THE SENIORS CONCESSION ALLOWANCE AND UTILITY ALLOWANCE: EQUITY IMPLICATIONS

Jeromey Temple

The purpose of this brief policy note is to draw attention to two new payments available to elderly Australians: the Seniors Concession Allowance and the Utilities Allowance. It examines their potential equity outcomes and argues that, combined with recent changes to the eligibility requirements for the Commonwealth Seniors Health Card (CSHC), the new Seniors Concession Allowance serves to reduce equity in Australia's welfare system. The second concession, the Utilities Allowance that targets elderly Australians in need, is necessary due to deficiencies in the current method of indexing the aged pension.[1]

WHAT ARE THE NEW CONCESSIONS AND HOW MUCH WILL THEY COST?

Following the 1993 State Premiers conference, State Governments agreed that Commonwealth concession card recipients[2] (excluding CSHC) would receive State level subsidies on a set of 'core concessions' including council rates, water and sewerage, electricity, registration and public transport. These subsidies are in addition to subsidized pharmaceuticals through the Pharmaceutical Benefits Scheme (PBS) available to concession card holders (including CSHC). In 2001, the Federal Government began to negotiate with State governments to extend these 'core concessions' to Commonwealth Seniors Health Card (CSHC) holders.[3] However, the Federal Government was unsuccessful in securing these additional concessions. During the 2004 election campaign, in recognition of this the Federal government proposed two new concessions: the Utilities Allowance and Seniors Concession Allowance (SCA) costing between 867.9 million and 877.2 million dollars over the next four years.[4]

The Utilities Allowance is an ongoing annual $100 payment made to recipients of the aged pension[5] and recipients of specific Veterans income support payments to subsidise the cost of utilities. The payment is calculated as $100 per lone person household and as $50 for each member of a couple, and is indexed against the Consumer Price Index (CPI). That is, couples and lone person households receive the same payment. The payment is made at the same amount for full and part pensioners. In contrast, the SCA is an ongoing payment of $200 per year (paid in two installments) for each CSHC holder, and is also indexed against the CPI. As the CSHC is available only to self-funded retirees, aged pensioners are not eligible for the SCA. For example, a lone female holding a CSHC will receive two $100 tax-free payments each year. Couple only households will receive $400 per year. Thus, the economies of scale differ between the Utilities Allowance and the SCA.

ARE THE NEW CONCESSIONS EQUITABLE?

Two criticisms levelled at the system of concessions in Australia is the lack of consistent eligibility criteria and the preferential treatment given to seniors of pension age, when compared with low income earners in the broader population.[6] Amongst others, the ACT Council of Social Services, the Standing Committee on Family and Community Affairs and the Standing Committee of Community Services and Income Security Administrators have suggested a set of criteria to evaluate concessional payments.[7] For the purposes of the following brief discussion, I draw upon several of the suggested criteria: identification of the target group, evaluation of the desired outcome, effect on equity and the concession's consistency with other government policy.

WHO ARE THE TARGET GROUPS?

There is a clear delineation in eligibility requirements for the two concessions. Eligibility for the SCA is determined by whether an elderly person holds the Commonwealth Seniors Health Card (CSHC). In contrast, the less generous Utilities Allowance is available to the heavily means tested Aged Pension (part or full pensioners) or selected recipients of Veterans Affairs payments who are of pension age. In 2005, to receive the full rate age pension, a lone person must not be earning in excess of $3,172 per annum, or hold more than $153,000 in assets if they own their own home. For couples, the thresholds are $5,616 and $217,500 for annual income and assets respectively.

In contrast, access to CSHC is not subject to an asset test,[8] and the income thresholds are set high. The Commonwealth Seniors Health Card (CSHC) is available to persons of pension age, but who are ineligible for the aged pension. Originally, the CSHC was introduced in 1994 to enable low-income retirees whose assets excluding them from the aged pension, to receive the same health benefits as offered to Pensioner Concession Card (PCC) holders. As part of the 1997 enquiry into concessions, the Standing Committee on Family and Community Affairs argued for a slight extension to $29,352 per single and $49,037 per couple covering access to the PBS only.[9] This level would be capped at 40 per cent above the PCC income cutoff. Allowing for CPI increases, the income cut-off for the CSHC would equate to $30,212 for singles and $50,323 for couples in 2003.

As shown in Table 1, after January 1999, the Federal Government increased the income eligibility requirement from $20, 841 to $40,000 and from $34,798.40 to $67,000 for singles and couples respectively. Then again, in 2000 the CSHC eligibility requirements were lifted in response to the introduction of the new Goods and Services Tax (G.S.T). Under current policy settings, couples with a combined income of less than $80,000 and singles with an income less than $50,000 are eligible for SCA. In addition, there is no assets test for the CSHC.

At the time of the announcement of this lift in eligibility requirements in the 2001 budget, The Council on the Ageing, Australia's peak seniors' representative body stated: 'We believe that policies which seek to provide an unfair advantage to older people at the expense of the rest of the community are foolish, unsustainable and harmful over the long term. This year's Federal budget ignored the concept of targeting …. This was bad public policy'.[10] Among other independent bodies, the National Welfare Rights Network and the Council of Social Ser-

Table 1: Income Eligibility Requirements — Commonwealth Seniors Health Card (CSHC), 1997-2005

Date	Single Person	Couples	Each member of an illness-separated couple
1/01/1997	20,841.60	34,798.40	20,529.60
1/01/1999	40,000.00	67,000.00	36,398.00
1/07/2000	41,000.00	68,376.00	37,615.00
01/07/2001-05	50,000.00	80,000.00	50,000.00

Source: Centrelink, unpublished

vices have argued against the concessions made available to CSHC holders.[11] In April 1997, prior to the change in eligibility requirements, 37, 844 older persons held a CSHC.[12] The figure at the end of 2004 was approximately 287,000.[13]

WHAT IS THE DESIRED OUTCOME?

The Government has two distinct desired outcomes for each new payment. The Utilities Allowance is targeted at the low income elderly, and the government hopes to increase the economic welfare of this group: ' the Coalition recognizes that some older Australians who rely on income support payments can experience difficulty in saving up to pay regular household bills such as the gas or electricity bill'.[14] That is, this supplement seeks to improve the well-being of those older Australians most in need.

In contrast, the SCA was proposed as a means of promoting greater equity in access to services between different card holders, irrespective of the clear delineation in economic well-being between pensioners and 'self-funded' retirees: 'People receiving the aged pension have enjoyed concessions for many years via the Pensioner Concession Card. This payment for self-funded retirees recognizes that they have been unable to benefit from these concessions. The coalition considers that self funded retirees should not miss out'.[15] A similar argument was made when the income eligibility requirements for the CSHC were increased in 2001, when it was argued that: 'This measure further recognizes the important contribution made by self funded retirees in providing for their own retirement'.[16]

However this argument ignores the advantages that many self funded retirees have accrued, including large tax concessions on their superannuation. Furthermore, the larger incomes of many of the self funded retirees on the CSHC enable them to benefit more easily from the new 35 per cent and 40 per cent health insurance rebate for retirees. As argued in an earlier paper, the probability of purchasing health insurance increases significantly with income, and many poorer elderly Australians who currently do not hold health insurance (predominately those on the Pensioners Concession Card or Health Care Card) will not benefit from the new insurance subsidies due to Lifetime Health Cover.[17] Furthermore, the Government's argument ignores the substantial subsidies provided to this group over the life course, prior to retirement. For example, a recent paper by Wang, Wilson and Yates shows that indirect housing benefits (through foregone taxation revenue) accrue most heavily to high income earning homeowners in retirement.[18]

ARE THE SUPPLEMENTS CONSISTENT WITH HORIZONTAL AND VERTICAL EQUITY?

An important consideration is the new payments' degree of horizontal and vertical equity. Horizontal equity refers to the ability of the concession to produce the same outcome for people in similar financial circumstances. More specifically, households on the same level of income receive the same benefit from the concession. In contrast, vertical equity refers to the ability of the concession to produce similar outcomes for people in different financial circumstances. That is, households with different levels of income are treated differently, so that the overall level of financial burden is similar for high and low income earners.[19]

In opposition to the notion of horizontal equity, persons on social security payments subject to the same income and asset tests will not be eligible for the

Utilities Allowance. For example, widow B pensioners, sole parent pensions, disability support pensions, invalidity support pensions (below pension age) and carer pensions will not receive the supplement. Although this is an important point, the more serious concern is the vertical inequity developed by the new payments.

As stated above, the main reason for the SCA is to subsidise self-funded retirees as they cannot receive the same concessions as Pension Concession card holders on such items as rates, utilities etc. If in fact, the self-funded retirees are financially disadvantaged by lack of these concessions, then it would be expected that this group would pay a larger portion of their retirement income to cover these expenses when compared with pensioner only households.

As noted earlier, the CSHC income eligibility limits have changed significantly over the period 1997 to 2001. Data from the 1998-99 Australian Bureau of Statistics (ABS) Household Expenditure Survey (HES) give an interesting insight into the expenditure behaviour of elderly households (of pension age) who receive the aged pension, CSHC, or who are beyond eligibility requirements. The 1998-99 cross section of the HES was sampled over four points in time: two before the 1998 CSHC eligibility shift, and at two points in time after the CSHC eligibility shift.[20] A limitation of the data set is that it does not provide a measure of whether the household contains a person with a concession card. As a proxy for this variable, I utilize the eligibility requirements for the various concessions to create a variable measuring whether the household has a PCC, CSHC or neither.[21]

Viewing Table 2, it can be seen that pensioners and 1998 CSHC holders spend remarkably similar amounts and proportions across the selected commodity categories, with some exceptions. Although these two groups spend similar dollar amounts, pensioners devote a slightly larger portion of their budget to food and health care and the 1998 CSHC holders spent more and devote a larger portion of their budget to food. The lower portion of the budget devoted to food is important in the context of Engel's law which states that, as the proportion of income spent on food increases, well-being decreases. Support is provided for this proposition as about seven per cent of pensioners report having a cash flow problem, compared with about two per cent of 1998 CSHC holders. Of all pensioners, almost five per cent record difficulty paying for utilities and have registration, compared with two per cent of the 1998 CSHC holders. Focusing only on households with a CSHC enumerated in 1999 (for example, under the first change to the eligibility requirements), this group devotes a smaller proportion of their income to food (about 18 per cent compared with 23 per cent by pensioners) and about three per cent report a cash flow problem. Although the 1999 CSHC group spend about double the amount on health care per week when compared with pensioners, there is no difference in the proportion of income spent on health care between these two groups. In 1999, those groups who were not eligible for CSHC or income support spent more per capita across the major commodity categories, but due to their greater level of economic resources, devoted less of their household income to meeting these costs, with the exception of medical costs. As can be expected, none of these respondents reported having a cash flow or problem paying for utilities or registration, though the sample is small.

Table 2: Median weekly expenditure and median expenditure-income shares for households headed by a person of pension age, 1998 to 1999

	Pensioners 1998-99		CSHC 1998		CSHC 1999		CSHC (98 & 99)		Other	
	$ Per Week (per capita)	Income Share	$ Per Week (per capita)	Income Share	$ Per Week (per capita)	Income Share	$ Per Week (per capita)	Income Share	$ Per Week (per capita)	Income Share
Housing	19.42	9.93	23.31	9.87	23.96*	8.58	24.01*	9.59	27.05*	4.39*
Fuel & Power	8.14	4.09	10.28*	4.40	8.58	3.26*	9.12*	3.67*	10.35*	1.93*
Food	45.02	23.00	46.78*	20.81	48.33*	18.12*	47.60*	19.44*	62.39*	9.68*
Services	12.77	6.75	15.37*	7.53	15.88*	5.37	15.99*	6.23	17.76*	2.49*
Medical	8.44	4.41	5.40	2.65	18.76*	4.97	13.47*	4.58	32.45*	4.67
Transport	16.87	8.46	19.29*	8.04	23.68*	8.13	21.58*	8.46	29.04*	4.20*
Recreation	15.43	8.31	22.65*	11.74*	19.845*	8.32	20.01*	9.69	37.6*	5.12*
Percentage with Cash Flow Problems	7.01%		2.33%		3.23%		2.86%		1.41%	
Percentage who could not pay utilities, registration on time	4.62%		2.33%		0.81%		1.43%		0%	
N =	628		86		124		210		71	

Notes: * 95% confidence interval for difference in medians excludes zero. Comparison case for the statistical test is pensioners.
Source: 1998-99 ABS Household Expenditure Survey

A significant proportion of this final group would be eligible for CSHC in 2005 given the more generous income eligibility requirements.

In other research using the 2000 General Social Survey and a non-linear demand model, I have shown that, as income increases, the probability of an older household being unable to pay utilities and shelter costs on time reduces significantly. Similarly, holding any kind of asset in retirement was found to be strongly associated with being able to pay for utilities and shelter costs on time. More generally, across the domain of necessities (including health care, shelter, utilities and food), I have found that as an elderly household's income rises the amount spent on necessities rises, but the proportion of the household budget that is allocated to meeting these costs falls.[22]

Combined with other findings, these data provide evidence that CSHC holders are not having to devote larger portions of their income to meeting expenses that are subsidized by State governments for holders of the aged pension. However, it is not possible to form a definitive conclusion given the small sample of elderly households in the HES.

ARE THE CONCESSIONS CONSISTENT WITH OTHER GOVERNMENT POLICY?

Quite clearly, the extended CSHC eligibility requirements made available to self funded retirees are not consistent with the heavy means tests on both income and assets for receipt of other social security payments. Whereas the original CSHC introduced in 1994 aimed to provide cheaper medicines through the PBS to the 'asset rich, cash poor' group of retirees, recent changes to the CSHC mean that the new SCA is no longer targeted at self funded retirees who may be in need of assistance.

A further point, established by the

Standing Committee of Community Services and Income Security Administrators, is that the concessions should not attempt to compensate for deficiencies in the Social Security system.[23] This issue relates specifically to the Utilities Allowance. Currently the aged pension is indexed twice yearly against the CPI and is also linked to wages growth.[24] However, a major reason for the proposal of the Utilities Allowance by the government was to help elderly households cope with energy costs. If rising energy costs is indeed an issue, then a preferable measure would be to re-index the aged pension against a CPI measure that accounts for the expenditure composition of elderly households. For example, research using American data has shown that, over the period 1982 to 1993, the experimental price index for older Americans rose faster than the CPI for the broader population.[25] A detailed discussion is not warranted here, but ongoing research in the ANU's Demography program is using cross sections of the ABS Household Expenditure Surveys to develop an elderly-specific CPI to serve as a means of pension indexation.

CONCLUSION

Recent changes to the eligibility requirements for the CSHC mean that concessions provided to this group are no longer targeted at those most in need. It is important to recognize that many self-funded retirees are indeed asset rich but cash poor, indicating a need for concessions such as access to PBS subsidized pharmaceuticals. However, elderly households in receipt of income at the higher end of the existing income limits (up to $80,000 for couples and $50,000 for singles) can hardly be recognized as being cash poor.

By ensuring that concession payments meet both horizontal and vertical equity objectives, concessions made available through the concession card system are able to produce greater intra-cohort equity whilst minimising government expenditure. This important aspect of concessional payments was recognized by the former Department of Social Security at the time of the 1997 concession card enquiry. However, in addition to the recently announced 35-40 per cent rebate for elderly Australians' health insurance, the new concessions will accentuate rather than reduce intra-cohort and inter-cohort inequity. Apart from the resulting growth in income inequity, poorly targeted payments increase public expenditure, reducing the efficiency with which the government can deal with policy issues arising due to population ageing. Although the cost of the SCA is not overtly burdensome (about $258.2 million over four years), the cost is likely to increase rapidly due to cohort flow over the short to medium term. With a fixed level of government expenditure, concessions should be targeted at those most in need. In the context of an ageing population, this presents a delicate balancing act between constraining public expenditure and providing adequate services to those older persons most in need. As argued by the Standing Committee on Family and Community Affairs enquiry into Commonwealth concession cards: 'While a national concession system of the future will cost more, due to the ageing population, this must be weighed against the community benefits of Australia's social welfare system for low income individuals and families'.[26]

Acknowledgements

The author thanks Bob Birrell and Katharine Betts
for useful comments.

References

[1] This payment was originally proposed as the ‘Utility Supplement’, but is now also known as the ‘Utilities Allowance’.

[2] Commonwealth concession cards include the Pensioners Concession Card (PCC), the Health Care Card (HCC) and Commonwealth Seniors Health Card (CSHC). Two additional cards are issued by the Department of Veteran’s Affairs: the Gold Repatriation Health Card and the White Repatriation Health Card.

[3] Commonwealth Department of Family and Community Services, *Inquiry into long-term strategies to address the ageing of the Australian population over the next 40 years*, Occasional Paper No. 8, 2003

[4] Howard Government, ‘Recognising Senior Australians—Their needs and their carers’, 2004, available from <http://www.liberal.org.au/2004-policy/Oct01_Recognising_Senior_Australians_-_Their_Needs_and_Their_Carers.pdf> (accessed December 2004). Australian Government, ‘Mid year economic and fiscal outlook: Appendix A policy decisions taken since the 2004-05 budget’, 2004, available from <http://www.budget.gov.au/2004-05/myefo/download/11_Appendix_A.pdf> (accessed January 2005).

[5] The age of eligibility for the aged pension is 65 for men. The age eligibility requirement for women is below that for men, but is slowly increasing to age 65. For full details see: <http://www.centrelink.gov.au/internet/internet.nsf/payments/qual_how_agepens.htm> (accessed Feburary 2005).

[6] National Welfare Rights Network, ‘Room for improvement: Renovating for a simpler and fairer system’, 2004

[7] ACT Council of Social Service, ‘ACTCOSS submission on ACT Government Concessions’, 2002, <www.actcoss.org.au> (accessed January 2005). Standing Committee of Community Services and Income Security Administrators, ‘Proposed national framework for concessions for low income Australians’, 1997. House of Representatives Standing Committee on Family and Community Affairs, ‘Concessions — Who benefits. Report on concession card availability and eligibility for concessions’, Australian Parliamentary Papers, vol. 27, 1997, pp. 300-311

[8] The implication is that so long as the household satisfies the income threshold, the household is entitled to hold any amount of assets.

[9] House of Representatives Standing Committee on Family and Community Affairs, op. cit., 1997, p. 62

[10] D. Correll, ‘Equitable policy responses to population ageing’, *Impact*, December 2001, p. 8

[11] National Welfare Rights Network, op. cit., 2004, pp. 26-27

[12] House of Representatives Standing Committee on Family and Community Affairs, op. cit., 1997, p. 8

[13] Howard Government, op. cit., 2004, p. 3

[14] ibid., 2004, p. 4

[15] ibid., 2004, p. 5

[16] Commonwealth Department of Family and Community Services, ‘Budget 2001-02 What’s new what’s different’, 2001, available from <http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/budget/budget2001-wnwd_b.htm> (accessed January 2005).

[17] J. Temple ‘Will the government’s proposed insurance reform increase the health insurance coverage of older Australians?’ *People and Place*, vol. 12, no. 3, 2004, pp.1-9

[18] H. Wang, D. Wilson and J. Yates, *Measuring the distributional impact of direct and indirect housing assistance*, Australian Institute of Health and Welfare, Canberra, 2004

[19] ACT Council of Social Service, op. cit., 2002, p. 5

[20] It is important to recall that this is the shift in eligibility from around \$21,000 to \$40,000 for lone persons and from about \$35,000 to \$66,000 for couples, not the more recent shift out to \$50,000 for singles and \$80,000 for couples.

[21] There are two significant limitations on the data in Table 2: firstly, due to the lag between the change in the CSHC eligibility requirement and the conduct of the survey, a large proportion of persons may have become eligible for the CSHC but had been yet to claim the card. Second, restricting the HES sample to households headed by persons of pension age restricts the sample considerably with 628 pensioners, 210 CSHC holders (86 enumerated in 1998 and 124 in 1999) and 71 who were not eligible for any concession (including Veterans affairs payments). As such the data should be treated with caution.

[22] J. Temple, *The role of selected demographic variables in explaining elderly Australian’s expenditure on necessities*, Ph.D thesis, Demography program, The Australian National University, 2005

[23] Standing Committee of Community Services and Income Security Administrators, op. cit., 1997

[24] The maximum single rate of the pension cannot fall below 25 per cent of Male Total Average Weekly Earnings.

[25] N. Amble and K. Stewart, 'Experimental price index for elderly consumers', *Monthly Labor Review*, vol. 117, no. 5, 1994, pp.11-16. The experimental price index for elderly consumers is a measure of the rise in prices, weighted specifically for the consumption profile of older households. That is, it is a measure of the level of inflation experienced by elderly households.

[26] House of Representatives Standing Committee on Family and Community Affairs, op. cit., 1997, p. 28