

The Adequacy of the Age Pension in Australia

An assessment of pensioner living standards



Life on the Age Pension in Australia: A contemporary snapshot....

“...We are very aware of all the services available in the area. There is a church we go to for some free meals. We make use of the Brotherhood drop in centre for meals and social activities. We spend very carefully and will cut back on things – even eating less – in order to keep our finances under control ...”

“...My home is falling to pieces with tree roots blocking the pipes but I just don't have the money to fix it...”

“...It's a struggle to get good information. You can't speak to a human at Centrelink and other service providers. It's hard to get the right info out of a computer. Computers are wonderful but they can't do everything and we need human interaction...”

“...If a fridge or washing machine has to be replaced, this is a crisis for which help is needed from family or friends or a charity like the Salvos...”

“...I only came to this meeting for the free food. We often reach the point of having to decide between food and medication; sometimes we can't afford both...”

Table of Contents

| | |
|--|----|
| About the Convening Organisations..... | 4 |
| Acknowledgements..... | 4 |
| Executive Summary..... | 5 |
| Introduction..... | 7 |
| Overview of the Age Pension..... | 8 |
| The Age Pension in Australia - current status..... | 8 |
| What is the Age Pension for?..... | 10 |
| Philosophical Basis of the Pension..... | 10 |
| Pension History and International Comparisons..... | 11 |
| A Citizens' Pension..... | 12 |
| Assessing the Adequacy of the Age Pension..... | 13 |
| Our Unique Approach..... | 13 |
| Previous Assessments of Adequacy of the Age Pension..... | 15 |
| The Harmer Review..... | 15 |
| Budget Standards Approach..... | 16 |
| Deprivation Approach..... | 16 |
| Subjective Wellbeing..... | 16 |
| Findings..... | 17 |
| Overall Picture of Life on the Age Pension..... | 17 |
| Specific Areas of Concern..... | 18 |
| Different Needs and Expectations..... | 33 |
| Services..... | 34 |
| Is the Pension Adequate?..... | 36 |
| How do we Assess the Adequacy Gap?..... | 38 |
| Reccommendations..... | 40 |
| A Way Forward..... | 42 |
| Revenue and Savings Measures..... | 42 |
| Conclusion..... | 44 |
| References..... | 46 |
| Appendix I..... | 48 |
| Appendix II..... | 51 |

About the Convening Organisations

The Benevolent Society is Australia's first charity, working as a catalyst for social change for over 200 years. The Benevolent Society provides quality services in the areas of Child and Family Support and Assistance, and assisting older people and Australians with disability to age well and live a healthy life, staying in their homes wherever possible. For more information, please visit us at www.benevolent.org.au; Facebook/[thebenevolentsociety](https://www.facebook.com/thebenevolentsociety); Twitter [@BenevolentSoc](https://twitter.com/BenevolentSoc).

The Longevity Innovation Hub is a not for profit entity, which has undertaken the task of implementing the *Blueprint for an Ageing Australia*. Its Chair, Everaldo Compton AM, was a Founding Director of National Seniors Australia. He served on its Board of Directors for 35 years and was Chairman for 25 years, retiring in 2010 when he took up a new role as Chairman of the Australian Government's Advisory Panel on Positive Ageing for three years.

Per Capita is an independent progressive think tank which generates and promotes transformational ideas for Australia. Our research is rigorous, evidence based and long term in its outlook, considering the national challenges of the next decade rather than the next election cycle. Our audience is the interested public, not just experts and practitioners. The Centre for Applied Policy in Positive Ageing (CAPPA) is Per Capita's ageing 'do tank'. Please visit us at www.percapita.org.au; [@percapita](https://twitter.com/percapita); Facebook/[percapitaaustralia](https://www.facebook.com/percapitaaustralia)

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Executive Summary

OVERVIEW

The Age Pension in Australia is inadequate.

It fails to provide a decent standard of living for approximately 1.5 million older Australians who rely on it as their main source of income. Some pensioners are taking drastic measures in order to make ends meet – they are turning off hot water in summer, blending food because they can't afford a dentist and choosing between food and medication.

The financial wellbeing of age pensioners depends a great deal on their specific circumstances including where they live, whether or not they are single, their gender, and, perhaps most significantly, whether or not they own their own home. Home ownership constitutes the single biggest factor contributing to financial hardship among pensioners. Age pensioners who are renting, in particular those who are single, are the worst off. Many of these are women without superannuation or other savings. Urgent measures are required to redress the profound levels of deprivation experienced by this group of pensioners.

A wider range of measures must also be considered to ensure that all older Australians living on the Age Pension can experience a decent standard of living that is commensurate with the relative wealth of this country.

APPROACH

This report examines the adequacy of the Age Pension both qualitatively, through focus groups and town meetings, and quantitatively, through analysis of social survey data. Methodology included quantitative analysis provided by the HILDA (Household Income and Labour Dynamics in Australia) survey which included 9,000 households and 25,000 individuals. This was complemented by qualitative research using focus groups in five cities across four states and several town hall meetings in regional centres.

Pensioners from around the country shared their stories of their lives on the Age Pension. We heard many accounts of financial hardship and deprivation and how some pensioners made ends meet going, for example, to church meetings just for the free food.

This report also looks at the history of the pension and how Australia's approach to the pension has evolved from a 'poverty alleviation' approach to one which more broadly reflects the ideals we want to see in Australia- a 'social contract' approach to the pension which seeks to ensure pensioners are not merely scraping by on the poverty line.

The report acknowledges that defining an adequate pension is extremely complex. While we argue that the base rate of the pension is insufficient, we recognise that nominating a monetary amount by which to increase the pension is beyond the scope of this paper. Instead, we propose that an independent tribunal – similar to the Parliamentary Remuneration Tribunal or the Fair Work Australia Expert Panel – be established to determine the base rate in order to provide a fair and decent standard of living in line with community standards and with consideration of the broader fiscal context.

RECOMMENDATIONS

The report identifies a number of measures that could be put in place to alleviate some of the hardship being faced by age pensioners, particularly those who rent and are single, including:

- Establish an independent tribunal to assess the base rate of the pension and determine the best mechanism for annual review and revision
- Increase the maximum rate of Commonwealth Rent Assistance (CRA) to reduce the gap between age pensioners who are home owners and those who are renters
- Index CRA to housing costs instead of CPI to more accurately reflect changes in costs faced by renters in specific geographical areas, particularly in metropolitan regions, for example, Sydney vs. Albury-Wodonga

There are a range of other measures we recommend to assist all pensioners, including:

- Provide nationally standardised Medicare-funded dental care to all full pensioners
- Run an awareness campaign of government schemes that subsidise or reimburse costs associated with non-pharmaceutical health expenses, for example medical disposables associated with diabetes and incontinence.
- Coordinate or replace state-based utilities rebates for pensioners in order to prevent utility costs rising as a proportion of pensioner expenses
- Provide a specific broadband or internet-related supplement or rebate
- Create a roundtable of government, non-government and private sector organisations with the objective of:
 - o clarifying and enhancing existing programs, services, products and initiatives designed to meet the needs of age pensioners in an affordable way; and
 - o exploring new or improved services, programs, products and initiatives that can contribute to age pensioner wellbeing; including for age pensioners in disadvantaged, regional, rural and remote communities.

We recognise that advocating for increased government expenditure is difficult in the current fiscal climate. Like our international counterparts, our population is ageing and this places real pressure on the national budget. However within the report we have identified areas where, with political courage, budget savings could be made which would fund any potential increase in the pension.

The fact that many pensioners are suffering substantial deprivation is not acceptable in one of the richest countries in the world. We can and should do better.

Introduction

“Life is not worth living unless it has some quality. Just surviving is not a good life.”

Toowoomba focus group participant

For many older Australians the Age Pension is their only source of income and, for many more, it is the primary source of income. Compulsory superannuation came too late for most current pensioners and is limited to those who had careers in paid employment. For many older women who have had careers as parents and carers, there has never been an opportunity to accumulate private savings, either in superannuation or in other forms. The Age Pension is, therefore, their income for the entirety of their retirement, which can be 30 years or more.

Several recent studies have highlighted the very high rates of poverty among older Australians. OECD data show that a third of Australians over the age of 65 were at risk of poverty in 2012, the second highest rate in the OECD behind South Korea¹. In 2015 the Lord Mayor’s Charitable Foundation completed a report that found more than one third of women over the age of 60 in Australia are in permanent income poverty².

Today’s pensioners have spent a lifetime contributing to Australia through paid careers, raising children, volunteering and homemaking. Australia is one of the wealthiest countries in the world and most of us enjoy a very high material standard of living. We believe that older Australians should be able to share in this prosperity and fully participate in Australian life, both economically and socially.

This report examines the current status of the Age Pension, the experience of pensioners living solely on the Age Pension and the expenditure of Australians over the age of 65 in order to determine how well we are meeting that aspirational goal and, where we are not meeting it, how things can be improved.

The report begins by outlining the current framework for the Age Pension in Australia and briefly examines the philosophy behind the Age Pension and recent research efforts to assess its adequacy.

It then examines various categories of expenditure of pensioners in Australia today, both through the prism of pensioners’ lived experiences and through the analysis of the Household Income and Labour Dynamics in Australia (HILDA) survey, a major social survey on income and expenditure. Next, it examines the question of whether the Australian Age Pension is adequate, drawing on the results of the analysis. The report concludes by outlining directions for reform that will improve the wellbeing of pensioners.

Overview of The Age Pension

THE AGE PENSION IN AUSTRALIA - CURRENT STATUS

The Age Pension in Australia is a universal means tested social security payment.* It is available to Australian citizens, permanent visa holders and protected Special Category visa holders (New Zealanders arriving before 2001) who are over 65 years of age and meet the means and asset tests. Payment rates are tapered according to the outcome of income and assets tests with varying thresholds depending on relationship status and home ownership³.

As of the March quarter 2016 there were 1,474,000 full-rate age pensioners and an additional 1,047,000 part-pensioners in Australia. More than ten per cent of the Australian population receive The Age Pension and it is the primary source of income for about six percent of the population. In total, the federal government spent \$44 billion on the Age Pension in financial year 2014-15.

From 1 July 2017, the qualifying age for the Age Pension will increase from 65 years to 65 years and 6 months. The qualifying age will then increase by 6 months every 2 years, reaching 67 years by 1 July 2023. There has been discussion about lifting the Age Pension qualifying age to 70⁴ though no such move has yet been legislated.

Current (August 2016) maximum payment rates of the Australian Age Pension are given in Table 1. These payments are supplemented by Commonwealth Rent Assistance (CRA) for those renting in the private rental market. The maximum rate of CRA is \$130.40 per fortnight for singles and \$122.80 per fortnight per person if part of a couple.

* It is universal in the sense that it doesn't depend on any prior individual contributions.

| Pension rates per fortnight | Single | Couple each |
|-----------------------------|-----------|-------------|
| Maximum basic rate | \$794.80 | \$599.10 |
| Maximum Pension Supplement | \$65.00 | \$49.00 |
| Energy Supplement** | \$14.10 | \$10.60 |
| TOTAL | \$873.90 | \$658.70 |
| Including max CRA | \$1004.30 | \$781.50 |

Table 1. Current payment rates of the Australian Age Pension including supplements. (Accurate as of August 2016). The final row indicates the maximum pension payment made for renters who are eligible for Commonwealth Rent Assistance, which is paid as part of the Age Pension. **The current policy of the Federal Government is to remove the energy supplement for pensioners who qualify for the pension after 20 September 2016, though at time of publication this had not been legislated.

Age Pension rates are indexed every six months by the greater of the movement in the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index (PBLCI). They are then 'benchmarked' against a percentage of Male Total Average Weekly Earnings (MTAWE). The combined couple rate is benchmarked to 41.76% of MTAWE. The single rate of pension is set at 66.33% of the combined couple rate (which is equal to around 27.7% of MTAWE). 'Benchmarked' means that after it has been indexed, the combined couple rate is checked to see whether it is equal to or higher than 41.76% of MTAWE. If the rate is lower than this percentage, the rates are increased to the appropriate benchmark level. This two-tiered indexing ensures that pensioner income does not fall disproportionately below wages when wages grow faster than CPI.

What is the Pension for?

PHILOSOPHICAL BASIS OF THE PENSION

Any attempt to determine an adequate Age Pension is predicated on the question of what a public pension is intended for. Is it a safety net of last resort, to ensure citizens do not starve in their old age (known as “poverty alleviation”)? Is it a complement to private savings, intended to assist people in their later years but not intended to be a stand-alone source of income? Is it an acknowledgement of the contribution of workers to their society, reflecting contributions made during their working life? Or is it part of the social contract, a recognition that older citizens deserve a quality of life consistent with the living standards of the society in which they live?

Each of these four broad possibilities reflects a different philosophical approach to the pension. Each has different implications for pension design:

1. The *minimum safety net approach* is a form of non-contributory social insurance with the rate set very low, underpinning as Emily Millane has written, a life of “crisis and cat food”⁵.
2. The *complementary savings approach* would similarly set the pension rate low, so as to provide sufficient incentive to build private savings.
3. The *savings vehicle approach* operates a contributory system, in which all workers (and often employers) pay into a pension pool.
4. Finally, *the social contract approach* is also a form of social insurance but sets a higher pension rate, independent of any contributions.

In Australia, the pension is one part of a ‘three pillars’ retirement income system, with the other pillars being compulsory employer superannuation and tax-advantaged voluntary superannuation saving⁶. Our pension is:

- universal in the sense that it doesn’t depend on prior workplace contributions;
- means-tested to ensure that it complements the incomes of those who are in genuine income need; and
- set at a rate sufficiently low to encourage additional private saving across the lifespan.

To understand better these alternative rationales, it is instructive to revisit the establishment of various pension schemes and consider how their design was informed by their intended objectives.

PENSION HISTORY AND INTERNATIONAL COMPARISONS

The world's first Age Pension, introduced in Prussia by Otto von Bismarck in 1889, was a contributory social insurance scheme explicitly designed for workers aged 70 and over. At the time, life expectancy of a 20-year-old man was around 60, and those workers who did live to 70 could expect to live a further 7.5 years.

Both workers and employers made contributions and the scheme was partially underwritten by the state. To qualify, a worker needed to contribute for at least 30 years. And by today's standards, the scheme was not generous, paying 18.2% of the average wage compared with 47% in Germany in 2010⁷. The Prussian scheme reflected a strong sense of individual obligation: workers 'earned' their pension entitlements based on income accrued during their working lives. There was no concept of universality, and no attempt at poverty alleviation beyond those who had worked for 30 years.

Britain's Old Age Pension scheme commenced almost two decades later, in 1908. It differed from the Prussian pension in that it was not restricted to workers and did not require contributions as a condition of eligibility. It was restricted to UK citizens and residents of 20 years or more, aged over 70. The pension rate was set low to encourage private savings. It was means-tested and also included a test of 'good character'. This design most closely matches the safety net approach described above.

Over time, the British system was reformed to provide pension payments calculated according to a worker's National Insurance payment history, with the eligibility age reduced to 65 years for men and 60 for women. This represented a shift from a safety net scheme to the kind of contributory scheme introduced in Prussia 70 years earlier. The British Government has recently legislated future changes to the eligibility age (to 67 for all) and the contributions structure, but the contributory principle remains intact.

Let's compare these examples with the approach taken in Australia when the pension was introduced one year after Britain's, in 1909. The new Commonwealth pension replaced state-based schemes that had been operating for several years in NSW, Queensland and Victoria. Unsurprisingly, the Commonwealth pension shared numerous features with the British design. The pension was available to citizens and long-term residents of 25 years' standing, initially for men only before being extended to women in 1910. It was subject to both a means test and a 'good character' requirement.

Life expectancy for males at birth in 1909 was 56 years, while life expectancy for 20 year olds was around the pension age. In fact, only 4% of the population were old enough to be eligible and for those who made pension age, the average time spent on the pension was around 12 years⁶.

Although the Australian scheme was more generous than either Prussia's or Britain's, it was still a good actuarial bet for government.

The initial pension rate was modest at £26 per year, around one quarter of the basic wage. Two years prior, the landmark Harvester judgement had outlined the purchasing power required of a basic wage, sufficient to provide reasonable standard of living for a working man. In addition to food and shelter, a fair and reasonable wage would afford:

*"...light... clothes, boots, furniture, utensils..., rates, life insurance, savings, accident or benefit societies, loss of employment, union pay, books and newspapers, tram and train fares, sewing machine, mangle, school requisites, amusements and holidays, intoxicating liquors, tobacco, sickness and death, domestic help, or any expenditure for unusual contingencies, religion, or charity."*⁸

The Harvester judgement calculated the wage level required to afford this bundle of goods at £114 8 shillings per year.

Clearly, at a quarter of this level, the initial Australian pension was not intended to provide on its own a reasonable standard of living, but was intended as a poverty alleviation measure, a safety net of last resort.

It is instructive to consider how the Australian pension has developed since 1909. Unlike Britain, Australia never changed its pension to a contributory scheme – it has remained available to all residents of pension age, subject to the means test. (Not before time, the character test has been dropped.)

What is most revealing, is the way that both the Australian and British systems have evolved in terms of system generosity. In the decision to move to a contributory pension after World War II, Britain effectively made its public pension less generous by limiting eligibility to those who had undertaken long periods of work rather than all citizens who fell below means-test thresholds. In eschewing this approach, Australia has developed a more generous pension system in relative terms.

A further and revealing metric is found in the way each system has moved its pension rate as a fraction of the basic or minimum wage. As we have seen, both pensions were introduced in 1908-09 as explicit poverty alleviation measures with a very low pension rate set at less than one quarter of the basic wage.

Since then, the basic rate of the British pension has increased to around 51% of the UK minimum wage: weekly pension is around £113, with the minimum wage at £223. In Australia, the corresponding ratio is 67%, with a full pension at \$437 per week (including supplements) and the minimum wage at \$657 (as at June 2016). So the Australian system has grown to be more generous not only in terms of eligibility, but in terms of the payment rate relative to accepted minimum wages.

The adequacy of the Age Pension is as much a philosophical issue as an evidence issue. The evidence can help us understand how well we are meeting standard of living targets but it cannot determine those targets. What minimum material standard of living is acceptable for older Australians who have never had an opportunity to accumulate private savings?

A CITIZENS' PENSION

The discussion above demonstrates that Australia has been moving away from using the pension as a poverty alleviation measure, and developing an approach that reflects the value that we, as a society, place on supporting our older citizens in their old age. One way to think about this is to consider the evolving Australian approach as a “citizens’ pension”. In this light, a citizens’ pension represents a part of the overall social contract. It constitutes a recognition that older citizens deserve a quality of life consistent with the living standards of the society in which they live, one that is more than simple poverty alleviation.

We propose that Australia should continue to embrace this citizens’ pension approach. This report is compiled with that perspective as a backdrop. But before we assess how to develop the citizens’ pension approach, it’s necessary to understand the adequacy of the age pension today.

Assessing the Adequacy of the Pension

OUR UNIQUE APPROACH: ASKING PENSIONERS AND EXAMINING EXPENDITURE DATA

This report is based on both qualitative and quantitative assessment of the Age Pension. Five customised focus groups were held across four states where life on the Age Pension was discussed. In addition, town meetings were organised in Tamworth, Armidale, Glen Innes and Inverell to discuss life on the Age Pension.

The results of these conversations informed the quantitative analysis of the Household Income and Labour Dynamics in Australia (HILDA) survey data from 2015. HILDA is an annual survey that began in 2001 that includes over 9,000 households and 25,000 individuals. A large range of questions are asked including income, expenditure across a range of categories and, in some years, wealth.

These data analyses focused on spending patterns in Australians over the age of 65 segmented by gender, relationship status, housing tenure, and location.

This approach was chosen because we wanted to offer both a bottom-up and a top-down view of life on the Age Pension. The qualitative research provides us with subjective first-hand perspectives of pensioners across Australia. The quantitative analysis of the HILDA dataset provides an objective, empirical and population-wide perspective on expenditure patterns, which complements the views of the pensioners themselves.

In the section that follows we first describe the focus group research and the HILDA data analysis and then outline the main concerns expressed during the focus groups and examine what light the HILDA data can shed on those issues.

Qualitative research sources - focus groups

Five focus groups were held with pensioners: one each in Metropolitan Melbourne, Sydney and Perth, and one each in the foothills of the Blue Mountains and in Toowoomba. In total we spoke to 37 pensioners, of whom 29 were solely reliant on the Age Pension. At the town meetings in New England a total of 65 pensioners made comments regarding their experience of the Age Pension.

Comprehensive notes on the focus groups, including details of locations, dates and participants, can be found in Appendix I.

The purpose of the qualitative research was not to gather representative data covering Australian pensioners but, rather, to discover from pensioners what were the most important issues for them regarding life on the pension. In this kind of qualitative data

collection there are rapidly diminishing returns on effort for each extra focus group conducted. Approximately 80% of the issues raised at the first focus group were also raised in the second. Each focus group beyond that added depth to topics already covered but few entirely new and important issues were raised. By the time we came to the fifth focus group there were no substantive new topics raised. Of course, there will be significant specific place-based issues that we do not cover here. However, we are confident that the number of focus groups allowed us to capture the most substantive issues that are common to pensioners across Australia.

While the focus groups and town meetings provided us with the views of a broad range of pensioners, these groups were self-selected; that is made up of people who had volunteered to attend. The result of this self-selection bias is that we did not hear from the most marginalised and socially isolated pensioners. We heard a lot about this group second hand from the pensioners who did attend and anecdotally from service providers. Because some of our focus groups were organised through NGO aged service providers, it's also likely that pensioners who were living comfortably were underrepresented in those groups.

Quantitative research sources - Household Income and Labour Dynamics in Australia (HILDA)

For the analyses in this report we used data from 834 full pensioners (those who qualify for the maximum rate of the Age Pension) and a total of 2,155 Australians over the age of 65 who took part in the 2015 HILDA survey.

We constructed models of expenditure on all of the items covered by the HILDA survey in 2015. These were: groceries, food, alcohol, cigarettes, meals eaten out, clothing, private health insurance, health service providers, pharmaceuticals, rent, mortgage, other insurance, home repairs, vehicle repairs, vehicle fuel, public transport, telephone and internet, and utilities. The primary purpose of the models was to examine the pattern of expenditure between different segments of the population and to examine how expenditure changes with changing income.

Expenditure not covered in the HILDA surveys include local government rates (though these are heavily subsidised for pensioners), most leisure and entertainment spending apart from meals eaten out, magazines and newspapers, animal expenses, gifts, and most durable goods. HILDA surveys capture approximately 80% of average household expenditure¹⁴.

Details of the data analyses and results can be found in Appendix II.

PREVIOUS ASSESSMENTS OF THE ADEQUACY OF THE AGE PENSION IN AUSTRALIA

The Harmer Review

The 2009 Pension Review Report⁹ (from here on referred to as the Harmer Review) was the last comprehensive review of the Age Pension in Australia. The report was produced by a team led by Dr. Jeff Harmer for the Department of Families, Housing, Community Services and Indigenous Affairs.

The Harmer Review declined to define precisely what an adequate level of the Age Pension should be. Instead it primarily relied on relative levels; finding, for instance, that single pensioners were relatively disadvantaged compared to pensioners who are part of a couple.

“the Review observed that no single measure or benchmark could be used to determine whether or not the pension was adequate, but rather a judgement needed to be made across a range of measures.”⁹

The key findings of the Harmer Review were:

- *Pension rates do not fully recognise the costs faced by single pensioners living alone and the approach of paying ad hoc bonuses does not provide financial security. Additionally, many pensioners who rent privately have high costs and poor outcomes.*
- *Indexation arrangements for pensions need to more transparently link pensions to community living standards and better respond to the price changes experienced by pensioners.*
- *Complexity needs to be reduced as it can undermine the financial security of pensioners, and inhibits the flexible delivery of payments.*
- *Services are an essential complement to the pension system and can respond to the diversity of needs in ways an income support system cannot. However, they need considerable review and reform to more effectively and sustainably perform this role.*
- *Workforce participation by pensioners over Age Pension age should be better supported while a stronger participation focus is needed for those of working age.*
- *In the face of demographic change long term sustainability is critical. The situation of pensioners with low to moderate reliance on the pension is different to those who are wholly reliant on the pension, and there is scope for targeting any increases to those who need it.*
- *An increase in the Age Pension age needs to be considered as a response to the rapid increases in the life expectancy of Australians and the growing duration of retirement.*

(From Harmer Review Summary)⁹

In response to the Harmer review the Rudd government increased the single Age Pension by \$30 per week to improve its relative position against the couple Age Pension to 66.33% of the combined couple rate. Age Pension indexing and benchmarking were also adjusted to the current settings, which saw the ratio against Male Total Average Weekly Earnings (MTAWE) rise slightly (see above section). Subsequently, the Rudd government also legislated to increase the pension eligibility age as described above.

Budget standards approach: University of NSW and ASFA initiatives

In 1998 a group of researchers from the University of NSW was commissioned by the Department of Social Security to produce a report on a budget standards (or 'basket of goods') approach to social security adequacy¹⁰.

"A budget standard represents what is needed by a specified household, in a particular place at a particular point in time, to achieve a specific standard of living. Development of a budget standard thus involves specifying a typical basket of goods and services and pricing it."¹⁰

This complex piece of research developed standards for 46 indicative household types made up of nine expenditure categories containing a total of over 400 items for each household. The key findings are that household size and housing tenure were the most significant factors in determining expenditure profiles for older Australians. These budget standards were updated and expanded in a report commissioned by the Association of Superannuation Funds Australia in 2004¹¹. A new 'Comfortably Affluent but Sustainable' (CAS) budget standard for older Australians was added to the 'Modest but Adequate' (MBA) and the 'Low Cost Standard' (LC) that were produced in 1998. All of the updated budget standards were for older Australians who owned their own home. The situation for renters was not assessed.

The most significant downside to a budget standards approach to pension adequacy is the complexity and resource intensive nature of the research. If done meaningfully, the task is herculean and, no sooner is it done than it is out of date due to price and product range changes. The Harmer Review chose to avoid a budget standards approach because the authors believed that individual needs and circumstances are so diverse that a standard consumer basket of goods is too difficult to define.

The budget standards research mentioned above forms the basis of the widely used Association of Superannuation Funds of Australia (ASFA) retirement income standards.

Deprivation approach

Another approach that has been taken to the adequacy of social security payments in Australia and elsewhere uses measures of deprivation. First, goods and services that are considered as essential to living a meaningful life in Australia are determined and then social security recipients are surveyed to determine what percentage are having to do without each of these items¹².

It is relatively straightforward to use a deprivation approach for measuring levels of poverty but less so for assessing full economic and social participation given the variation in what that means to different people living in different places.

Subjective wellbeing

A final approach to assessing pension adequacy is asking pensioners how they feel about their lives and how it is relative to before they retired. While this approach has not been used in Australia to specifically assess the adequacy of the pension, it has been used to assess wellbeing in retirement¹³ and could be used as a proxy for adequacy of the pension. One problem with its use for this purpose is that subjective wellbeing is heavily influenced by individual health circumstances, something that financial wellbeing often cannot improve.

FINDINGS

Overall picture of life on the Age Pension

Perhaps unsurprisingly, participants in every focus group indicated that the pension was insufficient for those wholly reliant upon it to fully participate in Australian society. Even those in ideal financial circumstances (owning their own home outright, living as part of a couple, living in close proximity to services and in relatively good health) had to carefully budget and sacrifice in order to live on the Pension.

“Life is not worth living unless it has some quality. Just surviving is not a good life.”

Toowoomba focus group participant

If any of the above ideal circumstances were not met, then the level of financial hardship noticeably increased. In some focus groups the division in quality of life between those who owned their own homes and those who were renting was starkly apparent throughout the discussion, and even more so for single renters. Similarly, many individual circumstances were highlighted that made life more challenging: from unexpected repairs, to medical conditions that incurred substantial out-of-pocket expenses, to caring responsibilities that significantly limited the carer’s options and quality of life.

“If a fridge or washing machine has to be replaced this is a crisis for which help is needed from family or friends or a charity like the Salvos.”

Toowoomba focus group participant

Taken together, the focus groups demonstrated that, while the pension is paid at the same rate to everyone with the same income/assets position and relationship status, expenses vary greatly between individuals. While a few targeted services and payments, such as Commonwealth Rent Assistance (CRA) go some way to ameliorating these differences, they are a long way from truly bridging the gap.

Full pensioners can survive but it is a careful, budgeted survival that requires giving up many goods and services that make life more pleasant or easier such as going out for a meal, going to the movies or theatre, buying books and magazines, upgrading (or even properly maintaining) a car, using a mobile phone or having an internet connection.

There were three main themes that permeated the pensioner focus group discussions, and these were consistent with the findings of the Harmer Review. It appears that, despite the increase in the pension rate after the Harmer Review, these themes endure.

They are:

1. The Age Pension, by itself, is not enough to fully economically or socially participate in Australian society for anyone who lives independently;
2. The extent of hardship for pensioners depends greatly on their specific circumstances. Most notably, whether or not pensioners own their own homes is a strong determinant of their financial wellbeing;
3. The services offered by non-government institutions that are available and that pensioners take advantage of often make the difference between poverty and financial security.

“I only came to this meeting for the free food. We often reach the point of having to decide between food and medication; sometimes we can’t afford both.”

New England town hall meeting participant

Specific Areas of Concern for Pensioners

We now turn to the specific areas of spending pressure in the pensioner's budget. For each area, we consider both the focus group feedback and the HILDA analysis.

Home ownership is the most important determinant of pensioners' financial wellbeing

Focus Groups on Housing

All of those who were paying rent cited it as their biggest expense and the thing they struggled most with. Most renters, whether renting privately, or in public or social housing, expressed the belief that housing costs were rising faster than the pension. One participant in the Perth focus group spent two thirds of their single pension on rent.

In addition, those in social or community housing made the point that every time the pension increases so do their housing costs (because these are linked to income). The result is that, while pension increases are heralded as good for pensioners, they are automatically followed by increased costs. While pension increases are generally intended to offset rising costs, the fact that they result in rising costs is rarely discussed.

"...the rent has been going up much faster than the pension and this is making it harder to make ends meet financially. The rent for a couple is \$450/fortnight which is a lot from the pension..."

Public housing tenant from the Melbourne focus group

By contrast, many of those who own their own homes commented that they cannot afford home maintenance and that their homes are slowly falling into disrepair around them. They have to very carefully prioritise which of the many repair tasks are the highest priority and only ever do those. Some home owners also mentioned their struggle to afford rates and insurance for their properties.

"...My home is falling to pieces with tree roots blocking the pipes but I just don't have the money to fix it..."

Home owner from the Penrith focus group

HILDA Analysis on Housing

The HILDA data confirmed the impression given by the focus group participants that housing tenure was a very substantial factor in influencing pensioner wellbeing. Those who own their own homes outright are exposed to greatly reduced housing expenses compared to those who rent, even those who are renting in public or community housing (See Figures 1 and 2).

Some renters qualify for Commonwealth Rent Assistance (CRA) but many pensioners who rent are in public housing and they do not qualify for CRA. For those who are renting in the private market, CRA tends to cover less than half of additional housing costs they face when compared to home owners. After accounting for CRA, community housing tenants tend to be financially better off than public housing tenants because public and community housing bodies tend to charge rent in a similar way (a proportion of income) but community housing tenants qualify for CRA (See Table 2 for details).

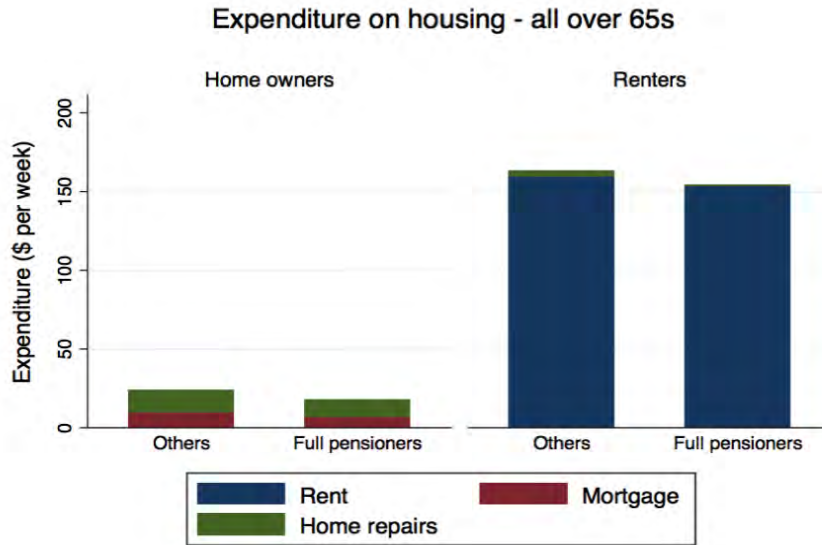


Figure 1 Expenditure on housing per person for over 65s. Note: this figure underestimates housing expenses for home owners as it does not include local government rates (subsidised for pensioners) or home building insurance due to limitations of the HILDA data. However, even with these included, home owners are substantially better off.

| | Owners | Private Renters | Private renter (incl. CRA) | Community housing | Community housing (incl. CRA) | Public housing |
|---------|---------|-----------------|----------------------------|-------------------|-------------------------------|----------------|
| Couples | \$50.87 | \$120.20 | \$89.20 | \$92.27 | \$61.27 | \$82.56 |
| Singles | \$67.67 | \$205.25 | \$140.25 | \$131.04 | \$77.04 | \$108.77 |

Table 2. Average weekly housing expenses per person by home tenure – all full pensioners. For those eligible, an additional column shows average housing costs minus Commonwealth Rent Assistance (CRA) in order to make housing cost figures directly comparable. Note: for home owners, a conservative standard expense of \$40/week has been assumed for local government rates and home building insurance as data are not available in HILDA. This estimate reflects discounts and rebates that pensioners receive for rates and insurance.

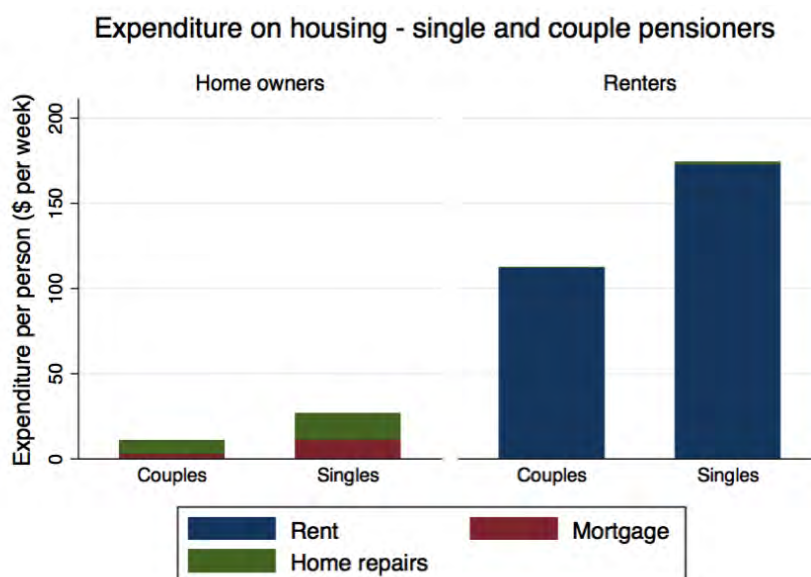


Figure 2. Expenditure on housing per person for all full pensioners. *Note: this figure underestimates housing expenses for home owners as it does not include local government rates (subsidised for pensioners) or home building insurance due to limitations of the HILDA data. However, even with these included, home owners are substantially better off.*

These extra housing expenses faced by renters are reflected in corresponding reductions in expenditure on many other items resulting in two tier expenditure profiles split by housing tenure. For example, on average renters spend about \$8 per week less on transport, \$10 per week less on health and, if they're women, about \$15 per week less on food. Almost every expense item shows some gap between renters and home owners, illustrating the impact of their lack of home ownership.

Because housing tenure is arguably the most significant determinant in all of the expenditure categories, the results for all of the categories below are broken down by housing tenure and will be discussed further in relation to each category.

One interesting exception to this general trend was expenditure on cigarettes, where renters, on average, spend more than home owners (see Figure 3). This is likely a reflection of socio-economic background. There are higher smoking rates among those with lower socio-economic backgrounds who are also less likely to be home owners.

The addictive nature of tobacco makes its consumption relatively inelastic so, even though these individuals are forced to cut down on many other expenses, some maintain their expenditure on cigarettes.

The addictive nature of tobacco makes its consumption relatively inelastic so, even though these individuals are forced to cut down on many other expenses, some maintain their expenditure on cigarettes.

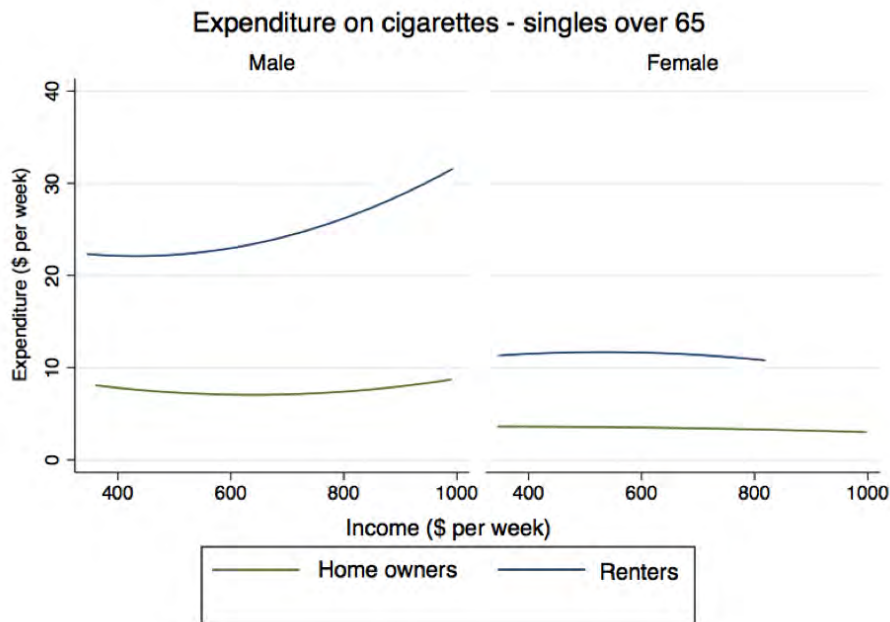


Figure 3. Modelled expenditure on cigarettes. Male renters spend by far the most, on average, on cigarettes.

BOX 1. NOTES ON INTERPRETING MODELLED EXPENDITURE GRAPHS

These graphs present the output of models we have constructed that segment the HILDA data by gender, location, age, income, assets, couple/single and home tenure (renters and home owners). The models then project, for each individual within the HILDA survey, what the average expenditure would be for somebody like them. The lines on the graph represent the average of these predicted means and show the relationship between income and expenditure. All differences between the lines are statistically significant unless stated otherwise.

The important elements of the graph are the slope of the lines and the difference between the different coloured lines. The slope of a line shows both the extent to which pensioners reduce their expenditure on that item when compared to higher income over 65s and also how their expenditure on that item would likely increase if their income was increased.

In many of the graphs the lines represent different types of home tenure and, in those cases, the gap between the lines shows the difference in expenditure between renters and home owners. For example, in the above Figure 3 we can see that, on average, renters spend more on cigarettes than home owners and that expenditure on cigarettes is not strongly related to income except for male renters (the slope of the other lines are mostly flat).

Food is the first thing pensioners economise on when money is short

Focus Groups on Food

The HILDA data confirmed the impression given by the focus group participants that many of the pensioners, particularly the women, discussed how they save on food expenses. They go carefully through the specials catalogues; they buy food that's marked down because it's close to use-by; they buy mostly home-brand and some mentioned they almost always shop at Aldi as the big two supermarkets are much more expensive. Some mentioned cutting back on meat in meals and cutting back or eliminating desserts and other treats.

"... When the rent goes up, I can make up for it a bit on food because my daughter will bring care packages from church which give you 8 or 9 meals for the freezer..."

Penrith focus group participant

Food was one category where conversation was dominated by the women who were present. Many of them said this is one expenditure area where they compromised a lot on what they would prefer to buy.

"...I'm not safe in the kitchen because of my MS – all my knives have to be blunt as a pencil. But that means I have to rely on frozen meals which are over \$100 a week. Lite'n'Easy is \$140-170 a week and I just can't afford that without tradeoffs. Some people I know split one meal into three. One way I get by is to just put aside gold coins when I can until I have a spare \$10..."

Penrith focus group participant

HILDA Analysis on Food

One of the most interesting gender differences was with respect to food expenditure. While single men spent roughly the same on food regardless of whether they were renters or home owners, single female renters spent significantly less on food than single female home owners (see Figure 4). This reflects the dominance of comments from women in the focus groups when discussing food. We surmise this may come down to both capacity and priorities. Older women may be better informed and have a higher level of skill in food purchase and preparation and are thus better able to budget on food when finances are tight.

The steep curve of increasing expenditure on food with increasing income demonstrates the significant extent to which older Australians on a pension compromise on the quantity and quality of their food when financially stretched. This also supports the findings from the focus groups.

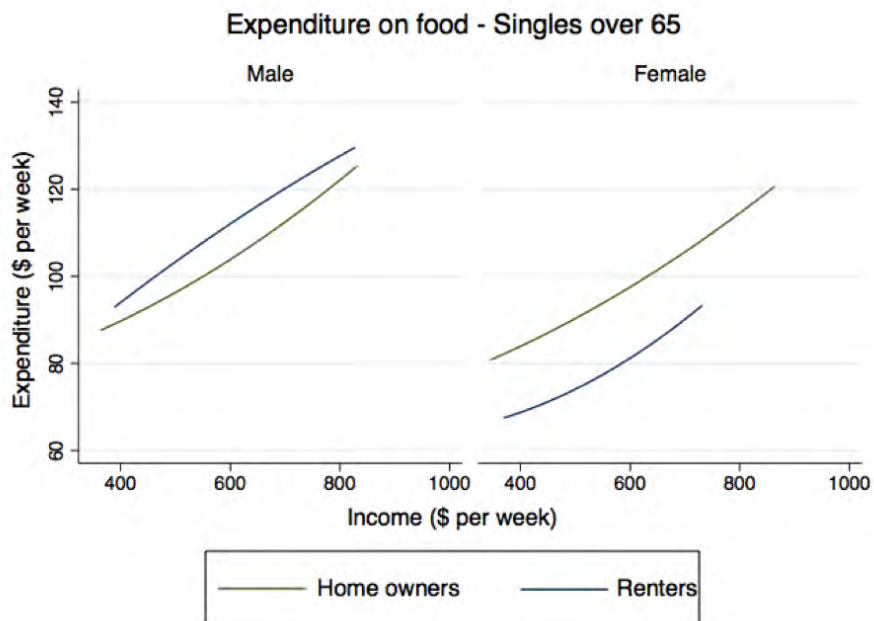


Figure 4. Modelled expenditure on food. Women appear more capable or willing to budget on food than men.

Medical costs, both recurring and unforeseen, are an enormous source of stress for pensioners

Focus Groups on Medical Expenses

Medical expenses were a dominant topic in every focus group discussion. The perception of many was that out-of-pocket expenses for medical care, including services, disposables and pharmaceuticals were rising faster than the pension.

The cash flow required for medical expenses was raised as a difficult issue. Even though Medicare reimburses substantial specialist fees, affording the upfront payment can be challenging.

“... GPs are quick to send you to the specialist and the first visit is a big hit – you need to be saving for that. Health is a big variant. Anything medical outside of the GP is difficult to cope with...”

Penrith focus group participant

There were some items that came up multiple times that are expensive and medical in nature but not covered by Medicare or the PBS. One was incontinence pads. Several of these can be required every day and the expense as a proportion of the pension can be significant. Another that came up multiple times was the out of pocket expenses relating to diabetes treatment. There are Commonwealth Government schemes that subsidise or rebate both of these expenses but it appears that the awareness and/or take-up of these schemes is incomplete.

“... Medication that used to be free now costs every time. Including Panadol. I have to take Panadol every day and it is now a big expense in my week...”

Melbourne focus group participant

“... I’m on 15 tablets a day and paying for them every month is very difficult. I’m a high-range diabetic and I have to pay for everything for my diabetes – strips, special needles, the lot...”

Penrith focus group participant

Private Health Insurance

The Sydney and Perth groups spent considerable time discussing private health insurance. The cost of insurance was very difficult for them to meet and there was some resentment of the fact that they had paid it for much of their lives and now that they need it they cannot afford it. Even those who did have private cover found that the out-of-pocket expenses were prohibitive for any significant procedure. Despite this, many maintain their insurance saying they would not do without it even though they couldn’t really afford it. They were concerned by the public system waiting times for elective procedures for problems that were often incapacitating, like hip replacements and concerned about the lack of choice of specialists in the public system.

Dental

The cost of dental care and limited availability of subsidised or free dental was another dominant issue in some of the focus groups. Some were aware of subsidised or free dental care for pensioners but were either dissatisfied with the standards and the choice available or the availability and waiting times.

“... Some of us have poor teeth and cannot afford dentistry so we blend or mash up food so that we don’t have to chew...”

Melbourne focus group participant

The HILDA survey does not explicitly include dental expenditure so we were unable to isolate spending on dental health from other broader health spending.

HILDA Analysis on Medical Expenses

Pharmaceuticals

The HILDA data showed no clear relationship between expenditure on pharmaceuticals and income. High variability in expenditure at all levels of income showed that pharmaceuticals are highly income inelastic (i.e. demand does not change with income). When high expenditure is required for pharmaceuticals then it comes at the cost of other expenditure. Pensioner and other healthcare card holder expenditure on prescription medicine is capped after 60 prescriptions are filled but, as the pensioners noted in the focus groups, not all health related consumables are prescription medicine.

Health practitioners

By contrast, expenditure on health practitioners did show a relationship with income, indicating that lower income individuals are budgeting with respect to their visits to health practitioners. While focus group participants didn’t specifically say that they reduce their visits to medical practitioners, they did express concern about the costs. It would be valuable to follow this up and examine the relationship between this result and health outcomes.

“...You struggle to manage things that involve upfront cash. The eye specialists told me it was \$140, but it actually cost \$495 – luckily, I had that in the bank just then, but who has \$495 sitting in the bank the whole time?...”

Penrith focus group participant

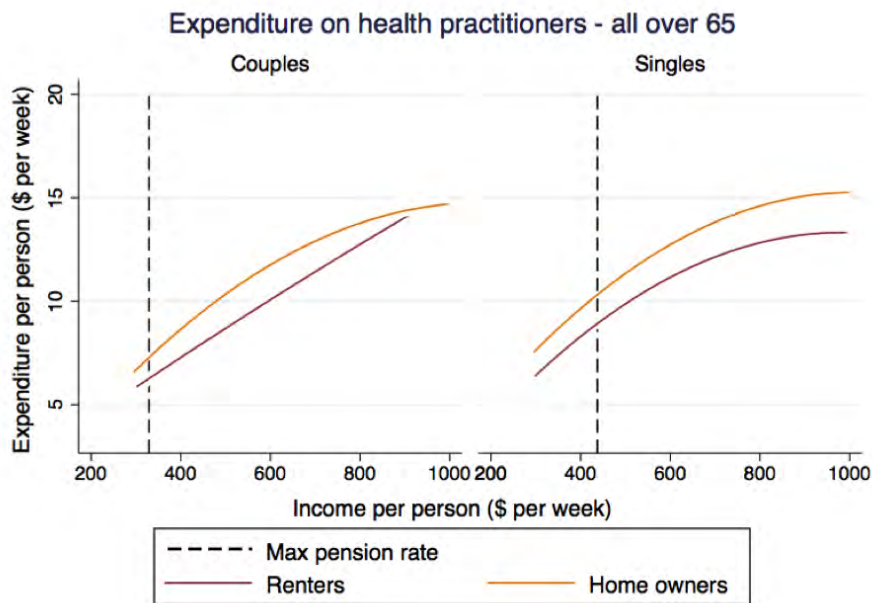


Figure 5. Modelled expenditure per person on health practitioners. Single pensioners spend substantially more than couples per person on health practitioners.

Private Health Insurance

Despite struggling financially, a substantial number of full pensioners still take out private health insurance and see it as a high priority for their wellbeing. 46% of full pensioners have private health insurance at an average cost of \$23.78 per week. A very substantial gap between renters and home owners was observed with respect to expenditure on private health insurance with only 16% of couple pensioners who rent taking out insurance. This is clearly one of the expenses that many renters choose to cut down on in order to afford housing.

The possibility also exists that private health insurance expenditure is a reflection of a class/culture divide. People of lower socio-economic backgrounds have often never had private health insurance and never considered taking it out whereas others have always had it and would never consider doing without it.

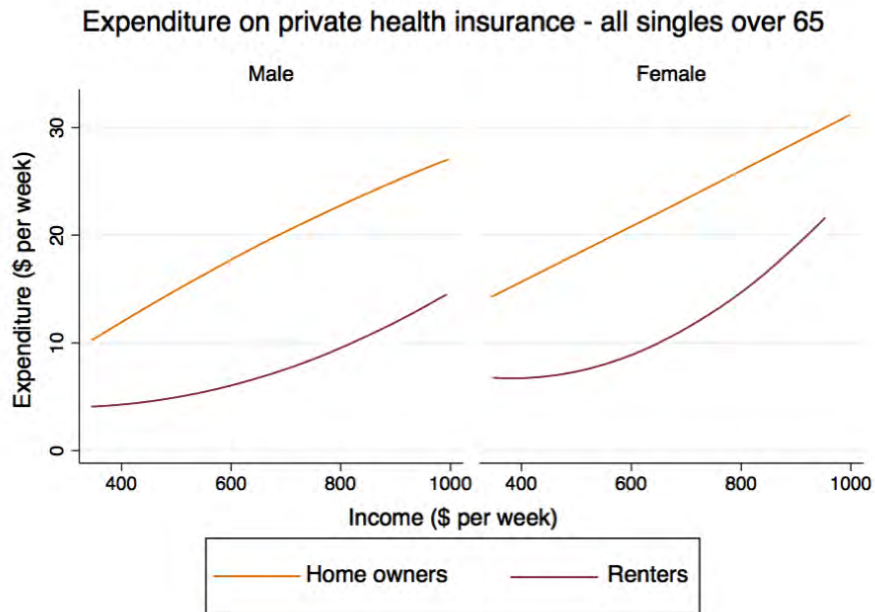


Figure 6. Modelled expenditure on private health insurance. Single women are more likely to take out private health insurance than single men. This is another area where renters reduce expenditure when compared to home owners.

Home, contents and car Insurance: another difference between home owners and renters

Focus Groups on Other Insurance

While insurance wasn't a dominant topic in any of the groups, several pensioners in New England town hall meetings mentioned that they regularly consider doing without home and car insurance as a way to save money. Others in focus groups mentioned being unable to afford car insurance without assistance from relatives.

HILDA Analysis on Other Insurance

Unsurprisingly, home, contents and vehicle insurance are areas of expenditure where home owners spend substantially more than renters. Home building insurance is clearly one explanation for this as is a lower rate of car ownership but it's also likely that renters' home contents are underinsured as this is a common occurrence for low income Australians.

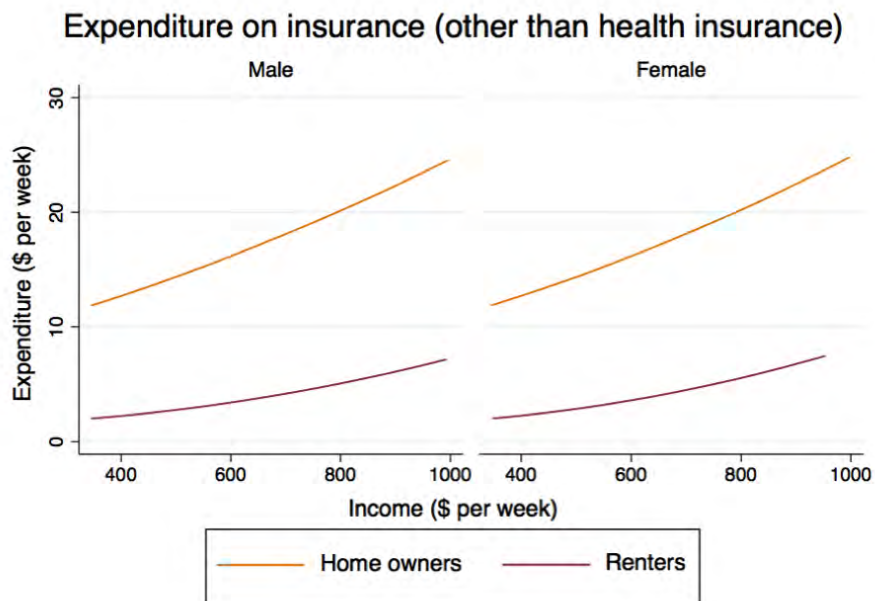


Figure 7. Modelled expenditure on home, contents and vehicle insurance. All singles over 65.

Rapid price growth and lumpy billing mean pensioners cut back on essential utilities

Focus Groups on Utilities

Even taking into account concessions on utilities for pensioners, many in our focus groups highlighted utility bills as causing particular stress. Some mentioned that the bills rise faster than the pension but the concessions stay the same, creating greater financial hardship for pensioners.

“...Gas is very expensive and you need it for the hot water, heating, stove. You need to be saving very carefully for those quarterly bills – gas, power, water, rates...”

Penrith focus group participant

The dramatic rise in electricity and gas prices in recent years was a concern to almost all of the pensioners. One community housing tenant at the Sydney focus group mentioned that she has been turning off her electric hot water heater for three months over summer since 2003 in order to save money.

“... I find I can manage OK without hot water during the summer months...”

Sydney focus group participant

HILDA Analysis on Utilities

The main concern that pensioners raised during the focus groups was that utility expenses have been rising faster than the Age Pension. Our data analysis cannot shed light on this issue as we are not examining longitudinal data in this study. However, we can see a steady rise in utility expenditure among all groups with rising income, indicating that pensioners are budgeting carefully with their use of gas and electricity. The fixed component of the cost of utility supply limits this capacity to budget and means that single pensioners pay substantially more for utilities per person than couples.

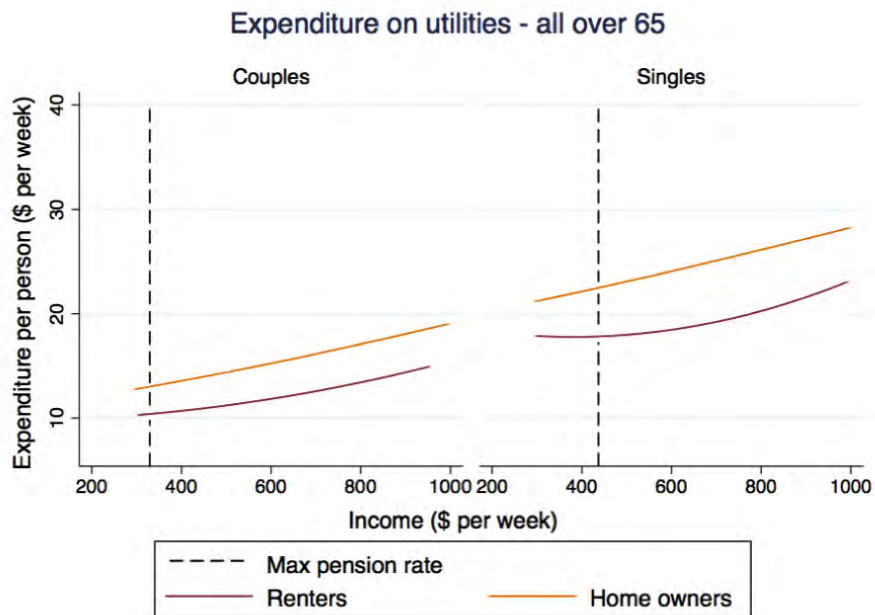


Figure 8. Modelled expenditure per person on utilities - couples and singles. This is one of the expenditure items where single pensioners spend substantially more per person than couples due to the large fixed cost component of utility supply.

Many pensioners cannot afford the broadband and mobile phones needed to participate fully in our society

Focus Groups on Internet and Telephones

Many pensioners said that they could not afford a mobile phone or internet. These are things that are taken for granted by much of the rest of Australia. Renters in particular mentioned their frustration at not being able to afford modern communication for staying in touch with family members.

“...Nowadays you need to be conversant with technology so you can access MyGov. Pensioners must have one-on-one training on how to use the computer. We need affordable computers, internet and mobile phones...”

Perth focus group participant

HILDA Analysis on Internet and Telephones

Interestingly, the expenditure data didn’t support the notion that pensioners would spend more on telephone and internet services if they had extra money. There was no clear relationship between expenditure on these items and income and a great deal of variation at all levels of income. Not even home tenure was found to be significantly correlated with expenditure on these items. It’s possible that the hardware purchase is one of the barriers but this is not captured in the HILDA expense surveys. Another likely barrier is the complexity of internet plans and a lack of appropriate knowledge required to navigate ISP and hardware decisions.

A car is a luxury that many pensioners struggle to afford

Focus Groups on Transport

Car maintenance and running costs were a concern to many pensioners, with the exception of those living in inner city areas with ready access to quality public transport. Some of the inner city pensioners expressed a desire for public transport to be free for pensioners on public holidays so that they could enjoy the holidays like everyone else does.

“Without my daughter’s help I wouldn’t be able to afford to have a car.”

Penrith focus group participant

While some were aware of council and community organised transport options, many were not. A lot of the inner Sydney group were afraid to go out without a car and take public transport because of their vulnerability and fear of crime and violence.

“We’re very vulnerable on public transport. The violence in society is crippling us.”

Sydney focus group participant

HILDA Analysis on Transport

Not unexpectedly, we see that renters spend less on vehicle fuel and more on public transport than home owners. Men are more likely to own a car and less likely to spend on public transport than women (See Figure 9). Expenditure on public transport decreases with income and expenditure on vehicular transport increases with income demonstrating that many older people prefer to drive when they can afford it (Figure 10 and Figure 11). This supports statements made during focus groups, including comments about fear of crime on public transport and on the streets.

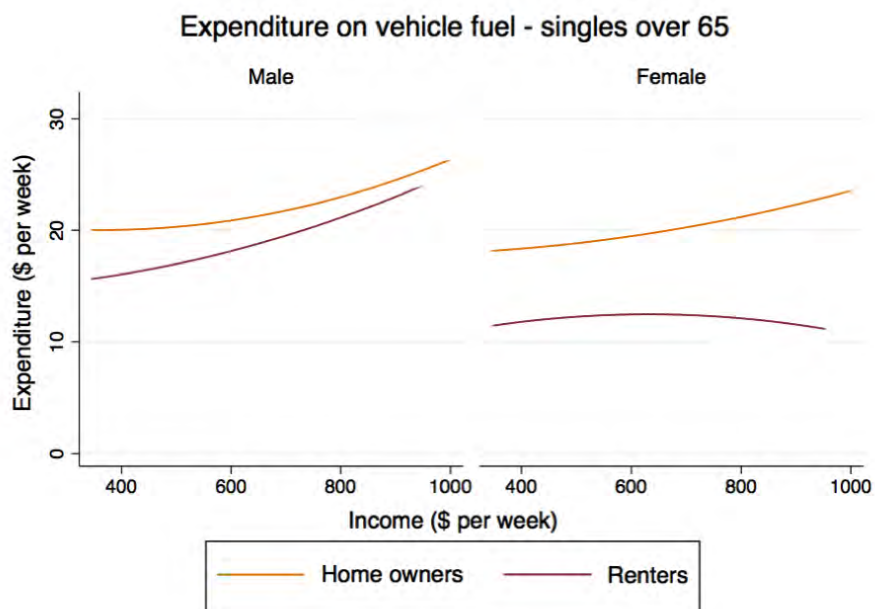


Figure 9. Modelled expenditure on motor vehicle fuel. Women are less likely to have a car and, on average, drive less when they do.

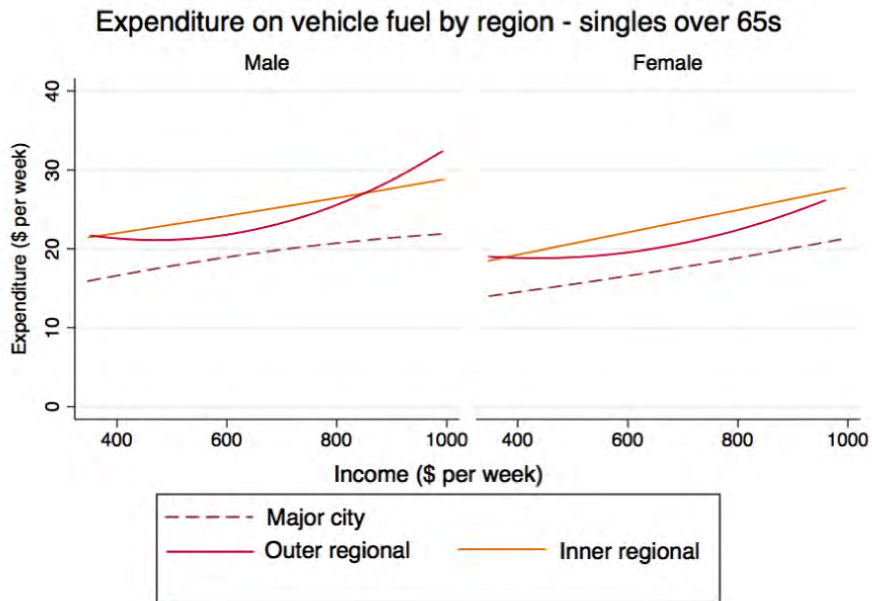


Figure 10. Expenditure on vehicle fuel by region. Unsurprisingly, residents in major cities spend less on fuel than those in regional areas. The differences between outer and inner regional were not statistically significant but the difference between major cities and the others was significant.

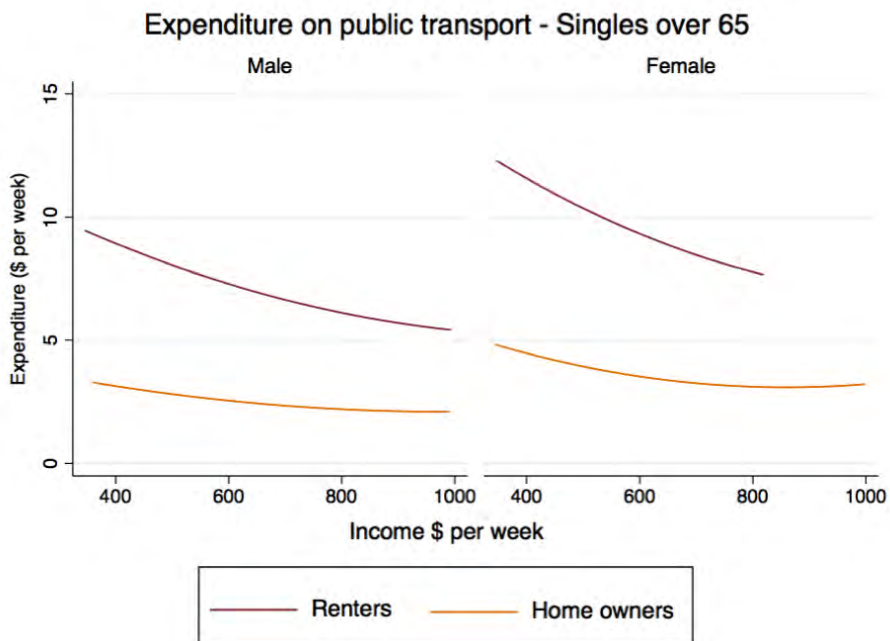


Figure 11. Modelled expenditure on public transport. Increased income leads to less public transport use as PT is substituted for private vehicles.

Overall, renters spend significantly less on transport than home owners, presumably because of tighter budgets. Again, this fits with what we heard in the focus groups both with respect to the cost of transport and to the security concerns about public transport.

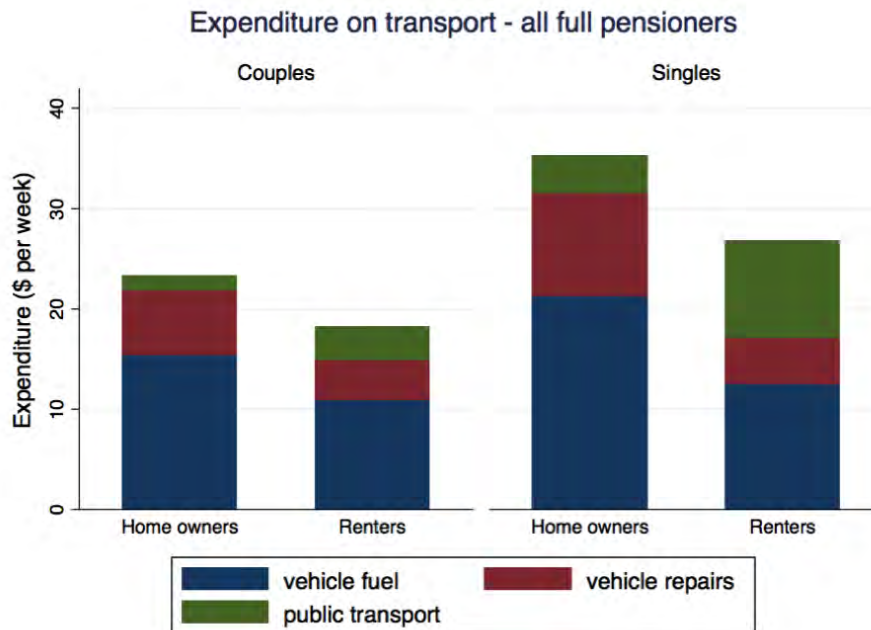


Figure 12. Average expenditure per person on transport.

Leisure purchases that improve quality of life are out of reach for pensioners

Focus Groups on Leisure

Many of the pensioners we spoke to mentioned having to give up some of the things that made their lives enjoyable such as magazine subscriptions, eating meals out, buying flowers, visiting friends or going on holidays.

“My wife saved for a year to buy me a birthday present of tickets to a stage show that were \$79 each.”

Perth focus group participant

Most of the pensioners considered an annual holiday as a necessity but when asked about whether or not they can afford holidays, most either laughed or just sadly shook their heads. A few were creative and had managed to have holidays by house-sitting for others but this was the exception rather than the rule. Others said they could only afford an annual holiday with help from their families.

“If the government kept pensioners active and healthy by subsidising leisure, entertainment and holidays they would save money on medical expenses....”

Perth focus group participant

HILDA Analysis on Leisure

Recent waves of the HILDA survey have not included many questions about expenditure on leisure so we are unable to provide extensive analysis of what pensioners are actually spending in this category. One exception is expenditure on meals eaten out. A sharp increase in expenditure with increases in income show that this item is heavily income constrained for pensioners, as they indicated in the focus groups.

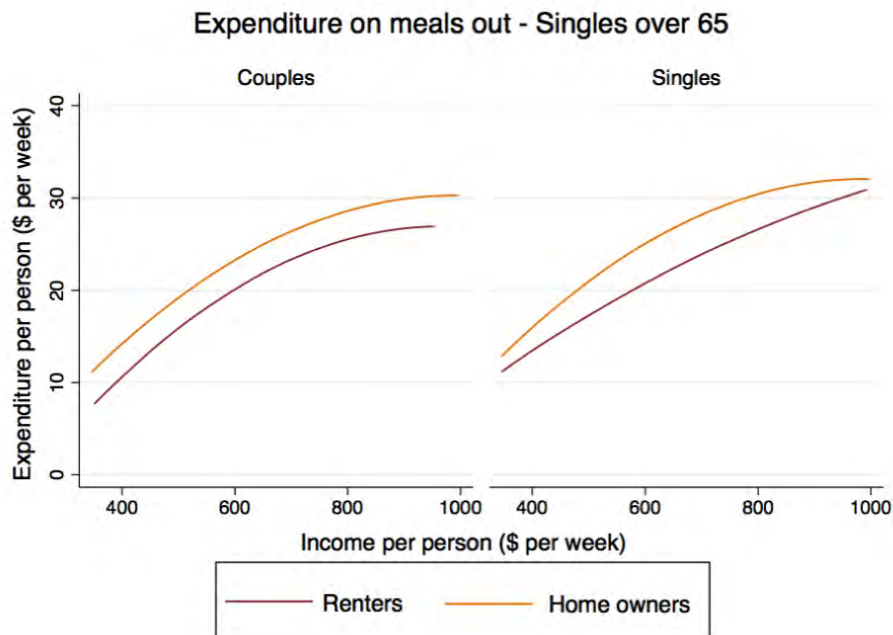


Figure 13. Modelled expenditure per person on meals eaten out of the home.

Singles vs couples

Many couple pensioners in the focus groups expressed the belief that the reduced pension they receive implicitly overstates the real savings made possible by being part of a couple. The data indicate that this is not the case. Indeed, it is singles who appear most stretched financially. The Harmer Review recommended that the relative rate of combined couple to single pension should be in the range of 0.65 to 0.67. The Rudd government did increase the single pension by \$30 per week relative to the couple pension in response to the Harmer Review which brought the single pension up to 66.33% of the combined couple pension, which is at the higher end of the Harmer Review recommendation. Several major cost items that are disproportionately borne by single pensioners have increased above the rate of wage increases since the Harmer review, the most significant being rents and utilities.

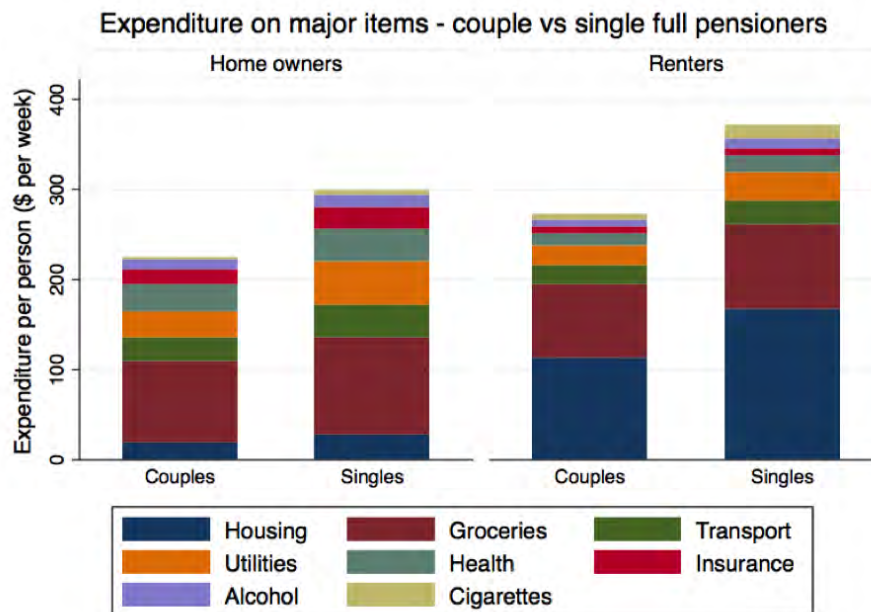


Figure 14. Expenditure per person on major items by home ownership and relationship status. In addition to the obvious differences in housing expenses we can see clearly here that singles spend far more per person on utilities. Home owners also spend more on health, primarily as a result of higher levels of private health insurance coverage (Note: this sums major expenditure groups and does not represent total expenditure).

Different needs and different expectations

The difference between the focus group in Fitzroy made up of Chinese immigrants and the other groups was dramatic. The Fitzroy group began by expressing their gratitude and describing how great their life was on the Age Pension. They considered the approach of the Australian government to pensioners and to welfare in general to be exceptional and that they are very well looked after.

Despite this, when the conversation turned to specifics, it was clear that they experienced the same struggles and challenges as the other pensioners we spoke to. The difference came down to the knowledge of their relative position compared to how it would have been had they remained in China. Their solidarity as a group was also very apparent and gave them a great deal of pleasure. They travelled between different service providers together as a group, for example going to a particular church on Tuesdays for a free lunch. Their shared history and status as immigrants plus their shared tenure in the adjacent public housing blocks appeared to give them strength and confidence as a group. They never mentioned crime, violence or insecurity.

By contrast, the primarily Anglo-Australian pensioners in the other groups expressed very little appreciation for the government or for the pension and often communicated feeling isolated and uncared for. They also expressed fear of crime and violence and expressed the belief that these were increasing despite the fact that crime statistics for their cities show the opposite trend.

The power of community and the impact of expectations and background experiences was palpable in the experience of these focus groups. This highlighted the relativity of financial wellbeing. Despite objectively being in worse financial circumstances than many of the other pensioners, the Fitzroy group was vibrant, positive and full of humour. We believe this is partly explained by their cultural and economic background and partly by their experience of community and solidarity.

Amongst our Fitzroy migrant group in particular, there was some satisfaction with the base level of the pension, especially when supplemented by community services.

“...I have everything that I want and a very good standard of living on the pension...”

“...We find that the government pays good attention to elderly people and that is great...”

“...We live a good life here because over here there are many places we can receive services so we save a lot of money. For example, if there is a church or other organisation and they have food or other things to give out...”

The Anglo-Australian women in our Penrith group did not share the same satisfaction.

“...The pollies want pensioners to fall into a pine box at 70, but they’re on great pensions...”

“...We’re expected to become invisible. How should people be expected to work hard when they’re 70. It’s stupid!...”

“... It seems like there are two big threats to our world today: terrorism and old people...”

Services

A clear standout message from the focus groups was that the rate of the pension cannot be considered in isolation. The extent to which services are available that reduce costs or make transport easier makes an enormous difference to the standard of living of pensioners. Many of these services are provided by non-government organisations, primarily the larger charities such as the Brotherhood of St Laurence and the Benevolent Society. Many of the focus group participants expressed concern that the NGO sector were being expected to provide more and more services that have traditionally been directly provided by government but, at the same time, governments are reducing their financial support for these services.

“...We are very aware of all the services available in the area. There is a church we go to for some free meals. We make use of the Brotherhood drop in centre for meals and social activities. We spend very carefully and will cut back on things – even eating less – in order to keep our finances under control ...”

Melbourne focus group participant

Some pensioners are more tuned into the services available to them than others and this can make an enormous difference to their material wellbeing. The Chinese speaking pensioners in Fitzroy were very aware of the services that were available to them in the area and would travel as a group from place to place receiving free meals or subsidised goods and services. Others are aware of the services but feel embarrassed to be seen to be reliant on them. Many pensioners expressed their reluctance to talk about money or to be seen to be in poverty, demonstrating a self-respect/pride element that sometimes determines the accessing of services and their standard of living.

What would pensioners do with an extra \$50 per week?

Each of the focus groups were asked what they would do differently if the pension was lifted by \$50 per week. Fifty dollars was chosen as a figure that was just large enough to make a substantive difference to income but not be radically life-changing as a way to understand budgeting and sacrifice among pensioners.

The responses were very telling and summed up much of the research. The pensioners would spend the money on things that most Australians take for granted, such as saving a little for unforeseen expenses, saving for a holiday, having a mobile phone or internet connection, buying the food that they actually want or getting some repairs done on their house. One pensioner living alone mentioned being able to afford a pet for company and security.

“... If there was an increment of \$50 I believe the living standard would be much better. People could afford the food they would like instead of having to take food from charities...”

“... \$50 a week extra would go a long way for bills. It'd pay for medical catheters which are expensive over time...”

“... I'd spend \$25 on myself and put \$25 away for savings...”

“... If I had \$50 more a week, I'd save for a few months and then I'd go to the Hunter Valley for a holiday... OR I'd finish my degree...”

“More fresh fruit and vegetables.”

These comments were confirmed by our models, which predict that, of the expenditure categories we could measure, food expenditure would increase the most if pensioners were given an extra \$50 per week. Many pensioners indicated that the extra \$50 per week would improve their quality of life by allowing them to afford more leisure related goods and services. This is borne out by the relatively steep increase in expenditure on meals eaten out - \$2.50 or 5% of a \$50 increase. In total (food as groceries plus meals eaten out), we estimate that more than 20% of the increased income would be spent on food. Other leisure categories are not measured in the HILDA surveys and were therefore not modelled.

“After paying major bills, we have \$180 a fortnight to live on”

Toowoomba focus group participant

Is the Pension Adequate?

It's clear from both the focus groups and the data analysis that there is no clear single answer to the question of pension adequacy. As Figure 15 and 16 show, the material standard of living of pensioners is heavily dependent on their specific circumstances; including where they live, the tenure of their home, with whom they live and their health.

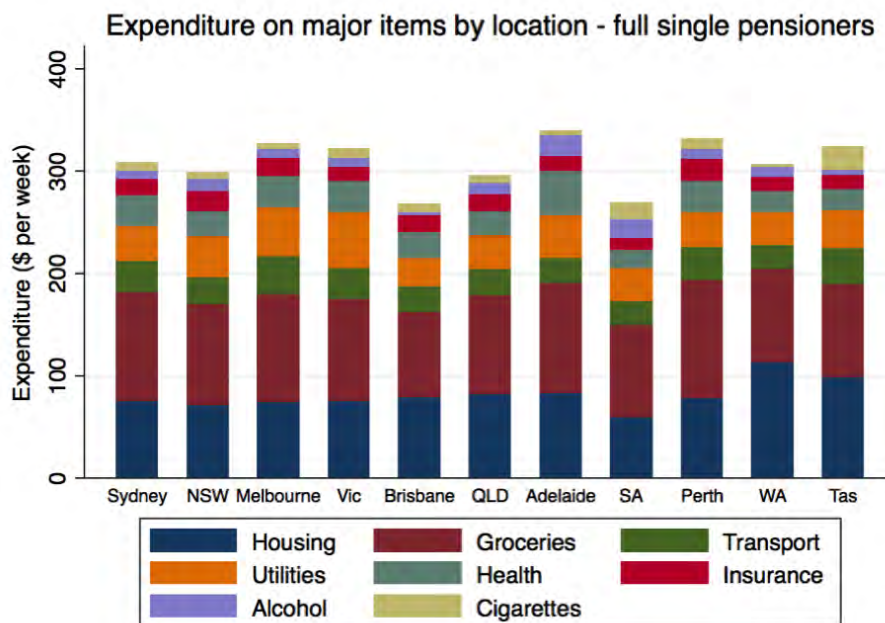


Figure 15. Expenditure on major items by location. Each state category is an average of all data outside of the capital city. There are insufficient data for Hobart. (Note: this sums major expenditure groups and does not represent total expenditure).

Single female pensioners who are renting in the private market and have chronic health issues are, on average, the most financially disadvantaged according to the HILDA expenditure data. However, expenditure measures alone are clearly not sufficient to explain wellbeing. If somebody spends little on transport it could be because they are close to all the services that they need and require little travel or it could be because they can't afford to travel, are depressed or are too afraid to leave their homes. We know from talking to pensioners that there are individuals in all of these categories. Separating them based on expenditure data is impossible.

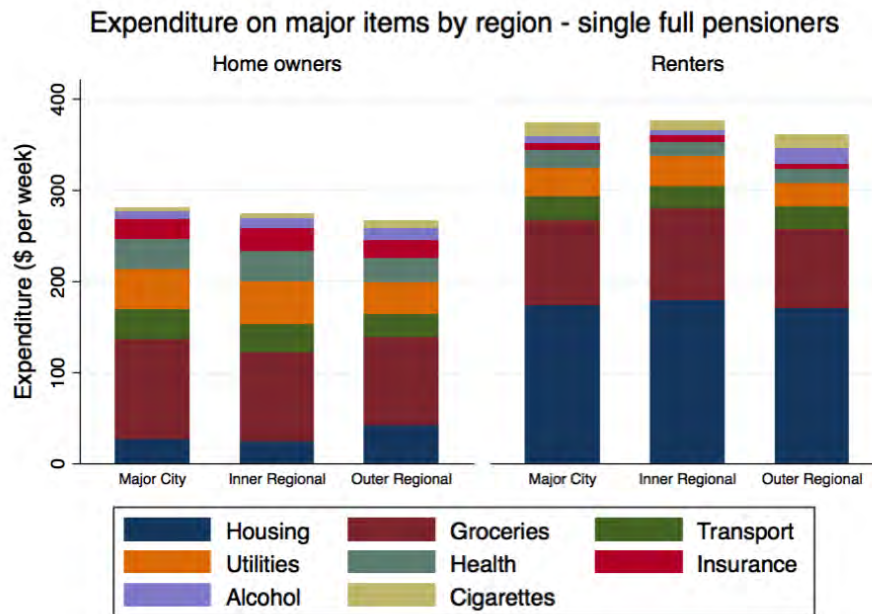


Figure 16. Major expenditure categories by region and home tenure. (Note: this sums major expenditure groups and does not represent total expenditure).

What does the detail in our analysis tell us about the adequacy of the pension today? We know that at \$437/week (including the pension supplement and energy supplement), the single pension is only barely above the poverty line of \$422/week for a single person not in work calculated by the Melbourne Institute of Applied Economic and Social Research¹⁵.

Most significantly, we have seen that full pensioners who are renting spend over \$110/week more on housing than those who own a home. The maximum Commonwealth Rent Assistance is \$65/week, so couple pensioners who rent are on average \$40/week worse off than home-owning pensioners and single renters are about \$80 per week worse off on average (see Table 2).

These renting pensioners must make offsetting sacrifices elsewhere to compensate for this shortfall. Full pensioners who rent spend less than half the amount on healthcare than those who own a home. They also spend approximately half on transport compared with homeowners. Female renters economise dramatically on food to help them close the gap.

Our focus group research has shown us what such savings mean for the lived experience of pensioners in Australia. Pensioners mash their food because they cannot afford to visit the dentist to have their teeth fixed. Some turn off their hot water for months on end because they cannot afford the utility bills. Others split one meal into three in order to stretch out their food budget.

This is what life on the pension looks like in Australia. It is not one that the majority of us would find acceptable for ourselves. We must therefore ask why it is acceptable for a subset of older Australians who are our parents, friends and neighbours.

These results show that there is some inadequacy in our public pension settings in Australia today. We believe that the Age Pension in Australia is not adequate to live a life of dignity without considerable sacrifice, especially for renters.

How do we assess The Adequacy Gap?

We have outlined a clear standard for what pension adequacy means for us. It should ensure that all Australians, irrespective of their circumstances, enjoy a reasonable minimum living standard in their old-age, one that would be acceptable to their fellow citizens.

We know that pensioners' circumstances are enormously diverse. However, there are some things about pensioners' lives that we can state with confidence. We know that there are areas of severe deprivation, where particular groups go without adequate food, housing, heating, medical supplies, dentistry and other vital essentials. None of these shortfalls would be part of a reasonable standard of living acceptable to most Australians.

The shortfalls are concentrated among singles, women and renters, especially when someone falls into several of these categories.

At the very minimum, our Age Pension policy should redress these deprivations and we propose recommendations towards this below.

This doesn't address the question of whether the pension base rate itself is adequate. Certainly we have found no pensioners who describe it as generous. For couples who are in good health, own a home, and have some other assets, it is likely to provide a modest but reasonable standard of living. But this is a minority of full pensioners.

One way to approach the question is to examine the range of incomes others consider adequate for an adequate standard of living. In its determination of the minimum wage, Fair Work Australia (FWA) calculates that a single adult of working age needs around \$34,000 as a minimum to function in today's Australian society. The Age Pension is \$22,700. There are reasons why pensioners' expenditure profiles are different from those of workers but there is no evidence to suggest that they are anywhere near as significant as the current gap.

Saunders et al.¹⁰, taking a budget standards approach in 1998, calculated a modest but adequate budget for a single working age female to be \$383 and single (non-working) aged female to be \$280, a ratio of 0.73. Eighty percent of the gap between the two budgets in 1998 was housing costs – the assumption being that the single aged woman owns her home. In other words, housing aside, the budgets were not radically different. While we have no comparably thorough recent data, there is no reason to suspect large scale divergence from this ratio. That is, we have no reason to suspect the budget standards of working age people to have diverged significantly from those over 65 since 1998. The current pension/minimum wage ratio is 0.64. The implication of applying this budget

budget standards approach is that the Age Pension plus rent assistance should be much closer to the minimum wage than it currently is and, to achieve that, both the base rate of the Age Pension and the rate of rent assistance would need to be reviewed.

As pensioners told us in the focus groups, they don't want to just sit around on the couch with rugs on their knees (an ageist but commonly used stereotype). While they do not expect to be gifted a life of luxury at all, they want to participate as active citizens in Australian society, they want to have fun, they want holidays and to be able to visit family and friends and afford occasional gifts for grandchildren.

None of these are unreasonable expectations for older citizens of a wealthy country but most struggle to afford these very things. Given these considerations, there's little doubt that if there were an independent determination for pensioners along the lines of the FWA rulings on the minimum wage, it would recommend bringing the Age Pension more in line with the minimum wage.

What is the right framework for achieving such changes? As we have described above, the existing pension-setting mechanism is in the legislative gift of the government. Current policy is that pensions should be indexed to the higher of wages or older-age inflation, with a caveat that the base rate can't fall lower than a prescribed share of average male earnings.

Yet as we have seen, this framework still results in persistent areas of severe deprivation. In part, this occurs because incumbent governments are generally unwilling to substantively raise the base rate, given the cost to the Budget (the last one to do so was the Rudd government in 2009). While removing deprivation amongst pensioners may be desirable, the short-term political hurdles for governments of the day appear simply too high.

We acknowledge that the relative generosity of the pension rate should be judged in light of other important income support payments, like Newstart and parenting allowances. We also acknowledge that the fiscal cost of pensions is a factor in determining its appropriate level.

Recommendations

RECOMMENDATION I: Establish an Independent Age Pension Tribunal

If we are to close the gap between the pension and the minimum wage, we believe responsibility for pension rate-setting should be transferred to an independent Age Pension Tribunal.

This Tribunal would set the base pension rate according to prescribed guidelines. Its role would be akin to that of Fair Work Australia in setting the minimum wage or The Remuneration Tribunal which is responsible for determining remuneration, including allowances and entitlements for a range of senior Commonwealth office holders including federal Parliamentarians. The FWA's prescribed role is to set a "safety net of fair minimum wages", taking into account a number of factors including "relative living standards and the needs of the low paid", as well as numerous macroeconomic considerations. The Commonwealth's Remuneration Tribunal performs a similar role for parliamentarians, senior bureaucrats, judicial officials and others.

The Tribunal should have three members, appointed by the government of the day for fixed terms with a small, highly qualified staff. None of the three members should be past or present Members of Parliament.

The Age Pension Tribunal should be charged with setting a fair pension, taking into account relative living standards and needs of pensioners, as well as the broader fiscal climate. The Tribunal would review the rate every six months.

RECOMMENDATION II: Increase the maximum rate of rent assistance

We recommend an increase in the maximum rate of Commonwealth Rent Assistance (CRA) of at least 30% for couples and 50% for singles in order to reduce the gap in housing costs between renters and home owners. In June 2014 there were 231,292 age pensioners receiving CRA¹⁶. Currently, the Commonwealth Government pays seventy-five cents for every dollar of rent over the CRA threshold, which is \$116 per fortnight for singles and \$180 per fortnight for couples. This is up to a maximum of \$130.40 for singles and \$122.80 per person for couples. Taking into account current CRA payments, full pensioners who rent are still, on average, \$40 (couples) to \$80 (singles) per week worse off than home owners.

CRA payments totalled approximately \$4.2 billion in 2014-15¹⁷. If this recommendation was implemented, including equivalent increases for all CRA recipients, it would add approximately \$1 billion per year to the CRA program cost.

RECOMMENDATION III: Index rent assistance to housing costs instead of CPI

Commonwealth Rent Assistance is inappropriately indexed to CPI, a broad measure of inflation. Housing costs often change at very different rates to CPI and this indexing method has historically left many renters substantially worse off as rents rise faster than CRA¹⁸.

RECOMMENDATION IV:

Expand the provision of free dentistry for pensioners

Dental health is critical to wellbeing. The fact that some pensioners are blending their food because they can't afford good dental care is clearly unacceptable. Public dental care at little or no cost is available at a limited number of clinics with provision varying from state to state and region to region. Some of our focus group members were not aware of these services while others said they had to travel too far or wait too long for them. We recommend the provision of Medicare funded dental care for all full pensioners. This dental care would be provided by existing private practitioners under a similar model to that under which General Practitioners provide health services.

The Parliamentary Budget Office has estimated the cost of providing comprehensive dental care to all age pensioners would be \$1,012 million in 2017/18*. Were this restricted to full pensioners only, the cost would be approximately \$600 million per year.

RECOMMENDATION V:

Run an awareness campaign to increase knowledge of medical supplies subsidised for healthcare card holders

The cost of incontinence pads and disposable medical supplies required for the treatment of diabetes both came up multiple times in focus groups. The Commonwealth Government has existing schemes to heavily subsidise both of these expenses for pensioner concession card holders (namely, The Continence Aids Payment Scheme and National Diabetes Services Scheme).

Based on our focus group research, the take-up and awareness of these schemes may require greater publicity or promotion. This could most effectively be done through primary healthcare providers and service delivery organisations.

RECOMMENDATION VI:

Coordinate or replacing state-based utilities rebates

The various state and territory based utility rebates available to pensioners across the country should be coordinated, or replaced with a federal scheme, to ensure that utilities costs do not grow as a share of total pensioner expenditure over time. We recommend this subject be added to the Council Of Australian Governments' agenda.

RECOMMENDATION VII:

Provide a broadband supplement or rebate

A rebate of \$40/month to each pensioner-only household should be supplied to ensure that all pensioners have the required online access and training to receive communications, pay bills and interact with government online. This rebate could be applied to broadband provision and/or applicable hardware purchases.

Unless every pensioner is able to go online, they will be unable to participate in the delivery of innovative modern health services, restricting governments capacity to reduce health costs.

If every pensioner-only household in Australia fully took up this supplement it would cost approximately \$280 million per year. The actual cost would be substantially lower.

RECOMMENDATION VIII:

Establish a roundtable to review services provided to age pensioners

Non-government organisations provide many valuable services to pensioners (for example meals, social outings, information services and assistance with furniture and whitegoods) and many in our focus groups said that their lives would be much harder or more limited without these services. At the same time, there was an impression that such services are becoming progressively more stretched over time as government funding is withdrawn and government services contract.

As these kinds of services can be a critical complement to the material means and wellbeing for pensioners, it is important to properly understand their role, value and long term sustainability.

We therefore recommend the establishment of a roundtable of government, non-government and private sector organisations with the objective of:

- clarifying and enhancing existing programs, services, products and initiatives designed to meet the needs of age pensioners in an affordable way; and
- exploring new or improved services, programs, products and initiatives that can contribute to age pensioner wellbeing; including for age pensioners in disadvantaged, regional, rural and remote communities.

* PBO figures provided by the office of Senator Richard Di Natale.

A Way Forward

Taken together, the measures above are urgently needed to lift the material living standards of the most disadvantaged older Australians to a level consistent with the expectations of a citizen of a wealthy modern country.

We acknowledge that the biggest objection to an independent Age Pension Tribunal would be that it takes control over an important element of public spending from the incumbent government. However, there are several safeguards here. First, the legislative framework that guides the Tribunal remains in the hands of the elected government; second, this framework will explicitly include the need to consider a responsible fiscal outlook; and finally, the government itself would appoint the Tribunal members on a fixed-term basis. Given the importance of lifting the living standards of the poorest pensioners over time, and the inclusion of these safeguards, we believe the partial transfer of one element of spending to an independent authority is a risk worth taking.

REVENUE AND SAVINGS MEASURES

We recognise that some of the recommendations made above have substantial costs associated with them. There are a range of revenue and savings measures that could be used to ensure that the implementation of the recommendations do not add to government net deficits. There are also some relevant policy measures that can play a significant role in offsetting the costs of increased pension payments.

It is important to acknowledge that many older Australians are willing to – and would indeed like the opportunity to – remain in the workforce longer. Continued employment for those willing and able to work past 65 can contribute significantly not only to the health and wellbeing of those individuals but to budget savings. It is important that we have an ongoing national conversation about the retirement age, bearing in mind that for many people – particularly those who have worked in physically demanding occupations – working past or even to 70 may simply not be an option. This conversation must also address barriers and incentives for older people remaining in the workforce since, as the Willing to Work Report (Australian Human Rights Commission 2016) so comprehensively demonstrated, older people who want to work do face significant barriers in confronting discriminatory attitudes.

However, for the practical purposes of this report, we would propose a combination of the following measures to allow us to pay for these changes:

- **Reduce negative gearing and the tax concessions on capital gains.** In the 2016 election, one of the major parties proposed a plan to restrict negative gearing and halve the concession on capital gains, which was costed by the Parliamentary Budget Office at a saving of around \$565 million over the forward estimates but ramping up to \$3 billion per year. The measures take time to impact the budget bottom line due to grandfathering of existing investments.
Restrict tax concessions on superannuation to reduce the extent to which super is used for tax planning instead of retirement saving. The current government proposed changes to superannuation are estimated to save \$2.9 billion over the forward estimates. Further targeting of superannuation tax concessions are possible with around \$10 billion estimated to go to the top ten per cent of tax payers in 2016/17 and this figure is expected to grow to \$15 billion by 2020/21.
- **Crack down on multinational tax avoidance.** The current federal government's proposal is estimated to raise \$3.7 billion over four years. Given multinational tax avoidance has been estimated at up to \$6 billion annually, there is clearly further lost revenue to be recuperated.
- **Reduce the assets-free area for homeowners to \$100,000 for singles and \$150,000 for couples and increase the taper rates from \$1.50 to \$2 per \$1,000 of assets over the assets limits.** Combine this with a government loan scheme for people excluded by this new means test up to the value of the pension they would have received. The estimated savings of this recommendation are up to \$1.3 billion¹⁹.

In total we are proposing new measures that would cost approximately \$2 billion (though more may be required depending on the decisions made by the Age Pensions Tribunal). Above we have identified measures that, in total, could save the federal budget well in excess of \$10 billion.

Conclusion

After speaking with pensioners from around the country and analysing spending patterns by older Australians, it is clear that Australia's Age Pension is barely effective in keeping our most financially vulnerable older citizens out of poverty. Pensioners who are in rental accommodation are particularly at risk of poverty and are forced to sacrifice a great deal in order to simply survive. For most pensioners, their financial situation is a cause of significant stress with particular concern about the lack of ability to save for unforeseen expenses.

We have seen that pensioners who rent face substantially higher housing costs, even after rent assistance, relative to other pensioners. They compensate by reducing spending elsewhere – on food (especially women), on transport, and on healthcare where they spend less than 50% compared to other pensioners.

We have seen how this affects pensioners' standard of living. Some mash food because they can't afford the dentist. Others split one meal into three, or turn off the hot water for months on end in summer. This is not a standard of living that most Australians would consider acceptable.

Pensioners, like all Australian citizens, want to live a meaningful life of dignity. Like the rest of us, they would like to be able to have holidays, to eat out from time to time, to afford to buy a book or magazine, have a mobile phone and an internet connection. The fact is that a large majority struggle to afford these basic elements of a modern Australian life. As one of the wealthiest nations in the world, we should be looking beyond simple survival for our elder citizens. That one pensioner in our focus groups had to save for a year to buy tickets to a stage show for her husband's birthday is a clear illustration of the poor quality of life of many pensioners.

Some of our focus group participants pointed out that, if they had less financial stress and, as a result, greater capacity for cultural pursuits, leisure and entertainment, they would likely be mentally and physically healthier. Not only is this a worthy outcome in its own right but it would reduce government expenditure in other areas.

Our research corroborates the findings of recent reports that have found older Australians are far more likely to experience poverty than comparable developed nations^{1,2}. Australia, one of the wealthiest countries in the world, can and should do better by its elders. For this reason, we believe that Australia should embrace a citizens' pension, which delivers more than poverty alleviation, which is intended to provide a quality of life consistent with the expectations of the broader Australian community.

We believe that the best pathway towards a citizens' pension is to establish an independent statutory Age Pension Tribunal, which is charged with setting a fair pension base rate taking into account relative living standards and needs of pensioners, as well as the broader fiscal climate. We further propose a set of more urgent recommendations targeted at specific areas of pensioner deprivation, and offsetting revenue and savings measures which could be used to fund them.

This report has shown that Age Pension dependency in Australia means a life of poverty and deprivation for thousands of our fellow citizens. Australia can and should do better than this.

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Appendix I:

Focus Groups

Notes for focus group conveners

Focus groups for pension adequacy study – conversation questions

These questions are conversation prompts and not intended for a question and answer format. The aim of these focus group sessions is to solicit opinions and stories of experiences, not to collect a statistical sample. We will seek to facilitate a reasonably free-ranging conversation that covers these topics rather than just work our way through the list from one to seventeen.

1. What's life like living on the pension?
2. What kind of things do you struggle with financially?
3. What kind of shortcuts do you take with spending and saving?
4. Can you describe (or recall) situations where you had to do without necessities?
5. Are there necessities that you regularly have to do without?
6. Are you able to put aside any money each fortnight into a savings account towards any unexpected emergencies?
7. Can you afford to pay the occasional unforeseen larger expense, like major car repairs?
8. Is the cost of housing a cause of financial stress for you?
9. Do you often find yourself running short of money at the end of the fortnight?
10. Do you receive other support with your expenses (e.g. family paying bills or doing shopping)?
11. If you had \$100 extra per fortnight what kind of things would do or buy that you're not now?
12. Do you think the pension should provide a reasonable standard of living or a minimum level necessary to survive?
13. How would you describe a reasonable standard of living for a retired Australian?
14. Include some buckets: housing, food, utilities, clothing, transport, health.
15. Extras: interstate/international travel, meals out, movies.
16. What spending items do you think a pension should cover?
17. What do you think a fair pension level would be?

Fitzroy, inner North Melbourne, Vic (held at Brotherhood of St. Laurence)

This group of eight full pensioners were all originally from China and most spoke very little English. They were aged between 74 and 82. There were five women and three men. They had been in Australia for between 11 and 25 years with most around 20 years. They had all been brought to Australia by their children through family reunion visas. All of the participants live in public housing in Fitzroy.

The entire session was conducted with an interpreter working in both Cantonese and Mandarin. She has been working with this group for several years.

Rosebery, inner Sydney, NSW (held at Benevolent Society)

Four men and five women attended the Rosebery focus group. They were aged between 56 and 87. One man was 56 and on a disability pension, one woman entirely self-funded, four full age pensioners and three part pensioners.

Penrith, outer western Sydney, NSW (held at Benevolent Society)

All six of the participants were women, many of whom are carers whose lives are very restricted due to the needs of their partners. Half were from the Penrith area and half from various locations in the Blue Mountains. They were aged between 70 and 86 and mostly owned their own homes.

West Perth, WA (held at National Seniors)

Six female and two male pensioners attended the West Perth focus group organised and hosted by National Seniors. Half were solely reliant on the Age Pension while the other four had a mix of superannuation, savings and foreign pensions. One participant was part of a couple while the other seven were single. They lived in a diverse range of housing including retirement villages, public housing, living with family and privately owned homes.

Toowoomba, regional Qld (held at National Seniors)

Seven female and two male pensioners attended the Toowoomba focus group organised and hosted by National Seniors. Nine pensioners attended. Seven owned their home outright, one had a mortgage and one is in the private rental market. Five were single age pensioners and there were two couples. The majority received some financial assistance from their families.

Focus group locations and participants

| Date | Location | Venue | Postcode | Gender | Age | Home Tenure | Type of Pension | Pension only source of income | If no. others? |
|------------|----------------|-----------------------------|------------------------|--------------|-----------|---|---|-------------------------------|--|
| 13/04/2016 | Fitzroy, Vic | Brotherhood of St. Laurence | 3065 | F: 5 M: 3 | 74-82 | All Public Housing | Couple: 4 Single: 4 | Yes: 8 No: 0 | |
| 19/04/2016 | Penrith, NSW | Benevolent Society | 2759, 2747, 2780, 2785 | F: 8 M: 0 | 70-86 | Community housing (1), own outright (4), other (1) | Couple: 2 Single: 4 | Yes: 3 No: 4 | Rent assistance, superannuation |
| 9/05/2016 | Rosebery, NSW | Benevolent Society | 2036 | F: 5 M: 4 | 56-87 | Privately rented housing(1), community housing (4), own home (3) | Single: 4 Couple: 3 Disability: 1 | Yes: 6 No: 2 | Superannuation, Savings, foreign pension, rent assistance |
| 29/06/2016 | Toowoomba, QLD | National Seniors | 4350 | F: 7 M: 2 | Not asked | Privately rented housing(1), own home outright (7), own home + mortgage (1) | Couple: 2 Single: 5 | Yes: 5 No: 4 | Superannuation, Savings, rent assistance |
| 20/06/2016 | West Perth, WA | National Seniors | 6010, 6012 | F: 6 M: 2 | Not asked | Retirement village, own home outright (2), own home + mortgage, public housing, with family, privately rented | Couple: 1 Single: 7 | Yes: 4 No: 4 | Superannuation, Savings, investments, foreign pension, rent assistance |

Note: participants were handed a form asking the above questions but were not required to provide any personal information. Any missing information is a result of unanswered questions.

Appendix II: HILDA Data

HILDA data for pension adequacy - detailed analysis notes

Appendix II can be found online at:

http://percapita.org.au/wp-content/uploads/2016/09/Pension-Adequacy_Appendix-II.pdf



percapita

IDEAS FOR A FAIR AUSTRALIA