COST OF LIVING

Recommendation 1:

Address cost-of-living and inflationary pressures by reducing fuel costs via the fuel excise.

Overview

- The fuel excise is one of the oldest taxes in Australia, applying since Federation in 1901. It is a tax levied by the federal government on petrol and diesel bought at the bowser and is collected from the producers or importers of fuel when fuel leaves their depot or terminal.
- While the fuel excise was originally linked to road funding, this link has weakened over time:

> *"The formal link to road funding most recently ceased in 1992. Since then, fuel tax has been a general revenue-raising tax with only a minor link with the Australian Government's overall level of road funding."*[1]

- Motorists currently pay 49.6 cents in excise for every litre of fuel they purchase.
- However, the excise amount is not static and increases biannually in line with CPI.
- Indexation was introduced in 1983 to maintain the real value of excise collections, abolished in 2001 and then reintroduced in 2014.

WHAT ARE WE CALLING FOR?

- To reduce the impact of rising fuel prices, government could:
  - temporarily reduce the fuel excise while oil prices remain high (up to 20c per litre);
  - pause indexation while oil prices are high; or
  - revise the method used to calculate indexation to ensure it is not contributing to inflationary pressures.

Why is the policy needed?

- As Figure 1 shows, annual average petrol prices (national) increased dramatically in 2021 and 2022 after a dip in demand caused prices to fall during the peak of the COVID-19 pandemic in 2020.
- According to the most recent Australian Bureau of Statistics (ABS) automotive fuel was one of the primary contributors to change in CPI in recent times. Automotive fuel increased in cost by 7.9% in the 12 months to September 2023 – one of several key CPI categories experiencing high increases over this period (others include rents 7.6%, bread 12.6%, ice cream and dairy 11.2%, postal services 14.2% electricity 14.5% and insurance 14.7%).[2]
- Worryingly, rising fuel costs impact the cost of many everyday items. According to the Reserve Bank of Australia (RBA), rising fuel costs directly impact the cost of groceries.[3]
- Given that indexation of the fuel excise is linked to inflation, it is possible that as oil prices and indexation from CPI increase, this creates an inflationary spiral.

- According to the Australian Competition and Consumer Commission (ACCC), petrol prices have increased recently because of international factors.[4]
- While government has little control over oil and refined petrol prices, it does control end prices via the fuel excise.
- With taxes making up as much as one-third of retail petrol prices[5], a change to the fuel excise is one way to minimize the impact on motorists.

Budget impact

- There is precedent for delivering cost-of-living relief for energy costs.
- The 2023–24 Budget delivered electricity bill concessions to the value of $1.483 billion to provide direct support to households and small businesses.
- The 2022-23 Budget provided a halving of the fuel excise for six months at an estimated cost of $5.6 billion.
- The cost of reducing the fuel excise will depend on the level at which government chooses to reduce the excise, or pause, or review indexation of the excise.
  - Reducing the fuel excise by 20c per litre over 6 months would cost approx. $5b.
  - A more modest cut of 10c per litre could enable government to spread this over a 12 month period at the same cost.
  - A pausing of indexation or revision of indexation methodology would be much less costly, although with less immediate impact for motorists.
- The fiscal position of the budget means it is possible for government to reduce the excise, pause indexation, revise indexation methods or a combination of all three.
- With inflation and migration boosting underlying revenue, the government is in a good position to provide targeted cost-of-living relief via fuel costs, especially if this reduces inflationary pressures in the broader economy.

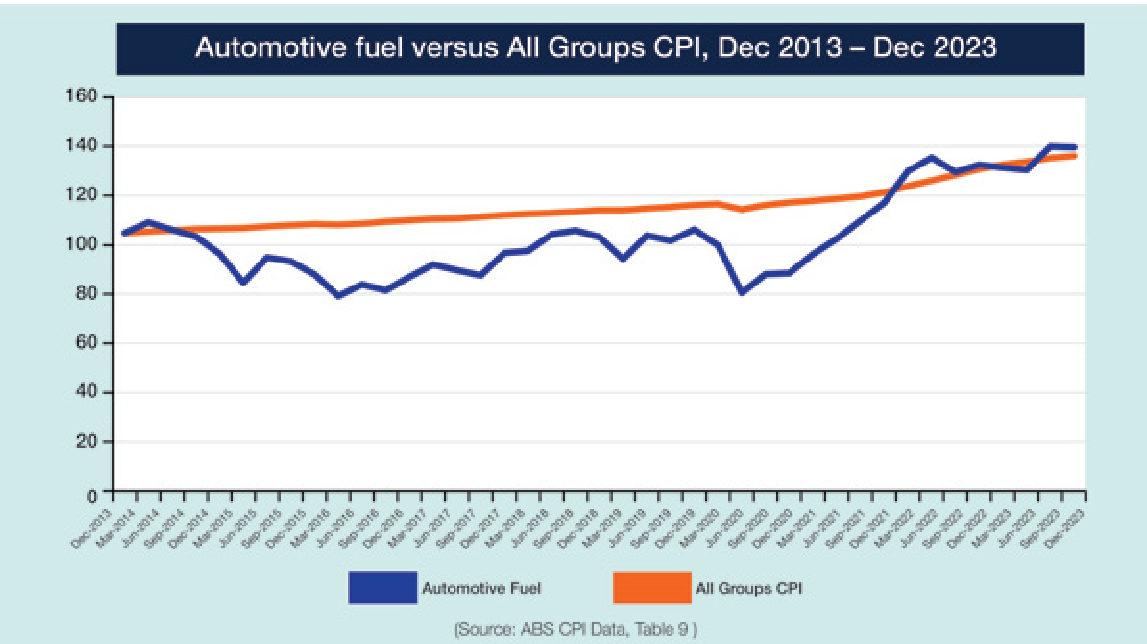

Figure 1: Automotive fuel versus All Groups CPI, Dec 2013 – Dec 2023[6]

Recommendation 2:

Provide a cost-of-living dividend of up to $500 to reflect additional revenue raised during periods of high inflation.

Overview

- Since 2021, Australia has experienced significant inflation beyond the RBA target range of 2% to 3% after almost three decades of relative stability.[7]
- High inflation has had negative impacts on household budgets. A recent National Seniors report found that 66% of older people were concerned about keeping up with the rising cost of living in the long term, with 26% extremely concerned.[8]
- At the same time, inflation has contributed positively to the federal budget. Commodity prices have increased because of international events, such as conflicts in Ukraine and in the Middle East. These have been key drivers of inflation and have boosted government revenue.[9]
- Not everyone is feeling cost-of-living impacts equally. National Seniors research found that cost-of-living pressures were being felt disproportionately by:
  - older people on low-incomes;
  - older renters;
  - older people living in rural and remote areas;
  - older people who were single; and
  - younger seniors (<60).[10]

WHAT ARE WE CALLING FOR?

- The federal government could use its surplus revenue to deliver a Cost-of-Living rebate to Australian households.
- The rebate could be delivered to households via electricity bills, as was provided to households in 2023 to deliver electricity bill relief.
- Government could provide a base rebate to all households with a higher rebate to households most in need e.g., pensioners and low-income earners/families.

Why is the policy needed?

- Cost of living is the number one issue facing Australians, particularly those on low incomes. A recent NSA survey of older Australians found that cost-of-living was the number one policy issue. Rising grocery and insurance costs were two of the most important cost of living issues among older people.[11]
- The rising cost of products and services, if not matched by rising income, means consumers must spend more to receive the same value of goods and services. This not only impacts household living standards but also hurts the economy as economic growth slows, putting jobs at risk.
- Older Australians on low fixed incomes can be especially susceptible to rising costs.
- While rising interest rates have buffered older people by increasing the returns available on investments, fear of rising living costs will likely reduce consumer confidence and have negative impacts on the economy.

Budget impact

- The Cost-of-Living Rebate delivered in the 2023 Budget was available to pensioners, Commonwealth Seniors Health Card holders, families receiving income support, including the Family Tax Benefit A and B and to small businesses.
- The cost to the budget of a similar electricity rebate would be $1.5b based on the cost estimate from the 2023-24 Energy Price Relief Plan. However, this includes the cost of electricity rebates to small businesses.
- If government implemented our recommendation for a Pensioner Concession Card+ (PCC+ - see Recommendation 3), it could target additional support to pensioners most in need. For example, government could provide an additional payment of $250 at a cost of only $125m to 500,000 pensioners using a targeted PCC+ card.

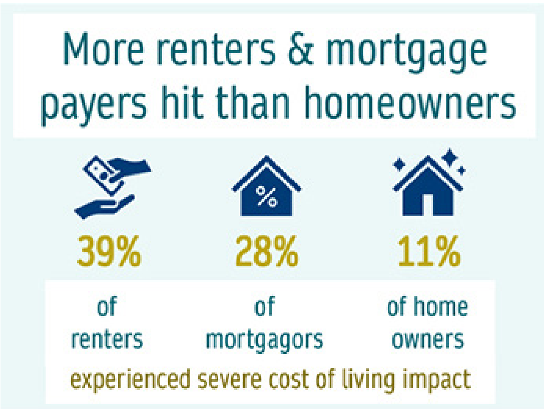

Figure 2: Percentage of households experiencing severe cost-of-living impacts by housing type[12]

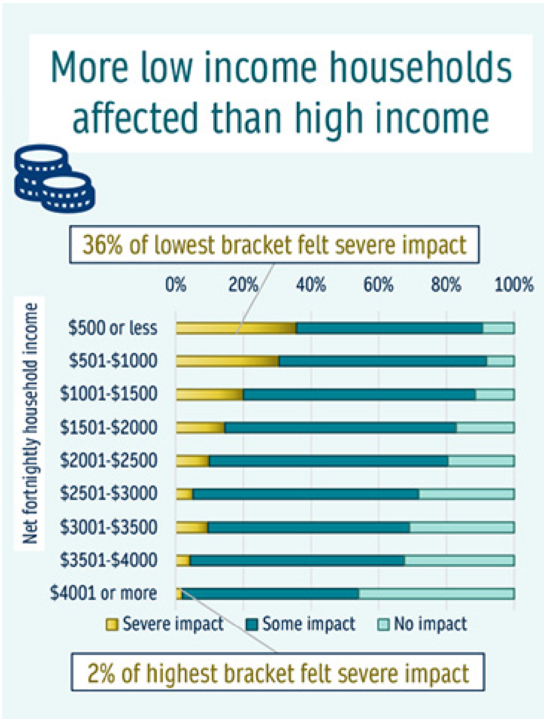

Figure 3: Impact of cost-of-living pressures on households by household income[13]

Recommendation 3:

Create a Pensioner Concession Card+ to make it easier for local, state, and federal governments to target additional concessions and supports to pensioners with limited means.

Overview

- Recent NSA research shows low-income seniors experience higher rates of severe impact from rising living costs. As Figures 2 and 3 show, almost 40% of older renters and more than 30% of older households in the lowest income brackets (<$1,000 per f/n) said they experienced severe cost-of-living pressures – much higher than other groups.[14]
- Commonwealth Concession Cards (DSS and DVA) are used to provide access to subsidised services and cost-of-living concessions at all levels of government. All pensioners are eligible for concessions via the Pensioners Concession Card (PCC).
- There is currently no simple way to target concessions to those most in need – all pensioners receive the same concessions regardless of wealth and income.
  - For example, a homeowning couple can have up to $1 million ($1,003,000) in assets (not including the principal place of residence) and receive the same concessions associated with a PCC as a couple with no assets and no home.
- Even at a conservative estimate of return, a couple with a large assets base, will have significantly higher income overall than a couple solely reliant on the pension with no assets. They can also draw on this wealth to fund consumption without significantly diminishing their overall income because the pension increases as private income and savings reduce.

WHAT ARE WE CALLING FOR?

- Government should offer a targeted PCC+ concession card to enable the delivery of additional pensioner concessions to those most in need, e.g., higher concession rates, dental subsidies, cheaper medicines or health care rebates.
- The Commonwealth would use existing customer data to tailor PCC+ eligibility to those most in need.
  - The OECD estimates poverty among people aged 65 and older in Australia is 20%.
  - A person's income and assets are already used to determine the amount of Age Pension they receive and could be used to determine eligibility for a PCC+ based on an appropriate criterion.
  - Pension poverty, adequately adjusted for housing wealth could be used to determine who would be eligible for additional support via a PCC+ (e.g., the same way that pension means test rules treat homeowners and non-homeowners differently).
  - Determining who would be eligible would require Treasury modelling to ensure only those most in need were receiving access to additional support.

Why is the policy needed?

- If governments want to provide additional support to pensioners experiencing higher cost-of-living pressures, they cannot do this under the current system.
- Under the existing concessions system, government can only deliver additional support to all pensioners even when there may be a need to deliver additional support to those most in need.
- This makes the cost of providing additional concessions or supports prohibitive, resulting in a lack of action from government.
- A PCC+ provides a tool to efficiently target additional support to those in need.

Budget impact

- The cost of providing a targeted PCC+ would be relatively small and involve administrative costs with setting up a new card within the existing system and costs associated with updating existing communications to include the new card.
- The main cost would be associated with funding any new concession/s, however, by targeting concessions the cost to government will be small but the impact large.
- For example, if 20% of pensioners (500,000) were assessed by Treasury as living in poverty, government could use the PCC+ to:
  a) administer a targeted Seniors Dental Benefits Scheme (SDBS – see Recommendation 7). If under an SDBS, a recipient was eligible for $500 per year for dental, this would cost $250m per year to cover 500,000 pensioners holding a PCC+. Providing a SDBS to all pensioners would cost $1.25b.[15]
  b) administer additional relief for those most in need (see Recommendation 2). Under the recent Energy Bill Relief Fund, all pensioners were eligible for up to $500 to offset energy bills at a cost of $1.25b. Under a PCC+ card, government could have provided additional relief to 500,000 pensioners in need. For example, an additional $250 rebate for PCC+ holders would cost only $125m compared to $625m for all pensioners.
- A benefit of the PCC+ is that it provides additional support to pensioners with limited means and additional support as pensioners spend down their savings later in life.

Recommendation 4:

Freeze deeming rates for an additional 12 months and create a fair and transparent way to set rates in the future.

Overview

- Deeming rates are used as part of the Age Pension income test; to determine eligibility for the Commonwealth Seniors Health Card and to determine co-contributions for aged care services.
- Since 2012, government undermined confidence among retirees by failing to reduce deeming rates in line with previous methodology (prior to 2012 the upper threshold followed the RBA cash rate, after 2012 the lower threshold followed the RBA cash rate) – see Figure 4 for details.
- While the federal government periodically reduced deeming rates after 2012, there was a view among retirees these changes only eventuated after political pressure.
- There is no logical basis for the significant change in methodology in 2012, except to reduce budget outlays.
- Older people welcomed the election commitment to freeze deeming rates for two years, but with the cash rate now much higher than the upper rate, there is a risk that when the freeze ends, a return to the post-2012 methodology will mean:
    - hundreds of thousands of pensioners will have their pensions cut;
    - some of those now eligible for a Commonwealth Seniors Health Card will lose this benefit; and
    - aged care costs will increase for those subject to means testing.

WHAT ARE WE CALLING FOR?

- Government should continue to freeze deeming rates for a further 12 months while inflation remains high.
- Government should use this time to establish a consistent and transparent methodology for setting deeming rates, one that reflects community expectations. This would stop any confusion about how rates are set when changes to interest rates occur in the future.
- A formal, transparent and consistent process for setting deeming rates would go some way to restore confidence among retirees.
- In doing so, the previous method (pre-2012), where the upper rate mirrored the RBA cash rate and the lower rate was a proportion of this, would be seen as a fair approach.

Why is the policy needed?

- With interest rates lifting 4% since the freeze was announced, any change to deeming rates will have a significant impact on the incomes of certain pensioners.

- Those affected will be:
  - full pensioners whose assets and income put them close to the point at which the full pension reduces under means testing rules; and
  - part pensioners either under the income test or under the assets test but close to coming under the income test.
- Some full pensioners would shift from a full pension to a part pension. Along with around half of all part-pensioners, those affected would see a decline in their pension income if the freeze was lifted and the rate reverted to the post-2012 method.
  - For example: A single homeowning part-pensioner with $320,000 of assets of which $250,000 are deemed assets would currently receive a pension of $1041.95 under the Age Pension assets test. If deeming rates reverted to a similar pre-freeze rate consistent with the cash rate (e.g., 4% - lower threshold and 6.5% - upper threshold) their deemed income would change from $170 per fortnight to $567 per fortnight (approx.). This person would then come under the income test and receive a pension of $915.20 per fortnight, a loss of $126.75 per fortnight compared to current deeming rates.
  - This loss of income would have a significant impact on the finances of pensioners currently struggling under cost-of-living pressures.
- Freezing the rate for 12 months and reviewing the deeming methodology would give affected pensioners time to plan for any change.

Budget impact

- A continuation of the freeze on deeming rates for a further 12 months would result in costs to the budget over future estimates due to higher Aged Pension payments and more CSHC holders being eligible for prescription subsidies under the Pharmaceutical Benefits Scheme (PBS).
- However, it is difficult to estimate the costs due to the lack of transparency around the methodology used to calculate deeming rates and a lack of clarity around how the rate might be set once the freeze was removed.

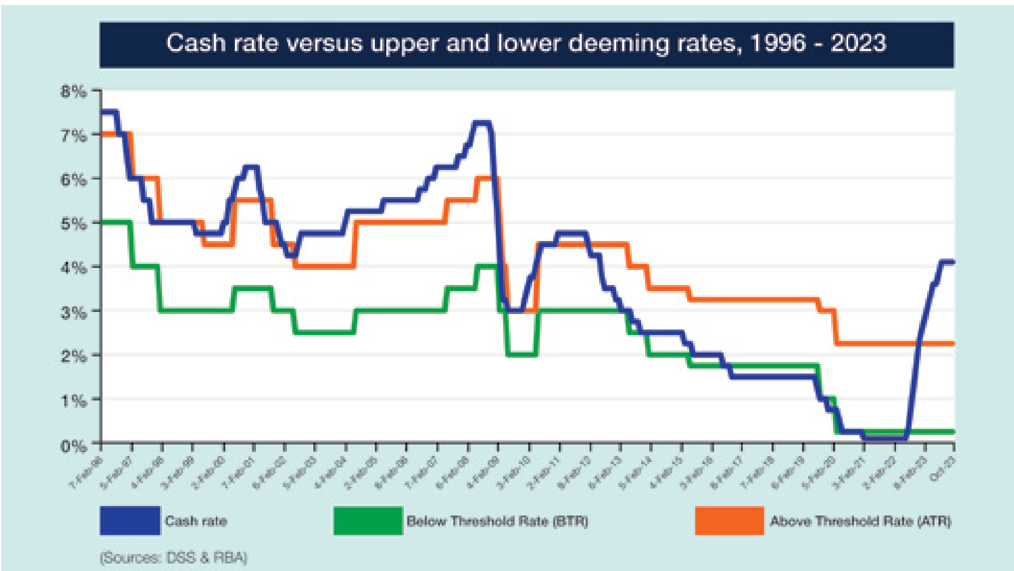

Figure 4: Deeming rates vs RBA cash rate (as at 31 October 2023)