



# **How will we pay for adequate incomes and services for an ageing population?**

**ACOSS National Conference  
John Daley  
Grattan Institute  
11 June 2014**

# Overview

## **Government spending on older households is increasing**

- 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
- Increasing spending on older Australians is the dominant pressure on Australian government budgets

## **Some older households are doing it tough**

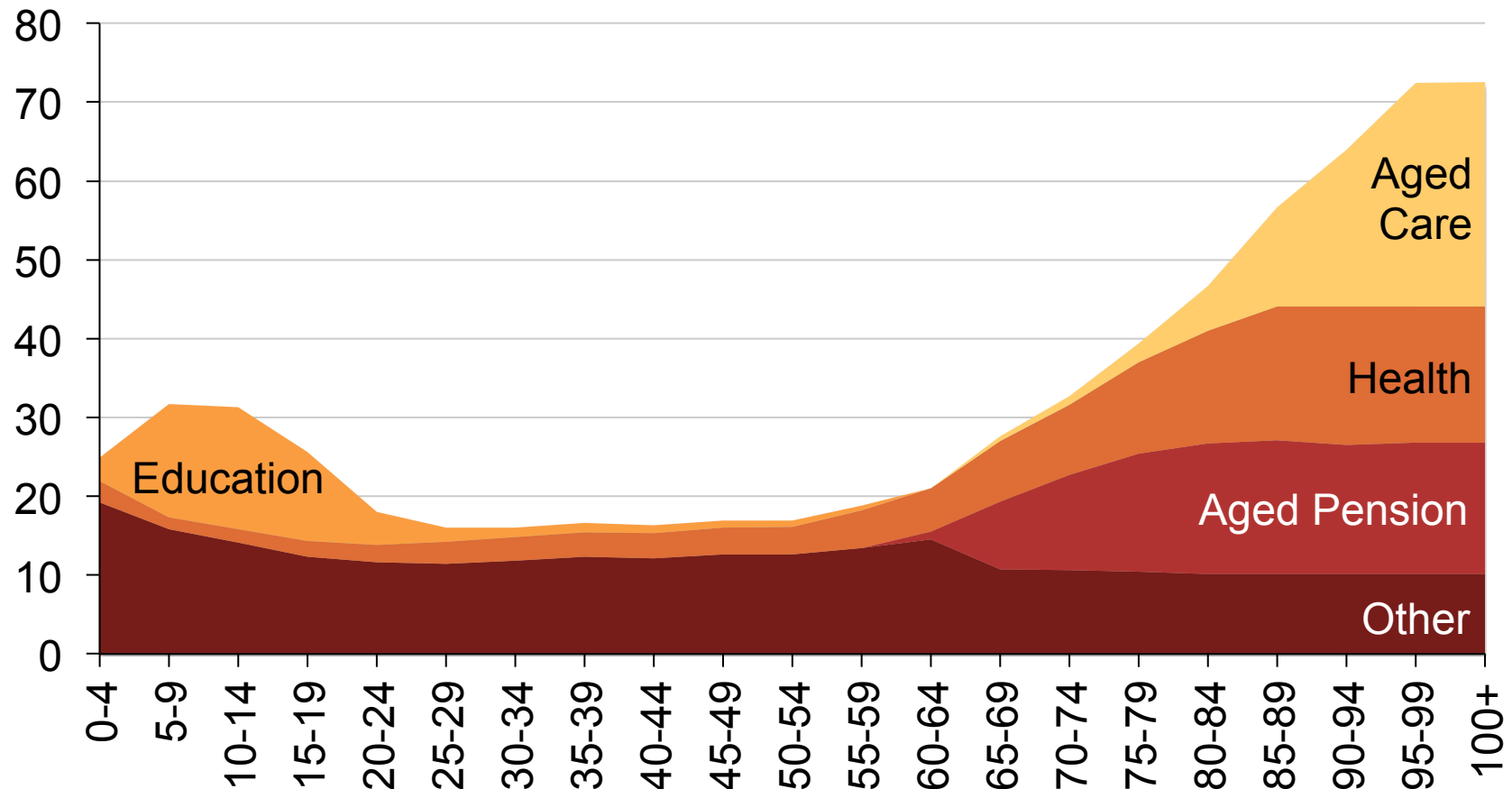
- Older households are under more pressure than wage earners, but much less pressure than the unemployed
- Most older households are net savers
- On average, older households are now wealthier than those in middle age

## **Paying for this increased spending requires tighter targeting for older households**

- 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

# Government spending escalates rapidly from pension age

## Government spending per person \$ thousands per person, 2011-12

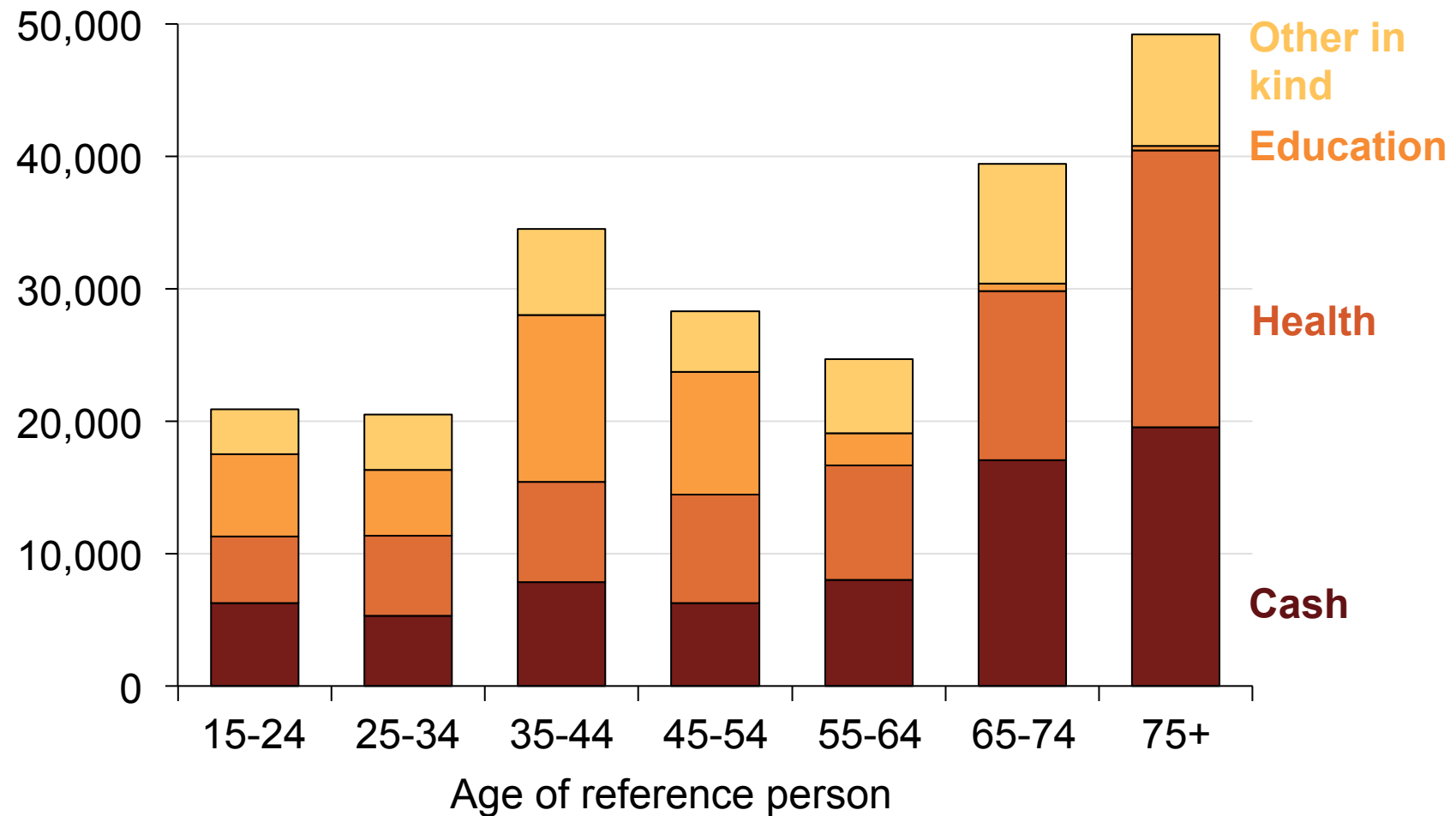


Note: 'Other' includes the Disability Support Pension, Parenting Payment, Family Tax Benefit, Disability Support Services (both Australian Government and state and territory), Other social security and welfare payments, Defence and other expenditures and other state and territory expenditures not classified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

Source: Productivity Commission (2013)

# Governments spend more on older households, due to Health and Age Pension

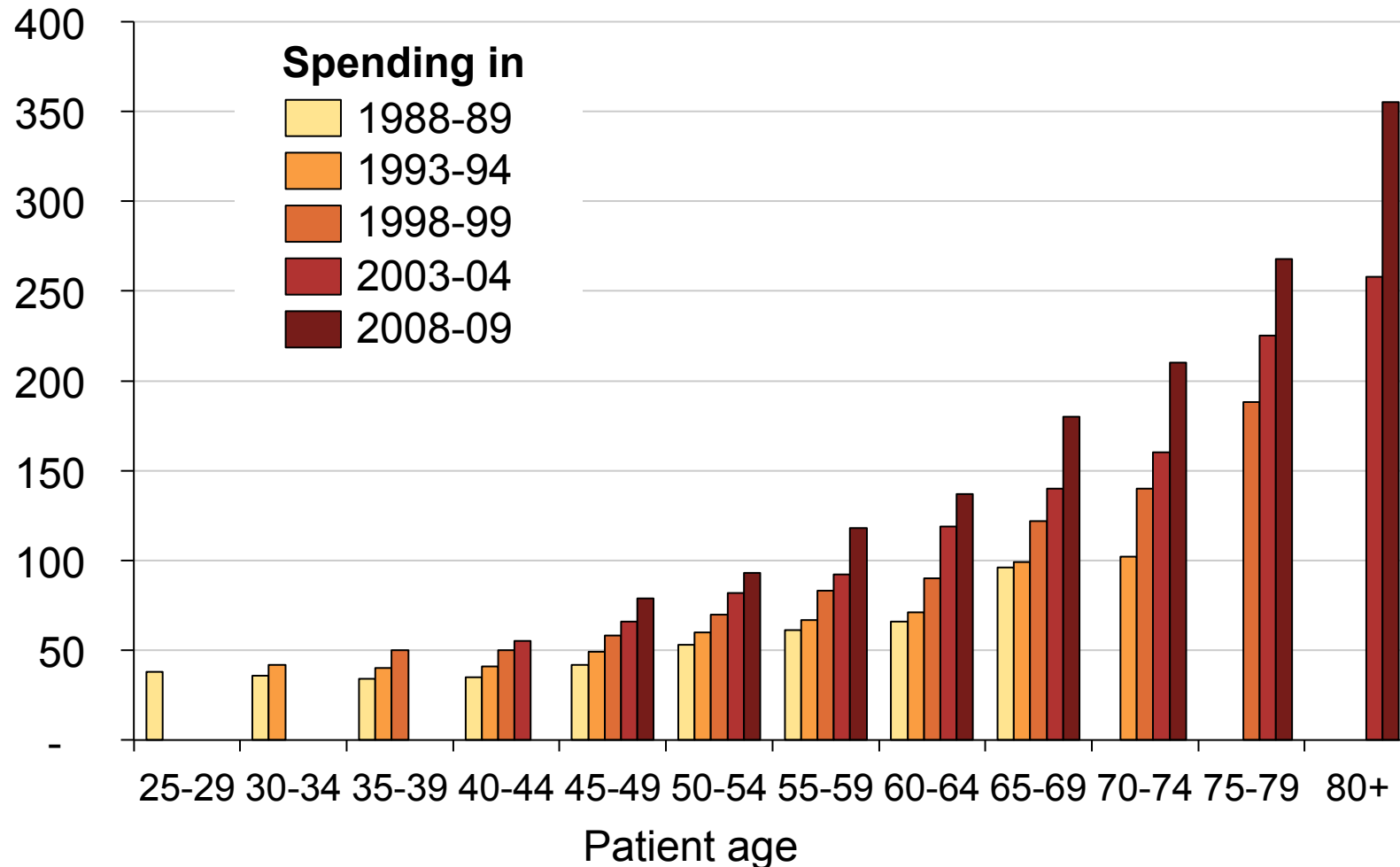
**Government benefits per household**  
\$ thousands per person, 2009-10



Note: Other in kind includes child care assistance, other social security and welfare benefits, housing benefits and electricity concessions.  
Source: ABS Government benefits, taxes and household income, Cat 6537 Table 19

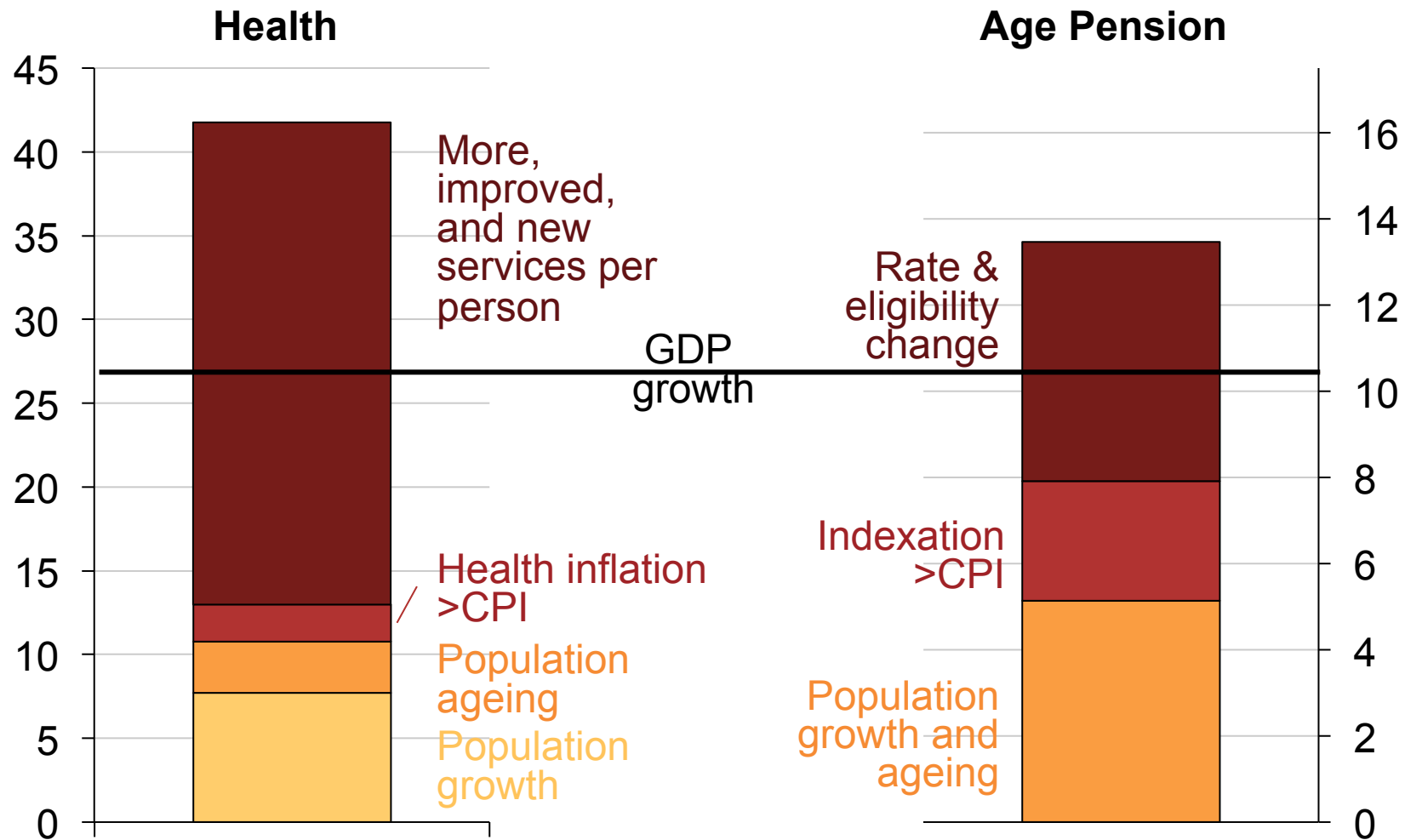
# Spending on health has risen for all ages, but is much greater for older age groups

**Government spending on health per person**  
All governments, 2012 \$ per week per person



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

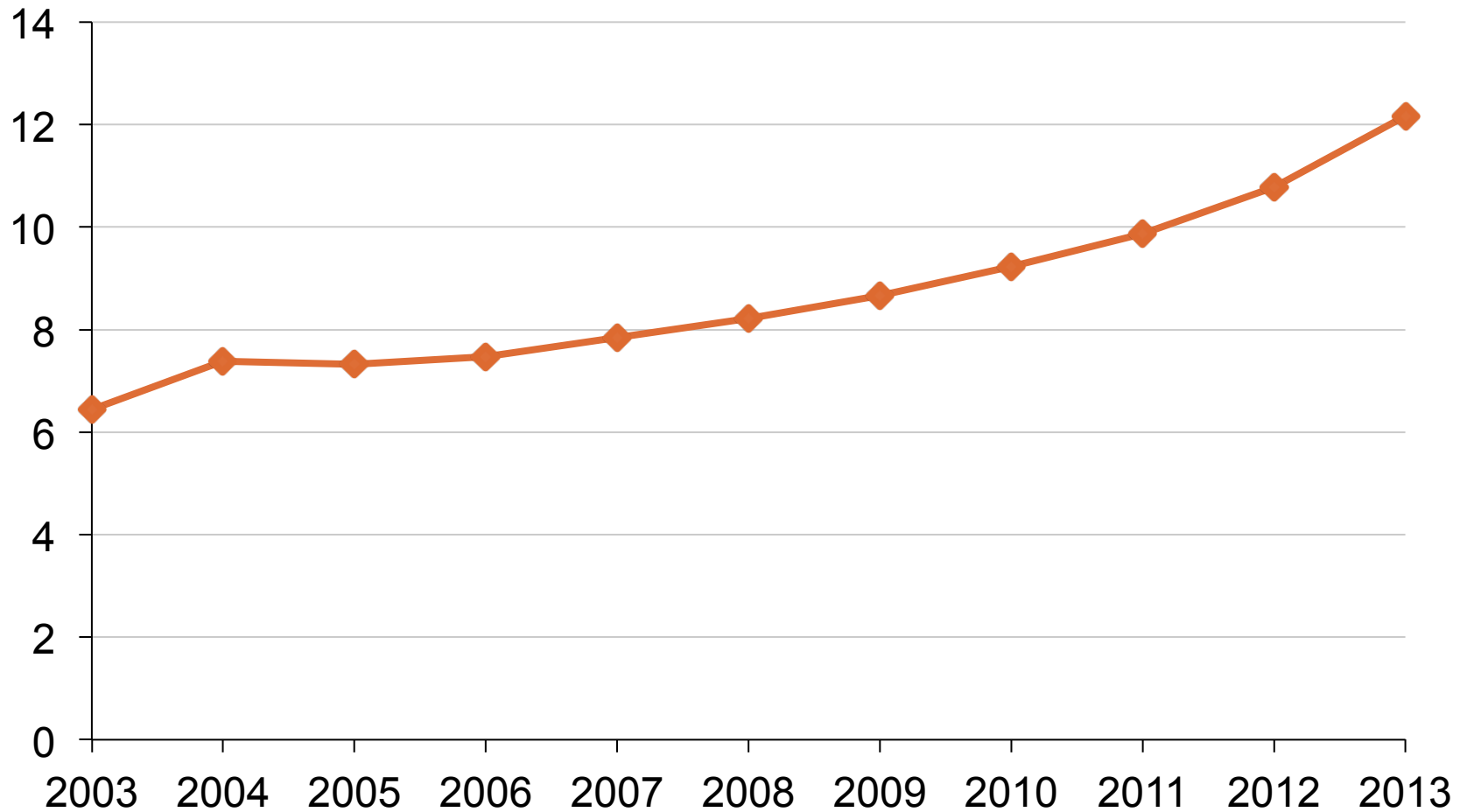
Real increase in expenditure 2003-2013  
(\$2012 billion)



Source: Grattan Institute, *Budget Pressures 2014*

# Commonwealth government spending on Aged care almost doubled in the last 10 years

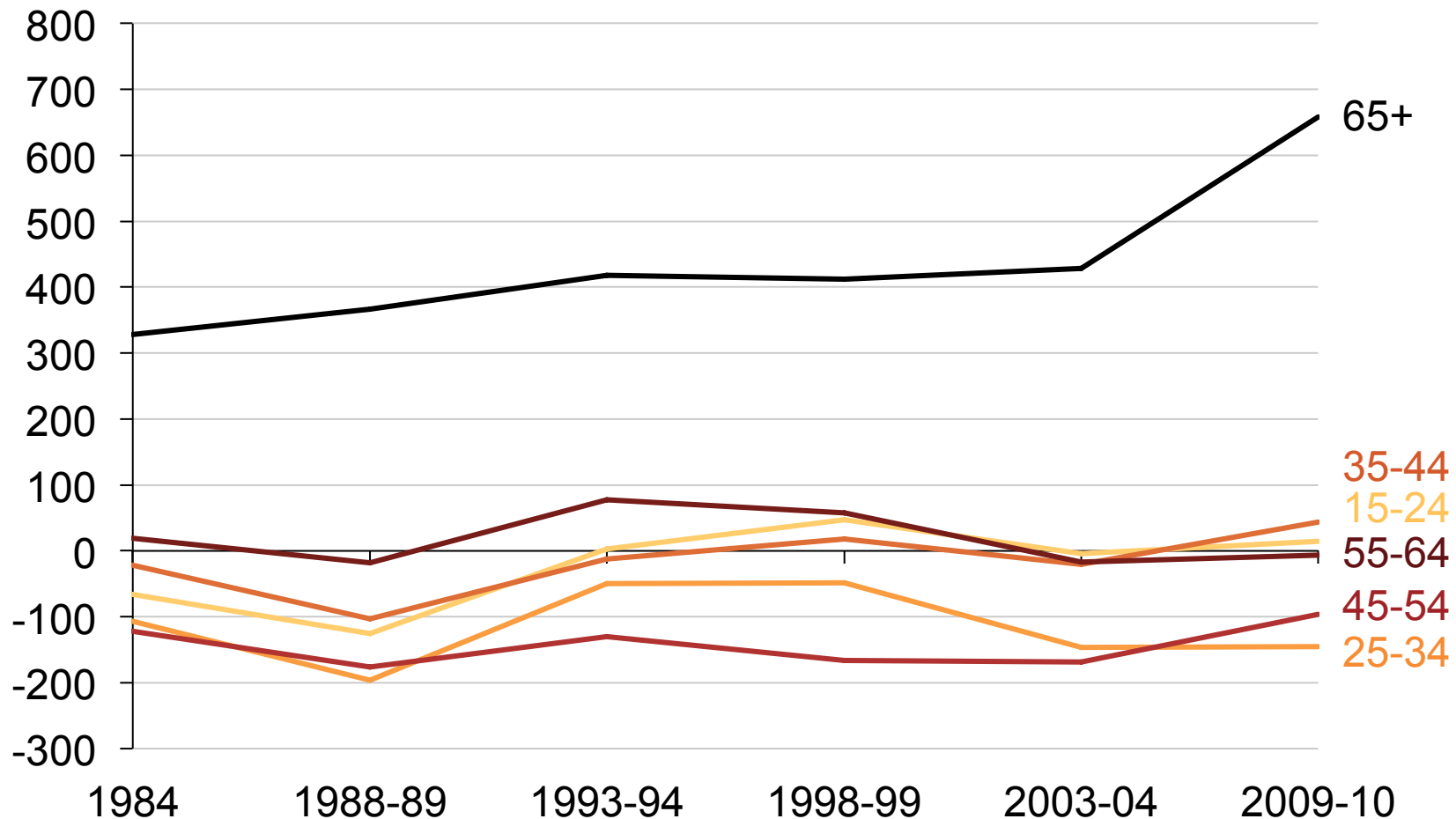
## Commonwealth Government aged care expenditure 2013\$b



Note: Financial year ending 30 June, assumed CPI rate of 2.5%.  
Source: PBO (unpublished)

# 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



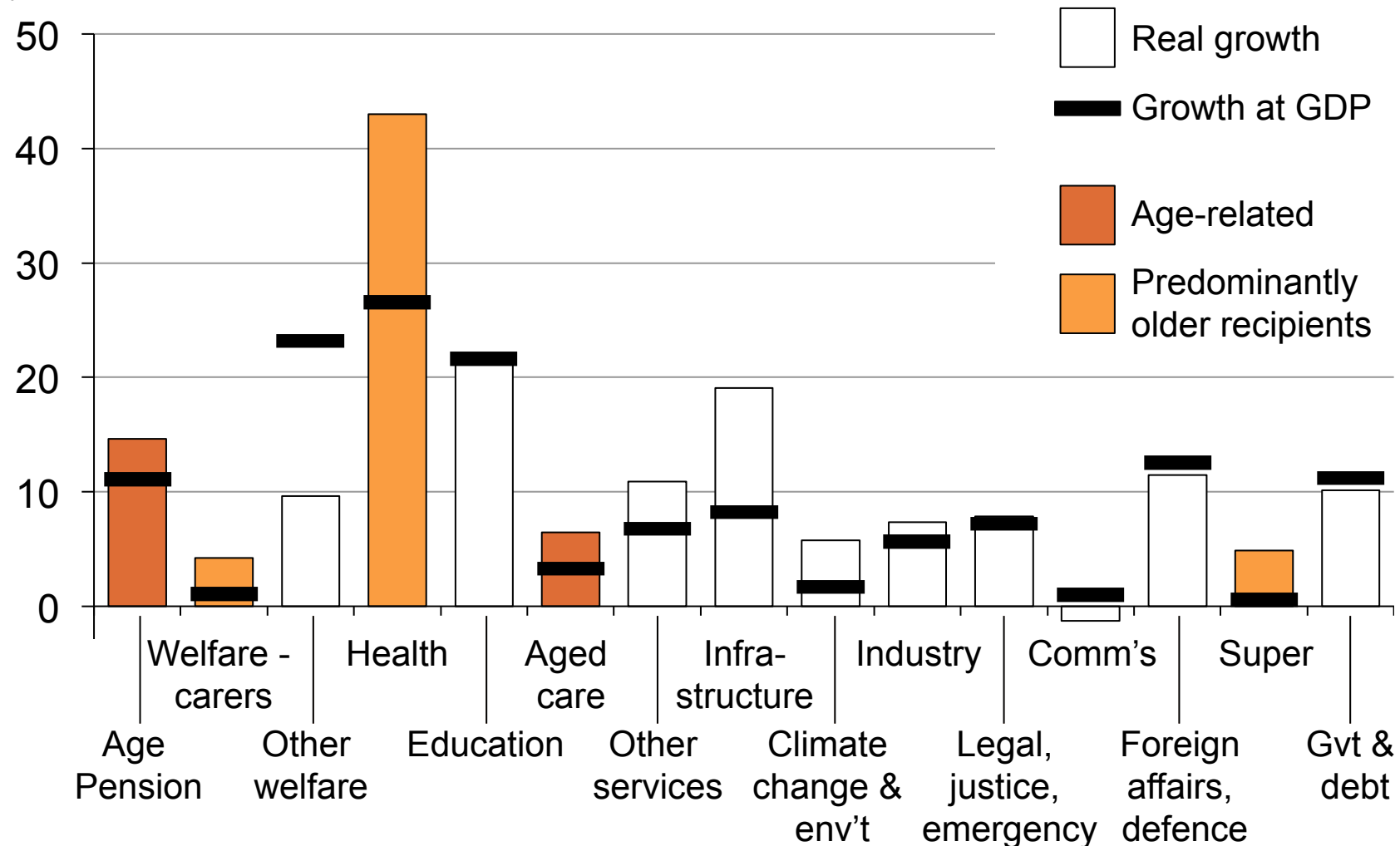
Note: 65+ bracket in 2003-04 and 2009-10 is a weighted average of 54-74 and 75+ age brackets reported  
Source: ABS (multiple years-b) cat 6537.0



# 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*

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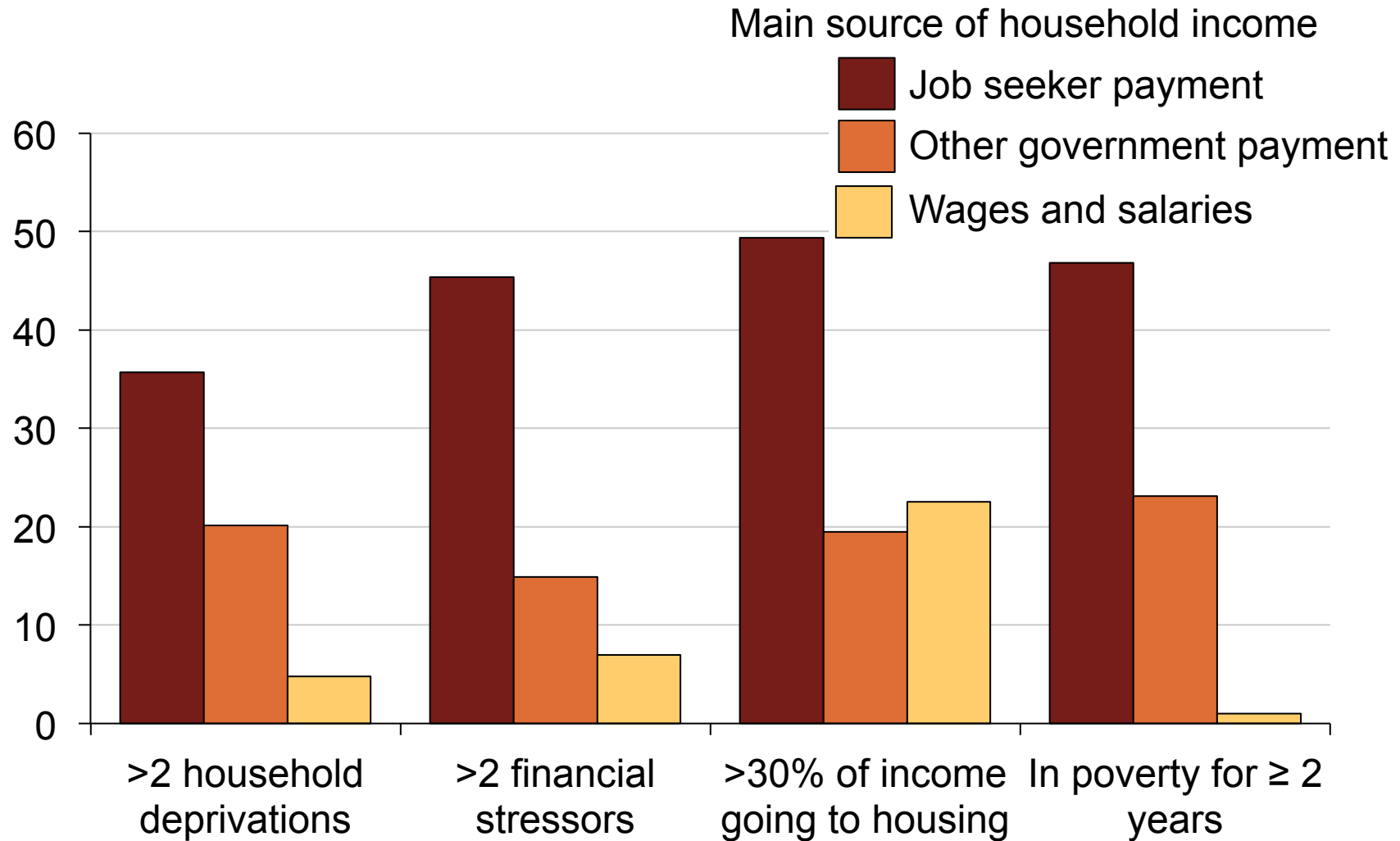
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# Unemployed households remain the most vulnerable

## 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.<sup>1</sup>

Grattan Institute analysis of Hilda

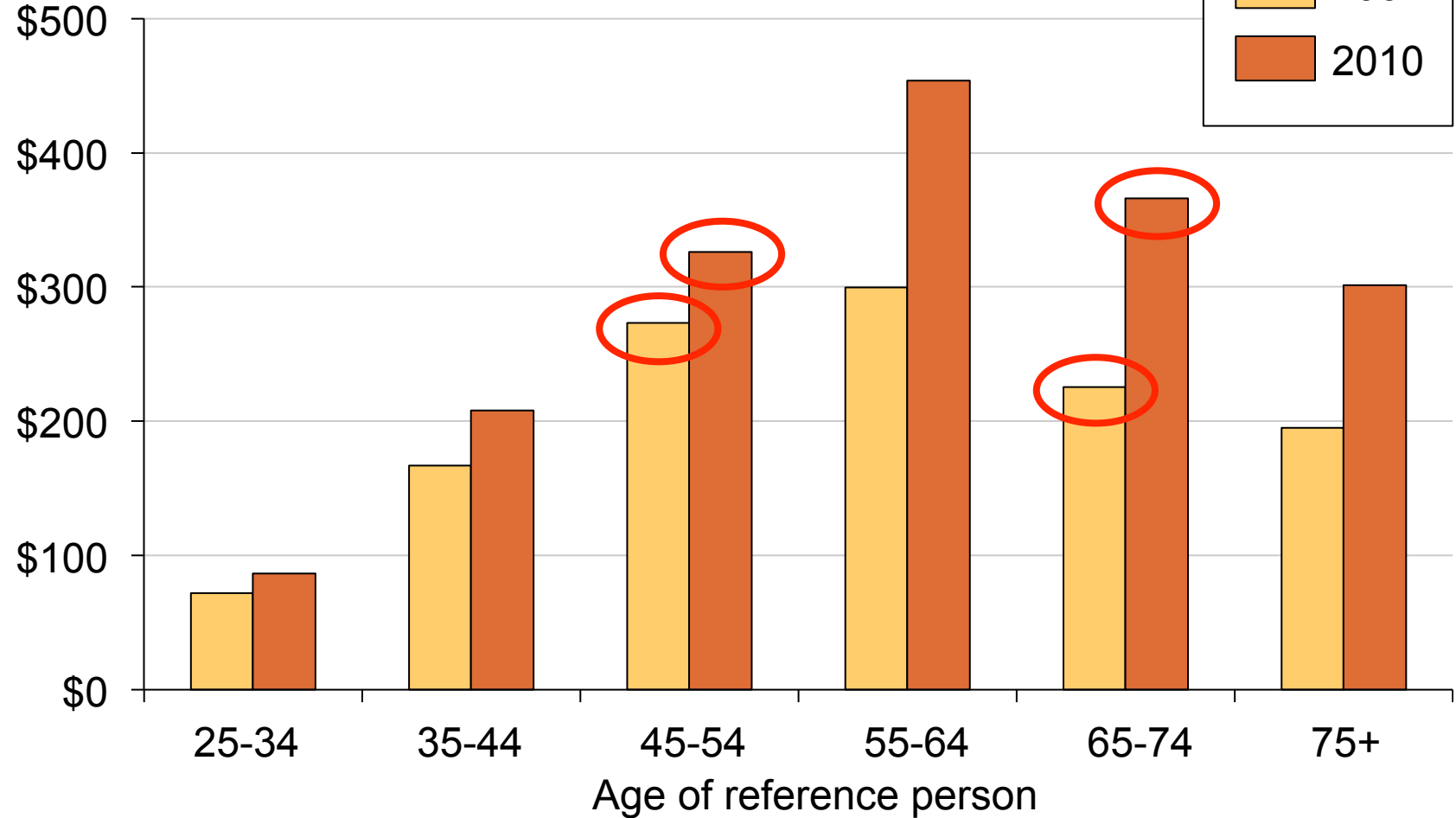
Note: Measures of wealth are defined at the individual level (which allows both for tracking across waves, and to mitigate the effect of changes in household size). We lessen the impact of deaths by focussing only on individuals whose household size did not change from 2002-10 in terms of the number of adults<sup>1,2</sup>

<sup>1</sup> 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



Source: Grattan analysis of HILDA 2002, 2010

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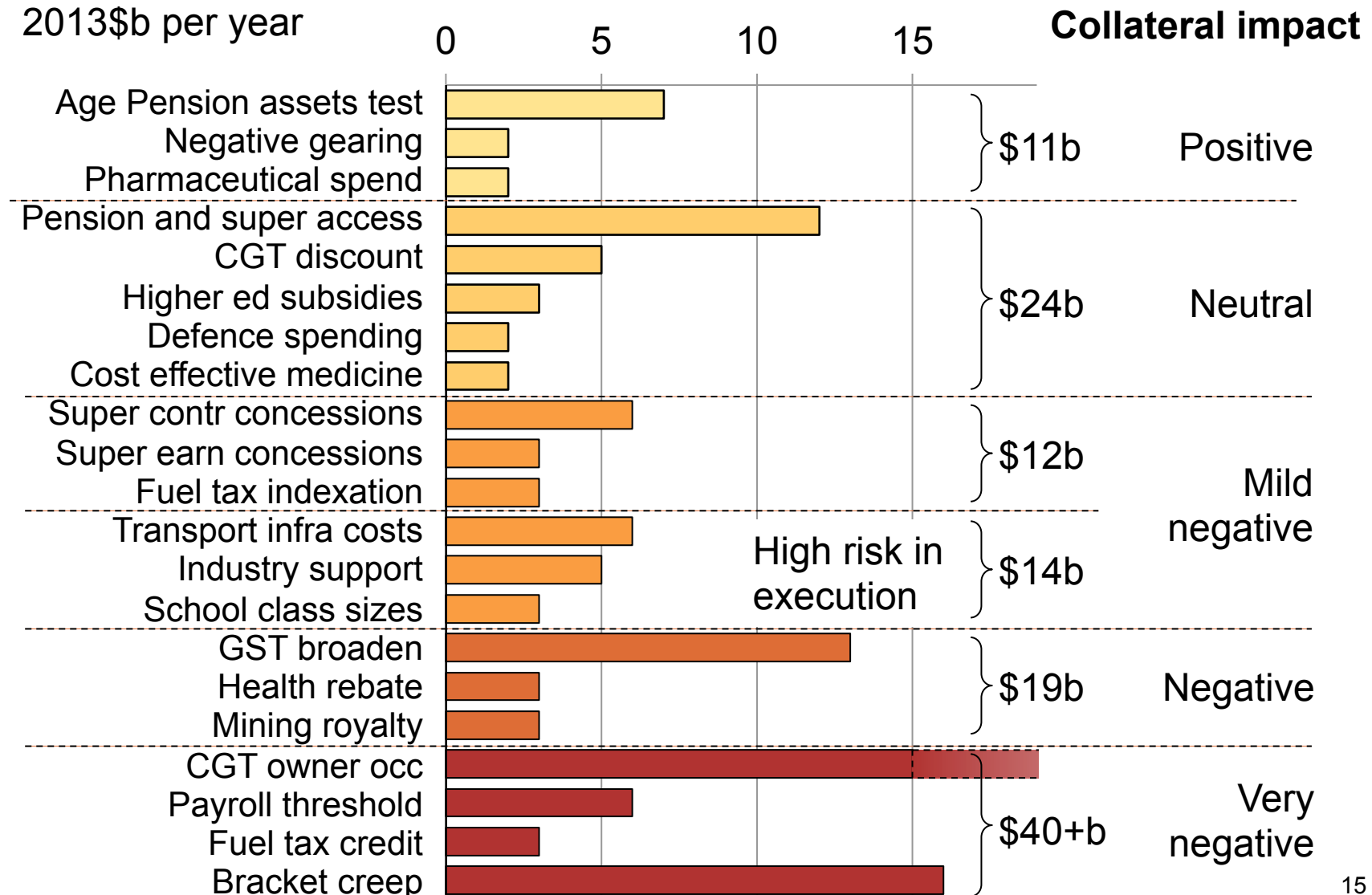
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# There are few options for budget repair that are both large and socially responsible

## Budgetary impact of tough budget choices

2013\$b per year



Source: Grattan Institute, *Balancing Budgets*

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