Policy Gold or a solid line of “gaslighting”

For the last two years I and a very small team have been doing a fair bit of analysis of Policy which has been enlightening to say the least. What I have come to realise is that not all that glitters is gold.

Let me explain.

Politics and the reporting of same is not covered in the same way as talking about consumer products. If you said some of the Political type messages about products you would be breaking consumer laws.

It’s also a real problem that the people who make the laws that we have to obey are politicians. Their messages are seen as credible and mostly they are believed. As an adjunct to the Political process are self appointed experts called Journalists with titles like State or Federal Political Editor.

Generally speaking these people have no Political expertise in the policy they are discussing and I say that because I have been doing the real analysis which debunks their opinions and sham analysis and putting my evidence on line for others to look at and critique as well. During this period I have been astonished by some of the articles I have read and the claims in them.

This has led me to re-evaluate all of the claims in the articles and the analysis/opinion of the so called expert Journalist/reporter.

Yes I have a great example in mind and it’s a complicated Policy area which I will pull apart into it’s components and attempt to tell you the real story but first I want to express another idea I have resurrected and developed. The Idea of the Stump Speech.

The Stump Speech

The stump speech is a grab bag of political ideas with no detail or proposals as to how to fix Political Policy areas.
Perhaps one of the best stump Political speakers was Scott John Morrison. He had an enormous amount to say, mesmerised his Political Journalist audience, who further explained what they thought he meant and passed that flawed analysis onto the People of Australia, through their Newspaper articles and Television News Bulletins.

It has occurred to me many times that the commentary is Stump speech upon Stump article and the result is a vote for the wrong thing.

The Liberal party is an enabler of the stump idea. It is what has kept them in power for so long. The basis for it is dishonesty. Say anything which the Voter believes and which gets their vote.

The basis of any Stump idea is rooted in fear, mistrust, and the generation of hope.
A classic example is “unions are thugs but we will protect you from them” an oft repeated Liberal theme. Associated with it is pictured one good example. In the Trades Union Royal Commission into Corruption evidence was given by an Assistant Police Commissioner that

certain “Persons of interest” from the CFMEU were Union Organisers and also members of Rebel Bikie gangs. The Barrister for the CFMEU questioned the Assistant Police Commissioner and asked him where he got this information about this particular individual. The Assistant Commissioner had “been told” but he didn’t have concrete evidence. In fact the man in question wasn’t a Union Organiser, wasn’t a financial member and wasn’t a member of a rebel Bikie gang.

The use of fear, mistrust and hope that a particular party would protect the public from these “thugs” was the basis of the claims. They were all wrong and dishonest misrepresentations. Another good example was one made up by Peter Dutton about people in Melbourne being frightened to go out at night because of African gangs roaming the streets. Not only did the crime statistics show a reduction in Offences against the person during the time of the claims, the press dutifully reported his false and misleading claims.

This showed the race card being played as a Political motivation.
And so onto the example of a policy I want to explore in some depth. As I said before it’s detailed, but if you bear with me I will go through it logically and with the evidence which shows that it was a very poor Policy.

The Policy example I am going to use is one of three introduced by the Coalition Government in the 2015 Election Campaign

The Main Message
“The Age of Entitlement is over.”
It wasn’t apparent at the time but the 2015 Budget was a real go at Welfare payments and Social Security generally.

It covered three main areas

1. Fraud which became known as Robodebt
2. Cashless Welfare card and
3. A reduction in People receiving the Aged Pension by “rebalancing the Assets test”

Each of these Policies started off with a Stump theme.
The Robodebt Policy proposed that over 800,000 people had incorrectly reported their fortnightly income and had therefore defrauded the Commonwealth. To me this idea brings up a huge question. That Question is. “if 800,000 people have defrauded the Commonwealth, what is wrong with the processes at the Government department which allow such a thing to happen”. Of course it has now been established that the Robodebt process was unlawful. Also that many people took their own lives because of the policy and many people were injured mentally by it as well.

The Cashless Welfare card was a policy where the Coalition Government proposed that all the people in the trial areas on a welfare payment had a problem with Gambling and/or Alcohol and/or Drug usage. They chose areas where there was a preponderance of First Nations people and “Everyone knows (tongue stuck into cheek) that these people Drink, Gamble and take drugs” No Evidence as to the truthfulness of this statement was offered.

The third Policy “initiative”, rebalancing the Assets test used a theme of Envy to sell it. “Why should we give Welfare to Wealthy people?”

Rebalancing the Assets Test, an exercise in Political Stump.

I am going to start off by explaining that there is no one Aged Pension. In fact there are two rates of Aged pension, one for Singles and one for Couples.
There are also two ways to calculate the Aged Pension and those are based either on income or from amount of assets owned. We are only concerned with the Assets test here.

So there are 4 Groups of Aged Pensioners.

a. Couples who own their own Home
b. Couples who don't own their own home
c. Singles who own their own home and
d. Singles who don't own their own home.

For each group there is an allowable Asset value before the pension payment is discounted (and becomes a part pension).

Presumably the Asset value is used as an investment vehicle to provide a part income added to the Part Pension to provide a liveable wage. I say presumably because there are nuances that I will explore there as well.

For every $1000 dollars over and above the allowable assets the pension is reduced by a "Taper rate". In 2015 before changes that rate was $1.5 per $1000 over the allowable assets. The Morrison proposal was to increase the allowable assets but also to double the taper rate to $3.00 per thousand.

This is a table of the Pensioner groups and their existing and proposed allowable assets.

Aged Pensioner Groups	Total	%age	2015 Allowable assets. Taper rate $1.50	2017 Allowable Assets Taper rate $3.00	2015 Pension cuts out	2015 Pension cuts out
Non home owner couples	333,937	9.49%	$433,000	$575,000	$1.3m	$1.0 m
Single non home owner couples	1,010,290	28.72 %	$348,500	$450,000	$921,500	$747,000
Home owner couples	1,420,451	40.37 %	$268,500	$375,000	$1.27m	$823,000
Single Home owner	753,498	21.42 %	$202,000	$250,000	$775,000	$547,000
Total	3,518,176	100.00 %				
Home owners	2,173,949	61.79%				
Non Home owners	1,344,227	38.21 %				

When Morrison, as Minister for Social Services introduced this policy he showed 4 Tables which showed the numbers of Aged Pensioners in each group and how they would be affected by the changes. His argument was that **WEALTY** people with **ASSETS** should not receive a pension.

What is Wealth?

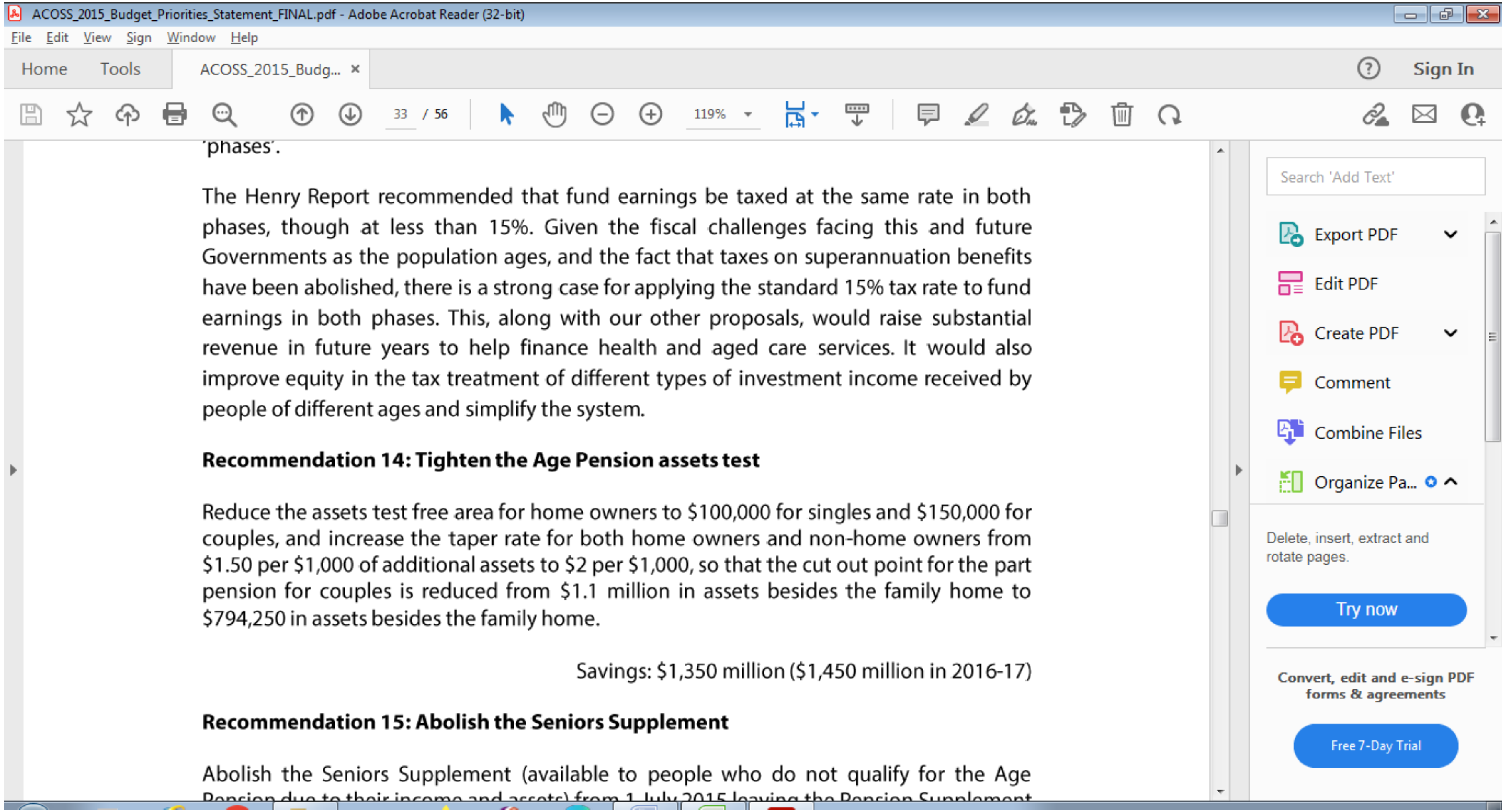
There are two Definitions (Google it mate)
an abundance of valuable possessions or money.
a plentiful supply of a particular desirable thing.

Are Aged Pensioners Wealthy?

I suppose the answer to that relates to the individual and what they have at a particular time. When we look at what the Government (Morrison) decides is an abundance of Wealth accumulated over a lifetime of work, his/their idea of abundance is pretty small. It appears that the Australian Council for Social Services (ACOSS) has the same idea of what is abundance.

I say this because their submission to the 2015 Budget Process said the following in Recommendation 14.

Let's examine the proposal. The 2015 Policy had a Married Couple Home owner with allowable assets at $268,500. Over that was a $1.5 Taper rate for every $1000 of assets. So let's reduce the Allowable asset to $100,000 as per their proposal and increase the Taper rate to $2.00 per fortnight per thousand. 268 minus 100 leaves us 168 thousand dollars, multiply that by $2 (Because we are now 168 times over the allowable) and it's a reduction of $336 per fortnight for that couple or (x26) $8736 per annum. The full pension at May 2015 was $1297 for a Pensioner home owning couple.



'phases'.

The Henry Report recommended that fund earnings be taxed at the same rate in both phases, though at less than 15%. Given the fiscal challenges facing this and future Governments as the population ages, and the fact that taxes on superannuation benefits have been abolished, there is a strong case for applying the standard 15% tax rate to fund earnings in both phases. This, along with our other proposals, would raise substantial revenue in future years to help finance health and aged care services. It would also improve equity in the tax treatment of different types of investment income received by people of different ages and simplify the system.

Recommendation 14: Tighten the Age Pension assets test

Reduce the assets test free area for home owners to $100,000 for singles and $150,000 for couples, and increase the taper rate for both home owners and non-home owners from $1.50 per $1,000 of additional assets to $2 per $1,000, so that the cut out point for the part pension for couples is reduced from $1.1 million in assets besides the family home to $794,250 in assets besides the family home.

Savings: $1,350 million ($1,450 million in 2016-17)

Recommendation 15: Abolish the Seniors Supplement

Abolish the Seniors Supplement (available to people who do not qualify for the Age Pension due to their income and assets) from 1 July 2015 leaving the Pension Supplement

This reduction in their pension takes them right down to $961 per fortnight well below the Henderson Poverty line for a couple of $1200 per fortnight ($600 per week). In this particular example we should also take into account the $168,000 put out at interest @3%. Which is $5040. Making the Fortnightly income of this couple $194 interest plus $961 part pension. Or $1157 per fortnight or $577 per week. **BELOW THE POVERTY LINE**

For an organisation which bangs on about people living in poverty, these people in ACOSS sure don't understand how the Pension system works and that only affected a couple at the level of existing allowable assets.

I don't think they understood how the Assets calculation worked at all and were sucked in by all the "Wealthy talk"

It of course gets better when we actually look at what is counted as being Wealthy.

What is an Asset?

There are two types of asset.
Tangible and able to be put in a bank to earn interest
Tangible and in the form of property. Not able to earn interest

So what does Centrelink /Services Australia count as an asset for the calculation of the amount of Pension?

Well it's a mixture of the two types above and depends on the evaluation by the actual Pension recipient.

Examples of cash and securities which can be easily put out at interest are easily and perfectly reported. You can't underreport or over report because they have access to your Accounts.

Where there is a problem with "other" assets is their classification.
Centrelink/Services Australia count the following

a. The value of your household furniture.
b. The value of your Car
c. The Value of your Boat
d. The value of your Caravan.

Value of household furniture the last time I filled out the form said they would accept a minimum value of $10,000. I went through my house room to room and valued the whole replacement cost of my contents at $160,000, but that is NOT the valuation they base the Asset value on. They base it on what you could get for the contents if you had a garage or car boot sale approach. But they don't tell you this and so many Pensioners would value their contents at replacement value.

Many pensioners buy a nice new car when they retire and they might also have plans to buy a caravan and a boat. When the car is bought new, its value automatically drops and the pensioner is reluctant to acknowledge this and will probably value the car at its purchase value.

None of these “Assets” can be used unless they are sold and they certainly can’t be used for monetary gain, because they were bought for private use.

So another idea comes up from all of this Welfare State business.

How much will the Government allow you to own at the end of your working life which doesn’t impact on your Age pension?

You have probably worked for 45 to 50 years and accumulated some possessions which you then have to value and that determines your level of pension.

Some Politician comes along and claims that your generation has robbed the future for the younger generations because a small amount of assets gained over a working life somehow engender a degree of envy that they can then exploit.

So they have a great story, firstly claiming fabulous wealth, then playing the age and envy card and then wrapping it up in a nasty little message which is then repeated by the Press gallery who can’t even be bothered to find out the truth, despite the wonders of Search Engines on the Internet and the software to put the raw data in and actually model the claims made by the politicians.

Perhaps they can’t be bothered? Perhaps they don’t know how? Perhaps they are just lazy? So they took an arcane issue, simplified it and made up a story. Seems like they convinced a lot of people.

What was never included in any of the discussions by any of the players was the Henderson Poverty line.

Here is some background from the Institute of Applied Economics at Melbourne University.

In 1966, the Institute of Applied Economics began the first systematic attempt at measuring poverty in Australia by estimating the extent of the problem in the City of Melbourne. Following the widely publicised results of the study, then Prime Minister William McMahon launched a Commission of Inquiry into Poverty in August 1972, with Ronald Henderson appointed as Chair.
Later that year, the newly-elected Whitlam Government extended the size and scope of the Inquiry, asking it to determine:
the extent of poverty in Australia
the groups most at risk of experiencing poverty
the income needs of those living in poverty, and
issues relating to housing and welfare services.
These issues were addressed in the Commission’s first major report, Poverty in Australia, which was released in August 1975.

Since that report the Quarterly data on Poverty has been published by the Institute, but is not a formally recognised standard by government. It is widely accepted though.

ACOSS actually did mention Pensioners in their reports around this budget into Poverty and the OECD said that 16% of pensioners lived under the Poverty line.

Why then did they not model the changes to the Pension Assets policy to see:-

1. Where were the 16% of Aged pensioners who lived in poverty?
2. Did the changes to the policy actually alleviate that poverty or make it worse?

Or did they just believe the Wealthy rhetoric?

I determined to build a model (with 8 examples representing the 4 groups of Pensioners in 2015 and 2017) to see whether the present policy settings (2015) left anyone in Poverty and whether the changes in 2017 did the same.

I made the following assumptions.

1. That over and above the allowable assets, 75% of the Financial assets be used to generate income and that income be added to the Part Pension to inform me of the total income of Pensioners at various Asset levels.
2. That in 2015 the Taper rate per fortnight per $1000 was $1.5
3. That in 2017 the Taper rate per fortnight per $1000 was $3.0
4. I would use the tables produced by Morrison on 7th May 2015.
5. I would use an interest rate for the 8 examples of 3% return on investment per annum.
6. That the actual interest rate for pensioners affected by the change in Policy in 2017 would be affected by a non return because interest rates were way below 3%. For example the data from the RBA shows an interest rate for investment in 2017 at 2% and trending down towards 2021 to 0.01%. (Source RBA data)
7. That the Henderson Poverty line for Single pensioners in 2015 and 2017 was $420 per week or $840 per fortnight
8. That the Henderson Poverty line for couple Pensioners in 2015 and 2017 was $600 per week or $1200 per fortnight.

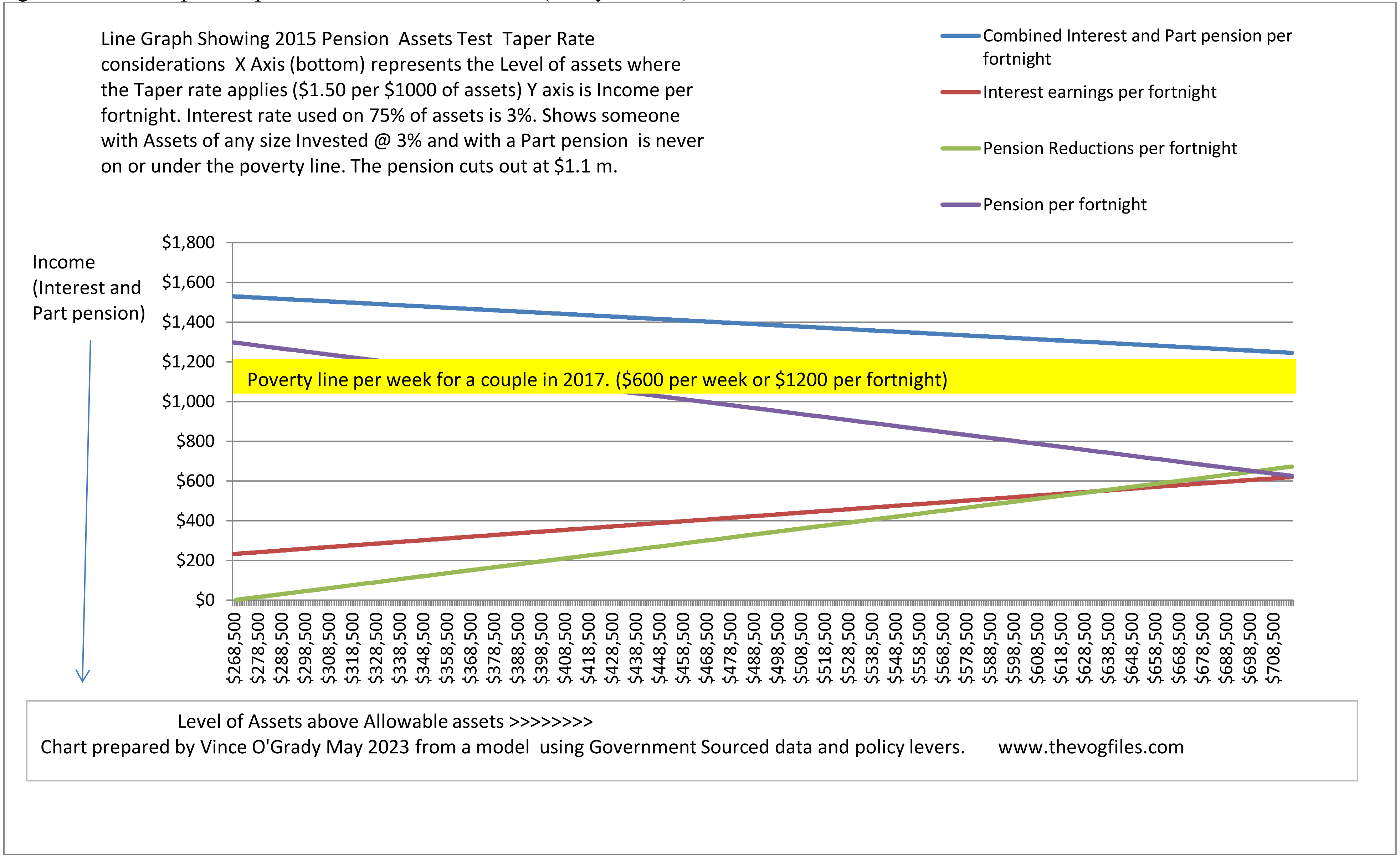
The Model.

So what I did was design a spreadsheet model where I could input the variable data required for each different group and then calculate

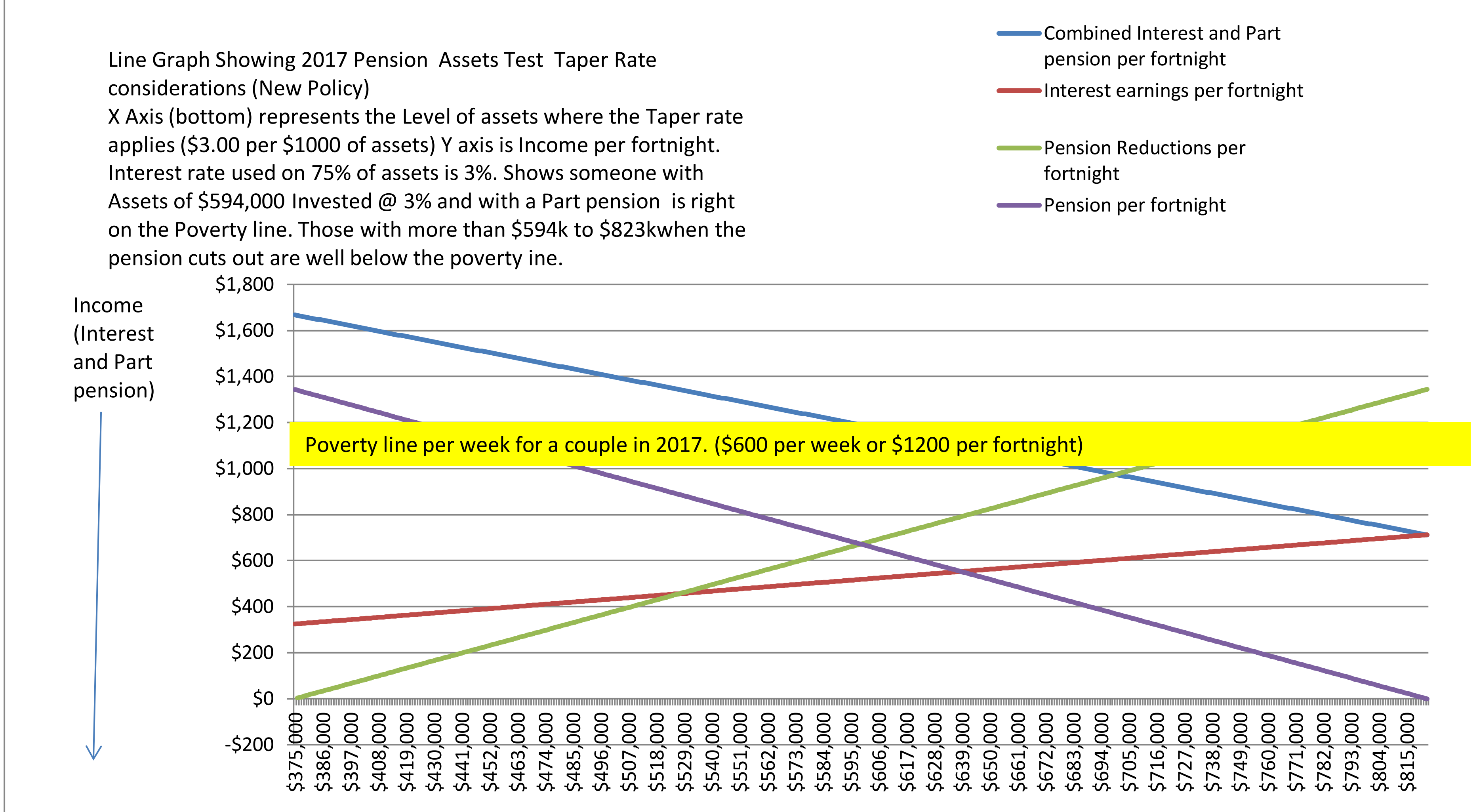
a. The pension reduction rate at all values of assets for each different type of Pension group.
b. The annual return on 75% of assets (see assumptions above) translated into a fortnightly return based on a percentage rate (3% was chosen).
c. The pension rate per fortnight after the reduction using the Taper rate per $1000 per fortnight.
d. I then added the return in b and c above to give a combined income for the Aged pensioner group chosen
e. The Allowable Asset limit for each group was applied.
f. The results for the 4 groups in 2015 (Before policy change) was tabulated in a line graph
g. The results for 4 groups in 2017 (after policy implementation) in line graph were tabulated

The results for the two comparison years and the 4 different pensioner groups are shown below.

Aged Pension Group = Couples who own their own Home (Policy in 2015).



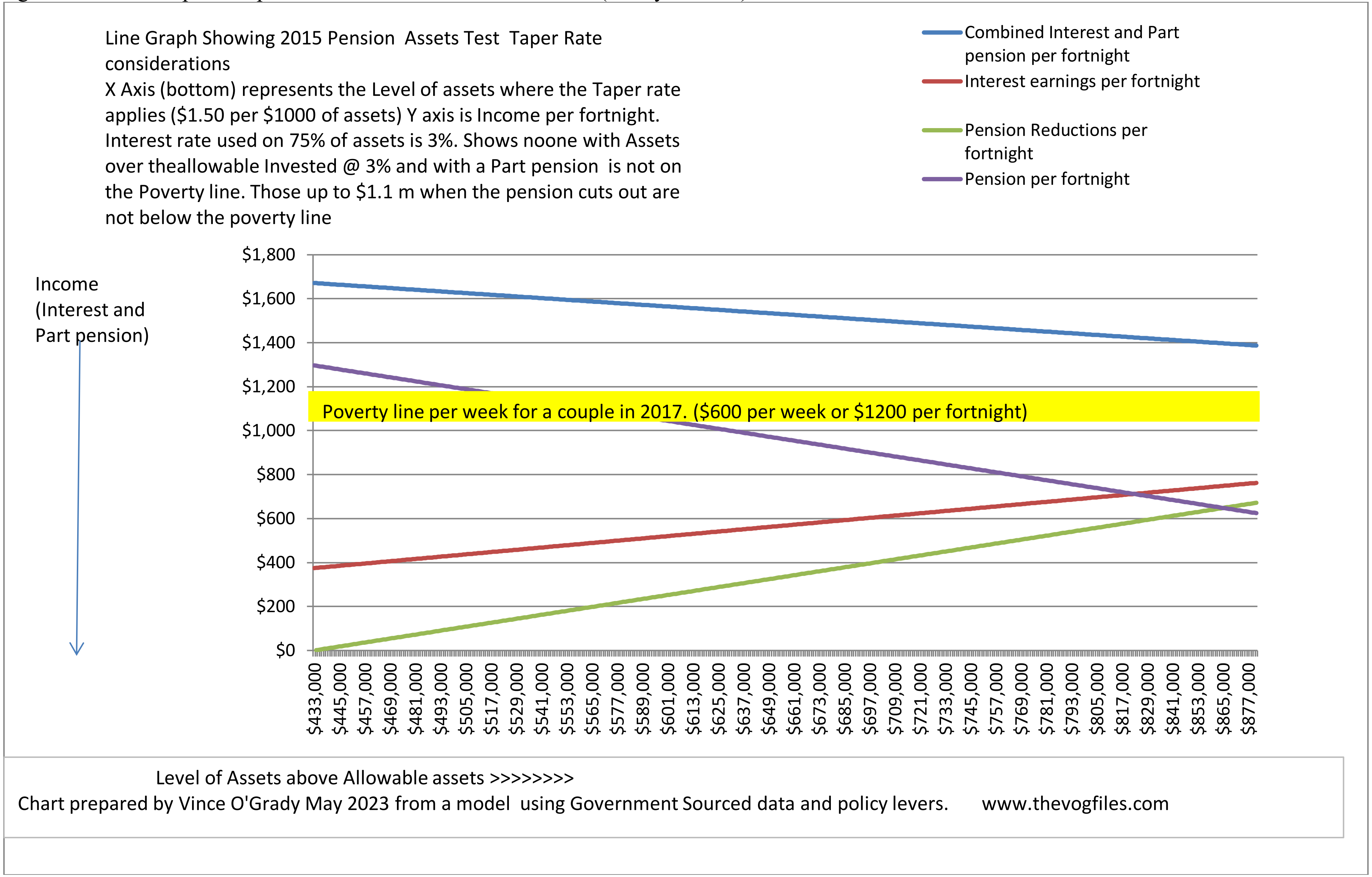
Aged Pension Group = Couples who own their own Home (Policy in 2017).



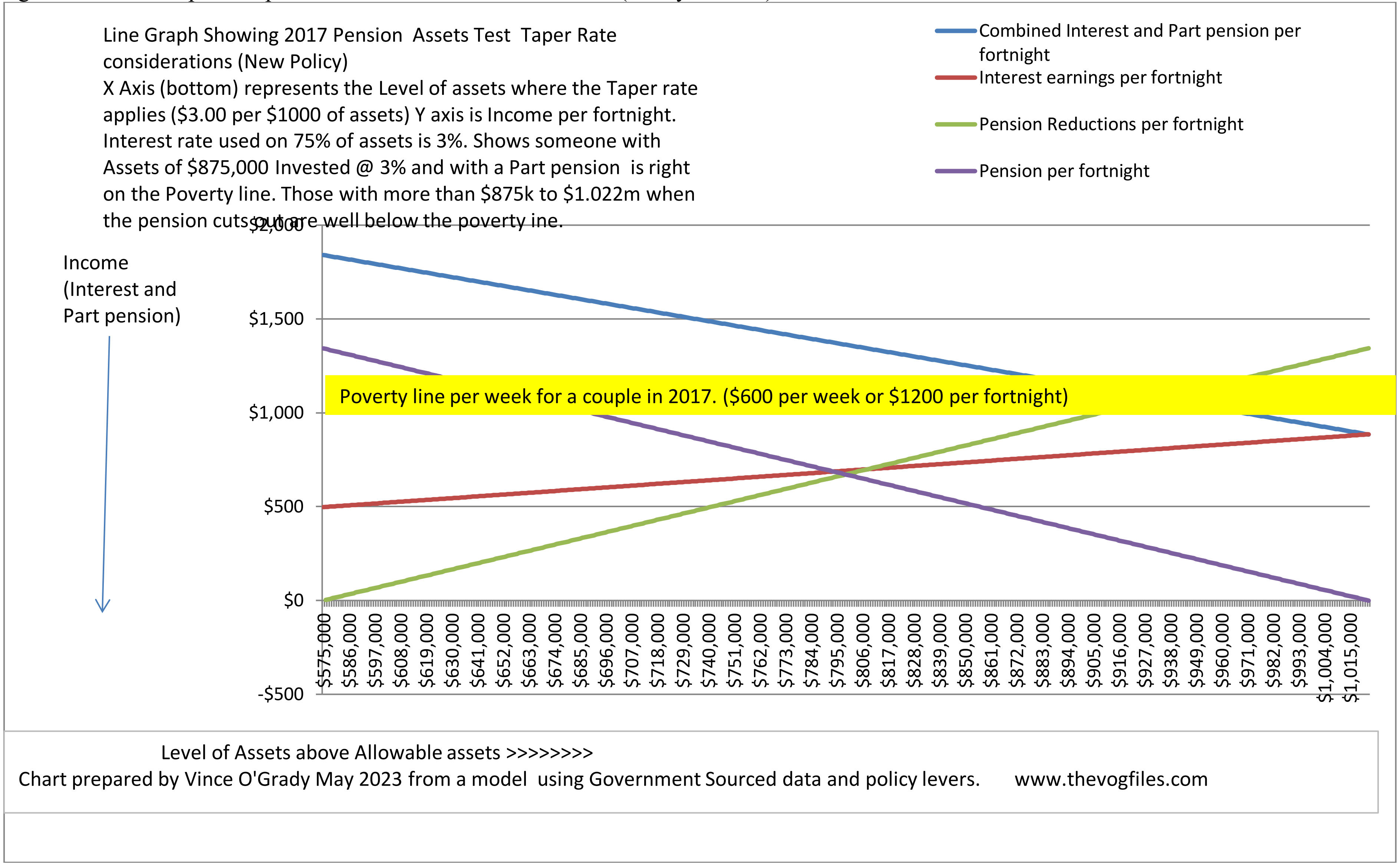
Level of Assets above Allowable assets >>>>>>>>

Chart prepared by Vince O'Grady May 2023 from a model using Government Sourced data and policy levers. www.thevogfiles.com

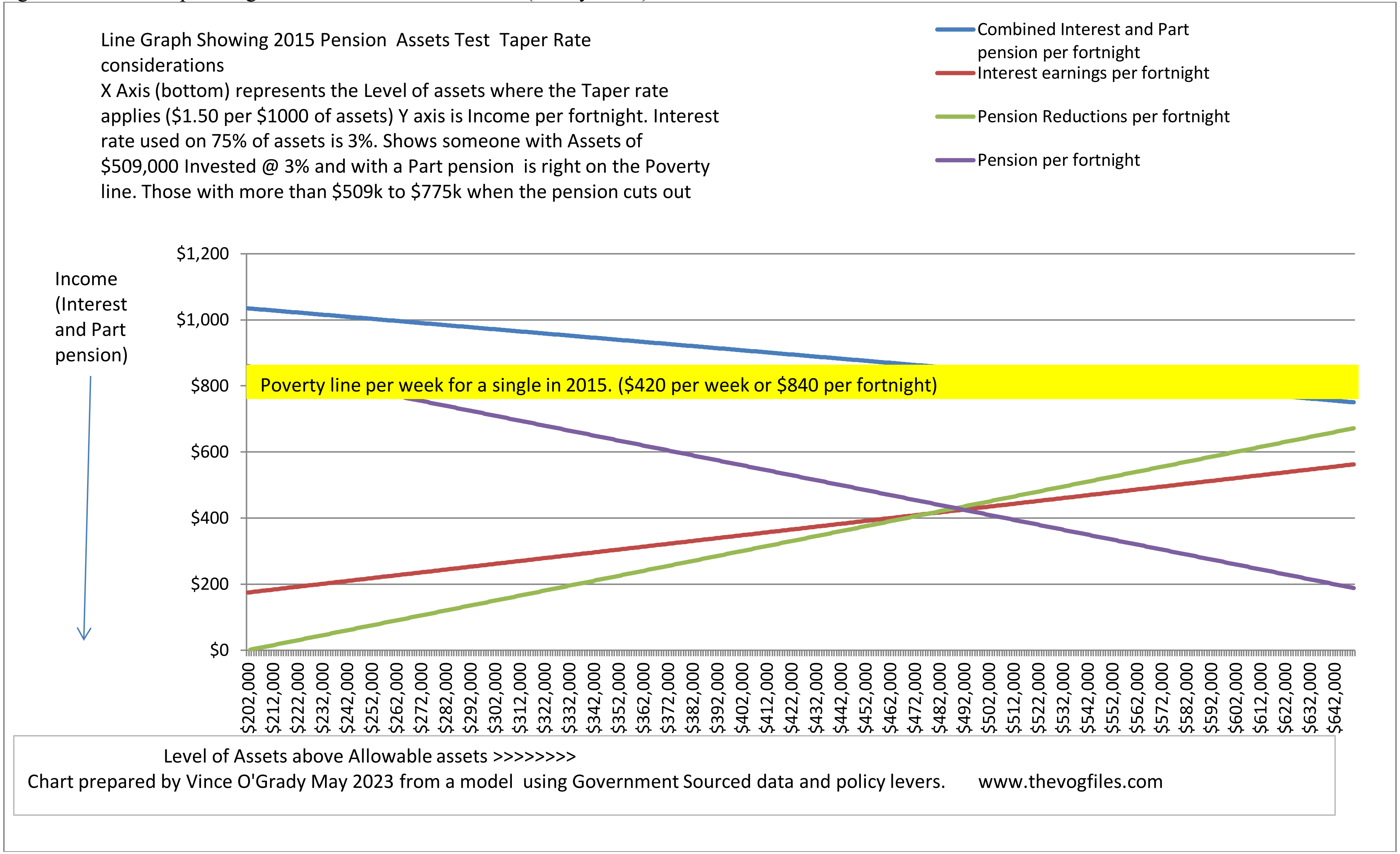
Aged Pension Group = Couples who don’t own their own Home (Policy in 2015).



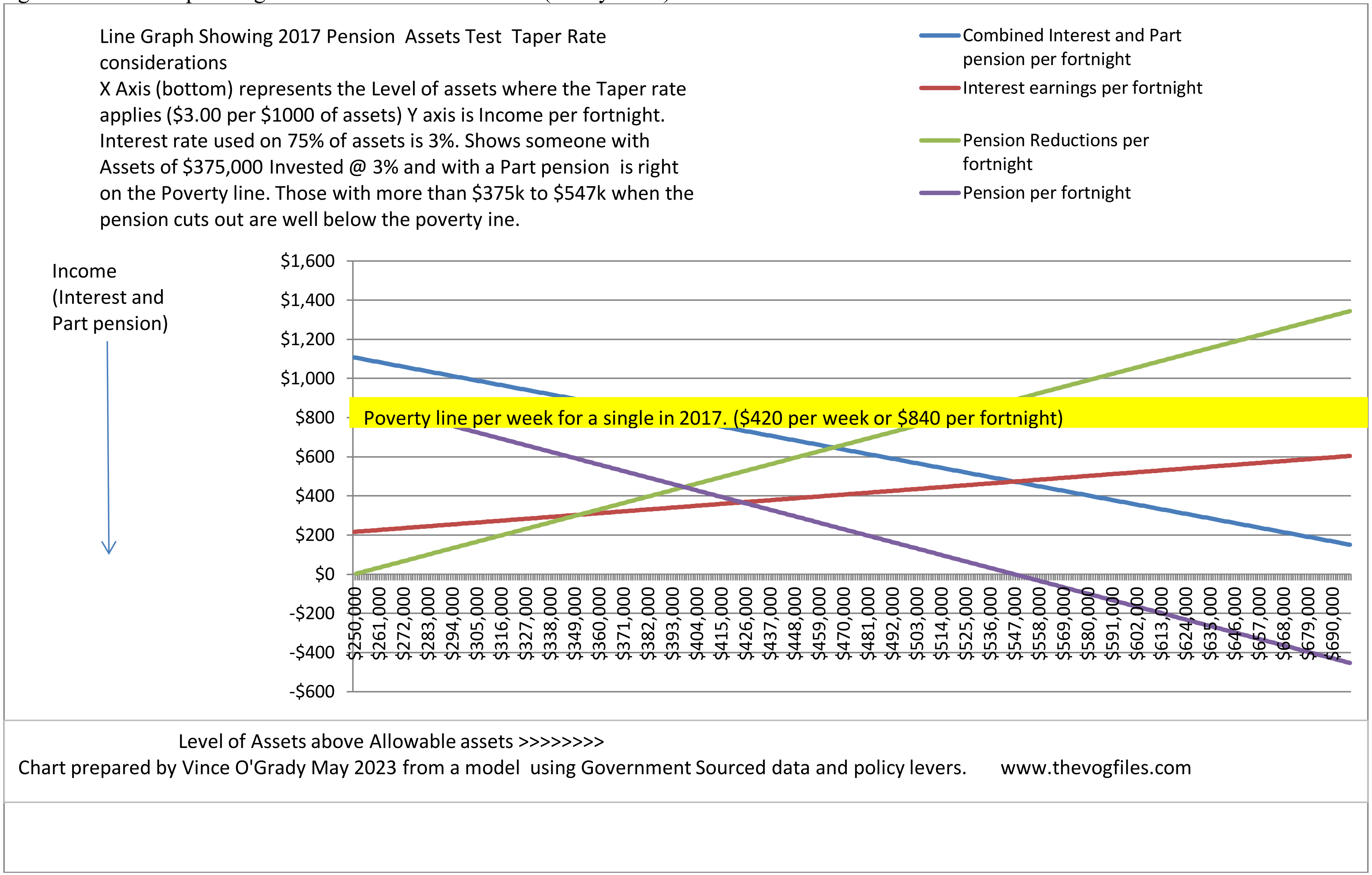
Aged Pension Group = Couples who don't own their own Home (Policy in 2017).



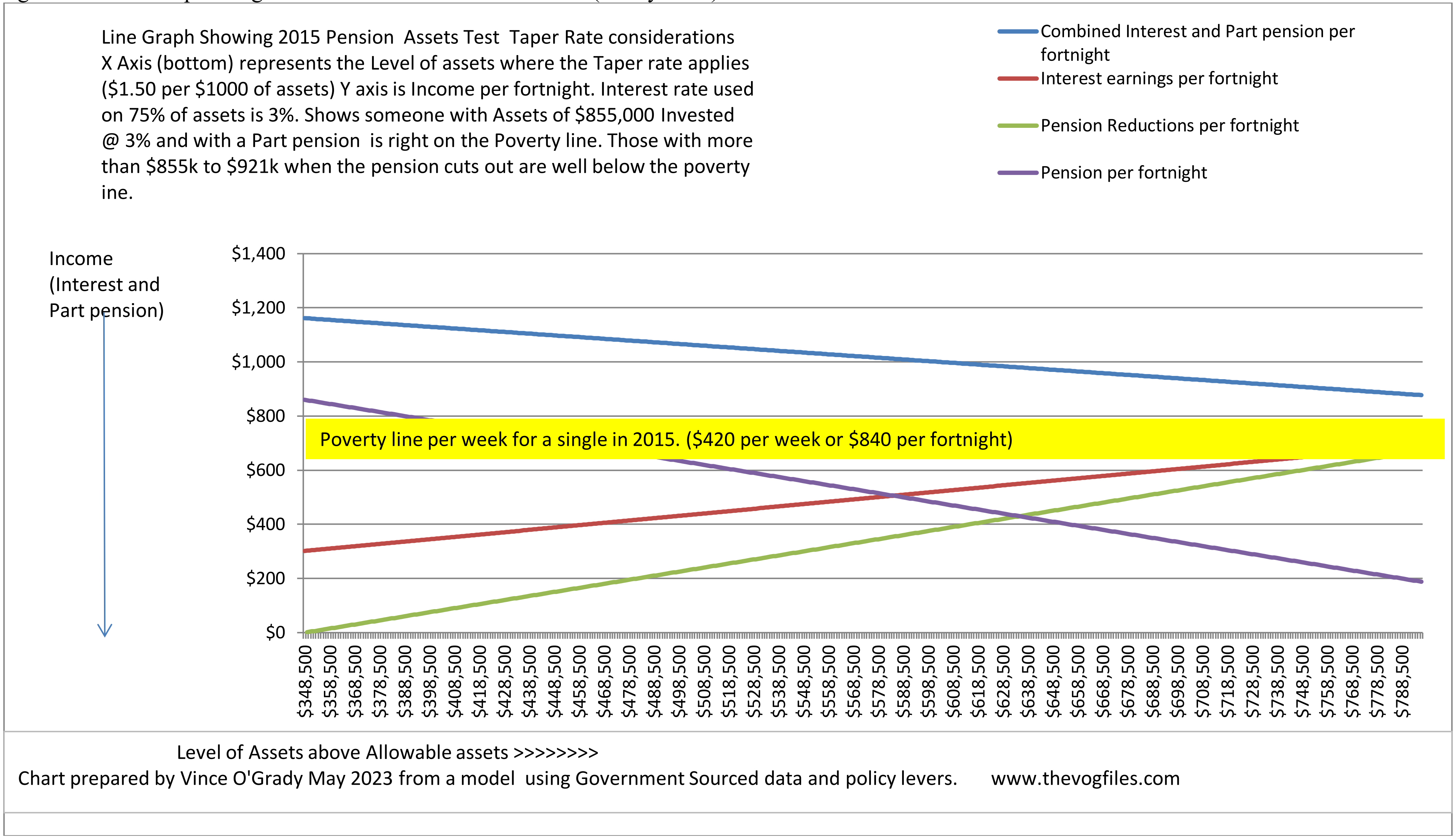
Aged Pension Group = Singles who own their own home (Policy 2015)



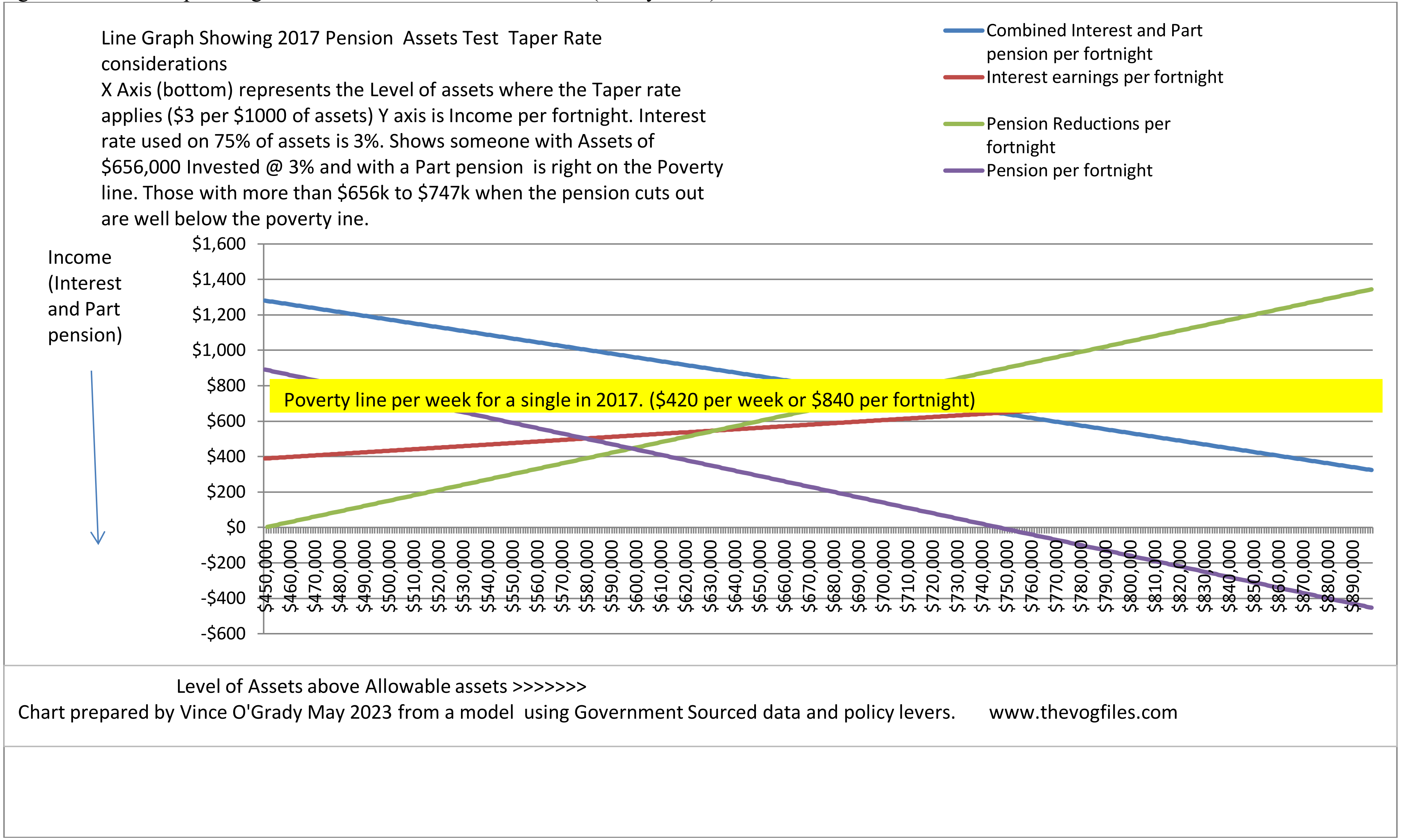
Aged Pension Group = Singles who own their own home (Policy 2017)



Aged Pension Group = Singles who don't own their own home (Policy 2015)



Aged Pension Group = Singles who don’t own their own home (Policy 2017)



Conclusions.

Years ago at work my boss said of me that I couldn't see the wood for the trees. He was another person who believed in trite sayings. I was a senior Product Manager in a Major firm responsible for achieving a budget of over $20 million in Sales. When we first started selling the product it wasn't profitable but in a short couple of years with hard work and using some business skills learned at university we turned the product around to profitability.

I knew almost every individual component in the product and it contained a "forrest" of them. It was only by that detailed understanding was I able to understand the actual product itself (the wood).

It's the same with policy. The excellence of the policy depends on the actual attention to the detail.

Several Questions arrive out of this paper,

1. Who chose the allowable asset Levels of the 4 different Aged pension groups?
2. Why did the results of the Analysis show that the group impacted most was the Couple Home owner group?
3. Did the well paid public servants have a model like the one developed in this paper to do "What if" type analysis?
4. Why are Assets which have been bought with After tax income over years of work (Typically 45 to 50 years before retiring) and which cannot deliver a return to the Pensioner, included in the allowable assets with the obvious idea that they can be used for such a return. Such an idea stinks of the politics of envy. "You cannot own a nice car or a caravan after a lifetimes work because we think you shouldn't have nice things and if you do want them then we are going to give you less Pension because you do"
5. Why did Scott Morrison use the Politics of Wealth and envy and the generation card against Pensioners in the formulation and selling of this policy change. Why was he so dishonest?
6. Why were ACOSS so crassly stupid as to not understand the Pension Assets policy and to propose a Nonsense reduction in the Allowable assets for Pensioner couple who owned their own homes (if their suggestions had been taken up they would have placed those pensioners at the levels they suggested under the Henderson Poverty line.
7. Why did the Greens vote for this horrendous policy which attacked the Social Justice/Social service portion of Australia. How can they really call themselves a Progressive Socialist left style party? Everything about this policy is anathema to Social justice and progression.
8. Why, when I had developed the model to show the disadvantage this would bring to Pensioners, did the Greens not take me up on my offer of a copy of the model and a free demonstration and discussion about the pitfalls the model showed. Why did they just send me a copy of Liberal Party propaganda about this Policy?
9. Who chose a taper rate of $3 per $1000 and was it modelled?

You might not agree with me but I have been generous to the Coalition with the use of a 3% interest rate for the assets which could be placed out at interest. In 2017, when the policy came into being the RBA data showed that in January 2017, the Interest rate was at 2%, by January 2018 it had reduced to 1.90%, in January 2019 it was 1.85%, in Jan 2020 was 1.15% and in Jan 2021 was .15%, In Feb 2021 that dropped to .1% and in Jan 2022 it was .05%.

Luckily with the model I have built you can look at what effect the Interest rate has on the Income of Pensioners over time. At 0.05% interest rate you might well be considered well off but that is not much of a return on any amount of money.

I did actually do some statistics on how many Pensioners Morrison's policy would put under the Poverty Line. I did it at 3% (generous) and also at 0% and the results can be seen in the two tables below. The Numbers come from the Table put out by Morrison.

Modelled at 3%.

Pensioner Groups	Total		Put under poverty line by the policy change@ 3% interest	
Non home owner couples	333,937	9.49%	4126	0.12%
Single non home owner couples	1,010,290	28.72%	7930	0.23%
Home owner couples	1,420,451	40.37%	209614	5.96%
Single Home owner	753,498	21.42%	28600	0.81%
			250270	7.11%
Total	3,518,176	100.00%		
Home owners	2,173,949	61.79%		
Non Home owners	1,344,227	38.21%		

Modelled at 0% effectively no return on Assets invested.

Pensioner Groups	Total		Put under poverty line by the policy change@ 0% interest	
Non home owner couples	333,937	9.49%	4126	0.12%
Single non home owner couples	1,010,290	28.72%	7930	0.23%
Home owner couples	1,420,451	40.37%	291251	8.28%
Single Home owner	753,498	21.42%	153437	4.36%
			456744	12.98%
Total	3,518,176	100.00%		
Home owners	2,173,949	61.79%		
Non Home owners	1,344,227	38.21%		

The alternative in the 0% Scenario is to draw down capital and use that to live on. This of course reduces that capital and when that is gone or at the level of allowable assets the Pensioner will receive a full pension again.

How effective was the policy change?

This is a fascinating Question, given the Political messaging around the issue.

It chose a large group of people to target, those on Aged pensions – 3.5 million, made up of Couples and Singles and split between Home ownership and renters.

The message of wealth and need, would resonate with them because of their lived experience. They would actually believe that they had become wealthy, because they were after all better off than their parents, who had lived through World War 2 and so their frames of reference would be of comparatively small wages and what they also possessed.

When they married and set up families, they didn't have a "turn key" house, they had to buy things incrementally and a lot of it was second hand.

But Wealth and Assets are really valued in the now (2015 and 2017 in this example), not back in the 1950's and 1960's.

Because of their learned experience they would be reluctant to Question Government about the rationale of the changes to the policy.

However the real measure of how they live in their retirement is not what their memories are in the past, but how much money they need to rely on to buy goods and services in 2015 and/or 2017. That is measured by the Henderson Poverty line.

The message that they are wealthy in the 2015 and 2017 scenario is nonsense.

There is also another clever point to this policy change. Out of the 3.5 million Aged pensioners only 97,727 of them were actually denied a pension. That is 2.78% of the 3.5 million.

The following table shows those who no longer qualified for an Aged Pension by the changes.

Pensioner Groups	Total		Numbers off pension in 2017	%age	Put under poverty line by the policy change@ 3%interest	
Non home owner couples	333,937	9.49%	628	0.19%	4126	0.12%
Single non home owner couples	1,010,290	28.72%	2025	0.20%	7930	0.23%
Home owner couples	1,420,451	40.37%	66474	4.68%	209614	5.96%
Single Home owner	753,498	21.42%	28600	3.80%	28600	0.81%
			97727	2.78%	250270	7.11%
Total	3,518,176	100.00%				
Home owners	2,173,949	61.79%				
Non Home owners	1,344,227	38.21%				

The clever use of percentages and not numbers shows how “Small” the change is but the use of numbers who get more pension due to more allowable assets increases shows how “beneficial” it is to those pensioners who actually get more.

Pensioner Groups	Total		Numbers off pension in 2017	%age	Number who get more pension	%age	Put under poverty line by the policy change@ 3%interest	%age
Non home owner couples	333,937	9.49%	628	0.19%	6136	1.84%	4126	0.12%
Single non home owner couples	1,010,290	28.72%	2025	0.20%	37283	3.69%	7930	0.23%
Home owner couples	1,420,451	40.37%	66474	4.68%	313861	22.10%	209614	5.96%
Single Home owner	753,498	21.42%	28600	3.80%	64588	8.57%	28600	0.81%
			97727	2.78%	421868	11.99%	250270	7.11%
Total	3,518,176	100.00%						
Home owners	2,173,949	61.79%						
Non Home owners	1,344,227	38.21%						

The biggest changes to the pension are within the two groups (Single and couples) of pensioners who are home owners.

Couple Home owners represent 4.68% of pensioners in their group who lose the pension entirely and 5.96% who get a part pension and combined interest income below the poverty line.

Single Home owners represent 3.8% of pensioners in their group who lose the pension entirely and 0.81% who get a part pension and combined interest income below the poverty line.

Couple non Home owners represent .19% of pensioners in their group who lose the pension entirely and 0.12% who get a part pension and combined interest income below the poverty line.

Single non Home owners represent .2% of pensioners in their group who lose the pension entirely and 0.23% who get a part pension and combined interest income below the poverty line.

Yet the Policy apparently reduced the outlay by Government by $2.5 Billion per annum.

Conclusion.

1. To see the whole of a policy proposal (the Wood) you need to see all the detail (the Trees)
2. The dishonest use of emotive language and definition of terms like Wealthy and Assets are problematic
3. The discussion needed to be a broad one and didn't take into account all of the factors involved. Such as the Henderson Poverty line
4. It was possible to model the changes and to take account of all the variables, if this was done the interpretation used and the messages developed were wrong and dishonest.
5. This was a policy based on ideology. *"They are the Kings of the castle and we are the dirty rascals"*
6. It appears that the Coalition parties wanted to reduce Social security payments to Aged pensioners. This result was targeted more towards the Single and Couple Pensioner Home owners.
7. Discussions were floated in the press before the May 2015 budget as to whether the Home should be included in the assets test. This is of course patent nonsense because you cannot use your home value to achieve a financial return through a bank deposit.
8. I strongly suspect that those discussions and papers about pensioner home ownership were influenced by the large amount of capital tied up in that ownership. A total of 2.1 million Aged pensioners own their homes. This would represent the largest pool of Capital which hasn't yet been leveraged by the banking sector.
9. Reducing pensions would allow Bank products like reverse mortgages to tap that housing sector.
10. In a Political sense Australia's Aged population was duped by the Coalition by the messages of wealth and by the floating of including the Home in the assets test.
11. The Greens party were thoroughly taken in by the messages as well. They swallowed it hook line and sinker and were given back a pittance in promises to have a look at superannuation.
12. The three policies adopted by the Coalition of 1. Robodebt, 2. Cashless Welfare card and 3. Assets changes in the pension sent a message to the Australian public generally that "The Age of Entitlement was over" The Nonsense messages of 1. Fraud in the Dole system, 2. Druggies, Alcoholics and gambling addicts getting welfare and 3. Rich people getting pensions were the ideological stance of the Conservative parties.
13. The Parrot cage of the Press gallery amplified and refined these messages.
14. Class politics at its best.