SUBMISSION BY BOB DAPRÈ TO THE RETIREMENT INCOME REVIEW – POVERTY TRAPS IN ASSISTANCE TO THE AGED

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I have no objections to any or all of this submission being made available to the public.

Background Information

I am a retired Commonwealth public servant aged 77 years.

I worked as a permanent public servant in the (then) Department of Social Security (DSS) in Canberra from 1978 to 1998. My main work was in policy-related research on social security issues and I gained special expertise in overseas social security systems. I was also extensively involved in program evaluation. I co-authored a paper on 'Financing of Social Security' for an international conference.

Following my retirement from the permanent public service, on contract to DSS, I participated in some overseas projects and was the author of *A Compendium of Legislative Changes in Social Security, 1983-2000*.

Social Security Status

My wife and I are not eligible for the Age Pension but are recipients of the Commonwealth Seniors Health Card.

Robert (Bob) P Daprè

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EXECUTIVE SUMMARY

The submission argues that the present sudden death cut-out points for the Age Pension and Commonwealth Seniors Health Card (CSHC) are inequitable and result in major poverty traps. The increasing trend of the Australian Government to 'grandfather' adverse policy changes, for all levels of government to increase the range of benefits tied to these means tests and for the general community to apply them when providing concessions are all serving to aggravate the poverty traps.

These poverty traps alongside other inequities (particularly the exclusion of a person's main home from all means tests) lead to the conclusion that the overall system of assistance to the elderly is not equitable. They also reduce work incentives for those whose income or, where applicable, assets are near the cut-out point for eligibility. Self-funded retirees will be more likely to take up employment, and they and the community in general will be more willing to accept the social security provisions for the elderly, if they feel that, generally speaking, they are as fair as is practicable.

It is acknowledged that poverty traps related to pensioner concessions provided by State/Territory Governments have been an issue of long-term concern and are difficult to resolve. It is noted that an earlier practice of having savings clauses attached to adverse policy changes could be a better option than grandfathering. In the case of the CSHC, it is observed that the supplement to the card, abolished by the Abbott Government, did compensate to some extent for this poverty trap but aggravated the poverty trap for those whose incomes were above the cut-out point for the card.

It is suggested that the main concessions provided by the CSHC, namely the PBS and Medical Safety Net, could be merged and a graduated income test applied.

It is noted that the Review will not be making policy recommendations but it is submitted that its report could at least highlight these inequities and flag possible solutions with a view hopefully to influencing the future policy of governments and the general community.

INTRODUCTION

This submission focusses on the Age Pension and Commonwealth Seniors Health Card. There are a number of features of the means/income tests applying to them which are not equitable – the most obvious is the exclusion of a person's primary residence from any means test. There will probably be numerous submissions on that aspect and the Australian Government has indicated that it will not change its policy in this regard. Accordingly, I will not address that issue here. Rather this submission deals with a less well publicised aspect but one which I consider important, namely the inequity related to the poverty traps that exist around the cut-off points for the Age Pension and CSHC.

Two poverty traps are considered here:

- the loss of concessions available only to pensioners (commonly known as fringe benefits) which occurs at the pension cut-out point under the income or assets test for persons whose income qualifies them for the CSHC; and
- the loss of medical concessions available to CSHC holders at the income test cut-off point where eligibility for the card ceases.[1]

CONCESSIONS AVAILABLE ONLY TO PENSIONERS

Leaving aside the medical concessions provided to CSHC holders as well as pensioners, the only fringe benefits provided by the Australian Government to pensioners are bulk billed doctor visits, which may be available at the discretion of the treating doctor, and assistance towards purchasing hearing services. The main benefits are provided by State and Territory Governments. These vary to some extent between the States/Territories but generally involve concessions in respect of: electricity bills; gas bills; property rates; water rates; motor vehicle registration; public transport fares; and train fares.

Value of Pensioner Concessions

Presumably, estimates of the value of these concessions are available from the Department of Social Services and/or Centrelink. What is clear is that these concessions in total would be worth a relatively large amount to many pensioners and certainly they have always been highly valued by them. Yet one dollar of extra income can mean that a person/family loses entitlement to the pension and ends up considerably worse off than before.

CONCESSIONS AVAILABLE TO CSHC HOLDERS

Two important medical concessions - under the Pharmaceutical Benefits Scheme (PBS) and the general Medicare Safety Net – provided to pensioners are also available to CSHC holders:

- the PBS Concession provides that, from 1 January 2020, a pensioner pays $6.60 for a script covered by the PBS up to a maximum payment of $316.80 a calendar year, after which PBS scripts are free. For non-pensioners, a payment of $41.00 (less where the cost of medicine is under that amount) up to a maximum of $1,486.80 a calendar year is made after which the cost per script is reduced to $6.60; and

- the general Medical Safety Net - benefits under this are somewhat more complex than the PBS concessions but essentially, from 1 January 2020, they became available after expenditure in the calendar year of $692.20 for pensioners and $2,169.20 for non-pensioners.

[1] It is noted that the income test for the CSHC is based on taxable income (as adjusted), which is different from the definition of income used in the pension income test.

Value of Medical Concessions

It is clear that the details of the PBS and general Medicare Safety Net provisions are quite generous. My own family has reasonably good health but with a number of the ailments of advancing age. Yet my wife and I (who hold a CSHC) had some 90 or more PBS subscriptions and, due to multiple GP/specialist visits and associated x-rays, scans and the like, were able to take advantage of the safety net provisions from just after mid-year. I have not calculated the precise value of these two concessions to my family in 2019 but it would have been a bit over $2,000 for the PBS concessions and over $1,000 under the Medicare safety net. For many elderly people with major health problems, these amounts could be much greater. Yet a person/family could lose all of them if in receipt of an extra dollar of income over the previous financial year.

FURTHER AGGRAVATION OF THE POVERTY TRAPS

It is clear that the official means tests for the age pension and CSHC are not fair and also can be in some instances a major disincentive to work. But that is not the full story – certain other trends in recent years have tended to worsen the poverty traps.

Grandfathering Policy

The poverty traps have been aggravated in recent years by the Australian Government's practice of 'grandfathering' eligibility conditions when implementing policy changes which adversely affect social security recipients. The most notable example recently was the decision to continue indefinitely the provision of fringe benefits to those who lost their pension due to tightening of the assets test introduced from 1 January 2017. Another was the decision not to apply the new deeming of income rules to account based pensions for those already in receipt of a CSHC before 1 January 2015 and who continue to receive it unchanged after that date. The latter poverty trap is particularly harsh given that those earlier recipients of the card retain a generous concession for ever provided that they remain eligible for the card but lose the concession for ever if their income, even in only one year and, for example, from earnings from one short period of employment, leads to them losing, and then regaining, entitlement to the card. The work disincentive here is enormous unless the job taken up is very remunerative.

The grandfathering policy has in effect created two classes of recipient with those who benefit from the policy well ahead financially compared with those who miss out. People who just happened to become eligible for a pension or CSHC at a later date than others (often simply because they decided to work a bit longer – a policy the Government wishes to encourage) may lose out to the tune of thousands of dollars.

Unofficial Application of Means Tests

The pensioner concessions described are those officially provided by the Australian and State/Territory Governments. But there is a major and growing tendency by both levels of government to provide other benefits from time to time using in every case the pension, and in some instances the CSHC means/income tests, as the criteria of eligibility. For example, extra lump sum payments made at the time of the financial crisis a decade or more ago were tied to this eligibility. Also I live in Canberra and recall a speech by ACT Chief Minister, Andrew Barr, in the past year (I have not the precise reference) where he stated, in respect of some prospective benefit which the ACT Government was planning, that the Government was not in a position to establish its own means test and would rely on the Australian Government's pension means test.

In the case of medical benefits, this unofficial use of the pension and sometimes the CSHC means/income tests are even more extensive. My wife and I have found time and again, when accessing services such as pathology tests, x-rays and scans often costing hundreds of dollars, that they are frequently offered free by health providers to pensioners and to CSHC holders but are supplied at the full price (or perhaps with a small seniors discount of say 5%) to non-holders. That unofficial benefit was worth over $1,000 to my family last year. Again, it could be much higher for some elderly people who are suffering major illnesses or have major disabilities.

POLICY OPTIONS

While the Review will not be making policy recommendations, it is still worthwhile to consider whether there are ways of reducing the impact of the poverty traps identified.

Concessions Available Only to Pensioners

The bulk of pensioner only concessions are provided by State and Territory Governments and are very varied. Accordingly, avoiding a sudden death loss of these at the pension cut-out point is difficult. Many years ago, loss of pensioner fringe benefits occurred when income exceeded a certain amount while a person was still entitled to some pension but the same issue of a sudden death cut-out applied. My recollection from the time that I commenced working in the (then) Department of Social Security back in 1976 is that over the years this has been an ongoing concern with no easy solution.

Instead of a general policy of grandfathering, perhaps a better option would be for the Australian Government to adopt the practice, frequently used in the past in respect of adverse social security changes, of legislating 'savings clauses', under which existing social security recipients were protected from the changes for a limited time, for example two or three years.

As regards the CSHC, It should be noted that the cash supplement paid to recipients of the card, which was abolished by the Abbott Government following a recommendation of the National Commission of Audit, had the effect of reducing the poverty trap at the Age Pension cut-out point.[2] This would be worth more than $2,000 a year after indexation if it was still in existence. Of course, while reducing one poverty trap, the supplement had the effect of increasing the poverty trap at the income cut-out point for the CSHC.

[2] The energy supplement part of the payment has been retained for longer-tern recipients of the CSHC but is not currently paid to newly eligible recipients.

Medical Concessions for CSHC Holders

The two major medical concessions under the PBS and Medicare Safety Net available to CSHC holders are provided by the Australian Government. Accordingly, it would be easier to avoid the inequity caused by the sudden death income cut-out point for the card than if they were provided by the States and Territory Governments.

It is suggested that the PBS and Medical Safety Net concessions be integrated into a single expenditure category and made subject to a graduated income test rather than one with a sudden death cut-out. The value of the combined expenditure could then be reduced from the selected threshold taxable income level over a range of say anything from $20,000 to $40,000 above the threshold. This would certainly make the system fairer.

Conclusion

I conclude that the poverty traps outlined plus other inequities (particularly the exemption of the family home from the pension means test) show that our current social security provisions for the elderly are far from equitable. Ultimately, self-funded retirees will be more likely to take up employment if they are not subject to sudden death cut-outs to their benefits and they, and the community in general, will be more willing to accept the social security provisions for the elderly if they feel that, generally speaking, they are as fair as is practicable.

It is apparent that the Australian Government will be reluctant to re-introduce the cash supplement to the CSHC given that it recently removed it. And grandfathering seems to be fairly established policy – after all, grandfathered conditions were applied when reforming the Parliamentary and public service superannuation schemes. The graduated income test for medical concessions under the CSHC, as suggested, might have a greater chance of being implemented.

The Review will not be making policy recommendations but might well highlight the inequities in the current arrangements and at least refer to possible solutions. It could point out that the general trend by governments and in the general community to increase the use of the pension and CSHC means/income tests (for example, due to the political pressures derived from energy prices reaching unaffordable levels) is having the effect of increasing poverty traps and the level of unfairness. Such observations would hopefully serve to influence future government and community policies.