



Sustainable budgets and security for older Australians

**COTA National Policy Forum
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Grattan Institute
22 July 2014**

Overview

Government budgets are under pressure, primarily because of increased spending on older households

- Government budgets are in trouble
- Increasing spending on older Australians is the dominant pressure on Australian government budgets
- Governments spend more on older households, due to health and Age Pension
 - These increases reflect policy choices, not ageing
- Aged care expenditures are also starting to increase rapidly
- Unlike other households, households over 65 are *net* drawers on government, and this *net* transfer is increasing over time

Some older households are doing it tough

- Older households are under more pressure than wage earners, but much less pressure than the unemployed
- Most older households are net savers
- On average, older households are now wealthier than those in middle age

To keep paying for older households, tighter targeting is needed

- There are few options for budget repair that are both large and socially responsible
- Better targeting of age pensions, superannuation, and asset taxation dominate the attractive options

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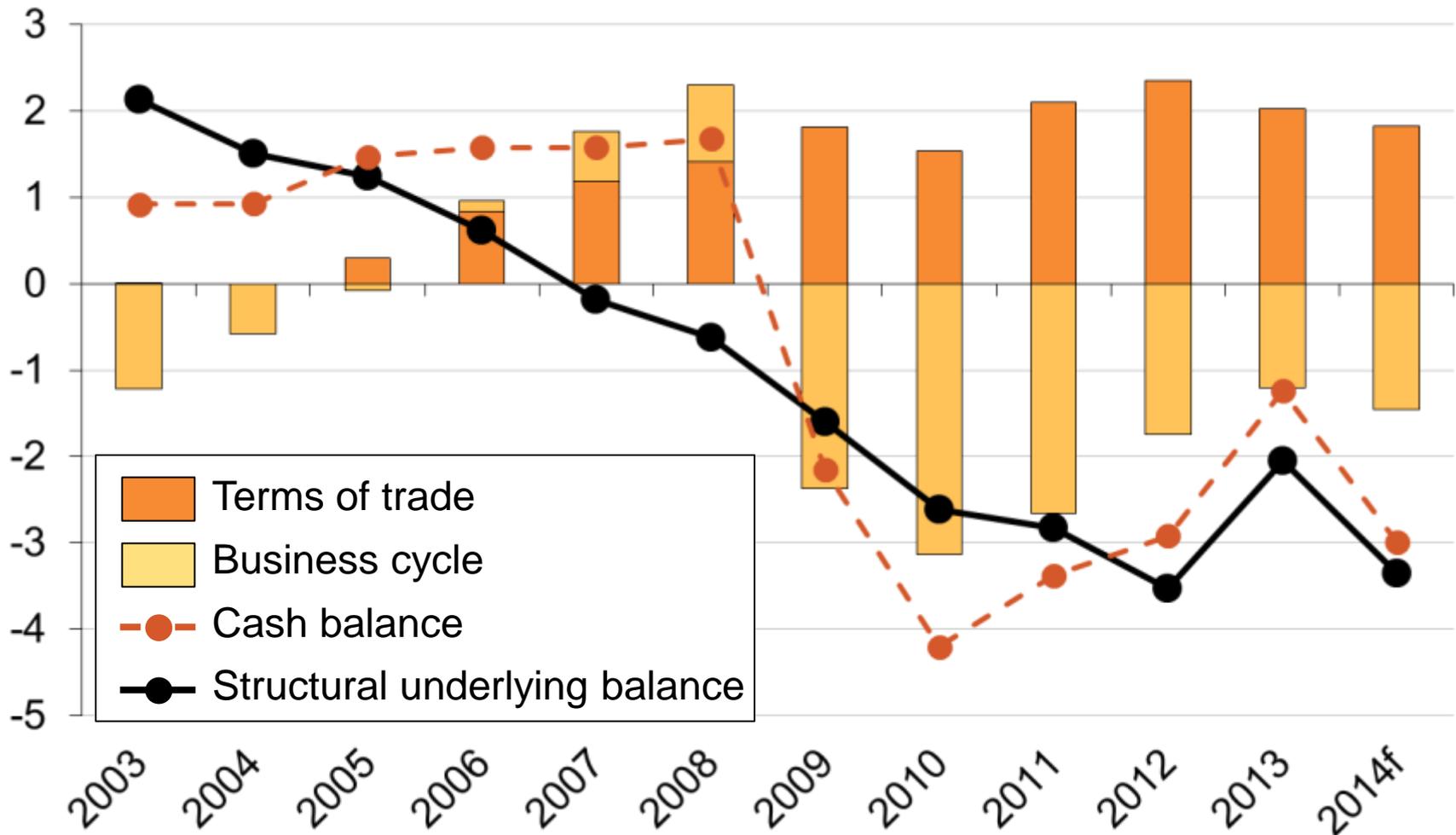
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The Commonwealth's structural deficits were masked by the mining boom and GFC

Commonwealth budget balance per cent of nominal GDP

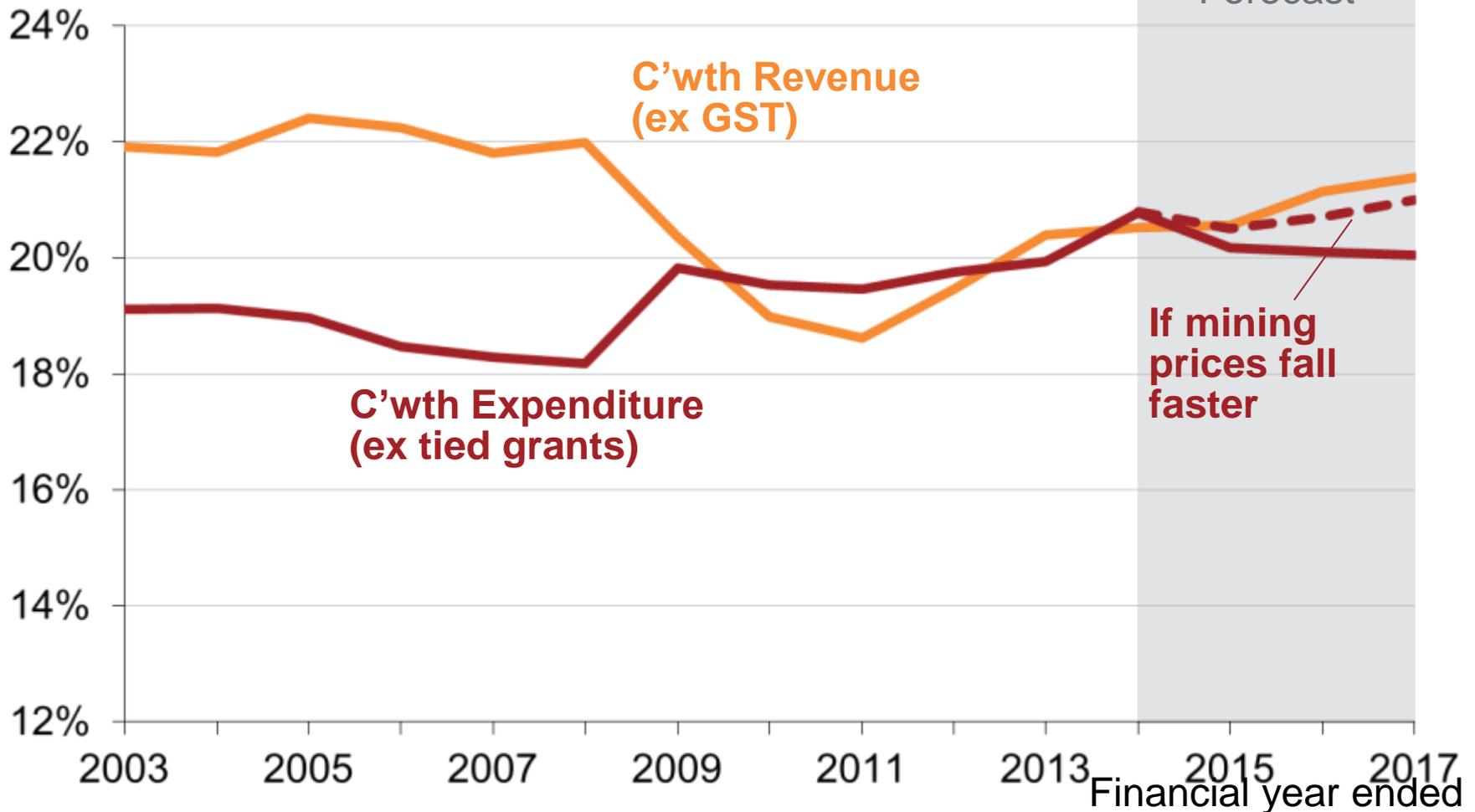


Note: Cash balance is equal to receipts minus payments, minus Future Fund income, (under 0.25 per cent of GDP)

Source: *Budget Pressures 2014*

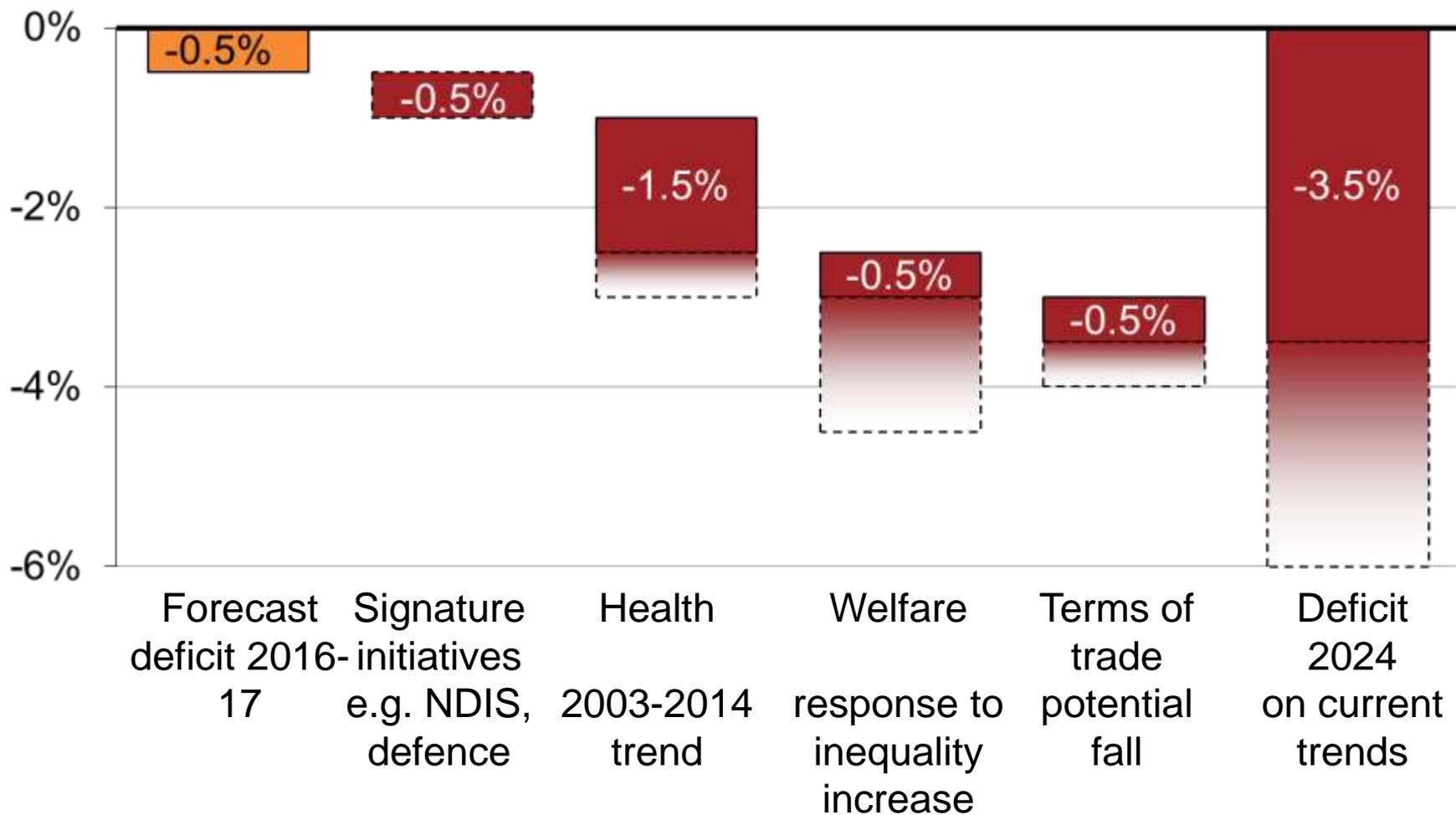
Both revenue and expenditure are worse than longer-run levels

Commonwealth own purpose expenditures and revenues per cent of GDP



Australian governments face substantial headwinds

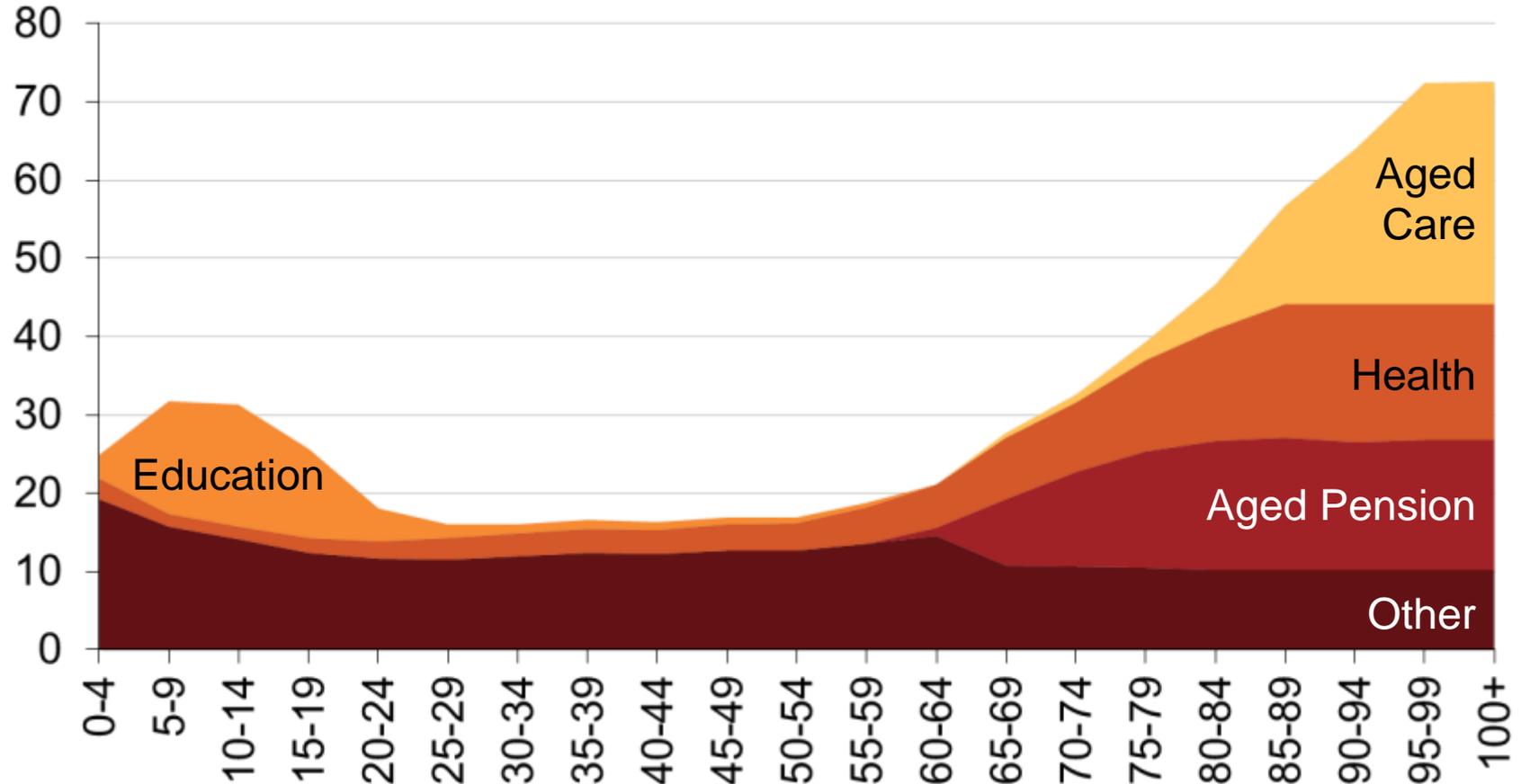
Potential impacts on Australian governments' budgets by 2024 (Percent of GDP)



Government spending escalates rapidly from pension age

Government spending per person

\$ thousands per person, 2011-12



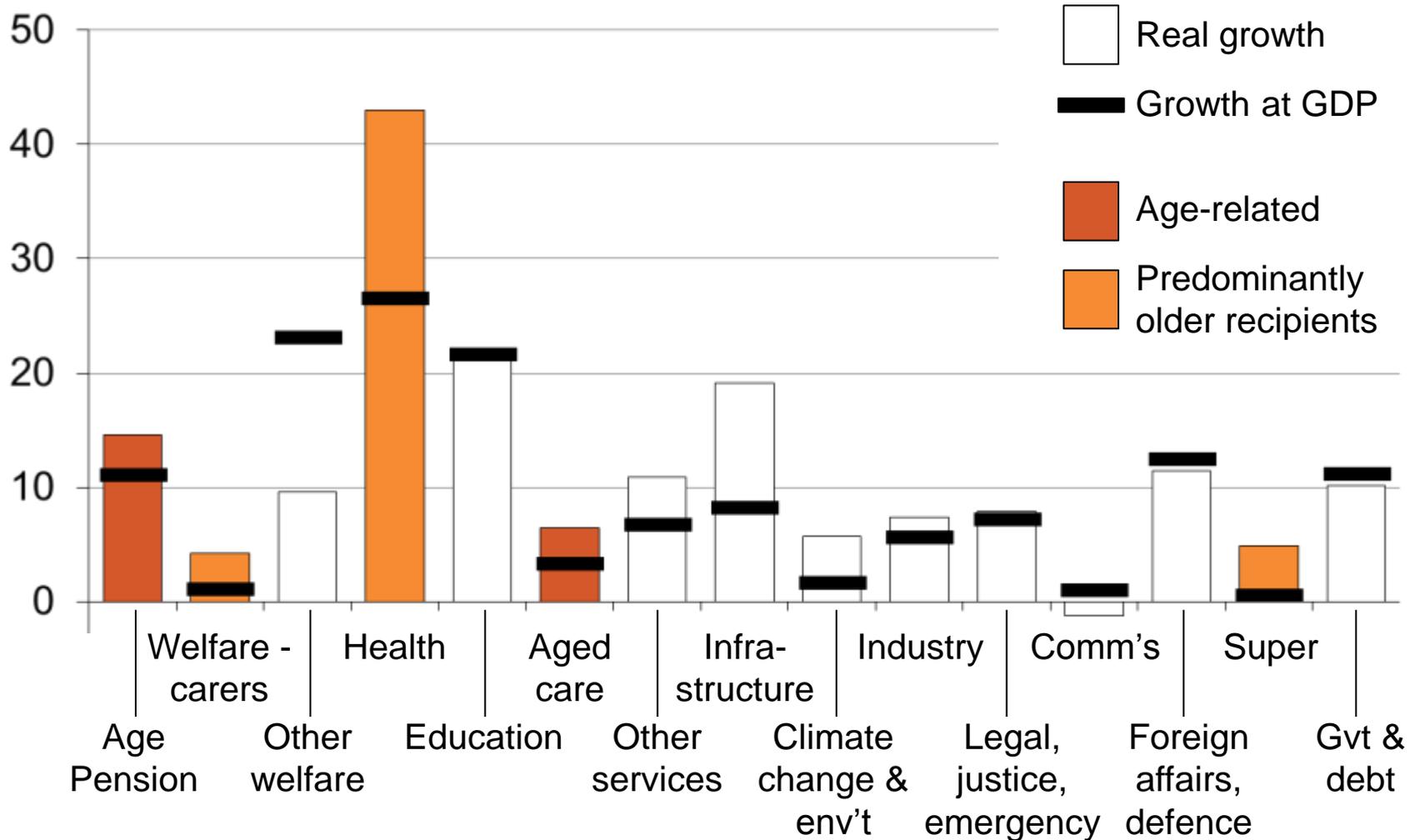
Note: 'Other' includes the Disability Support Pension, Parenting Payment, Family Tax Benefit, Disability Support Services (both Australian Government and state and territory), Other social security and welfare payments, Defence and other expenditures and other state and territory expenditures not classified elsewhere

Source: Productivity Commission (2013)

Increasing spending on older Australians is the dominant pressure on budgets

Real change in government recurrent expenditure, 2003 to 2014

\$2013 bn

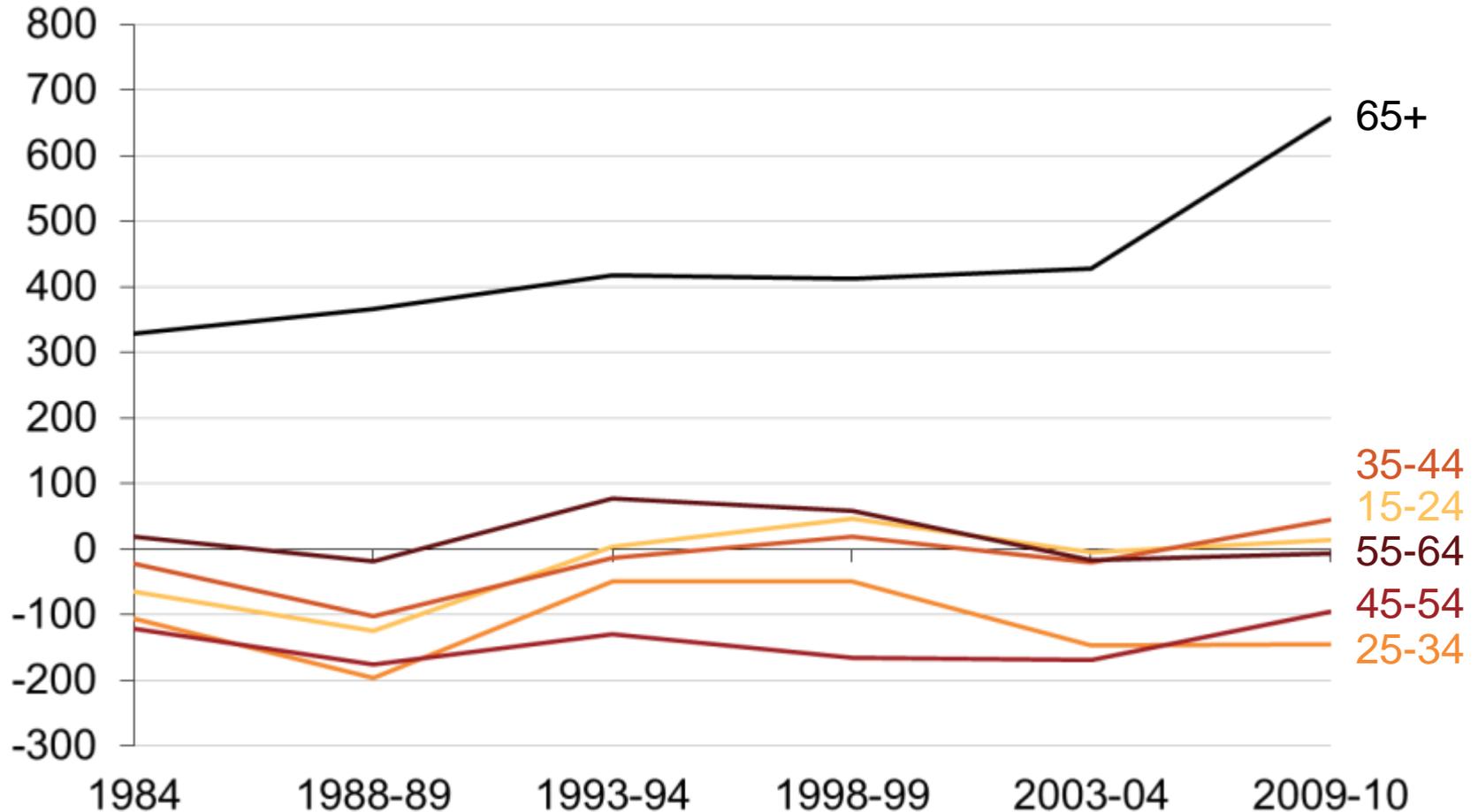


Note: Based on analysis of Commonwealth, NSW, Vic, Qld and WA data. Categories that changed by less than \$1 billion not shown.

Source: Grattan Institute, *Budget Pressures 2014*

Those over 65 benefit more and more from government taxes and transfers

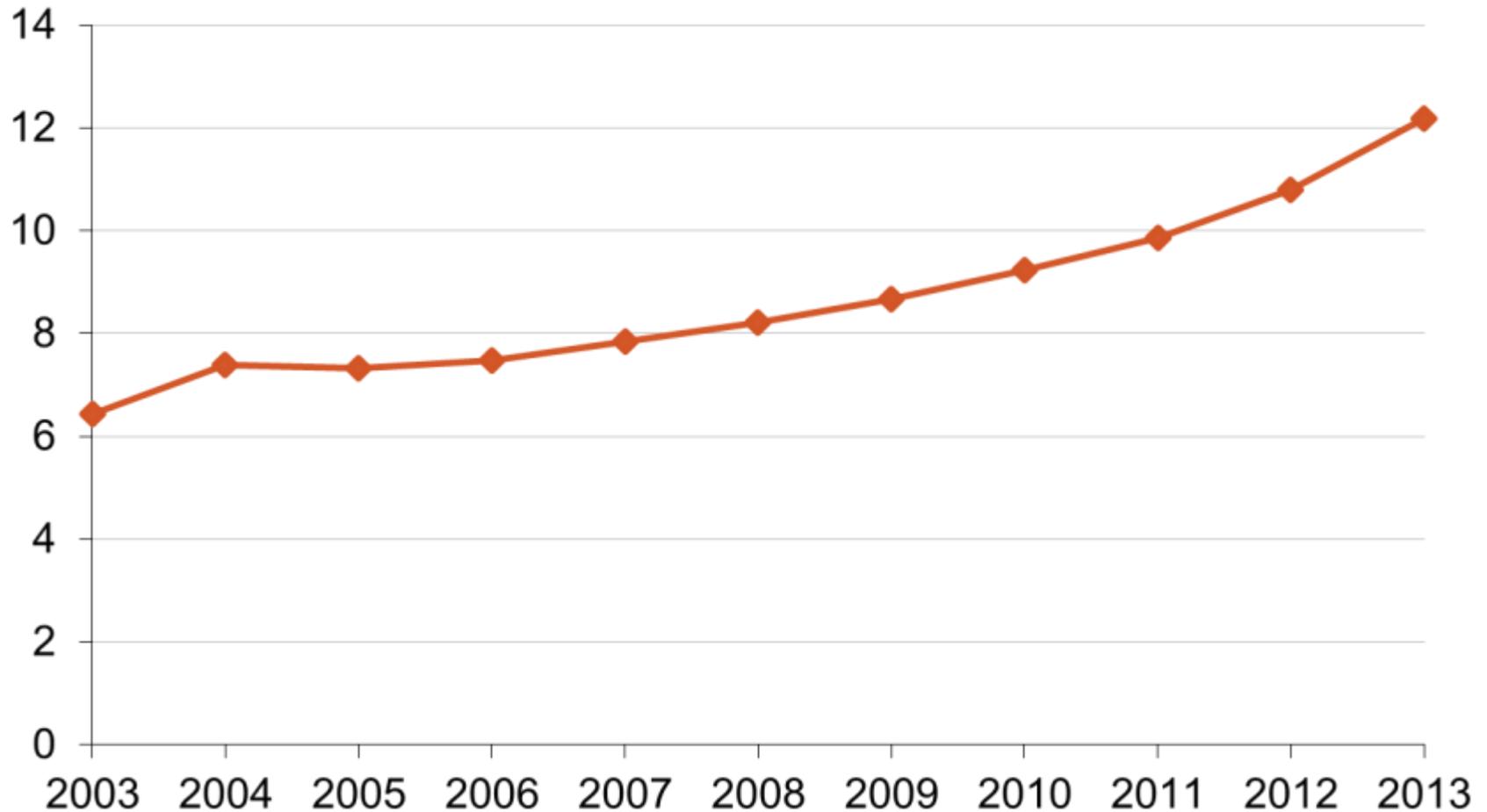
Government transfers less government taxes per household
2009-10 \$ per week, by age of reference person



Note: 65+ bracket in 2003-04 and 2009-10 is a weighted average of 54-74 and 75+ age brackets reported
Source: ABS (multiple years-b) cat 6537.0

Commonwealth government spending on Aged care almost doubled in a decade

Commonwealth Government aged care expenditure 2013\$b



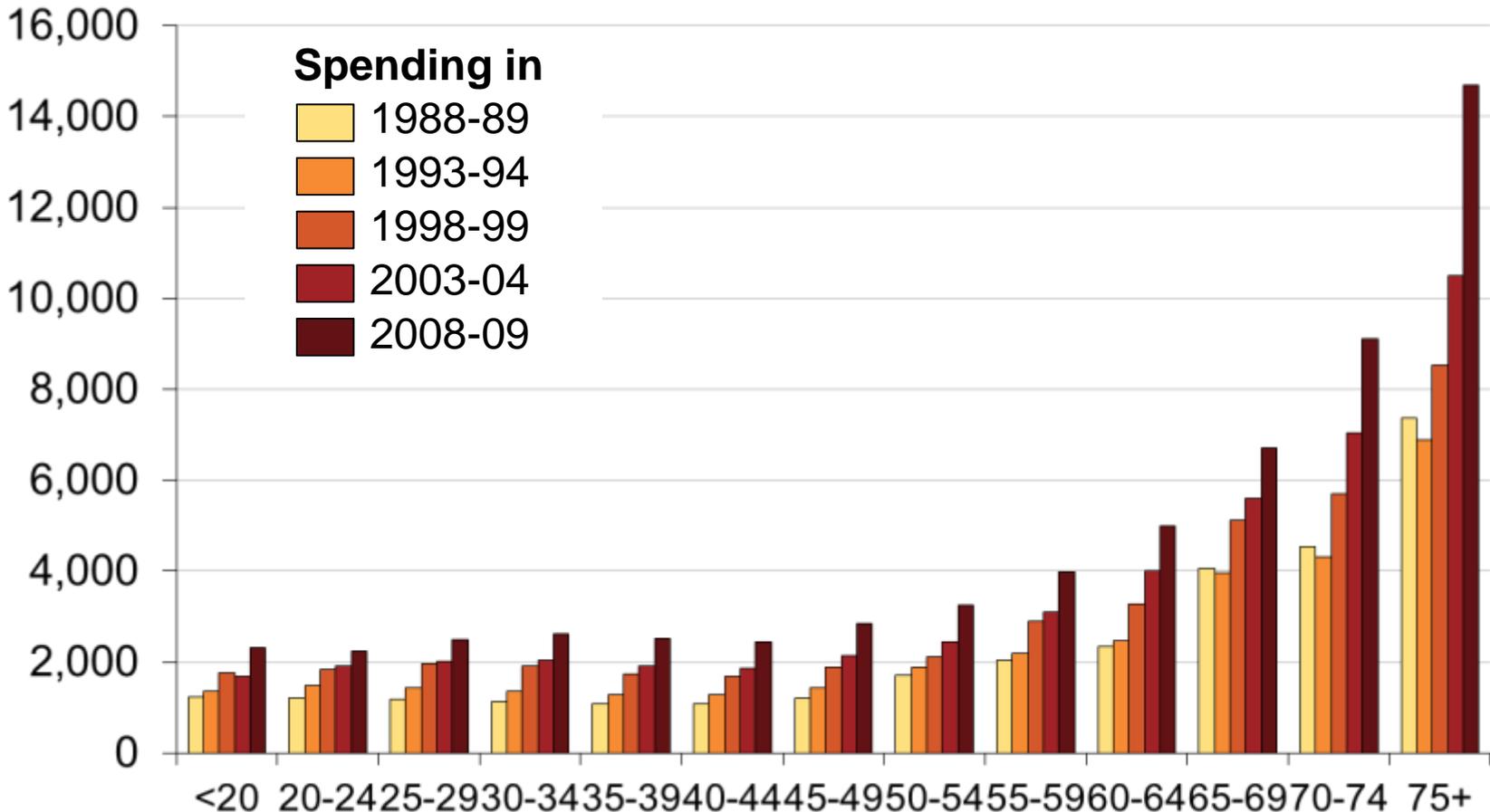
Note: Financial year ending 30 June, assumed CPI rate of 2.5%.

Source: PBO (unpublished)

Spending on health has risen for all ages, but is much greater for older age groups

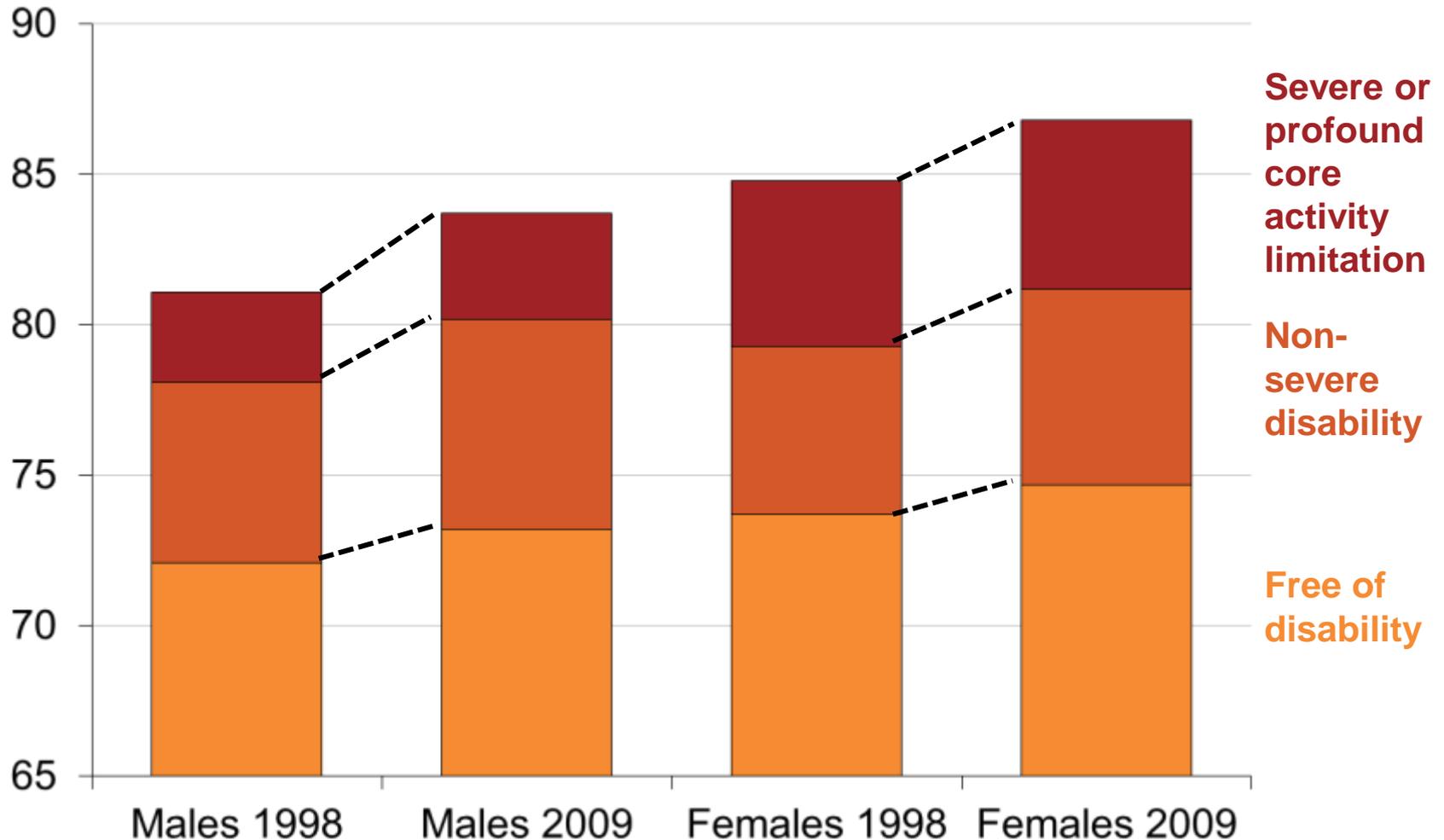
Government spending on health per person

All governments, 2012 \$



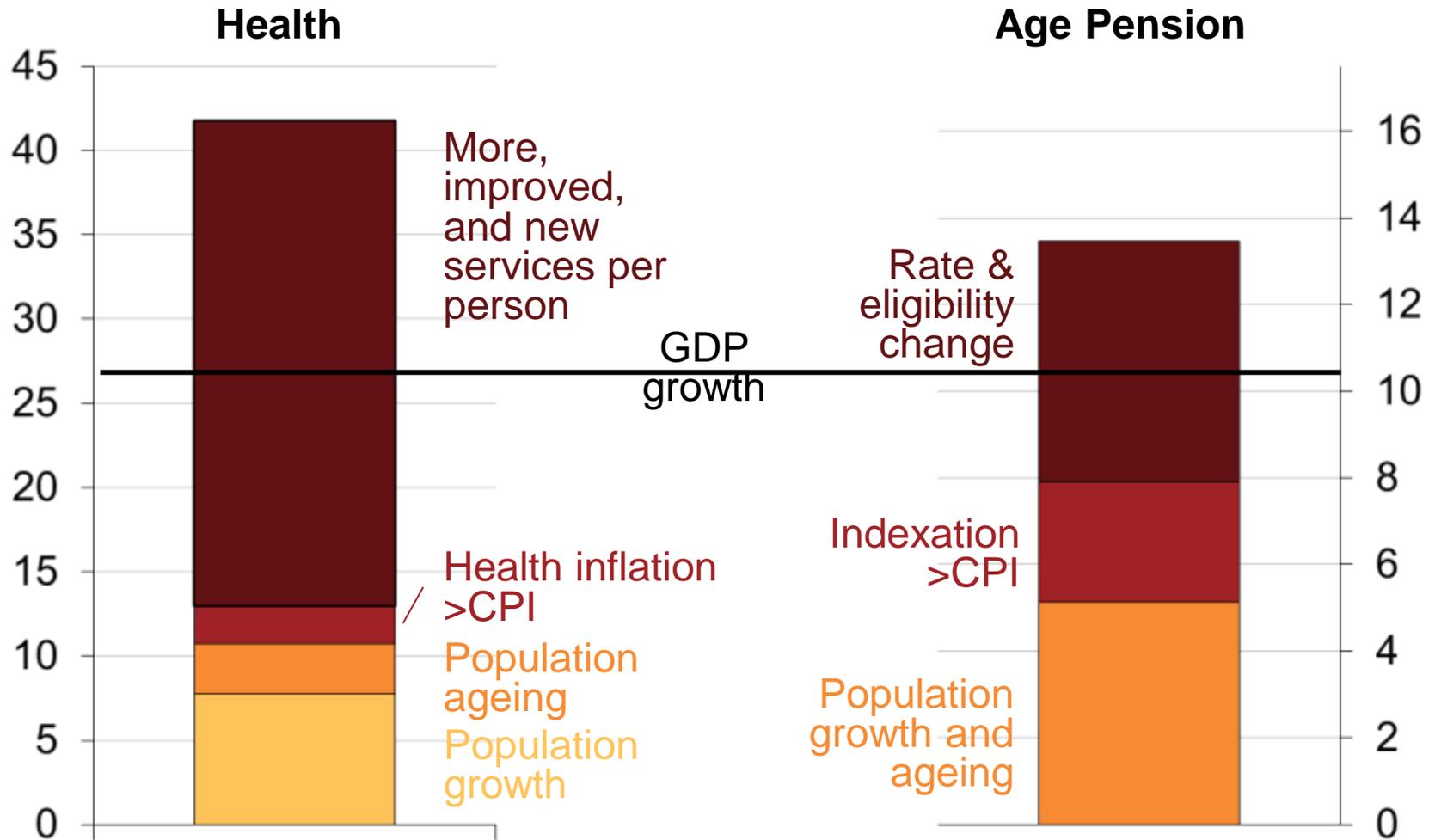
Years of disability-free life have increased substantially

Expected years of life for a 65-year-old by disability status



Policy choices, not population ageing, drove health and pension spending increases

Real increase in expenditure 2003-2013
(\$2012 billion)



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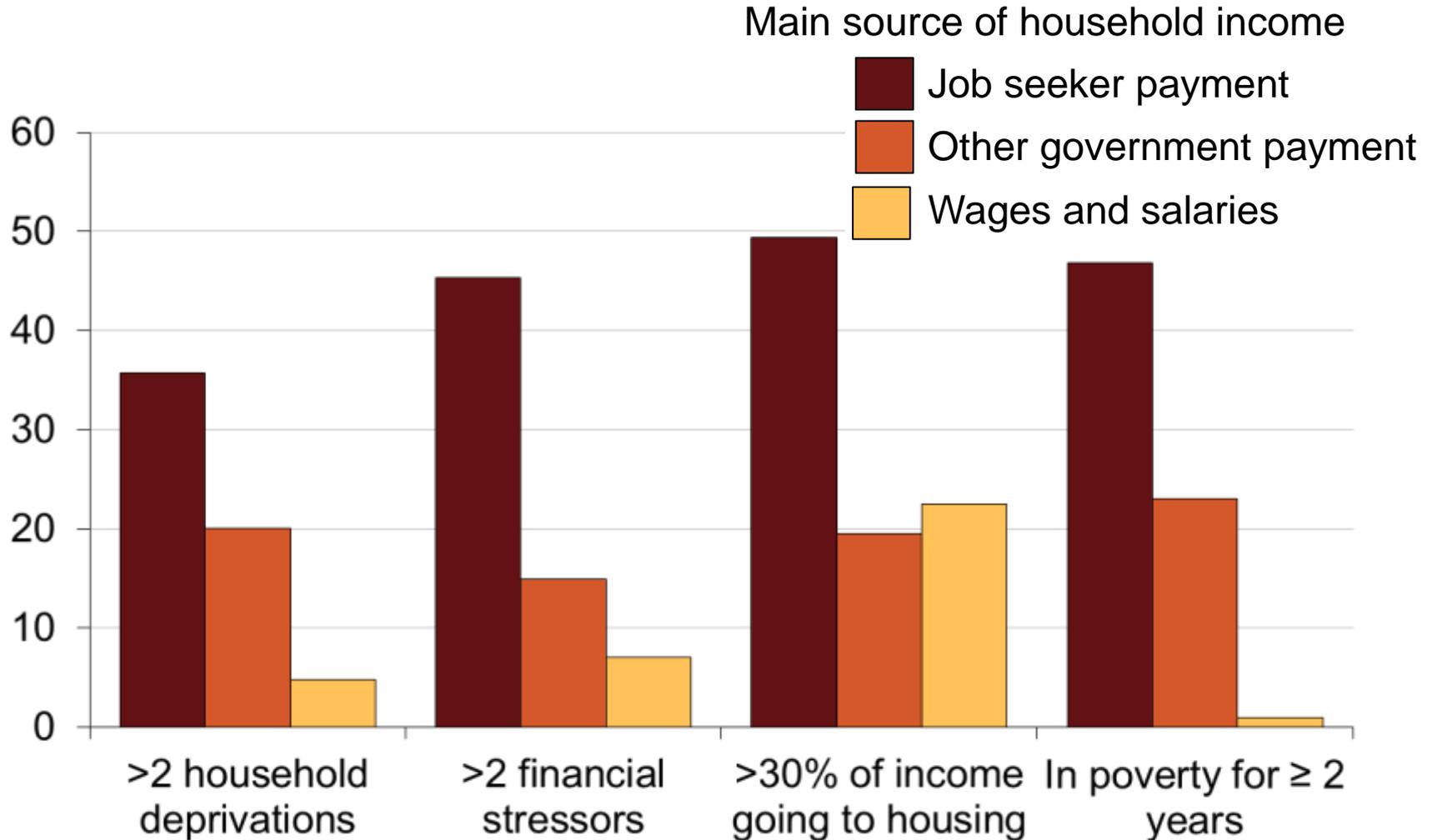
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Unemployed households remain the most vulnerable

Percent of households under stress

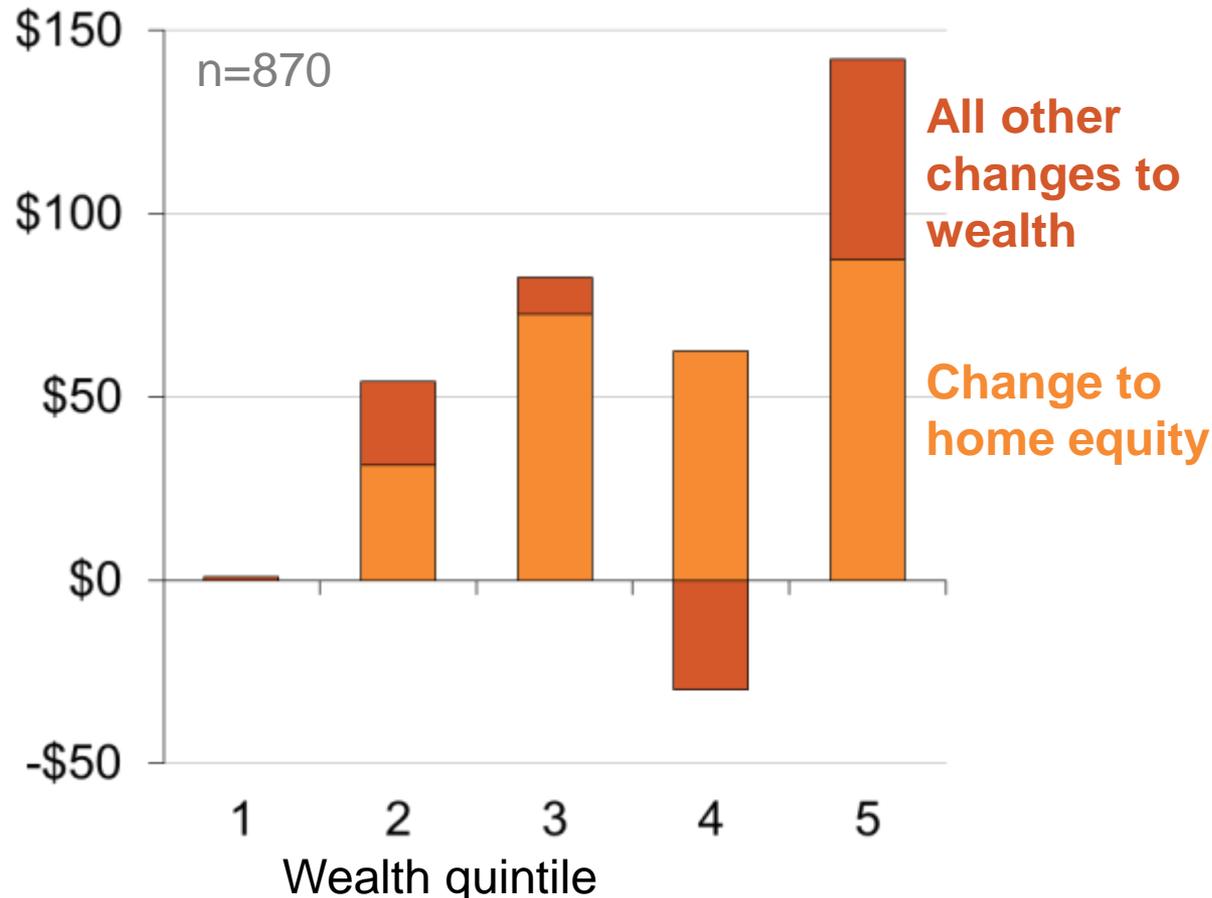


Notes: 'Job seeker payment' includes Newstart and jobseeker Youth Allowance. 'Other govt payment' is dominated by age and disability pensions.

Source: Grattan analysis of Phillips and Nepal (2012).

Most older households are net savers

Change in net wealth 2002 – 2010, for individuals 65+*
Thousands of \$ (2010 prices)



Grattan analysis of HILDA matches other studies showing that older households often have zero (or even positive) savings rate.¹

Grattan Institute analysis of Hilda

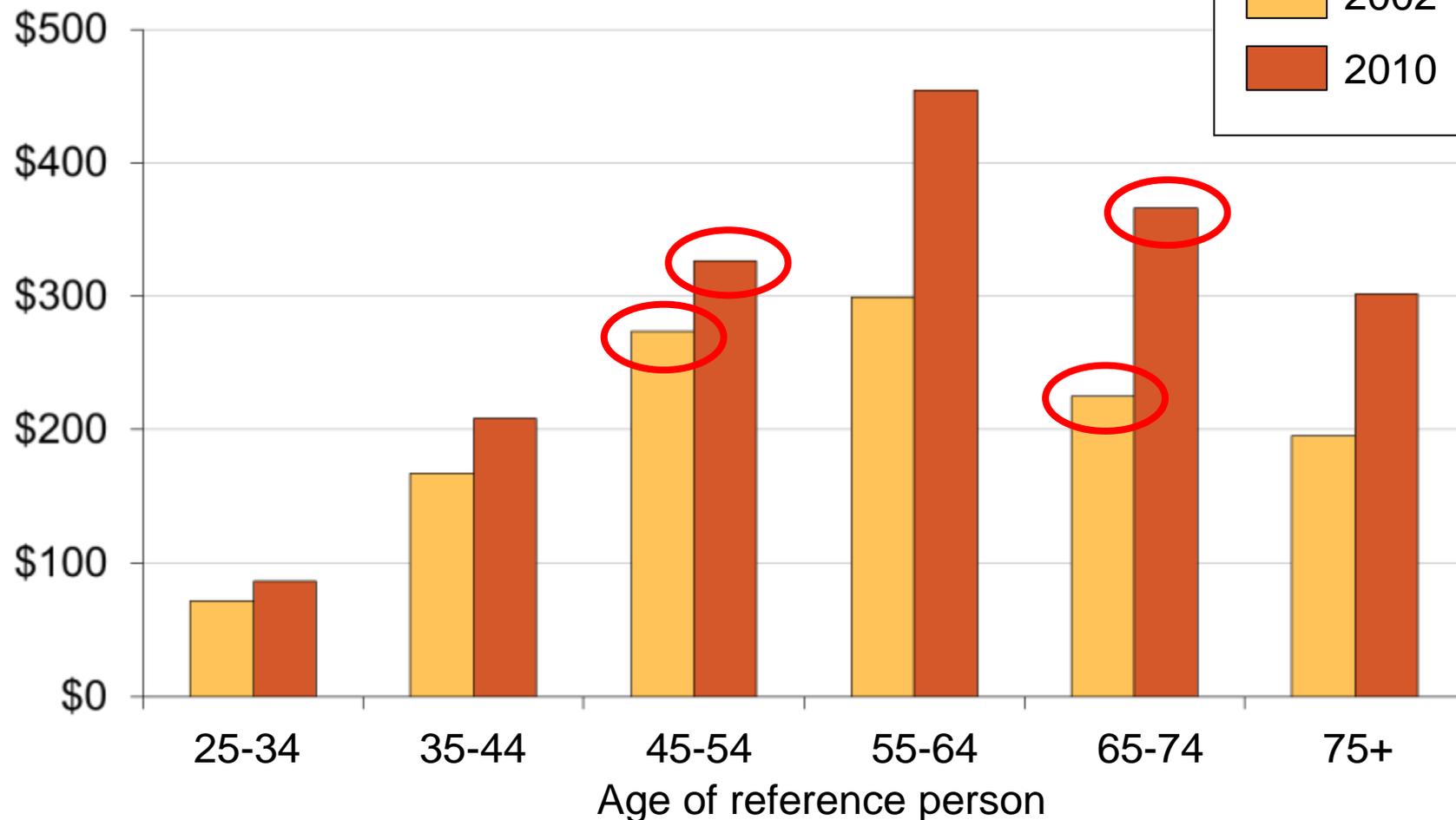
Note: Measures of wealth are defined at the individual level (which allows both for tracking across waves, and to mitigate the effect of changes in household size). We lessen the impact of deaths by focussing only on individuals whose household size did not change from 2002-10 in terms of the number of adults.

¹ See Borsch-Supan (1992); Alessie et al. (1999); Feinstein & Ho (2000).

On average, older households are now wealthier than those in middle age

Median household wealth per person

'000, \$2010



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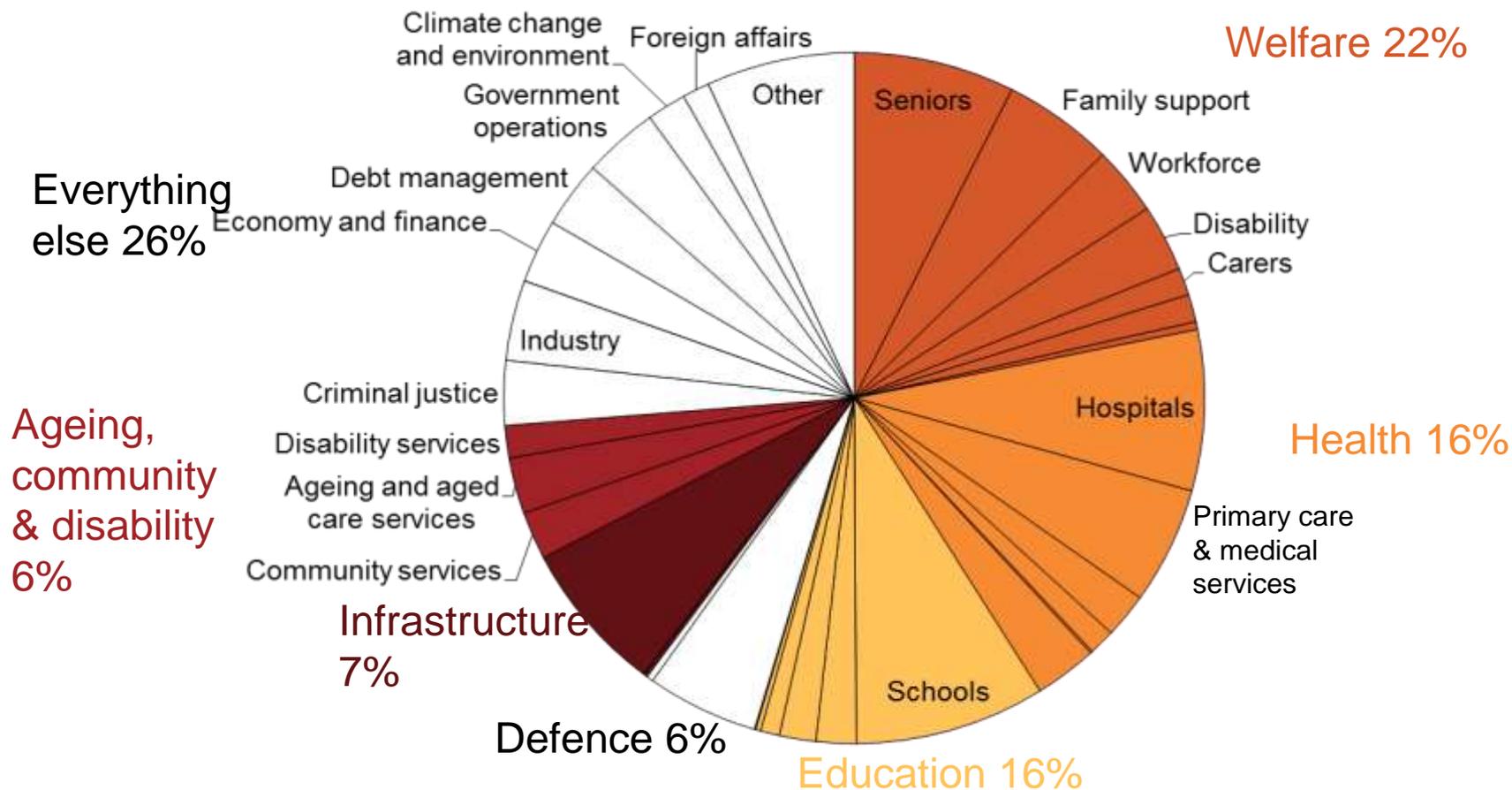
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Spending on older Australians is a large part of ALL government expenditure

Combined government expenditure 2013-2014

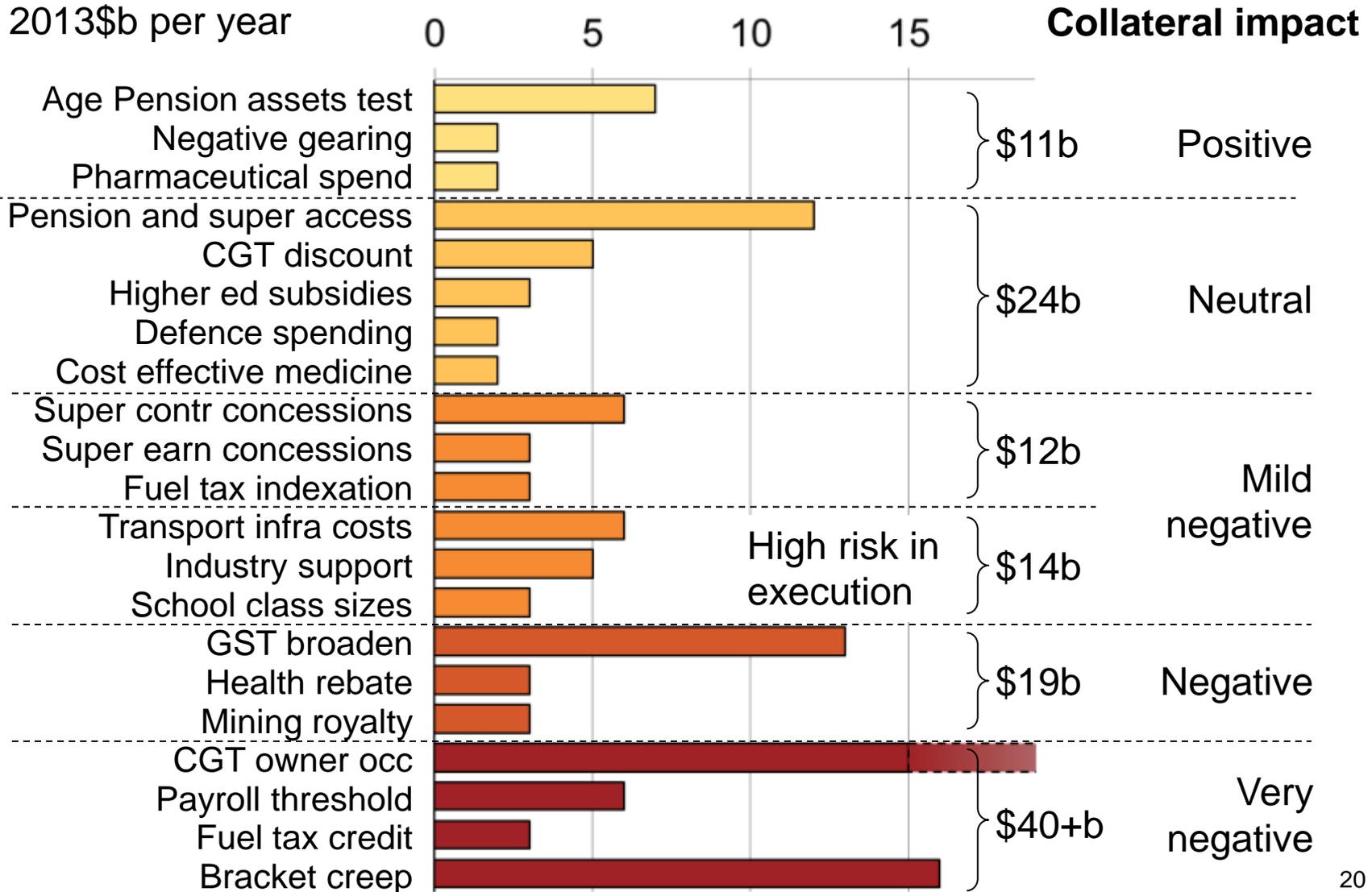
100% = \$545b



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Budgetary impact of tough budget choices

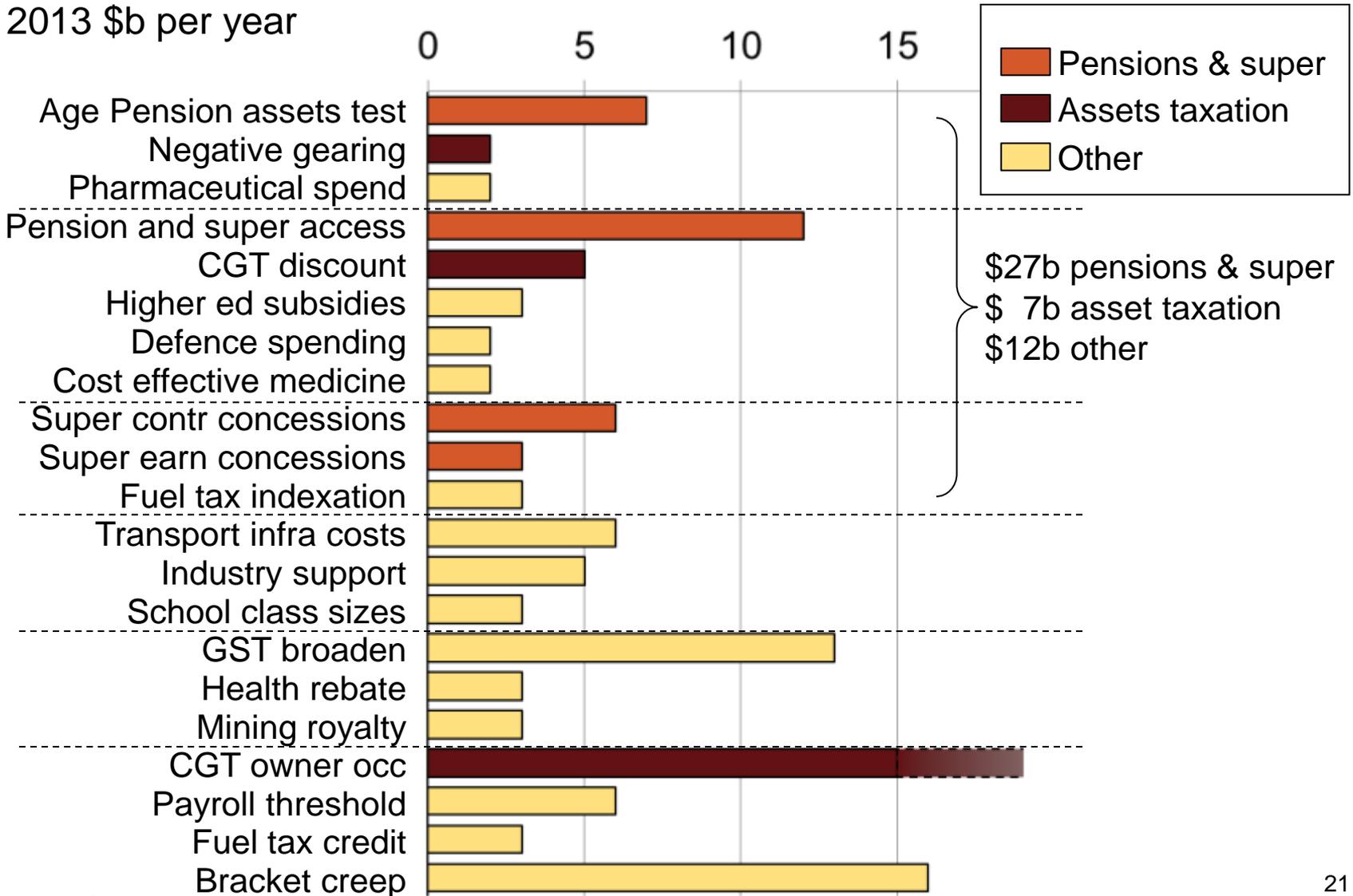
2013\$b per year



Better targeting of age pensions, super, and asset taxation dominate the attractive options

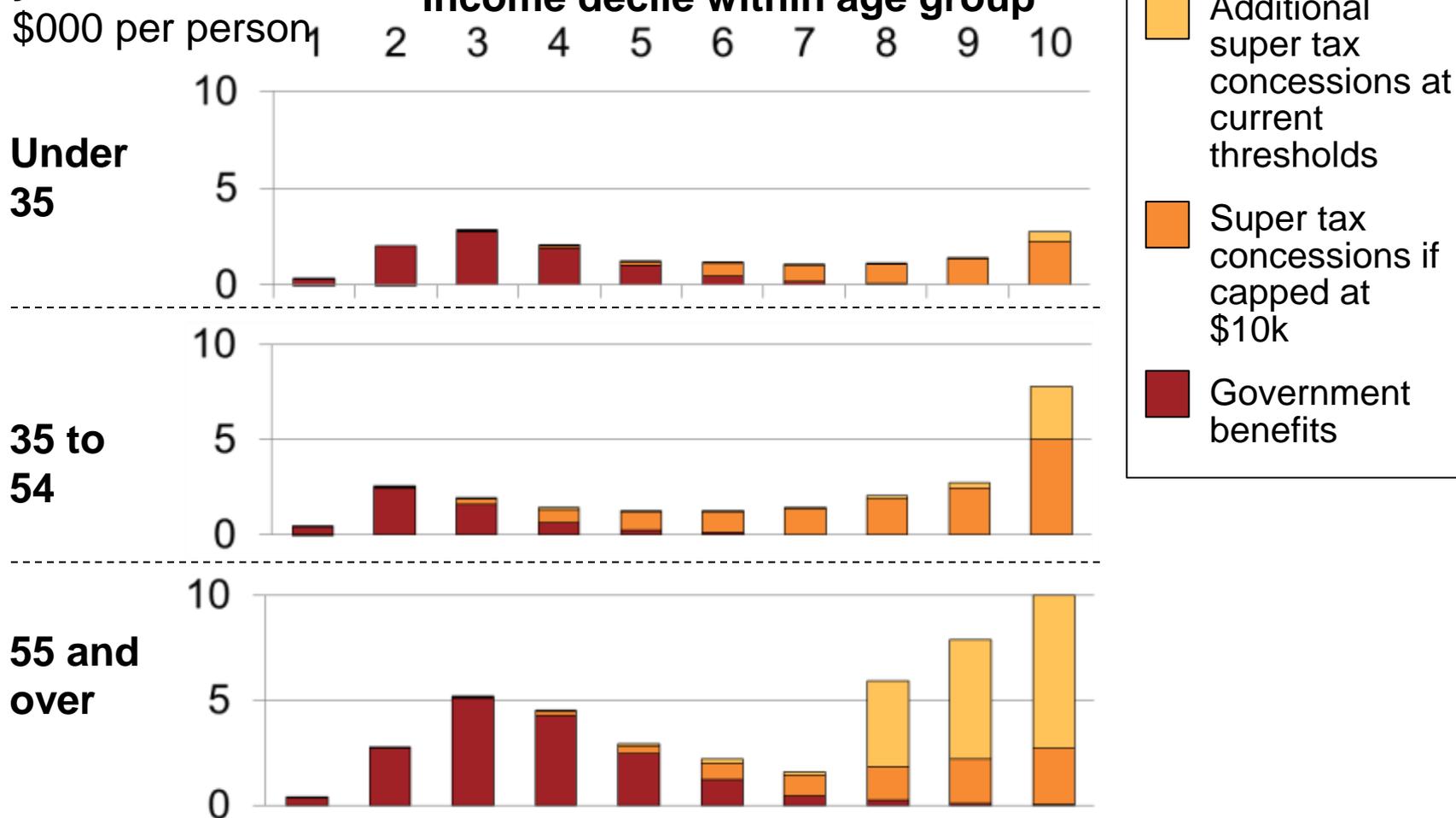
Budgetary impact of tough budget choices

2013 \$b per year



Super tax concessions are skewed towards the rich and old

Superannuation concessions and government benefits per person per year

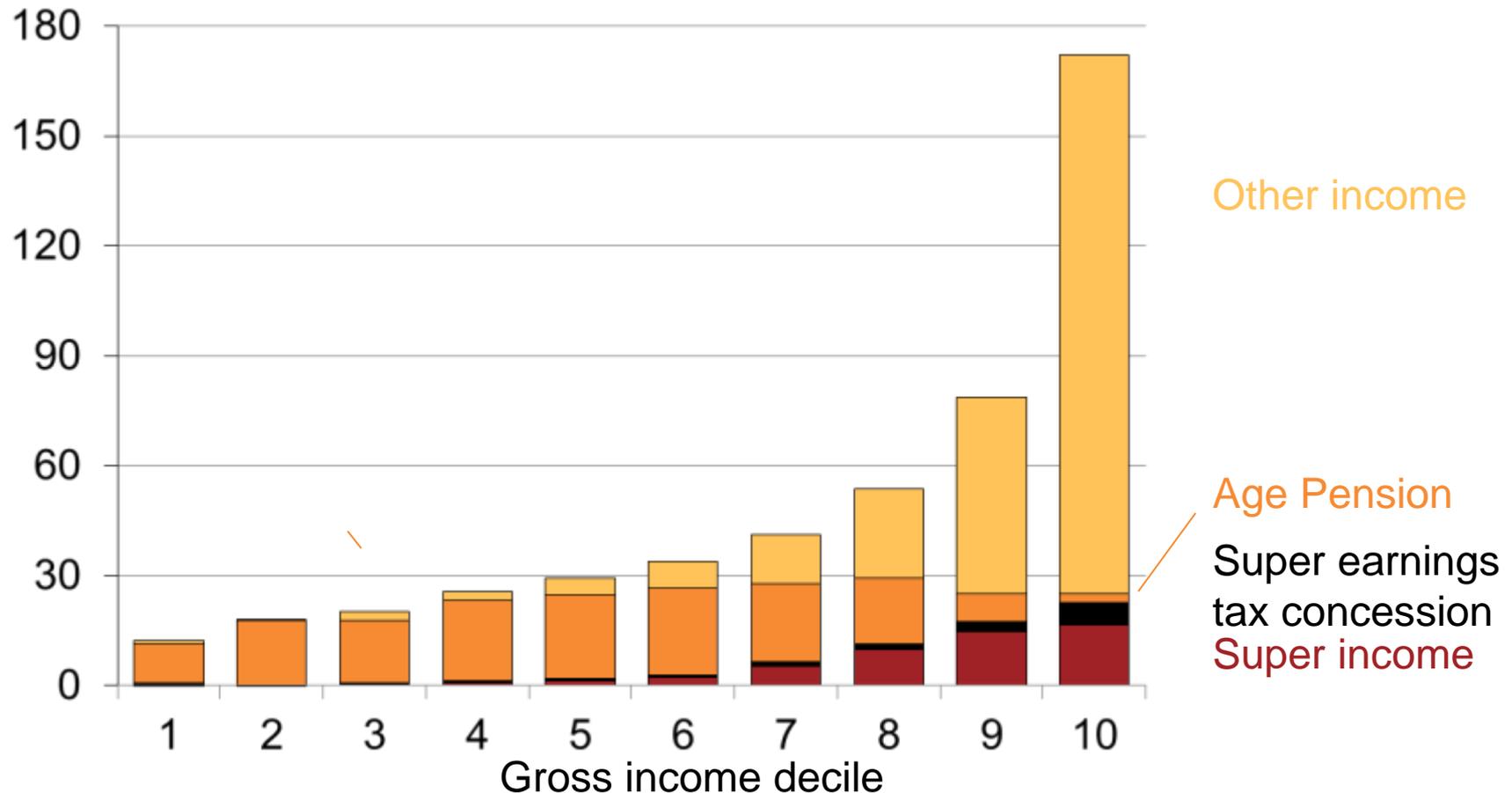


Note: assumes over 60s earning more than \$60k/yr contribute to concessional threshold. This is an individual-level analysis, and so does not pick up household-level income.

Source: Grattan analysis of ATO (2013)

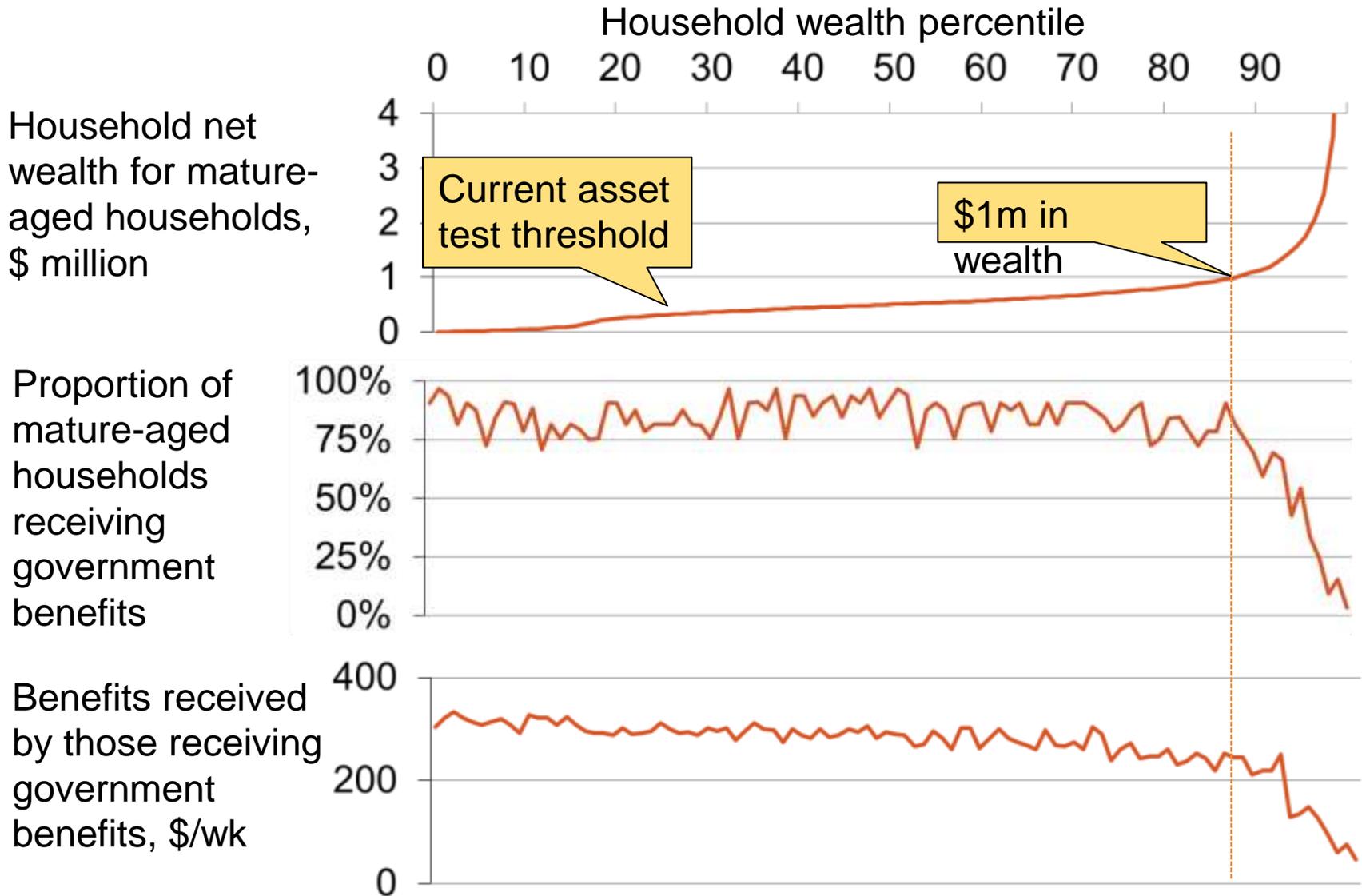
Virtually all super earnings tax concessions go to the richest households

Income by source for those in their 60s, by income decile, \$k yearly



Note: Numbers presented are the income decile averages for each income category for those aged 60-69.
Source: Grattan analysis of ABS (2012) cat no 6503.0

The Age Pension could be better targeted



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