

ACOSS Submission to the Productivity Commission Inquiry into the Economic Implications of an Ageing Australia

ACOSS welcomes this Inquiry and the opportunity to contribute to it. Recent discussions and reports about the ageing of Australia's population have tended to focus too much on the fiscal implications for governments, at the cost of an equally necessary focus on other important issues. These include the implications for economic growth, for the structure of the labour force and for society as a whole in terms of how care is provided and how people participate and contribute in ways other than paid employment. We welcome the Commission's recognition of the importance of some of these issues in its early thinking about the Inquiry, as reflected in your speech to the South Australian Centre for Economic Studies in April this year.

There are a number of areas where ACOSS, as the peak body of the non-profit community welfare sector, and with our unique expertise regarding people living on low incomes, can make a particular contribution to the Inquiry. These include:

- (1) Increasing workforce participation
- (2) Reorganising the provision of care
- (3) Strengthening public revenue

[That is, work, care, and money!]

1. Increasing Workforce Participation

This area has been identified as one of three key policy directions for the future by the Commission.

We agree with the Commission and with the Treasury that one way to maintain economic growth and offset the costs of caring for older people in future is to reduce barriers to workforce participation. Australia, like the 'older' European nations, will have to focus as much on its *employment rates* as it does on *unemployment rates*. At the same time, the decline in the supply of young workers presents opportunities for people who are presently excluded from full participation in the paid workforce.

Policies to reduce barriers to participation should target three groups:

- Mature age people;
- Mothers; and
- Jobless social security recipients.

(1) Workforce participation by older people

Just 50% of people aged 55 to 65 are in employment (60% of men and 40% of women). This is above the OECD average, but it still leaves plenty of room for improvement. Hopefully, more people in this age group will remain in employment in future years, in response to concerns about the adequacy of retirement incomes, and a change in employer attitudes to workers in this age group. Women now in middle age may also be more likely to continue in employment than were their predecessors.

But the right mix of policies could accelerate this trend. The main barriers to employment among this age group are:

- the extreme difficulty people have in breaking back into employment once they leave or are made redundant;
- a lack of flexible work options in many industries (especially part time work);
- limited commitment to skills enhancement among employers and workers alike;
- strong incentives in the superannuation system for people to retire at age 55; and
- age-related discrimination in employment; for older people with an age-related disability, disability discrimination can also be a factor, as well as older workers with life-long disabilities.

Policies in the workplace are just as important as government policies in addressing these barriers. The best mix of workplace and public policies would include:

- providing more opportunities for lifelong learning in the workplace, such as on-the-job vocational training, work experience and access to training to broaden the skills base of older workers, to help them not only stay in the workforce, but also re-enter the workforce and reduce the level of long-term unemployment for this cohort;
- encouraging employers to adopt flexible work options which include part time work, working from home and job sharing, helping to reduce the level of employer discrimination towards older workers and increase workforce participation by this group;
- raising workforce age income support payments to pension levels while maintaining a differential income test. This could reduce poverty among those in their pre-retirement years, maintain paid incentives to take up work and still acknowledge the life stage differences while reducing the impact of the current payment increase at age pension age;
- maintaining access to programs and incentives supporting labour market participation, as well as reducing social exclusion into retirement years. Currently access to many programs, supplementary payments and support services ends at age pension age;
- an increase in the preservation age for superannuation benefits from 55 to 65 years, accompanied by greater flexibility for fund members to use part of their superannuation assets for purposes such as further education and earlier retirement in the event of a severe disability or caring responsibilities.

(2) Workforce participation by women, especially mothers

Around 67% of women of workforce age are employed, 20 percentage points less than men. This is around the OECD average. But the employment rate falls to 55% for mothers with one child and 43% for mothers with two or more children. These rates are 15 percentage points below the OECD average. There was a dramatic increase in workforce participation among mothers in the economic boom of the late 1980s, but this has not been repeated in the present economic boom. Moreover, most of the increase in employment among mothers in the last two decades has been in part time work, often less than two days a week. Australia has the third highest rate

of part time employment among women in the OECD behind the Netherlands and Switzerland. Indeed, the proportion of women employed full time has hardly changed over the last thirty years. To a significant extent, this reflects a preference among mothers to care for children at home, especially those of preschool age.

On the other hand, new cohorts of mothers are returning to at least part time employment much earlier than their forebears. This suggests that with improved education and earning potential, and changing attitudes regarding the role of women in society, future generations of mothers will prefer to return to paid work earlier, and perhaps make the move to full time employment if that is available to them. This suggests that there is considerable scope to boost workforce participation among mothers while at the same time meeting the needs of children. But again, there are barriers standing in the way.

The most important barriers appear to be affordable, good quality child care, a lack of flexibility in work arrangements including hours of work, a loss of skills and confidence where mothers have been out of the workforce for long periods (especially if their education and skill levels were low in the first place), and work disincentives built into the family payment system (especially for women in low income families contemplating part time employment).

Therefore, attention should be paid to the following public and workplace policies:

- Boost the supply of child care places and ease gap fees, especially for low and middle income families;
- Integrate the 'child care' and 'preschool' systems for preschool age children into a single system of early childhood development and care that meets the educational needs of children and the workforce requirements of parents at the same time;
- Reform family payments so that there is better integration of assistance across different payments and programs. This will improve both the understanding and efficacy of the system and remove significant administrative impediments to effective delivery. Unstacking multiple income tests that currently impact over common income ranges, improving the adequacy of help to older children and better targeting help towards low income families will improve the system's fairness, effectiveness and probably its affordability also.

(3) Workforce Participation by social security recipients

Around 17% of Australians of workforce age rely on social security payments. This is below the OECD average of 19% and has been falling with the strong growth in full time jobs in recent years. The ageing of the population provides an opportunity for jobless social security recipients to secure employment, and this in turn would greatly reduce the cost to government of population ageing. However, it is not inevitable that unemployment and long term joblessness will fall as the supply of younger workers reduces. Many 'older' European countries have higher rates of unemployment and 'hidden unemployment' than Australia. The outcome depends on how we grasp the opportunities offered by a tightening of the labour market to get jobless people into work.

An important consideration is the extent to which a tighter labour market, especially in skilled occupations, leads to wage increases or longer working hours for those

already in employment. Australia has not confronted a 'tight' labour market across the board since the early 1970s, although the present boom has certainly led to skills shortages.

Another factor is the extent to which future full time jobs growth will occur in jobs for which social security recipients are currently suited. On the experience of the last decade, this is unlikely. The majority of unemployed people and jobless social security recipients have low education and skill levels, and full time job growth (the only kind that lifts people off benefits) has mainly been confined to skilled jobs. There has been plenty of growth in low skilled jobs, but most have been part time, and many have been tenuous, creating a revolving door effect of movement on and off benefits.

We do not favour the option of lowering minimum wages to encourage growth in low skilled full time jobs. As was the case in the 1960s, the creation of large numbers of low skilled jobs risks trapping people in insecure employment, and discouraging the upgrading of their skills. Much of the present cohort of low skilled mature age workers who entered the workforce in the low skilled jobs boom of the 1960s and early 1970s is effectively excluded from full time employment now for this reason. A substantial lowering of minimum wages is also likely to reduce growth in productivity with negative long-term consequences for economic growth and prosperity.

A better approach is to restrain growth in wages generally and improve education and skills at the bottom end. However, low skilled jobless people and workers face a number of barriers to secure employment and improving their skills. These include:

- a lack of recent work experience in a 'mainstream' job (which training on its own cannot redress);
- discrimination (for example against Indigenous people, mature age unemployed people and people with a disability);
- a lack of understanding of trends in the demand for labour (especially among blue collar workers); and
- a lack of access to further education and training (due to its cost and lack of employer interest in retraining low skilled workers).
- Australia's investment in labour market assistance for unemployed people is about half the OECD average level.
- Job Network providers lack the incentives and resources to invest in the most disadvantaged job seekers, and there are queues for employment assistance for people with disabilities and parents on social security payments.

The social security system also discourages many people from moving into employment. This is not because rates of payment are too generous – single unemployed people can double their disposable income if they obtain a full time job on a minimum wage. However, the system of 'categories' of payment is too rigid to adjust to individual circumstances. Anomalies between payments discourage movement towards those that are linked to workforce participation, especially Newstart Allowance. For example, a person transferring from a Disability Pension to Newstart Allowance stands to lose over \$40 per week in payments and concessions. Severe income tests for Allowances such as Newstart Allowance also discourage part time employment.

Policies that would help improve access to secure employment for jobless social security recipients include:

- restraining overall wages growth within a decentralised industrial relations environment, without all of the burden falling on minimum wages;
- offering all long term unemployed people, and ultimately all long term jobless people on social security payments, a guarantee of substantial employment assistance through the Job Network and other specialist services such as disability services to help them secure employment (including wage subsidies, training, mentoring, relocation and other assistance);
- provision by the government of a benchmark for a standard level of education for all Australian citizens that is publicly funded and accessible;
- public and employer support for lifelong learning that is focused on workplace and community training, not solely on education institutions;
- the integration of Newstart Allowance, Austudy and Abstudy payments so that jobless people are encouraged to access and participate in further education and training opportunities and advance their prospects of gaining employment;
- the removal of anomalies in rates of payment between 'pensions' and 'allowances', for example an unemployed person over 25 years of age in receipt of Newstart Allowance who seeks to improve their chances of gaining employment by returning to full-time study faces a drop in income because once on Austudy they would be ineligible for Rent Allowance;
- improvement in the flexibility of the system in handling transitions between payments.

2. Reorganising the provision of care

In its early thinking about this Inquiry, the Commission rightly identified health and aged care costs as the two areas of greatest future increase in public expenditure.

(1) Cost-effective and universal health financing for prevention as well as cure

ACOSS welcomes the Commission's recognition that *any* projections about future spending are difficult, and that predicted increases in future health care costs are only partly due to the ageing of the population, and in greater part due to new technologies and greater demand for health services. This means that much of the projected increase in spending would be expected to occur even without population ageing.

However, like the Intergenerational report, the Commission appears to be primarily concerned with the impact of rising health care costs on *governments'* budgets, rather than with the burden of increasing health care costs across the community. We need to encourage broader debate about the public choices available to us in organising our health system. Over the last few years a strong consensus has emerged among doctors, allied health professionals, health academics, consumers and health administrators that reform of our health system is needed because the system is becoming dysfunctional. To date, governments have failed to develop corrective policies, although the emergence during the recent Federal election of health policies proposing significant increases in spending on a variety of new initiatives reflects some recognition of both the challenges we face and the need for reform in this area.

Socio-economic status is the most important predictor of health status among Australians, and there is evidence that health inequalities have increased in recent decades in Australia. While reversing this situation requires policies to improve the distribution of resources and increase the participation of marginal groups, the design of the health care system can overcome one potential source of health inequalities, namely unequal access to effective health care. Less advantaged people suffer worse health, so the health system should ensure that effective health promotion, prevention and treatment is available to less advantaged people in proportion to their higher health care needs. This is the first priority of an economically sustainable and socially just health system and shapes our other proposals for action including:

- phasing out the private health insurance rebate;
- removing the exemption from the increased Medicare Levy for those on high incomes who take out private health insurance, and instead applying the increased Medicare Levy to all singles on incomes over \$50,000 and to families on incomes over \$75,000.
- ensuring better access to primary and community health care;
- developing more community-based health services, especially for those with the least access to health services at the moment;
- increasing funds for oral health services;
- increasing funds for aboriginal community-controlled health services.

(2) Aged and Community Care

Australia's system of aged and community care is the envy of many countries and its growth and development over the last two decades is a major achievement. However, there remain important issues to be addressed, some of which were well-documented in the Final Report of the Hogan Review of Pricing Arrangements in Residential Aged Care.

There is however, an urgent need for a greater focus on community care and supporting informal carers. Community Care programs have grown markedly as a percentage of aged care spending over the last two decades, in line with the desire of older people to remain in their own homes as long as possible. Twenty years ago, they were worth less than 10% of the aged care budget. Today, all the programs which make up community care are worth almost 30%.¹

Despite this impressive record, Australia's community care programs are unable to meet current, let alone future demand for services from either older people, younger people with disabilities or their carers. Demand has increased steadily over the last few decades and will continue to increase in line with the ageing of Australia's population. By 2019, there will be an increase of almost 50% in the number of people across all age groups who rely on community care services compared to 2002². The numbers of *older people* likely to need assistance has been projected to rise approximately 160% between 2001 and 2031. At the same time as the demand for

¹ Dr Anna Howe, Speaking at the Community Care Summit in Canberra on 4 August 2004 at Old Parliament House.

² Commonwealth Department of Health and Ageing "A New Strategy for Community Care Consultation Paper" March 2003 p8.

care increases so rapidly, the availability of informal carers is predicted to grow at a much slower rate, of just 57%³.

The growth in demand for community care is not the only issue confronting Australia's community care system. There is also broad agreement across governments, consumers, carers and services that reform is needed if we are to make the most of available resources. We need to develop a new vision for community care in Australia and its interface with residential care, because current funding and service provision models are not meeting the needs of consumers. In August, the Commonwealth released its long-awaited blueprint for future community care delivery: *A New Strategy for Community Care – The Way Forward*. While this document falls short of the new vision which is required, it presents a significant opportunity to move towards an improved framework for the integrated planning and delivery of community care.

A second major issue in aged and community care, and one about which the Commission is well aware, is the serious workforce shortage confronting the aged care sector⁴. The size of the workforce problem warrants a significantly greater investment, not just now, but over the next few decades. The Final Report of the Hogan Review estimates that the demand for staff in the aged care industry will:

- *more than double* over the next 20 years; and
- *increase fivefold* by 2040⁵.

Despite initial steps by governments to address these issues, ACOSS strongly supports further action along the following lines:

- implementation of the blueprint for community care outlined in *A New Strategy for Community Care – The Way Forward*;
- the development of a new medium-term vision for community care and its interface with residential care which includes new funding and service provision models;
- a significant increase its investment in community care, with an initial injection of 20%;
- the development of a workforce strategy for community care: Australia needs a comprehensive national aged and community care workforce strategy and action plan, accompanied by adequate investment.

(3) Dementia – act now to reduce future costs

Alzheimer's Australia estimates that the numbers of Australians with dementia will *triple* over the next 35 years, from 170,000 to 500,000 people⁶. Access Economics predict that total direct and indirect expenditure on dementia will rise from 0.91% of GDP in 2002 to 3.3% of GDP in 2051⁷.

³ NATSEM, University of Canberra. Who's Going to Care? Informal care and an ageing population. June 2004. p36.

⁴ See for example Hogan, WP. *Review of Pricing Arrangements in Residential Aged Care. Final Report*. Commonwealth of Australia 2004; Chapter 11: The Aged Care Workforce. La Trobe University, Recruitment and Retention of Nurses in Residential Aged Care - Final Report

⁵ Hogan, WP. *Review of Pricing Arrangements in Residential Aged Care. Final Report*. Commonwealth of Australia 2004, Figure 7.6 p136.

⁶ Alzheimer's Australia *Dementia Manifesto* 2004 – 2007 p1

⁷ Quoted in Hogan, WP. Final Report p176.

ACOSS supports Alzheimer's Australia's call for Dementia to be made a National Health Priority and for significant investment in community awareness, research and services.

3. Strengthening Public Revenue

The previous parts of this paper have suggested ways in which the impacts of the ageing of Australia's population might be minimised. However, to focus on these issues is not to deny the fiscal implications of the ageing population for governments, which will be substantial in any case. We agree with the Commission's analysis that health and aged care costs are the areas where these implications will be most keenly felt.

With our targeted social security system, and *relatively* cost efficient public health services, Australia is well placed to cope with these costs. Indeed, the cost efficiency of health care services could be improved by reforms along the lines described above. There is also scope to rein in excessive income and taxation support for relatively well off retirees.

However, the critical issue for the future will be who pays for the necessary expansion of health, aged care, income support and other assistance. While there is some scope for self provision, ACOSS considers that the fairest way to finance 'core' health, care, and social security services is through the general taxation system. If we are successful in boosting workforce participation and productivity over the next 30 years, the necessary increase in the proportion of gross domestic product collected in taxation should be economically and politically sustainable. Even if all of the additional cost of these services were met through general taxation (which we are not advocating), the increase in our tax : GDP ratio would probably be no greater than past increases. For example, our tax ratio increased substantially in the immediate post war period (to invest in post war reconstruction and deal with population ageing at that time), and again in the mid 1970s (to deal with rising unemployment). Further, Australia has more room to move in this regard than most OECD nations because our tax take is well below that of most other OECD nations.

In addition to an element of self provision, consideration could be given to the following options to strengthen the public revenue base to finance services for older Australians:

- Introduce a health and aged care levy linked to personal income tax.
- Broaden the income tax base to raise revenue and improve economic efficiency at the same time, for example by:
 - reducing the tax bias in favour of passive investment in assets such as shares and rental property;
 - preventing personal income tax payers from avoiding tax by the use of interposed entities such as a private company or trust;
 - replacing hidden subsidies in the tax system for certain industries (such as the Fringe Benefits Tax concession for motor vehicles) with more transparent and accountable direct expenditures; and
 - generally treating different forms of income in a more consistent way.
- Remove inefficient tax subsidies for health and other services, especially the private health insurance rebate.

- Remove excessive tax support for the disposable incomes of well off retirees (the cost of which will escalate as the population ages).
- Strengthen the consumption tax base, without shifting the overall tax mix in favour of consumption or increasing the rate of GST, for example by indexing the rate of petroleum excise.

Intergenerational Equity

There is some danger of not just a perception but a reality emerging of younger generations coming through getting much worse tax, wealth creation and retirement benefit outcomes than those now in retirement and the first wave of baby boomers.

Work will need to be done to balance the benefits provided to retirees in the short to medium term on the one hand, and the perception of younger Australians about their own security in later life. A recent trend towards scaring younger people into saving to provide for their own retirement may end up backfiring as they perceive their fellow citizens consuming all the resources they are contributing through the tax system – while they have little prospect of seeing a return on this themselves in later life. It is also a worrying trend for ownership of assets to be concentrated more heavily among older people.