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Introduction

This report tracks changes in the cost of living, particularly for vulnerable and disadvantaged South Australians.

The first part uses the Australian Bureau of Statistics' Selected Living Cost Indexes (ABS, 2014a) and Consumer Price Index (ABS, 2014c) to show key changes in the cost of living in the last quarter and over the last 12 months.

As a summary measure, the Selected Living Cost Indexes are preferred over the better known Consumer Price Index (CPI) because the CPI is technically not a cost of living measure. It tracks changes in the price of a specific basket of goods, but this basket includes goods and services that are not part of the expenditure of all households, and poor households in particular. When considering the cost of living, this is important because if expenditure on bare essentials makes up the vast bulk (or entirety) of expenditure for low income households, then price increases in those areas are crucial whilst price increases or decreases on other discretionary goods are less relevant. 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 Selected Living Cost Indexes use a different methodology to CPI (see Explanatory Note 1). They disaggregate expenditure into a number of different household types (ABS, 2014b), 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 Selected Living Cost Indexes also have limitations in tracking cost of living changes for these groups (see Explanatory Note 2), they do provide a robust statistical base, a long time series, and quarterly tracking of changes – all of which is useful data for analysis.

This report also adds to the Selected Living Cost Indexes by putting a dollar value on the changes, and by using disaggregated CPI data to summarise change in prices of key items.

The second part of this *Cost of Living Update* contains a more in-depth analysis of trends in one key area of concern in relation to cost of living pressures on vulnerable and disadvantaged South Australians. This Update focuses on health costs and as well as tracking spiralling costs, it considers the potential impact of federal budget changes on the affordability of health services.

SECTION 1: June Quarter 2014 Cost of Living Changes

Prices

In the June 2014 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes) for Aged Pensioners and Other Welfare Recipients rose by 0.4%. CPI in the same period rose by 0.5% nationally and 0.4% in Adelaide (ABS, 2014a; ABS, 2014c).

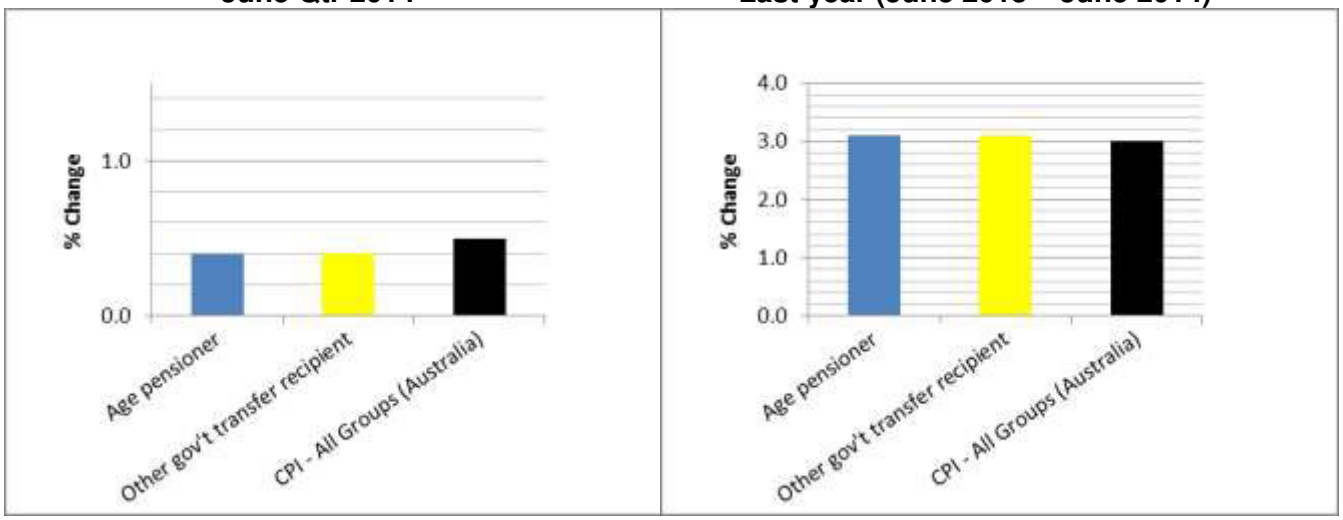
The biggest driver of the rise in cost of living impacts for Aged Pensioners was increases in health costs (mainly due to increases in private health fund premiums and the indexation of the Private Health Insurance Rebate, partly offset by a fall in pharmaceutical products as a greater proportion of consumers qualified for support under the Pharmaceutical Benefits Scheme). Other contributing factors were furnishings and household equipment and food, while for other welfare recipients the main contributors were alcohol and tobacco (with those groups having a proportionately high average spend on tobacco), and clothing and footware. In both cases, the main offset was a fall in transport prices mainly due to falls in petrol prices.

The main reason CPI was higher than the SLCI nationally was that house purchase prices are included in CPI, but not in the SLCI (where housing costs are based on mortgage payments/expenditure). However, this CPI push factor did not apply to Adelaide with new dwelling purchase prices only increasing by 0.1% in the quarter – hence the Adelaide CPI was lower and equal to the SLCI.

Over the last year (June Qtr 2013 – June Qtr 2014), the living cost indexes for Aged Pensioners and Other Welfare Recipients rose by 3.1%, which was above the generic CPI rise of 3% nationally, and equal to the 3.1% CPI rise in Adelaide (ABS, 2014a, 2014c).

Figure 1: Increases in Living Costs – June Qtr 2014

June Qtr 2014 | **Last year (June 2013 – June 2014)**



These overall figures can be disaggregated to track changes in the price of key basic goods and services in the last quarter, both in Adelaide and nationally. These are shown in Table 1 over the page.

Clearly a number of these basic commodities went up more than the generic inflation rate, most notably (as above) health and food prices. By contrast, electricity prices actually decreased by 7.7% in the quarter – which in turn brought down utilities and the housing prices index. However, this fall really only offsets the massive 8.3% electricity increase in the previous quarter.

Table 1: Cost of Living Changes June Qtr 2014 by expenditure type

Cost of Living Area	Adelaide CPI March Qtr change %	National CPI March Qtr change %	Adelaide CPI March 2013-March 2014 %	National CPI March 2013 – March 2014 %
Food	0.7	0.4	3.4	2.5
Housing	-1.0	0.8	2.5	3.9
• Rent	0.5	0.6	1.9	2.4
Utilities	-4.3	-0.3	4.4	6.6
• Electricity	-7.7	-0.7	2.9	5.2
• Water	0.0	0.3	1.0	11.1
• Gas	0.0	0.3	13.5	6.2
Health	3.4	2.9	5.4	4.9
Transport	-0.9	-0.7	4.4	2.7
CPI All Groups	0.4	0.5	3.1	3.0

(Source: ABS, 2014c)

Incomes

Given that welfare recipients have very low incomes, it is unlikely that any significant amount of the weekly benefit can be saved – at least for those not able to supplement their government payments with other incomes. For someone on the base level of benefits (with no rent assistance), and assuming that they spend all their income, SACOSS calculates that the dollar value changes in cost of living is as shown in Table 2.

Table 2: Cost of Living Change June Qtr 2013 –June 2014

	Base Allowance + Supplements (30 June 13)	Selected Living Cost Index change	Living Cost Change per week $	Base Allowance + Supplements (30 June 14)	Change in rates of same benefits $	Net Result $pw
Aged Pensioner (Single)	$404.2	3.1%	$12.53	$421.4	$17.20	+$4.67
Newstart with two FTB children	$522.04	3.1%	$16.18	$533.20	$11.16	-$5.02

(For sources and details of calculation, see Explanatory Note 3 in the Appendix)

That is to say, for those whose only source of income is a base-rate Aged Pension (with the Household Assistance Package Payment) and who spend all their income, the cost of living over the last year increased by $12.53, but this was more than covered by the $17.20 a week increase in their income. By contrast, for a single person on the base rate of Newstart with two children, their cost of living went up by $16.18 per week while their income only increased by $11.16, leaving them $5 a week worse off.

In the context of proposed Federal budget changes to the indexation of pensions and welfare entitlements, these figures show (yet again) that the difference in indexation methods matters. Putting pensioners on the same indexation as those on Newstart will mean that they will be left behind the rest of the community (something the current pension indexation is set to avoid) and their benefits may not keep pace with the cost of living.

SECTION 2: Health Costs

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. While this may not appear to be a major expenditure driving cost of living pressures, the expenditure remains significant, averaging $59.25 per week at the time (ABS, 2011c, Table 3) and impacting much more on some households.

Table 3 updates the *HES* figures, although it should be noted that this is based on 2009/10 expenditure patterns. It is likely to be a conservative estimate given that the long term trend has been for health expenditure to increase not just as a result of inflation, but also as a result of changed expenditure patterns as new treatments become available or health service needs change. For instance, in 1993/94 average household health expenditure in Australia was $27.14, while in 2009/10 it was $65.60, but only about 60% of this was due to price increases. The remainder was from changed expenditure patterns (SACOSS estimate derived from ABS, 2011a – Table 1, and ABS, 2014c).

Table 3: Average Household Health Expenditure in Adelaide – June 2014

	Expenditure per week	% of H/hold Expenditure
Accident and Health Insurance	$44.04	
Health Practitioners' Fees	$21.54	
Medicines & Therapeutic Appliances	$17.07	
Total Health Expenditure	$84.53	5.7%

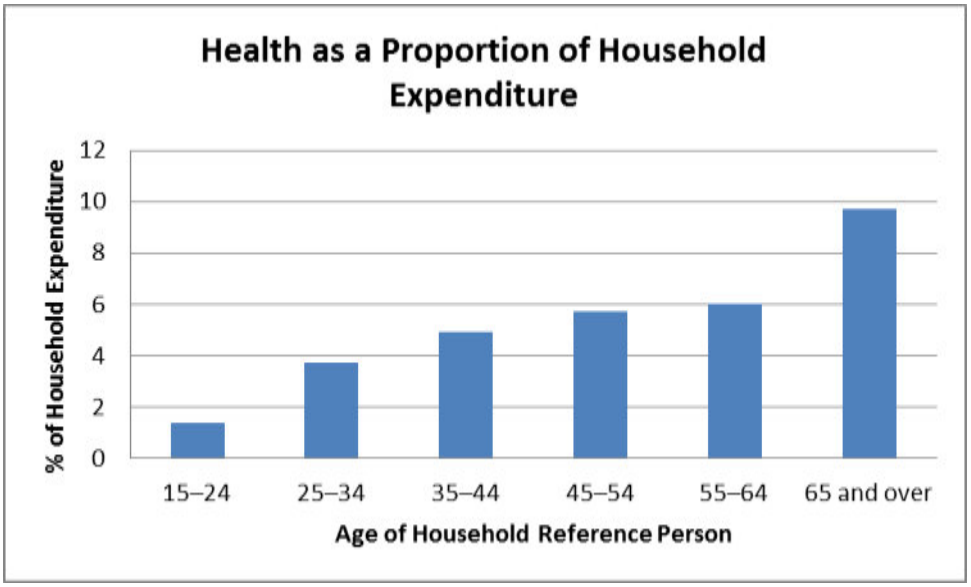
(Source: ABS, 2011b Table 23A, updated using Adelaide CPI: ABS, 2014c)
Note: The individual items do not add up to the total due to different indexing and the ABS miscellaneous health item is not included in the table.

The figures for SA as a whole are slightly lower than the Adelaide figures, with total weekly expenditure for households across the state being $77.74. However, the expenditure patterns and proportion of the total weekly expenditure going to health are the same as the Adelaide figures. The Adelaide figures also closely parallel the national average figures, although at 5.1% the proportion of the weekly spend is lower at the national level.

These average figures show a significant weekly expenditure on health, but this is not evenly spread across all households. While in absolute terms the highest income households spend 3.6 times as much on health as the lowest income households, lower income households actually spend a larger proportion of their household budget on health than those on higher incomes (7.1%) (ABS, 2011c – Table 3).

However, age, rather than income or social status, is a bigger predictor of health expenditure, and Figure 2 below shows the proportion of household expenditure going to health for different age groups. These age figures are based on the "household reference person" in the ABS survey, so may not reflect the average age in the household, but the trend is stark. The fact that older people spend more on health than other age groups is also reflected in the fact that in households reliant on the age pension, health accounts for 8.9% of weekly expenditure – well above the SA average of 5.7%.

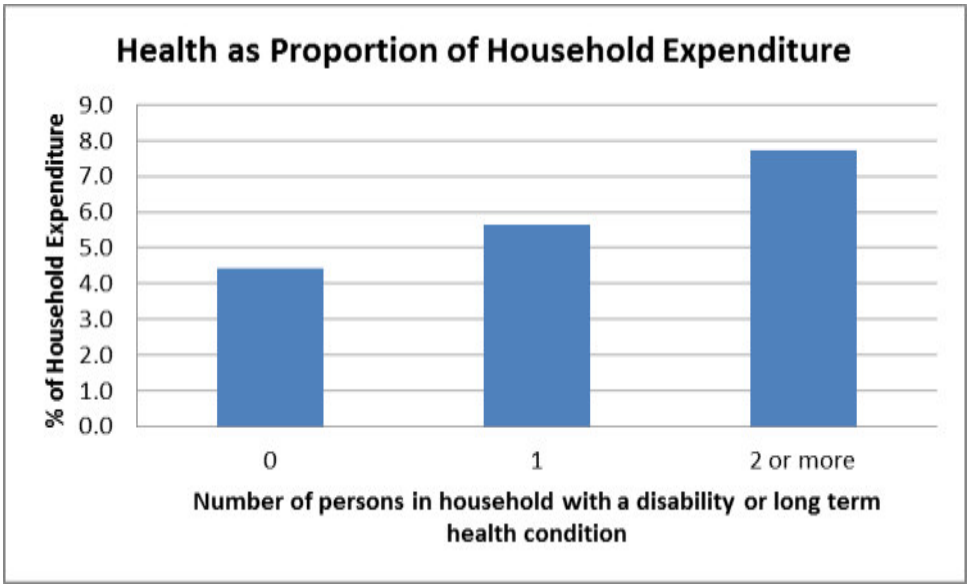
Figure 2: Age and Health Expenditure in South Australia



(Source: Derived from ABS, 2011c, Table 21)

While age is clearly a major factor in health expenditure, those living with a disability or long term health conditions also obviously spend significantly more than the average. The national figures from the 2009/10 *HES* show that households with two or more people with a disability or long term health condition spent nearly 60% more on health than those households with no-one with a disability or long term health condition ($93.87 as opposed to $59.25). Figure 3 shows the health expenditure as a proportion of total household goods and services expenditure.

Figure 3: Disability and Long Term Health Conditions (Australia)



(Source: Derived from ABS, 2011b, Table 34A)

While the figures above show that health costs are more likely to impact on older households, or households where there are 2 or more people with a disability or long term health condition, across all household-types the significance of health costs will be understated for some households because of the statistical “averaging out”. Some households may spend little or nothing on health costs, but for others with different needs, expenditure on health can be a major part of the household budget and drive real levels of poverty and disadvantage. For instance, Grattan Institute

figures show that more than one in ten of the lowest income households spend more than 20% of their disposable income on health costs (Duckett, 2014). The last SACOSS *Cost of Living Update* to focus on health (December Quarter 2011) noted studies showing that chronic illness and disability were associated with serious levels of economic hardship and a significant proportion of individual bankruptcies, while the cost of pharmaceuticals was a major concern for those living with illnesses like HIV that require high levels of medication (SACOSS, 2012).

The December 2011 *Update* also noted that the costs of health care are not limited to the narrow medical costs which inform the health costs statistics. There can be a range of hidden costs including the cost of self-management such as home modifications and paid care, transport – both to medical treatment and in general if ill-health limits normal mobility – and some others utilities are a huge and medically important issue.

The recent South Australian state budget recognised the significance of these "non-medical" health expenses with welcome increases in two important government assistance programs:

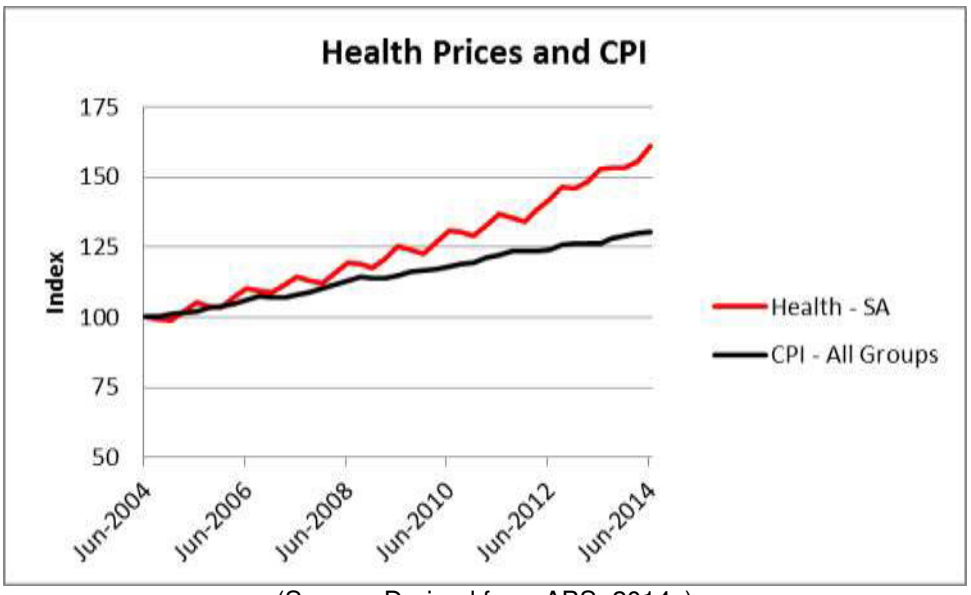
- the "medical cooling concession" for energy costs for those with medical conditions requiring a temperature-controlled environment was increased by $50p.a. in line with the general increase in energy concessions;
- the Patient Assistance Transport Scheme which assists those in rural and regional areas to travel for medical needs was increased after a long advocacy campaign by a range of health and community groups.

These were important initiatives because transport, utilities and other miscellaneous costs (although not normally counted as medical costs) 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 5.4%, while the general inflation rate was 3.1%. This follows the general trend over the last ten years, as evident in the CPI data shown in Figure 4.

Figure 4: Health Price Movements 2004-14 – Summary Level



(Source: Derived from ABS, 2014c)

Clearly prices for health products and services have risen much faster than the general inflation rate over the last ten years. While CPI went up by 30.5%, health prices doubled that – rising by 61% over the decade.

SACOSS estimates (based on the expenditure levels in the 2003/04 *HES* and CPI indexes), that had health prices gone up at simply the general inflation rate, South Australians on average would be spending $27 a week less on health now than they currently are, with $12 of this being the differential price increases and the remainder due to increased consumption.

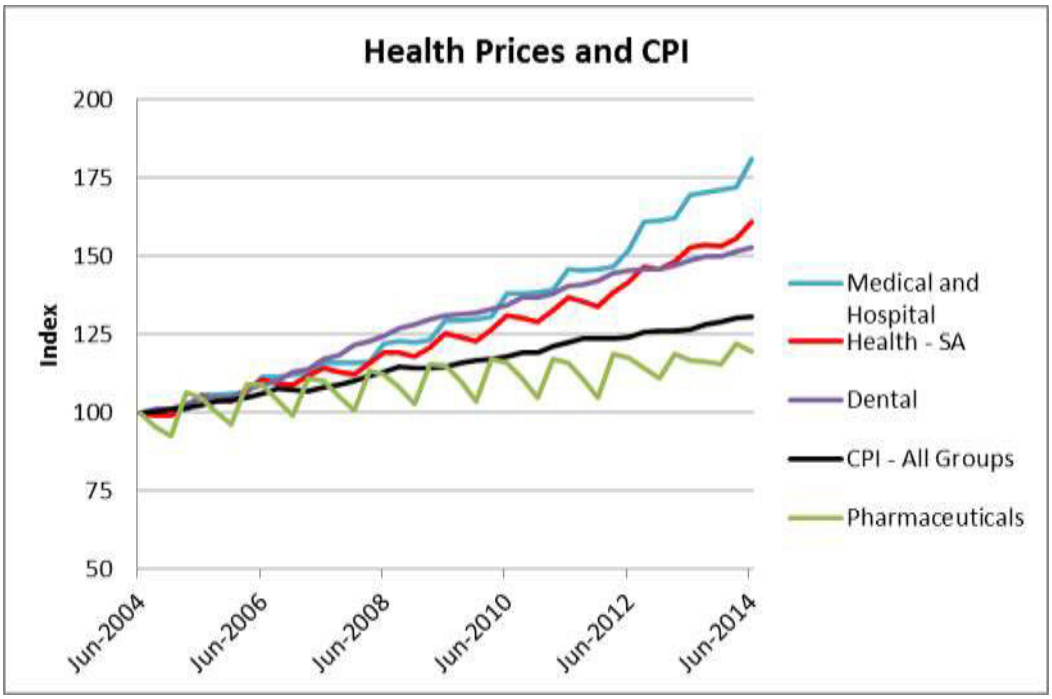
Disaggregated Health Prices

Figure 5 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 accounts for 2/3 of health expenditure and includes consultations of doctors (GPs and Specialists), hospital charges and medical insurance prices. It has risen 81% over the decade, more than two and half times the increase in the generic CPI.

The price of dental services has also risen at a much faster rate than CPI over the duration (although not in the last two years), while the price of pharmaceuticals (22% of health expenditure) has increased by less than the generic CPI. However, it is important to note here that this price incorporates the Pharmaceutical Benefit Scheme subsidies (hence the seasonal pricing pattern as it takes time each year before a person's annual pharmaceutical spend exceeds the threshold where the PBS takes effect). In this sense, while the CPI shows prices for consumers, it does not necessarily track the production or total sale price of pharmaceuticals.

Figure 5: Disaggregated Health Price Movements 2004-14



(Source: Derived from ABS, 2014c)

Potential Impact of the 2014-15 Federal Budget

Measures Directly Impacting on Cost of Living

The 2014-15 Federal Budget contained a series of measures which, if implemented, will directly increase the cost of health services for households. These measures include:

- Introduction a $7 co-payment for GP visits and out-of-hospital pathology and X-rays that are currently bulk billed;
- Reduction in the Medicare rebate by $5 for non-bulk-billed services;
- An additional $5 contribution for medications under the PBS that cost more than $37.70 (80c for concession card holders for prescriptions costing more than $6.10)
- An increase in the threshold for expenditure before the PBS takes effect
- Pausing indexation of the Medicare Benefits Schedule for a further two years meaning that consumers may pay more for specialist and allied health services;
- Pausing indexation of the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds.

Against these increases in health costs, there were also some changes which may reduce some health costs, including:

- Lowering of the threshold for the Medicare Safety Net to apply (but with new restrictions and decreased benefits); and
- Indexing the income test for the Commonwealth Seniors Health Card, allowing more retirees to access PBS medicine at the concessional rate. (Choice, 2014; ACOSS, 2014)

Obviously not all these measures apply to all health consumers. For instance, the freezing of the Private Health Insurance Rebates will impact on anyone with private health cover, but generally benefit those on higher incomes (ACOSS, 2014), while increasing the income test for the Commonwealth Seniors Health Card will also apply to those with significant assets or income. By contrast, analysis by the Grattan Institute suggests that measures like the introduction of co-payments will disproportionately impact on low income households who are more likely to skip seeing a doctor or taking prescribed medicines (Duckett et al, 2014, p 11).

The overall impact of the Federal Budget on households' health costs will differ depending on individual household health needs and expenditures, and their incomes. However, the impact of some measures can be estimated in particular cases.

For concession card holders, the $7 GP co-payment is capped at 10 visits per year, meaning the maximum impact is an additional $70 per year in health costs. SACOSS estimates that the average expenditure on health for a South Australian household whose primary source of income is a pension or allowance is $45.84 per week (based on ABS, 2011c – Table 9, adjusted by CPI). When adjusted for household size, the extra cost from the co-payment represents a 4.7% increase in their total health costs from this one Budget measure.

Similarly, the increase in cost of PBS medicines would add 80c to the existing $6.10 prescription cost, an increase of 13% for those medicines – although only up to the point where the free medicine threshold is reached. For those concession holders who consume more PBS medicines than that, the 80c payment increase will not increase their annual expenditure as it will simply mean that they reach the annual threshold earlier. However, the threshold itself will increase by $61.80 representing a 17% increase in the costs of prescription medicines for those over the threshold.

For non-concession PBS consumers the threshold increase is 10%, but the actual percentage increase in costs of pharmaceuticals will depend on how many prescriptions are filled.

Indirect Impacts on Cost of Living

Beyond these measures that would have an immediate impact on cost of living for households, the Federal Budget also made substantial cuts to funding to states in relation to the provision of health services. These include most significantly ceasing funding guarantees under the National Health Reform Agreement and changing indexing arrangements for future funding, and ceasing funding under the National Partnership Agreement on Improving Public Hospital Services. In addition there were cuts to the National Partnership Agreement on Preventative Health and the National Partnership on Indigenous Early Childhood Development (Hockey, 2014, pp 124-150).

The South Australian government estimates that these cuts amount to $655m over four years, and $4.6 billion from what had been agreed over the next ten years (Govt of SA, 2014, p 5). These cuts will potentially impact on households indirectly either through reductions in health services provided by state government, or through pressure on state governments to introduce/increase fees for health services or to increase taxes elsewhere to cover funding shortfalls.

The extent of these impacts on households is difficult to anticipate because of the uncertainty around the current Federal budget, and because it will also depend on the response of the state government in future budgets, as well as the broader questions around where health funding sits with future of federal relations currently under review.

Conclusion and Recommendations

In summary, health expenditure is a significant and increasing proportion of the average household, and a larger part of the budget of older and low income households. Over the last ten years prices for health have been increasing above the inflation rate and putting pressure on households, while changes proposed in the Federal budget will increase the burden more as they also impact disproportionately on the poorest households. There is a real risk that faced with increasing costs, people – and those on lower incomes in particular – will not seek medical help when it is needed, thus increasing their health risk and suffering, and potentially increasing health costs overall when more complex tertiary care and hospital treatment is required.

Accordingly, SACOSS recommends:

- That the Federal government abandon co-payment plans and reverse the changes to the PBS (or that the Senate reject those measures);
- That the Federal government re-invest in preventative health programs;
- That the Federal government cuts to state health funding be reversed or stayed until such time as a new national agreement can be reached; and
- That all levels of government (re)commit to universal access to basic medical care.

APPENDIX: Explanatory Notes

1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes 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 living cost index 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 Selected Living Cost Indexes (ABS, 2014b).

In that sense, the Selected Living Cost Indexes are not a simple disaggregation of CPI and the two are not strictly comparable. However, both indexes are used to measure changes in the cost of living over time (although that is not what CPI was designed for), and given the general usage of the CPI measure and its powerful political and economic status, it is useful to compare the two and highlight the differences for different household types.

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced that the generic CPI in that they measure changes for different household types, but there are still a number of problems with using those indexes 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 living cost indexes are not state-based, so particular South Australian trends or circumstances may not show up.

At the more technical level, the Selected Living Cost Indexes 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*) 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 Living Cost Index 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 Selected Living Cost Indexes are also based on a set point in time (from the 2009-10 *Household Expenditure Survey*) and can’t be changed until the next 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 weighting in the indexes does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the Selected Living Cost Indexes’ household income figures are based on households that are the average size for that household type: 1.52 people for the aged pensioners, and 2.57 for the

other welfare recipients (ABS, 2014b). This makes comparison with allowances difficult. This *Update* focuses on single person households or a single person with two children (to align to the other welfare recipient household average of 2.57 persons). However, this is a proxy rather than statistical correlation.

That said, it is inevitable that any summary measure will have limitations, and as noted in the main text, the Selected Living Cost Indexes 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.

3. Income Support Payment Calculations – June 2014

Even using the base rate of benefits, the calculation of the relevant weekly incomes is difficult. The complexity of the income support system means that payment eligibility and rates change depending on the exact circumstances of the household (eg. age of children, assets). The calculation is also complex because of changes over time in eligibility and available benefits. However, based on an assumption of a single Aged Pensioner and a single Newstart recipient with two children (aged 10 and 14) – with neither receiving Commonwealth Rent Assistance, the basic income supports payments are as follows:

Rates at 30 June 2013

	Base Rate	Pension Supple-ment	Household Assistance Package	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	$366.85	30.6	6.75					$404.20
Newstart - 2 children	$268.90		4.55	84.84	110.32	50.33	3.1	$522.04

Rates at 30 June 2014

	Base Rate	Pension Supple-ment	Household Assistance Package	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	$383.00	$31.45	6.95					$421.40
Newstart - 2 children	$276.20		4.70	86.10	112.00	51.10	3.1	$533.20

(Source: Calculated from data in Centrelink, 2013, 2014)

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