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Introduction

This report tracks changes in the cost of living for the least advantaged in South Australia. It differs from the official Cost Price Index (CPI) because the CPI is based on all households, and therefore includes expenditures that are not part of the expenditure of the poorest households. Those poorer households simply can't afford the items that make up the CPI basket of goods. This is important because if expenditure on bare essentials make up the vast bulk (or entirety) of expenditure for low income households, then the price increases in those areas are crucial whilst price increases on other goods are largely irrelevant. However, crucial 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.

This SACOSS *Cost of Living Update* is the fifth in a series of reports and the third to utilise the Australian Bureau of Statistics' Analytical Living Cost Index (ALCI), which is now being produced quarterly (ABS, 2010a). The ALCI is an index of average expenditures weighted by reference to the last Household Expenditure Survey (2003/04). It uses a different methodology to CPI (see Explanatory Note 1) and it disaggregates expenditure by identifying four different household types. It then tracks changes in the cost of goods and services for the average expenditure in each household type. The household types are categorized as those having their primary income source as:

- employment
- age pension
- other government transfers (hereafter 'other welfare recipients')
- self-funded (retirement).

These make up 90% of households in Australia (ABS, 2010b) although this *Cost of Living Update* focuses only on the "aged pension" and "other government transfer recipient" figures, as these represent the more disadvantaged groups.

While the ALCI is more nuanced than the generic CPI, it still has limitations in being able to represent the real living costs of the most disadvantaged in those broad groups. These limitations are detailed in the Explanatory Note 2, but they largely relate to the fact that any indicator of *average* expenditures for household groups will hide impacts for particular subgroups. For instance, a pensioner owning their own home outright is in a very different financial position from a pensioner who has to pay market rents. The other major issue is that the ALCI is only published with national figures, which means that it may be difficult to trace Adelaide- or South Australia-specific issues. Nonetheless, the ALCI does provide a robust statistical base, a longer time series, and quarterly tracking of changes in the cost of living for welfare recipients.

This report adds to the ALCI by:

- **placing dollar values on the cost of living changes**
- **including an analysis of changing levels of income support over time, and case studies showing how social security recipients are coping on their incomes.**

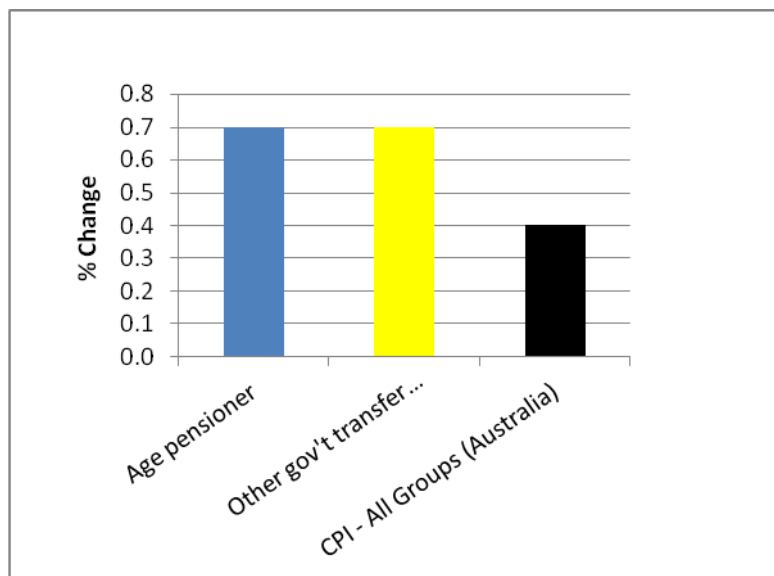
December Quarter 2010 Cost of Living Changes

Change from Previous Quarter

In the December 2010 quarter, the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 0.7% (ABS, 2010a). That is, the cost of living for the average household in those categories increased by 0.7%. By comparison, the national CPI (All Groups) increased 0.4% (ABS, 2010c). **In effect, the cost of living for welfare recipients rose faster than for the population as a whole in the last quarter.**

The differences can be seen in Figure 1:

Figure 1: Increases in ALCI and CPI December Qtr 2010



As an index of price changes the ALCI tracks only percentage changes, but it is possible to extrapolate from those figures to put a dollar value on the price rises.

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

Table 1: Cost of Living Change December Qtr 2010

	Base Rate Benefit per week (1 October 2010)	ALCI Change	\$ Amount per week
Aged Pensioner	\$329.20	0.7%	\$2.30
Newstart with two children (Other Welfare Recipient)	\$254.10	0.7%	\$1.77

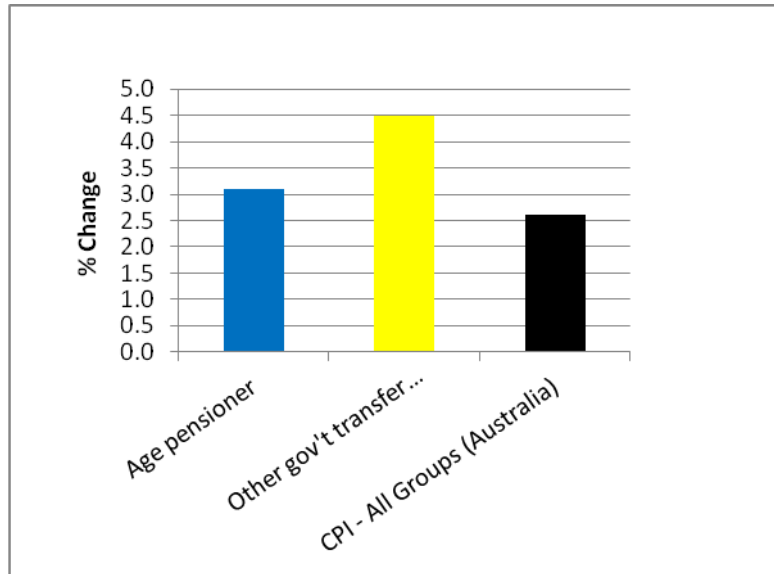
(Source: Centrelink, 2010; ABS, 2010a)

That is to say, for those who fit the assumptions above, the cost of living increased in the December Quarter by \$2.30 per week for aged pensioners, and by \$1.77 per person for a Newstart recipient with two children.

Change from Corresponding Quarter 2009

Over the last year (Dec Qtr 2009 – Dec Qtr 2010), the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 3.1% and 4.5% respectively (ABS, 2010a). That is, the cost of living for the average household in those categories increased by 3.1% and 4.5%. By comparison, the national CPI (All Groups) increased 2.6%, with a 2.5% increase for Adelaide (ABS, 2010c). **In effect, the cost of living for pensioners and welfare recipients rose faster than for the population as a whole over the last year.** The differences can be seen in Figure 2.

Figure 2: Increases in ALCI & CPI December Qtr 2009-10



Using the same assumptions as above, the dollar amounts of the ALCI cost of living increases over the last year are as follows:

Table 2: Cost of Living Change Dec Qtr 2009 - Dec Qtr 2010

	Base Rate Benefit per week (1 October 2009)	ALCI Change	\$ Amount per week
Aged Pensioner	\$307.90	3.1%	\$9.55
Newstart with two children (Other Welfare Recipient)	\$246.65	4.5%	\$11.10

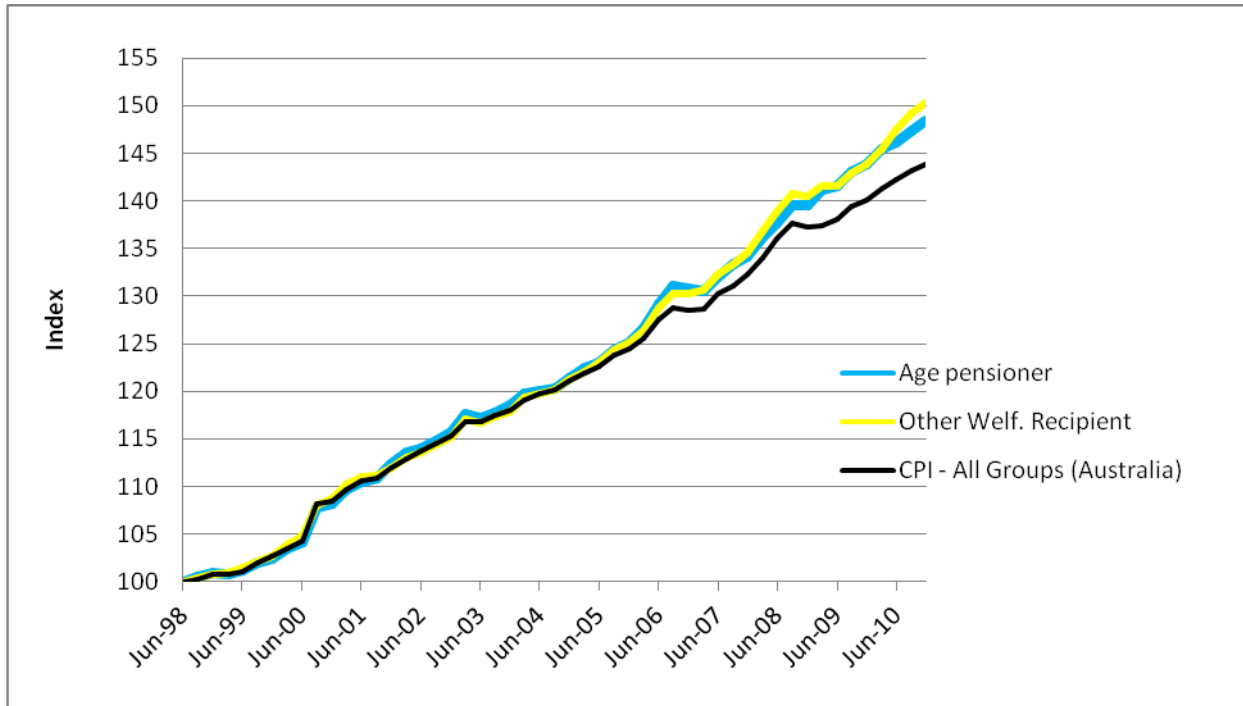
(Source: Centrelink, 2009; ABS, 2010a)

That is to say, for those whose only source of income is a base-rate government benefit and who spend all their income, the cost of living over the last year increased by about \$10 or \$11 per week. The base rate pension rose by \$21.30 in the same period, while Newstart rose by \$7.45. **Thus, while the federal government commitment to raising aged pensions, beginning in September 2009, has made a difference, those on Newstart are falling further behind, with the cost of living rising faster than their income.**

Longer-term trends

Previous SACOSS *Cost of Living* updates have noted a trend where the cost of living for welfare recipients had been rising faster than CPI since 2006. This is evident in the long term trends of ALCI and CPI tracked in Figure 3.

Figure 3: ALCI & CPI Indexes



The trend that began in 2006 has continued as the lines representing the cost of living for welfare recipients and prices across the whole economy (as measured by CPI) grow further apart. We are also seeing an increasing separation between the types of social security income with the costs of living facing “other welfare recipients” growing faster than those facing aged pensioners. The ALCI for aged pensioners is now 4.6 percentage points higher than CPI, while for other welfare recipients the ALCI is 6.5 percentage points higher than CPI, which is to say that the prices for goods and services bought by welfare recipients have increased by 4.6 and 6.5 percentage points more for those groups than prices across the board.

Unemployed and Falling Further Behind

Introduction

The SACOSS *Cost of Living Updates* highlight the problems of using CPI to measure price rises facing low income South Australians – largely due to the unrepresentative nature of the basket of goods and services measured by CPI. Poorer households simply can't afford some of the items that make up the CPI basket of goods and therefore price changes to essential commodities, which make up a greater proportion of low income household budgets, may be masked in the generic CPI by rises or falls in other goods and services.

The ABS' Analytical Living Cost Index confirms this by providing a useful time-series of price changes in the costs of goods and services consumed by different household types, including two data sets for households whose primary source of income is government income support payments (aged pensions, and "other government transfers"). The ALCI shows that since about 2006, the cost of goods and services consumed by income support recipients has risen faster than the rise in prices across the economy. This is important because many social security payments are indexed to CPI, which means that if the ALCI is rising faster than CPI, then the real income of people on those social security benefits is decreasing.

The SACOSS *Cost of Living Updates* track these changes quarterly, but this *Update* carries a deeper analysis of social security payments over time and what this means in practice for South Australians living on those income support payments. The analysis is unapologetically state-based even though the social security income streams are federal government funded and not differentiated by state. However SACOSS's immediate area of concern is vulnerable and disadvantaged South Australians and the reality of the figures is the same for those people regardless of what is happening (for better or worse) in other states.

Living on income support

The reality of what it means to live on social security incomes needs to be appreciated, both to balance ill-informed and maliciously promoted stereotypes, and also to fully understand the story behind the statistics analysed in this report. The case studies in this report come from SACOSS member organisations that provide financial counselling and other services to assist those who are struggling. While no two cases are the same, the budgets here are not untypical for people living on social security and give a glimpse of their experiences and lifestyle. The budgets also highlight the importance of this income support and the need to increase those payments.

As can be seen in Case Study 1, for this couple on disability support pensions there is nothing left after the most basic expenditures for discretionary items or unforeseen circumstances, other than the \$600 supplement once a year. This creates not just difficult living conditions, but additional emotional drain and psychological stress of living on the limit.

Case Study 2, from UnitingCare Wesley's files, shows a budget for an aged pensioner living in a retirement home. While food and utilities are not major items, there is extremely modest expenditure on most personal expenditure categories. While individuals may differ in their priorities in this expenditure, or disagree as to what is a wise use of scarce discretionary money, it is important to recognise that even in a home where the basic food and lodging is provided, some personal expenditure is necessary to have a life as an individual and to engage in society. And even with this fairly minimal expenditure, the budget is still in deficit.

Case Study 3, also from UnitingCare Wesley, details the budget of a home-owner who found themselves unemployed and reliant on the Newstart allowance. While the home is an asset, it

makes breaking even difficult. However, if this Newstart recipient was paying rent the outcomes would not be very different (the difference between the \$228 mortgage, water and rates, and whatever rent became applicable). And while the weekly situation may be financially less tight, this would be without the long term stability and asset of a house and with a subsequent need to re-finance a home purchase at some future time.

Case Study 4 is Patrick Wundke, a student and artist/musician who lives on Youth Allowance. He manages, in his own words, to “have a very full life” despite the low income, but he is lucky to have low living costs and is creative in how he lives.

What is stunning about the many budgets provided to SACOSS by the financial counsellors is that the budget with the biggest surplus for the fortnight was the budget worked out for a homeless person. It was a pretty simple budget: \$700 Aged Pension income, \$280 expenditure a fortnight for (fast) food, \$30 for a mobile phone, \$100 for a car, \$15 for medical expenses, leaving \$140 a week for cigarettes and some left over. That might be a scary tobacco habit and an uncomfortable and unsustainable lifestyle, but the other income support recipients whose budgets we looked at were also unsustainable because even with modest expenditure, they could not make ends meet. Obviously the sample of these fortnightly budgets we looked at is biased because financial counsellors step in when clients are struggling, but there is a stark question about the adequacy of welfare payments if the ‘easy’ way to manage on social security is to be homeless (with all the health and social problems associated with that).

Case Study 1: Disability Support Pension

Anglicare SA has told us about a couple that they see who are both on a disability allowance. He has a severe back injury from many years of manual digging and arthritis. His wife has a mental illness requiring medication as well having had her bowel removed due to bowel cancer. She is reliant on a colostomy bag. He cares for her full time. Both people have medical needs involving several doctors and specialists and requiring a great deal of running around. Not all the doctors' costs are covered by Medicare and the pension pharmaceutical of \$6.00 a fortnight does not cover the medicines needed. A special diet needs to be followed. Being low income earners, they have not been able to purchase a home and are renting privately. The wife keeps occupied with some craft, but as you can see from their fortnightly budget below, their income leaves them no money for extras or social activity.

Fortnightly Income

Source	Total
Both people on disability pension @ \$485.60 per fortnight	\$971.20
Pension supplement - couple (GST, Pharm, Telephone & Utilities)	\$84.60
One person on Carers Allowance for caring for other	\$106.70
Rent Assistance	\$161.00
	<hr/>
	\$1323.50

On top of this they get a \$600 annual supplement payment.

Fortnightly Expenditure

Description	Total
Rent*	\$600
Food	\$400
Electricity	\$40
Water	\$15
Medical	\$80
Car (Petrol, Rego & Licence)	\$129
Clothing	\$20
Craft Items	\$15
	<hr/>
	\$1324

* Note: median rent for a 2 bedroom house in the Adelaide Metro area in the December 2010 quarter was \$300 per week.

Case Study 2: Budget for an Aged Pensioner in Retirement Home

Fortnightly Income

<i>Source</i>	<i>Total</i>
Aged Pension	\$658.40
Pension supplement	\$57.70
Rent Assistance	\$115.20
	<hr/>
	\$831.30

Fortnightly Expenditure

<i>Description</i>	<i>Total</i>
Rent/Board	\$674
Food/Pet Food	\$50
Medical	\$48
Public Transport/Taxis	\$23
Helping Hand Age Care	\$8
Clothing	\$9
Haircut/Cosmetics	\$9
Gifts	\$4
Cigarettes	\$21
Lotto/Pokies/Bingo	\$5
	<hr/>
	\$851

Nett Position: Fortnightly Deficit \$19.70

Case Study 3: Budget for a Newstart Recipient (with own home)

Fortnightly Income

<i>Source</i>	<i>Total</i>
Newstart	\$498.44
Training Allowance	\$41.60
Pharm & GST Allowances	\$15.76
	<hr/>
	\$555.80

Fortnightly Expenditure

<i>Description</i>	<i>Total</i>
Mortgage	\$228
Other House (Insurance, rates, fees)	\$60
Utilities (water, electricity, phone)	\$85
Food	\$100
Pet Food	\$30
Car (Petrol, rego, insurance)	\$73
Medication	\$5
Clothes	\$4
Haircuts/Cosmetics	\$6
Alcohol	\$20
	<hr/>
	\$611

Nett Position: Fortnightly Deficit \$55.20

Case Study 4: Youth Allowance

Patrick Wundke is a 23 year-old student and artist living on the independent rate of Youth Allowance. His Youth Allowance and Rent Assistance come to about \$200 per week. He lives in a share house which gives him relatively low rent (\$60 per week), but he recognises that for some it would be a hard place to live. Depending on the time of year, it has 6 - 10 others people living there and his room is too small to have a desk inside.

Other than rent, his main expenditure is food –about \$60 per week – which includes a few cheap meals out each week particularly when studying (being a vegetarian also saves money).

Patrick has no dependants, and rides a bike everywhere (“a car would be unaffordable”), and says that if he is careful he can live on the Youth Allowance. With a few small supplementary income sources (including busking and being on a government committee), he can still afford to be active artistically and socially.

Patrick notes that the most difficult thing he can't afford is health cover, so when he has health problems or needs a physio or dentist, it takes a big chunk out of his weekly money. Similarly, he can rarely afford new clothes, and as an artist, buying materials or equipment is a “limited luxury”, while trips away are done in shared vehicles or hitchhiking.

His overall conclusion:

“After spending time overseas, I can see that our welfare system is a huge benefit. I am able to do a lot of activities that I'd like to think indirectly and directly contribute something positive in society. It also allows me more study time.

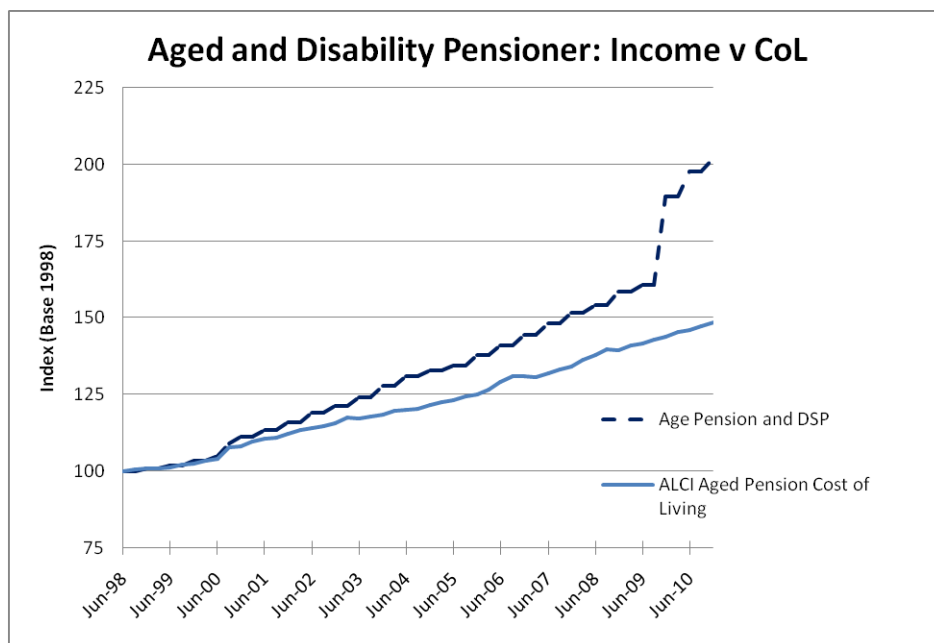
But that does not mean that things can't be improved. For example, I'm not sure why Newstart gives more money than a student allowance, when a student allowance is more permanent and you have even less time to look for or work a job.”

Tracking different income support payments against ALCI/CPI

The case studies in this report show the actual budgets for a number of individuals receiving different categories of income support. Figures 4 and 5 below tracks the changes in these different social security payments over time against the changes in cost of living, to see whether their situation is improving or not. The income figures have been indexed to 1998 to match the ALCI, but it should be noted that the indexing is based on changes only in the base rate of each benefit. As well as the base rate payments, recipients may be entitled to a range of other allowances (e.g. rent assistance, utilities allowance), supplements (e.g. pension supplements) and payments (e.g. family tax benefits). As the case studies here show, these supplements and allowances provide a vital part of income support for welfare recipients. Changes in those rates can have a big impact on overall income. For instance, the introduction of a utilities allowance of nearly \$2 per week in 2005, and then a substantial increase to nearly \$10 a week three years later, was a welcome increase in income that would not show in base rates.

However, the cocktail of available payments makes tracking changes in income support over time very difficult. Some new allowances have been created or merged over time; others have been dropped, renamed or varied. Entitlements to many payments have also changed over time, as governments tweaked eligibility criteria or the income thresholds at which the benefits cut in and out. The same is true of the base rates, but there are several reasons just to choose the base rate. Firstly, people's circumstances are different and so recipients will be entitled to different mixes of entitlements. Some may only receive the base level rates. Secondly, and perhaps more importantly from a statistical point of view, what we are tracking is not gross income (which is evident here in the case studies) but changes over time. As many of these allowances are also indexed to CPI, the trend is unaffected by whether or not they are included. All of which means that, while not perfect, the general trends identified are valid, particularly as applying to least well-off in society.

Figure 4: Changes in Income v Cost of Living



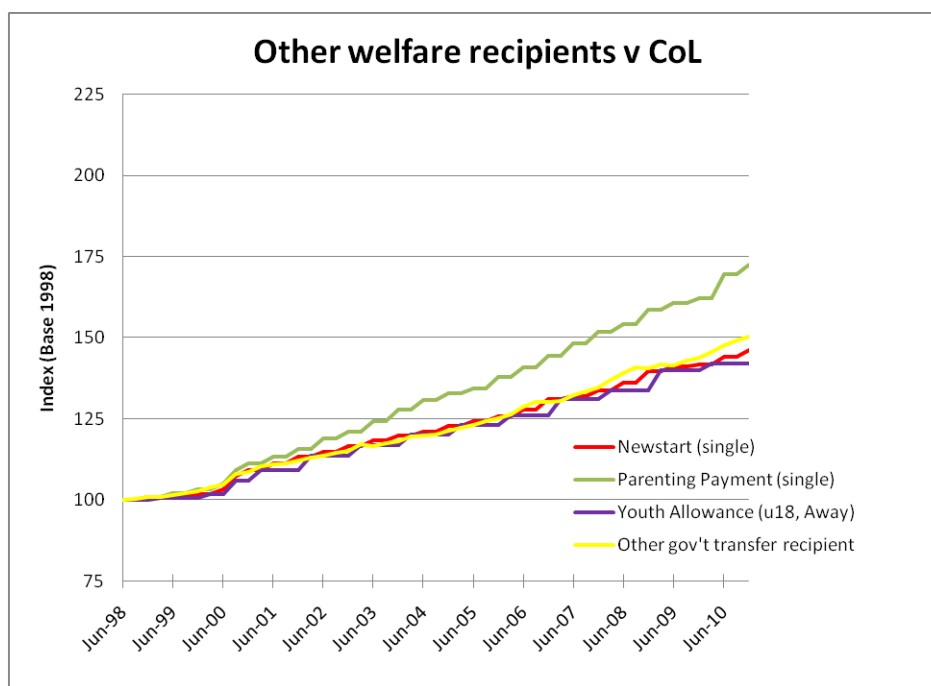
Source: ABS, 2011a; FaHCSIA, 2011.

Figure 4 shows the increases in the base rate of aged and disability (over 21 year-old) pension tracked against the cost of living for aged pension. The substantial increases announced as part of the 2009 State Budget clearly made a significant impact, but because aged and disability pensions are indexed to average wage rates (rather than CPI) the overall rate of increase in the base rate of pensions has been higher than the ALCI cost of living for pensioners. In effect, this means that pensioners are better off – their real wages (i.e. pension) have been rising since June 2000. That

said, as the case studies show, the increases are from a pretty low base and there is still not much money for discretionary expenditure for many pensioners.

However, the same trends are not evident for all income support recipients – as Figure 5 shows.

Figure 5: Changes in Income v Cost of Living



Source: ABS, 2011a; FaHCSIA, 2011.

As can be seen, Parenting Payment (which is paid to parents who have no or inadequate other income, and is indexed to wages not CPI) has increased faster than the cost of living for other income support recipients (in yellow). The trend was the same as with Aged Pensions (until the significant increases to the Aged Pension in 2009), but even with the above-cost-of-living increases in Parenting Payment, the sums of money are still relatively modest. The base rate of Parenting Payment during the December Quarter in 2010 for a single parent was \$306 per week. With allowances and Family Tax Benefit (Part A \$80.15 per week for a child under 13, and Part B \$68.18 for a youngest child under 5 years old), a single parent with two young children may be receiving in the order of \$520 per week. This income is still likely to lead to housing stress (more than 30% of income being spent on housing) and not a lot of discretionary expenditure.

However, the situation is much worse for those on Newstart and Youth Allowance.

The Newstart Allowance is paid to those who are over 21 and under pension age and who are unemployed and looking for work. Youth Allowance is paid to full-time students and apprentices aged 16-24 and to job seekers under 21 years old. Both allowances have activity tests at certain points to ensure training, education or pathways into the workforce, but for those who are stuck on those benefits, the last few years have seen the real value of their income decreasing as the payments have failed to keep pace with the ALCI (the difference between the purple/red lines and the yellow line in Figure 5). This is particularly alarming given that, as the case studies here show, there is little “fat” in the meagre budgets dictated by these income support payments. Even the OECD has raised concerns about the adequacy of Australia’s income support for unemployed people, with our Newstart rates below the OECD average. In fact, for single people on an average wage losing their job, Australian income support payments are the lowest in the OECD (Whiteford, 2010).

There is another concerning trend evident in the data, namely an increasing gap between Aged Pensions and Parenting Payments on one hand, and Newstart and Youth Allowance on the other. Those on Newstart and Youth Allowance are becoming increasingly worse off not just in relation to their previous income, but also (and by a greater margin) in comparison to other recipients of social security income.

This can have perverse public policy and personal outcomes, as the OECD noted:

“The large gap between the benefits in the current system can reduce incentives to work ... The unemployed may have an incentive to apply for the Disability Support Pension (DSP), which has a higher risk of long-term welfare dependency... the majority of those leaving DSP do so either because they took up Age Pension or died. At the same time, more than a third of those entering DSP in 2008 had previously had Newstart Allowances” (cited by Whiteford, 2010).

Similarly, Whiteford notes that a lone parent who moves from Parenting Payment to Newstart when their youngest child turns eight can lose up to \$100 each fortnight (Whiteford, 2010). Such differences do not serve the individuals well, and run contrary to the policy aim of supporting people back to work, as they create a disincentive to be on Newstart (where there are training paths and activity tests).

There may be many reasons why this differentiation between income support recipients has emerged. It is in part the technicalities of being indexed differently (aged, carers and disability pensions to wages, others to CPI), and it may also partly reflect the different lobbying power of interest groups. However, SACOSS is concerned that it suggests a hierarchy of benefits where some categories of income support beneficiaries are more “worthy” than others. The echoes of long-discredited notions of a “deserving” and “undeserving” poor are of concern here. Given that even the “top-level” benefits are still pretty austere, the increases in those benefits should not be begrudged, but we see no reason why Newstart and Youth Allowances should not be increased at a similar rate.

Tracking income support payments against weekly earnings

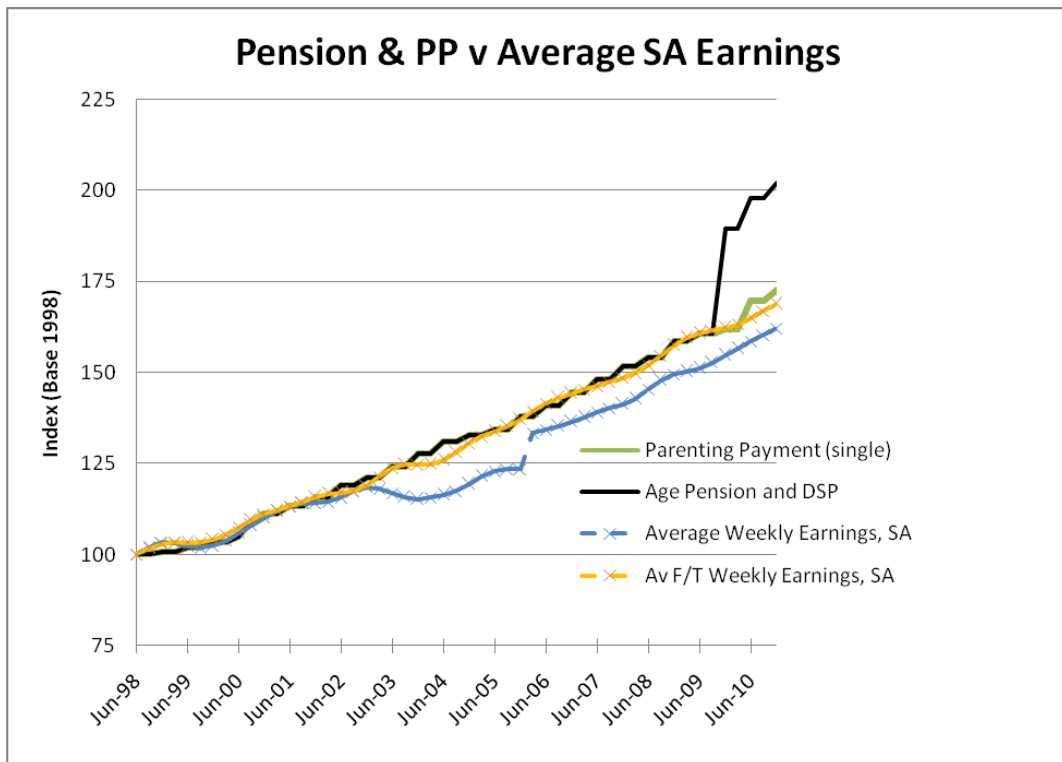
A further aspect of concern about trends in Centrelink income support payments over time is their relationship to average weekly earnings. This is important because it is one measure of equality in society, and a major factor in producing relative poverty. If there is a large or growing gap between average wages/weekly earnings and income support payments it suggests those on benefits are getting left behind financially. This increase in inequality in turn can lead to further social isolation and higher barriers to re/entry into the workforce.

The figures used here are the ABS Trend Estimates for Average Weekly Earnings in South Australia (ABS, 2011d). The technical details of the data choice are set out in Explanatory Notes 3 and 4 below, but it is important to measure income support payments both against Average Full-Time Weekly Earnings and against Average Total Weekly Earnings (which includes casual and part-time workers). The former provides a less volatile long trend and better tracks the changing gap between those working (full time) and those not working. By contrast, tracking against Average Total Earnings gives a better sense of the gap between those on social security and the rest of the population.

Figures 6 and 7 below track changes in a range of income support benefits against changes in average weekly earnings over the last 12 years (the same period as the ALCI cost of living index discussed above). Figure 6 tracks changes in Aged and Disability Pension and in Parenting Payment against average weekly earnings. Given that these income support payments are indexed to wages, it is not surprising that they increased at about the same rate as Average Full-Time Earnings (until aged and disability pensions were markedly increased in 2009). Thus the gap

between full-time employees and pensioners remained fairly static, and in comparison to Total Adult Earnings (including part-time and casual workers), the gap lessened somewhat.

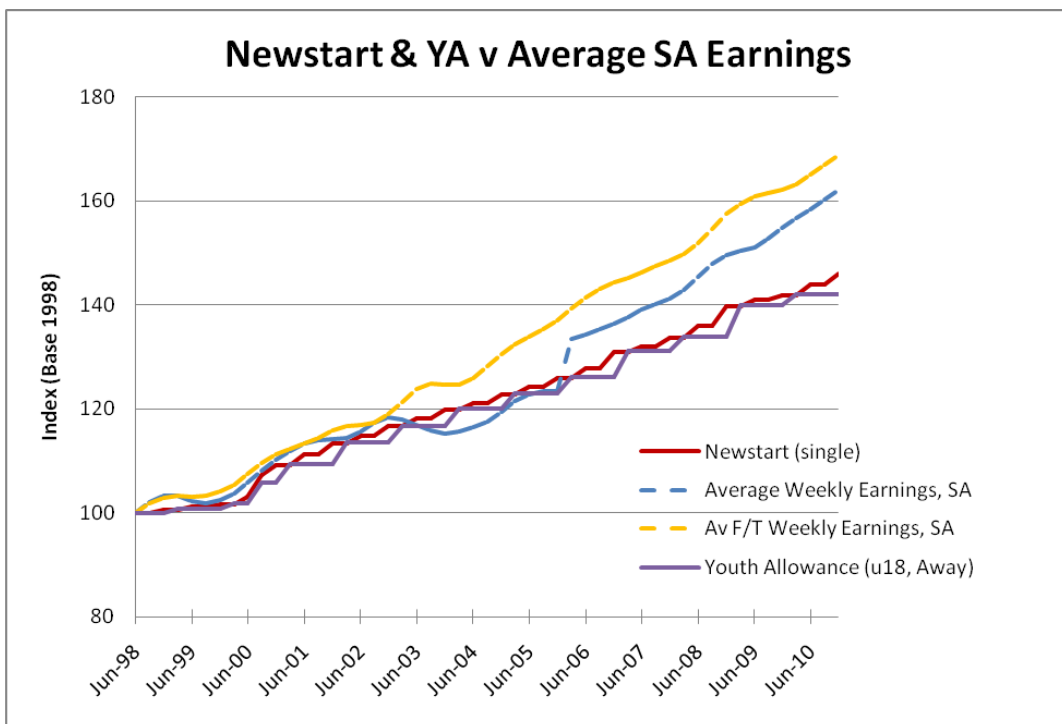
Figure 6: Changes in Aged/Disability Pension and Parenting Payment v Average Weekly Earnings



Source: FaHCSIA, 2011.

Again though, it is a very different story for those on Newstart and Youth Allowance – as Figure 7 shows.

Figure 7: Changes in Newstart and Youth Allowance v Average Weekly Earnings



Source: FaHCSIA, 2011.

The graph shows that since about the beginning of 2003, a gap has opened up and continued to grow between the rate of increase of these social security payments and average weekly earnings. In the December 2000 Quarter the Newstart base rate payment was 21.9% of Average Full-Time earnings. Ten years later, at \$234.85 per week, the Newstart benefit was 19.3% of Average Full-Time earnings in South Australia (\$1212.40 per week). That is, the inequality between Newstart and Average Full-Time Earnings has increased by 2.6 percentage points over the decade. Although the gap in actual earnings is not as large as for full-time earnings, the figures for average total earnings show a 2.9 percentage point increase in the gap over the decade.

Along similar lines, Whiteford (2010) notes that since 1996 the level of Newstart for a single person has fallen from around 54% to 45% of the after-tax minimum wage. If it were still 54% of the net minimum wage, then benefits would be around 19% higher. Further, if current trends continued, a single unemployed person in 2050 would receive about 11% of the average male wage (compared to about 20% now).

The figures quoted here are for Newstart, but they are similar for Youth Allowance which, as is evident in the Figure 7 follows the same trajectory as Newstart – the main difference is that Youth Allowance has tended to be adjusted yearly while Newstart is adjusted every six months.

There is no undisputed baseline “ideal” percentage of average weekly earnings by which to set an appropriate level of income, but it is important to recognise that there is an increasing inequality. That fact can then be the basis of a conversation about what is an appropriate policy.

For those who believe that being on welfare is largely a result of individual actions or choice, the gap – and an increasing gap – between Newstart and average weekly earnings may not be a problem. It may be part of avoiding “welfare traps” and providing the incentive to get people to work. However, as Whiteford (2010) notes, it is difficult to see how going back to 1996 relativities between Newstart and wages would pose a serious disincentive to work. It is also unclear how the low rates of Youth Allowance provide incentive to study, to gain the human capital to compete and get a job.

More broadly though, this individualist incentive paradigm largely fails to take account of social, educational, linguistic, physical and economic barriers to employment participation. These barriers may mean that no amount of “starving people into work” will assist, if the jobs applicable to their skills or the training and support to make work possible are not available. In a more structural paradigm that takes account of these barriers, the increasing gap between Newstart and Youth Allowance and average weekly earnings is simply evidence of a callous society leaving behind the vulnerable and disadvantaged.

SACOSS believes that the levels of Newstart and Youth Allowance should be increased significantly.

Conclusion

This fifth *Cost of Living Update* has examined income support levels for a variety of social security recipients, and highlighted both the life experiences of people living on those payments and the changing level of payments over time. Comparison has been made between different types of income support, and between income support payments and average weekly earnings. Examining data over the last 12 years, the findings are clear:

1. Government initiatives to increase aged and disability pensions in 2009 have had a significant beneficial impact, and Aged/Disability Pension and Parenting Payments have all risen faster than the cost of living (as measured by the ALCI) and in line or better than average wages.
2. The level of Newstart and Youth Allowance benefits has not kept pace with the increasing cost of living for welfare recipients, and as such the recipients of those benefits are becoming progressively worse off.
3. There is a growing gap between Newstart and Youth Allowance and other social security payments.
4. There is a growing gap between Newstart and Youth Allowance and average weekly earnings for the rest of the population.

The *Update* has avoided the philosophical debate about whether welfare benefits should be set “relatively” (that is, in relation to average incomes), or whether they should be set “absolutely” (i.e. to provide a safety net income to ensure no-one is living in abject poverty in our modern wealthy society). Both positions have merits, but the data in this report suggests that by either standard, at the very least the levels of Newstart and Youth Allowance should be increased.

Point two, especially when coupled with the case studies showing in practice just how tough it is to live on social security benefits, clearly makes an argument for increasing Newstart and Youth Allowance on the basis of maintaining a basic safety net. Points three and four speak to an argument for increasing these benefits on the basis of not wanting a more unequal society – with the inherent risk of alienation and social dysfunction.

Point one, highlighting the rises in other welfare benefits, shows that such increases are possible where the political will exists.

Explanatory Notes

1. CPI and ALCI

The ALCI uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. the price at the time of acquisition of a product) while the ALCI is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the ALCI traces changes in the amount expended each week on housing (e.g. mortgage repayments). Further information is available in the Explanatory Notes to the ALCI (ABS, 2010b).

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

2. Limitations of the ALCI Data

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

At the more technical level, the ALCI figures are for households whose predominant income is from the described source (i.e. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2003/04 Household Expenditure Survey) (ABS, 2010b) add up to well over the actual welfare payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income beyond the welfare payment, or more than one welfare recipient in the same household. Like the CPI, the ALCI figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest or most vulnerable 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.

The weightings in the ALCI are also dated (2003/04) and can not be changed until the next Household Expenditure Survey. In the meantime, the price of some necessities (like rent) may increase rapidly, forcing people to change expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the ALCI weighting does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the ALCI household income figures are based on households that are the average size for that household type — 1.57 people for the aged pensioners, and 2.4 for the other welfare recipients (ABS, 2010b). This makes comparison with welfare allowances difficult. This *Update* tends to focus on single person households or a single person with two children (to align to the other welfare recipient household average of 2.4 persons). However, this is a proxy rather than statistical correlation.

3. ABS Earnings Data

ABS publishes three types of data on average weekly earnings: original figures, seasonally adjusted figures and trend estimates (ABS, 2011d). The seasonally adjusted figures remove cyclical variations, but other one-off anomalies and variants can still make the figures volatile so the trend estimates take out these one-off factors as well. The ABS (2011e) suggests that trend estimates provide the more reliable guide to the underlying direction of the original estimates and they are used in this report.

Each of these datasets is disaggregated in a number of ways, but the summary level figures of Average Weekly Total Earnings and Average Weekly Full-time Adult Total Earnings for South Australia are used here.

4. Average Weekly Earnings and Average Full-time earnings

ABS Average Weekly Earnings figures are derived from ABS surveys of companies. The ABS then simply aggregates the total earnings of employees and divides by the number of employees. As such, it is not an average of individual earnings (as individuals may have other sources of income not captured in the survey), and it is also different from an index of wages (which the ABS calculates in a Labour Price Index). However, the Average Weekly Earnings are a commonly understood, state-based, robust time series and provide a good guide to income for the purposes used in this report.

Because the weekly earnings figures are calculated as above, the average Total Earnings figure – which includes earnings for casual and part-time employees – is much more volatile than Full Time Weekly Earnings, which includes only the earnings of those employed full-time. The former will vary depending on the number of hours worked and the numbers of people entering or leaving the workforce on a less-than-full time basis. For instance, if a large number of workers join the workforce but only work casually five hours a week, this will greatly reduce the Average Total Earnings because the aggregate figure will be divided by a greater number of employees. Similarly, if a number of people changed from full-time to part-time work, or worked less hours in a given period, the Average Total Earnings would decrease because the total income paid would decline (because less hours were being worked). By contrast, in both instances, Average Full-time Earnings would remain unchanged as it only reflects changes in the amount paid to full-time workers.

In this sense, because it indicates only changes to remuneration levels rather than being ‘polluted’ by changing levels of participation, Average Full-time Earnings provides a better analysis of the different paths of wages and social security benefits. On the other hand, Average Total Earnings provides a better marker of the extent of the gap between the earnings of those on welfare and the rest of the population. In short, they both provide useful perspectives on the fate of social security recipients relative to the rest of the population.

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