NTCOSS

NT Council of Social Service Inc.

COST OF LIVING REPORT

Tracking changes in the cost of living, particularly for vulnerable and disadvantaged Northern Territorians: The Cost of Insurance in the Territory

Issue No.10 December 2015

NTCOSS Cost of Living Report

Issue No. 10, December 2015

First published in December 2015 by the
Northern Territory Council of Social Service Inc.

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Introduction

This report examines changes in the cost of living, particularly for vulnerable and disadvantaged Northern Territorians.

The report is divided into two sections. In the first section of the report there is a focus on highlighting changes in the cost of living in the last quarter and over the last 12 months, using the Australian Bureau of Statistics' Selected Living Cost Indexes (ABS, 2015a) and the Consumer Price Index (CPI), (ABS, 2015d). The Living Cost Indexes (LCIs) have been designed to answer the question: 'By how much would after tax money incomes need to change to allow households to purchase the same quantity of consumer goods and services that they purchased in the base period?' (ABS (2015a)).

The Selected Living Cost Indexes are preferred, as a summary measure, over the more well known CPI, because the CPI is technically not a cost of living measure, as it tracks changes in the price of a specific basket of goods, however, this basket includes goods and services that are not necessarily part of the expenditure of all households. In particular, there are goods and services in the CPI basket that are not part of the expenditure of many low income households. (SACOSS (2014)).

The makeup of the basket of goods and services must be taken into account when considering the cost of living. If expenditure on the bare essentials makes up most or even all of the expenditure for low income households, then it is the price increases in those areas that will have a greater negative impact on some households. 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, which may be discretionary items, and therefore more likely to be purchased by higher income households and therefore less pertinent to low income households (SACOSS (2014)).

The methodology used for the Selected Living Cost Indexes is different to that used for the CPI, as explained in Explanatory Note 1. While the Selected Living Cost Indexes do have some limitations in terms of tracking cost of living changes (see Explanatory Note 2), overall however, they provide a "robust statistical base, quarterly tracking of changes and a long time series, which all provide valuable data for analysis". (SACOSS (2014)).

The second section of the NTCOSS *Cost of Living Report* contains a more in-depth analysis of cost of living trends in one key area of concern in relation to cost of living pressures on low income and disadvantaged Northern Territory households. The particular focus of this report is on the cost of insurance and uses 2009-10 ABS Household Expenditure Survey Data (ABS (2011a)) and September 2015 ABS CPI figures for Darwin, comparing these with national and State/Territory figures.

NTCOSS acknowledges the generous time and resources and advice provided by SACOSS, whose Cost of Living Reports have contributed significantly to the development of this and previous NTCOSS Cost of Living Reports. In particular, this report draws on the: SACOSS (2013), Cost of Living Update No. 13 (Insurance).

SECTION 1: September Quarter 2015 Cost of Living Changes: Price and Income

Cost of Living Changes as measured by the Selected Living Cost Index (SLCI)

The ABS Selected Living Cost Index (SLCI) disaggregates expenditure into a number of different household types (ABS, (2015b)). In this report the focus is primarily on the "Age Pension" and "Other government transfer recipient" figures (referred to as "Other Welfare Recipients"), as these are likely to represent the more disadvantaged households. This report also includes figures for Employees – to serve as a comparison with these other groups.

Cost of Living changes over the last year Sept Qtr 2014 – Sept Qtr 2015

Figure 1 shows the cost of living at the national level over the past year, as measured by the SLCI. Over the last year, the cost of living for both Age Pensioners (0.9%) and Other Welfare Recipients (1.0%) increased at a rate lower than the national CPI increase (1.5%). It is also notable that the living costs of employees (0.7%) rose less steeply over the past year, than for Other Welfare Recipients, and under the rate of the generic national CPI rise (ABS, (2015a)). The generic Darwin CPI, however, rose by only 0.4%, in this same period. (ABS (2015a); ABS (2015e)).

As is discussed further down in the report, the generic CPI figure covers a large number of goods and services (17 major categories, with over 100 individual goods and services part of the CPI basket), and there can be wide variations in the CPI for specific goods and services, which can have implications for particular population groups.

Figure 1 Increases in Living Costs Sept Qtr 2015 - National Figures

Figure 1a Last year (September 2014 – September 2015)

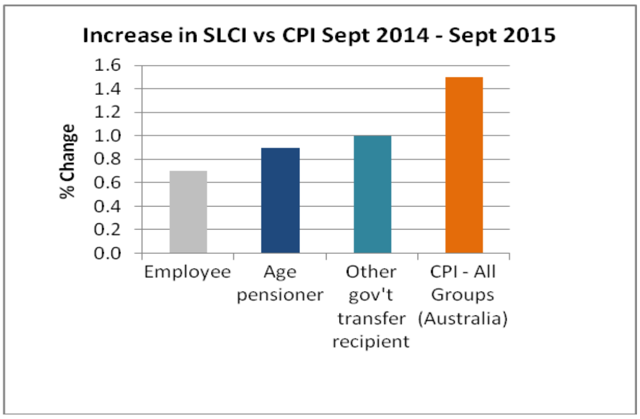
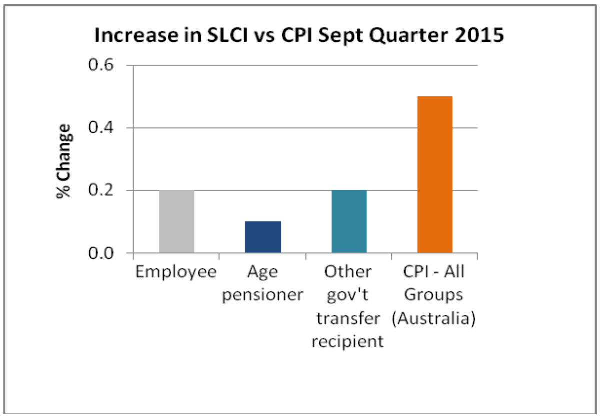


Figure 1b Last Quarter (September 2015)



Source: SLCI Figures taken from ABS (2015a) and ABS (2015d) and (2015e) Data 4,5,6

Cost of Living changes in the September 2015 quarter

The living cost indexes for SLCI increased only marginally for most groups the last quarter - by 0.1% for Age Pensioners and by 0.2% for Other Welfare Recipients, and 0.2% for Employees in. In the same period, the generic CPI rose by 0.5 % nationally and increased by 0.4% in Darwin. (ABS (2015a); ABS (2015d)).

The main area that increased for Age Pensioner households was housing (0.8% increase), due mainly to the "fall in pharmaceutical products due to the cyclical effect of a greater proportion of consumers exceeding the Pharmaceutical Benefit Scheme (PBS) safety net" (ABS, (2015c)). The major area of decrease was seen in Health (-1.7%), which was largely a result of the fall in pharmaceutical products "due to the cyclical effect of a greater proportion of consumers exceeding the Pharmaceutical Benefit Scheme (PBS) safety net" (ABS, 2015c). In terms of Other Welfare Recipients, the decrease in Health (-2.3%) for the same reasons as above, helped keep the SLCI low for them in this period.

Price Changes in Key Goods and Services as measured by the CPI over the past year

The generic figures can be disaggregated to track changes in the price of key basic goods and services, as measured by the CPI (Table 1). Over the past year, there were some downward trends in key areas of expenditure, both in Darwin, and nationally, while at the same time there were increases in other areas.

Transport costs, for example, *decreased* in Darwin (*down* 4.1%) and across the country (*down* 0.2%), driven primarily by a very significant drop in the price of fuel, due to a drop in overseas oil prices, with a 22.1% decrease in Darwin and a 22.5% *decrease* nationally, The price of Utilities *increased* in Darwin by 5.1%, driven largely by a 5.1% increase in water and sewerage and 5.0% in electricity. Health costs in Darwin (4.2%) rose significantly and well above the Darwin CPI (0.4%), largely due to the 5.5% increase in Medical, Dental and Hospital Services. There were similar increases nationally with Health *increasing by 4.8%* (with Medical, Dental and hospital services *increasing by 5.9%*)). Nationally there was also a significant increase in the cost of New Dwellings of 4.3%, while rents *rose by 1.5%* nationally but in Darwin rents actually *decreased by 0.7% (ABS 2014e).*

Table 1 compares price changes in a number of basic necessities in Darwin with the changes nationally – covering both the last quarter and the past year, however they do not account for local variations in prices.

Table 1: Cost of Living Changes Sept Qtr 2015 by Expenditure Type Darwin vs National

Cost of Living Area	Darwin CPI Sept 2015 Qtr change %	National CPI Sept 2015 Qtr change %	Darwin CPI Sept 2014 - Sept 2015 change %	National CPI Sept 2014- Sept 2015 change %
Food (& non-alcoholic beverages)	0.1%	0.1%	-1.0%	0.2%
Clothing and footwear	-2.9%	-1.1%	-0.1%	-1.0%
Housing (includes utilities)	-0.1%	0.6%	1.1%	2.7%
• **Rent**	-1.0%	0.3%	-0.9%	1.5%
• **New Dwelling Purchase – owner/occupiers**	-0.1%	0.7%	0.5%	4.3%
Health	0.5%	0.3%	4.2%	4.8%
• **Medical, dental and hospital services**	0.8%	0.2%	5.5%	5.9%
Insurance	1.2%	1.1%	2.3%	1.6%
Transport	-0.5%	0.1%	-4.1%	-0.2%
• **Automotive fuel**	-1.9%	-1.7%	-22.1%	-22.5%
Utilities	0.0%	-0.5%	4.9%	0.7%
• **Water & Sewerage**	0.0%	2.6%	5.1%	2.2%
• **Electricity**	0.0%	-1.4%	5.0%	-0.1%
• **Gas & Other Household Fuels**	0.0%	-1.3%	0.0%	0.9%
CPI All Groups	**0.4%**	**0.5%**	**0.4%**	**1.5%**

Source: ABS (2015d) and (2015e) Data 4,5,6

The CPI was relatively low for Darwin (0.4%) in this past quarter (ABS 2015d)), although it is the highest quarterly CPI figure out of the last five quarters, after a period of low CPI growth, and the Deloitte Access Economics economic and employment forecasts for the NT for the next five years, while still positive, are not as high as the expected projections from 12 months ago[1] (NT Government (2014) and (2015a)).

As Table 1 shows, however, not all areas of household expenditure have seen a slowing in the rate of price increases, meaning that an overall slowing in the rate at which CPI increases, does not necessarily reflect the change in CPI for expenditure items that are more common for people on low incomes. In addition, price decreases in one part of the NT may not be enjoyed by all households across the Territory.

[1] *This predicted growth rate over the next five years for the NT (3.6% per annum), along with Queensland, is the highest economic growth forecast of all jurisdictions, with the other jurisdictions' growth forecasts ranging from 1.3% (Tasmania, ACT) to 3.0% (WA), and with the national economy forecast to grow by an 2.6%. In September 2014 the forecast growth rate for the NT, however was 4.9%. per annum. The predicted employment growth for the NT is a 1.1% increase (down from the September 2014 forecast of 2.1%). In other jurisdictions the five year average annual employment growth forecast ranges between 0.2 % (ACT) and 1.7 % (WA), and 1.4% nationally. In September 2014 the forecast employment growth rate for the NT, however was 2.6% per annum.*

Income Support Recipients: Cost of Living changes

Welfare recipients have very low incomes, so it is unlikely that any significant amount of the weekly benefit can be saved, at least for those who are not able to supplement their income support payments with additional income. For someone on the base level of benefits, and assuming they spend all their income, NTCOSS has calculated the dollar value of changes in cost of living over the past year, as shown in Table 2.

Table 2: Cost of Living Change for Income Support Recipients Sept Qtr 2014 – Sept Qtr 2015, Australia

	Base Rate* Benefit per week (19 Sept 2014)	Base Rate* Benefit per week (19 Sept 2015)	Selected Living Cost Index change %	Amount per week increase in 'cost of living' $	Amount per week increase in base payment rates $
Aged Pensioner	$421.40	$433.50	0.9%	$3.79	$12.10
Newstart single – no children	$259.60	$266.10	1.0%	$2.60	$6.50
Newstart single – 2 children & FTB A & B	$539.92	$551.26	1.0%	$5.40	$11.34

Sources: Centrelink (2014) & (2015); ABS (2015a). See Explanatory Note 3 for an explanation of how figures are derived

**For simplicity, supplements & Rent Assistance not included in Table 2, as these can vary from person to person.*

The following figures highlight the situation for people whose only source of income is a base-rate government benefit, and who spend all their income, as their budget doesn't allow any leftover to save.

- For **pensioners**, the cost of living over the last year increased by $3.79 a week, which again was more than covered by the increase in the base rate of the pension of $12.10 per week over the same period.
- For **single people on Newstart**, the cost of living rose by $2.60 per week, while the base Newstart rate rose by $6.50 per week, also covering the increase in living costs, for the third quarter in a row.
- For **sole parents with 2 children**, receiving Newstart and FTB (A & B), the cost of living rose by $5.40 a week, and this cost of living increase was also covered with their payment rate rising by $11.34 per week, also for the third quarter in a row. (Centrelink (2014) and (2015).

These figures do actually represent some good news for households who rely on income support payments and it points to an easing of cost of living pressures. For people on Newstart and Youth Allowance, however, it must be noted that these recipients are starting from an already inadequate base rate.

These figures also underline the importance of the current method of indexation used to adjust pensions, where payments are pegged to Male Total Average Weekly Earnings and prices (CPI) – to ensure that pensioners do not drop behind society averages (See Explanatory Note 4). The inadequate indexing system for Newstart allowance and other base level benefit allowances, which are pegged to CPI only, means that increases in allowances cannot always keep up with the cost of living – even though they are doing so at the moment.

With the low base payments for allowances, and with increases in payments being pegged to CPI only, Newstart payments lag further behind pensions - currently $167 p/w lower.

It is critical, therefore, that the Federal Government commit to increase Newstart and other base level payments <u>by $50 per week.</u>

SECTION 2: Insurance Expenditure and Cost of Living Pressures in the NT

Insurance costs do not constitute a top bracket weekly expenditure item like housing, transport and food, which are the three highest expenditure areas in the NT, and which take up a much greater slice of a household budget. As SACOSS (2013) highlight, “insurance costs tend to be hidden as part of housing, health, transport and other categories”, however, when insurance expenditure categories are combined, they actually constitute a greater expenditure item, for example, than utilities expenditure, which is considered a significant cost pressure for Territorians. So combined insurance costs do represent a substantial expenditure area for households across the NT.

Many insurance costs are critical and some are compulsory, such as compulsory third party motor vehicle insurance for vehicle owner, and home insurance for most homeowners (generally required as part of home loan arrangements), and therefore cannot be avoided. If insurance costs are not covered, people can potentially face significant legal and financial consequences.

Insurance costs have been steadily rising for a number of years, both nationally and in the NT and have further added to the existing high cost of living in the Territory for those households paying for insurance. In addition, rising insurance prices create a financial barrier for low income households to take up insurance options, and without insurance, households are more vulnerable to the impacts of life events like unexpected illness, accidents or crime.

SACOSS (2013) refer to the concept of ‘Insurance Exclusion’ to reflect that many low income households are excluded from insurance cover in many instances because the costs are prohibitive for them. With recent insurance price rises, partly due to insurance industry responses to large scale natural disasters, the situation is not likely to get any better, as climate change increases the likelihood of extreme weather events occurring, and the likelihood of prices rising further – putting insurance even further out of reach of low income households (SACOSS (2013)).

According to the Australian Council of Social Service (ACOSS (2013)) it is people who are experiencing poverty and inequality that are the first affected and who suffer the worst outcomes, by both direct and indirect exposure to extreme weather events. According to ACOSS “people on low incomes, the unemployed, the elderly, people with disabilities and single parents are often those who suffer the most”. ACOSS have highlighted that after the 2011 Queensland floods these aforementioned groups were “disproportionately affected as a result of a lack of insurance (or under-insurance), loss of employment through disruptions to and closure of local businesses, loss of rental tenancies and the inability to meet higher bond payments, increased pressure on public housing waiting lists and increased living costs”.

During and immediately after disasters, communities are also often affected by losses of electricity and water supplies leaving people without heating, cooling, lights and lifts. ACOSS (2013) highlighted the experience of people directly affected by Hurricane Sandy in New York in 2012, where disasters can lead to some people such as elderly people and people with disability being stranded. In New York there was a flow on effect where some people’s health was jeopardised. Without electricity people faced freezing conditions in pitch black apartments, and there were situations where people in wheelchairs were unable to evacuate, people with diabetes not having access to insulin and also instances of residents attempting to heat their homes using their stoves who suffered carbon monoxide poisoning (ACOSS (2013).

The impacts of such events are clearly devastating for all concerned, but have a disproportionate impact on people who are low income, vulnerable or disadvantaged. Climate change and its resultant impacts must be given significant priority by governments across the country – and a particular emphasis must be placed on the needs of elderly people, people with disability, people with chronic disease as well as other vulnerable groups.

National and Northern Territory Insurance Expenditure – A comparison

The most recent Household Expenditure Survey (HES) figures, from 2009-10, showed that Darwin households, on average, spent $74.64 per week on insurance costs, higher than the average for all Australian households ($72.50), and slightly below the average of all capital cities ($76.38), coming in 6th highest among all capital cities.
NT households, however, on average, spent $67.69 per week on insurance costs, which was the 7th highest expenditure rate among all states and Territories, above only Tasmania. The proportion of household expenditure on insurance for Darwin was 4.79% and for the NT it was 4.25%, while for all households nationally, it was 5.6%.

Table 3 Household Insurance – Average Weekly Expenditure, 2009-10

	Darwin Ave Weekly Expenditure	NT Ave Weekly Expenditure	All Households Australia Ave Weekly Expenditure
House and contents insurance	$16.38	$14.82	$11.33
Household appliance repairs insurance	$0.59*	$0.75*	$0.33
Accident and health insurance	$23.19	$22.26	$26.54
Vehicle registration and insurance	$27.95	$24.29	$28.57
Registration and insurance of boat	$0.24**	$0.18*	$0.37
Insurance (other property)	$0.93*	$0.69*	$0.53
Personal belongings insurance	$0.03**	$0.04**	$0.09
Travel insurance - selected payments	$0.82	$0.69	$0.95
Life Insurance	$4.51*	$3.97	$3.89
AVERAGE WEEKLY TOTAL COMBINED INSURANCE EXPENDITURE	**$74.64**	**$67.69**	**$72.50**
Insurance (excluding life insurance) as % of Total Goods & Service Expenditure	***4.79%***	***4.25%***	***5.6%***

Source: (ABS (2011) Tables 23A, 23B, 27A, 27B

Notes: 1. The vehicle insurance is unable to be extracted from vehicle registration costs, however, insurance costs make up the bulk of registration fees – e.g. in the NT, compulsory third party insurance is 76% of the registration fee. (MVR, NTG, Certificate of Registration).
2. Life insurance is not included as part of the calculation for the % of Total Goods & Services Expenditure, as it is classified by the ABS in 'Selected Other Payments', effectively as a form of savings – rather than as current expenditure (in the same way mortgage payments, and additions and extensions to housing are classified as a form of savings – and not included in the HES total weekly household expenditure.

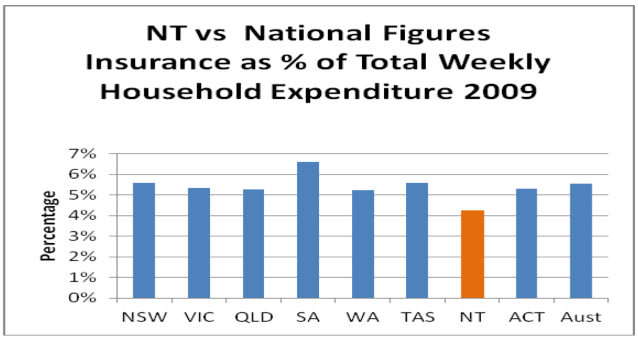
Table 3 shows the breakdown of household expenditure on insurance, comparing Darwin, NT and national figures. The 2009/10 figures are used as the nine categories of Insurance do not have corresponding individual CPI figures to allow for indexation to 2015 equivalent prices.

The NT has the lowest figure for insurance as a percentage of Total Goods & Service Expenditure (Figure 2), partly to do with insurance expenditure being $5 under the national average figure (Table 3), and also because the NT has the highest average weekly household income level in the country (ABS (2011a) see Explanatory Note 5).

There are some insurance categories, however, where the NT had the highest weekly expenditure in 2009/10, i.e. House and contents insurance and Household appliance repairs insurance, (see Figure 3 below) as well as Insurance (other property) (ABS (2011a)). In addition the weekly Life Insurance expenditure in the NT was the 3rd highest in the country, behind only Western Australia and Queensland, and above the national average expendtiure.

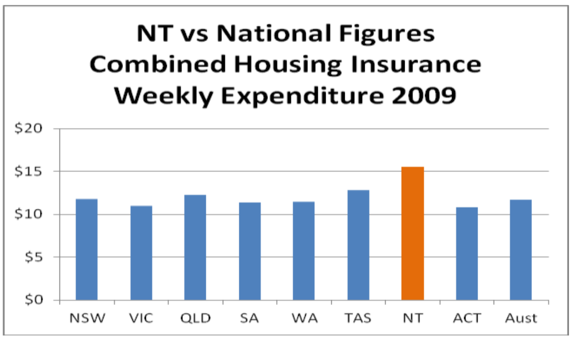
House and Contents insurance is a significant area of expenditure in the NT, being the third highest category of insurance expenditure for NT households (Table 3). For households in the lowest income quintile (national figures), House and contents insurance is 22.8% of the insurance expenditure of households – a significantly bigger proportion than that for all households (15.8% - calculations based on ABS 2011). This suggests that expenditure on house and contents insurance will place a strain on the budgets of low income households across the NT.

Figure 2 Insurance as % of Weekly Expenditure



Source: ABS (2011a) 27A, 27B

Figure 3 Housing Insurance as % of Weekly Expenditure



Source: ABS (2011) 23A, 23B

The Rise of Insurance Prices in Darwin – and the impact on 2015 Expenditure

Since the last Household Expenditure Survey (HES) was done (2009-10), the CPI for Insurance in Darwin has risen by 38.4%, higher than the national rise for Insurance CPI (24.8%), and higher than the rise in the generic CPI for Darwin (14.5%) (ABS (2015e). Given these increases, it is possible that the proportion of household expenditure spent on insurance is now higher for Darwin, than it was in 2009-10, if expenditure patterns have remained the same.

Table 4: Increase in Insurance CPI for Darwin over the last 6 years*

Rise in CPI since Dec 2009	Insurance CPI	CPI – All Goods and Services
Darwin	38.4%	14.5%
Australia	24.8%	14.7%

Source: ABS (2015e)

The last 6 years refers to the period between Dec 2009 and Sept 2015, the period since the last Household Expenditure Survey

While it is not possible to index the nine insurance categories individually, as there is only one general CPI category for insurance, NTCOSS has indexed the combined insurance figures to the September 2015 Insurance CPI, to estimate what the prices would look like in 2015, if expenditure patterns had remained the same.

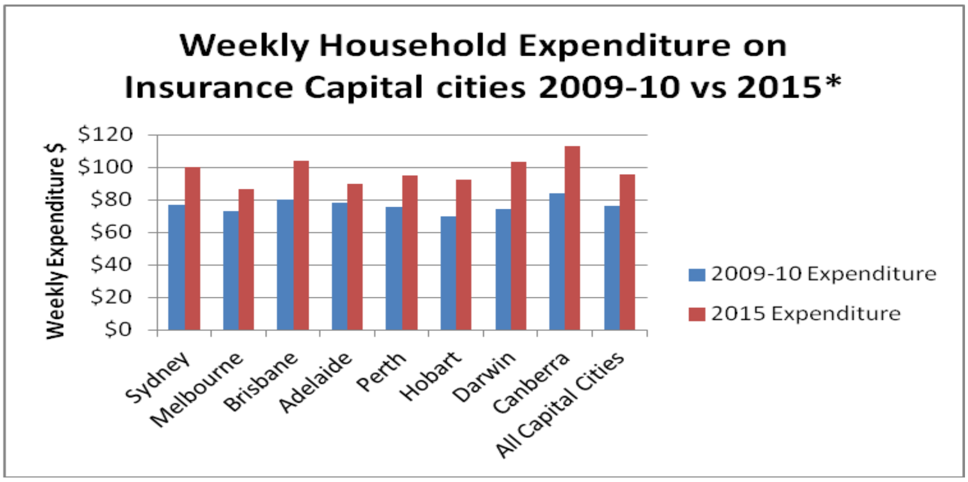
On this basis, the average weekly expenditure on insurance costs overall in Darwin is estimated to now be $103.33 up from $74.64 in 2009/10, meaning Darwin would now have the third highest expenditure on insurance in the country (up from 6th in 2009/10).

For the NT as a whole[2], the average weekly expenditure on insurance costs would now equate to $93.97, up from $67.69, moving the NT from having the 7th highest to the 4th highest in the country, amongst the states and territories. Nationally the insurance expenditure figure would now be $90.49, below both Darwin and the NT.

It is important to note that the above calculations do make an assumption that expenditure patterns have remained the same since the 2009/10 HES data was compiled. Until the next HES data is released, it will not be possible to determine current expenditure patterns accurately. The reality is some households will have reduced expenditure on insurance – which increases their vulnerability to the impact of unexpected life events, and adds to the number of people who are missing out on insurance. (These issues are discussed in further detail later in this report).

Figure 4 below compares 2009-10 (HES) expenditure figures with estimates for expenditure for September 2015, indexing the 2009/10 HES figures to the CPI figures for insurance for the last six years since the last HES.

Figure 4: Comparison of Weekly Household Expenditure on Insurance – Capital Cities 2009 to 2015



Source: ABS (2011) Tables 23A, 23B); 2015 ABS (2015e) Data 4,5,6

[2] *NOTE: There is no CPI for the NT as a whole, so the CPI figure for Darwin was used, as the closest available approximate. This NT figure, therefore must be viewed with some caution – though it would be indicative of price movement.*

The Impact of CPI Rises on Household Budgets in the NT

With the cost of living in the NT already high, it is a genuine concern that insurance costs have risen so significantly over the last 6 years. Had the Darwin Insurance costs risen in line with the generic Darwin CPI (14.5%), the insurance figure from 2009-10 of $74.64 would have risen by under $11 per week to $85.50, by comparison, instead of by $28.86 per week to $103.30 (calculations based on ABS (2011a) and ABS (2015e)). On this basis, Darwin households are paying **an additional $1490.32 on average per year on insurance**[3]. Had insurance costs only risen by the generic CPI, this increase in the yearly figure would only be $564.72.

It is important to keep in mind that these calculations are based on price rises (CPI) of goods and services - and do not reflect changes in expenditure patterns for households who may have to make adjustments to their budgets, and reduce expenditure on some items in light of the price rises. For households who have continued to purchase the same insurance products, it means that they will have significantly increased their expenditure on insurance. Households who have chosen to reduce their expenditure on insurance items, in order to reduce cost pressures, are actually making themselves more vulnerable to risk in terms of the impacts of natural disaster, such as theft or illness – which may increase their expenses in the future, if one of these life circumstances arises.

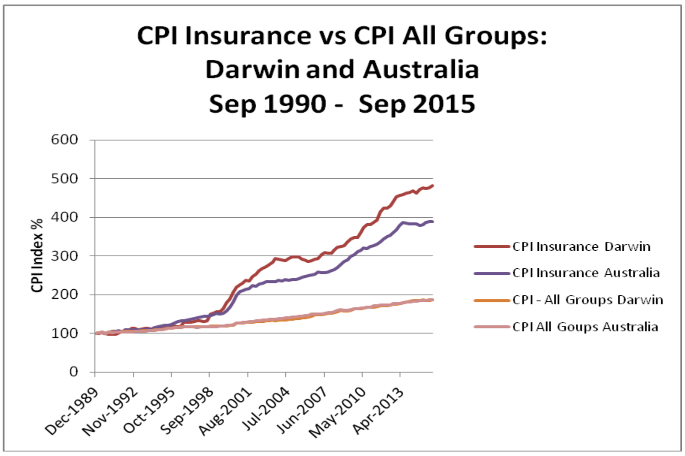
Insurance CPI rises: The past 25 years

Insurance price rises are not just a recent phenomenon, with steady and at times dramatic rises across the country over the last 25 years, with Darwin households some of the hardest hit – with a 382.5% increase since 1990.

Figure 5 shows the trends in CPI for insurance over the past 25 years for both Darwin, and at the national level. A particularly drastic spike in insurance costs occurred around 15 years ago, with a 42.5% increase in the CPI for Insurance in over just 15 months from June 1999 - September 2000 (ABS (2015e)).

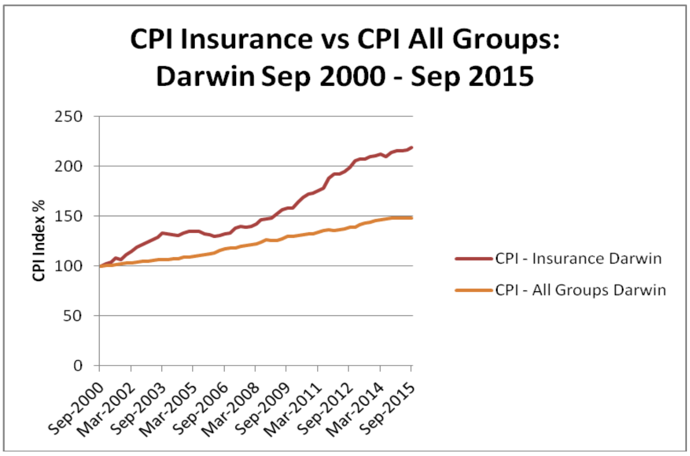
While there was a similar upward trend at the same time nationally, the Darwin CPI increased at a greater rate and has continued to do so ever since, with the gap between the Darwin and national figures much wider now than it previously was. The national CPI insurance figure in fact trended down across much of 2013 and 2014, and has increased by only 1.9 % since March 2013, while in comparison, the Darwin figure has risen by 5.7% over the same period (ABS (2015e)). In addition to this, the insurance CPI figures have also risen much more steeply than the generic CPI at both the Darwin and national level for the last 15 years, as Figures 5 and 6 show.

Figure 5 CPI Insurance Darwin vs Australia – 25 years



Source: ABS (2015e) Data 4,5,6

Figure 6 CPI Insurance vs CPI All Groups – Darwin - 15 years



Source: ABS (2015e) Data 4,5

It should be noted that these CPI figures for insurance do not include CPI for Accident and health Insurance, which is included as part of health costs in the CPI (rather than as part of the CPI Insurance category). Even without Accident and health insurance costs factored in, however, the scale of the price rises has been enormous.

[3] *It is important to note that, as with Table 3, these figures include rises in vehicle registration, which is wrapped up in the vehicle insurance expenditure (HES figures), which cannot be separated out, but insurance is the major component .*

The breakdown of these CPI increases over the past 10 years is detailed in Table 5, and it can be seen that the CPI rises for insurance are consistently much greater than the All of Darwin CPI (by a factor of 2 since September 2005).

Table 5: Summary of Price Rises Insurance Darwin over the last 10 years

	Insurance CPI Darwin	All of Darwin CPI	Rate of rise: Insurance Darwin CPI vs All of Darwin CPI
Since Sept 2005	65.3%	33.3%	2.0x
Since Sept 2010	26.7%	11.9%	2.2x
Since Sept 2014	2.3%	0.4%	5.8x

Source: ABS (2015e) Data 4,5

Different Household Types – Expenditure on Insurance

Different household types have different expenditure patterns on insurance. The following two sections will examine households who receive Centrelink income Support payments; as well as households by income level.

Households receiving Income Support

In relation to Centrelink income support recipients, people who receive an Age Pension spend the greatest proportion of their incomes on insurance costs, which reflects the higher levels of home ownership amongst this group (many of whom are retirees, with significant assets, but low incomes, who have probably paid of their house – but for example still require house and contents insurance).

The situation for recipients of other types of income support payments is quite different to that of Age Pensioners, however, as all others had levels of expenditure on insurance well below the national all households average, as well as being well below the average for the lowest income quintile. For recipients of unemployment or study payments ($5.18) and family support payments ($5.55), in particular, the weekly amounts they pay on insurance are half of the all household average of $11.33. It is also noteworthy that the proportion of weekly income for these two groups is well below the proportion for the 'All households' average (Table 6).

While price rises are less likely therefore to impact on these households – as they pay very little on insurance, this issue of under-insurance (or 'Insurance Exclusion') represents a real area of concern. Not only are these households likely to be struggling on very low income, under insurance (particularly insurance categories other than car insurance) makes them even more vulnerable to unexpected life events.

Table 6: Weekly Insurance Expenditure by Household Type - Households receiving Centrelink Income Support

			Weekly	*Expenditure*		
	Age Pension	*Disability and Carer Payments*	*Unemployment and Study Payments*	*Family Support Payments*	*Lowest Income Quintile*	*All Households*
House and Contents Insurance	*$9.86*	*$7.29*	*$5.18*	*$5.55*	*$7.81*	*$11.33*
Accident and Health Insurance	*$13.13*	*$8.34*	*$5.07*	*$5.47*	*$11.60*	*$26.54*
Vehicle Registration and Insurance	*$14.50*	*$14.58*	*$13.81*	*$13.60*	*$12.85*	*$28.57*
Life Insurance	*$0.62*	*$0.94*	*$0.82**	*$0.75**	*$1.06**	*$3.89*
*Other Insurance Categories^*	*$0.93*	*$0.70*	*$0.81*	*$0.57*	*$0.94*	*$2.27*
Total Insurance Expenditure	*$39.04*	*31.85*	*$25.69*	*$25.94*	*$34.26*	*$72.50*
Insurance (excluding Life insurance) as a percentage of Total Good &Service Expenditure	*6.80%*	*4.24%*	*3.49%*	*3.02%*	*5.94%*	*5.55%*

Source: ABS (2011a Table 11A, 11B, 3A)

Note: the 'Other Insurance Categories' - for the purpose of this table – incorporates Household appliance repairs insurance, Registration and insurance of boat, Insurance (other property), Personal belongings insurance, and Travel insurance - selected payments.

** The ABS warns that these figures have a relative standard error of 25-50% and should be used with caution; and ^some of the 'Other Insurance Categories' figures have a relative standard error greater than 50% and are considered too unreliable for general use (11A, 11B).*

Households by Income Quintile Levels

The figures in relation to income quintile levels are also revealing. While the figures on the proportion of household expenditure show that all households pay a very similar proportion of their weekly household income on insurance – ranging between 5.3% and 5.9% - this is not the whole story. Households in the lowest income quintile actually spend proportionately more of their income on insurance, as a percentage of weekly income, than all other income quintile levels, and in addition they pay proportionately more than the national household average. The reason why the lowest income quintile households pay the most proportionately in insurance, is due largely to the presence in this group of many retirees, who, as noted in the reference to Age Pensions above, may have significant assets, but low incomes, but are still paying house and contents insurance.

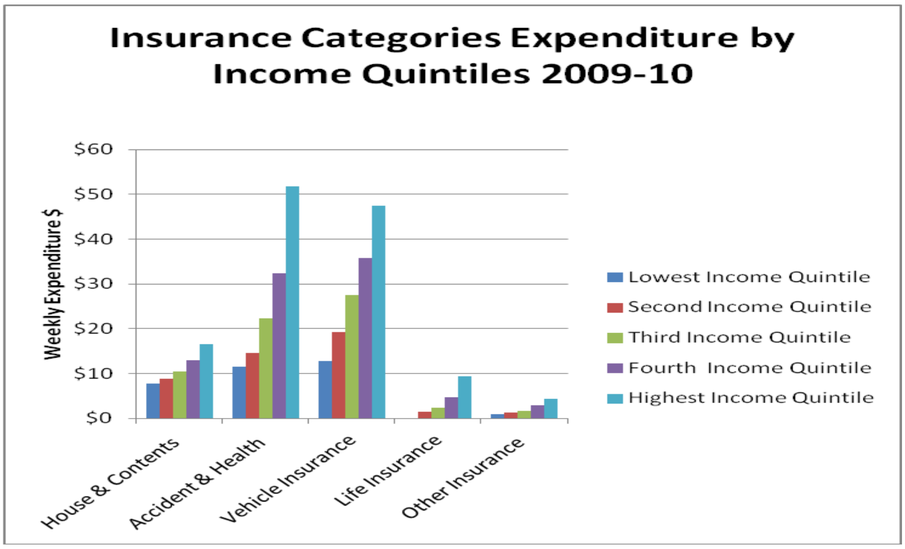
These figures could give the impression that the insurance needs of the lowest income quintile households are being adequately taken care of. When looking at the raw figures, however, these households are only spending a quarter of the amount that the highest income households are spending (i.e. $34.26 per week (on average) compared with $129.76 for the highest income quintile category), which means they receive very little insurance coverage in reality.

When looking at some of the specific categories of insurance, the insurance disparity between the lowest income quintile households and the highest income households is further reinforced. The highest income quintile households spend nearly five times the amount on Accident and health insurance (reducing access to timely health care and impacting on health status); and nearly nine times the amount on life insurance than the lowest income quintile households .

As SACOSS (2013) have pointed out, "This inequality in Life Insurance expenditure is perhaps not surprising, but it does have a role in reproducing financial inequality over generations and changing life circumstances."

In addition, across eight of the nine insurance categories, expenditure goes up for each category according to income quintile levels (the exception being Personal belongings insurance). While these levels of expenditure mean that lower income households are going to be less impacted by any price rises in insurance items, it also further reinforces the vulnerability of low income households to financial stress. The figure below highlights these trends (note 5 categories are rolled into one category in the figure - called Other Insurance – see footnote under Figure 7).

Figure 7: Insurance Categories Expenditure by Income Quintiles



Source: (ABS, 2011a, Table 3A, 3B)

**NOTE: These figures exclude life insurance*

Other insurance categories – incorporates Household appliance repairs insurance Registration and insurance of boat Insurance (other property) Personal belongings insurance Travel insurance - selected payments

Table 7: Insurance Expenditure by Household Type Income Quintiles – National Figures

	Lowest Income Quintile	*Second Income Quintile*	*Third Income Quintile*	*Fourth Income Quintile*	*Highest Income Quintile*	*All Households*
Total Average Weekly Insurance Expenditure	*$34.26*	*$45.37*	*$64.45*	*$88.63*	*$129.76*	*$72.50*
Insurance (excluding Life insurance) as a % of Total Goods & Service Expenditure	*5.94%*	*5.38%*	*5.31%*	*5.67%*	*5.57%*	*5.55%*

Source: (ABS, 2011a, Table 3A, 3B).

**NOTE: These figures exclude Life insurance*

It is very clear that insurance is largely the domain of more affluent households. Those, who due to their income earning capacity, can afford substantial levels of insurance are therefore able to protect themselves adequately to cover for a range of contingencies in terms of health needs, vehicle and property expenses, as well as catering for the needs of loved ones in the event of death. Low income households simply cannot insure themselves to the same extent. The reality is that in the NT, and across the country, the more well off one is determines whether one has access to better and more timely health care and financial security. This reality contributes to a widening of the gap in terms of financial and health and wellbeing, between those who are well off and those who are not.

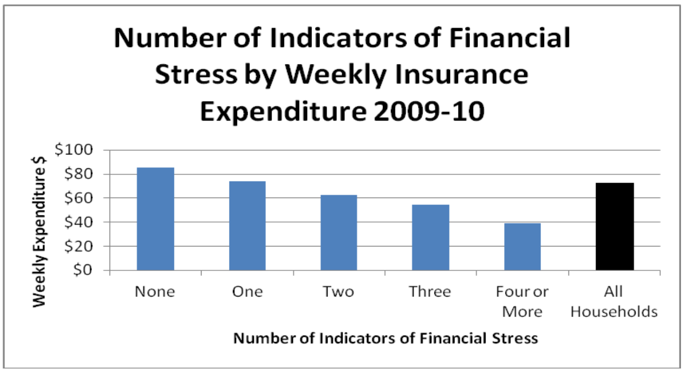
Financial Stress Indicators

An examination of the prevalence of indicators of financial stress further underlines the vulnerability of people who spend lower amounts on insurance - showing that the more the indicators of financial stress that a household experiences, the lower the expenditure on insurance; and, the less that a household spends on insurance costs, the greater the number of indicators of financial stress for a low income household[4]. The reduced expenditure on insurance could be both a contributor to financial stress, as well as an end result of financial stress experienced by a household. A low income household simply doesn't have the room in their budget for everything, and insurance may be seen as a 'luxury' item they simply cannot afford. According to Roy Morgan research released in 2012. Cited in CHOICE (2014), "More and more consumers are forgoing household insurance altogether due to rising costs".

Not having insurance, however, can itself be a cause of financial stress; for example, if a car which does not have comprehensive insurance is written off after an accident, this will cause a major financial stress for that household.

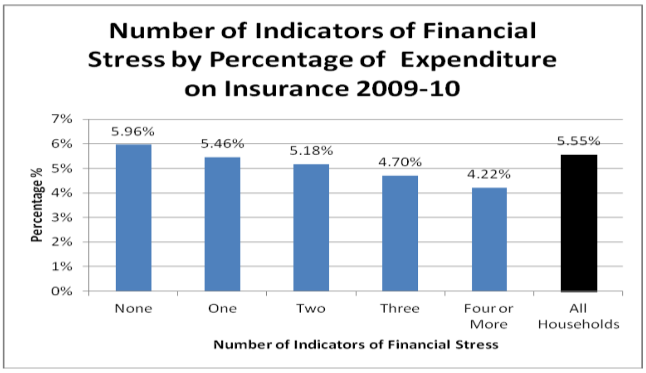
Even where a low income household does have some insurance, if an unexpected financial stressor arises, they may decide that they need to reduce expenditure in particular areas, and may choose that an insurance payment is one that they have to cease – which then adds to their risk of vulnerability to financial stress.

Figure 8a Financial Stress and Insurance Expenditure



Source: ABS (2011a) 31A, 31B

Figure 8b Financial Stress and Percentage of Insurance Expenditure



Source: ABS (2011a) 31A, 31B

[4] *Questions in relation to financial stress indicators in the Households Expenditure Survey are as follows: household spends more money than it gets (over the past 12 months) could not pay car registration or insurance on time; pawned or sold something; went without meals; sought assistance from welfare/community* organisations; sought financial help from friends or family; present standard of living is worse than two years ago.

In addition, it is a concern that households who rely on unemployment benefits, study payments or family support payments, spend very little on Accident and health insurance, at around one-fifth of the national average (Table 6). Such households will have reduced or delayed access to health care, as well as less choice over the health services they access. These figures suggest that as well as cost of living concerns, there are issues of justice and access to services which impact on life quality of life and the long term health, wellbeing and financial security for people.

Recent natural disasters in Australia and the Northern Territory – and Impact on Insurance Prices

Over the last six years there has been a significant number of natural disasters across the country. The Black Saturday bushfires in Victoria in February 2009 were the deadliest bushfires recorded in Australia, when 173 lives were lost and 2000 homes destroyed (Australian Geographic (2011)). The total cost of the Black Saturday Bushfires was estimated at $4.4 Billion and the disaster was the 8th deadliest bushfire event recorded in the world (Black Saturday Bushfire Map (2011)). In 2011 there were eight officially declared catastrophes in Australia, according to the Insurance Council of Australia (ICA), cited in CHOICE (2014). Since then there has been Tropical Cyclone Oswald in January 2013 which passed over parts of Queensland and New South Wales; bushfires in Tasmania and Victoria in January 2013 Jan; bushfires in NSW in October 2013 and November 2014, and just recently bushfires in Western Australia and South Australia in November 2015 (Disaster Assist (2015)), all with dire consequences.

The Northern Territory has also not been immune to the impact of natural disasters, with Cyclone Lam in February 2015 causing considerable destruction, particularly affecting local aboriginal communities. The total damage caused in the Northern Territory reached over $80 million (SBS (2015)). It is of significant that the SSCEC Inquiry committee has noted the linkage between climate change and extreme weather events (SSCEC (2013).

An examination of the change in CPI in the six years and nine months since December 2008 – which was the last quarter prior to the Black Saturday bushfires and the eight officially declared catastrophes in 2011 - shows some significant changes in CPI for insurance. In the almost seven years since the Victorian bushfires and other subsequent natural disasters, there has been an increase in the Darwin CPI for Insurance (47.8%) at a greater rate than the increase in the Darwin CPI for insurance prices over the previous (almost) seven year period (29.2%). The rate of increase comparing the latter period (Dec 2008-Sep 2015) with the former period (March 2002-Dec 2008) represents a 63.7% increase in the rate of rise when comparing the two periods.

In addition, while the increase in the Darwin CPI for Insurance (29.2%) fairly closely matched the rise in the national CPI figure for insurance (27.1%) in the stated period prior to the Victorian bushfires; it is significant to note that the Darwin CPI for insurance rise (47.8%) has been around a third higher than the national rise of 35.% since the Victorian bushfires.

There may be other factors which contribute to increased prices in insurance - such as low investment yields, higher reinsurance costs and more accurate address based pricing (Actuaries Institute, cited in SSCEC (2013) - see further comments below in the next section). There does, however, seem to be a correlation between the incidence of natural disasters nationally since 2009, and the greater increase in Insurance CPI in the NT, as well as several other states, and the ACT.

As SACOSS (2013) have pointed out “the nature of spreading risk and reinsurance will mean that such increases will not be confined to those areas and states” where the natural disasters have occurred[5]. As is evident from Table 8, the insurance CPI for Sydney has nearly doubled in this latter period, while Canberra has seen a similar rise to that of Darwin. In addition, Brisbane, Perth and Adelaide have experienced smaller, but still significant rises. Interestingly in Melbourne, the Insurance CPI actually rose more slowly after the Victorian Bushfires, than it did in the corresponding period before the bushfires.

A 2013 Senate Inquiry (see next section) was provided with evidence that home insurance premiums have risen significantly in recent years, and especially following recent extreme weather events, impacting businesses and

[5] *Reinsurance defined: “The contract made between an insurance company and a third party to protect the insurance company from losses. The contract provides for the third party to pay for the loss sustained by the insurance company when the company makes a payment on the original contract”.* http://legal-dictionary.thefreedictionary.com/Reinsurance

households in Queensland, New South Wales and Victoria - where insurance premiums have risen significantly (SSCEC (2013)).

Table 8 Comparison of Insurance Prices pre and post December quarter 2008 (since Victorian Bushfires)

Insurance CPI	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Australia
March 2002 – Dec 2008	21.6%	29.6%	38.2%	23.3%	29.9%	29.7%	29.2%	27.0%	27.1%
Dec 2008 – Sep 2015	42.0%	23.0%	46.7%	25.5%	37.5%	37.7%	47.8%	48.6%	35.5%

Source: ABS (2015e)

As this report has highlighted, insurance price increases have clearly added to the cost of living pressure for many households in the NT. For low income households who may be unable to afford insurance, these costs will make them far more vulnerable to unexpected events. SACOSS (2013) point out that "Insurance provides an important safety net for people facing natural disasters, sickness, accidents or many other life changing events. If it is priced beyond the reach of households, not only do they become more vulnerable, but there is increased pressure on government budgets to respond to natural disasters or provide a stronger welfare safety net" (SACOSS (2013)).

The issue of rising insurance prices is a critical one for government to respond to at a policy level – in order to ensure that measures are in place to protect low income and disadvantaged households. The recommendations of the 2013 Senate inquiry[6] into the recent trends in and preparedness for extreme weather events (SSCEC, 2013) provide a solid starting point for action. Some of the key points raised in this Inquiry are detailed in the next section.

2013 Senate Inquiry into recent trends in and preparedness for extreme weather events

The Senate Standing Committee on Environment and Communications (SSCEC) highlighted that extreme weather events cost Australians billions of dollars every year. Current estimates of the total financial cost of extreme weather events in Australia vary from around $900 million to $4 billion per annum, with predictions of costs set to increase in the future (SSCEC (2013)).

The 2013 Productivity Commission report, '*Barriers to effective climate change adaptation'* cited in SSCEC (2013)).found that: "Changes in the frequency, intensity, location and timing of extreme weather events are likely to be how most Australians experience climate change".

In addition, The Insurance Australia Group informed the committee that research by its meteorology team indicated that over the next 50 years,

- "the number of the most destructive category 4 and 5 tropical cyclones forming in waters off Eastern Australia could increase and track further south".
- "there could be 'a doubling of hailstorms with hailstones greater than 10 centimetres in diameter in the greater Sydney region".

The Productivity Commission also found that "A range of policy reforms would help households, businesses and governments deal with *current climate* variability and extreme weather events. These reforms would also build capacity to respond to *future climate* impacts". Two of the examples cited in the SSCEC report included:
- "reducing perverse incentives in tax, transfer and regulatory arrangements that impeded the mobility of labour and capital"
- "reducing tax and regulatory distortions in insurance markets". (SSCEC (2013))

The SSCEC inquiry report highlighted that "the financial costs associated with extreme weather events and their attribution to governments, businesses and households is inextricably linked to insurance". The issues of *non- and*

[6] *Senate Standing Committee on Environment and Communications*

under-insurance[7] were also raised through the inquiry process, and it was noted that these "can have a significant impact on who bears the costs of damage caused by extreme weather events". According to the Insurance Council of Australia "businesses and households either choose to transfer risk to an insurer by taking out insurance or they choose to accept higher risk themselves by under-insuring or choosing not to insure at all and then likely seek financial assistance from government in the event of damage caused by an extreme weather event" (SSCEC (2013)).

<u>Why insurance premiums rise?</u>
According to the Insurance Council of Australia (ICA) many Australian property insurers have responded to changes (in the reinsurance market) with premium increases and by reviewing their risk exposure, with some insurers having consequently taken steps to reduce their exposures to high risk areas if they could not achieve necessary premium increases commensurate with the risk in those areas.

In addition, the Actuaries Institute explained that:
"The availability and affordability of insurance today has been influenced to some degree by the recent catastrophes in Australia (eg. Brisbane Floods) but also by such factors as low investment yields, higher reinsurance costs and more accurate address based pricing. Currently, many properties in high risk flood zones are able to purchase insurance but at unaffordable prices…" (cited in SSCEC (2013)).

It is of significant that the SSCEC Inquiry committee note the linkage between climate change and extreme weather events (SSCEC (2013). The Actuaries Institute (cited in SSCEC (2013)) predicted increases in premiums of an additional 50% in the future, due to an increase in weather related claims, due to climate change. They also predicted that "under climate change and in the absence of significant risk mitigation initiatives, it is likely that:
• More properties will be at risk of Flood, Cyclone and Storm Surge and will become uninsurable and unaffordable
• Bushfire prone areas will increase (small pockets may become uninsurable) but the additional cost for most is likely to be spread over the community
• Coastal Inundation (eg. King Tide) will remain uninsurable
• Premiums may rise for Storm and Hail but the additional cost will be spread over the community"

As highlighted earlier in this NTCOSS report, increases in the cost of insurance leads to fewer households retaining insurance coverage, even where people have experienced an extreme weather event and have been made more aware of the risks that they face (SSCEC, (2013). The decline in private insurance coverage leads to a cost shifting of repair and reconstruction "following an extreme weather event, from private insurers to individuals as well as to governments, by way of assistance packages and payments". (SSCEC (2013)). The final report of Australia's Future Tax System Review (known as the 'Henry Tax Review') highlighted the ACT Government's experience in providing "an additional $5,000 to each affected household that did not have contents insurance, in addition to the $5,000 provided to all whose homes were destroyed", after the Canberra bushfires in 2003 (cited in SSCEC (2013).

The SSCEC report describes the perverse effect this can have of actually "discouraging households from insuring their property as they believe, if they are affected by a natural disaster, they will receive financial assistance from government". Suncorp stated that "The transition away from state-based insurance taxes to more equitable and efficient taxation systems will help support insurance". The SSCEC committee commented that both "non-insurance and under-insurance have been a significant hindrance to recovery from and adaptation to recent extreme weather events." (SSCEC (2013)).

Both the Productivity Commission and the Treasury have recommended reform to Australia's taxation system as it applies to general insurance. "The Productivity Commission found that state and territory insurance taxes and levies can distort the ways that households and businesses manage risks and that removing state and territory taxes and levies on general insurance would facilitate effective adaptation to climate change. The Productivity Commission stated that such reform would improve the affordability of insurance for some households and businesses, and ensure that premiums more closely reflect the level of risk faced, and that it may also reduce levels of non-insurance and under-insurance" (SSCEC (2013).

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[7] *Non-insurance is a situation where a person does not have an insurance policy, or an insurance policy is held but an event occurs which is excluded from coverage by that policy; Under-insurance occurs when the sum insured is below the rebuilding or replacement cost of the insured property*

The Productivity Commission (cited in SSCEC (2013)) therefore recommended that:

"State and territory taxes and levies on general insurance constitute a barrier to effective adaptation to climate change. State and territory governments should phase out these taxes and replace with less distortionary taxes".

The Henry Tax Review) similarly argued that "'inefficient State consumption taxes, such as insurance taxes' should be abolished" and that this should include the fire services levy. The Henry Tax Review further argued that "Insurance products should be treated like most other services consumed within Australia and be subject to only one broad-based tax on consumption" (cited in SSCEC (2013)). "Removing these disincentives and encouraging households to insure their property", the Henry Tax Review asserted, "should alleviate some of the costs to all levels of government in the event of damage to private property caused by an extreme weather event" (cited in SSCEC (2013)).

The Centre agreed that all Australians need to take some level of responsibility, and noted, among other things that "some sections of the community are not in a position to mitigate risk, because of age, infirmity or poverty. This is an issue of particular note in regions at risk, such as in rural and remote areas and for highly vulnerable communities" (SSCEC (2013)).

Risk Mitigation vs Recovery Costs: "The Insurance Australia Group commented that the emergency management community generally accepts that one dollar spent on risk mitigation can save at least two dollars in recovery costs.

"But Australian government spending on mitigation initiatives represents around only 3 per cent of what it spends on post-disaster recovery and reconstruction" (cited in SSCEC (2013)).

The Australian Governments (at Commonwealth and State/Territory levels) must commit to increase the proportion of spending on risk mitigation initiatives relative to post disaster recovery and reconstruction.[8]

CHOICE 2014 Survey of Home and Contents Policyholders

A CHOICE survey of 1435 home and contents policyholders at a national level has highlighted that since late 2011, there have been significant premium price rises for home and contents insurance, mainly due to the addition of flood cover. CHOICE (2014) argues that the survey results back up "the contention that insurance companies have been using the flood cover issue as a pretext to raise revenue, get rid of customers, or both'. The Insurance Council of Australia (ICA) informed CHOICE that steep rises in premiums are due to "a wholesale reassessment of risk and an effort to renew the industry's capital reserves after one of the worst years on record [2011 – see above] and a resulting bad business outlook for the industry. "The industry was expected to pay out more than $4.9 billion... compared with $2.1 billion in 2010", according to ICA (CHOICE, 2014).

The ICA cite "individual risk levels and increasing costs of reinsurance" as other factors that impact insurance prices, but flood cover (which policyholders cannot opt out of) is not the only factor that has led to a "doubling or tripling of premiums" in some instances. "According to the ICA, it's also related to the industry's reshaping of risk assessment and attention to profit margins, irrespective of whether particular homes are at risk", (CHOICE, 2014). A big issue in this is the lack of transparency, with companies have being coy about how they've determined the risk, and usually have not provided consumers a reason for the price increase. If a reason was given, it was almost always flood-related, however "Only a minority of policyholders who've seen a flood-related increase understand their properties to be at any risk of flood based on local government or other information". (CHOICE, 2014). More transparency with home and contents insurance pricing is clearly needed.

Motor Vehicle Registration & Insurance and Concessions

There is no specific CPI line item in relation to motor vehicle insurance or registration. Therefore NT registration prices from July 2010 until July 2015 have been examined (NT Government (2015d)). Each year on 1 July registration costs (which include compulsory third party insurance) are increased from the previous financial year. For a smaller vehicle, up to 1500ml, which is more likely to be the size of car of a person on a low income - there has been an increase of 24.8% since July 2010 (based on the 6 month registration fee, as lower income households

[8] *$27 million per annum is currently allocated for mitigation works under the National Partnership Agreement on Natural Disaster Resilience*

are more likely to pay six months at a time, rather than 12 months. The current registration cost for a smaller vehicle is $337.10 for six months or $644.15 for 12 months. For vehicles up to 3000ml in capacity, the increase in fees has been 26.6% (NT Government (2015d)).

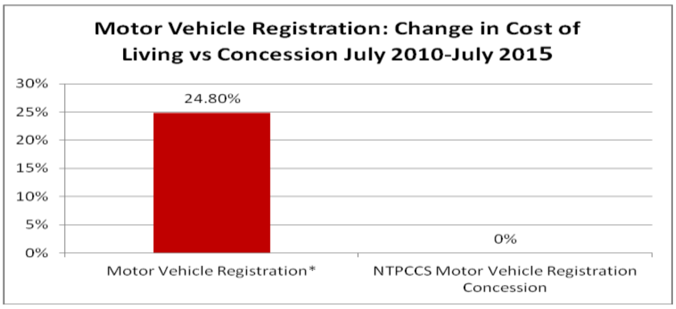
Concession on Motor Vehicle Registration: Northern Territory Pensioner and Carer Concession Scheme (NTPCCS)
The Northern Territory Pensioner and Carer Concession Scheme (NTPCCS) provides financial subsidies to eligible members for a range of goods and services – including motor vehicle registration (which incorporates compulsory third party insurance). Eligibility for the concessions extends to permanent residents of the NT who hold a valid concession card, issued by the Commonwealth Department of Human Services (Centrelink), or Commonwealth Department of Veterans' Affairs; as well as to carers who are permanent residents of the NT and are in receipt of the Commonwealth Carer's Allowance from Centrelink. (NT Government (2015c)). There are people who historically obtained the NTPCCS Concession Card, under the previous eligibility rules, prior the tightening of eligibility in May 2014, who remain eligible for concessions.

While there has been a 24.8% increase in the cost of registration (and insurance) over the past five years, there has been no increase in the concession on motor vehicle registration at all. **In fact there has been no increase in this concession since July 2009**. The concession is currently $154 on the cost of 12 months vehicle registration or $77 concession on the cost of 6 months registration (available twice a year). (NT Government (2015e)).

It is also telling that the size of the increase in the 6 monthly registration fees ($66.95 for a small vehicle, and $74.85 for a larger vehicle) has almost completely wiped out the value of the concession when compared with 5 years ago. This erosion in value is also demonstrated by an examination of the concession as a proportion of the full bill payable (pre-concession), which has gone down from 28.50% to 22.8% over the last five years (Figure 8b).

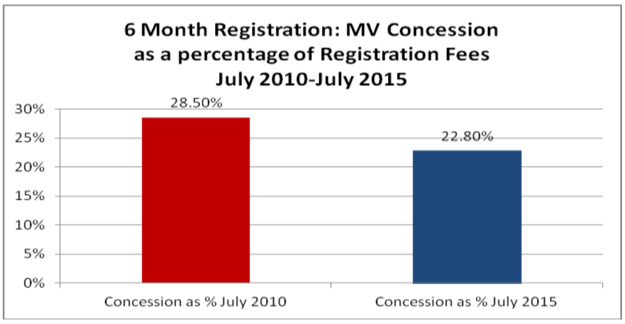
Comparison of Motor Vehicle Registration Fee changes and NTPCCS concession changes

Figure 9a: Motor Vehicle Registration Fee vs Concession comparing July 2010 – July 2015



Source
**Engine Size 1001-1500 ml engine*

Figure 9b: MV Concession as a percentage of Fees comparing July 2010-July 2015



Source
**Engine Size 1001-1500 ml engine*

NTCOSS made a recommendation in its Cost of Living Report No. 8 (NTCOSS (2015)) that flat based concessions (e.g. NTPCCS motor vehicle registration concession) require a clear system of regular indexation, to enable them to keep up with rising living costs, rather than the arbitrary increases – if periodic reviews happen to be done. The rise in motor vehicle insurance further reinforces the call for indexation of the motor vehicle registration concession.

Sale of TIO to Allianz - 2015

In November 2014, the Northern Territory Government announced that it would be selling the Territory Insurance Office to Allianz, who took over TIO on 2 January 2 2015. At the time, industry sources warned that "Premiums for higher-risk properties in the Northern Territory will almost certainly rise once the Territory Insurance Office (TIO) is privatised (insuranceNEWS.com.au (2014)).

Prior to the sale, TIO premiums were half the cost of insurance competitors for some properties with flood and storm surge risk, and in the Darwin area, there were houses and units at risk of storm surge and TIO were the only insurance company to cover that, particularly in 'exposed' zones, according to a broker cited in insuranceNEWS.com.au (2014). TIO's householders' premiums were "the most competitive by quite a long way", however concerns have been raised that "Strata owners with storm surge risk could see premiums rise 50%" (insurance.NEWS.com.au (2014)). In the past TIO had been able to negotiate favourable reinsurance rates by arguing its coastal exposure is limited (cited in InsuranceNEWS.com.au (2014)). **While it is still early days, it will be important to monitor over time whether premiums rise, and by what rate – and examine the impact this has on low income and disadvantaged Territorians.**

Slow Wage Growth

The September Quarter wage information provided by the ABS revealed that nationally wages rose just 0.6 per cent from June to September, with the rise in the June Quarter the same. Over the past year (September 2014 - September 2015), wages only rose by 2.3% - the weakest it has been in 20 years, and only above price rises (ABC 2015). According to Westpac Currency Specialist, Sean Carrow wages are "roughly flat-lining, they've been 2.3 per cent for a little while, that is the weakest wages growth in Australia since the series began in late 1990s" (cited in ABC 2015).

According to Labour market economist, Professor John Buchanan, (University of Sydney Business School), "The economy has been very subdued for quite some time", and the wage price index (which is a very robust measure) has historically shown people's wages moving at around 3 or 3.5 per cent, but he argues that "workers now are getting wages that are essentially stagnant" (ABC 2015). The issue of stagnant wages is a concern when at the same time the costs of living continue to rise.

Conclusion

The area of insurance is a complex one, requiring a multifaceted approach to make the overall insurance system sustainable, efficient and effective into the future, particularly with the challenges that climate change and the increasing incidence of extreme weather events are going to bring. The rising prices over many years has put insurance out of reach of many Territorian households, further increasing these households' vulnerability to the impact of unexpected life events. The reality is that one's household income level largely determines the level of insurance one is covered for, creating great inequities in the system. The needs of vulnerable Territorians are paramount in any discussions about the insurance system in the NT and nationally, going forward.

Recommendations

Recommendation 1 Removal of Disincentives to Insurance
That both the Northern Territory and Commonwealth Governments:
1.1 Adopt Recommendation 4 from the 2013 Senate Environment and Communications References Committee that disincentives to insurance, such as taxes and levies applied by the states and territories, should be removed as part of a national reform process.

Recommendation 2: Concession on Motor Vehicle Registration (and Insurance) Costs. That the NT Government:
2.1 Review[9] the NTPCCS Motor Vehicle Registration Concession and implement regular indexation system, so that it can keep pace with rising living costs.
2.2. Extend the Motor Vehicle Registration Concession to all Health Care Card Holders

Recommendation 3: Increase Income Support Payments. That the Commonwealth Government:
3.1 Increases Newstart and other base level allowances (e.g. Youth Allow, Widow's Pension) by $50 per week

Recommendation 4: Increase Expenditure on Risk Mitigation. That the Commonwealth and NT Governments:
4.1 Increase the proportion of spending on risk mitigation initiatives relative to post disaster recovery and reconstruction
That the Commonwealth, state and territory governments implement Recommendation 8 from the SSCEC (2013)
4.2 Ensure that all facilities caring for vulnerable groups, in particular hospitals, schools, childcare and aged care facilities, have emergency management plans, relevant to their geographic settings, in place and regularly revised.

[9] *NTCOSS believes this recommendation should form part of a comprehensive review of the whole concession system in the NT, as per Rec 6.1 in the NTCOSS Cost of Living Report No. 8 (July 2015) for the NT Government to: "Undertake a comprehensive review of all Territory based concessions to determine if the concessions are meeting the aims for which they were established, i.e. reducing cost of living pressures for lower income Territorians; and establish a consistent approach across all concessions in terms of reviews and indexation methods."*

Explanatory Notes

1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes (SLCI) 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 SLCI 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.

Adapted from SACOSS (2013)

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced than 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 the Northern Territory. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households indicates 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 Northern Territory 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), though 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; as an example, 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 ABS *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 Report generally 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.

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. (Adapted from SACOSS (2014).

3. Pension and Newstart (and Family Tax Benefit) Calculations for Table 2

These figures reflect payment levels for a single Aged Pensioner; a single Newstart recipient with no children; and a single Newstart recipient with two children (aged 10 and 14), who are not in receipt of Commonwealth Rent Assistance. There are clearly going to be variations in payment rates for different recipients, which will be affected by family structure, the number and age of children etc. Payment rates for single people are used here for simplicity – as partner's income for partnered recipients adds another layer of complexity. (Adapted from SACOSS (2014).

Weekly Payment Rates at 19 September 2014*

	Base Rate	Pension Supp	Household Assistance Package	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension - single	$383	$31.45	$6.95					$421.40
Newstart – single, no children	255.25		$4.35					$259.60
Newstart – single, 2 children	$276.20		$4.70	$88.41	$115.01	$52.50	$3.10	$539.92

Weekly Payment Rates at 19 September 2015*

	Base Rate	Pension Supp	Household Assistance Package	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension - single	$388.35	$32.25	$7.05					$433.50
Newstart – single, no children	$261.70		$4.40					$266.10
Newstart – single, 2 children	$283.15		$4.75	$89.88	$116.97	$53.41	$3.10	$551.26

Note - All figures are based on maximum rates of payment where relevant

**The Household Assistance Package (HAS) payments to address carbon tax price increases were made available to most pensioners and adult allowance recipients (incl. Newstart) from 20 March 2013. From 1 July to 19 September 2015, these payments added $7.05 a week to the single pension, $4.40 to Newstart for singles and $4.75 to those with dependent children, and are included in calculations used in Table 2.* (Figures from Centrelink (2014), (2015)).

4. How Pension rates are adjusted

"Currently, pensions (including the Age Pension, Service Pension, Disability Support Pension and Carer Payment) are indexed twice each year by the greater of the movement in the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index (PBLCI). They are then 'benchmarked' against a percentage of Male Total Average Weekly Earnings (MTAWE). The combined couple rate is benchmarked to 41.76% of MTAWE; the single rate of pension is set at 66.33% of the combined couple rate (which is equal to around 27.7% of MTAWE). 'Benchmarked' means that after it has been indexed, the combined couple rate is checked to see whether it is equal to or higher than 41.76% of MTAWE. If the rate is lower than this percentage, the rates are increased to the appropriate benchmark level." (Parliamentary Library (2014)).

"The CPI is a measure of changes in the prices paid by households for a fixed basket of goods and services. Indexing pension rates to CPI maintains the real value of pensions over time. The PBLCI measures the effect of changes in prices of the out-of-pocket living expenses experienced by age pensioner and other households whose main source of income is a government payment. The PBLCI is designed to check whether their disposable incomes have kept pace with price changes. The MTAWE benchmark is not intended to maintain the value of the pension relative to costs; it is seen as ensuring pensioners maintain a certain standard of living, relative to the rest of the population." (Parliamentary Library, (2014)). Note: Allowance payments, such as Newstart and Youth Allowance are indexed to the CPI only, and are adjusted every 6 months, in March and September. (Adapted from SACOSS (2014).

5. Percentage of Weekly Household Expenditure - Calculations

The calculations for percentage of weekly expenditure on particular insurance categories, and the total insurance expenditure figures is based on the following figures for Total Weekly Expenditure on goods & Services (found in ABS (2011a), Tables 23A and 27A; e.g.

Darwin: $1463.59

Northern Territory: $1499.94

Australia: $1236.28

Other States/ACT and Capital City figures are also contained in the same tables

6. Household Expenditure Survey (HES) Table Categories

010104	**House and contents insurance**
0101040101	House insurance - separable (selected dwelling)
0101040102	Contents insurance - separable (selected dwelling)
0101040103	House and contents insurance - inseparable (selected dwelling)
080108	**Household appliance repairs insurance**
090101	**Accident and health insurance**
0901010101	Hospital, medical and dental insurance
0901010201	Ambulance insurance (separate insurance)
0901010301	Sickness and personal accident insurance
100104	**Vehicle registration and insurance**
1001040101	Compulsory registration of motor vehicle (other than motor cycle)
1001040102	Compulsory insurance of motor vehicle (other than motor cycle)
1001040103	Combined compulsory registration and insurance of motor vehicle (other than motor cycle)
1001040201	Other insurance of motor vehicle (other than motor cycle)
1001040301	Compulsory registration of motor cycle, caravan and trailer
1001040302	Compulsory insurance of motor cycle, caravan and trailer
1001040303	Combined compulsory registration and insurance of motor cycle, caravan and trailer
1001040401	Other insurance of motor cycle, caravan and trailer
1101050702	**Registration and insurance of boat**
1302040401	**Insurance (other property)**
1302990501	**Personal belongings insurance**
1302990901	**Travel insurance - selected payments**
17010102	**Life insurance**

ABS (2011a)

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