

21 September 2007

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

Dear Secretary

**Re: Inquiry into the cost of living pressures on older Australians**

I congratulate the Senate and its Committee for investigating this important topic. There is a range of data that can inform your investigation and deliberations on this matter. However, it is disappointing to note that the Inquiry focuses on older Australians only, as the situation of working age people reliant on government Allowance income support is much more grave than Pensioners.

Please find attached my submission to your current Inquiry on the costs of living pressure for older Australians.

I understand that your deadline for submissions, has now passed, but I am sure you will find my expertise and contribution in this matter to be of interest to the Committee's deliberations.

Sincerely,



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## **Submission to the Senate Community Affairs Committee**

### **Inquiry on the Cost of Living Pressures on Older Australians**

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The following submission is based on research conducted by myself and my expertise in this area. As my submission points out, Australia has a wide range of high quality research tools and datasets that could provide useful, detailed and accurate insights in the matters under consideration. However, it has not been possible for me to undertake more the most detailed and up-to-date assessments using these research tools and datasets. The Committee should consider recommending appropriate funding to support such research or to request such work be undertaken by the appropriate government agencies.

#### ***(a) the cost of living pressures on older Australians, both pensioners and self-funded retirees***

There can be no doubt that changes in prices of goods and services, and also changes in living standard expectations in Australia have profound effects on the ability of older Australians to afford the lifestyles that they and Australian's more generally might expect them to maintain.

While I do not identify the actual cost of living pressures faced by older Australians, the key policy question is how does our current policy setting adjust to changes in costs of living.

In terms of the Age Pension, the Federal Government adjusts the pay rates biannually on the basis movements in the national Consumer Price Index (CPI), and then annually on the basis of 25% of Average Weekly Income benchmark. As a result of this indexation, the real value of the Pension increases over time, that is the basket of goods and services that a person receiving only the Age Pension as income can purchases increases over time. In other words, Age Pensioners share in the rising Australian living standards as evidenced by average wages. For comparison, pay rates for Allowances (ie Newstart Allowance, Parenting Payment Partnered, Sickness Allowance, Youth Allowance) are only increased by the CPI.

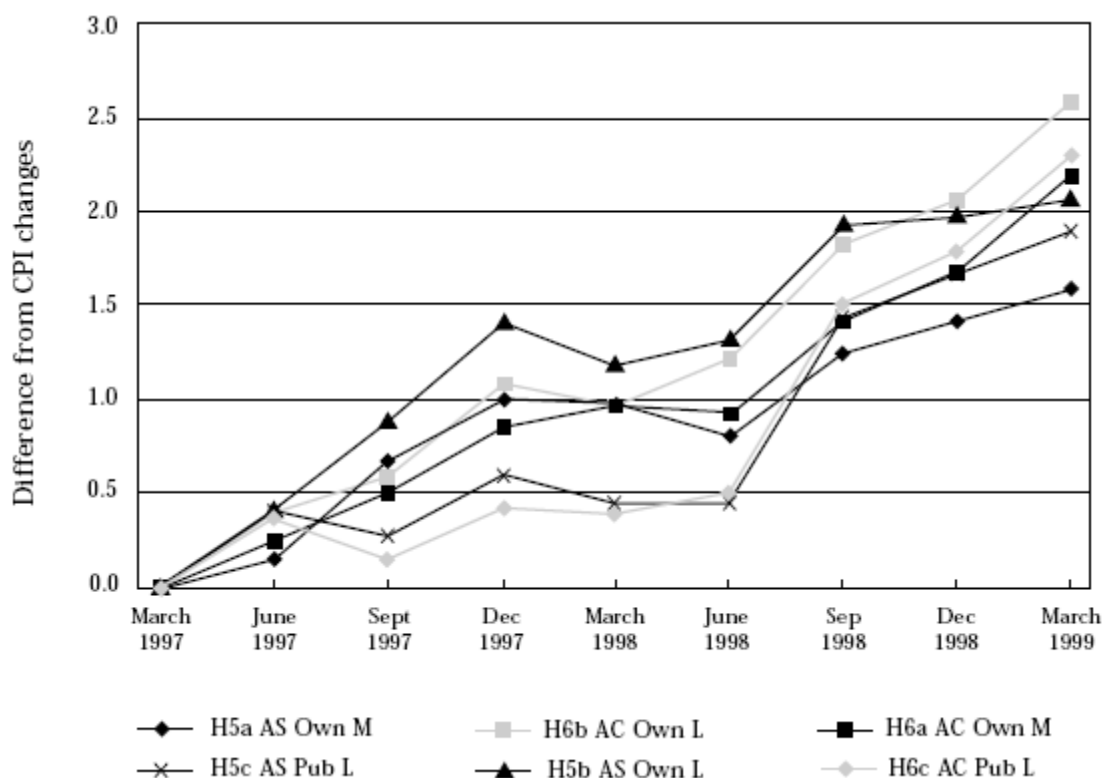
The key question to ask is to what extent does this government procedure of indexing adequate for addressing the living costs of older Australians. In response to this question, it must be noted that the CPI is based on a basket of goods and services derived by ABS from the Household Expenditure Survey on expenditure in Australian households. I understand that the ABS's

CPI basket of goods and services is chosen to be representative of Australian households as a whole, and as such, may not reflect the basket of goods and services that older Australians are likely to purchase. For example, we might expect older Australians to spend less on housing costs (mortgage, rent and renovations) and more on health services.

We are fortunate to have a detailed research project on budget standards which was conducted by the Social Policy Research Centre at the University of New South Wales (Saunders et al 1998). This research developed detailed baskets of goods and services (containing over 600 items) for a range of Australian households at both 'low cost' and 'modest but adequate' living standard levels. The advantage of this research, is that ABS's CPI research can be used to adjust for changes in different types of goods and services to see if movements in the different baskets makes much difference.

In 1999 I undertook this very exercise, when employed within the Federal Department of Family and Community Services. Figure D.2 of my report (Henman 2001: 60) demonstrates what the difference was for retired households at both living standard levels (copy below). It found that in a two year period from March quarter 1997 to March quarter 1999, the rise in the costs of living for retired households was between 1.5% and 2.6% higher than the rise in the CPI. Obviously, this is old data and it would be important to update this exercise. It can be done, but requires the resources to do it.

**Figure D2: Variation in updated budget standards from changes in CPI (retired households)**



The ABS has conducted similar research using different baskets of goods and services (Cat. No. 6463.0). I am uncertain how they have identified these baskets and how they might differ to that constructed as part of the budget standards project. The ABS also found that the CPI understates price cost increases for retirees, but of a smaller magnitude.

Both these two sets of evidence suggest that the CPI as a measure of changes in prices for retiree households is not adequate of itself as an indexation of the Age Pension. It may be that the additional AWE benchmark may provide for the shortfall, but more investigation is warranted.

The above exercise essentially examines changes in prices for a *fixed* basket of goods and services. However, there is a number of factors which mean that the basket of goods and services Australian households consume change over time. One of the factors is growing living standards, another is technological change (eg from photographic to digital cameras), and another is changing social dynamics.

In particular, over the last decade there have been a range of price pressures that have not been previously well measured in the ABS CPI basket and the budget standards research. These include:

- banking fees and charges;
- mobile phone charges and services;
- internet access;
- reduction in bulk billing of General Practitioners (GPs).

To the extent that older Australians face pressures to use these items, impacts on their capacity to absorb these new costs.

The other issue to consider here is the diversity of retirees. Clearly we might expect different types of baskets of goods and services amongst poorer retirees (whose only income is Age Pension) and those with greater wealth. However, other important differences occur between those living in their own homes (which are usually without any mortgage), renting public housing and those renting privately. Indeed, the latter find that a considerable portion of their income is used for housing, relative to the other types. This accordingly, raises the question of the adequacy of the government's Rental Assistance, which has failed to keep pace with the huge growth in private rents in recent years.

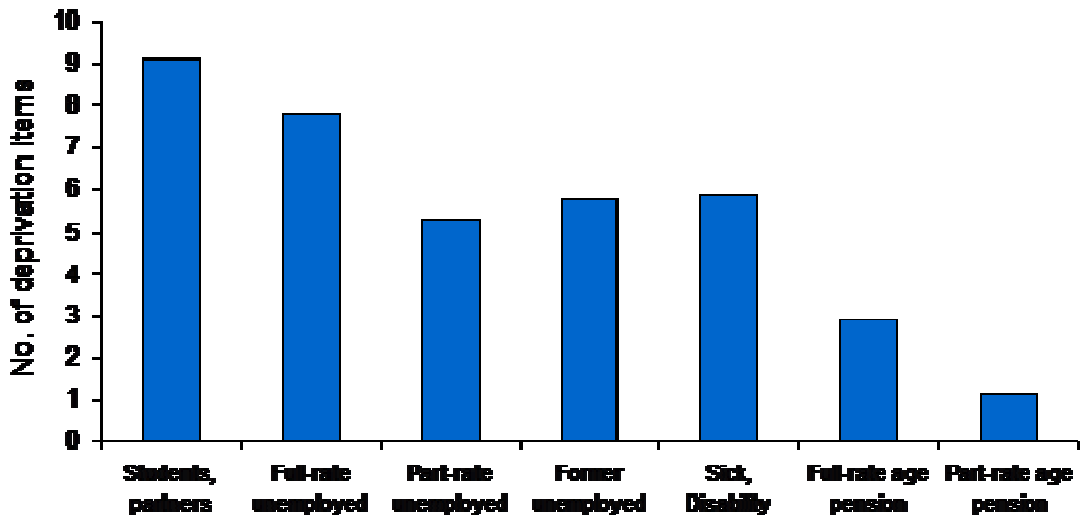
**(c) the impact of these cost pressures on older Australians and their families**

As with the above issue, there are a range of research tools and datasets with which to assess the relative impact of costs of older Australians. Indeed, over the last decade there has been considerable improvement in this area.

Fundamentally, the impact of cost pressures is a measure of outcomes. The outcomes of cost pressures can be measured absolutely, but more importantly is a relative measure, that is outcomes for retirees (or different groups of retirees) relative to each other and to other Australian household types.

For example, in the mid 1990s, research commissioned by the Federal Department of Social Security and conducted by Peter Travers and Sue Richardson of the Flinders University found that Age Pensioners (both those receiving the full-rate and the part-rate) maintained better standards of living than other income support groups, such as the unemployed, students and sole parents (1996). This research was also noted in the Senate community Affairs References Committee 2004 report, *A Hand Up Not a Hand Out*, from which the following table has been reproduced.

Figure 5.2: Deprivation score by DSS payment category

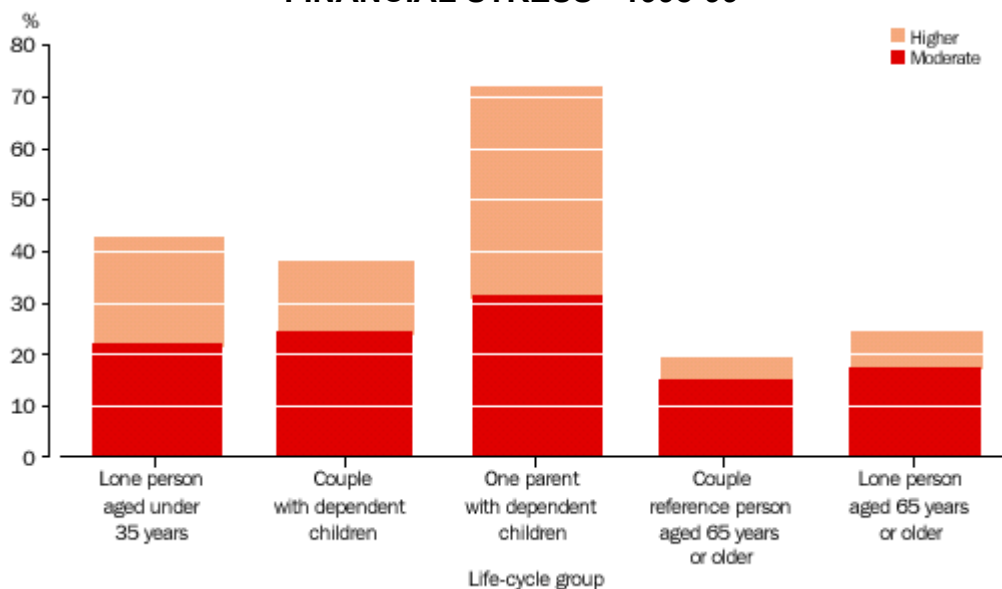


Source: Travers P & Robertson F, *Relative Deprivation among DSS Clients*, Flinders University of SA, Adelaide, 1996, p. 27.

In more recent years, the ABS has regularly asked respondents about financial stress in its Household Expenditure Surveys (HES) and other surveys. These data also provide the capacity to compare relative stress among different Australian households. While a more detailed and more up to date analysis of these data could be undertaken, the following graph from the ABS *Social Trends 2002* (Cat. No. 4102.0) illustrates that financial stress

amongst retirees is less than the rest of the Australian population. However, a full analysis would need to compare those households reliant on government income support payments and those who are not.

### SELECTED LIFE-CYCLE GROUPS: PROPORTION OF HOUSEHOLDS IN FINANCIAL STRESS - 1998-99



Source: ABS 1998–99 Household Expenditure Survey.

As with other research findings, this data indicates that older Australians (on average) are relatively less stressed by financial pressures than other Australian household types. This is not to say that there is not a cause for concern, but that there are also other Australian groups that should also be given policy consideration.

#### ***(d) The adequacy of current tax, superannuation, pension and concession arrangements for older Australians to meet these costs***

There are currently a wide range of government policies in place to help support older Australians meet their living costs. In the last decade there has been considerable change, and a widening of benefits to support middle, middle to high, and high income retirees.

One of the key issue in addressing adequacy is assessing how well the current arrangements are targeted to those most in need. Whilst the Age Pension is means-tested, its coverage has increased over the Howard years with a loosening of the means-tests. We must not also forget the range of government expenditure to the mis-named group of ‘self-funded retirees’. Indeed, it has been estimated that the annual cost to the government/public of funding tax benefits for superannuation will bypass the cost of Age Pensions in a few years time. Recent changes to superannuation have yet to be taken into account in these assessments.

The current concession arrangements are very important to accessing government and private services as concession prices. Research shows that retirees value their Pensioners Concession Card highly. Regardless, there is scope to consider whether price rises in the Pharmaceutical Benefit Scheme's Co-contribution (which is now \$4.90 per script, plus possible additions for non-generic drugs) and the considerable reduction in GP bulk-billing has undermined access to health care to retirees.

I want to suggest two policy developments which would greatly benefit the capacity of retirees to meeting living cost rises.

1. **Pension savings account.** One of the particular realities of retirement, is that retirees have to live for an extended period of time on a limited income. This means that many household durables – such as washing machines, cars, clothes and fridges – will eventually wear out and require replacement. Many other people receiving government income support generally receive benefits for a more limited time, and as such can look forward to a period of receiving wages to help address the realities of replacing worn out durables. This is not the case for retirees. Accordingly, there is a case to be made for government to provide support to retirees to help them replace durables or lumpy expenditure, and indeed, this has been suggested in the past by welfare groups. One such model could be built on the Savings Account in the Newstart Allowance where recipients can accrue benefits over a period of time and then withdraw them when needed. In the proposed case, the government could pay a notional \$10 a week benefit to Age Pensioners which would normally accrue from week to week and could be withdrawn from Centrelink as requested to help meet lumpy costs.
2. **Superannuation Guarantee.** Australia currently utilises a range of measures to help people support themselves in retirement. There are publicly funded pensions, occupational funded superannuation schemes and privately funded superannuation and investments. The Superannuation Guarantee was originally devised to rise to 15% of wages, but has been halted at 9%. As many commentators have noted, this is insufficient to provide a significant impact on living costs for retirement. As a long measure to help meet the living costs of older Australians, and accordingly, reduce the long-term pressure on government expenditure, it is sensible to increase the Superannuation Guarantee to 15% of ones wages. It is scandalous that in a time of record continual growth and record levels of private profits as a percentage of national income, that we have not taken the opportunity to prepare us for the future in this matter.

## References

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## **About Dr Paul Henman**

Dr Paul Henman is currently a senior lecturer in social policy at the University of Queensland. He is recognised nationally and internationally for his applied and theoretical research in the area of social policy. His particular interest is on the nexus between social policy, public administration and technology. He is a recognised leader in the study of electronic government or 'e-government'. Dr Henman also maintains research expertise on the costs of raising children. On the basis of his policy expertise, Dr Henman has been awarded consultancies with Australian State and Federal governments and provided expert reports to the court in over 70 legal cases. In 2004-05 he served on the Ministerial Taskforce on Child Support and he has given evidence to the British House of Commons and to the British Minister for Work and Pensions. Dr Henman worked as a public servant in the Federal Government from 1996-99 and has held academic appointments at the University of Edinburgh, Macquarie University and the University of Queensland. Dr Henman holds a first class honours degree in computer science and a doctorate in sociology/social policy.