Are Older Australians Being Short Changed?

An Analysis of Household Living Costs

November 2011

National Seniors Australia
Productive Ageing Centre

Australian Government
Department of Health and Ageing

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FOREWORD

With the price of essentials increasing rapidly over the past few years, many Australian households have faced significant cost of living pressures. These pressures have been more pronounced in the case of older Australians as a result of their typically below-average, fixed incomes, and their generally lower levels of discretionary spending.

The incomes and spending patterns of older Australians are quite different to the rest of the population. Policy makers are concerned rightly about the adequacy of the resources of older Australians, but income tells only part of the story with regard to adequacy. It is also useful to seek out other measures of standards of living, such as expenditures.

Drawing on inflation data for the five-year period from June 2006 to June 2011 and individual household expenditure data from 2006 to 2009, this report focuses on the impact of changes in prices on the out of pocket living costs for specific types of older households, including age pensioner households and self-funded retiree households. It is clear that the purchasing power of many Australian households has reduced over the last five years.

This analysis shows that older Australians typically spend proportionally more on basic, less discretionary items, and have had considerably less room to manoeuvre in the face of recent food and energy price increases. However, it also reveals that nearly three-quarters of a million older households (aged 50 years and over) are spending half their income on just three essential cost of living items (groceries; electricity & gas; and healthcare) because they have an average income of just over $14,000 per year. These are the same items that are rising faster than inflation, in some cases up to four times faster than inflation.

The impact of cost of living pressures on older Australians is clearly a salient one as it directly affects, and indeed can severely limit, their capacity to engage in social and community activities and to obtain basic services. Older Australians make significant contributions to the nation's well-being during their lives. With Australia currently enjoying a period of unprecedented economic growth, it is of great concern that a large and possibly growing proportion of older Australians are facing substantial living cost pressures.

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November 2011

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This report uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the author and should not be attributed to either FaHCSIA or the Melbourne Institute.

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INTRODUCTION

In this report, we examine how well the consumer price index (CPI) measures inflation for the overall Australian community and how living cost pressures are being distributed throughout the population. We focus mainly on older Australian households (those with the head aged 50 years and over) as many of these households are on low incomes, and spend a large proportion of their budget on essential living cost ("non-discretionary") items.

Methodology

This report uses two sources of data: inflation data over the five-year period from June 2006 to June 2011 and individual household expenditure data from 2006 to 2009. The inflation analysis uses data from the Consumer Price Index produced by the Australian Bureau of Statistics (ABS, 2011b) and individual household expenditure estimated from the HILDA survey by the Melbourne Institute.

HILDA is the Household, Income and Labour Dynamics in Australia survey and has been tracking the same people and households every year since 2001. Each wave of the survey covers a range of subjects including questions on employment, income and expenditure. The questions about income and expenditure in wave 6 (2006) and wave 9 (2009) are used in this report to establish the levels and patterns in expenditure.

In this report, the age of the household is defined based on one person in the household. The selection of this person is arbitrary and simply refers to the characteristics of 'Person 01' in the household on HILDA. It is generally the male adult in the main family or the only adult in a one-adult household.

This report investigates the expenditure of typical Australian households and focuses mainly on older households. For this reason, households aged less than 20 years old and households classified as multi-family, group, other or not able to be classified are not covered by this report and have been removed from the findings. In addition, in line with previous research, households with negative household disposable income are excluded from the analysis herein.

INFLATION AND THE CPI

Earnings increased by 4.4 per cent over the last year while the inflation rate was 3.6 per cent (ABS 2011a; 2011b). So, if wages went up by almost one per cent more than inflation, why do we keep seeing headlines like the following?

'Budget must reduce cost-of-living pressures' (The Australian, 6 May 2011)

'Sydney's getting a raw deal as cost of living pressure grows' (The Daily Telegraph, 4 June 2011)

'Cost of living soars, pressure mounts ...' (Herald Sun, 28 April 2011)

'Families struggling with cost of living' (Open Road, NRMA Magazine, July/August 2011)

These headlines suggest that there is a gap between what people feel, and what the statistics say.

A large part of the reason for the living cost pressure many Australian households feel lies in how inflation is measured – through changes in the consumer price index (CPI). The Australian Bureau of Statistics (ABS) explains that the CPI is a basket of goods and services comprising of items bought by Australian households (ABS, 2005). As prices change, so does the total price of the basket. The CPI measures the changes in price of this fixed basket. Obviously, not every item bought by Australian households can be included, but the basket does represent a high proportion of expenditure by metropolitan households (ABS, 2011b). There are 90 expenditure classes represented in the CPI and these are combined into 11 CPI Groups. To calculate the overall index called the All groups CPI, price changes for each of the 90 expenditure classes are combined using weights based on their importance.

Since inflation is measured by the total price change of items in the basket, a price increase in some items can be offset by a price decrease of others. For example, in the last 12 months the price of fruit has risen by 66.6 per cent, vegetables are up by 9.7 per cent, electricity has risen to 10.7 per cent, water by 12.8 per cent and petrol by 11.3 per cent. As a counter effect, milk prices have dropped by 10.8 per cent, appliances by 3.5 per cent, TVs and computers dropped by 19.5 per cent and sports equipment fell by 6.7 per cent. When the ABS put these changes together with the other items in the basket, the average change will result to a modest 3.6 per cent price increase overall.

Of course, if you are a lactose intolerant, vegetarian who has not bought a computer or TV in the last 12 months, you will have noticed prices have increased dramatically more than the official inflation rate. The issue is that the CPI is measured for the 'average' household.

The CPI basket contains both durable and long life items which are replaced only occasionally (such as TVs, furniture and motor vehicles) and other items that are purchased frequently (such as food, electricity and train fares). Australians are less sensitive to changes in the price of durable items than the other items because purchases of durable goods are occasional and in some cases can be delayed, while the other items are generally 'non-discretionary' and are purchased regularly (Commonwealth Bank 2011).

Living cost sensitivity or the cost of living pressure is influenced by at least four factors:

1. How essential the item is;
2. Changes in the price of the items;
3. The frequency of purchase; and
4. The proportion of household income the item consumes.

The CPI only captures part of these influences and it is no wonder that the index does not fully reflect the pressure households are feeling.

Diverging Trends Within The CPI

As discussed above, not all of the items change by the same amount. Some items may rise while others may not change or even decrease. Comparison of the 11 groups over a five year period (June 2006 to June 2011) clearly shows the differing rates of change. Figure 1 shows that over this period, the All groups CPI grew by 16 per cent but the individual group CPI outcomes ranged from almost no change (Clothing & Footwear) to a 30 per cent increase (Alcohol & Tobacco).

Figure 1: Percentage Changes in the CPI Groups, June 2006 to June 2011

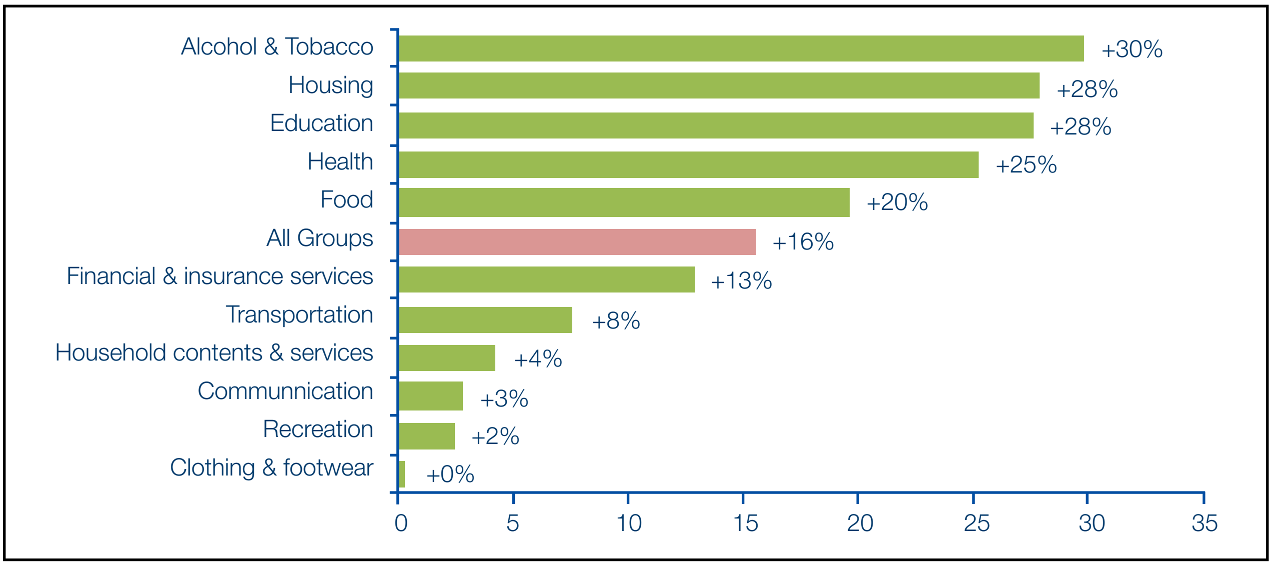


Figure 1 shows that a number of the CPI groups that have risen faster than the overall CPI are essential group items such as Housing (includes rent, electricity, gas and water rates), Health and Food, while those that have experienced only a small increase are discretionary like Recreation. Increases in these regular, non-discretionary items are much more likely to make a household feel that their budget is under pressure. In other words, an increase in the weekly grocery bill is likely to make people notice and feel under pressure, while a decrease in the price of a tennis racquet will not necessarily make people feel less pressure.

While some CPI groups have increased more than the overall CPI, some expenditure classes within these groups have risen up to four times faster than the All Groups CPI (Table 1). Analysis of the top ten expenditure classes with largest percentage increase shows:

- Water & sewerage increased at four times the CPI rate;
- Electricity increased at almost four times the CPI rate;
- Gas & other household fuels increased at 2.5 times the CPI rate;
- Hospital & medical services increased at 2.2 times the CPI rate; and
- Rent has increased at more than twice the CPI rate.

The frequency and non-discretionary nature of these five expenditure items mean that they cannot be avoided, and significant reductions in these categories of spending are usually not possible.

Table 1: Top Ten Largest Percentage Increase by Expenditure Class, June 2006 to June 2011

	Index June 2006	Index June 2011	Change (%)	Rate * (x CPI)
Water & sewerage	133.4	216.2	+62.1	4.0
Electricity	154.1	248.4	+61.2	3.9
Tobacco	412.3	623.2	+51.2	3.3
Gas & other household fuels	183.9	256.0	+39.2	2.5
Secondary education	147.8	205.0	+38.7	2.5
Pets, pet foods & supplies	146.7	198.1	+35.0	2.3
Hospital & medical services	248.1	332.3	+33.9	2.2
Rents	147.5	195.2	+32.3	2.1
Insurance services	257.8	340.5	+32.1	2.1
Spirits	171.3	225.6	+31.7	2.0
CPI (All groups)	154.3	178.3	+15.6	

Source: ABS 2011b

*Notes: *Increase as multitude of CPI increase*

In contrast, prices of some expenditure classes have fallen. Table 2 shows the top ten expenditure classes with largest percentage decrease. The expenditure class Audio, visual & computing equipment saw the biggest percentage reduction with prices falling to less than half the amount they were five years ago. Different types of clothing and footwear occupy many of the remaining places with the largest decrease in prices.

Table 2: Top Ten Largest Percentage Decrease by Expenditure Class, June 2006 to June 2011

	Index June 2006	Index June 2011	Change (%)
Audio, visual & computing equipment	26.3	12.0	-54.4
Childcare	226.5	168.2	-25.7
Women's footwear	102.0	91.9	-9.9
Major household appliances	108.9	100.7	-7.5
Towels & linen	104.4	96.6	-7.5
Children's & infants' clothing	114.7	106.6	-7.1
Women's outerwear	101.9	94.9	-6.9
Sports & recreational equipment	86.1	82.0	-4.8
Men's outerwear	104.3	99.5	-4.6
Men's footwear	90.8	86.8	-4.4
CPI (All groups)	154.3	178.3	+15.6

Source: ABS 2011b

Except for Childcare, those expenditure classes with the largest decrease in prices relate to spending that occurs occasionally, that can be delayed or is discretionary. This strongly contrasts the non-discretionary, regular expenditure of those with big increases.

Living Cost Indexes

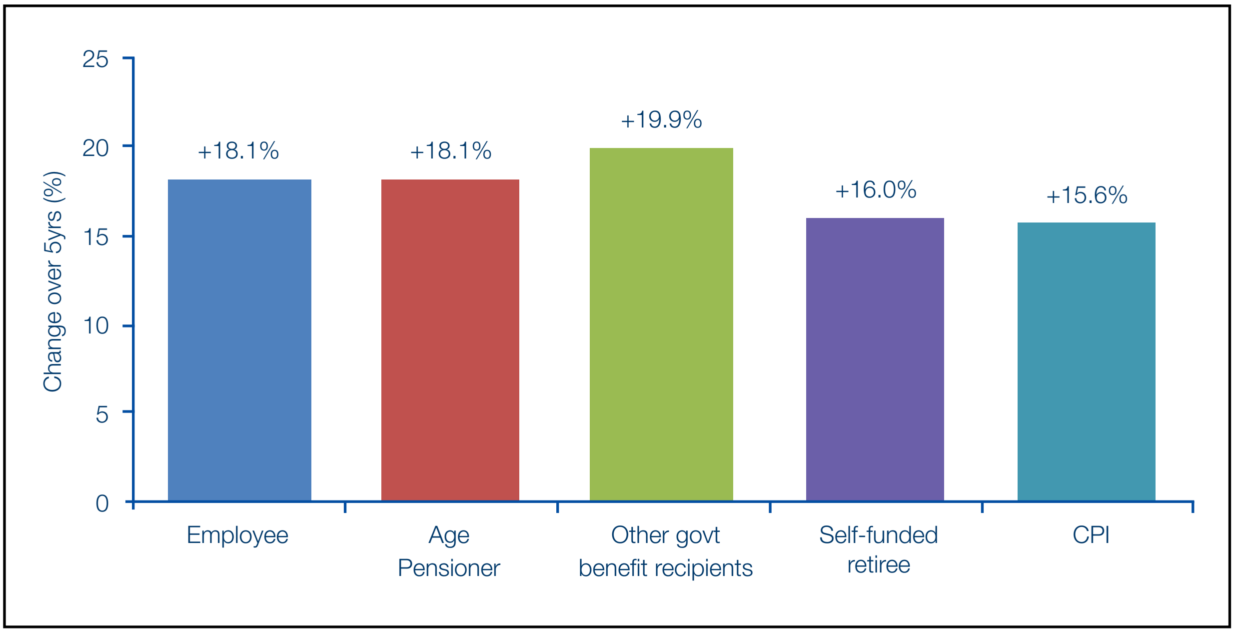
The CPI provides an indicator of the price changes affecting an average Australian household. However, the living costs of every household will be different. Each household allocates different proportions of their income to different items – some non-discretionary and others discretionary. The ABS acknowledges these differences and produces living cost indexes to monitor the changing purchasing power of the after-tax incomes of different types of households.

Analytical Living Cost Indexes

While it is not possible to make a living cost index for each household, in order to provide a better picture of spending patterns of Australians, the ABS produced the Analytical Living Cost Indexes (ABS 2011c). These indexes measure the changes in price for out-of-pocket living expenses of four types of Australian households: employee households, age pensioner households, other government transfer recipient households (called 'Other Gov't Benefit Recipient' below) and self-funded retiree households. These four household types account for just over 90 per cent of Australian households (ABS, 2011c).

There are some notable differences in the spending patterns of the four household types. For example, the low income age pensioner and other government benefit households spend a higher proportion of their income on Food. In contrast, employee households allocate a higher proportion of their budget on Transportation and Education. As expected, age pensioner and self-funded retiree households spent a higher proportion of their income on Health than the other household types.

Figure 2: Changes in Living Cost Indexes for Selected Australian Households, June 2006 to June 2011



Source: ABS 2011c

While the overall CPI rose by 16 per cent between June 2006 and June 2011, the Other Gov't Benefit Recipient household living cost index rose by 4.3 percentage points more than the CPI or by 19.9 per cent. Similarly, the other three household types had living costs that increased faster than the CPI (Figure 2). In other words, the purchasing power of all four household types has decreased over the last five years.

Pensioner And Beneficiary Living Cost Index

The ABS also publishes the Pensioner and Beneficiary Living Cost Index (PBLCI) which merges the age pensioner and other government benefit living cost indexes. The PBLCI is important because pensions paid by the government are adjusted twice yearly by the largest increase in either the CPI, PBLCI or average weekly earnings. Since the PBLCI better reflects the spending patterns of households on government benefits and pensions, it is a better indicator of inflation for these groups. The series began in June quarter 2007, and by June 2011 it had risen to 16.2 per cent compared to 13.2 per cent for the CPI (ABS 2011d).

CPI Not Representative

The living cost indexes demonstrate that the purchasing power of 90 per cent of Australian households decreased over the last five years. In other words, the use of the CPI has not effectively reflected the inflation experienced by most households. The ABS notes that the CPI "is designed to measure price inflation for the household sector as a whole, and as such, is not the conceptually ideal measure for assessing the impact of price changes on the disposable incomes of households". The ABS also notes that living cost indexes are the 'conceptually preferred measure for assessing the impact of changes in price on the disposable incomes of households' (ABS, 2011c).

HOUSEHOLD SPENDING COMPARED

Different needs and capacities result in a diverse range of household budgets and budget allocations. For example, a 'one-income couple with children household' will generally have a lower income than a 'two-income couple only' household of the same age. The two households will also allocate their budgets differently. The couple with children will probably allocate more to pay for education, groceries, and toys, while the childless household may allocate more to travel and eating out. Similarly, a retired couple household living only on a government pension would probably allocate a higher proportion of their budget to groceries and utilities than a high income retired couple will.

In this section, we use household expenditure data from the HILDA survey to investigate how households of different ages spend their budget. While HILDA does not record every household's purchase, it does cover most significant expenditures. In this analysis the following categories have been included: Groceries, Alcohol & Cigarettes, Public Transport, Meals Eaten Out, Petrol, Clothing & Footwear, Telephone & Internet, Holidays, Private Health Insurance, Other Insurance, Doctors & Prescriptions, Electricity & Gas, Home & Car Maintenance, Education, Buying Vehicles, Audio Visual Equipment & Computers, Whitegoods, and Furniture. These goods and services are referred to as the 'Living Cost Basket' in the following paragraphs.

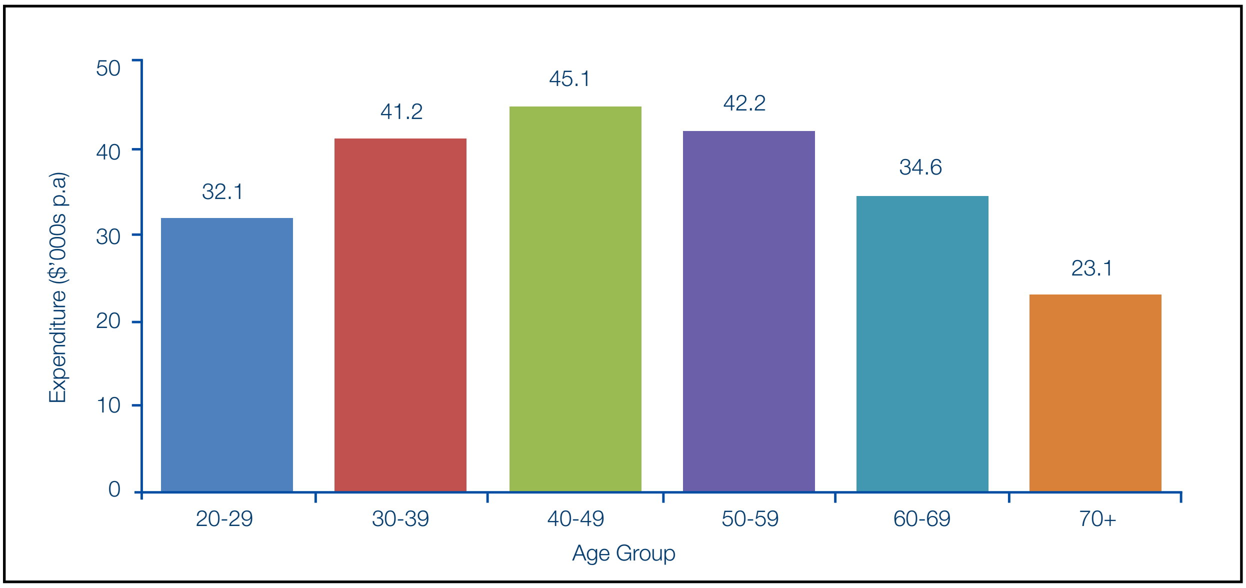
Expenditure By Age Group

Household spending changes over time. A household composed of a couple in their 30s with two young children may have only one average income and be spending a large proportion of it on furnishing their first home, and on their children. By the time they are in their 40s, their income will probably be higher and the household is more established. Spending is more likely to be dominated by education, clothes, groceries and sporting equipment associated with teenage children. By the time the parents are in their 50s, the kids usually are starting to leave home and the household spending is starting to decrease. A decade later and the parents are in their early 60s, maybe they are 'empty nesters' and travel and/ or eating out become more common expenses. From the mid-60s onwards, earned income is greatly reduced as retirement begins and spending also reduces as a consequence. These different expenditure levels are reflected in Figure 3 which shows the average total household expenditure on the Living Cost Basket by age group.

needs of the household.

Another less obvious reason for the spending patterns relates to household income. Analysis of the HILDA income and expenditure data by age group (Appendix Table A1) shows that the rise and fall of expenditure remains a constant proportion of income. For example, the average disposable income of a household aged 40-49 is $90,311 and the average expenditure on items in the Living Cost Basket is 50 per cent of this amount at $45,138.

Figure 3: Household Expenditure on Items in Living Cost Basket By Age Group, 2009 ($'000s p.a.)



Notes: See text for list of the expenditures included in the 'Living Cost Basket'

'Age Group' refers to the age in years of Person 01 in the household.

Estimates based on the 2009 HILDA data reinforce the spending pattern scenarios described above. Average expenditure increases with age across the age groups 20-29, 30-39 and 40-49 respectively. From the peak household spending age group of 40 to 49 years, average household expenditure on this living cost basket declines with age, to a minimum for those in households aged 70 years and over. The observed age distribution of living cost expenditure is consistent with the changing

Expenditure being half the average disposable income is the same for each age group up to the 60-69 age group and around 60 per cent for the 70+ age group (see the last row of Appendix Table A1). It appears that working age Australian households, no matter what type of household or stage of life, spend half of their income on items in the Living Cost Basket.

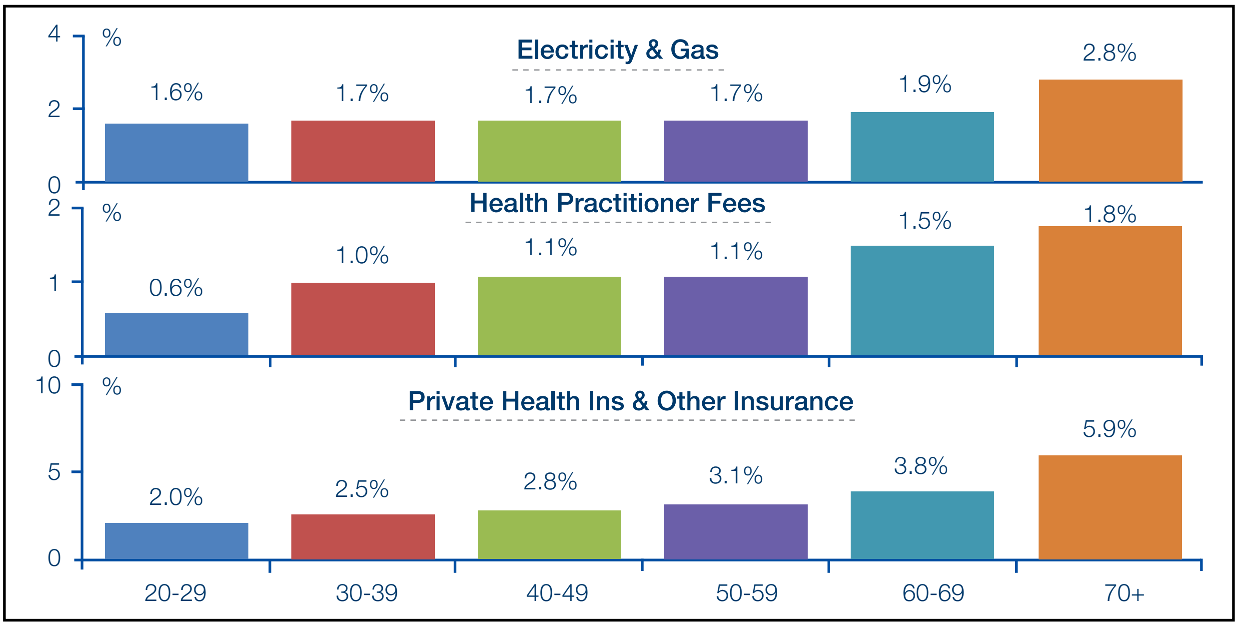
Different Spending Patterns

While it appears that the average Australian household spends 50 per cent of their after-tax income on the selected basket of goods until they reach age 70, the proportions spent on each item in the basket does vary considerably. For example, households of all ages spend a range of $7,000 to $11,000 on groceries with an average of $9129 per year (Appendix Table A1). However, due to the different disposable incomes, the 70+ households are spending almost one-in-five dollars (18.9%) from their income on groceries while the 30-39 households are spending only one-in-nine dollars (11.3%) on groceries (Appendix Table A2). This suggests that an increase in grocery prices will be felt more by the older household as they spend a considerably larger proportion of their income on groceries.

In the CPI Section, the ten expenditure categories with the largest increases over the last five years were highlighted. Non-discretionary items were over-represented on this list and a number of them have a similar item recorded in HILDA – Electricity & Gas, Health Practitioner fees and Insurance. The amount spent on these three items is expressed as a percentage of the average household after-tax income by age group as shown in Figure 4. The figure shows that the older households' proportion of income spent on these items is higher than the younger households', and this means that they will disproportionally bear the pressure as the prices of items rise.

The HILDA data shows that as the average household gets older, a larger proportion of the available household income is being spent on non-discretionary items. For example, the proportion of the budget of the average household aged 70+ (2.8%) spent on Electricity & Gas bills is 70 per cent higher than the proportion spent by a household aged 30-39 (1.7%). Similarly, the proportion of the budget of the average household aged 70+ spent on Health Practitioner fees (1.8%) is three times the proportion spent by the youngest aged households (0.6%). According to ABS, insurance services have been rising at more than double the rate of inflation over the last five years and Figure 4 shows that the older Australians spend around 2 to 3 times as much on insurance as younger aged households.

Figure 4: Expenditure as a Proportion of Household Income by Age Group, Selected Items, 2009



Source: HILDA

Note: The age groups refer to the age in years of the reference person in the household

The expenditure items discussed above show that while almost everyone will be feeling pressure from the increasing prices, older Australians will be under extra pressure as they spend a higher proportion of their income on essential items.

COMPARING OLDER AUSTRALIAN HOUSEHOLD SPENDING

The previous section highlighted that the average older Australian household is facing extra living cost pressure. The extra pressure is a result of the combination of older households spending higher proportions of their budget on non-discretionary items and some of these non-discretionary items increasing in price up to four times the overall rate of inflation. However, these are broad findings and not all older Australian households are the same. Analysis of the 3.7 million older Australian households (aged 50 years and over) shows that they are a very diverse group - different age groups, different incomes, different household types and different sources of income.

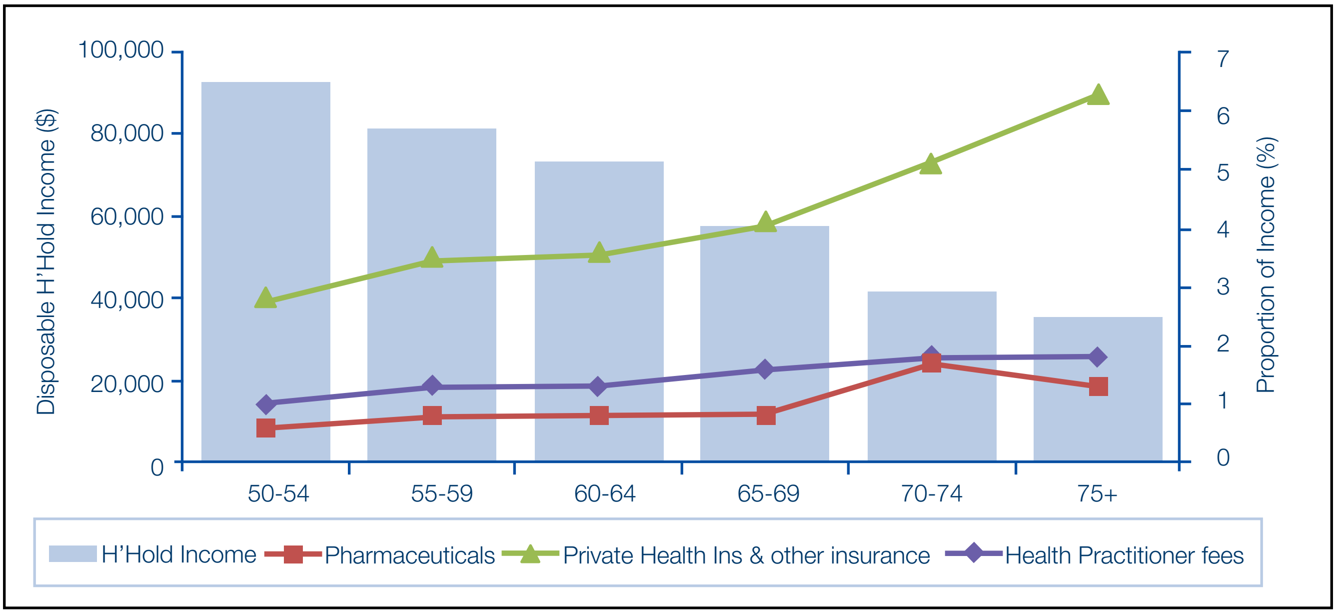
In this section, we use household expenditure data from the HILDA survey to investigate how different groups of older Australian households spend their budget.

Older Household Expenditure By Age

Getting older has an impact on income and health. As household members get older, the chances of one or more of them being employed falls, and as a result, income of the household generally falls.

Figure 5 shows the average household disposable income by age group starting at $92,817 for households aged 50-54, where the majority of households are likely to have two employed adults, moving down to $35,493 for households aged 75 and over where it is most unlikely to have anyone employed, and often the household consists of a lone person with a pension as the only source of income. Declining income will clearly have an impact on spending – less will be spent on discretionary items and a higher proportion will go to essential living cost items. This pattern is clear in the proportion spent on groceries. The proportion spent by households aged 75+ (19.1%) on groceries is almost twice the spent budget share by households aged 50-54 years (11.3%). A more complete breakdown of age group expenditure is given in Table B1.

Figure 5: Household Disposable Income and Selected Expenditures of Older Households by Age Group, Selected Items, 2009



Source: HILDA
Note: The age groups refer to the age in years of the reference person in the household

Another feature of getting older is that health deteriorates. The loss of good health results in greater expenditure on health insurance, doctor visits and prescriptions. Figure 5 shows the increasing proportion of the budget being spent on these items as the household gets older.

Non-discretionary items were overrepresented in the list of items that have had the largest price increases and were under-represented in the list of items that have decreased in price over the last five years. This means that as a household gets older, an increasing proportion of income is allocated to non-discretionary items such as health and other related expenditures.

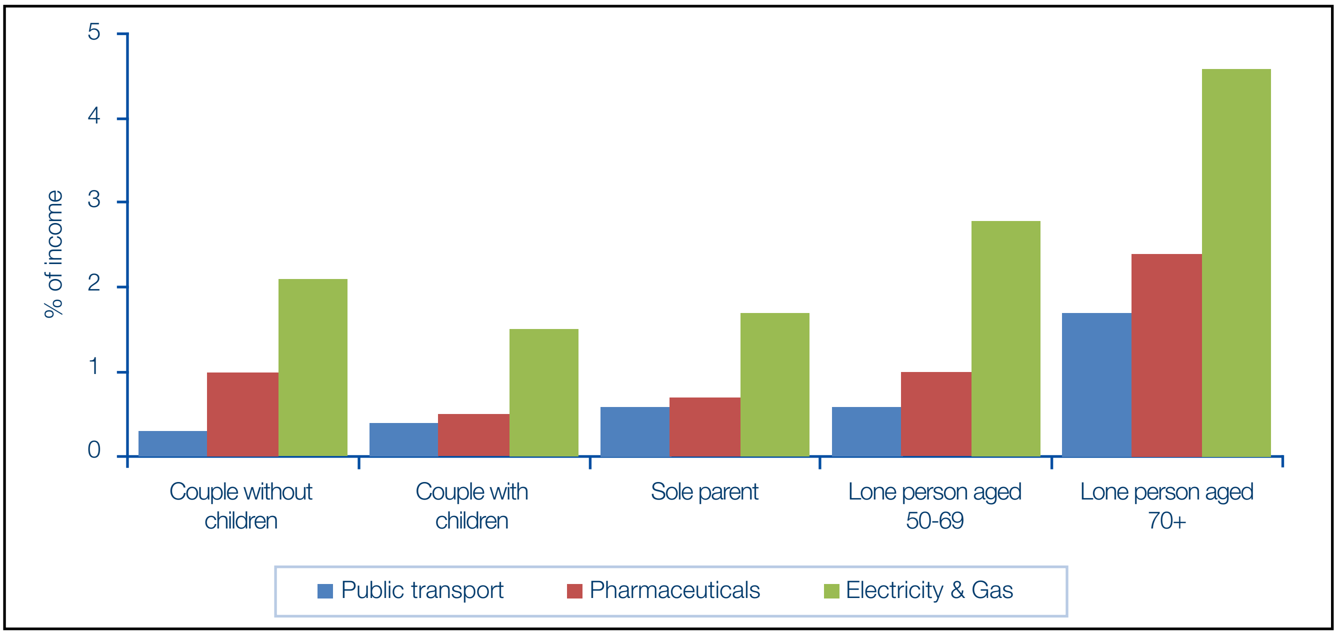
Older Household Expenditure By Type Of Household

The type of household influences the proportion of the household budget spent on different items. A older household consisting of a single person or a couple only is unlikely to allocate their budget to childcare or education. In contrast, a sole parent household may well have childcare or education as their high priority items of expenditure. Appendix Table B2 presents a breakdown of expenditure by household type.

Disposable household income and proportion of the income spent on a range of items are shown. Three more significant differences between types of household are shown in Figure 6.

The proportion of income spent on Public transport, Pharmaceuticals and Electricity & Gas bills increase as the type of household changes from a couple with children household to a lone person aged 70+ household. Unfortunately, for the older lone person household, they spend the largest proportions on each of the above essential items (Figure 6). The average lone person aged 70+ household has an income which is one-third the average of all 50+ households, and the proportion spent on Public transport and Pharmaceuticals is three or more times the average, and the proportion spent on Electricity & Gas is more than double the average. The unfortunate combination of spending a large proportion of their budget on essential living cost items (most of which are seeing large price increases), and having little flexibility to change the proportions in their budget due to a low average income does not bode well for them.

Figure 6: Proportion of Income Spent on Selected Items by Households aged 50+, 2009



Source: HILDA

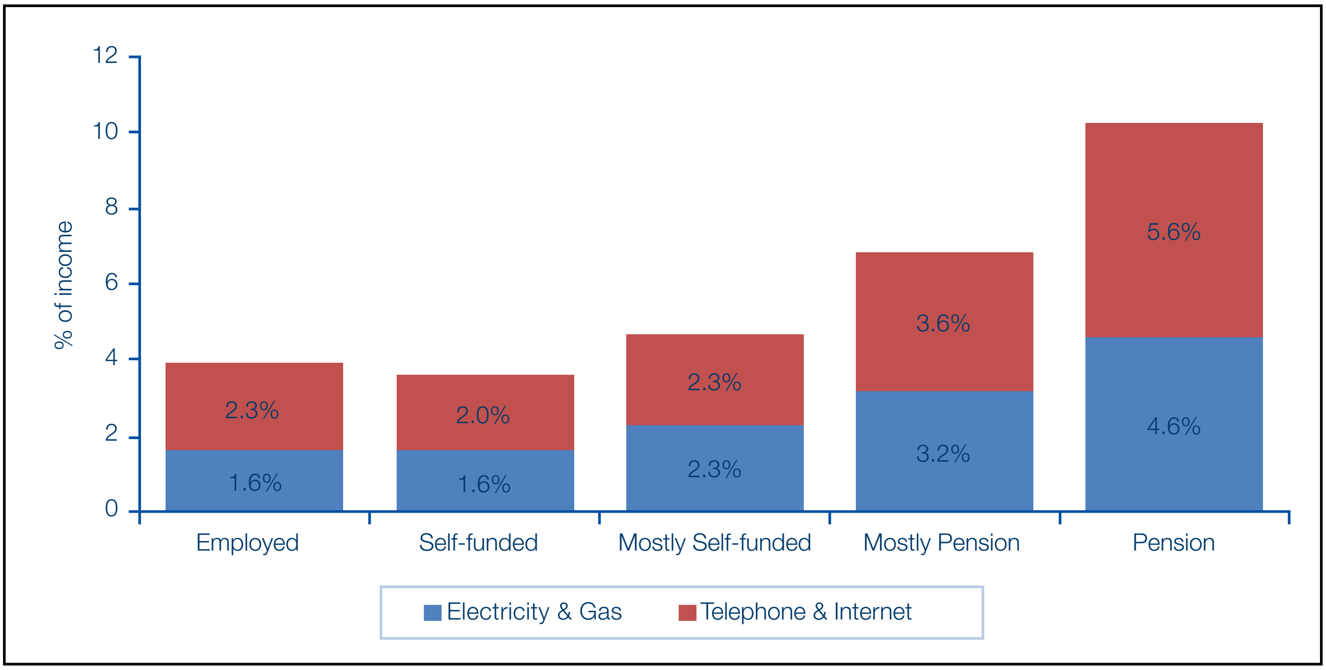
Older Household Expenditure By Source Of Income

Of households aged 50 years and over, 43 per cent received their principal source of income from employment, 26 per cent are self-funded and 31 per cent rely on government pensions. It is expected that a household whose members remain employed will have a higher income than those who are pensioners. An outcome of the higher income associated with employment is that they spend a lower proportion on essential living cost items. But, what about the behaviour of self-funded retirees? Will their expenditure patterns more closely resemble those of employed households or pensioner households? To answer these questions, the HILDA data on older households was analysed based on the source of income. Five groups were defined based on the principal income source:

- Employed – the reference person is still working full-time or part-time;
- Self-funded – more than 95 per cent of household income is from private sources (superannuation, investments, etc);
- Mostly self-funded – more than half of their income is from private sources;
- Mostly pension – more than 50 per cent but less than 95 per cent of their household income is government pensions; and
- Pension – 95 per cent or more of their income is from government pension(s).

Repeating the trends already seen, the proportion of income spent on groceries, maintaining contact with people and heating the house increases as income falls as we move from an employed household through self-funded household to a pension household (Appendix Table B3 and Figure 7).

Figure 7: Proportion of Income spent on Selected Items by Households aged 50+ by Principal Source of Income, 2009



Source: HILDA

From Appendix Table B3, the average employed older household spends one-tenth (10.9%) of their income on groceries. In comparison, a pension household spends almost one-third (31.3%) of their pension on groceries, and 10.2 per cent is spent on Electricity & Gas and Telephone & Internet by the household living on the pension (Figure 7). From their average disposable income of $20,521, over 40 per cent has been taken by just these three essential living cost items. The employed household with an average disposable income of four and a half times of the pension household at $92,641 per annum, spends less than 15 per cent of income on the same three items.

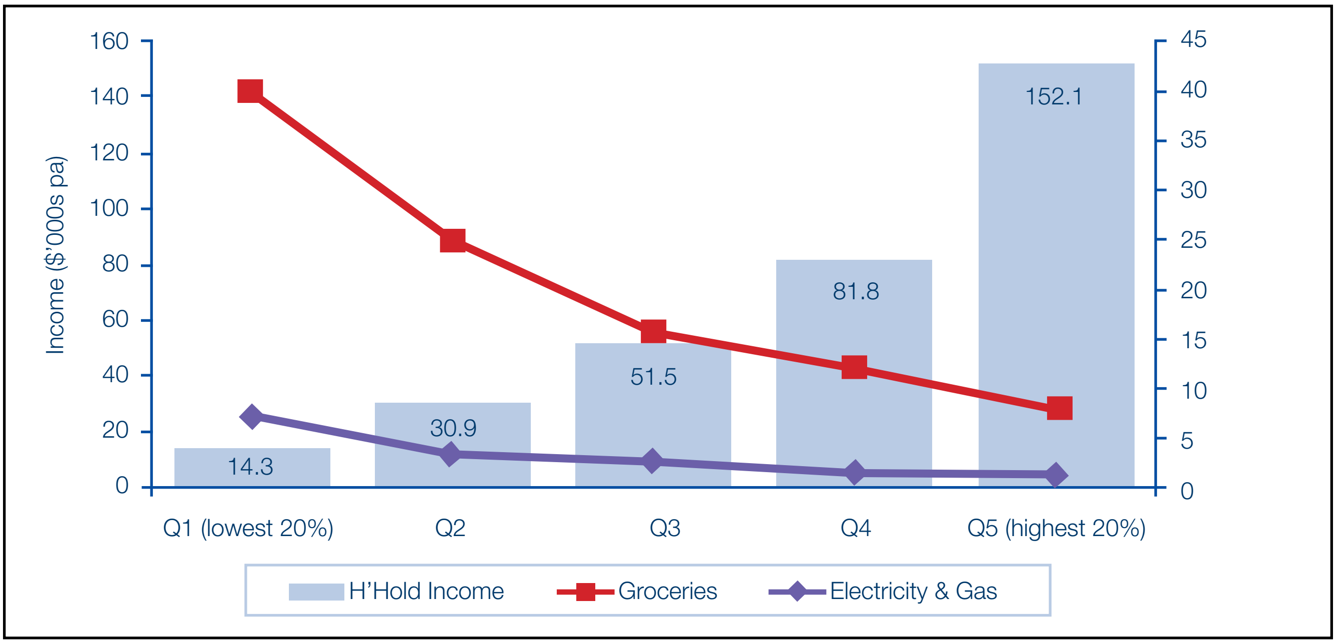
The income of many self-funded retirees is linked to dividends from a share portfolio or is a fixed income stream. This means that the income of self-funded and mostly self-funded households will not automatically increase in line with inflation. While the non-discretionary expenditure proportions for these households are currently low, inflation erodes their purchasing power as greater proportions of income will be required for essential items. These households are feeling the full pressure of rapidly rising prices, rather than one cushioned (to some extent) by an income being adjusted for inflation.

Older Household Expenditure By Income Ranking

In this analysis, we rank older households by their household disposable income. The households were ranked from the lowest income to the highest income, and were then assigned to one of the five categories. The 20 per cent of households with the lowest incomes were grouped into quintile 1 (Q1), the next 20 per cent into quintile 2 (Q2) and so on until the 20 per cent with the highest incomes were assigned to quintile 5 (Q5). A breakdown by income quintile is in Table B4 and some details are shown in Figure 8.

While there may be an impression that older Australian households have a compressed range of incomes, the breakdown by quintile income tells a very different story. At one end are those in the lowest income quintile (Q1) with an annual average income of just $14,314 in 2009, and as Figure 8 shows, 40 per cent of this income is being spent on groceries while 7 per cent is being spent on energy bills. At the other end, those in Q5 have a very healthy average annual income of $152,055. With less than one dollar in ten going on essential items like groceries and energy bills, a price increase in this essential kind will easily be accommodated.

Figure 8: Household Disposable Income and Selected Expenditures of Households aged 50+ by Income Quintile, 2009



Source: HILDA

These high and low income households may seem like extreme cases, but they are not – each quintile represents 732,000 households. Therefore, the Q1 data says that almost three-quarters of a million households aged 50 years and over are spending half their income on just three essential cost of living items and because they have an average income of just over $14,000 per year, they have little or no capacity to reallocate their budget when the prices of these essentials rise. The budgets of these households contain almost zero discretionary items.

Changes In Older Household Expenditure Since 2006

The last few sections have highlighted the importance of household income. As income decreases, the proportion spent on essential items increases. This suggests that a higher income household would find it easier to cope with price increases of non-discretionary items than a lower income household. With this in mind, it is disheartening to see that those older households with the lowest income in 2009 experienced the smallest increase ($1,118 or 8.5%) in disposable income between 2006 and 2009 (Table 3). This increase was less than the inflation over the same period. The other four-fifths of older households saw their average income grow by around three times this rate over the same time.

Table 3: Change in Household Disposable Income and Expenditure for Older Households by Income Quintile, 2006 to 2009 (change in percentage points)

	Income quintile in 2009					Overall for 50+ h'holds
	Q1	Q2	Q3	Q4	Q5	
Change in Income ($)	+1,118	+6,864	+12,348	+19,578	+29,600	+13,863
Change in Income (%)	+8.5	+28.5	+31.5	+31.5	+24.2	+26.5
Groceries	+3.8	-1.8	-3.5	-1.5	-0.9	-1.4
Alcohol & Tobacco	+1.7	-0.2	-0.8	-0.3	-0.2	-0.3
Public transport	+0.6	+0.0	+0.0	-0.1	+0.0	+0.0
Meals eaten out	+2.2	-0.3	-0.9	+0.0	-0.7	-0.3
Petrol	+0.7	-0.2	-1.0	-1.2	-0.8	-0.8
Clothing & footwear	-1.1	+0.2	-0.6	-0.3	-0.1	-0.3
Telephone & internet	+1.3	-0.2	+0.0	-0.3	-0.4	-0.3
Holidays	+2.7	+1.0	+0.0	-1.2	-0.6	-0.3
Private Health Ins & other insurance	+1.0	+0.2	-0.1	-0.6	-0.1	-0.1
Health Practitioner fees	-0.7	-0.8	-0.1	-0.1	-0.3	-0.3
Pharmaceuticals	-1.1	+0.1	-0.5	-0.1	-0.1	-0.2
Electricity & Gas	+1.2	-0.3	-0.4	-0.3	-0.2	-0.2
Home & Car maintenance	-4.7	-2.8	-0.5	-0.6	-0.3	-0.9
Education	+0.3	+0.1	+0.0	-0.2	+0.2	+0.1
Buying vehicles	+2.8	-2.2	-0.7	-4.6	-0.8	-1.6
TV & Computers	+2.2	+0.0	+0.2	+0.0	-0.1	+0.1
Whitegoods	+0.2	-0.3	-0.1	-0.3	-0.1	-0.1
Furniture	+0.4	-0.5	-0.3	-0.1	-0.2	-0.2
Rent	+1.9	+0.4	+0.4	+0.1	+0.1	+0.3

Source: HILDA Wave 6, Wave 9
Notes: The values shown are the difference between the averages for each quintile in 2006 and 2009. For example, the proportion of disposable income spent by Q3 in 2006 on groceries was 19.0% and the proportion spent in 2009 was 15.5%. The difference of -3.5 percentage points is the value shown in the table.

[1] The CPI rose 8.7 per cent between 2006 and 2009 (as measured by the change in the average CPI for 2006 and the average for 2009).

Between 2006 and 2009, those with the lowest income had their income proportion spent on groceries increased by 3.8 percentage points and energy bills by 1.2 percentage points. Over the same period, those older Australian households with higher income reduced the proportions they spent on groceries and energy.

It seems that increasing incomes has allowed most older households to adjust to the sharp price increases in some non-discretionary items without being affected. On average, the proportion of income spent on the 'basket of items' has changed little over the four-year period, in fact, slight reductions are common. However, those on the lowest incomes are somewhat different. They have seen significant increases in the proportions spent on essential living cost items. The major area which seems to have suffered is the discretionary item – Home and Car maintenance. It appears that those in the bottom 20% of the income distribution are delaying discretionary expenditure such as maintenance to pay for their grocery and energy bills.

The overall CPI trend is gently upwards. It has increased 16 per cent over the last five years. This modest rise is masking a number of different individual item trends – some items like water, electricity, gas, medical services and rent have increased at more than double the overall rate. This differential growth within the CPI basket of goods and services has put certain groups under extreme living cost pressure. One of these groups are older Australians.

Almost 60 per cent of older Australian households (those aged 50 years and over) are retiree households that rely on income derived from investments and/or a government pension. Because these sources of income are generally lower than average, older Australian households spend a greater proportion of their income on essential living cost items. These are the same items that are rising faster than inflation, in some cases up to four times faster than inflation. The result is that older households are being harder hit than the average household and compensation, in the form of inflation-based living cost adjustments, is short changing them.

CONCLUSION

KEY FINDINGS

The key findings of this report are:

- Water, electricity, gas, medical services and rent have risen at more than double the inflation rate over the last five years;
- Five essential living cost items are in the top ten increasing items (7 if secondary education and insurance are included);
- Over the last five years, the purchasing power of 90 per cent of Australian households has reduced;
- Pension households are under greater pressure as they spend higher proportions of their income on essential living cost items;
- 732,000 older households are spending half their income on just three essential costs of living items and they have little or no capacity to reallocate their budget when the prices of these essential items rise.

Almost three-quarters of a million households aged 50 years and over are spending half their income on just three essential cost of living items and because they have an average income of just over $14,000 per year, they have little or no capacity to reallocate their budget when the prices of these essentials rise. The budgets of these households contain almost zero discretionary items. Clearly, as prices of essentials are rising rapidly, these households are already feeling, and will continue to feel, real cost of living pressure.

Every household will have to take action in regard to the sharply rising prices of some non-discretionary items - either increase the proportion of the budget to these items or reduce their consumption of them. For high income households, accommodating this change may be easy – they may simply save slightly less or adjust the air-conditioning settings to reduce energy consumption. For others, the issue is substantial. For older, single person, low income households, it will often not be possible for them to reduce the amount allocated to 'rainy day' savings or reduce energy consumption as these budgetary items are already at a minimum or non-existent. Again, the living cost pressure will be substantial.

Finally, returning to the title of the report: "Are older households being short-changed?" The CPI measures average overall inflation which does not match the spending of older Australian households, especially low income, older, retired households which spend a large proportion of their income on rapidly rising non-discretionary items. They are certainly being short-changed.

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TECHNICAL NOTES AND DEFINITIONS

THE HILDA DATA

HILDA is a longitudinal data source, which surveys the same individuals from year to year. The HILDA dataset consists of households selected to be a representative sample of the Australian population. The survey has been currently annually since 2001 (called Wave 1).

This report uses the latest version, HILDA wave 9 (that is 2009) for most of the analysis. Wave 2006 is used to compare expenditure and income of households between 2006 and 2009. In 2009, there were 7,234 households and 13,301 responding persons in the sample. This was reduced to 6,715 by removing households with negative disposable income, households where person 1 was less than 20 year old, households classified as Multi-family, Group, Other or Not able to be Classified.

Wooden and Watson (2007) provides details of the design of HILDA and Summerfield (2010) is the latest version of the HILDA User Guide.

APPENDIX A - DATA ON ALL HOUSEHOLDS

Table A1: Household Disposable Income and Expenditure by Expenditure Category and Age Group, 2009 ($)

	Age Group						
	20-29	30-39	40-49	50-59	60-69	70+	All 20+
Sample Size (no.)	1,058	1,164	1,374	1,222	898	999	6,715
No. of Households (no.)	1.085m	1.526m	1.529m	1.462m	1.055m	1.143m	7.801m
Mean Disposable Income ($)	66,270	84,089	90,311	88,055	67,041	37,467	74,435
Groceries	7,614	9,517	10,919	10,140	8,336	7,097	9,129
Alcohol & Tobacco	2,548	2,197	2,638	2,106	1,785	1,005	2,085
Public transport	464	500	380	395	258	264	384
Meals eaten out	2,949	3,130	2,692	2,556	2,124	1,091	2,476
Petrol	2,030	2,334	2,725	2,670	1,982	1,145	2,209
Clothing & footwear	1,575	2,191	2,243	1,877	1,282	959	1,753
Telephone & internet	2,136	2,087	2,119	2,021	1,727	1,102	1,895
Holidays	2,537	2,598	3,119	3,292	3,545	2,015	2,864
Private Health Ins & other insurance	1,355	2,112	2,525	2,691	2,540	2,193	2,266
Health Practitioner fees	430	816	958	1,012	973	662	825
Pharmaceuticals	212	335	419	571	539	548	437
Electricity & Gas	1,067	1,426	1,521	1,474	1,303	1,065	1,334
Home & Car maintenance	2,016	4,765	4,365	3,647	2,984	1,683	3,402
Education	542	940	1,998	1,269	172	62	921
Buying vehicles	2,603	3,820	4,036	3,961	3,437	1,009	3,256
TV & Computers	1,073	1,238	1,244	1,201	852	547	1,056
Whitegoods	290	438	555	556	387	345	442
Furniture	625	754	683	727	377	272	595
Rent	6,784	5,220	3,405	2,330	1,640	1,340	3,487
Expenditure excluding rent	32,067	41,198	45,138	42,165	34,603	23,063	37,332
% of income	48.4	49.0	50.0	47.9	51.6	61.6	50.2

Source: HILDA

Table A2: Household Disposable Income and Proportion Spent by Expenditure Category and Age Group, 2009 (%)

	Age Group						
	20-29	30-39	40-49	50-59	60-69	70+	All 20+
Mean Disposable Income ($)	66,270	84,089	90,311	88,055	67,041	37,467	74,435
Groceries	11.5	11.3	12.1	11.5	12.4	18.9	12.3
Alcohol & Tobacco	3.8	2.6	2.9	2.4	2.7	2.7	2.8
Public transport	0.7	0.6	0.4	0.4	0.4	0.7	0.5
Meals eaten out	4.4	3.7	3	2.9	3.2	2.9	3.3
Petrol	3.1	2.8	3	3	3	3.1	3
Clothing & footwear	2.4	2.6	2.5	2.1	1.9	2.6	2.4
Telephone & internet	3.2	2.5	2.3	2.3	2.6	2.9	2.5
Holidays	3.8	3.1	3.5	3.7	5.3	5.4	3.8
Private Health Ins & other insurance	2	2.5	2.8	3.1	3.8	5.9	3
Health Practitioner fees	0.6	1	1.1	1.1	1.5	1.8	1.1
Pharmaceuticals	0.3	0.4	0.5	0.6	0.8	1.5	0.6
Electricity & Gas	1.6	1.7	1.7	1.7	1.9	2.8	1.8
Home & Car maintenance	3	5.7	4.8	4.1	4.5	4.5	4.6
Education	0.8	1.1	2.2	1.4	0.3	0.2	1.2
Buying vehicles	3.9	4.5	4.5	4.5	5.1	2.7	4.4
TV & Computers	1.6	1.5	1.4	1.4	1.3	1.5	1.4
Whitegoods	0.4	0.5	0.6	0.6	0.6	0.9	0.6
Furniture	0.9	0.9	0.8	0.8	0.6	0.7	0.8
Rent	10.2	6.2	3.8	2.6	2.4	3.6	4.7
Expenditure excluding rent	32,067	41,198	45,138	42,165	34,603	23,063	37,332
% of income	48.4	49.0	50.0	47.9	51.6	61.6	50.2

Source: HILDA

APPENDIX B - DETAILED DATA ON Older HOUSEHOLDS

Table B1: Percentage of Income Spent on Selected Items by Older Households and Age

		Age Group						
		50-54	55-59	60-64	65-69	70-74	75+	All 50+
Disposable Income	$	92,817	81,628	73,598	57,760	41,526	35,493	66,199
Groceries	%	11.3	11.9	12.0	13.2	18.6	19.1	13.1
Public transport	%	0.5	0.3	0.5	0.2	0.6	0.7	0.5
Petrol	%	3.2	2.8	2.8	3.2	3.1	3.0	3.0
Clothing & footwear	%	2.3	1.9	1.7	2.3	2.1	2.8	2.1
Telephone & internet	%	2.4	2.2	2.5	2.7	3.0	2.9	2.5
Private Health Ins & other insurance	%	2.8	3.5	3.6	4.1	5.1	6.3	3.8
Health Practitioner fees	%	1.0	1.3	1.3	1.6	1.8	1.8	1.3
Pharmaceuticals	%	0.6	0.8	0.8	0.8	1.7	1.3	0.8
Electricity & Gas	%	1.6	1.8	1.8	2.3	2.8	2.9	2.0
Home & Car maintenance	%	3.7	4.8	4.5	4.3	4.8	4.3	4.3
Rent	%	2.9	2.3	2.4	2.6	2.7	4.1	2.8

Source: HILDA

Table B2: Percentage of Income Spent on Selected Items by Older Households and Type of Household

		Type of Household					
		Couple without children	Couple with children	Sole parent	Lone person 50-69	Lone person 70+	All 50+
Disposable Income	$	61,889	114,929	73,763	36,356	21,821	66,199
Groceries	%	14.4	10.8	11.4	15.6	23.4	13.1
Public transport	%	0.3	0.4	0.6	0.6	1.7	0.5
Petrol	%	3.3	2.7	2.3	4.1	3.3	3.0
Clothing & footwear	%	2.1	2.1	2.3	2.0	2.8	2.1
Telephone & internet	%	2.6	1.9	2.2	4.0	4.7	2.5
Private Health Ins & other insurance	%	4.6	2.7	3.4	3.9	6.8	3.8
Health Practitioner fees	%	1.7	0.9	0.9	2.0	2.2	1.3
Pharmaceuticals	%	1.0	0.5	0.7	1.0	2.4	0.8
Electricity & Gas	%	2.1	1.5	1.7	2.8	4.6	2.0
Home & Car maintenance	%	5.0	3.6	3.0	5.5	6.3	4.3
Rent	%	1.7	1.2	6.0	8.7	5.9	2.8

Source: HILDA

Table B3: Percentage of Income Spent on Selected Items by Older Households and Principal Source of Household Income

		Principal Source of Income					
		Employed	Self Funded	Mostly Self Funded	Mostly Pension	Pension	All 50+
Disposable Income	$	92,641	83,262	61,953	30,030	20,521	66,199
Groceries	%	10.9	11.3	12.9	23.5	31.3	13.1
Public transport	%	0.4	0.3	0.4	0.9	1.1	0.5
Petrol	%	3.1	2.2	2.5	3.8	4.4	3.0
Clothing & footwear	%	2.0	1.8	2.3	2.6	3.8	2.1
Telephone & internet	%	2.3	2.0	2.3	3.6	5.6	2.5
Private Health Ins & other insurance	%	3.2	3.8	4.6	5.8	4.9	3.8
Health Practitioner fees	%	1.2	1.8	1.4	1.9	1.2	1.3
Pharmaceuticals	%	0.6	0.8	1.1	1.6	1.6	0.8
Electricity & Gas	%	1.6	1.6	2.3	3.2	4.6	2.0
Home & Car maintenance	%	4.0	5.0	4.4	4.9	4.9	4.3
Rent	%	2.1	1.1	3.2	5.0	10.8	2.8

Source: HILDA

Table B4: Percentage of Income Spent on Selected Items by Older Households and Income Quintile

		2009 Income Quintile					
		Q1 (lowest 20%)	Q2	Q3	Q4	Q5 (highest 20%)	All 50+
Disposable Income	$	14,314	30,949	51,532	81,770	152,055	66,199
Groceries	%	40.1	24.8	15.5	12.0	8.0	13.1
Public transport	%	2.2	0.6	0.4	0.4	0.4	0.5
Petrol	%	6.5	5.1	4.0	3.0	1.9	3.0
Clothing & footwear	%	5.0	3.1	2.0	1.8	1.9	2.1
Telephone & internet	%	8.6	3.8	3.3	2.4	1.5	2.5
Private Health Ins & other insurance	%	9.0	5.7	4.6	3.3	2.8	3.8
Health Practitioner fees	%	2.9	2.1	1.7	1.3	1.0	1.3
Pharmaceuticals	%	3.3	1.5	1.0	0.7	0.5	0.8
Electricity & Gas	%	7.0	3.4	2.5	1.7	1.1	2.0
Home & Car maintenance	%	9.6	5.8	5.3	3.8	3.4	4.3
Rent	%	12.6	5.5	3.8	3.1	0.7	2.8

Source: HILDA

Table B5: Older Household Disposable Income and Expenditure by Income Quintile, 2006

	2006 Income Quintile					
	Q1 (lowest 20%)	Q2	Q3	Q4	Q5 (highest 20%)	All 50+
Sample Size (no.)	1472	1367	1304	1278	1253	6674
No. of Households (no.)	1.477m	1.485m	1497824	1489880	1494262	7443847
Mean Disposable Income ($)	16751	32951	51014	71531	121871	58943
Groceries	33.5	20.7	15.7	13.1	9	13.8
Alcohol & Tobacco	7.3	5.6	3.9	3	1.9	3.2
Public transport	1.4	0.9	0.6	0.4	0.4	0.5
Meals eaten out	6	5.3	4.3	3.3	2.8	3.7
Petrol	6.8	5.6	4.9	4.1	2.7	4
Clothing & footwear	5.2	3.3	3.3	2.6	2.2	2.8
Telephone & internet	6.7	4.4	3.3	2.6	1.8	2.8
Holidays	4.9	4.1	4.5	3.9	4	4.1
Private Health Ins & other insurance	5.8	3.7	3.6	3.1	2.7	3.2
Health Practitioner fees	2.9	1.7	1.3	1.2	1.1	1.3
Pharmaceuticals	2.4	0.9	0.8	0.6	0.4	0.7
Electricity & Gas	4.9	3	2.4	1.9	1.2	2
Home & Car maintenance	8.9	6.1	4.7	5.6	5	5.5
Education	0.9	1	1.4	1.4	1.5	1.4
Buying vehicles	6.6	6.2	7.2	6.5	4.7	5.8
TV & Computers	1.8	1.9	1.6	1.5	1.3	1.5
Whitegoods	1.3	0.9	0.9	0.8	0.6	0.8
Furniture	1.5	1.3	1	0.9	1	1
Rent	15.5	10	6.7	3.9	1.5	4.7

Source: HILDA Wave 6

ABOUT THE NATIONAL SENIORS PRODUCTIVE AGEING CENTRE

The National Seniors Productive Ageing Centre is an initiative of National Seniors Australia and the Department of Health and Ageing to advance research into issues of productive ageing. The Centre's aim is to advance knowledge and understanding of all aspects of productive ageing to improve the quality of life of people aged 50 and over.

The Centre's key objectives are to:

- Support quality consumer oriented research informed by the experience of people aged 50 and over;
- Inform Government, business and the community on productive ageing across the life course;
- Raise awareness of research findings which are useful for older people; and
- Be a leading centre for research, education and information on productive ageing in Australia.

For more information about the Productive Ageing Centre visit www.productiveageing.com.au or call 02 6230 4588.

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