



St Vincent de Paul Society
good works

RELATIVE COST INDEXING
FOR OLDER AUSTRALIANS



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Background

The St. Vincent de Paul Society (commonly known in Australia as 'Vinnies') is a global charity organisation present in over 130 countries.

The St. Vincent de Paul Society assists all Australians. Much of the charitable work is carried out by around 40,000 volunteer members visiting people in their own homes and providing material assistance, support and friendship. Other assistance is provided by around 620 'Vinnies' shops, crisis accommodation services in all states, various nursing homes and outreach services.

Introduction

Through welfare service provision, the St. Vincent de Paul Society sees the face of poverty in Australia and is able to observe and note trends in the calls for emergency aid. The long term trends show both increasing numbers of people seeking assistance, and on average, an increasing amount of assistance being provided at each contact. In short, more people are approaching the St. Vincent de Paul Society, each seeking more assistance.

Seniors represent the fourth largest group seeking assistance from the St. Vincent de Paul Society (behind single parents, the disabled and the unemployed).

The day-to-day experiences of the St. Vincent de Paul Society's volunteers, and other service providers, appear on the face of it to contradict the headline economic data such as:

- low inflation;
- low interest rates;
- increasing incomes; and
- the benefits of competition.

From this data, one might expect demand for welfare assistance from organisations such as the St. Vincent de Paul Society to fall.

This submission seeks to explain how the experiences of the St. Vincent de Paul Society and other service providers can be seen in a context which is consistent with the broad headline economic data, but at odds with the conclusions from that data.

To reconcile the apparent inconsistency, the St. Vincent de Paul Society has developed Relative Price Indexes – that is, specific inflation rates – for various household types' expenditures, derived from detailed household expenditure information and detailed Consumer Price Index data.

Why is the standard CPI data of limited use ?

The CPI is derived from private households in the eight capital cities – it only represents 64% of Australian private households. The CPI is constructed with approximately 1/3 Australian households missing. It can only be an average, and a rough average at that.

The CPI is designed to indicate general economic directions, with little or no recognition of distributional impacts of changes in costs of goods and services and consumption patterns over various household types.

Further, the CPI becomes progressively less representative at successively lower levels of aggregation of the population.

Ultimately, the average composition and weighting patterns of the basket of good and services which are used in the CPI will not coincide with that of any individual household in Australia.

The CPI does not apply to any individual household, or sub-group of households of the Australian population.

Where government transfers are linked to CPI, this anomaly between average and actual households leads to both over generous payments, and to payments which underestimate the actual cost of living.

The Impact of Consumption Patterns

As a result of various life cycles and life styles, household consumption patterns vary significantly. The consumption pattern will affect the cost of living of the particular household. How well that cost of living correlates with the official CPI cost of living will depend on how well the household consumption pattern matches the pattern used in the CPI.

The following table compares the difference in consumption patterns between the CPI Average Household (CPIAH) and a household with aged or disability pensioners. The aged pensioner group consumption of food as a proportion of their household expenditure is higher than that of the CPIAH. Food costs increases disproportionately impact on pensioners (Table 1).

Item	CPI Weighting	Aged/Disability Pensioner weighting	% Variance
Food	18.1	23.6	30.68%
Alcohol	5.3	2.4	-54.55%
Tobacco	2.8	2.2	-20.29%
Clothing / Footwear	4.6	4.2	-8.70%
Housing	17.4	12.9	-25.86%
Utilities	3.5	5.5	57.14%
Furniture and furnishings	3.2	2.9	-10.22%
Household appliances, utensils and tools	1.7	3.3	100.00%
Household supplies	1.8	2.7	54.29%
Household services	0.7	1.4	108.96%

Heath	5.2	6.6	26.20%
Transportation	14.6	11.3	-22.60%
Communication	2.7	3.8	38.69%
Recreation	11.3	10.4	-7.96%
Education	3.0	0.1	-96.67%
Miscellaneous	3.6	6.6	83.84%
Childcare	0.5	0	-100.00%
Total	99.9	99.9	

Table1: Variance between aged pensioners and CPI

In a similar manner, aged pensioners' consumption of utilities as a percentage of their total consumption is 57% higher than that of the CPIAH. Any increase in utilities prices severely disadvantages the aged pensioners. Again, health spending costs aged pensioners a share of their total consumption which is 26% higher than the share for the CPIAH. For communications, the figure is 38% higher.

Aged pensioners spend less as a proportion of household expenditure on:

- Housing (25% below the CPIAH);
- Transport (22% below the CPIAH);
- Alcohol (54% below the CPIAH);
- Childcare (Nil); and
- Education (97% below the CPIAH).

There are significant variations in consumption patterns between actual specific groups in the community and the consumption patterns of the CPIAH.

Older Australians who feel that the CPI is not reflective of the cost pressures that they are experiencing day in - day out are probably right.

Price Increases

Variations in patterns of consumption are only one side of the equation which produces Relative Price Indices. Changes in the cost of various items that households consume must also be factored in.

The following Tables 2, 3 and 4 detail the long term cost trends for housing costs, various health costs and transport services in Australia, between 1990 and the end of 2005.

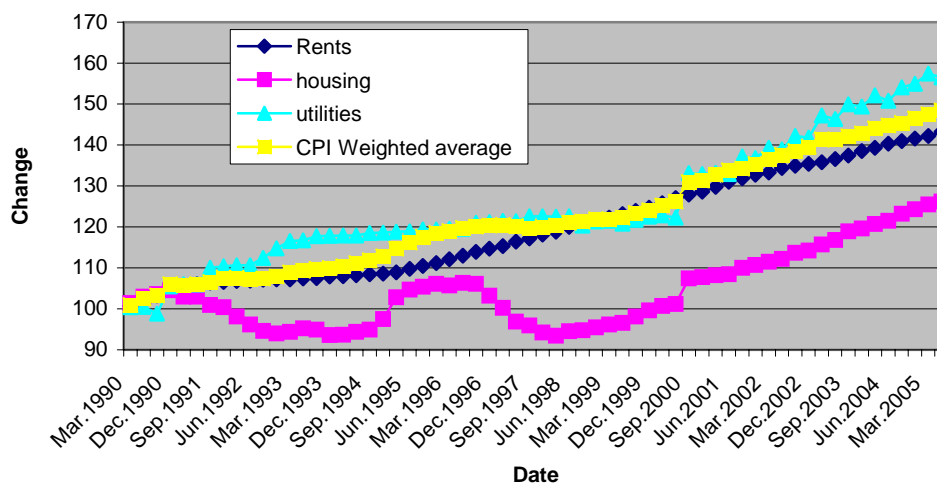


Table 2 – Housing and Utility Costs Australia 1990-2005

In Table 2, it will be noted that Rents have increased at about the CPI, while home-owners' expense (mortgagees and owners) has risen at a rate **significantly below** the CPI, in part due to falling interest rates between 1996-2001. Also to be seen is the impact of rising interest rates in the mid-90's.

Since housing consumption as a part of total expenditure for various households identified previously ranges between 12 and 19% of total consumption, this fall in housing costs for home-owners in particular offsets increases in costs in other areas such as health care.

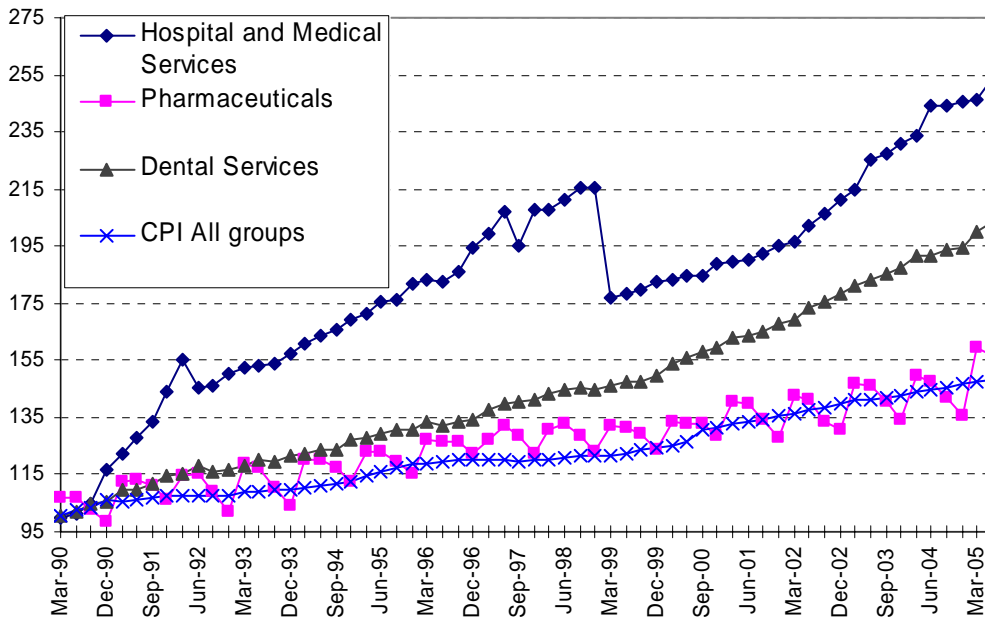


Table 3 – Health Costs Australia 1990-2005

As Table 3 shows, there have been significant increases in health costs, above the CPI. In fact, costs have risen at 3 times the CPI inflation rate for hospital and medical services. The impact of the \$200 rebate in 1998 can be seen. Dental costs have risen at 2 times the inflation rate. Pharmaceuticals broadly follow the CPI, as would be expected under the Pharmaceutical Benefits Scheme.

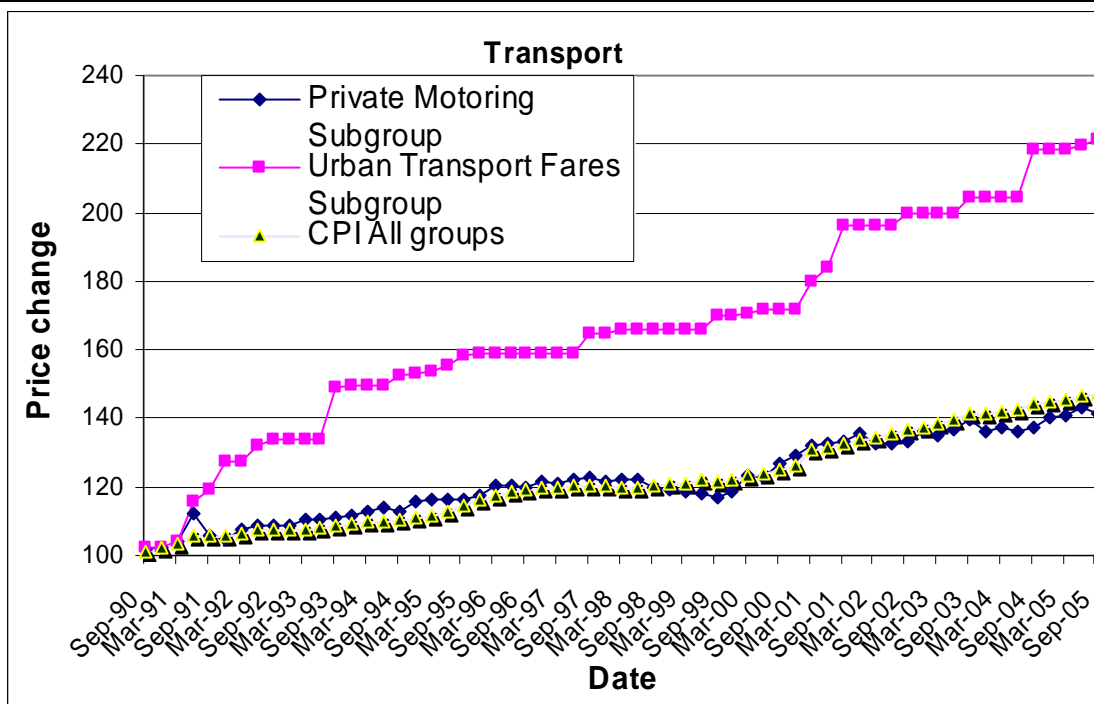


Table 4 – Transport Costs Australia 1990-2005

Table 4 details changes in the cost of transportation over the last 15 years.

As can be seen, public transport costs have risen at 3 times the rate of the CPI, while private transport (motoring) has remained at around the CPI.

Also to be seen is the annual indexing of public transport costs which has occurred, with a significant increase in 2001 at a time when private transport providers were struggling financially.

For senior citizens, the 60-plus public transport concession which is widely available, ameliorates these higher costs significantly. It should be noted, however, that the rate of increase of the concession charge is itself very high.

Relative Price Indexes

Using the detailed household expenditures patterns for various household types, and weighting this with the detailed price trends for various

commodities, the St Vincent de Paul Society has developed a series of Relative Price Indices (RPI).

A broad range of RPI have been produced by the St Vincent de Paul Society to reflect a band of cost of living changes between which particular household types, with various transport and housing options reside.

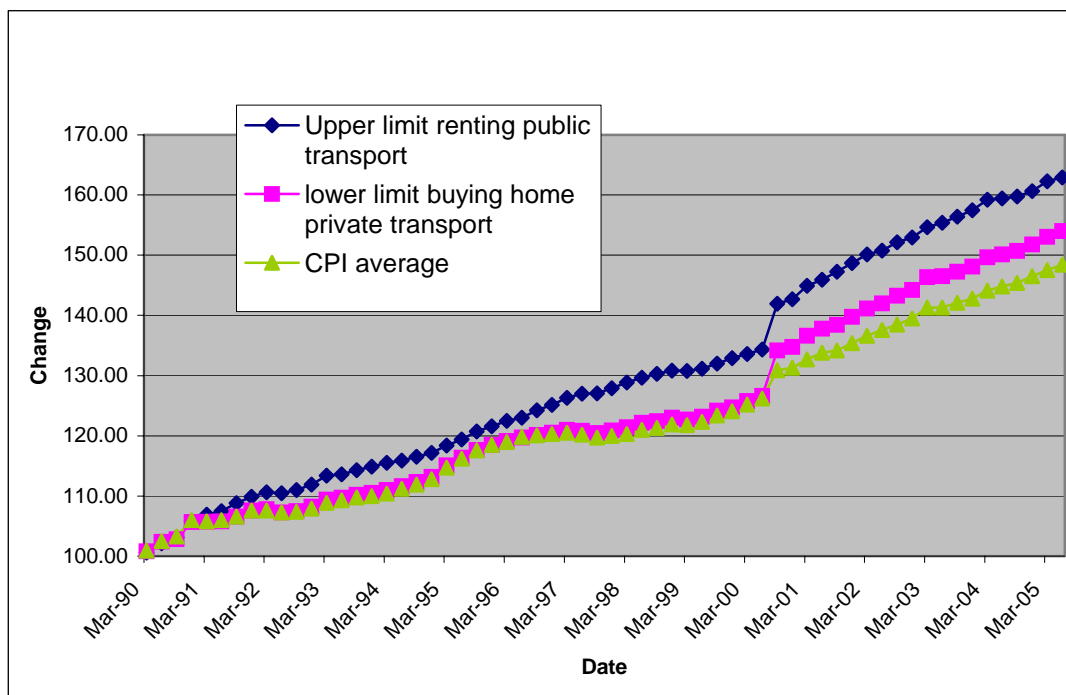


Table 5 – Relative Price Index Aged Pensioner

Table 5 shows the Relative Price Index for an aged pensioner relative to the CPI. The green line represents the CPI. The pink line represents the aged pensioner home owner with private transport. The blue line represents the aged pensioner, renting home and relying on public transport.

It can be noted that the short term impact of GST appears to have been greater on the aged pensioner group than was estimated in the CPI.

While the overall cost of living for both types of pensioner is running ahead of the CPI, for the pensioner who rents the home and must rely on public transport, the cost of living is very significantly ahead of the CPI.

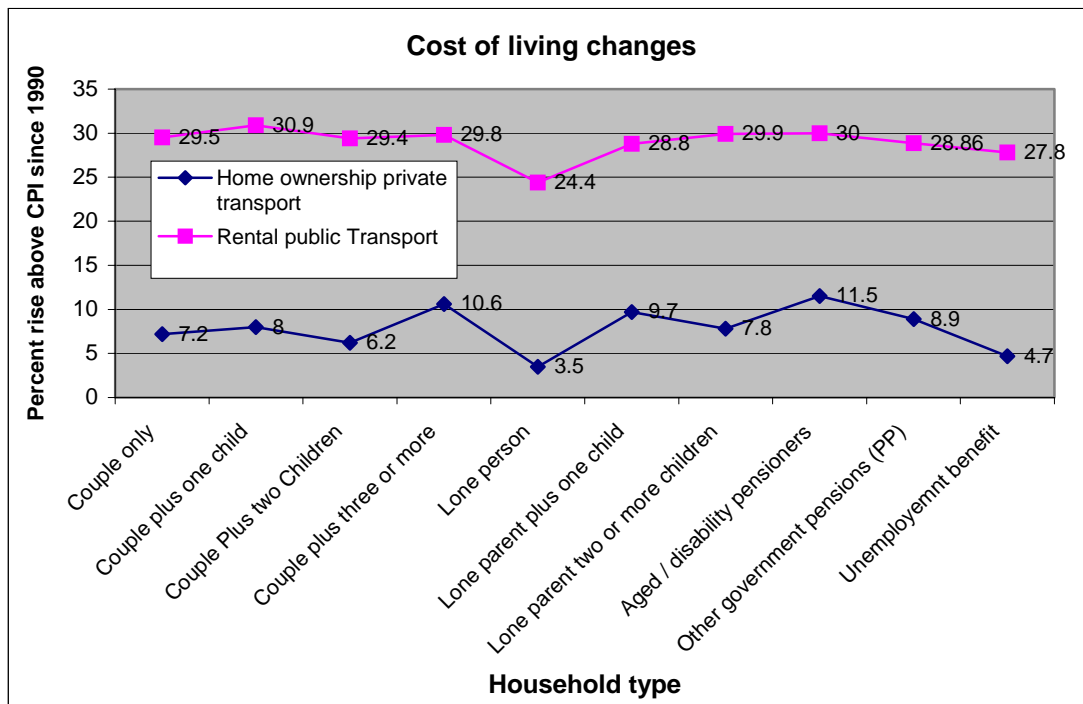


TABLE 6 – RPI for selected household types.

Table 6 shows that aged and disability pensioners have experienced the greatest percentage rise above CPI since 1990.

Summary

The wide spread in Relative Price Indexes indicates that there have been significant increases in cost pressures for various households depending upon consumption patterns, and in particular, housing and transport options. This table also shows that aged pensioners are one of the hardest hit groups in the community.

There can be little doubt that the wide spread of RPI across the community has resulted in increasing inequality within the Australian community. Any concept of “real income growth” for Australians should be meted with real cost of living increases, not some rough and misleading average.

The wide spread explains, at least in some part, the current experiences of many service delivery agencies, and increasing concerns expressed by older people within our community.

This has implications for both the State and Federal Governments.

Recommendation

That the Federal Government review the adequacy of cash and non cash transfers for older Australians with particular regard to areas that are of higher than average expenditure or are exposed to disproportionate cost increases.