



27 August 2007

Committee Secretary
Community Affairs Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary

Re: Inquiry into cost of living pressures on older Australians

ACOSS is pleased to provide the following comments relating to income and the costs of health care and utilities for low income older Australians.

Incomes

While the average incomes of older Australians have risen over the last few decades, these average changes mask a divergence in income growth between a minority with substantial financial assets, especially superannuation, and those that still rely on the maximum rate of age pension.¹

Although the proportion of retirees relying on the maximum rate of age pension is slowly declining, just over half still do so. This reflects the limited availability of superannuation throughout working life for most of the present cohort of retirees. Many within this group struggle to meet basic living costs. Two groups are of particular concern:

- The 25% of pensioners who do not own their homes
- Those with severe disabilities or chronic illnesses, most of whom are over 75 years old.

Single pensioners lack the economies of scale of those who live as a couple. In addition, many of those who are over 75 years have disabilities or chronic illnesses that increase their living costs. These costs are not fully covered by Medicare, PBS and other public subsidies. The number of older people in this group who have disabilities or chronic illnesses is increasing as life expectancy rises.

A further problem for pensioners is that since 2005, the cost of purchasing the basket of goods and services that age pensioners typically need has risen more rapidly than the Consumer Price Index, to which pensions are indexed. This reflects particularly increases in the costs of food, housing, health and transport expenses, most of which are over-represented in the budgets of age pensioners.

¹ Approximately 20% of retirees do not receive an age or veteran's pension (mainly due to their investment or employment income and assets).



At the other end of the spectrum, the investment incomes of the top 20% of retirees – most of whom do not receive the age pension though they have benefited from superannuation tax concessions - have risen substantially over the last two decades. A gap has opened up between the living standards of those with substantial investment assets and other older Australians. Recent superannuation policy changes will disproportionately benefit those who already have relatively high incomes and assets. The Association of Superannuation Funds of Australia estimates that less than 20% of superannuation fund members who are about to reach retirement in the next few years will benefit from the decision to remove taxes from most superannuation benefits, since only this group had sufficient superannuation assets to be affected by the previous tax on lump sum superannuation benefits.

ACOSS is particularly concerned about retirees who are in 'housing stress' - that is, those that must spend over 30% of their current income of housing. A majority are single, and most are private tenants. This problem is exacerbated by the steep increases in rents being experienced in major cities and in non-metropolitan areas exposed to the effects of the mining boom. As it becomes more difficult for new cohorts of young and middle age people to purchase a home, it is likely that a growing proportion of older Australians will have to rent. Older tenants are usually drawn from the most disadvantaged groups within the cohort.

Health

The need for health care rises as people age and so the cost of health care becomes an increasingly important issue for older people. This of course occurs at the same time as people move out of employment and incomes decline. For Indigenous people, these problems occur earlier in life due to the fact that they become sick and die at much earlier ages than non-Indigenous people (life expectancy for Indigenous men is just 59 years, or six years before the standard retirement age of Australian men).

The proportion of health care paid directly by patients has been increasing in recent years in Australia. Out of pocket payments by individuals accounted for \$16.5 billion or 20% of health care funding from all sources in 2004-5, compared to \$6.7 billion or 13% (current prices) in 1994-5.²

² AIHW, Health Expenditure Australia 2004-5, Canberra, 2006, p31, p38



In 2004–05, of the estimated \$16.9 billion out-of-pocket recurrent expenditure by individuals on health goods and services:

- 27.8% was spent on medications
 - 21.0% was spent on medications not listed on the Pharmaceutical Benefits Scheme (PBS)
 - 6.8% was spent on PBS patient contributions
- 20.1% on dental services
- 17.8% on aids and appliances
- 9.6% on medical services.³

From 1997–98 to 2004–05, the main areas of real growth in individuals' out-of-pocket funding were for aids and appliances, medications, and dental services. In real terms, average out-of-pocket health expenditure per person grew by 4.7% a year in the decade from 1994–95 to 2004–05. Over this period, the two areas of out-of-pocket expenditure that had the most rapid real growth were ambulance services, at 15.1%, and aids and appliances at 12.5% per year.⁴

While patient out-of-pocket payments are a significant and growing part of health care funding, the purpose and impact of patient payments has received little serious attention. Patient payments are generally insensitive to the unequal distribution of wealth and income and the unequal distribution of health care needs. Such payments can discourage people, especially those least able to afford the payments, from seeking desirable medical attention and/or place people in financial hardship as a result of paying for health care.

These risks of patient co-payments are modified for older people on low incomes because they are entitled to the Pensioner Concession Card⁵ which provides:

- Prescription medicines listed on the Pharmaceutical Benefits Scheme (PBS) at the concession rate
- Bulk-billed General Practitioner appointments, at the discretion of the doctor
- An increase in benefits for out-of-pocket, out-of-hospital medical expenses above a certain threshold through the Medicare Safety Net
- Assistance with certain hearing services such as hearing tests and hearing aids.

³ Ibid, p41

⁴ Ibid, 42

⁵ (In addition to the 1,876,250 older Australians on the Age Pension who are eligible for the Pensioner Concession Card, the Commonwealth Government provides Commonwealth Seniors Health Card to wealthier older people who are not eligible for the Age Pension. The income threshold for eligibility is \$50,000 for singles and \$80,000 for couples. In 2005, there were 295,701 Commonwealth Seniors Health Card holders.)



However, there are still significant problems with the cost of health care for older people:

- A substantial number of medications have been de-listed from the PBS in recent years in order to achieve budget savings, forcing patients to buy medicines over the counter at full market price.
- PBS co-payments for concession card holders jumped from \$3.80 to \$4.60 (an increase of over 20%) on 1 January 2005. The impact of this increase on the use of medicines by low income groups, including older people who are the heaviest users of medicines, has not been investigated.
- While the current PBS co-payment for Pension Card holders may appear modest, it is important to consider this against the weekly income of people on the full pension, which is \$262.55 (Single Rate) and the fact that many older people are on multiple medications. For a person on the Single Rate Pension requiring two PBS medications a week for example, \$9.80 is a significant amount out of \$262.55 from which all other living expenses must be paid.
- Despite incentives for GPs to bulk bill Pension Card holders, there is no guarantee that GPs will bulk bill these patients.
- The Medicare Safety Net annual threshold for concessional patients cuts in at \$519.50 and the PBS Safety Net threshold at \$274.40, meaning that pensioners potentially face annual out of pocket costs of at least \$794 before they are entitled to further relief. This represents 6% of total annual income for a pensioner on Single Rate payment.
- The design of the current Medicare Safety Net has encouraged doctors to lift private fees, exposing patients to higher gap fees.
- There are no concessions for Pension Card Holders to reduce the very high out of pocket costs for private dental care, which can amount to \$300 a year for a course of basic preventative treatment (eg oral exam, x-rays, scale and clean and fluoride treatment). Pension Card holders are eligible for public dental care through State public dental services, but there is a waiting list of over 500,000 people for general dental care nationally and an average waiting time of 27 months or up to ten years for less urgent services such as dentures (which particularly affects low income older people).⁶
- Patients face significant barriers to affordable aids and appliances.⁷

⁶ ACOSS, *Fair Dental Care for Low Income Earners*, Info Paper 389, p13, p21

⁷ Carers NSW, Submission to NSW Health, The Program of Appliances for Disabled People, http://carersnsw.asn.au/storage/pdfs/policy/PADP_Submission.pdf



Utilities

The Australian Bureau of Statistics (ABS) reports that over the five years between surveys the price of good and services, as measured by the consumer price index (CPI), rose by 18 per cent.⁸ Over this same period the increase in spending on domestic fuel and power was 32 per cent. The ABS notes that for households in the lowest income group the proportion of expenditure on domestic fuel and power is, at nearly 5 per cent, nearly double that of households with the highest level of income.

In 2003-4, 38% of low income households could not pay electricity, gas or telephone bills on time and 9% were unable to heat their home.⁹

Table 1.1 Energy, fuel and water service costs for Australian households¹⁰

	Lowest 20 per cent	Second 20 per cent	Third 20 per cent	Fourth 20 per cent	Fifth 20 per cent	Average
Mean gross household income \$/wk 2003-04	263	555	930	1,385	2,512	1,128
Total expenditure on goods, services \$/wk						
98-99	342.85	482.58	648.04	851.03	1171.4	698.97
03-04	413.32	603.64	859.38	1090.32	1499.18	892.83
Water, sewage						
98-99 \$/wk	3.89	4.55	5.71	6.92	8.5	5.91
% expenditure	1.13%	0.94%	0.88%	0.81%	0.73%	0.85%
03-04 \$/wk	\$3.71/wk	4.48	5.77	6.84	9.12	5.98
% exp	0.90%	0.74%	0.67%	0.63%	0.61%	0.67%
Energy supply - electricity and gas¹¹ \$/wk						
98-99 \$/wk	12.85	15.87	17.72	19.85	23.08	17.87
% exp	3.75%	3.29%	2.73%	2.33%	1.97%	2.56%
03-04 \$/wk	16.4	20	23.27	25.46	31.68	23.59
% exp	3.97%	3.31%	2.71%	2.34%	2.11%	2.64%
Transport fuel \$/wk						
98-99 \$/wk	11.92	19.38	26.91	33.75	40.27	26.43
% exp	3.48%	4.02%	4.15%	3.97%	3.44%	3.78%
03-04 \$/wk	14.76	24.05	34.89	41.59	48.94	32.83
% exp	3.57%	3.98%	4.06%	3.81%	3.26%	3.68%

⁸ Australian Bureau of Statistics, *Household Expenditure Survey, Australia: Summary of Results 2003-04* 6530.0, Canberra, August 2005

⁹ ABS, *Australian Social Trends 2007*, Canberra, 2007, p7.

¹⁰ ABS (2006) *ABS Household Expenditure Survey*; ABS (2000) *ABS Household Expenditure Survey*.

¹¹ Note ABS describes it as fuel and power, and it also includes purchase of wood, heating oil etc



Total energy, water and transport							
98-99	\$/wk	28.66	39.8	50.34	60.52	71.85	50.21
98-99	% exp	8.36%	8.25%	7.77%	7.11%	6.13%	7.18%
03-04	\$/wk	34.87	48.53	63.93	73.89	89.74	62.4
03-04	% exp	8.44%	8.04%	7.44%	6.78%	5.99%	6.99%

Yours sincerely

Andrew Johnson
Executive Director



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