

Dear Inquiry Members

**RESPONSE TO THE PRODUCTIVITY COMMISSION'S DRAFT RESEARCH
REPORT INTO THE ECONOMIC IMPLICATIONS OF AN AGEING
AUSTRALIA**

The Australian Government Department of Family and Community Services (FaCS) welcomes the Productivity Commission's Draft Report into the Economic Implications of an Ageing Australia.

FaCS is the Australian Government's key social policy department, and is responsible for over \$40 billion of funding, with policy responsibility for a broad range of payments and programs. These include the Age Pension, Carer and Family Payments, early childhood support, youth policy, childcare, Commonwealth-State disability and housing agreements, community projects, Indigenous services, and the status of women. Some general FaCS comments follow; more detailed comments are in Attachment A.

FaCS welcomes the Draft Report's consideration of the significant non-market economic contribution of older Australians. Unpaid (informal) care of children, people with disabilities and the aged by older people is of considerable economic value. However, greater consideration could have been paid to the tensions between market and non-market production, particularly in the context of policies designed to enhance labour force participation by people with significant unpaid work commitments such as childcare and informal care of people with disabilities and the aged.

FaCS agrees with the Draft Report's assessment that over the longer term there is likely to be a significant reduction in the proportion of informal carers. However, there are additional issues and qualifications that need to be made to this assessment.

The Draft Report does not consider the effect of policies designed to enhance labour force participation on the supply of informal carers. Indeed, such effects are likely to be complex, and the extent to which an increase in demand for informal care will affect labour force participation may depend, in particular, on the nature of the interaction between unpaid caring and paid work.

In addition, projections of a reduction in the supply of informal carers should be treated with caution, particularly long-term projections of up to 30 years. Specifically, these projections do not take account of possible improvements in health services, technology and medical advancements, and represent a worst-case scenario based on current disability rates. The implications of a shortfall in the supply of carers due to an ageing population are difficult to quantify, and likely to be influenced by a combination of age, cohort and income effects.

The Draft Report indicates that time spent in volunteering activities, both formal and informal, increases with age. The Commission projects that the volunteering population will thus increase over the next forty years, as a consequence of structural ageing. This is based on the ABS Voluntary Work Survey data, which measures the rate of participation

in formal volunteering. This is expected to have several positive effects for Australian society. Volunteering has been shown to create stronger communities and makes a significant contribution to the economy. The value of volunteering is expected to rise from 1.8 per cent currently to 2.2 per cent of GDP in 2044-45. The Draft Report could consider studies that demonstrate economic implications of health and life satisfaction benefits of volunteering for older people.

The Draft Report projects that spending on Age and Service Pensions will increase from 2.9 per cent of GDP in 2002-03 to 4.9 per cent in 2044-45. Spending projections are based on means test and other policy settings at the time of preparation of the Draft Report.

The Draft Report confirms that Australia's retirement income system is fiscally sustainable, and that in the area of Age Pension expenditure Australia is well placed compared to most developed countries. This reflects past reforms to superannuation and retirement saving policy. The Draft Report does not appear to outline key elements of these reforms. A brief reference to some of these reforms (for example, the introduction of the Superannuation Guarantee system; and an assets test for the Age Pension) could be a useful addition to the Draft Report.

The Draft Report recognizes that:

- by 2044 the proportion of the population over age 65 will rise from around 12 per cent to 26 per cent and that seniors will be a much larger group in society;
- it is likely that the engagement of seniors will change in a positive way in relation to workforce and social participation. Of course, workforce participation is entirely voluntary and is an option only for those seniors who have the capacity to undertake it; and
- policies that remove barriers to participation of older people will have a positive impact on seniors, their families and the economy, albeit in ways that are difficult to predict.

There have already been a number of policy changes to encourage continued workforce participation of those seniors who are willing and able to keep working. However, some senior Australians still face barriers to remaining in or returning to the workforce.

It may be useful to present some sensitivity analysis to illustrate the impacts of a range of possible social and economic responses to trends such as increasing longevity, including higher workforce participation among mature aged and senior Australians, to illustrate their combined impact on Government expenditure, including Age Pension, in the future. The Draft Report does not provide an overview of the three pillars of the retirement income system, and future trends in relation to this broad framework (for example, the effects of the increasing maturity of the Superannuation Guarantee system). Inclusion of such a brief overview could better balance the Draft Report. (Section 10.4 of the Draft Report is titled "superannuation expenditure". However, it is confined to detail on unfunded Government superannuation schemes.)

The Draft Report provides useful analysis of the current state of knowledge around the impacts of an ageing population. However, it indicates the need for further research into social policy challenges and their economic implications and provides useful groundwork for such future research.

Yours sincerely

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References

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Attachment A: Carer Payments and Caring, Personal benefit payments, and Superannuation

Carer Payments and Caring

There are several areas of the Draft Report in relation to carer payments that require clarification or amendment.

- On page 7.13 par 1, an additional effect to those mentioned is that more older people will not only mean more older people to care for but also more older people will be caring for others. Presumably these older carers are already included in Age Pension forecasts so increases in Carer Payment numbers will not be so great. Carer Allowance should increase as forecasted.
- **Dollar figures** used **are** recorded against the **wrong payment** (p. 7.12) and should be updated from final budget estimate to actual figures as reported in FaCS' annual report (ie. \$921 million for Carer Payment and \$965 million for Carer Allowance).
- It also should be noted that the 2003-04 figures include the payment of the one-off carer bonus (estimated in the 2004-05 budget as costing \$255 million for the two payments). If customer figures cited in the 2004-05 Portfolio Budget Statements are used they are annual averages whereas the annual report figures are a snapshot.
- The lower Budget Estimate in 2004-05 is due to the bonus being included in 2003-04 figures and the saved cases review of Carer Allowance customers. This review was of customers who had received Carer Allowance under the system used prior to 1998. These customers were given a five-year grace before being assessed under the new system. Around 67,000 customers were reviewed and almost 25,000 customers were no longer eligible for payment.
- Other factors for the growth in payments (p. 7.12, last par) include the shift from institutional care to living in the community, increases in disability associated with the ageing of the population, closure of other payments (eg. wife pension) and increased willingness to identify as a carer.
- It would help to clarify that 'care in the community' involves both formal and informal services (p. 7.2, 3rd dot point).
- The projections do not take into account changes in the willingness of informal carers to care for the frail elderly (p. 7.3, box 7.1).
- An increased capacity of people to live independently through improved technology as well as reductions in severe disability should be taken into account (p. 7.3, par 1).
- The most comprehensive empirical evidence is said to come from the US but then only a US study on 'male war veterans' is given as an example (p. 7.4).
- Claims are made about ABS notes on Australian data (p. 7.4). A specific reference is not given so the claims could not be substantiated.
- It should be mentioned that there are a number of older people who are cared for without use of any government services (p. 7.5, par 1). In 1998, 227,400 primary carers reported that they did not receive any assistance and 139,700 primary carers reported that they did not receive a government pension or benefit (ABS, 1998). If these rates change then the overall care mix will vary.

Personal benefit payments

Age Pension

Page XVIII dash point about earlier reforms, insert “age and veterans’ ” before “pensions” to clarify that this is about these pensions, not Australian Government superannuation pension liabilities.

- Box 8.1

Customer numbers and expenditure used are from the 2002-03 year. It would be preferable to use 2003-04 data from the FaCS Annual Report. Age Pension outlays for 2003-04 were \$19.54 billion, with 1.87 million age pensioners. This would make the data consistent with the Department of Veterans’ Affairs 2003-04 data on page 8.2.

Under Unemployment allowances – replace “retirement age” with “age pension age”.

- Page 8.5 refers to Newstart Allowance as not being accessed after 65. This should read “age pension age” – while men’s age pension age is 65, women’s age pension age is below this (it is currently 62.5 and will rise to 63 from 1 July 2005. It is gradually increasing so that it will be 65, the same as for men).
- Page 8.12 states that Age Pension is indexed to average weekly earnings. As there is a range of indexes for average weekly earnings, it would be more accurate to state that Age Pension is indexed to Male Total Average Weekly Earnings (this itself is not a complete description of the indexation approach).

Housing Assistance

- Page 4, Table 10.3 Income support and CRA, June 2003, there is an error under the column Average fortnightly payment for the total should read \$75 not \$73.
- Page 4, Under public housing 2nd paragraph, last sentence – The total market value of public and community housing is estimated at around **\$42 billion** not \$44 billion in 2001-02 financial year (SCRSSP 2004, 16.8).
- Page 5, there is some concern about the claimed connection between expenditure on CSHA and additions to public housing stock. No figures are provided for expenditure over the period 1982 to 1997 and the claimed decline in new stock is not clearly sourced. There are issues about the consistency of data over that period. Data covering the period 1997 to 2003 indicates a decline in overall numbers of around 3 per cent.
- Page 5, the paragraph beginning ‘Public housing is available...’ is not sufficiently referenced. As such it is not possible to verify the accuracy of claim that around 29 per cent of public housing tenants reported health or disability problems. Around 40 per cent of new households allocated public housing in 2001-02 reported a household member with a disability (AIHW, 2003, Table 5.27, p 193).

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