

Submission to Senate Community Affairs Committee

INQUIRY INTO COST OF LIVING PRESSURES ON OLDER AUSTRALIANS

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SUMMARY

This submission argues that governments have a responsibility to ensure that *all* older Australians have adequate incomes and enjoy the fullest possible participation in the community.

This submission *recommends* Committee recommendations in the following areas:

- Measures to ensure that low-income older Australians are not disadvantaged by price increases flowing from action to address climate change (*Recommendation 1*).
- A free basic course of dental care every two years for those on concession cards (*Recommendation 2*).
- Further research to identify the special needs of grandparent-headed families; and greater practical recognition of those needs, especially in terms of government financial assistance (*Recommendation 3*).
- Regarding superannuation:
 - Removal of the \$450 monthly earnings threshold for Superannuation Guarantee contributions (*Recommendation 4*).
 - Assessment of equity and revenue aspects of taxation concessions (*Recommendation 5*).
 - Removal of systemic bias against those who have worked for low wages or spent periods out of the paid workforce, unemployed or under-employed (*Recommendation 6*).
 - If Committee cannot examine those issues, a separate Inquiry to do so (*Recommendation 7*)
- Movement towards increasing the rate of pensions to a substantially higher rate than the current 25 per cent of Male Total Average Weekly Earnings (*Recommendation 8*).

TABLE OF CONTENTS

	<u>page</u>
I Introduction	
A About Catholic Social Services Australia	3
B Scope of this submission	3
C General comments	4
II Term of Reference (a): The cost of living pressures on older Australians.....	5
Specific issues highlighted in Term of Reference (a):	
(i) Impact of recent movements in price of essentials, such as petrol and food	5
(ii) Costs of household utilities, such as gas and electricity	5
<i>Recommendation 1</i>	5
(iii) Cost of adequate dental care	6
<u><i>Recommendation 2</i></u>	7
III Term of Reference (b): Impact of cost of living pressures on older Australians’ living standards and ability to participate in the community	8
A Living standards	8
B Ability to participate in the community	9
IV Term of Reference (c): Impact of cost of living pressures on older Australians and their families, including caring for grandchildren and social isolation	9
A Significance of family relationships	9
B Grandparents caring for grandchildren	10
<i>Recommendation 3</i>	11
C Social isolation	11
V Term of Reference (d): Adequacy of current tax, superannuation, pension and concession arrangements for older Australians to meet these costs	12
A Superannuation and taxation	12
<i>Recommendations 4-7</i>	16
B Age pension	17
<u><i>Recommendation 8</i></u>	19
VI List of recommendations	20

I Introduction

I.A About Catholic Social Services Australia

1. Representing 63 member organisations, Catholic Social Services Australia is the Catholic Church's peak national body for social services. It advises the Australian Catholic Bishops Conference on social policy issues, and supports the delivery of a wide range of social service programs.

2. For 50 years, Catholic Social Services Australia has assisted and promoted better social policy for the most disadvantaged people in Australian society. This continues a much longer tradition of such engagement by the Catholic Church in Australia.

3. Catholic Social Services Australia has the mission of promoting a fairer, more inclusive society that gives preference to helping people most in need. It is committed to an Australian society that reflects and supports the dignity, equality and participation of all people. To this end, Catholic Social Services Australia works with Catholic organisations, governments, other churches and all people of goodwill to develop social welfare policies and other strategic responses that work towards the economic, social and spiritual well-being of the Australian community.

4. Our 63 members employ over 6,500 people and provide 500 different services to over a million people each year from sites in metropolitan, regional and rural Australia. Services provided by our members encompass aged care, community care, disability services, drug and alcohol services, employment and vocational programs (including Job Network, Disability Employment Network and Personal Support Program), family relationship services, housing, mental health, residential care and youth programs.

I.B Scope of this submission

5. The following matters make up the Committee's terms of reference:

- (a) the cost of living pressures on older Australians, both pensioners and self-funded retirees, including:
 - (i) the impact of recent movements in the price of essentials, such as petrol and food,
 - (ii) the costs of running household utilities, such as gas and electricity, and
 - (iii) the cost of receiving adequate dental care;
- (b) the impact of these cost pressures on the living standards of older Australians and their ability to participate in the community;
- (c) the impact of these cost pressures on older Australians and their families, including caring for their grandchildren and social isolation;
- (d) the adequacy of current tax, superannuation, pension and concession arrangements for older Australians to meet these costs; and
- (e) review the impact of government policies and assistance introduced across all portfolio areas over the past 10 years which have had an impact on the cost of living for older Australians.

6. This submission directly addresses the first four of these Terms of Reference, i.e. (a)-(d), and also touches on (e) during the discussion of superannuation arrangements. In view of the breadth of the Committee's terms of reference, however, this submission does not attempt a comprehensive treatment of all issues raised by Terms of Reference (a)-(d).

I.C General comments

7. Catholic Social Services Australia welcomes the Committee's Inquiry, and appreciates the opportunity to comment.

8. This Inquiry provides an important opportunity to examine both sides of a crucial equation: how cost pressures are affecting older Australians; and the adequacy of current arrangements regarding superannuation, the age pension, taxation and concessions.

9. Catholic Social Teaching requires preferential treatment of the poorest people in our society. In the words of the U.S. Bishops:

The primary purpose of this special commitment to the poor is to enable them to become active participants in the life of society. It is to enable all persons to share in and contribute to the common good. The "option for the poor," therefore, is not an adversarial slogan that pits one group or class against another. Rather it states that the deprivation and powerlessness of the poor wounds the whole community. The extent of their suffering is a measure of how far we are from being a true community of persons. These wounds will be healed only by greater solidarity with the poor and among the poor themselves.¹

10. In its application to older people living on low incomes, this sentiment might be expected to command widespread support in our society – because the continuation of any deprivation of the rights and dignity of older Australians should affront our notion of community.

11. In the view of Catholic Social Services Australia, governments have a responsibility to ensure that *all* older Australians:

- Have adequate income – and income security – to avoid debilitating financial stress;
- Are able to live fulfilling lives and enjoy the fullest possible participation in the community, including by the maintenance of family and social networks – which requires income above that needed for food, shelter and the barest physical necessities;
- Are accorded all the respect which is due both to their fundamental human dignity and to their past and present contributions to society; and
- Can access adequate and affordable social services to facilitate the above, especially in the areas of health and aged care.

12. Catholic Social Services Australia is concerned about the disparity between the objectives just outlined and the reality experienced by too many older Australians, especially those on the lowest incomes who are most vulnerable to poverty. We trust that the Inquiry process will generate constructive debate and lead to the implementation of policy changes which improve the lives of older Australians, both now and into the future.

¹ U.S. Catholic Bishops, *Economic Justice for All* (1986) (at #88).

II Term of Reference (a): The cost of living pressures on older Australians

Specific issues highlighted in Term of Reference (a):

(i) Impact of recent movements in price of essentials, such as petrol and food

13. Increasing *petrol* prices matter to older Australians not just for their direct impact on transport costs, but for their flow-on effect to other goods and services.

14. In its assessment of the impact of recent movements in *food* prices, the Committee could usefully examine the extent to which the actual profile of expenditure by older Australians, especially those lower incomes, is reflected in the Consumer Price Index (given the role of the CPI as one component of the indexation of the age pension).²

15. *Housing* affordability deserves particularly high priority in considering the circumstances of those older Australians who do not own their own home (see paragraphs 28-29 at p.8 below).

(ii) Costs of household utilities, such as gas and electricity

16. In its consideration of the how older Australians are affected by movements in utilities prices, the Committee should note the potential impacts of any emissions trading regime or other measures to combat climate change. Such measures are likely to affect a broader range of goods and services than household utilities.

17. With the growing awareness of issues surrounding climate change, and increasing political will to take action to address carbon emissions, care must be exercised to ensure that older Australians on low incomes are not asked to bear an undue burden of associated costs.

18. Catholic Social Services Australia takes this opportunity to reiterate the following points and recommendations from our recent joint submission, made with the Brotherhood of St Laurence and the National Welfare Rights Network, to the Prime Ministerial Task Group Emissions Trading:

Pricing carbon into energy...means unit costs will rise. We can expect business to pass on cost increases to consumers across a wide range of goods and services.³

The capacity to respond to the impacts of climate change, and of policies intended to ameliorate it, is not evenly distributed within our society. The most disadvantaged people will generally lack access to sufficient financial resources even to meet the increased costs of energy let alone to invest in energy efficiency and energy-reducing capital to reduce their exposure to increased energy costs. And... [emissions trading system]-sourced increases in prices of basic expenses will have a much higher impact on low-income and disadvantaged households relative to others.⁴

Recommendation 4

That the Task Group recommend in its report that all phases of policy making and policy implementation on measures addressing climate change should:

² See also paragraphs 65 and 68 at pp. 17 and 18 below.

³ Brotherhood of St Laurence, Catholic Social Services Australia and National Welfare Rights Network, *Joint Submission to Prime Ministerial Task Group on Emissions Trading*, April 2007 (available at http://www.pmc.gov.au/climate_change/emissionstrading/submissions.cfm), at p.11.

⁴ *Ibid* at pp.11-12.

- 4(a) Incorporate equity issues as an integral element, with particular focus on ensuring that low-income and otherwise disadvantaged households do not bear a disproportionate share of the costs of responding to climate change; and
- 4(b) Facilitate input by a wide range of stakeholders (including in the community welfare sector).⁵

Recommendation 7

That the Task Group in its report recommend that governments accept responsibility for ensuring the existence, adequate funding and effectiveness of the following types of programs to minimise adverse impacts on low income and otherwise disadvantaged people of any Emissions Trading System [ETS] introduced in Australia:

- 7(a) *Financial compensation programs* to compensate relevant households for both direct increases in energy and transport costs and for other price increases resulting from business passing on to consumers ETS-related costs.
- 7(b) *Energy efficiency assistance programs* – an area where business involvement would also be welcome – providing information, home energy efficiency improvements (such as upgrading appliances, ventilation, lighting and insulation), home water efficiency improvements, and structural changes to bolster houses against extreme weather events.⁶

Recommendation 1

Catholic Social Services Australia recommends that the Senate Community Affairs Committee (“the Committee”) recommend that any government measures to address climate change should:

- (a) Involve broad consultation, including the community sector, and integrate the concept of equity (fairness/affordability for low-income earners) as a key criterion at design and implementation stages;*
- (b) Be accompanied by steps to protect low-income older Australians from any associated increases in the price of energy, transport and other goods and services; and*
- (c) Ensure provision of energy efficiency assistance programs to ensure that low-income older people can participate, without undue disadvantage, in a more energy-efficient future.*

(iii) Cost of adequate dental care

19. Catholic Social Services Australia is a member of the National Oral Health Alliance, which has urged governments to address the current unacceptable situation of 650,000 people on public dental care waiting lists with an average waiting time of 27 months.⁷

20. Many older Australians are struggling to obtain affordable oral health care.

21. A recent major survey published by the Australian Institute of Health and Welfare found “that dental visits were less frequent and oral diseases were more common among the elderly”.⁸

⁵ *Ibid* at p.10.

⁶ *Ibid* at p.18.

⁷ *Position Statement of National Oral Health Alliance.*

⁸ Australian Dental Association, “2004-06 National Dental Survey” *National Dental Update*, April 2007.

22. The same survey found that eligibility for public dental care was “one of the most consistent and profound correlates of poor oral health identified.”⁹ Table 1 indicates the estimated proportions of older Australians who are eligible for public dental health care (which is means-tested) or who lack dental insurance. Older Australians are far more likely than others to be eligible for public dental health care.

	All ages over 15 (%)	Aged 55-74 (%)	Aged 75 or over (%)
Eligible for public dental care	26	44	68
No dental insurance	54	51	74

Table 1: Estimated eligibility for public dental care, and of non-carriage of dental insurance, by age¹⁰

23. The higher incidence of oral disease among older Australians, together with their higher rate of eligibility for public dental care and the long waiting lists in the public system, indicate the need for major improvements in policies addressing the oral health needs of those older Australians who are on low incomes and not covered by dental insurance. This need is further highlighted by the estimates shown in Table 2 below of the proportions of older Australians aged 75 or more who would have difficulty paying even \$100 for dental work.

		Aged 75 or more and would have difficulty paying a \$100 dental bill (%)
Public dental care eligibility	Eligible	29.5
	Ineligible	6.9
Dental insurance	Insured	6.8
	Uninsured	26.6

Table 2: Estimated proportion of Australians aged 75 or over who would have difficulty paying a \$100 dental bill, by public dental care eligibility/ineligibility & presence/absence of dental insurance¹¹

Recommendation 2

Catholic Social Services Australia recommends that the Committee recommend urgent action on oral health along the lines proposed by the National Oral Health Network: i.e. that the Commonwealth Government should:

- (a) Ensure that all people on concession cards have a free basic course of dental care every two years, and*
- (b) Fund this initiative through the States and Territories, on condition that States and Territories meet certain conditions (notably raising their own level of expenditure on oral health).*

⁹ Gary D Slade, A John Spencer and Kaye F Roberts-Thomson (eds.), *Australia’s dental generations: The National Survey of Adult Oral Health 2004-06*, Australian Institute of Health and Welfare, cat. No. DEN 165, 2007, at p.237.

¹⁰ *Ibid* at p.52, Table 3.6.

¹¹ *Ibid* at p.169.

III Term of Reference (b): Impact of cost of living pressures on older Australians' living standards and ability to participate in the community

III.A Living standards

24. Catholic Social Services Australia is concerned that recent increases in the price of essentials will exacerbate the pre-existing inadequacy of the income of many older Australians.

25. Increases in living costs will always disproportionately affect those who live on lower incomes. Even if the cost increases are compensated for, there is likely to be a time lag in receipt of such compensation – and opinions will differ as to its adequacy.

26. At 25 per cent of Male Total Average Weekly Earnings,¹² the maximum rate of the age pension is a low income. One study based on 2000-01 ABS survey data estimated poverty rates of 12.8 per cent for those aged 55-64 and 9.9 per cent for those aged 65 and over.¹³

27. Catholic Social Services Australia is particularly concerned about the impact of upward movements in the price of essentials on those older Australians who do not own their own home. Housing affordability should be prioritised as a major issue affecting older Australians. As observed in the 2004 report by the Senate Community Affairs References Committee into poverty and financial hardship:

While three quarters (76.8 per cent) of people aged 60 and over own their own homes, those who do not...face a greater risk of poverty... Rental costs may account for a large proportion of total weekly expenditure. The reduced public housing stock also means that older people may have to rent privately while waiting for public housing.¹⁴

28. About 11 per cent of age pensioners are paid rent assistance.¹⁵ However, during the period 1996-2006 the real value of the age pension alone increased by slightly more than the real value of the age pension in combination with rent assistance, as shown in Table 3.

		June 1996	June 2006
Age pension – single	No Rent Assistance	100	114.8
	With Rent Assistance	100	113.4
Age pension – couple	No Rent Assistance	100	114.9
	With Rent Assistance	100	114.1

Table 3: Index of real value of maximum payments to recipients of pension, 1996–2006¹⁶

29. At its extreme, the question of ongoing income adequacy for all older Australians affects not just the level of living standards but health and even life expectancy.

30. Research indicates “a strong association between mortality and income inequalities”,¹⁷ and that “[p]eople living in countries with greater income inequality have a shorter life expectancy”.¹⁸ The

¹² See paragraphs 65-68 and Recommendation 8 at pp.17-19 below.

¹³ Rachel Lloyd, Ann Harding and Alicia Payne, "Australians in poverty in the 21st century", NATSEM Paper prepared for 33rd Conference of Economists, 27-30 September 2004, at p.7.

¹⁴ Senate Community Affairs References Committee, *A hand up not a hand out: Renewing the fight against poverty: Report on poverty and financial hardship*, 2004, at p. 342.

¹⁵ Department of Families, Community Services and Indigenous Affairs, *Annual Report 2005-06*, under Performance Reporting – Output Group 3.1: Support for the aged (available at http://www.facsia.gov.au/annualreport/2006/2_3_1.html).

¹⁶ *Ibid* at Table 2.23.

impact of any such outcomes would be felt to some extent before people become “older” (i.e. some would die without attaining old age). And for those who do become older, relevant income inequalities exist across the entire life span, rather than only during later life.

31. But any link between life expectancy and income inequality, combined with increasing longevity, makes it increasingly important to guard against undue income inequality among older Australians. For example, if pronounced inequality existed among “younger” aged people, and the poorer among them lived for extended periods on inadequate incomes, we could see the exacerbation of health and mortality differentials between our richer and poorer aged people. This would be an undesirable outcome indeed. Such a prospect points in favour of measures to reduce income inequalities and to ensure income adequacy for *all* older Australians – both now and into the future.

III.B Ability to participate in the community

32. In 2006, people aged 55 or more contributed about 293 million annual volunteering hours, or about 40 per cent of the total. Almost one in three people aged 55-74 are volunteers, and this rate is over one in five for people aged 75-84.¹⁹ On one 2003 estimate, Australians aged over 65 contribute nearly \$39 billion per year in the form of unpaid caring and voluntary work.²⁰ Earlier surveys indicated that “21 per cent of principal carers of people with disabilities are aged over 65 years”.²¹

33. To the extent that their real income and financial security are eroded by uncompensated price increases, or by increasingly unfavourable interactions between the superannuation and social security systems, the capacity of older Australians to continue making such contributions will be impeded.²² The impact of such an impediment to older Australians’ capacity to contribute would be felt not only by “contributing” older Australians themselves, but by those who benefit from their unpaid contributions.

IV Term of Reference (c): Impact of cost of living pressures on older Australians and their families, including caring for grandchildren and social isolation

IV.A Significance of family relationships

The rights of the person...have a fundamental social dimension which finds an innate and vital expression in the family; ... the family constitutes, much more than a mere juridical, social and economic unit, a community of love and solidarity, which is uniquely suited to teach and transmit cultural, ethical, social,

¹⁷ Tony Vinson, *Dropping off the edge: The distribution of disadvantage in Australia*, Jesuit Social Services and Catholic Social Services Australia (2007) at p.15 (in the course of a literature survey).

¹⁸ *Ibid.*

¹⁹ Australian Bureau of Statistics, *Voluntary Work, Australia, 2006*, Cat. 4441.0, p.74 at Table A2 (based on results from national Voluntary Work Survey conducted March-July 2006 as part of General Social Survey).

²⁰ David de Vaus, Matthew Gray and David Stanton, *Measuring the value of unpaid household, caring and voluntary work of older Australians*, Research Paper No. 34, Australian Institute of Family Studies, October 2003, at p.19 (using data from the 1997 Australian Time Use Survey conducted by the Australian Bureau of Statistics). See also paragraphs 37-42 at pp.10-11 below.

²¹ *Ibid* at p.4.

²² On the impact of rising fuel prices alone, see National Volunteer Skills Centre and Volunteering Australia, *Research Bulletin: Impacts of petrol prices on volunteering*, November 2005. More broadly, see *Costs of Volunteering Taskforce, The Rising Costs of Volunteering*, Volunteering Australia, January 2007 (available at http://www.volunteeringaustralia.org/html/s02_article/article_view.asp?art_id=2728&nav_cat_id=204&nav_top_id=55).

spiritual and religious values, essential for the development and well-being of its own members and of society.²³

34. The role in our community of older family members, whether as grandparents or as members of a more extended family, should be valued highly. Recent data suggests that a great majority of young Australian children see their grandparents at least monthly;²⁴ and, as noted below, many grandparents provide care for grandchildren.

35. As a society, we should value contact between older Australians and their families. If financial constraints make it harder for older Australians to maintain meaningful contact with their younger relations, we will all be the losers. This is especially so where “younger” family members may be struggling with their role as parents, for example where they themselves are having difficulty making ends meet.

IV.B Grandparents caring for grandchildren

36. We distinguish here between:

- Grandparents who, for a range of reasons, take on full-time care of grandchildren aged under 18 – forming families described here as “grandparent families”; and
- Grandparents who care for their grandchildren on a less extensive basis, such as caring for pre-schoolers during working hours, collecting grandchildren after school, and looking after children during school holidays.

Grandparent families

37. The most recent ABS Family Characteristics Survey indicated that in 2003 there were 22,500 grandparent families with children aged 0-17, and that the younger or lone grandparent was aged 55 years or more in 61 per cent of such families.²⁵ Government pensions, benefits or allowances provided the main income source in 62 per cent of grandparent families.²⁶ In view of the large relative standard error in the relevant ABS data set, it has been suggested that “the dearth of information means that a large proportion of families who are caring for [grand]children...are invisible to the public welfare system”.²⁷

38. Particularly in circumstances where the arrangement for grandparents to provide parental care is on a relatively informal footing, such grandparents often have difficulty in learning about, and seeking access to, their financial entitlements and available social services.²⁸

39. Catholic Social Services Australia endorses two recent recommendations by the Canberra Mothercraft Society, in calling for (1) the amelioration of the direct financial burden faced by grandparent families “through recognition of the special needs in relation to government financial

²³ *Charter of the Rights of the Family*, Holy See, 1983.

²⁴ The Longitudinal Study of Australian Children found that 75-79 per cent of children aged under six in surveyed families saw their grandparents at least monthly (Australian Institute of Family Studies, *Growing Up in Australia - The Longitudinal Study of Australian Children: 2005-06 Annual Report*, at p. 29).

²⁵ Australian Bureau of Statistics, *Family Characteristics, Australia, Jun 2003*, Cat. 4442.0, released 22/09/2004.

²⁶ *Ibid.*

²⁷ Barbara Horner, Jill Downie, David Hay and Helen Wichmann, “Grandparent-headed families in Australia”, *Family Matters*, Issue 77, pp. 76-84 at p.78.

²⁸ *Ibid* at p.79, and Emma Baldock, “Grandparents raising grandchildren because of alcohol and other drug issues”, *Family Matters*, Issue 77, pp. 70-75 at p.75.

assistance to grandparent families”; and (2) further research to identify grandparent families’ needs, especially in the case of Indigenous grandparent families.²⁹

Other forms of caring for grandchildren

40. Data from the Longitudinal Study of Australian Children indicates that 17 per cent of infants and 18 per cent of children aged 4-5 regularly received care from their grandparent.³⁰ No remuneration was paid for such care in the vast majority of cases.³¹ Grandparents also often care for older children, through such activities as after-school transport and care, and school holiday care. About one in five children under 11 are estimated to receive some form of care from grandparents; and some 40 per cent of children receiving child care obtain at least some of that care from grandparents.³²

41. To the extent that older Australians face a worsening squeeze between prices and income, the capacity of older Australians to provide care for their grandchildren will be impeded. For example, it may become impossible to collect children after school if financial circumstances make it impossible to maintain a car. This outcome would affect not only older Australian’s extent of participation and family contact, but the ability of younger “working families” to combine work and care, and the demand for places in the more formal childcare sector.

Recommendation 3

Catholic Social Services Australia recommends that the Committee recommend:

- (a) Further government-funded research to identify the special needs of grandparent families, including particular reference to the case of Indigenous grandparent families; and*
- (b) Greater practical recognition of such needs, especially in relation to government financial assistance.*

IV.C Social isolation

42. Some social interaction entails costs. Examples include the costs of transport, communications, social club membership fees, cultural activities and gift-giving.

43. If older people are forced to regard such costs as unaffordable luxuries, we can expect increased experiences of social isolation among our older citizens. This would be extremely sad in human terms, and inconsistent with each person’s right to participate in society as one aspect of their fundamental human dignity. It could also be expected to have adverse (and expensive) consequences for the physical and mental health of older Australians.

²⁹ See Emma Baldock, “Grandparents raising grandchildren because of alcohol and other drug issues”, *Family Matters*, Issue 77, pp. 70-75 at p.75.

³⁰ Australian Institute of Family Studies, *Growing Up in Australia - The Longitudinal Study of Australian Children: 2005-06 Annual Report*, at p. 30.

³¹ Remuneration was paid to 5 per cent of grandparents caring for an infant and 8 per cent of grandparents caring for 4-5-year-olds (*ibid*).

³² David de Vaus, Matthew Gray and David Stanton, *Measuring the value of unpaid household, caring and voluntary work of older Australians*, Research Paper No. 34, Australian Institute of Family Studies, October 2003, at p.4.

V Term of Reference (d): Adequacy of current tax, superannuation, pension and concession arrangements for older Australians to meet these costs

44. The bundling of several intertwined issues into Term of Reference (d) highlights the crucial need for *integrated* government approaches across a range of issue areas – including social security, superannuation, taxation, and (in collaboration with State and Territory Governments) concession arrangements. Another inter-related area, one not addressed here, is employment assistance for older workers.

V.A Superannuation and taxation

It seems there are two worlds for retirees, especially early retirees:

- One is a world in which there is high income and high ownership of assets including superannuation. Most of us hope to be in this group...But the reality is most of us will be in the second group.
- In the second group, superannuation is often negligible and will probably be consumed paying off debts...³³

45. Catholic Social Services Australia is concerned that this concept of two worlds remains as real as when it was posed in 2004, and that those earning low incomes during their working-age lives may be consigned to a financially stressful and uncertain later life.

46. We address five issues here:

- (1) The increasing focus on compulsory superannuation and private savings relative to the age pension.
- (2) The inequitable impact of recent changes to superannuation and taxation arrangements.
- (3) The \$450 monthly earnings threshold for Superannuation Guarantee contributions.
- (4) The uneven distribution of superannuation assets.
- (5) The need to prioritise equity and fairness in Australia's retirement-age income system.

(1) The increasing focus on compulsory superannuation and private savings relative to the age pension

47. Australia's system of providing for retirement incomes is changing. The old focus on the age pension is giving way to an increased focus on compulsory superannuation and private savings.

48. If the needs of the lowest-earning and most vulnerable in our society are not appropriately prioritised in the evolving design and implementation of this ongoing transition, Catholic Social Services Australia is concerned that in coming decades we will see greater inequalities in wealth and income among older Australians. There will always be a need for government to provide the safety net of an adequate age pension (see paragraph 62 and section V.B at pp. 16-19 below).

49. In the short term especially, particular consideration is owed to those whose only superannuation is that accumulated since the 1992 introduction of the Superannuation Guarantee.

³³ AMP.NATSEM, *Income, superannuation and debt pre and post retirement - The lump sum: here today, gone tomorrow*, AMP.NATSEM Income and Wealth Report Issue 7, March 2004.

Many lower-income “baby boomers” who are in this situation appear to be highly apprehensive about their prospects for financial security in later life.³⁴

(2) The inequitable impact of recent changes to superannuation and taxation arrangements

50. Recent changes to superannuation arrangements provide large windfall gains for the better off, while providing little or no benefit for those on low incomes.

51. As one commentator has noted about superannuation changes first foreshadowed in the 2006-07 Budget, the “windfall income gained” was restricted to the better off and to those who had contributed substantially more to superannuation than the compulsory levy rate.³⁵ In addition:

The windfall revenue gain...is greater the greater the sum of accumulated superannuation. The cases for redistribution to those on the highest incomes, and to those who have contributed most to superannuation, versus the rest of the population seem difficult to reconcile on the grounds of either vertical or horizontal equity.³⁶

52. Current tax concessions for superannuation contributions favour those on higher incomes:

- The high annual limit on post-tax contributions, of \$150,000 p.a. or \$450,000 over any three-year period, is of no benefit to those on lower-to-middle incomes who cannot afford to make voluntary contributions on this scale.
- The abolition of taxes on benefits received by those over 60 from taxed funds:
 - This is estimated as directly relevant to fewer than 20 per cent of “current and reasonably prospective retirees. Only a small minority of retirees have or are likely to have lump sum benefits in excess of the tax free threshold applying to such benefits.”³⁷
 - For the wealthiest beneficiaries of this change, the amount gained each year will be vastly greater than the full rate of the age pension itself. This raises major equity issues: the foregone tax revenue could have been put towards increases in pension rates for those at the lower end of the income scale.
- The transitional 2006-07 million-dollar concession was of value only to the very wealthy – it is too late to reverse now, but is indicative of how the system is weighted toward those who are on higher incomes and well able to look after themselves.
- One inequitable taxation concession pre-dating the recent changes is the regressive 15 per cent flat tax applying both to superannuation contributions³⁸ (which is especially regressive in combination with “salary sacrifice” arrangements) and to fund earnings:

³⁴ See e.g. the qualitative research reported in Myra Hamilton and Clive Hamilton, *Rich Boomer, Poor Boomer: Retirement prospects for the not-so-lucky generation*, Australia Institute Webpaper, August 2006 (2006). It is noteworthy that the Superannuation Guarantee commenced in 2002 at 3 per cent, and did not reach its current level of 9 per cent until 2002 (see Senate Select Committee on Superannuation, *Superannuation and Standards of living in retirement: Report on the adequacy of the tax arrangements for superannuation and related policy*, December 2002, at Appendix 15, “Chronology of superannuation policy announcements, events and inquiries: 1983-2002”, at p.290).

³⁵ John Freebairn, *Some Policy Issues in Providing Retirement Incomes*, Melbourne Institute Working Paper Series, Working Paper No. 6/07 (2007) at p.18.

³⁶ *Ibid.* See also Mike Taylor, “Women and poor miss out says HESTA”, *Super Review*, 1 June 2006 ... (available at <http://www.superreview.com.au/articles/17/0c040e17.asp>).

³⁷ Ross Clare, *Are retirement savings on track?* Association of Superannuation Funds of Australia, June 2007, at p.5.

- Again, the resultant tax foregone has an opportunity cost when it comes to financing retirement incomes for *all* Australians.
- The continuing superannuation co-contribution scheme for those on low-to-middle incomes is welcome – but those on low incomes can rarely afford to take advantage of it (unless they have a spouse or other relatives who can contribute on their behalf), and its scale is dwarfed by the benefits provided for those on higher incomes.

53. One purpose of recent superannuation changes was to lead over time to a reduction in outlays on the age pension. However, the tax concessions used for this purpose are of such a scale that their costs to revenue are likely to outweigh greatly the savings they produce.

54. Another major purpose of the recent changes was to simplify an undeniably complex system. But equity should not be sacrificed on such a scale for the sake of simplicity. In any case, simplification of an unwieldy tax structure did not necessitate the undue privileging of those on higher incomes who are able to make higher levels of contribution. For example, instead of the abolition of lifetime Reasonable Benefit Limits (RBLs) and their replacement by annual contribution limits, a comparable degree of simplification could have been achieved in a by retaining RBLs but in simplified form – together with better outcomes not only for equity but for tax revenue.

(3) *The \$450 monthly earnings threshold for Superannuation Guarantee (SG) contributions*

55. As for the maintenance of the \$450 monthly earnings threshold for Superannuation Guarantee contributions, we note the 2002 recommendation by the Senate Select Committee on Superannuation that the removal of this threshold removal should be examined.³⁹ The Government responded, very briefly, that it did not support this recommendation because it was “not convinced that the retirement income benefits of removing the ... threshold ... outweigh the possible extra costs imposed on business, especially small business.”⁴⁰

56. Catholic Social Services Australia is of the view that any additional administrative and logistical problems faced by business could be resolved, and that it is unfair simply to label those problems as too difficult when the outcome is significant disadvantage for some of our lowest-income citizens. This is particularly the case when it is recalled that employees may have little choice in the number of hours worked for a particular employer, and might be willing or even eager to work longer hours⁴¹. In industries where the incidence of under-SG-threshold-earnings is highest, there may be scope for considering special arrangements to assist employers without disadvantaging employees.

³⁸ ACOSS noted in August 2006 that “the 15% contributions tax ‘saves’ an individual on the top tax rate (earning \$150,000) 32 cents in tax per dollar contributed to superannuation by their employer, but an individual on the lowest tax rate (earning \$20,000) saves just 2 cents per dollar contributed. The annual tax concessions for Superannuation Guarantee contributions (9% of wages) for the high income earner in this example are worth \$4,253 compared to \$27 for the low income earner.” (*ACOSS Submission to Australian Treasury – proposals to simplify superannuation*, August 2006, at pp. 7-8).

³⁹ *Senate Select Committee on Superannuation, Superannuation and standards of living in retirement: Report on the adequacy of the tax arrangements for superannuation and related policy*, December 2002, at p.64, Recommendation 6.46.

⁴⁰ *Government Response to the Recommendations of the Senate Select Committee on Superannuation Report “Superannuation and Standards of Living in Retirement”*, at p.5.

⁴¹ Of all people employed part-time in September 2006, 20 per cent would have preferred to work more hours; and “[g]enerally, those usually working fewer hours wanted a greater number of additional hours.” (Australian Bureau of Statistics, *Underemployed Workers, Australia, September 2006*, Cat, 6265.0 at pp. 5 and 6). Among those working 1-10 hours per week who would have preferred to work longer hours, the average number of preferred additional hours was around 17 hours per week (*ibid*, Table 6 at p.18). Those working

57. The removal of the \$450 monthly earnings threshold would render the Superannuation Guarantee more worthy of its name.

(4) The uneven distribution of superannuation assets

58. There is evidence of great disparities in the distribution of superannuation assets – on gender, income and occupational lines. “Parlous” is a good description of women’s superannuation fund balances,⁴² but discrepancies exist across income and occupational lines, as well as across gender lines.⁴³

59. According to recent estimates by the Association of Superannuation Funds of Australia (based on ABS 2003-04 survey data; where “low” superannuation balance is under \$40,000, “high” is over \$100,000, and “middle” is everything in between⁴⁴):

- One in two Australians aged 60-64, and one in four Australians aged 25-64, had no superannuation at all in 2003-04.⁴⁵
- The distribution of superannuation assets among Australians aged 25-64 was as follows:⁴⁶
 - 10 per cent of persons held 63 per cent of assets.
 - 66 per cent of persons held 37 per cent of assets.
 - 24 per cent of persons held 0 per cent of assets.
- Two-thirds of Australians aged over 25-64 had “low” or “middle” superannuation balances.⁴⁷
- Of men retiring in 2003-04, 70 per cent had superannuation balances of under \$100,000.⁴⁸
- Almost 90 per cent of women aged 60-64 in 2003-04 had balances of under \$100,000 – and 75 per cent of women in this age group had balances of under \$40,000.⁴⁹

60. These estimates may to some extent understate superannuation holdings. However, such understatement is less likely to occur in the older 60-64 age bracket, where one might expect greater awareness of superannuation issues. And where the holder of superannuation balances is unaware of their existence or amount, he or she may never get the benefit of them – in view of the continuing large-scale problem of “lost” superannuation accounts.⁵⁰ With the maturing of the compulsory

1-10 hours per week are most likely to be disadvantaged by the \$450 minimum earnings threshold for Superannuation Guarantee contributions.

⁴² “Parlous” is the description used in Leslie Nielson, *Super co-contribution -- performance to date*, Parliamentary Library Research Note, 4 November 2005 (2005), and see also sources cited there at note 18. On one estimate, women held around 30 per cent of total superannuation account balances in 2003-04, up from 23 per cent in 1994 (Ross Clare, *Are retirement savings on track?* Association of Superannuation Funds of Australia, June 2007, at p.14).

⁴³ See Ross Clare, *Are retirement savings on track?* Association of Superannuation Funds of Australia, June 2007, at pp. 18-19.

⁴⁴ *Ibid* at p.8. Clare’s data source is the Unit Record File of the ABS Survey of Income and Housing, 2003-04.

⁴⁵ *Ibid* at Table 1.

⁴⁶ *Ibid* at pp. 12 and 15, Tables 3 and 4.

⁴⁷ *Ibid* P.8

⁴⁸ *Ibid* P.5

⁴⁹ *Ibid* P.5

⁵⁰ Other important issues which we lack space to consider here concern financial literacy and the impact of “choice” in superannuation. Undue emphasis on being self-funded in retirement means that the risk of adverse fund/investment selection is now borne by individuals (as opposed to government or employers) – especially with the increase in self-managed funds, which are increasingly being used by people on lower incomes. This means that the risks of adverse turns in the market or worse are significantly increased, with the prospect of

superannuation system the picture is constantly changing, so perhaps the true figures are not as disturbing as the preceding paragraph suggests. However, the alarming inequalities they depict underline the need to make equity and fairness overriding tenets of our retirement-age income system.

(5) The need to prioritise equity and fairness in Australia's retirement-age income system

61. The financial security of people whose working-age lives have been lived on low incomes must be accorded extremely high priority in the design and implementation of Australia's system of retirement incomes. So must the avoidance of any inordinate focus on paid work activity at the expense of other valuable types of contribution to our society and our economy. This requires:

- Ensuring that the age pension is adequate for a standard of living that enables dignity and social participation;⁵¹
- Avoiding the suggestion that chronically low-income individuals should themselves be blamed if, in later life, an adequate standard of living cannot be funded solely by the combination of their compulsory superannuation and private savings.
 - This means that no stigma should attach to those older Australians whose main income source is the age pension; and
- Ensuring that the superannuation system does not systemically disadvantage those who:
 - Have spent much of their working life in full-time employment but earning low wages;
 - Have spent extended periods of their working-age lives outside of the paid workforce – e.g. to meet family obligations, to care for children or others in need of care, or because of disability and/or unemployment;
 - Have spent periods under-employed or unemployed; and/or
 - Have tended to work in one job, or even several jobs simultaneously, for low part-time incomes (thereby earning too little to trigger the Superannuation Guarantee with its current earnings threshold of \$450 per month – see paragraphs 56-58 above).

Recommendation 4

Catholic Social Services Australia recommends that the Committee urge the removal of the \$450 monthly earnings threshold for Superannuation Guarantee contributions.

Recommendation 5

severely reducing – or even wiping out – an individual's super. One example of the scope for people to be unaware of this possibility appears in the recent superannuation booklet distributed to households by the Commonwealth Government. That booklet referred to the existence of high-risk investments which in some years might return no profit – but did not indicate that a person's superannuation balance could in fact go backwards should such investments incur losses:

Also, many funds let you choose how your super is invested. Low risk investments keep your money safe but grow more slowly. High risk investments can earn you more money in the long term but you risk *earning nothing* in some years.

Australian Government, *Better Super Australia's worked hard for it: A simple guide to the biggest reform to Australian superannuation ever*, distributed to households in mid-2007, at p.10 (emphasis added).

⁵¹ See paragraphs 65-77 and Recommendation 8 at pp.17-19 below.

Catholic Social Services Australia recommends that the Committee assess equity and fairness aspects of taxation concessions applied to superannuation - including the extent to which they are likely to benefit those on higher incomes and lower incomes respectively, and their impact on taxation revenue.

Recommendation 6

Catholic Social Services Australia recommends that the Committee take action to minimise the risk of increasing wealth and income inequalities among older Australians by considering how the superannuation system could be changed to remove the existing systemic bias against those Australians who have worked for low wages or spent extended periods of their working-age lives out of the paid workforce, unemployed or under-employed.

Recommendation 7

Catholic Social Services Australia recommends that, should the Committee determine that it lacks the time and resources to conduct its own in-depth consideration of current superannuation arrangements, it recommend that the issues raised in Recommendations 4-6 above should be the subject of a separate Inquiry conducted for that purpose.

V.B The age pension

62. Around two million people now receive the age pension, costing about \$24 billion per year in what is the Government's highest-spending single program.⁵² As at the end of 2004, 80 per cent of people aged 65 or over were receiving either the age pension (part or full payment) or a payment from the Department of Veteran's Affairs (DVA).⁵³ For people aged 60 and over, this figure was 63 per cent.⁵⁴

63. Despite these figures, and the fact that Australia has life expectancies among the highest of OECD countries,⁵⁵ "public spending on age pensions is low compared to most other OECD countries".⁵⁶

(i) Overall adequacy of age pension and indexation process

64. Australians living on income support "pensions", including the age pension, are more protected against rising prices than are those living on income support "allowances" such as Newstart Allowance – at least during periods when wages growth outstrips inflation. Allowances are indexed twice yearly to reflect any upward movements in the consumer price index. So too are pensions – but

⁵² Families, Community Services and Indigenous Affairs Legislation Amendment (Further 2007 Budget Measures Bill 2007), Second Reading Speech, 20 June 2007.

⁵³ AIHW, *Australia's Welfare 2005: The seventh biennial welfare report of the Australian Institute of Health and Welfare*, 2005 at p.151: 1,888,000 on the age pension and 363,700 on a DVA payment.

⁵⁴ *Ibid.*

⁵⁵ David de Vaus, Matthew Gray and David Stanton, *Measuring the value of unpaid household, caring and voluntary work of older Australians*, Research Paper No. 34, Australian Institute of Family Studies, October 2003, at p.1.

⁵⁶ David de Vaus, Matthew Gray, Lixia Qu and David Stanton, *The consequences of divorce for financial living standards in later life*, Australian Institute of Family Studies Research Paper No. 38, 2007 at p.5 (adding that Australia's age pension coverage is comprehensive, and that it appears to be highly redistributive).

pensions are then “topped up”, if required, to match the level of 25 per cent of Male Total Average Weekly Earnings (MTAWE).

65. But these arrangements are insufficient to ensure an adequate income for those relying on the age pension as their main income source.

66. First, the 25 per cent of MTAWE benchmark is simply too low to ensure an adequate standard of living (especially for older Australians who do not own their own home). Recognition of this fact was embodied in the following conclusion of the Senate Community Affairs References Committee in its 2004 report into poverty and financial hardship:

while the cost of increasing the rates of social security payments would be substantial, the Commonwealth Government should have, as a long-term goal, a commitment to increasing the rate of both pensions and allowances to a *substantially* higher rate than the current 25 percent of MTAWE benchmark at present applied to pension payments.⁵⁷

67. Secondly, further examination is required of the degree to which CPI movements constitute a fair reflection of older Australians’ expenditure patterns. This is particularly important because wages might decline in future periods of economic downturn, effectively making the CPI the only means of indexing the age pension.

(ii) Particular circumstances of those on age pension who receive Commonwealth-funded community care or live in residential aged care

***** This part of our submission was prepared by our sister body, Catholic Health Australia⁵⁸ *****

Affordability for age pensioners of Commonwealth-funded community care

68. For older people who live at home and receive community care, a particular concern is the declining disposable income available to meet the approved care recipient contribution towards the costs of that community care.

69. The basic age pension rate is used when calculating the maximum contributions paid by recipients of Commonwealth-funded community care, such as Community Aged Care Packages (CACP), Extended Aged Care in the Home (EACH) and Extended Aged Care in the Home Dementia (EACHD).

70. The maximum basic rate of pension (excluding the GST Supplement of \$18.30) was increased by \$12.90 on 20 March 2007 to \$506.80 per fortnight. With that change, the maximum contribution payable by single clients of Commonwealth-funded community care increased from \$6.17 to \$6.33

⁵⁷ Senate Community Affairs References Committee, *A hand up not a hand out: Renewing the fight against poverty – Report on poverty and financial hardship*, 2004 at p.108, paragraph 5.35 (emphasis added).

⁵⁸ Catholic Health Australia (CHA) is the largest non-government provider grouping of health, community and aged care services in Australia, nationally representing Catholic health and aged care sponsors, systems, facilities, and related organizations and services.

Services are provided in a number of settings, for example, residential, community care, in the home, the workplace, hospitals, medical clinics, hospices, correctional facilities, as well as for people who are homeless. In addition, services are provided in rural, provincial and metropolitan settings, in private facilities as well as on behalf of the public sector.

The Catholic sector plays a significant role in Australia’s overall health and aged care industry representing around 13 percent of the market and employing around 30,000 people.

per day (\$88.62 per fortnight).⁵⁹ At 17.5 per cent of the base rate of the pension, this is a considerable outlay.

71. For those care recipients whose income exceeds the basic rate of pension, the maximum fee is 17.5 per cent of income to the level of the basic pension, plus up to 50 per cent of income above the basic pension. Thus, for pensioners liable for the maximum Community Care Package contribution, up to 50 per cent of any extra-basic-pension income will go to home care costs rather than to the pensioner.

72. The impact of recent movements in the price of essentials, including household utilities, has placed undue financial pressure on older persons. This is particularly disturbing in the case of frail older persons in receipt of home care. Their capacity to continue to afford home care becomes problematic when, for basic pension recipients, almost 20 per cent of their income is consumed with care fees. Should financial stress cause persons in these circumstances to forego some or all of the home care they need, this would extract a cost in health, human and budgetary terms.

Cost squeezes affecting pensioners in residential aged care

73. The Catholic sector has over 19,000 Australian Government approved residential aged care beds, or 12 per cent of the national residential aged care sector.

74. Pensioner residents in residential aged care pay 85 per cent of their basic pension as a daily basic care fee. Non-pensioners currently pay a higher fee, but from 20 March 2008 all new residents will pay the same 85 per cent of the basic pension.

75. The provision of normal household essentials and utilities is the responsibility of the approved provider and is included in the 85 per cent contribution the resident makes to the provider. However, the cost of clothing, personal pharmacy provisions, resident outings and private dental care is borne by the resident from the remaining 15 per cent (\$76 per fortnight, i.e. just \$5.43 per day). So too is the cost of correspondence, phone calls or gifts for family and friends.

76. In view of the wide range of expenses for which those living in residential aged care remain liable, the current pension amount is insufficient for them to maintain a standard of living which reflects their human dignity and facilitates their participation in society.

Recommendation 8

8. Catholic Social Services Australia recommends that the Committee recommends that the Commonwealth Government move towards increasing the rate of pensions to a substantially higher rate than the current 25 per cent of Male Total Average Weekly Earnings (as was recommended by the Senate Community Affairs Reference Committee in 2004).

⁵⁹ This is the maximum permissible under section 23.89(2) of the User Rights Principles made under the Aged Care Act 1997 (Cth).

VI List of Recommendations

77. Catholic Social Services Australia recommends that the Committee:

- 1 Recommend that any government measures to address climate change should:
 - (a) Involve broad consultation, including the community sector, and integrate the concept of equity (fairness/affordability for low-income earners) as a key criterion at design and implementation stages;
 - (b) Be accompanied by steps to protect low-income older Australians from any associated increases in the price of energy, transport and other goods and services; and
 - (c) Ensure provision of energy efficiency assistance programs to ensure that low-income older people can participate, without undue disadvantage, in a more energy-efficient future.
- 2 Recommend urgent action on oral health along the lines proposed by the National Oral Health Network: i.e. that the Commonwealth Government should:
 - (a) Ensure that all people on concession cards have a free basic course of dental care every two years; and
 - (b) Fund this initiative through the States and Territories, on condition that States and Territories meet certain conditions (notably raising their own level of expenditure on oral health).
- 3 Recommend:
 - (a) Further government-funded research to identify the special needs of grandparent families, including particular reference to the case of Indigenous grandparent families; and
 - (b) Greater practical recognition of such needs, especially in relation to government financial assistance.
- 4 Urge the removal of the \$450 monthly earnings threshold for Superannuation Guarantee contributions.
- 5 Assess equity and fairness aspects of taxation concessions applied to superannuation – including the extent to which they are likely to benefit those on higher incomes and lower incomes respectively, and their impact on taxation revenue.
- 6 Take action to minimise the risk of increasing wealth and income inequalities among older Australians by considering how the superannuation system could be changed to remove the existing systemic bias against those who have worked for low wages or spent extended periods of their working-age lives out of the paid workforce, unemployed or underemployed.
- 7 Recommend, should it determine that it lacks the time and resources to conduct its own in-depth consideration of current superannuation arrangements, that the issues raised in Recommendations 4-6 above be the subject of a separate Inquiry conducted for that purpose.
- 8 Recommend that the Commonwealth Government move towards increasing the rate of pensions to a substantially higher rate than the current 25 per cent of Male Total Average Weekly Earnings (as was recommended by the Senate Community Affairs Reference Committee in 2004).