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19 February 2008

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 write following a request by the Senate Committee to provide comment on the Department of Families, Community Services and Indigenous Affairs' (FACSIA) submission to the Inquiry.

I have read the Submission by FACSIA, dated August 2007, and provide the following observations.

The Submission provides an important tabulation of data regarding the living standards of contemporary and future older Australians and the present policy responses to support their living standards. The data presented appears to be accurate and appropriate. The overall message of the Submission is that living standards among older Australians have been increasing in real terms in the past decade is supported by the evidence provided by the Submission. The data of actual outcomes for older Australians remains limited to the financial well-being data presented on pages 11 to 13. This provides a similar message to my Submission, which demonstrated that older Australians and Age Pensioners in particular had relatively less financial stress than working age households and income support recipients in particular. This is not to say that there are not people in this group facing severe financial stress, but that the proportion is less than other households. To really be comfortable about the adequacy of government support for older Australians other measures of adequacy in terms of both income (input) measures and output measures would be beneficial. For example, the internationally used poverty benchmark of half median income would show high levels of poverty among older Australians. FACSIA have avoided to use such benchmarks.

Furthermore, I do express a concern with a lack of consideration of the differences among older Australians. As we know, this is quite of diverse group. While the great majority of older Australians own their home outright, and this is an important factor supporting living standards in retirement, those who are reliant on the private rental market face quite different and greatly accelerating financial pressures. It is also worth noting that a considerable reason for the projected improvements in older Australians wealth and income results from the growth in superannuation, in large part due to the Superannuation Guarantee. This dynamic on the statistical analysis needs to be appreciated because it fails to adequately assess what is happening amongst those who continue to have no (or minimal) investments upon retirement. This is the group who are most vulnerable to changes in costs of living pressures. The FACSIA Submission does not give sufficient attention to this group. Rather, the perspective that everything is getting better is a result of a growing disparity within this group.

The FACSIA submission correctly notes the growth of Federal government support to older Australians over the last decade. However, it should be noted that several of these measures mostly affect more wealthy retirees, not those with minimal savings. These policies include the reduced taper rates, the easing of income and assets tests, the Pension Bonus Scheme, the Seniors Concession Allowance and the Self-Funded Retirees Supplementary Bonus. Of course, there are some developments that help those with limited savings, like the AWE uprating, the Utilities Allowance and some of the one-off lump sums payments. Overall, the Submission clearly demonstrates that there is strong case that income support (even for those with no other income source) have increased in real terms. Having said that, the basis of this claim relies on the ABS Age Pension Index to adequately reflect movements in prices faced by Age Pensioners. While I have no concern about the professionalism and accuracy of the ABS, their index reflects the Age Pension population and incorporates experiences of those on full and part rate Pension (due to different income and assets), as well as those in their own homes and those renting publicly and privately. My concern is that the large proportion of home owners, who face relatively small housing costs, will subsume those in private rental. Ideally, I would like the ABS to construct a CPI index for privately renting Age Pensioners who are on the full rate (rather than part-rate) Pension. This should give us greater assurance of the adequacy of the AWE uprating process. Having said this, Figure 9 suggests that such an index would need to be substantially different to the Age Pension index to suggest declining purchasing power. On balance, I would agree with FACSIA and the ABS data that indicates that there has been a real growth in income support to older Australians, however, I would suggest that the growth is not as large as FACSIA suggests for particular household types (namely those with minimal income/assets, receiving full-rate Pension and renting privately). In saying this, I repeat my observation in my original submission that there is significant concern among working age households reliant on income support, that they are facing higher levels of financial stress and disadvantage.

Given the observation that income support to older Australians has probably increased in real terms it begs the question as to why there is so much concern amongst that group. This is where we need to appreciate the difference between objective measures and subjective experiences. This difference is important and is a difference that the former Prime Minister Howard misread when he repeatedly said that Australian have never been better off. The objective figures said so, but the public did not feel it. Unfortunately, there is limited data with which to assess how older Australians sense their living standards and how this may have changed over time. Some general observations can be made. It may be that expectations amongst retirees are changing compared with previous cohorts who had lived through world wars and the great depression. Certainly, as a society, our expectations of living standards have changed, and this must include older Australians. Furthermore, it is not clear how pre-retirement incomes compare to post-retirement incomes. The FACSIA Submission refers to such measures – called replacement rates – on pages 23 and 24, but it fails to provide any useful data to see how this has changed. The data suggesting increased replacement rates says more about the growing level of retirement savings that (some, but not all) new retirees will have. In short, the statistics reflects a growth in the diversity of retirement incomes and does not say much about what is happening at the bottom end. Moreover, the growth in this diversity – or inequality among older Australians – of itself generates increases in subjective financial stress. As

people observe many more of their peers with greater living standards than themselves, this creates an acute sense of disadvantage, even if the objective measures suggest they are better off than ten years previously.

Subjective indicators of well being and financial stress may not be an adequate basis for policy decisions, but it certainly has a strong political component. Unhappy people need to be responded to. Despite this, I maintain my position in my verbal testimony that there remains an inequity between the funding of single and couple Age Pensioners. I have no doubt that this adds to the stress and sense of financial stress when a household of two become a household of one. The personal stories that your Committee will hear will help to put flesh on these subjective elements of well-being.

I trust my assessment of the FACSIA report has been helpful in your deliberations.

Once again, I thank the Committee for the opportunity to give evidence at your hearing in Brisbane. I look forward to reading your report and recommendations.

Sincerely,



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