

AUSTRALIAN PENSIONERS' & SUPERANNUANTS' FEDERATION

Submission to the 13th Series Consumer Price Index Review

by the

**Australian Pensioners'
&
Superannuants' Federation**

AP&SF

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About AP&SF

Run by older people for older people

Experienced • Credible • Representative • Cost effective • Consumer-based

AP&SF is:

- a national consumer voice of pensioners and older people
- an independent national source of information on older people's issues
- a network of state, regional and national consumer organisations - each are autonomous with their own membership criteria, for example, pensioners, older unemployed, superannuants, older women, or retired union members.
- an agent of change, towards a fair deal for older people
- an experienced and effective advocate for older people, on issues which historically have been dominated by professionals, government and industry.

AP&SF's basic goal is a fair deal for all - young or old - who may be affected by low income, ill health or prejudice.

What does AP&SF do?

- Provides advice about older people's needs and concerns- in areas such as income security, health, residential care, banking and financial services - to government, industry, community groups and services
- Represents older people's views on government and other committees so older people have a say in the decisions that affect their lives
- Provides independent information through its bimonthly national newspaper, *Action Network*
- Produces valuable educational resources for older people and people who work with older people
- Conducts consumer research on topics that are important to older people

What AP&SF achieves

- More informed decision-making by government, industry and consumers
- More relevant policies, services and products for older people
- A better informed older population, more able to articulate its own views and needs.

AP&SF's members

Most of our affiliates' 44,000 members live on low incomes, around \$175 - \$220 per week.

However, the work AP&SF does pays dividends for older people in all walks of life, and not just for our members and people on low incomes.

AP&SF members can be found living in homes they own or rent, in retirement villages, caravan parks, nursing homes, hostels and with family.

Representative and democratic

AP&SF's structure and processes ensure that it maintains a clear focus on the needs, concerns and aspirations of older people themselves.

AP&SF is run by an Executive of older people elected by its affiliated groups.

Unlike many other organisations to which older people belong, AP&SF develops its policy on issues very democratically. In towns and suburbs all around Australia, members of local branches of AP&SF's affiliated groups meet and discuss things that affect and concern older people. Together they determine the policy of their affiliate at regional or state meetings and conferences.

AP&SF's affiliated groups in turn determine the policy of AP&SF itself at conferences held every second year. Policy issues are raised, debated and voted upon and become the policy of AP&SF.

AP&SF liaises constantly with and offers associate membership to professionals, services, and others who work with or are interested in older people's concerns, but AP&SF policy development and management is firmly in the hands of older consumers.

1. Introduction

AP&SF believes that, particularly amongst retirees, there is a significant and growing lack of confidence in the Consumer Price Index (CPI). In part, this lack of confidence has its roots in the short term nature with which people review the Consumer Price Index and with the reality that, older people perceive inflation differently in times of high interest rates and in a low interest rate environment. Discussions within our own organisation and with other retiree groups suggests that there is deep seated suspicion about the motivations behind the current Review. This concern is evident from a range of submissions to the Review from groups representing the interests of older people.

A recent letter from the *Australian Senior Citizens* newspaper (attached for your information) is indicative of the level of concern and anxiety in the wider community of older people about the current review and the possibility of changes as a result of the Boskin review of the CPI in the United States.

This lack of confidence in the CPI should be of great concern to the government. AP&SF urges that steps be taken to allay these concerns.

2. Principal Purpose of the Consumer Price Index

AP&SF regards the main purpose of indexation as maintaining the purchasing power of pensions and other allowances and the adjustment of superannuation payments. This should remain as the principal purpose of the CPI. AP&SF acknowledge that while inflation measurement is an important component, income adjustment should be the main purpose of the CPI.

2. Frequency of consumer price index compilation

Given that there are scarce and competing claims on ABS resources and the possibility of obtaining less useful data, AP&SF believes that there are no strong arguments to move to the collection of data for a monthly CPI. However, if reliable statistics were able to be collected for a monthly CPI this would open the possibility of a closer alignment of pension indexation to the CPI and the governments reference point for pension adequacy, Male Total Average Weekly Earnings (MTAWE). Currently there is significant delay in achieving comparable data for similar time frames, with the result being that pension rates are compared to wages figures that have been collected some months earlier.

3. Population Coverage

The Technical Consultative Committee, in its review for the twelfth series recommended that "the ABS review the target population with the view to include additional household groups (subsequent to the cost implications of such widening)."

Currently, the CPI population group accounts for only 29% of Australian private households and 34% of the total private household expenditure. There are significant practical reasons as well as other compelling considerations (which go to the heart of user confidence in the CPI) which dictate a need for improving population coverage.

From AP&SF's perspective, the ageing of the population is a key consideration, as the following statistics reveal:

- In 1995 people aged 65 and over represent 11.9% of the population. In 25 years time, this will rise to approximately 17% of the population. By 2020 1 in every 4 Australians will be aged over 55.

- Between 2011 and 2021, the baby boomers will become senior citizens, swelling the 65 + population to around 4 million - almost double what it is now.
- In the next 25 years, the number of people aged 85 and over will increase from 190,000 in 1995 to 470,000 in 2021. It is estimated in 2051, 1.3 million people will be aged over 85.

The issue of the relevance of the CPI to pensioners and retirees has been a source of considerable interest in recent years, particularly in a low inflation environment. In the late 1980's pensioners' concerns about the appropriateness of the CPI led the Department of Social Security and the ABS to undertake an investigation of an pensioner 'basket of goods' to determine whether there was any justification for pensioners concerns. The result (which is dismissed in astonished disbelief by many retirees!) concluded that there is little difference between special Consumer Price Index constructed for pensioner households and the Consumer Price Index over the last decade, arguing that pensioners are currently on average about \$70 a year better off under the existing CPI arrangements.

Basically, the arguments against use of a general CPI for older people is that the CPI does not include or give sufficient weight to certain goods which are often purchased by older people. Older people spend much more on basic goods such as food and on health and medical services than the rest of the community. Few older people are still paying off their mortgages, with only 11.5% of people aged 55 to 64 having a mortgage, down to 3.2% among people over 75.

Another concern which is often articulated by older people is the believe that the CPI is based on prices which are lower than those generally payed by older people. Many pensioners, for example, believe that figures in the CPI are from supermarkets, and older people often shop at higher priced convenience stores.

A further area of concern is that the CPI from the users perspective does not accurately reflect the changing consumption and expenditure patterns of older people as they age. This highlights the fact that younger retirees may have different expenditure patterns than retirees in their late 70's and 80's, which may be more related to health and medical expenses, which tend to increase.

An important consideration for AP&SF, given the concern about the reduced purchasing power of retirees, is that other changes to pensions policy, such as ad hoc increases, reducing pension lag times or indexing thresholds have had and still have a more significant impact in raising pension levels in real terms and therefore increasing living standards, then have differences arising from the choice of the CPI for indexation purposes. One difficulty with the call for a special pensioner/non pensioner and retiree index is that examination of the expenditure patterns of pensioner groups show that there are significant difference in consumption patterns *within* pensioner groups and their spending on food, housing and transport. Importantly, there are significant differences in expenditure patterns between pensioner and non pensioner retirees on low incomes and non pensioner retirees on higher incomes.

There are significant variations within the pensioner population and one pensioner or retiree index would not represent all older people's consumption patterns.

The results for housing for example, show that single pensioners may spend more than twice as much on housing as do pensioner couples. Spending on transport may vary in the opposite direction. While there may be at times sound arguments for removing mortgage rates for example from the Consumer Price Index as the majority of pensioners have completed home purchase, a retiree or pensioner index which excluded household mortgage charges and costs would mean that the CPI change would not reflect the housing costs of, for example, single older women who are acknowledged as paying on average 35 per cent of their income on housing costs. It is also highly relevant to consider that 30 per cent of age pensioners and around 20 per cent of non pensioners do not own their own homes and often pay huge amounts of rent in the private rental market.

Overseas studies have determined that there is no trend for any particular income group to be more adversely affected in their expenditure by inflation. While there were expected differences in consumption patterns between groups, many of the differences offset each other. In general, the evidence suggested in the longer term, differential price movements tend to cancel each other out, although there may be short term differences.

Some older people will still do better or worse than the average from time to time. However, on balance, the current CPI based approach to price movements is better than any alternative proposed so far.

Another potential problem if one were to adopt a special 'retiree' index is that the unemployed, for example, might well argue that they too require a special index since the CPI retiree index will be unrepresentative of their consumption patterns. This could lead to a special index for pensioners, for non pensioner retirees, a different index for families, another one for young people, another one for unemployed people etc.

If this were to happen, there would be pressure for slightly different rates of increase in these indices for each indexation period and may lead to a situation where, for example, a pension indexation increase was less than an unemployment benefit increase, which would then lead to pensioners questioning why their increase was less than that adopted for the unemployed.

AP&SF understands the concerns of some, in particular the Department of Social Security, of the practical difficulties in dealing with a range of indexes and the confusion that this may cause. However, AP&SF believes that the growing lack of confidence in the CPI is a major cause for concern which should be addressed, to inform and encourage discussion and greater understanding in the community on these issues.

AP&SF is aware that ABS has undertaken an examination of a pensioner index and this has been updated from time to time. In our view it is unfortunate that this information has not been more widely disseminated in a paper which examines the methodology of the index as well as its limitations, and a range of other issues.

While AP&SF does not at present support application of a special pensioner or retiree index because of the above problems, we do however believe that for the sake of confidence in the system, the government should widely publish a series of experimental indexes, together with a discussion paper which outline some of the practical difficulties which are associated with a pensioner or non pensioner retiree index. Such a paper would point out potential difficulties for groups of older people, and the implications for others in the community and would prove beneficial to both informing and educating the growing and increasingly articulate population of older people who are voicing concern about the relevance of the CPI.

There is a need to adopt a range of strategies which could build confidence in the current CPI. Some of the proposals being considered by the Review, such as including a wider range of households in the survey, will go some way to providing some confidence in the community about the validity of the CPI. AP&SF recommends that the Government develop a communication and education strategy to address community concerns with the CPI.

AP&SF is strongly of the view that research into older people's perceptions and views about the CPI should be undertaken to inform the government's education and communication strategies. This work could be done in consultation with the Department of Social Security, there is a need to address the evident confusion over the CPI and the linkage of the pension to Male Total Average Weekly Earnings (MTAWE).

4. Commodity Classification and Item Coverage

AP&SF supports the restructuring of the Commodity Classification and Item Coverage in the current CPI to create a ninth major group, financial charges, which would include mortgage interest charges and consumer credit charges. However, AP&SF fears that items which would be included in this category such as the Higher Education Contribution Scheme (HECS) and the addition of computers as an item will only add to retirees scepticism about the relevance of the CPI measurement for their own circumstances, as discussed above.

5. Other issues

AP&SF does have some concerns over the proposal to cease publication of an index for selected state and local government charges, as outlined in the information paper. Our main concern is the impact of the increased cost of services provided by state and local governments. Older people are increasingly being asked to contribute financially to the costs of providing services as 'user pays' becomes more widespread. In recent years many state government services now impose fees and other user charges or co-payments. Increasingly, many states are levying such co-payments on, for example, pensioner concessions, and applying fees in areas of aged and community care (such as Home and Community Care), as well as housing. These charges and fees can be considerable if multiple services are used.

There is also a need to take into account utility and energy charges.