

COTA AUSTRALIA POLICY ALERT

May 2014 No. 11



THE REPORT OF THE NATIONAL COMMISSION OF AUDIT

The report from the National Commission of Audit ("Towards Responsible Government") to the Government was released on Thursday 1 May.

The Commission's recommendations are aimed at ensuring there is a Federal Budget surplus of 1% of GDP by 2023/24 with emphasis on the expenditure side of the budget rather than the revenue side of the equation. COTA is now looking forward to the promised taxation review which should address ways to increase taxation revenue.

The Government will respond formally to the recommendations in the Budget on 13 May. Clearly not all recommendations will be dealt with explicitly at that time and COTA will continue to work to ensure that older people are not asked to carry a disproportionate load of the expenditures cuts required to return the Budget to surplus.

The report has 86 recommendations in total across its two reports and 15 areas of expenditure as well as some broad recommendation on reform of commonwealth - state relations. Those that have a direct impact on older people are discussed here.

RECOMMENDATIONS 12 AND 13: AGE PENSION

The Commission recommends that the Age Pension be fixed at 28 per cent of Average Weekly earnings with a 15 year transition period to get down to that from the current level. This will mean a decrease in the value of the pension over time as average weekly earnings are consistently lower than the current benchmark of 27.7 per cent of Male Total Average weekly earnings (Recommendation 12)

The Commission also recommends tighter targeting of eligibility of the Age Pension by:

- Formally linking the eligibility age of the Age Pension to 77% of life expectancy at age 65 which would increase the eligibility age for the Age Pension to around 70 by 2053.
- Replacing the current income and assets tests with a single comprehensive means test. This abolishes the

For further information please contact:

Ian Yates AM Chief Executive

Jo Root National Policy Manager

iyates@cota.org.au

jroot@cota.org.au

ph 08 8232 0422

ph 02 6282 3436

existing assets test and extends the income test by deeming income from a greater range of assets.

- c. Including the value of the principal residence in this new test above a certain value (proposed \$150,000 single and \$175,000 couple)..
- d. Increasing the income test withdrawal (taper) rate from 50 per cent to 75 per cent in the dollar. (Recommendation13)

COTA COMMENT

Following concerted pressure from COTA Australia and NSA the Prime Minister announced on 28 April that there will be no changes to the Age Pension until after the next election. On 2 May the Treasurer announced that the age for the Age Pension will rise to 70 in 2035, meaning people born from 1965 onwards will not be eligible until they are 70. COTA was informed of this when we met with the Treasurer on 29 April. The government regards these two statements as consistent because the change to the age of eligibility will not occur until after several elections.

Based on our discussion with the Treasurer COTA would anticipate working through the Commission's suggestions with the Government over the next two years.

The Commission's recommendation of linking the eligibility age to life expectancy at age 65 is a simplistic approach which ignores the reasons why many people leave the workforce. It ignores the existence of ageism and age discrimination in the workforce which make it difficult for many people to work beyond 55. It also ignores the fact that many people leave the workforce because of ill health or a disability. There would need to be a significant change in employers' attitudes and more effort put into assisting people to retrain to ensure people are not simply consigned to spending longer periods on other lower levels of income support.

COTA has called on the Government to match its announcement of an increased age for the Age Pension with programs and initiatives that will assist older people to stay in the workforce.

COTA is very strongly opposed to changing the benchmark rate for the value of the Age Pension as it would lead to a fall in the real value of the pension and do nothing to allow older people who are fully dependent on the Age Pension to enjoy a modest lifestyle into the future.

COTA does not support increasing the taper rates for the income test as it would remove an incentive for older people to continue to participate in the workforce.

Treating the family home in a similar way to other assets raises complex issues around how people can release the value of that home. It is not simple to generate an income stream whilst still maintaining the house as a home. A number of reverse mortgages and other schemes have been released in the market but to date none have demonstrated the capacity to produce adequate incomes to sustain people over their lifetimes.

One way around this is for people to downsize, to choose a house of lower value and use the capital released to generate incomes to live off. There are a number of problems with this approach including lack of supply of appropriate housing in the right locations, financial barriers including stamp duty, and the impact on eligibility for the pension.

The Commission recommends not proceeding with the Housing Help for Seniors pilot which would provide some incentives for people to downsize. COTA believes that pilot should proceed as it would provide valuable evidence on the decision making around downsizing.

RECOMMENDATION 14: SUPERANNUATION PRESERVATION AGE

The Commission recommends that the superannuation preservation age should be set at five years below the Age Pension age, with the current phased increase in the preservation age extended by an extra four years so the preservation age reaches 62 by 2027. The preservation age would then increase in line with proposed increases in the Age Pension age.

COTA COMMENT

COTA supports linking the preservation age with the Age pension age. It would assist with encouraging workforce participation amongst older people by removing an incentive to leave the workforce. The long lead time with the increase coming in slowly gives people sufficient time to plan for their retirement. It would need to be accompanied by reasonable financial hardship provisions that allowed people who are forced to leave the workforce prematurely to access their superannuation payments but this would become the exception rather than the rule. It is line with our recommendations in our preBudget submission for the federal Budget 2014-2105.

RECOMMENDATION 15: COMMONWEALTH SENIORS HEALTH CARD

The Commonwealth Seniors Health Card be maintained but with deemed income from tax-free superannuation added to the definition of Adjusted Taxable Income for its income test.

COTA COMMENT

COTA supports this recommendation as it moves towards treating different income sources in a more consistent way. Older people who derive income from investments that are not part of their superannuation have told us they feel very disadvantaged by the differential treatment of income for taxation purposes and some income support payments. This is an important first step towards redressing that imbalance.

RECOMMENDATION 17: SHORT TO MEDIUM-TERM HEALTH CARE REFORMS

The Commission proposes radical changes to the health care system:

- a. requiring higher-income earners to take out private health insurance for basic health services in place of Medicare; and precluding them from accessing the private health insurance rebate;
- b. the introduction of co-payments for all Medicare funded services, underpinned by a new safety net arrangement that would operate once a patient has exceeded 15 visits or services in a year. General patients would pay \$15.00 per service up to the safety net threshold and \$7.50 per service once the safety net threshold has been exceeded. Concession card holders would pay \$5.00 per service up to the safety net threshold and \$2.50 per service once the safety net threshold has been exceeded;
- c. implement arrangements to ensure that consumers are not able to insure against the co-payment and that medical practitioners who wish to bulk bill are not able to waive the co-payment;
- d. encouraging the States to introduce a co-payment structure for public hospital emergency departments for less urgent conditions that could be appropriately treated in a general practice setting;
- e. increasing the threshold for the General Extended Medicare Safety Net to \$4,000, while maintaining the Concessional Extended Medicare Safety Net threshold at existing levels. Safety net arrangements

for Medicare and the Pharmaceutical Benefits Scheme should be retained to ensure support for people facing significant hardship, albeit with some adjustments;

- f. reviewing the Medicare Benefits Schedule to identify and remove ineffective items, replace expensive items with less expensive alternatives where available and investigate options for cost recovery for applications to list items on the Schedule;
- g. reforming the private health insurance market to provide greater incentives for efficient and cost effective health management through deregulating price setting arrangements, allowing health funds to expand their coverage to primary care settings, relaxing community-rating to allow health funds to vary premiums to account for a limited number of lifestyle factors, including smoking; and reforming the arrangements by which insurers equalise risks through the sector;
- h. limiting the Commonwealth's contribution to efficient growth in the cost of public hospital services to 45 per cent applying from 2014-15 and — with the exception of activity based funding — reducing the health reporting requirements significantly that the Commonwealth places on the States; and
- i. extending the current scope of health professional practices (for example, pharmacists and nurse practitioners) to address the future needs of Australia's health care system.

RECOMMENDATION 18: A PATHWAY TO REFORMING HEALTH CARE

The Commission says detailed work is required to examine opportunities to improve the efficiency and effectiveness of Australia's health care system over the medium to longer term. The Commission recommends the Minister for Health be tasked with developing options to reform Australia's system of health care. The Minister should report to the Prime Minister in 12 months' time on progress and a preferred way forward.

COTA COMMENT

Older people consistently identify access to affordable and quality health care services as a priority issue and area of concern. COTA strongly supports the development of a future health reform package as we think there are areas that need improving. COTA would welcome the opportunity to participate in the discussions of how we can make the health system work better for all Australians

COTA does not support the adoption of a suite of short to medium term measures as outlined in Recommendation 17. We believe they significantly undermine the universal nature of our health system and move Australia towards a health system similar to the United States which is more expensive and has greater health inequalities.

COTA is opposed to any co-payment for GP visits as we believe it leads to people who need attention not seeking it. We already have at least 10 per cent of people indicating they put off visits to the doctor or do not buy necessary medicines because they cannot afford them. This would become more prevalent, leading to higher health costs in the future as people seek attention when the condition has worsened. Visits to GPs should be encouraged, especially among health vulnerable older people, as they reduce the level of tertiary hospitalisation at great cost to them and taxpayers.

COTA supports the recommendations to retain the safety nets for both Medicare and PBS but believes that the significant changes proposed will curtail their applications so much that they become useful only to those on the very lowest of incomes.

The proposals push huge numbers of people into private health insurance by restricting their access to Medicare funded services and extend the range of services insurance covers. The proposition to move away from the current community rating system for private health insurance, allowing the insurers to adopt a risk rating would significantly disadvantage many older people and people with complex and chronic conditions. Age itself could be seen as a high risk, as it is with other forms of insurance and so older people could face higher premiums which they may be forced to pay.

Overall the Commission's proposals would see the death of Medicare and the move toward an American system of health care. This would result in a substantial increase in healthcare costs to the taxpayer and the economy and a drop in standards of health care for the poorest and most vulnerable, including pensioners. This view is supported by the vast majority of health care experts.

RECOMMENDATION 19: THE PHARMACEUTICAL BENEFITS SCHEME

The Pharmaceutical Benefits Scheme would be reformed by:

- a. the introduction of new arrangements for funding the Pharmaceutical Benefits Scheme within a set funding envelope that extends for a seven year cycle;
- b. Establishing an independent authority ('PBS Entity') to be headed by a suitably qualified Chief Executive Officer who would oversee management of subsidised

pharmaceuticals within the Australian health system and be required to report to the Minister for Health;

- c. permitting the Minister in exceptional circumstances to have new items listed by introducing a disallowable instrument into Parliament and on receipt of advice from the PBS Entity regarding items to be de-listed in order to offset additional costs;
- d. increasing co-payments for all medicines under the Pharmaceutical Benefits Scheme, including for concessional medicines that are currently free. This includes:
 - i. for general patients with costs below the safety net, a co-payment increase of \$5.00 (increase from \$36.90 to \$41.90), while above the safety net a rise of \$5.00 (from \$6.00 to \$11.00);
 - ii. in line with the increased co-payment arrangements, the general patient safety net should increase from \$1,421.20 to \$1,613.77; and
 - iii. for concession card holders, no increase to the current co-payment of \$6.00 while below the safety net threshold of \$360.00. However, once the safety net limit has been reached, concession card holders will be required to co contribute \$2.00 to the cost of their medicines;
- e. opening up the pharmacy sector to competition, including through the deregulation of ownership and location rules; and
- f. streamlining approvals for new drugs through the Therapeutic Goods Administration process by recognising approvals made by certain overseas agencies.

COTA COMMENT

COTA is very concerned about the introduction of a funding envelope for the PBS for what has been to date an open ended scheme. This will lead to restricting access to drugs, setting limits on individuals, and deferring the addition of new drugs to the schedule.

COTA does not believe a case has been made for increasing the co-payments and changes to the safety arrangements. Both of these measures will increase the cost of medications. For people who are on multiple medications this would be quite a financial burden. We know many older people on low incomes already forego necessary medications because of the cost and this measure will exacerbate this problem.

Older people value the work of their community pharmacy and have a strong personal connection with their regular pharmacy. It is seen as an important source of health advice and information. COTA would

be concerned about changes to pharmacy that have the potential to reduce the current level of service.

RECOMMENDATION 25: AGED CARE

The Commission supports the continuation of current reforms, and in addition:

- a. including the full value of the principal residence in the current aged care means test;
- b. implementing arrangements to allow older Australians to access equity in their principal residence, to pay for part of the cost of their aged care services;
- c. introducing a fee for aged care providers to access the accommodation bond guarantee or, alternatively, requiring providers to take out appropriate private insurance to cover the risk of default;
- d. terminating the Payroll Tax Supplement; and
- e. reducing duplication in all aspects of financial reporting for the aged care sector as well as reducing other regulatory requirements for aged care providers.

COTA COMMENT

The current aged care reforms are in the process of implementation with remaining major stages starting on 1 July 2014 and 1 July 2015, with a major review scheduled in 2016/17. COTA believes that the implementation should proceed and proposed changes should be examined within the scheduled review of the reforms. While the recommendations on the principal residence are consistent with the Productivity Commission (PC) recommendations, the major PC recommendations to remove rationing of supply and allocate funding entitlement to the consumer are omitted. These will be reconsidered in the 2016/17 review.

RECOMMENDATION 26: CARER PAYMENTS

Many Australians care for a family member or friend who is unable to care for themselves. The Commission recommends payments to carers be maintained, but recommends changes to improve targeting including:

- a. limiting the annual Carer Supplement to only one payment per carer;
- b. introducing an income test for the Carer Allowance, set at \$150,000 per year;

- c. reviewing eligibility criteria applying to the type of care provided and to the needs of the adult receiving care. This should ensure that Carer Payment is targeted to those whose caring responsibilities limit their capacity to work; and
- d. aligning Carer Payment arrangements with the Commission's recommended changes to the Age Pension benchmark by transitioning to a new benchmark of 28 per cent of Average Weekly Earnings at the same time as implementation of the Age Pension benchmark changes.

COTA COMMENT

COTA believes this suite of measure seriously undermines moves to recognise the valuable work of carers in our community.

As indicated above we do not support the benchmarking of payments to average weekly earnings which would result in a reduction in the Age Pension and other pensions. We are particularly concerned about the assessment of capacity to work limiting eligibility for the carer.

OTHER ISSUES

The Commission makes a number of recommendations around Commonwealth / State relations and measures to improve the efficiency of service delivery. COTA is keen to ensure that services are delivered in the most effective way and would be prepared to discuss any measures which reduce duplication but maintain or improve equity among all older Australians as this should free funds for direct service delivery.

COTA is concerned that the cumulative impact of all the savings measures has not been addressed. Many people are affected by more than one measure and when we look at the total impact it is clear that many will be significantly worse off and will have a diminution in their standard of living. The package does not provide sufficient assurance that the vulnerable and disadvantage in our society will be protected.

COTA COMMENT

COTA has provided wide media comment on the Commission of Audit report and many of the issues. Go to cota.org.au for recent media releases, and see for example www.abc.net.au/news/2014-05-01/5424540



Australia: 2056

1 in 4 are aged over 65.

1.8 million are over 85.

Making an Australia for all ages - *what's the plan?*

COTA

For older Australians



NATIONAL POLICY FORUM 2014

Tuesday 22 July 2014

9am-5pm

National Press Club Canberra

Join our MC, journalist and social commentator Peter Mares, in exploring whether Australia is ready to harness the potential and meet the challenges of demographic change.

Confirmed speakers

Travers McLeod

CEO, Centre for Policy Development,
Formerly of Oxford Martin School,
University of Oxford

Prof. Graeme Hugo

ARC Professorial Fellow, Director of the
Australian Population and Migration
Research Centre, University of Adelaide

Dr Kathleen Brasher

Manager Community Participation, COTA
Victoria. Member, Strategic Advisory Group
WHO Global Network of Age-friendly Cities
and Communities

John Daley

CEO, The Grattan Institute

Ian Yates AM

Chief Executive COTA Australia

A registration fee applies.
COTA members \$90 inc GST
Non-Members \$210 inc GST

For more information and bookings
please visit the COTA Australia website:
www.cota.org.au/australia/npf2014.aspx

Email: events@cota.org.au

Contact: Leanne Lovell on 03 9909 7910.