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Introduction

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

The first part uses the Australian Bureau of Statistics' Selected Living Cost Indexes (ABS, 2020a a) and Consumer Price Index (ABS, 2020b) to show key changes in the cost of living in the last quarter and over the last 12 months.

As a summary measure, the Selected Living Cost Indexes are preferred over the better-known Consumer Price Index (CPI) because the CPI is technically not a cost of living measure. It tracks changes in the price of a specific basket of goods, but this basket includes goods and services that are not part of the expenditure of all households, and poor households in particular. When considering the cost of living, this is important because if expenditure on bare essentials makes up the vast bulk (or entirety) of expenditure for low income households, then price increases in those areas are crucial whilst price increases or decreases on other discretionary goods are less relevant. However, increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket.

The Selected Living Cost Indexes also use a different methodology to CPI (see Appendix: Explanatory Note 1) and they disaggregate expenditure into a number of different household types, although this *Cost of Living Update* focuses only on the "Age Pension" and "Other government transfer recipients" (hereafter "other social security recipients") figures, as these are likely to represent the more disadvantaged households. While the Selected Living Cost Indexes also have limitations in tracking cost of living changes for these groups (see Explanatory Note 2), they do provide a robust statistical base, a long time series, and quarterly tracking of changes – all of which is useful data for analysis. This report also adds to the Selected Living Cost Indexes by putting a dollar value on the changes, and by using disaggregated CPI data to summarise changes in prices of key items.

In addition to the general tracking of prices, this *Cost of Living Update* contains a second section with a more in-depth analysis of insurance costs and how they relate to cost of living pressures on vulnerable and disadvantaged South Australians. While the data is backward looking and does not cover the impact of the recent massive fires and property losses, it is hoped that it will provide a topical and useful background to understand potential impacts of those extreme weather and fire events. More importantly, against this background, a number of recommendations are made for policy changes which will support vulnerable and disadvantaged to access and afford insurance.

SECTION 1: December Quarter 2019 Cost of Living Changes

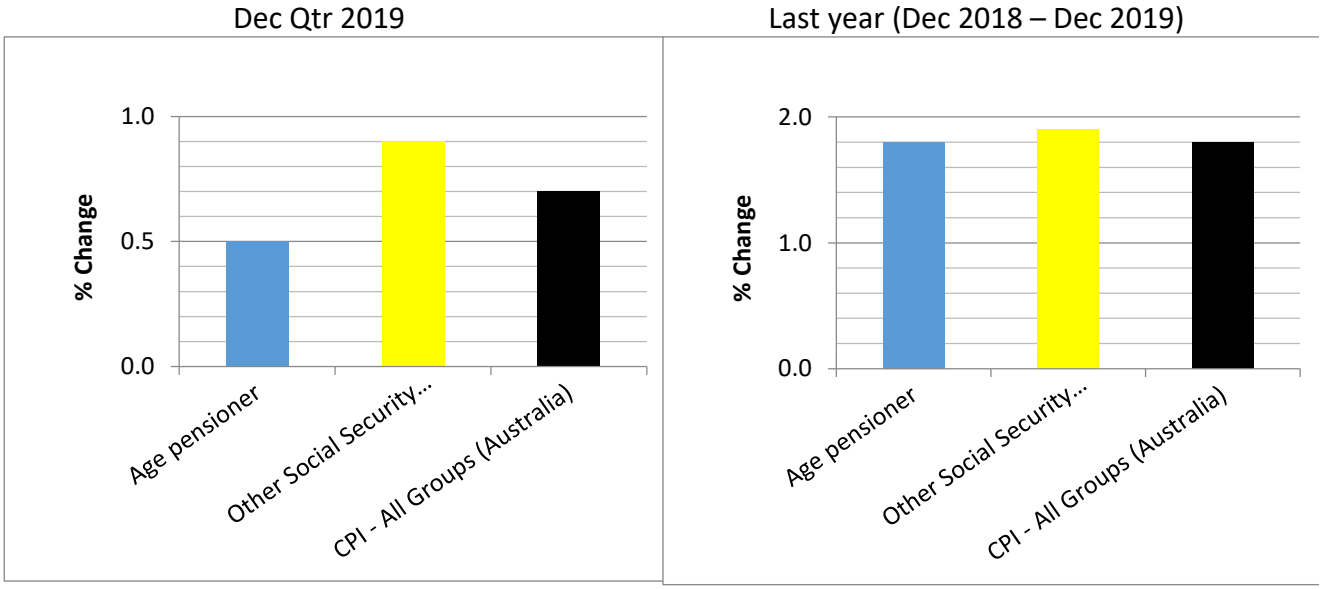
Prices

In the December 2019 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes) for age pensioners rose by 0.5%, while for other social security recipients the cost of living rose by 0.9% (ABS, 2020b). CPI nationally in the same period rose by 0.7%, with a 0.8% rise in Adelaide (ABS, 2020a).

Increased food prices in the December quarter, especially fruit and vegetables prices driven by drought conditions and high meat prices due to drought and increased export demand were significant drivers of cost increases for both age pensioner and other social security recipient households. Alcohol and tobacco price increases also contributed to living cost rises, while the PBS cyclical fall in pharmaceutical prices was the main offset for aged pensioner. Lower mortgage interest rates provided the main offset for other social security recipients, but obviously did not benefit all social security recipients.

Over the last year (December Qtr 2019 – December Qtr 2020), the living cost indexes for age pensioners rose by 1.8% and for other social security recipients by 1.9% (ABS, 2020a), by comparison to the generic CPI rise of 1.8% nationally and 2.1% in Adelaide (ABS, 2020b).

Figure 1: Increases in Living Costs December Qtr 2019



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

Table 1: Cost of Living Changes December Qtr 2019 by Expenditure Type

	June Quarter CPI Increase		Annual CPI Increase (June 2017 – June 2018)	
	Adelaide %	**Australia %**	**Adelaide %**	**Australia %**
Food	0.9	1.3	2.9	2.6
Fruit and Vegetables	2.8	3.5	1.9	2.4
Housing	0.1	0.1	0.6	0.2
Rent	0.4	0.0	1.0	0.2
Utilities	-1.0	-0.6	-1.5	-1.0
• Electricity	-1.5	-0.7	-3.4	-3.5
• Water	0.0	0.6	1.3	2.9
• Gas	-0.5	-1.9	3.0	1.4
Health	-0.2	-0.3	3.3	3.2
Transport	1.2	1.5	3.7	2.8
CPI All Groups	**0.8**	**0.7**	**2.1**	**1.8**

Source: (ABS, 2020b)

Incomes

Given that social security 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 payments with other incomes. For someone on the base level of benefits (with no rent assistance), and assuming that they spend all their income, SACOSS calculates that the dollar value changes in cost of living is as shown in Table 2.

Table 2: Cost of Living Changes Dec Qtr 2018 – Dec Qtr 2019

	Base Allowance + Supplements (31 Dec 18)	Selected Living Cost Index Change	Living Cost Change per week	Base Allowance + Supplements (31 Dec 19)	Change in Rates of Same Benefits	Net Result $pw
Age Pensioner (Single)	$458.15	1.8%	$8.25	$466.70	$8.55	$0.30
Newstart with two FTB children	$570.07	1.9%	$10.83	$579.70	$9.63	-$1.20

(Source: Calculated from (Centrelink, 2019), (ABS, 2020a). See Explanatory Note 3 in the Appendix here)

That is to say, for those whose only source of income is a base-rate Age Pension (with the Energy Supplement) and who spend all their income, the cost of living over the last year increased by $8.25 per week, which was barely covered by a rise of $8.55 in the pension. The cost of living for a single person on Newstart with two children went up by $10.83 per week, but their income increased by only $9.63, leaving them $1.20 a week worse off than a year ago.

SECTION 2: Insurance

The Importance of Insurance

Insurance is a significant household expenditure in a number of ways, and never moreso than now as the recovery from massive summer fires begins.

The first reason insurance is important is the surprising magnitude of the expenditure. Table 3 shows national and South Australian average weekly expenditure on different types of insurance from the ABS 2015-16 *Household Expenditure Survey* (HES). The current value (December 2019 CPI-All Groups adjusted) of this expenditure would be $94.62 in South Australia and $106.69 nationally, although if the figure were updated using CPI for insurance the expenditures would be $12 to $15 more per week.

Table 3: Insurance Expenditure, 2015-16

	Average Weekly Expenditure ***$ per household***	
	SA	**Australia**
House and contents insurance	13.93	16.74
Accident and health insurance	36.44	38.56
Vehicle registration and insurance	31.13	35.54
Travel insurance - selected payments	1.18	1.28
Life Insurance	3.64	4.57
Other*	1.95	3.11
TOTAL INSURANCE EXPENDITURE	**$88.27**	**$99.80**
Insurance as % of Mean Disposable Household Income	*6.0%*	*5.8%*

* "Other" includes ABS categories of household appliances, boat, aircraft, personal belongings, other property, and insurance not elsewhere counted.

Source: SACOSS calculations from (ABS, 2017)

The vehicle insurance figures in Table 3 include registration as it is difficult to disaggregate where compulsory third party insurance is combined with registration costs, although insurance actually constitutes the greater part of this figure. Further, some portion of accident and health insurance, which is the largest insurance expenditure, is not so much mitigation of risk of sickness or accidents, but a payment for extra services or privileges not available in the public health system. However, even with these caveats, insurance expenditure is a significant part of the average household budget, being more than double the average expenditure on electricity, telecommunications or health expenses – which are usually regarded as key cost of living pressures.

The second reason insurance is important as a cost of living pressure is because, as we will see below, in recent years insurance costs have been rising well above the average inflation rate. This increases general living costs, and perhaps more importantly, increasing insurance prices are likely to be a barrier to poorer households actually getting or maintaining insurance. This will leave

those households more vulnerable to the impacts of accidents, crime, bad health and natural disasters.

Finally, insurance is one of several ways that the cost of extreme weather events and other catastrophes are socialised through the community. When we see the destruction caused by events like the fires that have ravaged so much of the Australian countryside this summer (or the "freak" hailstorm that hit Canberra at around the same time), the costs are borne most immediately by the individuals and families directly impacted, and then by those who generously donate time and money to assist. But beyond the immediate costs, the whole community bears costs through loss of economic activity, through the cost to taxpayers of government expenditure on disaster management, recovery and mitigation infrastructure, and through insurance companies (and therefore by policy holders) who pay for the insured losses.

In this macro context, insurance provides a sort of privatised safety net – albeit one that is only available to those willing and able to pay the premiums. Individual risk is mitigated by transferring the liability to an insurance company, and some or all of that risk to the insurance company is then mitigated by reinsurance with another insurance company. This means that risk and potential liability is spread to a range of companies and ultimately to all policy holders – which means that even policy holders not impacted by major events will bear part of the cost of large-scale catastrophes.

However, if there are too many people uninsured or underinsured, some costs will be transferred to the other groups. Obviously, those without insurance will be more vulnerable to catastrophe and bear more direct costs. But in turn this will require more charitable or governmental support – at a cost to all tax-paying households. Further, if fewer households are insured, there will be fewer households in the insurance pool. While total insurance liability may be less with fewer households insured, there will also be fewer households to spread the risk to community infrastructure, potentially resulting in higher premiums for insurance holders.

All of this suggests that the affordability of insurance is not simply an individual issue of choice (based on some calculus of household risk for which an unfortunate victim may be held accountable), but a systemic issue which will impact on the whole community.

Again, after a disastrous summer which has seen the Insurance Council declare 6 catastrophes in 5 months with a total losses claimed of over $2.5 billion (ICA, 2020), insurance coverage and costs should be at the forefront of cost of living considerations – not least because climate science predicts that the extreme weather events are likely to grow more frequent and more challenging. For this reason, the rest of the report will focus only on house and contents insurance. It is on average the third largest household insurance expenditure and the one most relevant to climate disasters (although the fires will obviously also make calls on vehicle, health and most unfortunately, life insurance).

That said, the data in this report does not account for the impacts of the recent fires on insurance premiums or household expenditures, but it does provide relevant background to understand the issues. It flags the importance of insurance costs (particularly to vulnerable and disadvantaged households) in the reckoning of the costs of the fires, which in a sense is one part of the cost of climate change to households. Most importantly, it provides a base to develop policy to improve access to insurance as part of our community recovery and resilience.

House and Contents Insurance Expenditure

Different Household types

At around an average of $15 per week, house and contents insurance is a significant but not huge expenditure in the household budget. However, as we will see below, these are average figures which underestimate the expenditure for many households and hide significant differences between different types of households.

The first difference between households is that expenditure on house and contents insurance is regressive in that those insurances account for proportionately more of the household expenditure (and income) for the lowest income households than for households with more income. Table 4 shows the average weekly expenditure on home insurances of each income quintile –with the 2015-16 *HES* data updated to December 2019 using the national CPI insurance category data.

Table 4: House and Contents Insurance Expenditure by Household Income, Australia 2019

Gross Income Quintile	Av. Weekly Insurance Expend $ p.w.	% of Mean H/hold Expenditure
Lowest Income Quintile	13.29	1.9%
Second Income Quintile	15.19	1.5%
Third Income Quintile	17.29	1.2%
Fourth Income Quintile	19.90	1.1%
Highest Income Quintile	27.93	1.0%
All Households	***18.76***	***1.2%***

Source: SACOSS calculation from (ABS, 2017)

Clearly those in the highest income quintile are better insured than those in the lowest quintile (spending more than twice that of the lowest income quintile), but the relative impact of house and contents insurance on the household budget is nearly twice as large for the lowest income quintile. That said, expenditure within the lowest income quintile is unlikely to be uniform.

Within the lowest income bracket there are a likely to be a significant number of pensioners who own their own home. SACOSS observed in the 2009-10 *HES* data that Age Pensioners spent more on house and contents insurance than other social security recipients and more than the average for the lower income quintile. By contrast, those households primarily relying on unemployment or family benefits had on average significantly lower expenditure on house and contents insurance than the bottom income quintile – suggesting these income-support households may be potentially under-insured (SACOSS, 2013).

However, the story is more complicated than simply income source and levels because the most significant difference in expenditures and insurance levels relates to housing tenure. This is obviously the case in that home owners would normally seek to protect their investment in the land and building through house insurance, while renters would only seek contents insurance. Hence, as is evident in Table 4 below, their respective insurance expenditures are very different.

Table 5: Home and Contents Insurance Expenditure by Housing Tenure, Australia

	Expenditure December 2019 $ p.w.*
Owners without a mortgage	$24.31
Owners with a mortgage	$27.08
Public housing tenants	$1.88
Private landlord tenants	$3.50
All renters	$3.37

* ABS HES 2015-16 data adjusted for inflation using national CPI data for insurance

Source: (ABS, 2017)

Again though, these average expenditures include households with no insurance and therefore under-estimate the expenditure by those households with insurance. Further, insurance premiums will vary greatly on individual circumstances (e.g. location, type of house, occupancy) so averages are even harder to apply to actual household budgets.

In 2017, the research agency Canstar estimated the costs of home, contents, and home and contents insurance policies in South Australia. Their yardstick was a house valued at $450,000, contents insurance for $125,000 and a $500 excess on claims (CANSTAR, 2017). The minimum and maximum average premiums are shown in Table 6 – again updated to December 2019 values (using Adelaide CPI data for insurance).

Table 6: Average Home Insurance Premiums, South Australia, 2019

	Minimum Premium $ p.w.	Maximum Premium $ p.w.
Home Insurance	$ 7.90	$44.60
Contents	$ 4.89	$19.53
Home and Contents	$12.83	$48.90

Source:(CANSTAR, 2017)*, adjusted by SACOSS.*

South Australian home insurance premiums are among the lowest of all states and territories, so allowance should be made for higher national expenditure in Table 5 by comparison with the SA premium data in Table 6 (ABS has not published SA insurance expenditure data disaggregated by household tenure). However, the more important part of the comparison is that the average expenditure for home-owners lands roughly in the middle between the minimum and maximum premiums for home insurance and for home and contents insurance. By contrast, the average expenditure of renters falls below the even the minimum premium for contents insurance. This suggests a far greater proportion of renters are going without insurance (and therefore bringing the average expenditure down). Data from the Insurance Council reinforces this point and highlights just how significant the lack of insurance is among renters.

A 2019 national survey by the Insurance Council found that 63% of renters did not have contents insurance (ICA, 2019). This figure was slightly better but broadly similar to their analysis of the 2009/10 *HES* data which showed that only 31% of renter households had contents insurance – with the figure for public housing tenants even lower at 21%. By comparison, nearly 90% of home

owners had contents insurance (and about the same proportion had house insurance) (Tooth, 2015).

While the numbers of renters without any insurance is potentially alarming it is not necessarily or solely because of affordability barriers. The bottom end contents policies are relatively inexpensive, and Tooth (2015) reports a range of non-economic factors impacting on insurance demand. However, he also notes that demand for contents insurance is much more price sensitive than for house insurance – so price does matter. Further, SACOSS recognises that in many household budgets even $5 a week is money that is sometimes hard to find.

More generally though, it is likely that many low income renter households do not have particular goods that they view as worth insuring (given perceived risks and applicable excesses). Their major capital items are likely to be motor vehicles which are insured separately (and renters' average expenditure on vehicle registration in the 2015-16 was 60-80% of that of home owners – a very different profile to house contents insurance). This may be a reasonable judgement in terms of risks like breakage and theft, but catastrophic events like fires or floods may mean that *all* possessions could be lost in one hit – meaning that renters' lack of insurance leaves them especially vulnerable in the face of extreme weather events.

This vulnerability to catastrophe is even more evident when considered in relation to households already in financial stress. The ABS *HES* records data based on a range of financial stress indicators, including being unable to raise $2,000 in a week for an emergency, unable to pay utility bills on time, going without meals or seeking financial help from family, friends or welfare organisations. There are 15 indicators in total. Those households who had not experienced any of the financial stress indicators in the last 12 months spent approximately double the amount on house and contents insurance as those who had experienced four or more stress indicators. At $11 a week (2019 values), the expenditure of those who experienced 4 or more financial stress indicators was 17% below the average house and contents insurance expenditure of the lowest income quintile.

Obviously those suffering more financial stress are less likely to be able to afford insurance, but it might also be that incidents that could be covered by insurance (e.g. theft) may be a source of (further) financial stress for the uninsured. The bottom line in this data is that those households who are most financially vulnerable are also likely to have significantly less house and contents insurance – making them doubly vulnerable to catastrophic events.

For many households in this situation it is an impossible choice. Adequate house and contents insurance costs money that they can ill afford, but without it they are left uninsured (or underinsured) and especially vulnerable. This choice is made even more difficult by rising insurance prices and the predicted increasing incidence of catastrophic weather events.

Summary of Insurance Price Movements

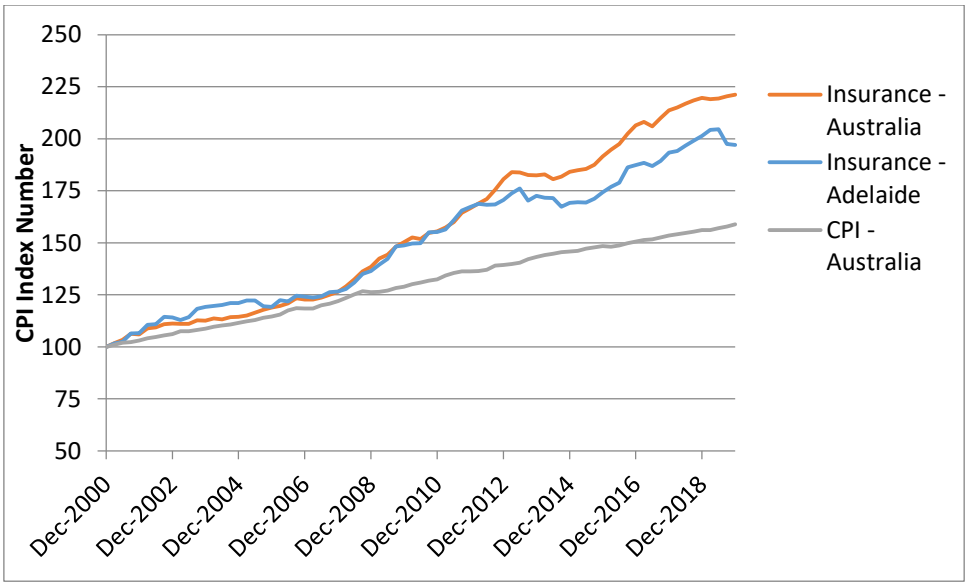
Price Increases

The ABS insurance price data series is not disaggregated by different types of insurance, so it is not a direct tracking of home and contents insurance price changes. However, the CPI insurance category does not include Accident and Health Insurance (which is included under health expenditure), and the Motor Vehicle Registration and Insurance is split between insurance and transport costs in the CPI. Thus home and contents insurance is a significant part of the CPI

insurance data and changes in house and content insurance prices will be reflected in the CPI data. And what that data shows is an alarming trend of price rises in insurance.

CPI for insurance actually decreased by 2.1% over the last year in Adelaide, while it increased by 0.7% nationally (ABS, 2020b). However, as evident in Figure 2 below, the long term trend shows significant increases above the general inflation rate both in Adelaide and nationally. The graph starts in December 2000, which is after insurance prices sky-rocketed by 30% in Adelaide (and 32.4% nationally) in the year to September 2000. In part this jump was due to the imposition of GST without the removal of state stamp duties, but also presumably due to the impacts of the 1998 Sydney hail storm which rates as the most expensive event on the Insurance Council of Australia's historic list of disasters (McAnenery et al., 2019). However, including this spike tends to overwhelm the rest of the data, hence the graph starts at the end of 2000.

Figure 2: Insurance Prices Since 2000



Source: SACOSS calculation derived from (ABS, 2020b)

Overall, since December 2000 insurance prices have risen by 97% in Adelaide and 121% nationally, compared to a 59% increase in the national CPI (i.e. the general inflation rate).

The extent of this increase can be translated into dollars. In the 2003-04 *HES* the average household expenditure on all house and contents insurance in South Australia was $8.21 per week. If that expenditure increased at the general inflation rate, the value of that expenditure would be $11.66 in December 2019, but increasing at the rate of the CPI Insurance (Adelaide) it would be $15.77 per week – a difference that translates to $92 per year. The difference is more stark at the national level with insurance-inflated prices being an estimated $214 per year higher than if they had increased in line with the general CPI.

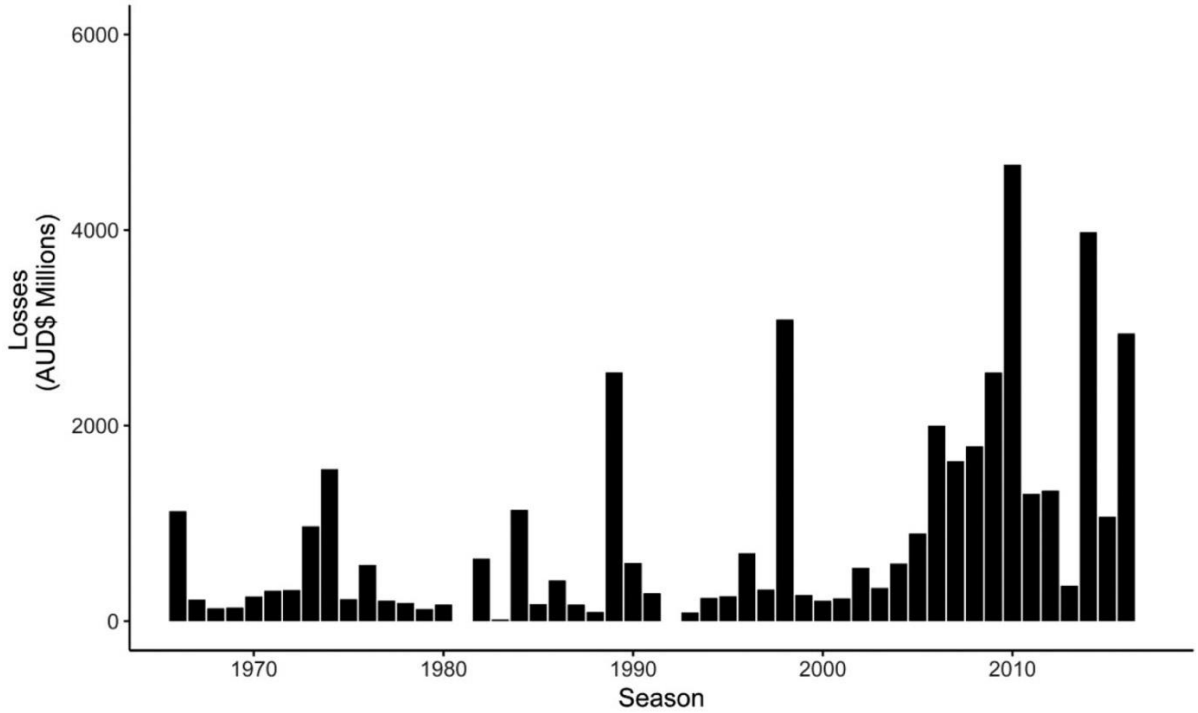
Curiously though, the actual increase in expenditure on insurance – as measured at the 2015-16 *HES,* was even higher than the estimated amount inflated by the insurance CPI ($1.71 a week higher in Adelaide, and $2.67 nationally). This could be driven by more people taking out insurance (although SACOSS is not aware of data to support this and levels of un/underinsurance remain a big concern) or by increases in the value of assets insured (for instance, booming

property values leading to higher premiums). But whatever the cause, it points to the impact on the household budget being potentially even greater than the CPI indicator.

Extreme Weather Events and Disasters

A significant part of the reason for these increases can be seen in Figure 3 below which shows the (inflation adjusted) insured losses from major disasters (as recorded on the Insurance Council of Australia Disaster list). This is important because disaster-list events account for around 90% of insurance claims and the graph (which is reproduced from (McAnenery et al., 2019)) shows a clear increase in the real cost of disasters in recent years – although the authors note the potential for some under-reporting in the data in the early years.

Figure 3: The Insurance Cost of Disasters



Source: (McAnenery et al., 2019)

While this graph clearly shows an increasing real cost of disasters, it is important to note that this does not directly or necessarily translate into "climate change is driving higher insurance costs". The report authors have analysed these insurance losses and "normalised" them by adjusting for other factors including urban density, value and size of houses, and building code changes. This "normalisation" process provides insight into how past events might look today - that is, for instance, what would be the insured loss if an event of the magnitude of Cyclone Tracy hit Darwin today. In that instance, the authors estimate a normalised cost of losses for 1974 to be $5,042m, far greater than the CPI adjusted loss of $1,505m in the graph above (McAnenery et al., 2019).

Based on these normalised results, the authors find that the insured costs of disasters is about the same or even declining over the period since the mid-1960s, and indeed on this basis the "recent years have not been especially anomalous". They conclude (along with a range of other studies they cite) that the increased losses are not driven by increased frequency or extremity of disaster events, but by increased costs associated with the events. Disasters cost more because of societal factors such as where and how people live (e.g. urban density leading to greater costs for a

location-specific event, more people living in vulnerable places, higher building costs). However, these findings go to the drivers and relative contribution of different factors to the increased costs of disasters, not the overall real costs of disasters.

Obviously this whole analysis deals only with insured losses, not the total costs of extreme weather events and disasters, and it remains to be seen whether the trends and conclusions of their report will survive the disasters of this summer. However, regardless of how much causal value is given to what factors in the calculation of the cost of disasters, there is little doubt from the evidence in Figure 3 that the aggregate cost of disasters has increased over time – and that this has impacted on household budgets via increased insurance premiums.

Conclusion and Recommendations

The figures and observations in this report pre-date any impacts on insurance prices of the extreme fires and weather events over the current summer, but they do emphasise the importance of insurance – both as a household expenditure and as a safeguard against risk. Insurance is a major and essential household expenditure for many households, but there are significant affordability challenges for vulnerable and disadvantaged people. Insurance prices have risen faster than income and inflation, putting increasing cost of living pressures on to household budgets. Too many Australians go without insurance or without appropriate levels of insurance. Those who are under or uninsured face increased vulnerability, and as the data above shows, this reflects and reinforces other areas of disadvantage such as low incomes and financial stress.

To better protect vulnerable and disadvantaged households, and to ensure that the insurance safety net works for the whole community, it is important that households have the option of taking out appropriate insurances and that affordability is not a barrier. Accordingly, and particularly in light the catastrophic summer fires, we make 4 policy recommendations aimed at assisting low income households to afford and take up insurance.

Support for low-cost insurance products

Good Shephard Microfinance, a leading Australian charity addressing the financial exclusion of vulnerable and disadvantaged people, has worked with insurance providers to develop simple low cost insurance for home contents and motor vehicles for people on low incomes. They currently have two products which have been developed with industry partners. Their Essentials by AAI, developed with Suncorp, has very low premiums, allows customers to comprehensively insure their car, their home contents or both and customers can choose to pay premiums annually, or in monthly or fortnightly instalments, and use Centrepay to manage payments. Similarly, the Insurance 4 That policy, developed with Insurance Australia Group (IAG), provides single-item insurance options. That provides an alternative to traditional contents insurance by enabling people to insure individual items and nominate the insured value of these items.

These policies have some eligibility criteria and there is some risk of underinsurance, particularly with individual items policies because a major incident may impact on a range of items – not just the individual items that are insured. However, this is still better than having no insurance, and these policies are designed to enable people on low incomes to replace essential items like computers and whitegoods, which would otherwise be too expensive to replace. If their insurance coverage is low, they may not be able to claim back to their pre-existing level of wealth, but they will at least be able to replace the essentials.

These insurance policies represent an innovative approach to ensuring that all Australians can get essential insurance cover, but they are limited in their size and scope. They are available through the Good Shephard Microfinance network of community organisations, but SACOSS' research shows that many low-income households (particularly those whose major source of income is wages) do not seek help from charities and welfare organisations (Law et al., 2019). Accordingly, an expansion of this low-cost insurance program is required. SACOSS is calling for other insurance companies to also develop simple and low-cost insurance options for low-income households, and for governments (both state and federal) to better promote these existing products.

Review stamp duty on insurance premiums for low income earners

The South Australia state government (and all other state governments) impose stamp duty on the value of insurance premiums paid in the state. This is currently 11% in South Australia and is in addition to the GST, so that in fact the state tax is imposed on the GST as well as the original premium.

The Henry Tax Review called for the abolition of state duties, highlighting that such taxes increase premiums and can contribute to under-insurance. Unsurprisingly, the Insurance Council of Australia has long campaigned for the removal of these state stamp duties (ICA, 2019). Their economic modelling suggests that in the long term, the removal of stamp duty in South Australia would lead to an overall 8% increase in home contents insurance (both the number of households insured and total premium) and a 22% reduction in the numbers of households without house insurance among those eligible to take it out (i.e. owners, who are not part of body corporate). (Tooth, 2015).

These potential gains in insurance coverage need to be balanced against the loss to state revenue from removal of such state duties. In South Australia, stamp duty on general insurance (i.e. not including third party motor vehicle or life insurance) contributes an estimated $369m to the 2019-20 state budget and is a significant income stream for the government (Government of South Australia, 2019). SACOSS has long been concerned to ensure that there is adequate state revenue to pay for vital services, and it makes little sense to cut a stamp duty in the name of reducing vulnerability of low-income households if that also means cutting services to those same households and making them more vulnerable.

However, in the light of the devastation of fires in the Adelaide, the South Australian government should review the stamp duty on insurance premiums to look at the possibility of either short-term moratorium (perhaps targeted to vulnerable households) or some form of rebate for low income households to help make insurance more affordable.

A National Review of Affordable Insurance

Beyond the small initiatives above, and given the difference in levels of insurance coverage and the escalating cost of premiums outlined in this review, as well as the predictions of further extreme weather events in coming years, there needs to be a broader review of insurance affordability. Again, the cost of under-insurance is not simply borne by those without any or adequate insurance, but impacts on the whole community as government and the community have to contribute more. Accordingly, insurance coverage is not simply one of personal choice but also a systemic issue and a challenge for how the social safety net is built and maintained. SACOSS therefore endorses the call made by the Australian Council of Social Service for a national review

to examine how the federal government and the insurance industry can assist people on low incomes to access insurance products (ACOSS, 2020).

Increase Income Supports

The three recommendations above all address the cost, availability and usability of insurance policies, but as with all cost of living pressures, the other half of the equation is income. If income increases, then cost of living pressures are decreased. When, as the data in this report shows, the cost of insurance goes up faster than the general inflation rate, it means it is also going up much more quickly than income support payments like Newstart and Youth Allowance that are pegged to CPI. Accordingly, insurance becomes more and more unaffordable for those on the lowest incomes. The pressure of increasing insurance prices, coupled with the chronic under-insurance of those on government support, is further reason for increasing base-level payments like Newstart and Youth Allowance. In this context SACOSS notes the recent Federal Budget statement by the Australian Council of Social Service calling for a $95 per week increase in the base rate of Newstart and similar payments. This is a revised figure incorporating increased living costs since ACOSS first called for a $75 per week increase and is based on the cost of a minimum health living cost as calculated by UNSW researchers (ACOSS, 2019). SACOSS endorses this new call for a $95 a week increase in Newstart and similar payments, noting in the context of this report that such an increase would make insurance more affordable for some of the most vulnerable Australians.

APPENDIX: Explanatory Notes

1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. the price at the time of acquisition of a product), while the living cost index is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the 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, 2020a).

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

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced 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 South Australia. While it is safe to assume that social security recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the living cost indexes are not state-based, so particular South Australian trends or circumstances may not show up.

At the more technical level, the Selected Living Cost Indexes are for households whose *predominant income* is from the described source (e.g. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2015-16 *Household Expenditure Survey*) add up to well over the actual social security payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income, or more than one social security recipient in the same household. Like the CPI, the Living Cost Index figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest in those categories.

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

The weightings in the Selected Living Cost Indexes are also based on a set point in time (from the *Household Expenditure Survey*), but over time the price of some necessities may increase rapidly,

forcing people to change expenditure patterns to cover the increased cost. There is some adjustment of weightings for this, but these can't be checked without a new survey. 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: 1.51 people for aged pensioners, and 2.46 for other social security recipients (ABS, 2019b). This makes comparison with allowances difficult. This *Update* focuses on single person households for age pensioners, and a single person with two children (to align to the other social security recipient household average of 2.46 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.

3. Income Support Payment Calculations – December 2019

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

Rates at 31 December 2018

	Base Rate	Pension Supple-ment	Energy Supple-ment	FTB A Child u13	FTB A Child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	$417.20	33.90	7.05					$458.15
Newstart - 2 children	$297.55		4.75	91.42	118.93	54.32	3.1	$570.07

Rates at 31 December 2019

	Base Rate	Pension Supple-ment	Energy Supple-ment	FTB A Child u13	FTB A Child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	$452.20	34.45	7.05					$466.70
Newstart - 2 children	$302.35		4.75	93.10	121.10	55.30	3.1	$579.70

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