.

While, in many cases, the specific issues FaHCSIA has been able to identify from the published material may appear to be relatively minor or technical, and in fact may result in either an upward or a downward bias in the results generated from the RPI relative to the CPI, these, in combination with the more major issues, cumulatively raise questions about the robustness of the model and therefore of its results.

Further FaHCSIA notes that the indexation arrangements for Age Pension, which include benchmarking to MTAWE, delivered pension increases over and above price increases as measured by the CPI, or the ALCI, or indeed, even the highest increases in costs suggested by the RPI (see Table 1) over the relevant period.

# 4: Recent Government initiatives

A number of measures being introduced by the Australian Government are aimed at improving the well-being of older Australians and assisting them in meeting the cost of living.

## 4.1 Age Pension Indexation

In recognition that the cost of living increases for pensioners be different to the general increases in the cost of goods and services, the Government has committed to index pensions by the ALCI for Aged Pensioner Households produced by the ABS, the Consumer Price Index or 25 per cent of MTAWE, whichever is the greater. This will provide extra assurance for pensioners that when pensioners' living costs increase faster than those of the broader community as measured by the CPI, their costs will be taken into account in the indexation process.

## 4.2 Utilities, Telephone, Seniors Concession Allowances

On 14 February 2008 the Minister for Families, Housing, Community Services and Indigenous Affairs introduced the *Social Security and Veterans' Affairs Legislation Amendment (Enhanced Allowances) Bill 2008* to implement the Government's $4 billion election commitment to help older Australians, carers and people with disability make ends meet. The Bill will assist over three million people with four key initiatives to commence from 20 March 2008. These are set out below.

### Increase in the rate of Utilities Allowance

The Bill provides for an increase in the annual rate of Utilities Allowance from $107.20 to $500 for singles and couples combined. This will be paid in quarterly instalments of $125 for singles and eligible couples combined, starting from 20 March 2008.

### Extension of eligibility for Utilities Allowance

The Bill proposes extending Utilities Allowance to people under pension or qualifying age, and receiving Carer Payment, Disability Support Pension, Invalidity Service Pension, Partner Service Pension, Income Support Supplement, Bereavement Allowance, Widow B Pension or Wife Pension. For these groups this represents a new payment of $500 for singles and couples combined to be paid quarterly as outlined above.

### Increase in the rate of Seniors Concession Allowance

The Bill increases the rate of Seniors Concession Allowance, which is paid to Commonwealth Seniors Health Card or Veterans' Gold Card holders, from $218 to a total annual payment of $500 for each card holder. This will be paid in quarterly instalments of $125 starting from 20 March 2008.

## Higher Telephone Allowance for home internet connections

Recognising the increasing importance of the internet as a means of communication and of accessing services, the Bill provides for a higher rate of Telephone Allowance for older Australians, carers and people with a disability if they receive income support and have an internet connection at home. The new rate of $132 a year for singles and couples combined, an increase from the standard rate of Telephone Allowance of $88 a year, will be available to those who have a home internet connection.

This higher rate of Telephone Allowance will also be available for eligible veterans and their dependants who have an internet connection at home.

# 4.3 National Reciprocal Transport Concessions for State Seniors Card holders

The Government has committed funding of $50 million over four years from 2008-09 to establish National Reciprocal Transport Concessions in cooperation with the State and Territory Governments. The aim is to allow State Seniors Card holders to travel at concessional rates anywhere in Australia. These arrangements are expected to be in place by 1 January 2009.

The goal of the policy is to enable an estimated 1.3 million State Seniors Card holders, to access general public transport concessions that apply in the State or Territory they are visiting. The proposal is to include long distance rail travel on Great Southern Railway routes such as the Indian Pacific, the Ghan and the Overland.

# 4.4 Petrol Commissioner

As part of the Government's election commitment to promote competition and transparency in Australia's petrol market the Government has given the Australian Competition and Consumer Commission (ACCC) formal monitoring powers over petrol prices, and has announced the appointment of a Petrol Commissioner.

Under the new arrangements the ACCC now has formal monitoring powers to use at its discretion, including the power to subpoena relevant documents and compel witnesses to give statements.

The Petrol Commissioner will predominantly be responsible for overseeing the ACCC's monitoring of fuel prices in Australia as well providing an annual report on the ACCC's findings.

In addition the Government is reviewing options raised by the ACCC in its recent report on petrol prices, including measures to increase retail price transparency.

# 4.5 Inquiry into grocery prices

The Government announced on 22 January 2008 that it had directed the ACCC to commence a formal inquiry into grocery prices.

The inquiry will consider the current structure of the grocery industry at the supply, wholesale and retail levels including mergers and acquisitions by the national retailers; the nature of competition at the supply, wholesale, and retail levels of the grocery industry; and the competitive position of small and independent retailers. It is required to report by 31 July 2008.

The ACCC was also asked to advise by the end of February on how it may deliver a periodic survey of grocery prices at supermarkets for a typical shopping basket; and how best to establish a dedicated website on grocery prices as well as any other methods that could be used to provide information to the public.

## 4.6 Other initiatives

In addition to these specific policies the Government is working with the States and Territories through the Council of Australian Governments (COAG) on a range of measures which have a direct impact on the living costs and well-being of older Australians. Three specific areas of work are important in this context:

- a Working Group on Health and Ageing has been established “To improve health outcomes for all Australians and the sustainability of the Australian health system”;
- a National Health and Hospitals Reform Commission has been established to provide advice on performance benchmarks and practical reforms to the Australian health system; and
- a Housing Working Group has been established “To improve housing affordability for home buyers and ease rental stress, particularly for low to moderate income households.”

# 5: Age Pension rates and the cost of living

The FaCSIA submission of August 2007 to the Committee presented a comparison of the results of the CPI and the ALCI up to June 2006. It also provided information on actual increases in age pension rates relative to those delivered by the CPI alone, and those that would be delivered by increasing pensions in line with the ALCI for Age Pensioner Households.

This section presents updates of this information using more recent data.

## 5.1 Increases in the rate of the Age Pension

The following table compares growth in the single maximum pension rate, the rate that would have been paid if pension rates were indexed in line with CPI only, and the rate that would have been paid if pension rates were indexed in line with the ALCI for Age Pensioner Households only. It shows that pension rates have far exceeded the rates that would have been paid if rates had been indexed in line with CPI only, or with the ALCI for Age Pensioner Households only.

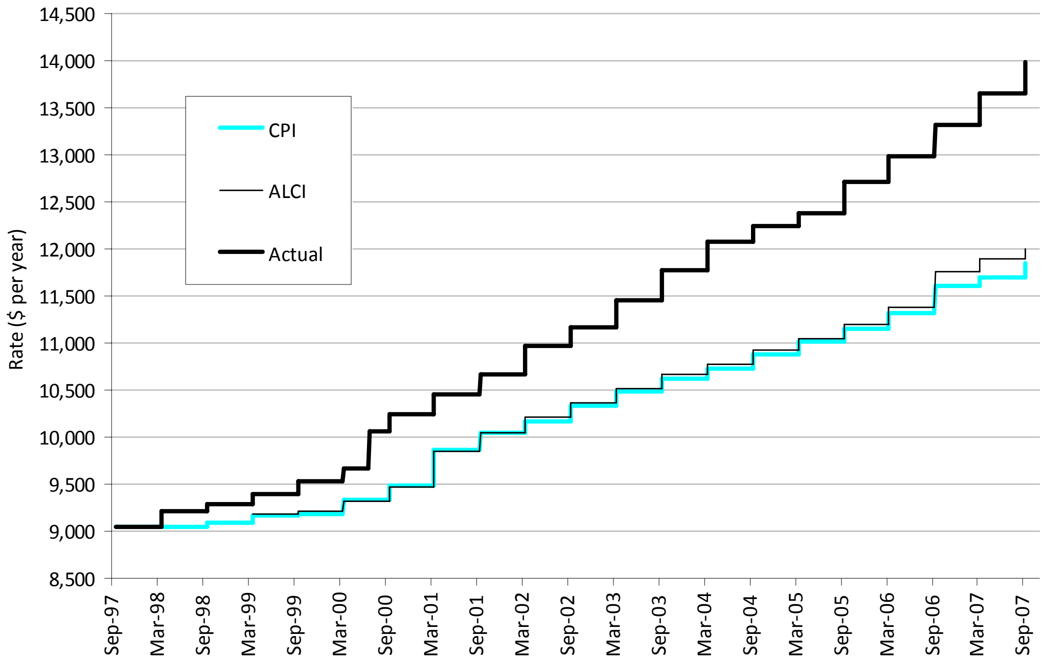
Table 2. Growth rates June 1998 to June 2007

| | Mar-98 | Jun-07 | Percentage Growth over period: | |
|---|---|---|---|---|
| | | | Total | Annualised |
| Age Pension rates: | | | | |
| Single age pensioner | $9,219.60 | $13,652.60 | 48.08% | 4.46% |
| Age Pension rates (if indexed to CPI only): | | | | |
| Single age pensioner | $9,042.80 | $11,700 | 29.38% | 2.90% |
| Age Pension rates (if indexed to ALCI only): | | | | |
| Single age pensioner | $9,042.80 | $11,895.00 | 31.54% | 3.09% |

Source: FaHCSIA data

Figure 3 also shows the movements in pension rates, the CPI and the ALCI for age pensioner households over this time.

**Figure 3. Single pension rate – actual rate compared to increases in line with CPI only, and the ALCI for Age Pensioner Households only, September 1997 to September 2007**




Source: FaHCSIA modelling - actual pension rate in this figure includes the Pension Supplement.

Analysis shows that since the MTAWE commitment was included in legislation 10.5 years ago (21 pension indexation points); pension increases have been driven by wages growth as measured by the MTAWE benchmark on 15 occasions. Pension increases have been driven by CPI increases on 6 occasions.

Since March 1999 analysis shows that indexation in line with the CPI and earnings has led to pension increases equal to or greater than those that would have been delivered if the ALCI had formed part of the pension indexation process on all but one occasion. On this occasion the ALCI exceeded growth in the CPI and MTAWE.

Notwithstanding this past experience, predicting relative changes in these indexes and shifts in price and earnings is always uncertain. The Government’s election commitment to index the Age Pension in line with the increase in the CPI, the ALCI produced by the ABS or MTAWE, whichever is the greater, will provide, where needed, additional protection for the purchasing power of age pensioner households by providing assurance that where pensioner’s livings costs grow faster than CPI and MTAWE, this will be taken into account in indexing their pensions.

## 5.2 Comparing the results of the CPI and ALCI

The FaCSIA submission of August 2007 presented a comparison of the CPI and the ALCI up to June 2006. This section provides an update to this to include data up to June 2007. This is the most recently available information and was released by ABS on 29 August 2007[13].

[13] ABS 2007, *Analytical Living Cost Indexes for Selected Australian Household Types, Jun 2007*, Cat. no. 6463.0,

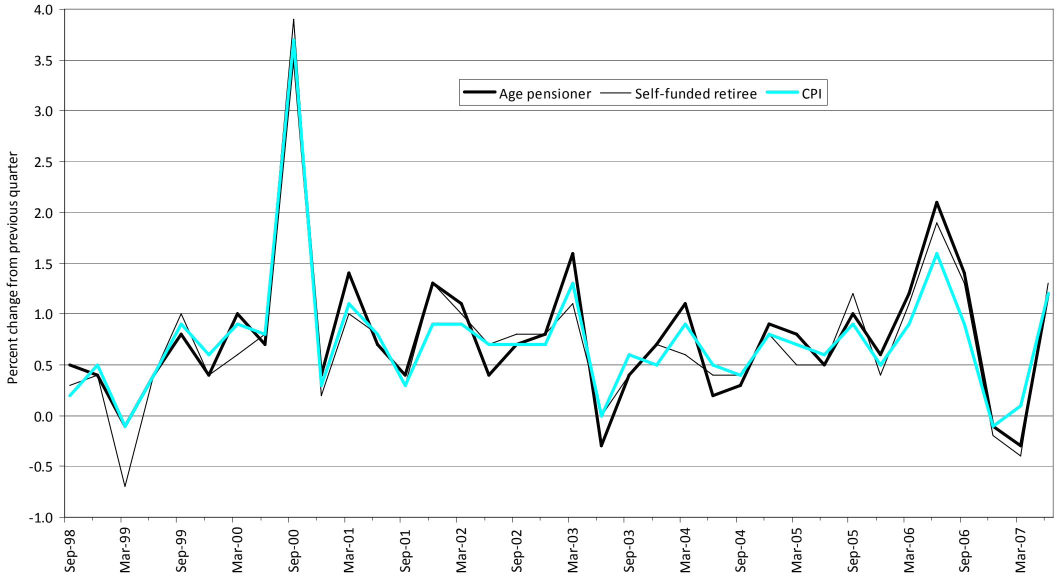
In this release ABS concludes "In the long term changes in living costs have been broadly similar across the selected household types. They have also been broadly consistent with the CPI. Analysis for the year to June 2007 shows annual percentage changes for Employees, Age pensioners and Other government transfer recipients to be above the CPI."

While, as in this case, and in the FaHCSIA presentation here, the results of the ALCI are directly compared with the CPI, it is emphasised that some of the differences between the results for the two approaches may be to do with the different ways they measure the impact of price changes, rather than different impacts of price changes on different groups.

Figure 4 compares the index numbers in the ALCI for age pensioner households with the CPI. As illustrated the index number of the Age Pensioner ALCI, in June 2007 was 132.0 compared with 130.2 for the CPI, with both of these indexes based at 100 in June 1998. As such, over the nine year period since the ALCI was first published, this suggests that prices for age pensioners may have increased by 1.8 per cent (ie 132.0 – 130.2) more than that of households overall. Converted to annual compound rates the rate of price change is 3.1 per cent for age pensioners and 3.0 per cent for the population overall.

Over the past year the change has been 2.2 per cent for age pensioner households and 2.1 per cent for the CPI. Evident in the chart (Figure 4 below) is a period between December 2004 and September 2006 when the rate of quarterly growth in the Age Pensioner ALCI exceeded that of the CPI in every quarter except June 2005. Since September 2006 the quarterly change in the ALCI for age pensioners has been equal to or below that of the CPI and the extent of the gap between the two series has started to close.

## Figure 4. Comparison of CPI and Age Pensioner ALCI June 1998 – June 2007




Source: FaHCSIA graph based on data from: ABS 2007, 'Living Cost Indexes and the CPI', table, *Analytical Living Cost Indexes for selected Australian household types, Jun 2007*, Cat. no. 6463.0, viewed 6 March 2008, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6463.0Main%20Features2Jun%202007?opendocument&tabname=Summary&prodno=6463.0&issue=Jun%202007&num=&view=>.

# 6: Summary

A range of estimates of increases in living costs for older Australians have been produced over the years. The Committee has been given some alternative estimates in submissions and evidence, including the RPI referred to in the submission of the St Vincent de Paul Society.

FaHCSIA considers the CPI and estimates produced by ABS through its ALCI for Age Pensioner Households to be the most reliable estimate of cost of living changes for pensioners. ABS' methodology is publicly available, transparent and open to scrutiny by the broader community.

It is very difficult to evaluate the relative merits of other estimates where the methodology and modelling that underpin those estimates are not available for analysis.

Overall, as reported by FaCSIA in its earlier submission, support for older Australians is increasing in real terms and is increasing faster than increases in both the CPI and the ALCI. Pensioners' living standards are protected through indexation in line with price increases (CPI) and they also share in improvements in community living standards as measured by wages through the 25 per cent of MTAWE benchmark. The Government's commitment to include the ALCI in the indexation process will provide extra protection and assurance that where pensioners' living costs increase faster than those of the rest of the community, and faster than wage increases, their pensions will increase in line with that increase.