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20th July, 2007

Mr Elton Humphery
Committee Secretary
Community Affairs Committee
The Senate
Parliament House
Canberra ACT 2600

Dear Mr Humphrey

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

The Brotherhood of St Laurence welcomes this inquiry. It provides an important opportunity to examine an issue of increasing concern to this organisation. The Brotherhood has worked with disadvantaged older people for over fifty years. In the 1990s, we grew increasingly confident that disadvantage amongst older people was declining. The commitment to adjusting aged pensions in line with the benchmark of 25% of average male weekly earnings was a significant reform. However, experience this decade is suggesting that the level of pensions and benefits is not keeping pace with costs of living. From our work with older people, we are aware of increasing examples of older people switching off the heating and seeking assistance from emergency relief agencies. Housing affordability and housing security are issues of concern to increasing numbers of older Australians. Single older people who are reliant on the pension as their only source of income, and older people renting in the private market, are particularly vulnerable to financial stress.

The organisation perceives this issue as a significant emerging policy issue which requires more attention by federal and state governments and the community and business sectors. Funding of further research on this issue should be a priority.

This organisation has been seeking to build a more informed picture of the nature and changing patterns of disadvantage amongst older Australians. In our submission, a more empirically-based understanding of disadvantage amongst older Australians needs to be built. The attached document is a report that has been prepared by our Research and Policy Centre. It provides a summary of some of the contemporary data on disadvantage and older people.

More policy development and costing work needs to be undertaken to build a better picture of the scale of poverty amongst older Australians and identify the options for addressing such disadvantage. The Brotherhood is committed to building a better understanding of the patterns and causes of disadvantage amongst older Australian. It is currently commencing an expansion of its research and policy formulation work on this issue. The results of this work will be released over the next 12 to 18 months. Improved recognition of the scale of this problem and expansion of research funding are important steps in addressing such disadvantage.

Key Issues

There are several key issues which we consider the committee should examine. These are:

- The adequacy of the adjustment formula for the aged pension;
- Additional costs of living for a single person and adjustments to the single aged pension to take account of these costs;
- The adequacy of rental subsidies and the need to adjust such subsidies in accordance with rental increases in specific geographic locations;
- Incentives and tax concessions to improve the level of superannuation savings for people on incomes less than \$40,000, aged 45 to 64, with low levels of superannuation savings.

We would be pleased to make a verbal submission to the Committee on this issue.

Yours sincerely

**Associate Professor
Gerard Naughtin
Senior Manager Social Policy and Ageing**



Background Paper

Disadvantage and Older People

Research and Policy Centre

April 2007

Foreword

The Brotherhood of St Laurence is concerned that the issues of disadvantage amongst older people are not being sufficiently addressed by social and economic policy.

This background paper has been prepared as part of the Brotherhood's work in developing a new policy agenda to prevent people slipping into poverty in their retirement years and alleviating economic and social disadvantages in retirement.

It provides a summary of some of the contemporary data on social exclusion and older people as background material for our planning process

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This report is based on work completed for the Brotherhood of St Laurence by KPMG.

Use of terms in this report

Research is used to encompass activities involving data collection, analysis, assessment of evidence, policy development and advocacy

Older people is generally used to refer to people aged 65 and over; in some sources this category includes women aged 60 and over.

1 Issues of ageing and disadvantage in Australia

This paper provides information on the trends and issues in key policy areas relating to ageing; including population changes, income and poverty among older people, retirement and workforce participation, housing tenure, health status and aged care services.

Australia has an ageing population profile, with older people living longer, healthier lives. In 1990 there were about 2 million people aged 65 or over in Australia. By 2000 there were 2.4 million older people, and there is estimated to be 4.5 million in 2020. The total population is not growing as quickly, and so the proportion of older people is expected to increase to about 25% of the population by 2050.

Population ageing is widely considered to be a problem for two reasons:

- the increased proportion of people of retirement age in relation to the population of working age (the aged dependency ratio)
- the expected costs of an increase in demand for subsidised health and aged care services.

The changing age profile of Australia is caused by both a decrease in fertility and an increase in life expectancy. Life expectancy for a man aged 65 in 1964 was 77, by 2004 life expectancy had increased to 83 years. For women, average life expectancy at 65 has increased from 81 to 86 years. Increased life expectancy means that people retiring now and in the future will have a longer and more active period of retirement than previous generations.

1.1 Planning for an ageing Australia

Policy for the future is generally made by looking at the past, but it is now clear that the priorities and needs of the future population will be different from the past, and research is needed to understand the requirements for future policy. The life history, expectations and needs of older people into the future may not be the same as the current generations of older people.

When looking at data from the past in order to plan for the future, we need to consider three ways in which groups of people can differ from each other over time:

- *age effect* – these are related to life course, and the usual pattern of building up assets over a working life and drawing on the value of these assets in retirement
- *period effect* – the life course of people can be influenced by the period in which they live, with incomes and the wealth people can build being affected by living through a period of high unemployment, high house price rises, or other factors
- *cohort effects* – behaviour at a certain age can change over time, with significant variations between generations, such as the changes in women's working patterns than mean women now reaching retirement have a substantially greater level of workforce participation than did women in earlier cohorts.

The nature of the impact of an ageing population in Australia will be particularly influenced by period and cohort effects. People who are currently retiring or planning to retire have different expectations of their retirement lifestyle than those of previous generations. Many predictions of the negative economic impacts of an older population have assumed that the older population of the future will be essentially the same as the older people of recent decades.

In the past a large proportion of retirees have relied on the age pension for income and have lived with limited means. The rise of mandated superannuation provisions and the rapidly increasing values of housing and stock assets in the last decade mean that future generation of retirees have a greater average level of wealth for their retirement. However, a focus on the increase in average wealth can overlook those older people who have lived on low incomes and who do not own housing and stock assets. These older people are financially and socially disadvantaged, and would be further disadvantaged by policy changes focused on the average wealth and income of older people.

It is apparent that the baby boomer generation holds a greater expectation of lifestyle in retirement than earlier generations. Therefore the behaviour of the current older generation, people born between 1900 and 1942 and who lived through depression and war, is not a reliable basis for estimation of the behaviour of people born after the war, who grew up and worked in a different social and economic environment.

Demographic changes in coming decades will have significant impacts on the nature of Australia's economy and society. An Access Economics report on population ageing and the economy argues that the older population will be the primary drivers of growth in consumption spending and that employers need to value older workers.

The ageing of the population represents a fundamental change in the Australian economy's structure. If we approach this new era with the attitudes of the past, then an ageing population may well have many negatives for the economy. Alternatively, there is much to be gained if we update our attitudes and embrace the challenges of a maturing population. (Access Economics 2001)

Older people have a higher level of home ownership and therefore a greater level of wealth. This equity value of the home is now becoming accessible through new financial products such as reverse mortgages.

As longevity increases, there are concerns that retirees may not have enough superannuation to allow a comfortable longer life. Early retirement has become a popular option, either for lifestyle reasons or due to unemployment or disability. There are concerns that early departure from the workforce can significantly reduce potential income in retirement.

The government has sought to address these issues by developing policies to facilitate the continued workforce participation of older people. This has included raising the preservation age for accessing superannuation, and new proposals to allow partial access to superannuation as an income stream while people of retirement age are in the workforce part-time.

The new model for retirement funding is superannuation where sufficient, or a combination of superannuation, the age pension and tax concessions to enable welfare in retirement for those whose superannuation is insufficient.

Higher levels of workforce participation will be needed to support continued economic growth and tax revenues to support a greater retired population. Policies are being developed to promote flexible work opportunities for older people wishing to continue working part-time, as well as parents of young children, to increase the workforce participation rate. Also, a reduction in the unemployment rate will reduce the level of low-income households of working age and reduce the tax burden in this area.

1.2 Population projections

Population projections by the Australian Bureau of Statistics show that the number of people of working age or younger is not expected to increase significantly in the next 50 years, with the greater part of population growth occurring in the 65 and older age group. Much of this is due to the 'baby boom' generation born between 1946 and 1965, who will move into the 65+ age group from 2011.

In 1980, 10% of Australia's population were aged 65 and over. By 2000 the proportion was 13%, and by 2020 it is estimated that 18% of the population will be 65 and over. This growth is expected to stabilise at about 25% of the population by 2050. The change in population profile is caused by reductions in fertility and mortality, in comparison with earlier generations. The following figure shows the changing population profile that has been projected. There have been some changes in the population age mix since 1980, particularly in the middle years, with noticeable increases in the older age groups to be seen by 2020.

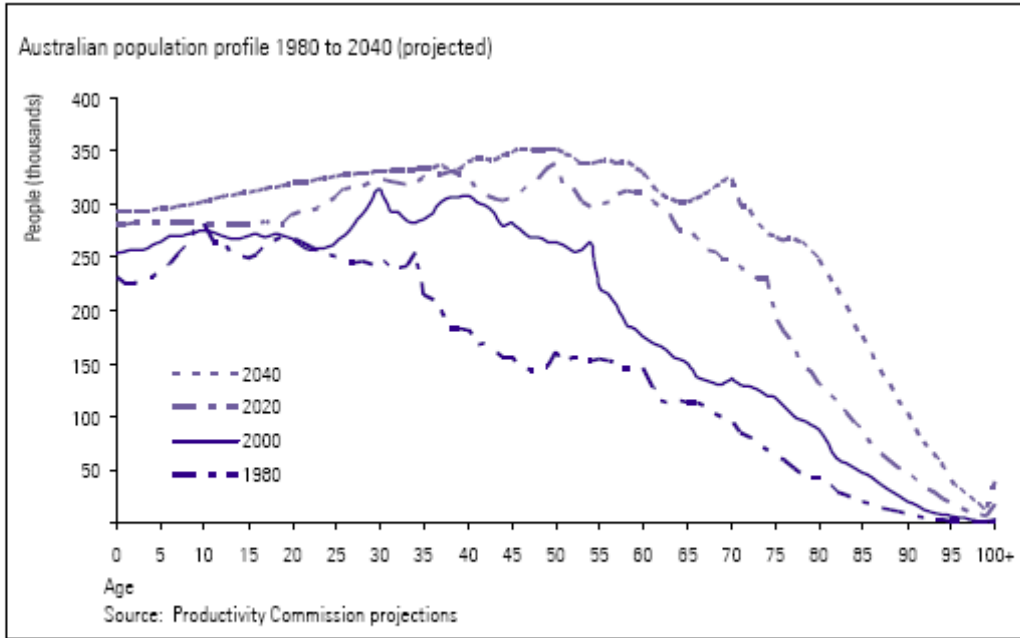


Figure 1: Australian population profile 1980 to 2040 (projected)

As people live longer, the age profile among older people is also changing. In 1980, 7% of the 2.4 million people aged 65 and over were aged 85 or over. By 2010 this is estimated to be 14%, or over 400,000 people across Australia. By 2040 there is estimated to be 1.3 million people aged 85 or over, nearly 20% of all older people. The following figure shows the projected growth, from less than 1 million people aged over 65 in 1970 to over 8 million in 2050.

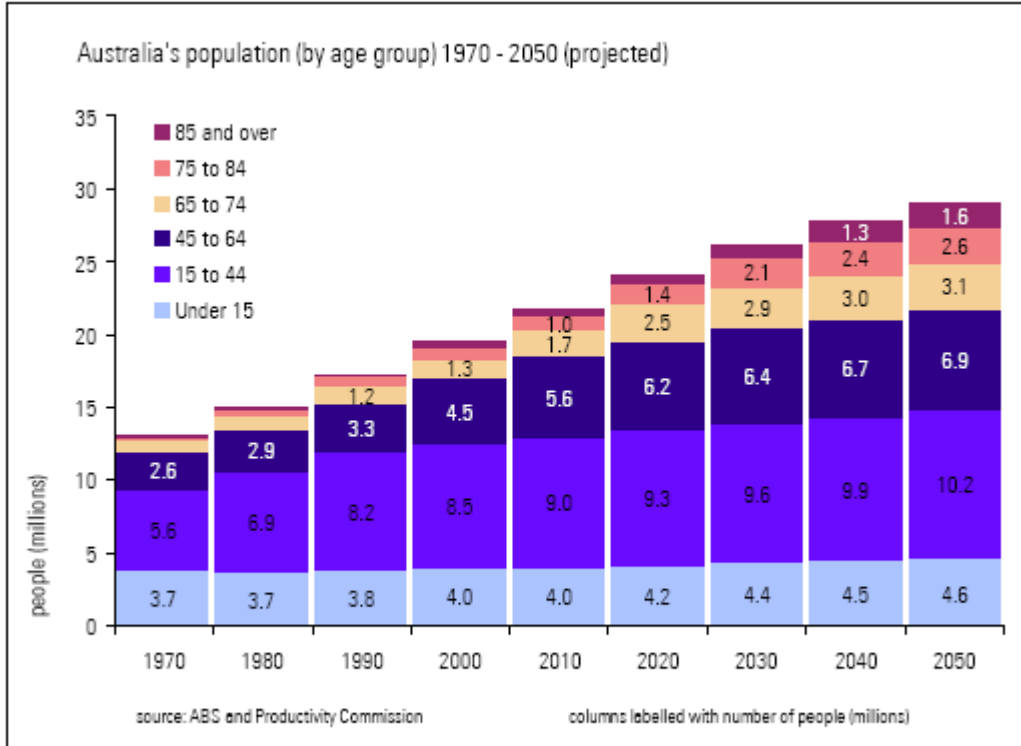


Figure 2: Australian population by age group, 1970 to 2050

1.3 Wealth, income and expenditure

Australia is a prosperous country, and wealth and incomes are growing. But the benefits of this prosperity are not evenly distributed. In 2003–04, the least wealthy 20% of households owned 1% of total net household wealth, while the lowest income 20% of households received 5% of gross household income. (Australian Bureau of Statistics 2006(c))

Income and wealth are related but separate measures of financial wellbeing. The accumulation of income over time is the way in which most households build wealth. Older people have on average lower incomes and greater wealth than those in the prime working years who have on average higher incomes, and higher financial obligations for children while building wealth through purchasing a home.

Wealth of older Australians

A NATSEM study compared the income and wealth of older people between 1986 and 1997, looking at households where the head of household was aged 65 or over. Over the eleven year period, the estimated average wealth of older Australians increased by more than 90%. This increase was particularly driven by increasing house prices, accumulated superannuation benefits and the increased take-up of share ownership by Australians. (Harding, King & Kelly, 2002)

The share of household wealth held by households aged over 65 rose from 17% to 27% over this period. This was not just due to the increasing proportion of the population in this age group; average wealth per older person rose significantly over this period. However, the study found 'a growing divergence in the economic fortunes of older Australians'. (Harding et al 2002).

The transfer of wealth between generations has traditionally been a contributor to household assets and retirement incomes, but this is also changing. The current generations of older people, living much longer lives than their parents, are retaining their assets for their own use. People are reaching retirement age while their parents are still alive, in much greater numbers than ever before. This leads to the potential for inter-generational conflict about the use of financial resources.

Incomes and expenditure of older Australians

On average, the incomes of older people grew slightly more than for younger people over the years from 1986 to 1997. However, this masked distributional changes, as the income share of the upper quartile of older people increased, while the share of the bottom quartile decreased. (Harding et al 2002)

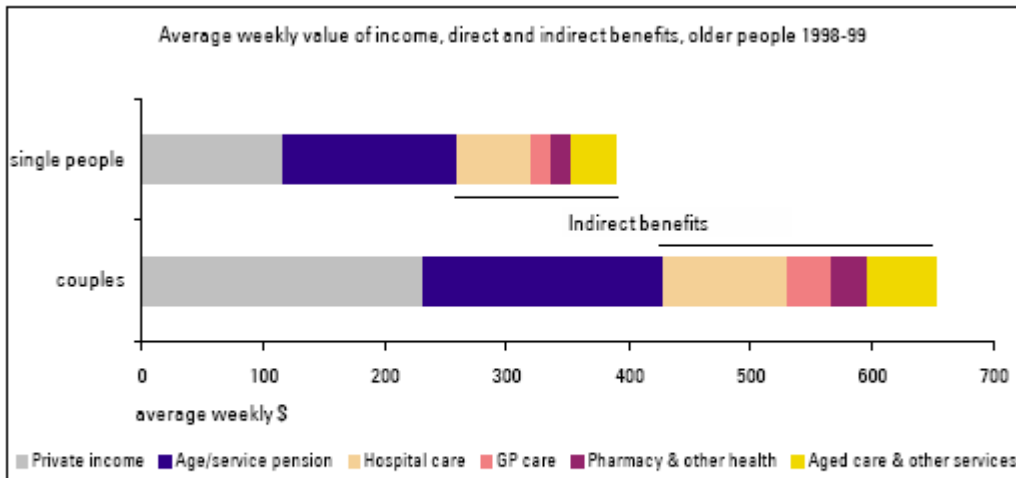
The high proportion of older people receiving the age pension has generally provided a more even distribution of income across older households. Currently, about 83% of the population of age pension age receive a pension – 68% a full pension and 15% a part pension. This includes recipients of the Age Pension, Service and War Widows Pensions. This high level of dependency on pension payments means that older people's income and welfare are strongly influenced by the level of pension payments, allowances and other benefits, and the means test for pension eligibility.

Direct and indirect benefits

In addition to the Age or Service Pension, most older people receive a range of direct and indirect benefits from governments. Direct benefits include additional cash payments (known as allowances) made to pensioners, as well as a range of indirect benefits such as access to subsidised medications through the Pharmaceutical Benefits Scheme (PBS), and concessional rates for many services provided by state and local governments.

These benefits can form a substantial part of the overall income of older households. The figure below shows the average level of these benefits for older households, as calculated by the ABS in 1998-99.¹ While these dollar values are outdated, the proportions of total income provided by these benefits may not have changed significantly.

¹ This is the latest edition of this analysis available from the ABS. A new edition of this report using data from 2003-04 will be released in mid-2007.



Source: Government benefits, taxes and household income, Australia, 1998-99, ABS

Figure 3: Average weekly value of income, direct and indirect benefits, for older people, 1998-99

This figure shows the average weekly value of income and benefits for all older households across all levels of income. For many people receiving the Age or Service Pension, the level of private income is substantially lower than the average. The ABS valuation of indirect health benefits (hospital, GP and pharmaceutical) shows that the value of these benefits can be considerable for many older people. (ABS 2001(b))

The Australian Government issues two concession cards which allow access to a range of benefits for older people:

- *Pensioner Concession Card (PCC)* is available to all recipients of the Age or Service Pensions – 3.15 million card holders in 2006
- *Commonwealth Seniors Health Card (CSHC)* is available to self-funded retirees of Age Pension age with income below a certain level – 300,000 card holders in 2006.

These cards entitle the holders to a range of direct benefits, as well as indirect benefits through access to subsidised and discount services from at the federal, state and local government level.

- Direct benefits are available to eligible pensioners and holders of the CSHC through specific allowances:
 - rent assistance paid to pensioners renting privately who pay more than a threshold rent
 - utilities allowance (\$106 in 2006-07) paid to pensioners to subsidise the cost of utilities bills
 - telephone allowance (\$85.60 in 2006-07)
 - seniors concession allowance is paid annually to holders of the CSHC, to recognise the value of the concessions available to holders of the PCC which are not available to holders of the CSHC (\$214 in 2006-07).

- Health benefits are available to holders of the PCC and CSHC:
 - concessional rate for PBS pharmaceuticals
 - eligibility for bulk-billed GP services where available
 - reduced threshold for cap on non-hospital medical costs through the Medicare Safety Net
 - subsidised hearing, dental and ambulance services (pension recipients only).

The value of health benefits and concessions, and the hospital services available through Medicare, were estimated to comprise 25% of the average weekly income of older people in 1998-99. (ABS 2001(b))

- Indirect benefits available to holders of the PCC:
 - council rates – generally a percentage reduction of the total rates due, up to a maximum level. Some councils have introduced a deferred payment scheme for older residents, where the rates accumulate as a debt against the property until the death of the ratepayer.
 - water and sewage charges – generally a percentage reduction up to a maximum annual concession
 - concessional private vehicle registration
 - concessional public transport fares
 - concessional rates of stamp duty on property purchases.

The value of these other indirect benefits is more variable, depending on property values and transport usage of households.

These benefits and concessions provided by all levels of government are important to managing some of the costs of living for older people, particularly those in poor health. The greatest value accrues to older people in receipt of an Age or Service Pension. As the proportion of older people in receipt of pensions decreases, so will the proportion eligible for these direct and indirect benefits.

Eligibility for the PCC was originally restricted to recipients of a full pension, but was expanded to part-pension recipients in 1993. In 1994, access to some concessions was further expanded to self-funded retirees through the CSHC. This extension of concession eligibility may have resulted in reductions in the value of the concessions available to recipients of a full pension. A subsequent Parliamentary Committee report on concessions eligibility found that some concessions provided to PCC recipients by state and local governments had been reduced in response to the greater costs of subsidising these concessions for a broader range of people. (House of Representatives Standing Committee on Family and Community Affairs, 1997)

A more recent Parliamentary Committee addressed the role of concessions in addressing poverty and recommended that ‘priority for access to concessions be directed to low income pensioners and allowees’, rather than further expanding concession eligibility. (Senate Community Affairs References Committee, 2004)

Living costs

Expenditure patterns of older people are influenced by their level of income, as well as their stage of life, home ownership and health. The ABS survey of Household Expenditure found that in 2003-04, older couples had an average income of \$620 per week, and an average expenditure of \$615 per week.

Older couples spent an average 21% of their income on food, 10% on housing costs, 15% on transport, 8% on medical and health costs, 15% on recreation activities, and 3% on domestic fuel and power. Despite higher levels of home ownership among older couples than other age groups, the proportion of expenditure on housing was similar to people in their 50s. These costs are mainly fixed costs of home ownership, such as rates, insurance and maintenance, which although a lower dollar value than other age groups forms a higher proportion of the fixed incomes of older people.

Older people living alone spent an average of \$351 per week, with 21% spent on housing costs, 18% on food, and 10% each on transport and recreation.

These average levels of expenditure for older couples and single people are substantially greater than the level of income provided by the Age Pension. In 2006, the Age Pension for a couple who own their home was \$417.20 per week, or \$249.85 for a single person. Pensioners who do not own their home receive an additional payment of rent assistance, taking the total weekly payment to \$464.70 for a couple and \$300.15 for a single person.

This suggests that the mean figures for weekly income and expenditure provided by the ABS are not a good indication of the financial situation of the majority of older people. The median value would be a better indicator of the real level of income and expenditure for people over 65, but this figure is not provided in the ABS analysis. The ABS does indicate that older people are more highly represented in the lowest two income quintiles than in higher quintiles. The mean weekly expenditure for the lowest household income quintile is \$413, which is more consistent with the income level of the Aged Pension. If older people receiving the full age pension spend at the average level of expenditure for their age group (\$615 for couples or \$351 for singles), to achieve the average standard of living provided by this expenditure, they would have to be drawing significantly on the value of assets and any other income to sustain this expenditure.

For single people and families dependent on income support payments, the maximum allowance payable is lower than the Henderson Poverty Line. This is not the case for aged pensioners, where the level of the pension is greater than the poverty line for both single people and couples. In 2006, a couple receiving the full pension, and own their home, received \$150 per week more than the poverty line. A single person who did not own a home only received \$29 more than the poverty line each week.

In this regard, people on the age pension may be seen to have less of a risk of poverty than unemployed families with children. However there are many variations in the needs of older people and their access to affordable housing can be constrained, increasing their risk of poverty given their proximity to the poverty line.

Older people must have access to sufficient income to provide for their basic costs of living, housing costs (the fixed costs of home ownership or rent) and the additional costs of ageing. These costs of ageing can include health care services, medication, hospital admissions, in-home care services, mobility aids and equipment and home modifications to accommodate reduced mobility. There are a number of programs to subsidise the costs of older people, which are administered by a range of agencies with different eligibility criteria and access arrangements. There appears to be little research to assess the suitability of these various subsidies and concessions to meet the needs of low-income older people.

1.4 Work and retirement

Australian men traditionally retired at the age of 65, and women at 60, if they had ongoing involvement in the workforce. There was a clear difference between work and retirement, observable both in incomes and in the activities of older people.

Now the boundaries between work and retirement are blurring. Many people are retiring earlier, or staying on the workforce past retirement age, often working on a casual or part-time basis. The ABS estimates that the average age of retirement for current retirees in 2004-05 was:

- 58 years for men (with 56% having retired before 65)
- 47 years for women (54% having retired before 60) (ABS 2006 (a))

In 2005, most men aged 55-64 were still in the workforce, with 65% in employment, of which 16% were employed part-time. This was an increase on much of the previous ten years, in which about 61% of that age group were in employment. Women aged 55-64 had a 44% participation rate in 2005, an increase from 28% in 1995. Part-time work is common for women in this age group, with 50% working part-time. (ABS 2006(c))

Some women continue to work past the traditional female retirement age, with 29% of women aged 60-64 in 2005 still in the workforce, as well as 4% aged 65 and over. (ABS 2006(c))

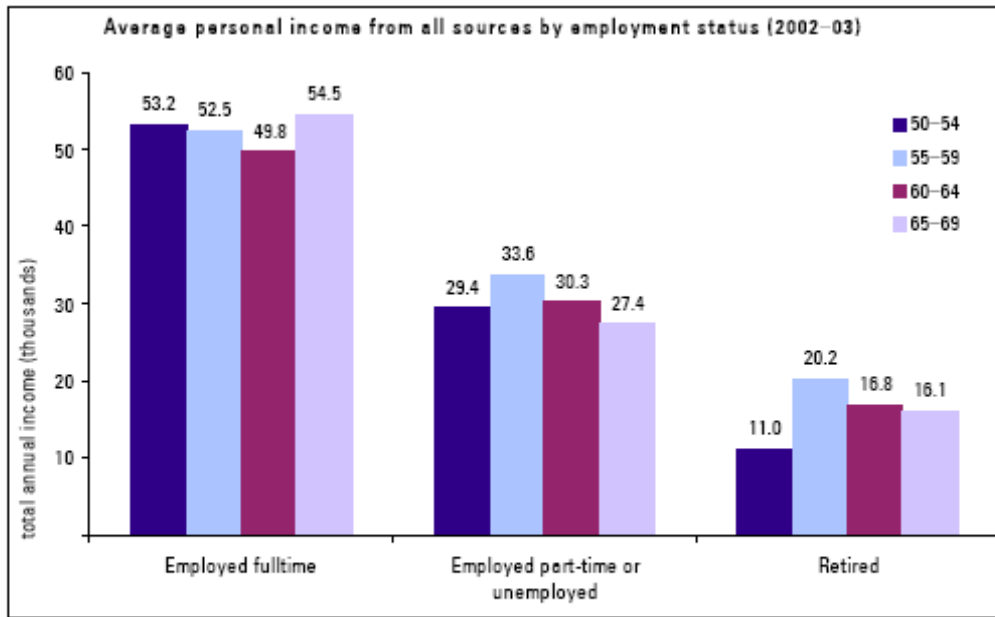
Early retirement is of concern for policy-makers, as reduced workforce participation by people aged 55 to 64 reduces the capacity of the economy to support the increasing health care and social welfare costs of an ageing population, as well as lowering the living standards of early retirees.

Early retirement is not an indicator of affluence for most retirees. Research from NATSEM highlights the “two worlds of young retirees”.

One small group is retiring with significant assets and continuing to enjoy a higher income, while a larger group is leaving the labour force (perhaps involuntarily) with very little, if any, income or superannuation. (Kelly, Farbotko and Harding 2004)

Retirees aged 50-54 have the lowest level of income of all retirees, equal to 20% of the annual income of full-time workers of the same age. This can be made more difficult by the presence of children in retiree households. In households aged 50-54, 52% of households still have children living at home. Of households aged 55-59 years, 32% still have children at home, and 20% of households aged 60-64 years.

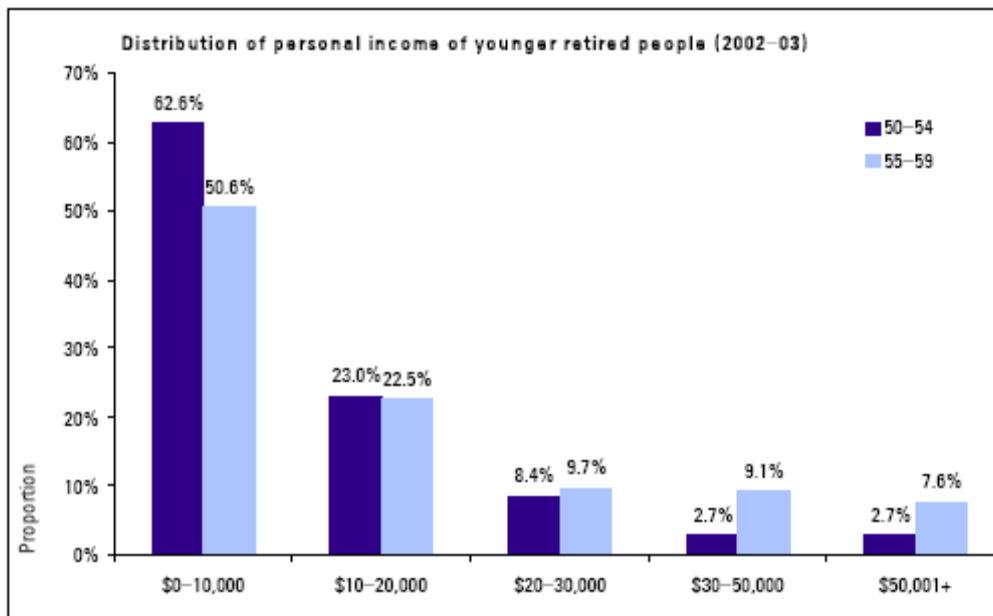
The figure below shows the differences in income levels between retirees and workers in each age group.



Source: AMP/NATSEM Income and Wealth Report, March 2004

Figure 4: Average personal income for people aged 50-69, by employment status

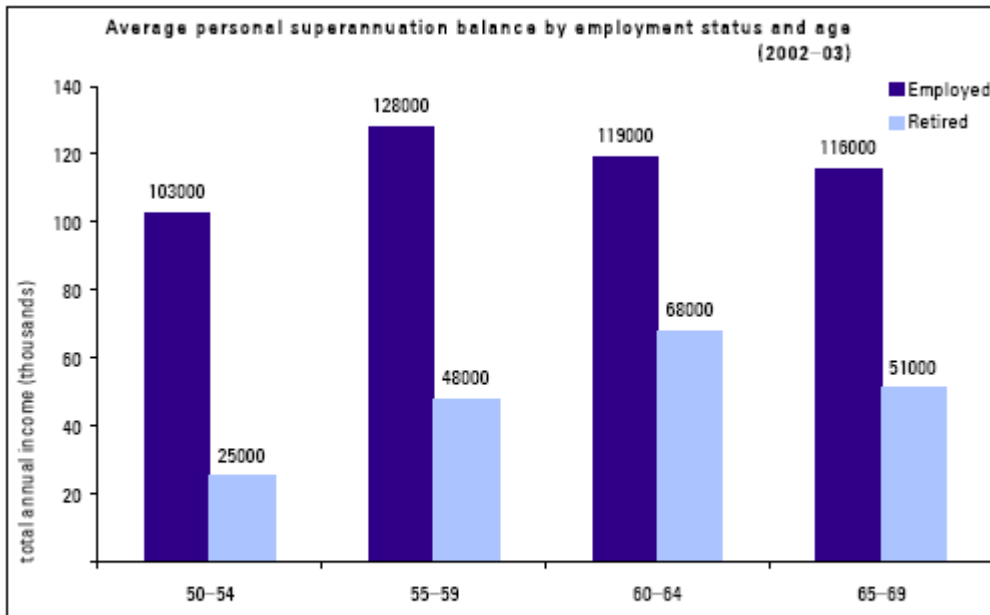
The average income level conceals the level of disadvantage of many of these people, which can be seen when looking at the distribution of income among early retirees, as in the following figure.



Source: AMP/NATSEM Income and Wealth Report, March 2004

Figure 5: Distribution of personal income of younger retired people (aged 50-59)

Among recent early retirees (retired less than one year) aged 50-54, more than 60% have less than \$10,000 in superannuation, with the average superannuation balance being \$25,000. Only 18% of this group have a level of superannuation that can provide a reasonable retirement income in old age. People aged 50-69 who are still working have average superannuation balances over \$100,000, as shown below.



Source: AMP/NATSEM Income and Wealth Report, March 2004

Figure 6: Average personal superannuation balance for retirees and workers

Recent research published by the Australia Institute explored the retirement expectations of baby boomers, who began reaching 60 in 2006. This research contradicts the social perception of affluent baby boomers, reinforcing the NATSEM research findings of low superannuation provisions and also finding that many people approaching retirement are not conscious of their limited capacity to fund their retirement expectations.

At a time when individuals are increasingly expected to self-fund in retirement, baby boomers have become the 'bunnies', caught in a situation in which they are being asked to do something they do not have the capacity to do. Because compulsory superannuation was introduced late in their working lives, the boomers have become subject to the new expectations of self-provision without having had the opportunities to save enough to provide fully for retirement. Of course, in this situation, lower income earners are disadvantaged in two ways - as against other generations and against wealthier members of their own generation. (Hamilton and Hamilton 2006)

Involuntary retirement

Retirement is not necessarily a voluntary action. There has been limited research conducted with retirees to understand their retirement choices, but some factors underlying reasons for the high level of early retirement are broadly supported:

- an increased uptake of the Disability Support Pension over the last decade, particularly by men, has facilitated early retirement for people with limited skills, and particularly recognising the high injury risks in manual labour
- a low level of demand for unskilled labour, particularly by men, leading to separation from the workforce
- the level of education among current mature workers is lower than that of younger workers and can further reduce the demand for older workers
- negative perceptions of the capacity of older workers by employers can limit the employment opportunities of mature workers.

Retrenchment from a job is a factor in early retirement, as mature workers can have difficulty finding new employment. This is particularly a risk if the retrenchment is from an industry that is experiencing a transition, and where there may be limited opportunities for workers to find similar positions.

In 2001, an ABS study looked at the outcomes for people who had been retrenched in the previous three years, and found that a significant proportion of people aged over 55 had left the workforce. (ABS 2001(a))

Table 1: Employment status for people retrenched in previous three years (2001)

	Employed	Unemployed	Not in workforce
Men			
45-54	69%	20%	11%
55-64	51%	12%	37%
Women			
45-54	67%	9%	23%
55-64	45%	3%	52%

The HILDA (Household, Income and Labour Dynamics in Australia) Survey has also enquired about reasons for early retirement, and found that ill health can be a significant contributor. Of retired people, 36% reported that their retirement was involuntary, and a further 10% said that it was somewhat involuntary. Their own ill health (25%) or ill health of a family member (6.3%) were significant contributory factors to retirement. (Headey, Warren, and Harding, 2005)

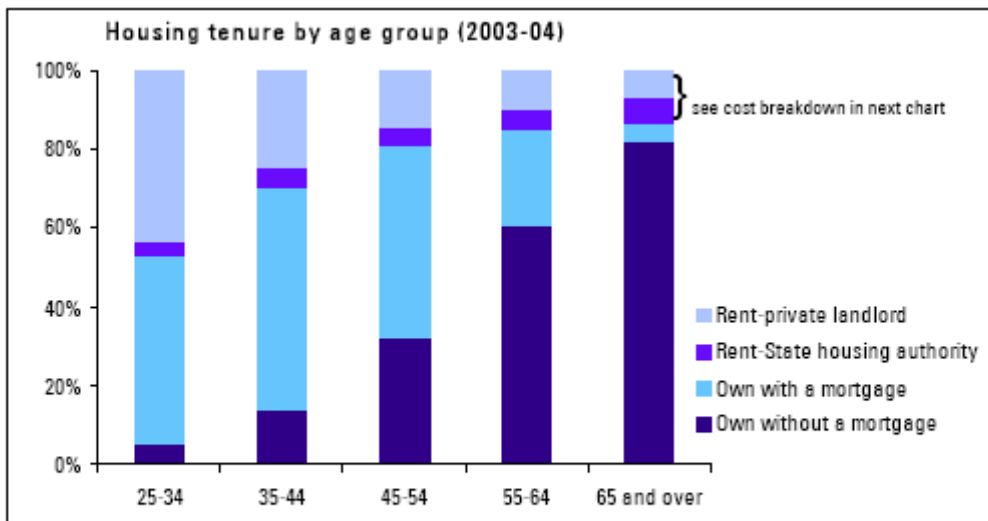
While early retirement of low-income people is generally seen by government as an economic problem, the complexity of the situation has begun to be acknowledged:

Some of the poor labour market participation rates of older people reflect transitions in the nature of the Australian economy over the past 25 years and the potentially scarring effects of major recessions. For example, the decline of labour intensive parts of manufacturing lowered the demand for blue-collar male jobs, which were disproportionately held by people without post-school qualifications. The disadvantages faced by this group were accentuated by several deep recessions that led to significant layoffs of mature workers who never got a job again. The corresponding group of older, less skilled males in the 2030s and 2040s will be in different industries and face different pressures. (Productivity Commission 2005, p 362)

While the Productivity Commission suggests that this situation is a cohort affect, and less likely to be a problem for future generations, there is a need to address the disadvantage of the current cohort of low-income early retirees.

1.5 Home ownership and housing alternatives

Most Australians aspire to own their own home, and home ownership is high for the current generations of older people. The following figure shows the pattern of housing tenure across the age ranges.



Source: ABS Housing Occupancy and Costs, Australia, 2003-04 4130

Figure 7: Housing tenure by age group

Home ownership has been an integral part of retirement savings for most Australians. Among households aged 65 and over, 79% own their home, and a further 4% are continuing to pay a mortgage. For those paying a mortgage, the average outstanding value is about \$37,000.

The average age at which people enter home ownership is increasing – primarily due to the sustained increase in housing prices, changes in family structure, education and employment patterns. This raises concerns that the policy assumption of home ownership underpinning the retirement of a large majority of older people may not be sustained for future cohorts.

While 79% of households 65 and over own their home, only 57 % of those aged 55 to 64 are in the same situation. Another 24% of that age group are paying a mortgage, with an average outstanding mortgage value of \$71,000. (ABS 2006(b))

The situation for people nearing retirement age has changed over recent decades. In 1982, 56% of people aged 50-59 owned their own home without a mortgage, by 2003-04 this had fallen to 46%. In the same age group, the percentage living in a home where they are paying a mortgage went from 28% in 1982 to 38% in 2003-04. (ABS 2006(c))

The combination of lower rates of home ownership, higher outstanding mortgage values and levels of early retirement indicate that a greater proportion of people about to reach retirement age may experience housing stress in retirement than is the case for the current groups of older people. In addition, the lack of an established asset base in the form of a house can limit the financial options in retirement.

The uneven distribution of the housing price boom has also had an impact on the affordability of retirement housing. Older people selling their home to move into a retirement village or smaller home are receiving very different values. Those selling lower value homes have fewer affordable choices of retirement housing.

The Australian Housing and Urban Research Institute (AHURI) continues to conduct research on the housing needs and housing costs of older people, and the potential impact of reduced home ownership on the wellbeing of future cohorts of older people.

Older people in rental housing

Among households aged 65 years and over, 14% live in rental housing, with approximately half of these households renting through a State housing authority and half renting privately. Households aged 65 and over are the largest group of State housing authority tenants, being 27% of all tenant households.

While the proportion of older households (6.5%) renting privately is substantially lower than in other age groups, this constitutes over 100,000 older households at risk of financial stress due to the cost of rent.

The costs of renting have significantly greater impact on the fixed incomes of older people. Households aged 65 and over who are renting privately spend an average of 33% of their income on housing (shown in the figure below). These older renters pay a higher average proportion of their income on housing than any other age group in any form of housing.

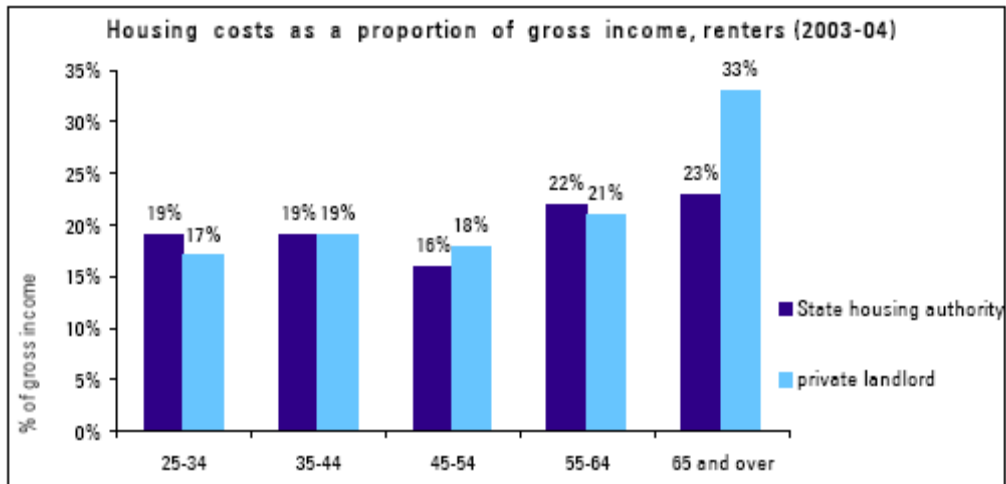


Figure 8: Rental housing costs as a proportion of gross income

Australia has traditionally had a higher level of home ownership than in Europe, and this has influenced the development of the private rental market and social housing programs. Private rental agreements are generally of shorter term in Australia than in nations with lower home ownership, reducing the security of tenure and increasing the risk of rent increase for tenants.

Housing to 'age in place'

The concept of 'ageing in place' is central to the provision of aged care services in Australia. Older people generally want to stay in their own home for as long as possible, and community care services are designed around the assumption of older people living in secure and appropriate housing. To be suitable for ageing in place, housing must be secure, affordable, appropriate for the physical capability of the older person, and located in an area where social supports and facilities are readily available.

Despite the high level of home ownership by older people, there are groups of older people who will be disadvantaged in access to care and support services. AHURI has identified four subgroups of older people with low income or assets who are disadvantaged in accessing community care services:

- homeowners whose assets are not sufficient to fund access to alternative accommodation or care services
- people renting with limited assets
- people renting with little or no assets
- people who are homeless or at risk of homelessness.

The housing price boom has resulted in some older people receiving very high prices when selling the family home, and the increased availability of these funds has contributed to the increasing prices of age-appropriate housing, such as retirement villages and 'lifestyle apartments'. These price rises mean that an increasing proportion of older homeowners can be excluded from these housing options due to the lower value of their family home.

Many older people consider 'downsizing' their housing, moving to a smaller home on retirement. As prices rise and apartment living and 'low-maintenance' homes become more popular with all ages, older people are competing for these options in a more competitive housing market.

The changes in the housing market have contributed to an expansion of the problem of affordable housing options for older people, which had previously been limited to non-homeowners. The reduction in social housing and the move to rental allowances in recent decades has also contributed to the reduction in housing options for low-income older people.

1.6 Health and wellbeing

Older people are widely perceived as being frail or unwell, but the current generations of older people are healthier and living longer than earlier generations. American and European longitudinal studies of ageing have found that the broader social perception of ill-health among older people was not matched by the perceptions of older people.

Although elderly people may be taking an average of three to eight different medicines and may be chronically ill in the eyes of their physicians, they often do not regard themselves as sick... Subjectively, two out of three elderly individuals perceive their own health as superior to that of their peers, whereas only one in seven feels less healthy than their peers. (Vaillant and Mukamal 2001)

The two main issues of current focus in the health and wellbeing of older people are chronic disease management and mental health. The prevention and management of chronic disease is a national priority for all ages, but particularly for disease management in older people, where the effects of chronic disease can be most significant. Chronic disease management for older people is focused on cardiovascular and respiratory conditions and diabetes, which can reduce life span as well as quality of life, and arthritis and musculoskeletal conditions which reduce quality of life. Over 40% of deaths of older Australians are from cardiovascular conditions.

Poor health is closely linked with poverty. The onset of chronic disease in working-age people can reduce the capacity to work and therefore increase the risk of disadvantage and poverty. People whose working life is cut short by ill-health are at greater risk of disadvantage in retirement. Rates of chronic disease are also higher in low-income communities, indicating a two-way relationship between disease and disadvantage. Much chronic disease stems from risk factors such as smoking, diet, obesity and exercise, and the related physical increases in blood pressure and cholesterol levels.

Community health services and hospital outreach programs are increasingly providing exercise programs, dietary advice, and other health promotion services to older people, to allow them to maintain their health and manage any existing chronic disease.

Mental health in older people is a growing concern for health services. This includes the effects of cognitive decline due to ageing and some diseases, organic dementia, and psychological illness. Measures of mental health across the community show that older people have lower rates of mental illness than do younger people. However some researchers have suggested that this may be due to a lower frequency of diagnosis, with the mistaken attribution of the condition to the ageing process. Mental health services are generally targeted to working-age people and there may be personal and cultural barriers for older people in accessing these services. The Australian Government has recently funded 'Specialist Mental Health Workers for Older People' to work with aged care assessors to address the particular mental health needs of older people as part of aged and community care programs. These mental health workers are commencing services in 2006-07 and there is the potential for this service to identify the broader level of mental health service need within the older population.

'Health ageing' is a key policy area of governments and there is ongoing clinical and social research in this area, seeking to find ways to minimise the burden of disease and the costs of health care through better and more efficient health care services.

Understanding wellbeing

Research with older people has identified a range of factors that influence wellbeing:

1. objective physical health
2. subjective view of physical health and ability to carry out tasks of daily life
3. length of active life (number of years without objective or subjective physical disability)
4. objective mental health
5. subjective life satisfaction over the last 20 years
6. social supports through relationships with friends and family.

This broad range of factors allows the assessment of older people, and their ability to respond to the challenges of ageing, along a continuum of wellbeing. This more holistic approach to wellbeing is increasingly being incorporated into health service planning, recognising the need to support all aspects of older people's wellbeing.

It can also be seen that many life events can affect one or more of these factors and therefore risk reducing the wellbeing of people as they age. Social service providers are now becoming more aware of the interrelationship between these factors and are developing additional programs and services to contribute to people's wellbeing.

Premature ageing

In addition to broader population ageing, there is a cohort of people who experience premature ageing. There is little data available to determine the size of this cohort, but many of the members are likely to be in need of social support services at an earlier age.

Premature ageing may be caused by disability, disease or life experience. These factors can accelerate or exacerbate the normal biological, psychological, functional and social changes that are a result of the ageing process. Particular people at greater risk of premature ageing include:

- people with Down Syndrome and other chromosomal disorders who experience the physical impacts of ageing at a younger age
- people with musculoskeletal and neurological conditions experience fatigue and associated functional limitations which are exacerbated by the affects of ageing (AIHW 2000)
- people who have been homeless for considerable periods of time experience ‘harsher living circumstances’ that contributes to premature ageing (AHURI 2005).

A 2003 survey found that over 1.8 million people aged 15 to 64 years have a disability causing core-activity restrictions or limitations to their range of activities. (ABS 2004) The following table shows the percentage of people in each age range that have either a severe core activity restriction, or some specific limitations to their ability.

Table 2: Aged-standardised prevalence rates of disability (1998)

	15 to 64 years	65 and older
Severe core activity restrictions	3.3%	19.6%
Specific restriction or limitation	12.4%	45.5%

Studies of disability prevalence in Australia have found that the number of people aged 15 to 65 reporting a disability increased in the 1990s. In part this was due to the increase in the proportion of the population aged 45 and older who are reaching an age of higher incidence of disability. (AIHW 2000)

The affects of premature ageing include increasing frailty and reduced functional capacity, particularly ability to manage activities of daily living. These people are therefore in need of support services which are generally provided to older people, and can experience difficulty in accessing such services. (AIHW 2000)

The National HACC guidelines allow services to be provided to people experiencing premature ageing, as eligibility is based on the level of frailty and disability rather than age. There is potential for some of this group of people to be receiving appropriate support services through HACC. However, not all HACC providers recognise the needs of this group, and these people are likely to be reliant on income support payments and social welfare organisations.

1.7 Aged and community care

The aged care services system in Australia provides both residential and community care services. The principal policy relating to the needs of older people is 'ageing in place'. This aims to meet the support and care needs of older people to maintain quality of life at home, rather than through institutionalisation. The concept of ageing in place is well established and people expect to stay in their own home, with additional support services where necessary, for the rest of their life.

Residential aged care

Residential care is provided for people with the need for ongoing care and support that cannot be provided in their own home. The Australian Government funded over 160,000 residential aged care places across Australia in 2005 and has a target of 200,000 places in 2006-07. Residential aged care accounts for 70% of total aged care expenditure by governments, and about 5% of older people live in residential care facilities. More than half of residents are aged 85 or more.

Two levels of residential care are provided – low level and high level care. Low level care comprises 38% of residential places currently funded and provides personal care and support services with access to allied health services. High level care comprises 62% of the aged care places currently funded, and provides 24 hour nursing care as well as personal care, support services and access to allied health services. Over the last decade, the focus has moved more to high level care, with an increase from 58% of residents assessed for high level care in 1998 to 68% in 2005.

Changes in planning and funding arrangements for residential aged care have changed in recent years, increasing the risks for disadvantaged older people. The distinctions between nursing homes and hospitals have lessened as the focus has moved to providing more high level care. People who need accommodation but who do not have high level support needs are less able to gain a place in a residential hostel, and have limited housing options. The requirement for an accommodation bond for low level care is also an impediment. Boarding houses have in the past been seen as an option for older people needing accommodation and some support services, but the availability of these facilities is decreasing.

Funding for residential care services is separated into accommodation and care components, with the expectation that people will pay for the accommodation component using the value of their home. Concessional funding is available for people who need care but do not have sufficient assets to pay a bond or accommodation charge. 37% of current aged care residents receive the full concessional status, with a further 10% receiving some assistance.

In areas of lower home ownership or lower house values, more than half of residents can be eligible for the full concession status. Their assets, even after selling a home, are insufficient to pay the accommodation charges.

Community care programs

While residential care is an important service for some older people, there is a larger number of older people who are in need of support services to enable them to maintain their quality of life at home. Community care services assist these people to remain living in their own homes and aim to prevent premature admission to residential care and avoidable hospital admissions.

There has been a growth of community care programs in recent years, in response to the community need for support services and in line with the policy of 'ageing in place'. In addition, the costs of residential aged care and the constraints on growth due to a limited workforce mean that the development of suitable and sustainable alternatives to residential care are a necessary part of the Australian services system into the future.

There are two forms of community care packages which provide an older person at home with care services equivalent to residential care.

- *Community Aged Care Packages (CACP)* provide packaged care for frail older people eligible for low level residential care, coordinated through a care manager, and providing services to meet daily care needs. In July 2005, more than 30,000 Community Aged Care Packages were operational and a further 5,500 places have subsequently been announced.
- *Extended Aged Care at Home* provides packaged care for frail older people with complex care needs, who are eligible for high level residential aged care. Services include those available to CACP recipients plus nursing care and allied health care. EACH is a newer program and in July 2005, 1,828 packages had been allocated across Australia, with a further 2,082 places subsequently announced, including specialised dementia packages (EACH-D).

The Home and Community Care Program (HACC) is the largest community care program, jointly funded with state and territory governments and providing care services to more than 744,000 people in 2004-05. A range of personal care, home care, respite and advisory services are available.

As discussed previously, the underlying assumption of secure and appropriate housing for recipients of community care services can be particularly detrimental for disadvantaged people who have greater difficulties accessing residential care.

Planning for aged care

Aged care places are not evenly distributed across Australia; there is a detailed planning process to determine the number and type of care places to be funded in each 'aged care planning region'. The planning process aims to ensure that the growth in aged care places is consistent with population growth and demographic change, as well as differing needs across the community. This includes consideration of the needs of low-income people, and Indigenous communities in each planning region.

The Australian Government currently aims to provide 108 aged care places for every 1,000 people aged 70 or over (plus Indigenous people aged between 50 and 69 years). Places are allocated across the following three categories: low level residential care (48 places), high level residential care (40 places), and community care packages (20 places).

The Department of Health and Ageing is currently conducting a number of reviews of elements of the aged care planning system. The national planning framework for community care is being revised, and the aged care assessment program is being evaluated. Both of these reviews are likely to produce findings that will be of interest to aged care service providers, as well as advocacy groups.

HACC is funded jointly with states and territories and service planning is principally conducted by the state and territory departments. Each state prepares an annual plan setting out strategic priorities, forming the basis for allocation of funding to service providers. Funding is allocated for each 'aged care planning region' in response to the annual state plan and advice from service providers about the level of need in specific areas. Each state consults with stakeholders about community needs before allocating funding to service providers.

There is little provision in the current aged care planning and service system for specialist services to address the particular needs of socially and financially disadvantaged people, people with behavioural problems, cognitive loss, those without personal support networks or other special needs which are not specifically related to health or physical need. These services, by their nature, would not be able to recover costs from recipients and would require greater levels of subsidy. While there is specific funding to subsidise community care and accommodation for homeless people, this is targeted to a narrow range of people and leaves out a lot of other socially disadvantaged people.

The BSL as a service provider and advocacy organisation has the opportunity to contribute to the planning process for care services, and current reviews, by providing information on the needs of particular groups of people, and in particular planning areas.

1.8 Caring by older people

While much of the policy focus about ageing relates to the costs of care for older people, there is some research into the caring activities done by older people.

Far from being net receivers of help and support, older people are, in fact, net providers, at least up to the age of 75 years. They provide childcare, financial, practical and emotional assistance to family members including helping people outside the household with the tasks of daily living. Such unpaid caring and voluntary work adds up to a significant proportion of GDP, around seven per cent on some measures. (Healy 2004)

Older people form a large proportion of community volunteers, as well as providing care for older family members and grandchildren. Informal community care for older people is primarily provided by the spouse or children of the older person, many of whom are themselves over 65.

Older people also frequently provide childcare and other domestic support services to their working-age children. Australian research has indicated that the value of informal caring provided by older parents to working-age children is greater than the value of the care provided to older people.

The social value of these activities by older people is often overlooked in the concerns about the costs of ageing. Research by the AIFS estimated that the informal caring and voluntary work provided by older people is worth about \$39 billion each year.

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