COMBINED PENSIONERS AND SUPERANNUANTS ASSOCIATION OF NEW SOUTH WALES INC.

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Serving pensioners of all ages, superannuants and low-income retirees.

Consumer Protection Awards – 2002, 2003, 2004, 2005

Submission to Senate Community Affairs Committee:
Inquiry into the cost of living pressures on older Australians

July 2007

A Fair Go for Pensioners

Summary

- CPSA is calling for a Fair Go Supplement to ensure that pensioners who do not have a modest income in retirement get one.

- There are about 1 million pensioners living on very low incomes. This includes some 600,000 widows in their 70s and 80s. It will cost $1.5 billion a year to give them a fair go, a modest income in retirement, up from their current subsistence income.

- In comparison, estimates of the annual cost of the new tax concessions related to superannuation are expressed in multiple billions of dollars.

- The Fair Go Supplement will be paid only to those who need it.

- The Fair Go Supplement will not be a one-size-fits-all. It will be paid as the difference between a cost-of-modest-retirement-living standard and the greater of actual and deemed income of pensioners.

- The Fair Go Supplement will only be paid to those who use any retirement savings they have wisely and prudently. A pensioner who has, for example, spent their entire retirement savings to go on a world cruise, would not qualify for the Fair Go Supplement.

- The Fair Go Supplement will not be paid to pensioners who are on a low income but are asset-rich in that they own and occupy a dwelling valued significantly in excess of the median in the area in which they live.

Introduction

Treasury data show that, in 2006-2007, the cost of tax concessions and subsidies for superannuation was $17.3 billion. The cost of the age pension was $22.1 billion.

Older Australians are on a variety of pensions, including the Disability Support Pension, veterans pensions and the Carer Payment.

Before the end of the 2006-2007 financial year, more than an estimated $10 billion flowed into superannuation to take advantage of new super rules.

The annual cost of the new tax concessions related to superannuation is not yet known, but estimates are expressed in billions of dollars.

While not arguing that the benefit of new super rules should not flow to superannuants, CPSA does argue that pensioners, who in good economic times, are thrown the odd one-off payment, are entitled to a fair go and additional structural financial support from the Government to assure a modest standard of living.

There are about 1 million pensioners not getting a fair go.

It will cost $1.5 billion a year to give them a fair go.

Australia can afford to give them a fair go

The problem

CPSA views the issue of the cost of living for older Australians as primarily an issue about those retirees who are on low incomes.

In the absence of an official or objective measure and for the sake of the argument, CPSA defines a low retirement income as $18,500 p.a. and lower for singles, and $25,500 p.a. and lower for couples. These income levels are roughly equal to the amount needed to achieve the modest standard of retirement living as developed and maintained by Westpac and (ASFA).

The Westpac-ASFA Retirement Living Standard is a measure developed as part of financial planning and product marketing and should therefore be viewed and used with caution.

However, the Standard is quite transparent, in that it offers a break-down of weekly expenditure, something that is sadly lacking in the underpinning of the pension.

There are well over 2 million retirees on pensions in Australia.

Currently, pensions cut out altogether for singles at $37,940 p.a. and for couples at $63,414 p.a. combined.

CPSA does not view retirees who are ineligible for the pension (self-funded retirees) as being on low incomes. Neither does CPSA view retirees on part rate pensions plus additional income as being on low incomes, where they achieve an income above the modest retirement living standard.

This is not to say that self-funded retirees have no concerns about the cost of living, or that some self-funded retirees are not on low incomes. However, self-funded retirees are, generally speaking, in a position to manage their affairs in such a way that their real income exceeds the level of deemed income at which the pension cuts out. Likewise, there is no suggestion that part rate pensioners are having an easy time of it.

Some 1.4 million pensioners, well over 50 per cent, are on full rate pensions. Currently, the full rate single pension is $13,652 p.a. For couples it is $22,802 p.a.

Those who receive a full rate pension are allowed some additional income. Single full rate pensioners are allowed $3,432 p.a. in additional income. Couples combined are allowed $ 6,032 p.a.

With the maximum additional income allowed, couples on full rate pensions can have an income of just short of $29,000 p.a., well over the low-income maximum of $25,500.

With the maximum additional income allowed, singles on a full rate pension can only have an income of just over $17,000 p.a., short of the low-income maximum of $18,500.

There are about 70,000 single full rate pensioners without any additional income. There are about 600,000 single full rate pensioners with some, though not necessarily the maximum, additional income. This means that even though most full rate single pensioners have some additional income, not one of the approximately 670,000 single full rate pensioners achieves the modest retirement income threshold of $18,500 p.a.

In the absence of detailed published information on additional-income levels, it is difficult to be accurate about how many full rate pensioner couples do not achieve a modest retirement income.

However, the older pensioners get, the more likely they are to have exhausted their retirement savings. Progressively they become less able to generate income additional to their pension. By the time they reach the age of 75, the age pension tends to be their only income. About 40 per cent of pensioners are over 75, which translates into approximately 350,000 full rate partnered pensioners (175,000 full rate pensioner couples).

All in all, there are about 670,000 single full rate pensioners and about 350,000 partnered full rate pensioners who do not have a modest retirement income. On average, they fall short by an estimated $1,500 per single pensioner and pensioner couple.

There are about 1 million pensioners not getting a fair go. About 60 per cent of those pensioners are widows in their 70s and 80s. It will cost $1.5 billion a year to give them a fair go.

Australia, which has just changed its super laws to benefit self-funded retirees at a recurring annual cost of billions of dollars, can afford $1.5 billion to give these pensioners a fair go.

The pension trap: widows in their 70s and 80s

About 600,000 single full rate pensioners are widows in their 70s and 80s, living on just over $250 a week.

When a husband or wife dies, the surviving partner is transferred onto a single pension. The same thing happens when a husband or wife moves into a nursing home, with the other partner remaining at home.

While this change in pension entitlement is reasonable in principle, it does mean that the surviving partner, or the partner who remains living at home, sees their household income drop by $9,000, while by and large the household expenses stay the same.

For couples on a full rate pension with a small additional annual income of, say, $5,000, the effect is even greater.

A couple can receive a full rate pension with $5,000 of additional income, but a single pensioner cannot. For a single pensioner, $5,000 in additional income is $1,700 over the income test limit and leads to an additional loss of income of 40 per cent of $1,700.

So, a household ticking over nicely on almost $28,000 a year is suddenly forced to make ends meet with almost $10,000 a year less.

This happens, by definition, at a traumatic time, where marriages of long standing are broken up, often suddenly, by death or debilitating infirmity.

In cases where one partner dies, it happens at a time that a funeral will eat further in what little savings the couple have left.

It's the pension trap, because so few pensioner couples realize that this is almost inevitably what is in store for one of them.

CPSA regularly get calls from people who are dismayed to find that their modest income has dropped by 40 per cent or more.

It's the pension trap, and some 600,000 pensioners are in it. The vast majority of them have lost their partner during retirement, because their partner has died or has gone into a nursing home.

The moment that happens, their income gets cut savagely.

The causes of the problem

What are the causes of 1 million pensioners not achieving a modest income in retirement?

Cause 1. The pension was set to at a level that requires additional income from work, investments or superannuation to achieve a modest to comfortable income in retirement. In other words, the pension is enough for people to subsist only. The pension is not enough.

Since June 1998, the index on the basis of which the pension is increased at six-monthly intervals has been the Male Total Average Weekly Earnings (MTAWE) index. Where this index shows a lower increase than the CPI increase, the CPI increase will be used as the basis for adjusting the pension.

Since June 1998 the wages index has increased by 40 per cent. The CPI during that time increased by almost 30 per cent.

However, in 2007, after almost ten years of CPI-plus increases in the pension, full rate pensioners are in financial stress and not getting a fair go.

Clearly, CPI-plus increases for such a prolonged period of time should have led to significant increases in the standard of living of pensioners.

The Australian Bureau of Statistics (ABS) has developed a cost-of-living index for age pensioners, which it calls the Pensioner Price Index (PPI). It has maintained the PPI (and three other indices) since 1998. In 2001-2002 financial year, the age pensioner cost of living index started tracking above the CPI, meaning that the cost of living for pensioners was increasing by more than the rate of inflation.

While this undoubtedly has an effect on the ability of age pensioners to pay their bills and buy groceries, the basis for indexation of the age pension has been MTAWE. MTAWE has tracked above CPI and it is therefore fair to say that the real value of the pension has been maintained and in some years even been increased.

The financial stress experienced by pensioners is therefore not caused by inadequate indexation of the pension, but by something else. (Likewise, the GST, which is often blamed by pensioners for their financial stress, has not led to a decrease in the real value of the pension.)

While the development of the PPI should be applauded, it has one defect. It is based on the results of the ABS's Household Expenditure Survey (HES). HES records actual expenditure, i.e. in the case of pensioners, it asks people who do not have enough money what they spend their money on. The PPI, which is based on HES, will therefore not reveal what areas of essential expenditure pensioners are unable to cover.

Cause 2. The CPI-plus increases, which should have led to an improved standard of living, have been and continue to be eroded by changes to pensioner benefits and concessions at the federal, state and local government levels.

Benefits and concessions form a major part of pensioners' income package and they are being attacked continuously. The most flagrant example of this is the gap between Medicare refunds and medical fees.

At the federal level, the Pharmaceutical Allowance is CPI-indexed, but only if this leads to an increase of 10 cents or more. The Pharmaceutical Allowance has not been increased for years and its real value has dropped by over 25 per cent as a consequence.

Also at the federal level, the abandonment of bulkbilling for Medicare services means that pensioners on incomes of less than $14,000 a year have to find money for the gap between the Medicare fee and the actual fee. In many cases, this has led to pensioners putting off consultations with medical specialists and putting off expensive medical scans.

Rent assistance administered by Centrelink is an ineffective way of boosting a pensioner's income. Public housing and seniors housing marketed by the private sector set rents in a way specifically intended to collect rent assistance on top of rent that would otherwise be charged.

Public dentistry has all but disappeared across Australia. It means that a service for which pensioners are eligible and which should not cost them a cent, is largely unavailable. Pensioners have the choice between dental neglect or somehow finding the money for a private dentist.

At the state level, governments target pensioner concessions. NSW recently introduced a 15 per cent 'booking fee' on country rail travel that was previously free. Patronage dropped 25 percent in the first twelve months, which shows how tight pensioners' budgets are.

The NSW Treasurer has recently gone on record a saying that public transport and car registration concessions were an undue burden on his budget.

Inadequate public podiatry programs force pensioners to use full-fee private podiatrists.

At the local government level in NSW, there is no mechanism for indexing the pensioner rebate on rates. As a result, the pensionerrate rebate has not been increased for fifteen years, while each year rates have been increased.

These are the two main causes why people living on just the pension, and even those with a little bit of additional income, are alarmed about the cost of living. The pension is not enough. Plus, governments at every level can and do regularly slash the value of concessions and benefits.

The views of older Australians

A survey conducted by CPSA recently, which asked participants to rate on a scale of 1 to 10 how important each of a list of about twenty issues were to them personally, showed just how concerned older Australians are about the rise in the cost of living.

Level of concern	Pensioners living below modest retirement standard	Pensioners living above modest retirement standard	Self-funded retirees
10	• Cost of living		
9	• Adequacy of income • Bulkbilling • PBS • Dental healthcare • Standard of nursing homes • Nursing home availability • Water crisis	• Cost of living • Bulkbilling • PBS • Standard of nursing homes • Nursing home availability • Water crisis	• Bulkbilling • PBS • Climate change • Standard of nursing homes • Water crisis
8	• Support for carers • Bond for low level aged care • GST • Home maintenance	• Adequacy of income • Access to dental healthcare • Support for carers • Bond for low level aged care • GST • Home maintenance	• Cost of living • Dental healthcare • Support for carers • Nursing home availability • War in Iraq • GST • Home maintenance
7	• Climate change	• Climate change • War in Iraq	• Adequacy of income • Industrial relations • Education
6	• War in Iraq • Availability of rental accommodation	• Industrial relations • Education • Availability of rental accommodation	• Accommodation bond for low level aged care • Availability of rental accommodation
5	• Industrial relations • Education		• Access to broadband

4		• Access to broadband	•
3	• Access to broadband		

All respondent groups were concerned about the ability of their income to keep up with the rising cost of living.

Full rate Age Pensioners gave the rising cost of living issue a rating of 10 and overwhelmingly thought their pension was not keeping up: a rating of 9.

Pensioners with income above the Westpac/ASFA standard are also very concerned about the rising cost of living. They gave it a score of 9. They worry about the ability of their income to keep up with the rising cost: score of 8.

This group of pensioners is diverse in that it mainly consists of those who have an income at or just above the Westpac/ASFA standard, with a sizable minority who have a comfortable retirement income.

Self-funded retirees are also worried about the cost of living, giving it a score of 8, but they are less concerned about the ability of their income to keep pace, a score of 7.

It is probably true to say that the income of self-funded retirees is not keeping up with the cost of living. However, because their income is significantly higher than that of other groups, their ability to absorb real cost increases is greater. As a consequence, they don’t worry as much as those on lower incomes.

All groups worry about GST. It scored 8, which shows that while the community as a whole may have accepted that the GST is here to stay, pensioners and retirees certainly have not.

The question is whether the GST is merely the whipping-boy for the stressed financial circumstances of so many pensioners, or whether it actually causes or contributes to the rising cost of living. Many pensioners and retirees are convinced the GST is the root cause of their financial stress.

The issue of public dental healthcare, bulkbilling under Medicare and the Pharmaceutical Benefits Scheme (PBS) all tie in with the concern about the rising cost of living. In the virtual absence of public dentistry, any visits to the dentist must come out of an already stretched budget, certainly in the case of pensioners. Non-bulkbilling GPs, upfront payments for visits to specialists and for MRI scans stretch the budget even further.

The concern with the PBS in the main is that the co-contribution per prescription keeps rising while the Pharmaceutical Allowance that pensioners has not gone up for several years. Self-funded retirees do not receive a Pharmaceutical Allowance, but appear to be concerned about the rising co-contribution.

The solution

The solution requires a recurring annual expenditure of $1.5 billion to guarantee a modest retirement income to all Australians.

Measure 1. The pension does not need to be raised, but what is required is a Fair-Go Supplement to ensure that those who do not have a modest income in retirement get one. A supplement is required that is paid only to those who need it, to the extent that they need it, after taking into consideration if any retirement savings have been run down too quickly.

This measure requires:
- the development and maintenance of a cost-of-modest-living standard;
- the payment to those pensioners who do not achieve a modest retirement income of a Fair Go Supplement.

The Fair Go Supplement should not be one-size-fits-all. It should be the difference between the cost-of-modest-living standard and the greater of actual and deemed income of pensioners.

A further eligibility criterion for the Fair Go Supplement is that any retirement savings have been used prudently. Any pensioners who have, for example, spent their entire retirement savings to go on a world cruise, would not automatically qualify for the Fair Go Supplement.

Likewise, pensioners who do not have a modest retirement income but are asset-rich in that they own and occupy a dwelling valued significantly in excess of the median in the area in which they live would not automatically qualify for the Fair Go Supplement.

Measure 2. All pensioner concessions and benefits made available by the states and territories need to be centrally administered to ensure their value is not eroded without good cause or without adequate compensation.

The current pensioner concession and benefit regime lacks transparency and is riddled with inequities. For example, a Sydney pensioner who regularly uses public transport racks up discounts to the value of many hundreds of dollars a year through the Pensioner Excursion Ticket. A country pensioner, who has no access to public transport, and uses their car, gets an exemption on car registration fees and charges. This exemption is available to the Sydney pensioner, who may or may not use it. However, a country pensioner without a car may be forced to use taxis, where no discount, concession or benefit is available to him or her.

The best solution might be to put a monetary value on concessions and benefits and pay this to pensioners as an allowance.

Whatever the policy response, it is vital that it takes into consideration that concessions and benefits are like hard cash to pensioners. Reducing or canceling concessions or benefits, or failing to index them, is tantamount to reducing the pension paid through Centrelink.

A way must be found that compels all government, federal, state and local, to stop ignoring that very simple fact.