SACOSS
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Cost of Living Update

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Introduction

This report tracks changes in the cost of living for the least advantaged in South Australia.

The first part uses the Australian Bureau of Statistics' Analytical Living Cost Index (ALCI) to show changes in the cost of living (ABS, 2011a). The ALCI is preferred over the better known Consumer Price Index (CPI) because the CPI measures changes in the price of a set basket of goods. This basket includes discretionary goods and services that are not part of the expenditure of the poorest households. This is important because if expenditure on bare essentials make up the vast bulk (or entirety) of expenditure for low income households, then the price increases in those areas are crucial whilst price increases on other discretionary goods are largely irrelevant. However, increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket.

The ALCI uses a different methodology to CPI (see Explanatory Note 1) and it disaggregates expenditure into four different household types (ABS, 2011b), although this *Cost of Living Update* focuses only on the "Aged Pension" and "Other government transfer recipient" (hereafter "other welfare recipients") figures, as these are likely to represent the more disadvantaged households. While the ALCI also has limitations in tracking cost of living changes for these groups (see Explanatory Note 2), it does provide a robust statistical base, a long time series, and quarterly tracking of changes. This report also adds to the ALCI figures by putting a dollar value on the percentage changes in the ALCI.

The SACOSS *Cost of Living Updates* also contain a more in depth analysis of cost of living trends in one key area of concern in relation to cost of living pressures on vulnerable and disadvantaged South Australians. This Update focuses on spiralling health costs and uses the disaggregated CPI figures for Adelaide, as well as quantitative and qualitative data from other sources.

SECTION 1: December Quarter 2011 Cost of Living Changes

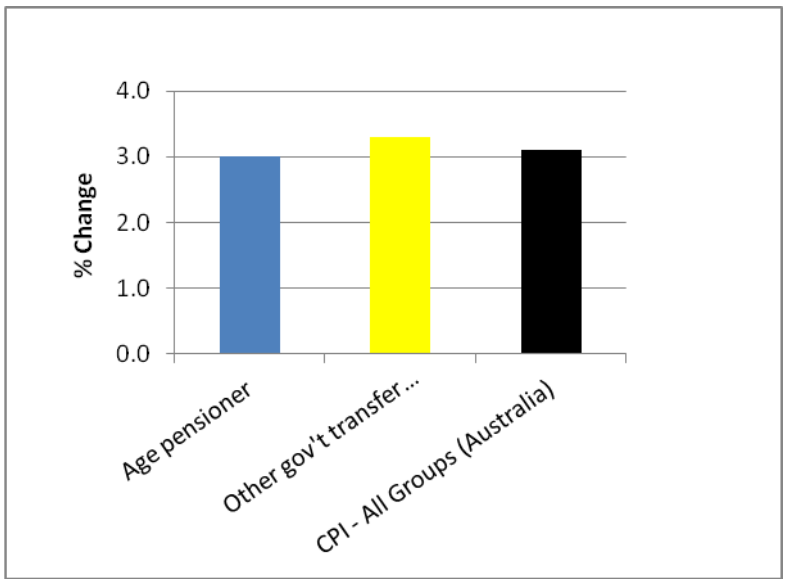
In the December 2011 quarter, the cost of living (as measured by the ALCI) for Aged Pensioners fell by 0.4%, the first time it has fallen in a quarter for 3 years. The ABS attributes this fall to decreasing prices for fruit, vegetables and pharmaceutical products and because Aged Pensioners have on average less expenditure on housing which went up in the December quarter (and was reflected more strongly in CPI) (ABS, 2012a).

For Other Welfare Recipient households, the cost of living in the December quarter (ALCI) showed no change, equalling the zero change in the national CPI (ABS, 2012c).

Over the last year (Dec Qtr 2010 – Dec Qtr 2011), the ALCI for Aged Pensioners increased by 3.0% and for Other Welfare Recipient households by 3.3% (ABS, 2012a), both of which were still above the national CPI (All Groups) increased 3.1% nationally, and 3.6% for Adelaide (ABS, 2012c).

In effect, while cost of living pressures eased a bit in the last quarter, particularly for pensioners, over the last year as whole the cost of living for other welfare recipients still rose faster than the generic CPI – except in Adelaide where inflation has been above the national figures.

Figure 1: Increases in ALCI and CPI Dec Qtr 2011



Given that welfare recipients have very low incomes, it is unlikely that any or any significant amount of the weekly benefit can be saved – at least for those not able to supplement their government transfer with other incomes. For someone on the base level of benefits, and assuming that they spend all their income, SACOSS calculates that the dollar value changes in cost of living is as shown in Table 1.

Table 1: Cost of Living Change Dec Qtr 2010 – Dec Qtr 2011

	Base Rate Benefit per week (30 Dec 2010)	ALCI Change	$ Amount per week
Aged Pensioner	$329.20	3%	$9.87
Newstart with two children (Other Welfare Recipient)	$234.85	3.3%	$7.75

(Source: Centrelink, 2010; ABS, 2012a)

That is to say, for those whose only source of income is a base-rate government benefit and who spend all their income, the cost of living over the last year increased by $9.87 a week for pensioners, and about $7.75 for other welfare recipients. By comparison, the base rate pension rose by $15.30 in the same period, while Newstart rose by $8.55 (Centrelink, 2011).

However, these figures do not account for local variations in prices. Table 2 compares price changes of a number of basic necessities in Adelaide with the national changes in the December quarter.

Table 2: Cost of Living Changes Dec Qtr 2011 by expenditure type

Cost of Living Area	Adelaide CPI Qtr change - %	National CPI Qtr change - %
Food	-2.0	-1.5
Housing	1.2	0.4
• Rent	1.0	1.0
Utilities	3.6	0.3
• Electricity	5.7	0.6
• Water	0.0	0.0
Health	-1.0	-1.2
Transport	1.0	0.0
CPI All Groups	**-0.1**	**0.0**

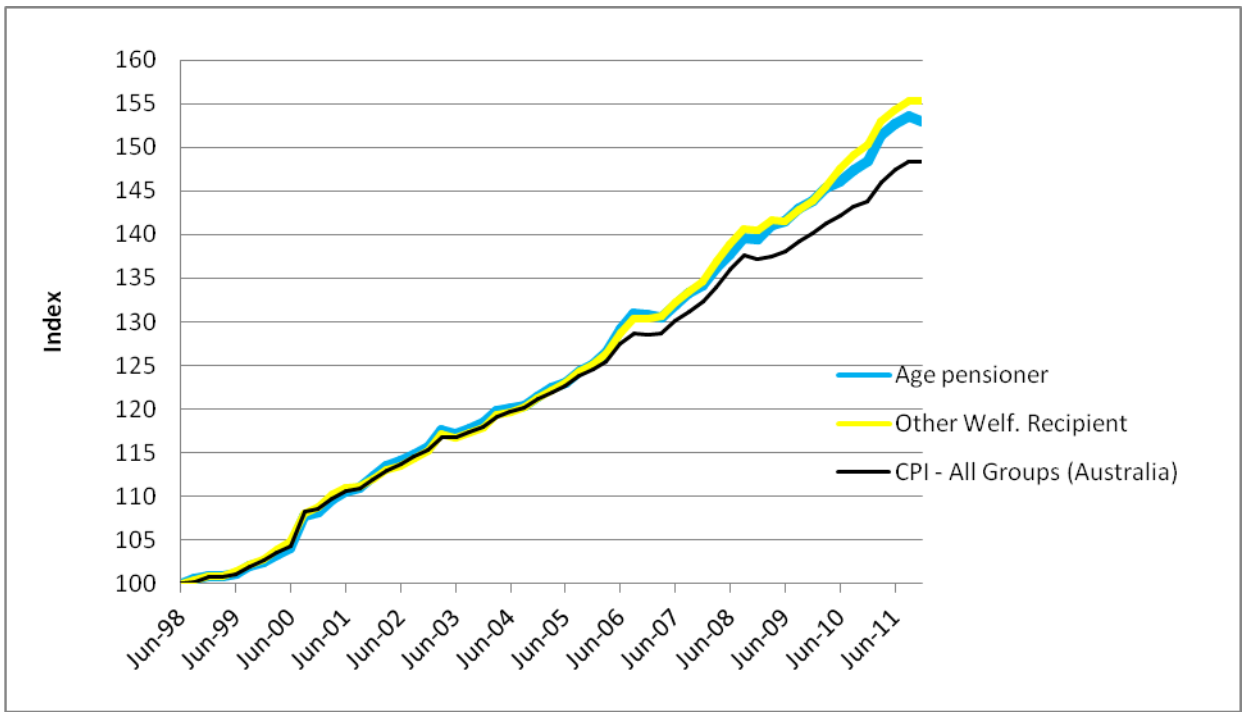
The cost of living benefits from the Adelaide CPI-All Groups figure being less than the national figure may be a bit illusory, because a significant driver of this fall was the large falls in the prices of fruit and vegetables (13.1% on the previous quarter). This was a bigger fall than in the national averages, but based on Adelaide prices having gone up more than the national average in the previous quarters.

Overall, while most of the ALCI and CPI indicators were fairly steady or showed a slight improvement in the December quarter, there are still significant increases in the cost of some of the basics goods and services (most notably electricity), which suggests that cost of living pressures remain very real – particularly for low income households who spend disproportionately more of their weekly budgets on these necessities. According to the last *Household Expenditure Survey,* housing, utilities and transport accounted for approximately 38% of expenditure for households in the lowest income quintile (ABS, 2011c, Table 3), so prices of basic necessities which constitute over a third of the weekly budget went up by more than the inflation rate. Again, this is important because the income of many of those households is pegged to CPI, so rising prices of necessities translates directly into decreases in standards of living for those households.

Longer-term trends

Previous SACOSS *Cost of Living Updates* have noted a trend where the cost of living for welfare recipients had been rising faster than CPI since 2006. Despite the falls in the last quarter, the long term trends are still evident, as shown in Figure 2.

Figure 2: ALCI & CPI Indexes



The trend that began in 2006 has continued as the lines representing the cost of living for welfare recipients and prices across the whole economy (as measured by CPI) grow further apart. The ALCI for aged pensioners is now 4.6 points higher than CPI, while for other welfare recipients the ALCI is 7 points higher than CPI. That translates to prices for goods and services bought by pensioners going up 3.1% more than inflation, and prices increasing by 4.7% more than inflation for those goods and services bought by other welfare recipients.

Again, this difference is particularly important where income support payments like Newstart and Youth Allowance are tied to CPI, meaning prices are going up faster than incomes.

Rising Health Prices

Household Expenditure on Health

The price of health care is an important cost of living pressure for many people. The ABS 2009-10 *Household Expenditure Survey* (HES) shows that on average, medical care and health expenses account for 5.7% of expenditure for South Australian households (ABS, 2011c, Table 3). While this may not appear to be a major expenditure driving cost of living pressures, the expenditure remains significant, averaging nearly $70 per week (ABS, 2011d).

The significance of health costs may also be understated by household expenditure figures as they are particularly susceptible to problems of "averaging out". Many households may spend little or nothing on health costs, while for people with chronic illness or ongoing medical problems, expenditure on health can be a major part of the household budget and drive real levels of poverty and disadvantage. A recent article in the *Medical Journal of Australia* highlighted a range of new studies showing that chronic illness and disability are associated with serious levels of economic hardship. Alarmingly, 11% of all individual bankruptcies in Australia are attributed to ill health or the absence of health insurance (Jan, et al, 2012). The stories of many people living with long term illness are alarming. In a study by Positive Life (2012), one person living with HIV (a condition has high medicine needs and often a range of treatments), said:

> I have around $1.80 [per week] to use for my discretionary spending! ... my options are limited. I no longer have the option of additional therapies as the cost is too much of a burden. If I do, then something else has to be dropped. This is usually food because everything else is required for me to maintain the perilous grip I have on living in general as I grow older with HIV/AIDS. [David][1]

The *HES* average figures clearly downplay the significance of health expenditure for many households, and particular demographic groups are likely to spend more on health and be more vulnerable to health price rises. For South Australian households whose primary source of income was the aged pension, health costs accounted for some 8.9% of household expenditure. This is well above the 5.7% average for all households (ABS, 2011c, Table 11). Households in the lowest income bracket spent an average of 7.1% of household income on medical care and health expense (ABS, 2011c, Table 3), again above the average of all households and in part because health problems also limit the ability to earn an income. Many people with chronic illness are reliant on the Disability Support Pension, or are only able to do short-term or part-time work, or are reliant on partner or families (and also often on community organisations).

Like many of the cost of living issues highlighted by SACOSS, it is clear that health costs impact disproportionately on those on low incomes (although actual expenditure is more in the higher income brackets – meaning that increasing prices also effect better-off households). However, the cost of health care is not just an important cost of living issue, it has direct implications for the health outcomes of people. At its most basic level, many people who can't afford medical services simply miss out, and often have to live with chronic pain, discomfort and/or decreased mobility and life opportunity. A recent Productivity Commission report suggests that 8.3% of South Australians deferred visiting a GP due to costs, while 11.1% deferred purchase of medicines for the same reason. (Productivity Commission, 2012, p. E.39)

Research from around the world has consistently shown that the poor are more likely to suffer ill health than well-off members of society, so the cost of health has clear social justice implications on top of the immediate hip pocket effects. As the *MJA* article cited above notes, chronic illness and disability is associated with economic hardship, which itself affects health behaviours "thereby completing a cycle in which poor health leads to poverty, which then leads to poor health" (Jan, 2012, p 29). And again, behind the statistics and commentary are real people:

[1] Names have been changed by Positive Life for privacy reasons.

> I am currently on 33 tablets a day. The cost of other treatments for opportunistic diseases has impacted on my finances to the extent that now I cannot afford all the other treatments required to stay well. The times I stray from them I am hospitalised for extended periods. (Stan)
>
> Ensuring that I have a proper intake of nutrition and good food has also been impeded as these costs have also risen. I have not bought new clothes for over 10 years. I go to second-hand stores and look for things that will do rather than buying something that will last. [William](Positive Life, 2012)

The quote above from William hints at another issue, in that the costs of health care are not limited to the narrow medical costs which inform the health costs statistics. The MJA article cited above notes a number of hidden costs which includes cost of self-management such as home modifications, transport and paid care (MJA, 2012), while for others utilities are a huge and medically important issue. In this context SACOSS welcomed the medical cooling concessions introduced last year by the state government to assist those whose medical conditions require a temperate controlled environment, but utility costs remain a big issue:

> ... the cost of staying warm in winter and cool in summer has grown exponentially over time. I pay $65 a fortnight on electricity. Running a car is not a luxury. I need it to make the numerous doctors and specialist appointments each week and these costs rise and never fall. I don't use the car for unnecessary trips and tests are not always covered. [Trevor] (Positive Life, 2012).

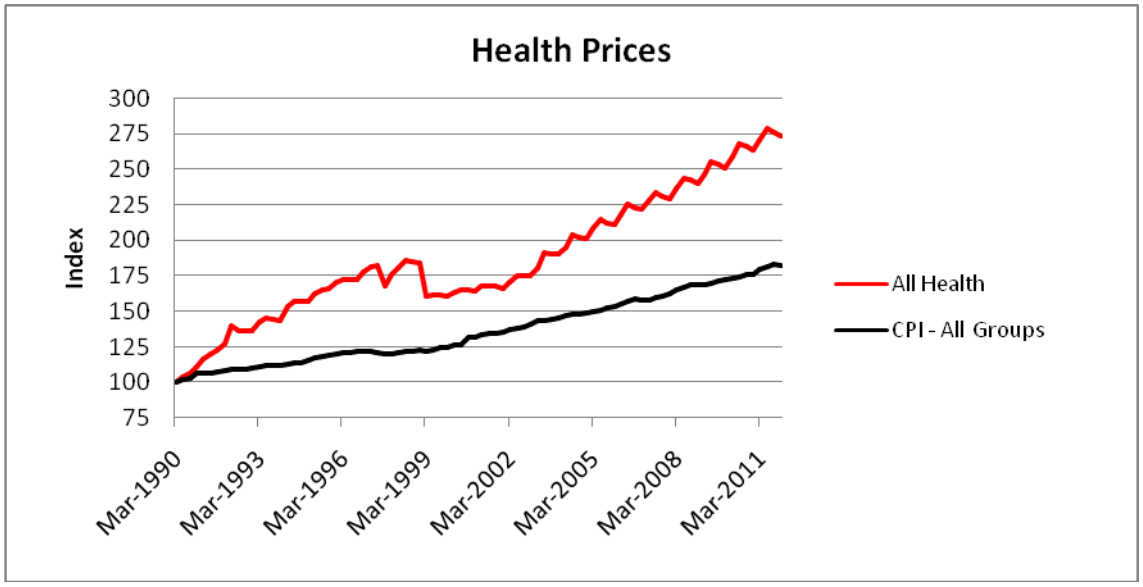
Transport costs are a particular issue for people in rural areas who need to travel long distances for treatment. The Patient Assisted Travel Scheme (PATS) which assists people in rural and regional areas travel for medical needs is in need of review. NSW has recently increased its PATS rebate to $60 a day, but in South Australia it remains at $30 - $35 a day – which will barely make a dent on fuel and accommodation costs. Similarly, dental services are simply not available in many regional areas and there is no PATS for dental services.

These transport, utility and other miscellaneous costs are not normally counted as medical costs, but are part of the cost of living pressures experienced by many of those dealing with chronic health issues. That said, the remainder of this report will focus on the costs of health more narrowly defined.

Summary of Health Price Movements

CPI for All Health prices in Adelaide over the last year rose by 3.9% - despite falling marginally in the last two quarters. This follows the trends evident in the CPI data for health prices, which are shown in Figure 3. While there were major price re-alignments from 1997 – 2002, over the last ten years there is a clear trend with health costs for consumers rising faster than the generic CPI.

Figure 3: Adelaide Health Prices and CPI

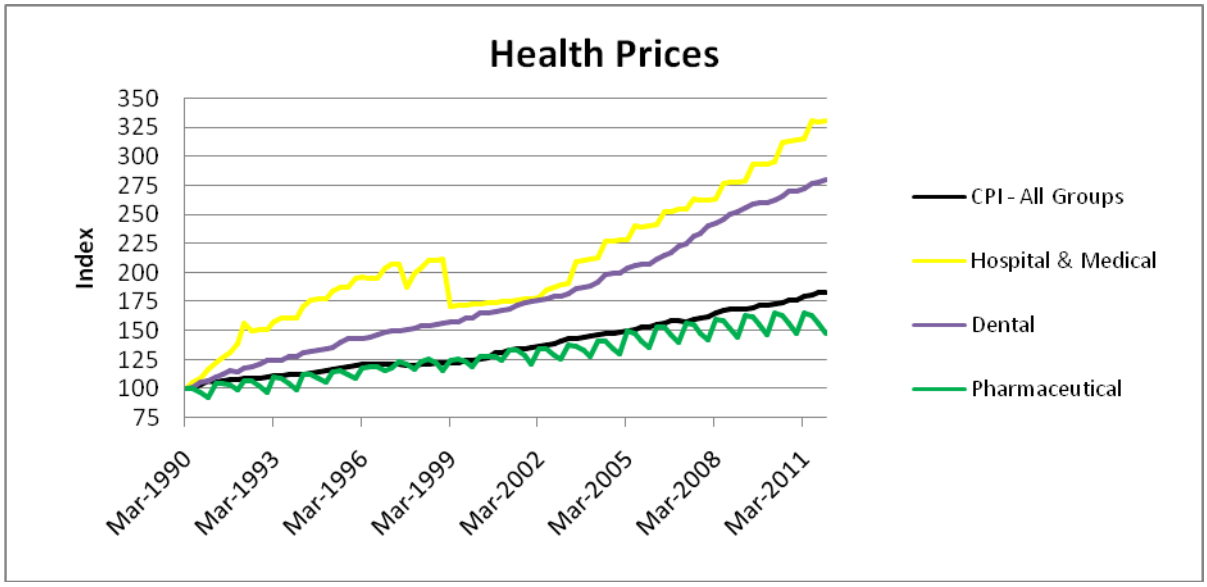


As always, where a price rises faster than CPI, it creates particular problems for those on incomes pegged to CPI such as those on Newstart, Youth or Widows Allowance, and many low wage earners with limited industrial bargaining power. In effect, it means that these services are becoming increasingly hard to afford.

Disaggregated Health Prices

Figure 4 presents a more nuanced picture of what has been happening to health prices in Adelaide by breaking the summary figure into its component parts. It is immediately apparent that Medical and Hospital Service prices are going up much faster than CPI. The Medical and Hospital Services category includes consultations of doctors (GPs and Specialists), hospital charges and medical insurance prices. The price of dental services has also risen at a much faster rate than CPI over the duration, and, as can be seen by comparing the gradients of the graphs, the last 10 years have seen both Dental and Hospital and Medical Service prices increased markedly more than CPI.

Figure 4: Disaggregated Adelaide Health Prices



However, Figure 4 only shows price rises for the various health services relative to CPI, it does not show the relative importance of each of those expenditures. (A steep rise in prices may not matter

much if it is on a small expenditure, whereas a small rise in a substantial payment may have a significant impact on a low income earner). Table 3 lists the relative importance of each expenditure line in terms of a percentage of the overall health expenditure, and then shows how much each of those items has gone up in the last year and in the last decade.

Table 3: Price changes and relative importance of different health prices

CPI Expenditure Category	% of health expenditure	Price change last year (Dec 2010 - Dec 2011) (% increase)	Price change since 2001 (% increase)
Medical and Hospital Services	67.8	5.3	85.8
Dental	8.0	3.9	60.2
Pharmaceuticals	21.8	0.2	21.3
All Health	***100***	***3.9***	***64.2***

Source: Derived from ABS (2011d, Table 2),and ABS (2012c) .

The ten-year figures in the right hand column give some substance to the various lines in Figure 4. During this period CPI – All Groups increased by 34.6%, so the All Health price increase of 64.2% is an increase of 85% over CPI. Put another way, health prices have increased by 85% more than the average level of price increases for all goods and services over the last 10 years. Medical and hospital services increased even more, by nearly one and half times the generic CPI.

It is also clear from Table 3 that the CPI All Health price figure is dominated by medical and hospital prices, and that the two elements which are increasing at well above the generic inflation rate contribute over three-quarters of the CPI health index. This overwhelms the below inflation rate trends in pharmaceutical prices and highlights the key components that are driving increasing health prices.

Conclusion

The experience of many people who use the health system, and particularly those with chronic illness, suggest that rising health costs are a major cost of living pressure. Health costs are rising faster than CPI, and therefore faster than the incomes of those whose wages or payments are tied to CPI. It is clear that these price rises are being driven by rising medical, dental and hospital costs.

The SACOSS Cost of Living Summit held last year looked at a number of initiatives to relieve health cost of living pressures, including the introduction of the proposed National Disability Insurance scheme and gap payments for pharmaceuticals for those with chronic illness (SACOSS, 2011). However, rising health prices, and the fact that these are being driven by tertiary health care dominated fields of medical and hospital services, emphasises the need for and the benefits of developing preventative health strategies to minimise the interactions with the most expensive parts of the health system.

Explanatory Notes

1. CPI and ALCI

The ALCI uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. the price at the time of acquisition of a product) while the ALCI is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the ALCI traces changes in the amount expended each week on housing (e.g. mortgage repayments). Further information is available in the Explanatory Notes to the ALCI (ABS, 2012b).

In that sense, the ALCI is not a simple disaggregation of CPI and the two are not strictly comparable. However, the differences do not matter for the way the indexes are used in this report. Both measure changes in the cost of living over time, and given the general usage of the CPI measure and its powerful political and economic status, it is useful to compare the two to highlight the differences for different household types.

2. Limitations of the ALCI Data

The ALCI is more nuanced that the generic CPI, but there are still a number of problems with using it to show cost of living changes faced by the most vulnerable and disadvantaged in South Australia. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the ALCI figures are not state-based, so any particular South Australian trends or circumstances may not show up.

At the more technical level, the ALCI figures are for households whose predominant income is from the described source (e.g. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2009/10 Household Expenditure Survey) (ABS, 2011d) add up to well over the actual welfare payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income, or more than one welfare recipient in the same household. Like the CPI, the ALCI figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest in those categories.

Another example of this “averaging problem” is that expenditures on some items, like housing, are too low to reflect the real expenditures and changes for the most vulnerable in the housing market – again, because the worst case scenarios are “averaged out” by those in the category with other resources. For instance, if one pensioner owned their own home outright they would generally be in a better financial position than a pensioner who has to pay market rents – but if the market rent were $300 per week, the average expenditure on rent between the two would be $150 per week, much less than what the renting pensioner was actually paying.

The weightings in the ALCI are also based on a set point in time (currently from the 2009/10 Household Expenditure Survey) and can’t be changed until the next Household Expenditure Survey. In the meantime, the price of some necessities may increase rapidly, forcing people to change expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the ALCI weighting does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the ALCI household income figures are based on households that are the average size for that household type—1.57 people for the aged pensioners, and 2.4 for the other welfare recipients (ABS, 2012b). This makes comparison with welfare allowances difficult. This *Update* tends to focus on single person households or a single person with two children (to align to the other welfare

recipient household average of 2.4 persons). However, this is a proxy rather than statistical correlation.

It is inevitable that any summary measure will have limitations, and as noted in the main text, the ALCI does provide a robust statistical base, a long time series, and quarterly tracking of changes in the cost of living which is somewhat sensitive to low income earners.

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