

# SACOSS



## ANTI-POVERTY STATEMENT 2017



**SACOSS**

*South Australian Council  
of Social Service*

## ***SACOSS Anti-Poverty Week 2017 Statement***

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## **ANTI-POVERTY WEEK 2017 STATEMENT**

Every person should have somewhere safe to live, reasonable food and clothing, access to basic utilities, employment, justice, education and health services.

Anti-Poverty Week is an opportunity to talk about fairness and a decent standard of living for all South Australians. Anti-Poverty Week focuses on poverty around the world including Australia, and includes the UN's International Anti-Poverty Day, 17 October. The main objective is to strengthen public understanding of the causes and consequences of poverty and related hardship and to encourage further research, discussion and action to address these problems.

While many Australians feel cost of living pressures, they impact most on those with low incomes who have fewest options and who spend disproportionately more of their income on the basic necessities of life.

SACOSS believes that South Australia must develop a specific anti-poverty focus to provide justice, opportunity and shared wealth for all in our community.

Poverty has many faces, and for many people it represents the ongoing and daily struggle to navigate through everyday life. A successful society is one that enables all its members to enjoy the benefits, not just some.

This Anti-Poverty Week Statement focuses on the financial costs of being poor.

The old saying is that "money makes money", but the reverse is also true: lack of money makes for extra cost burdens and makes one poorer. This Statement gives 10 examples of "poverty premiums" where the lack of money actually makes people poorer.

## Poverty Premiums

A “poverty premium” is an extra cost which accrues to someone on a low income precisely because they are on that low income – they are costs on those that are living in poverty that others with higher income or more resources can buy their way out of, avoid or minimise.

Common poverty premiums include:

- extra expenditures resulting from not being able to afford money-saving technology;
- fees and charges which are more likely to be applied to those in poverty than the rest of the population;
- higher unit costs for small expenditures (where a consumer is spending less in the short term by buying smaller quantities of items, but is therefore getting less value for money);
- flat fees or charges or expenditure that impact more on those on low incomes than those on higher incomes.

These poverty premiums may not apply to all households, and because they are poor many households will try to shop wisely by buying in bulk (for instance) to save money. But these premiums are real if you do not know how or don't have the money to avoid or minimise them.

The following are examples of each of these premiums applying in this Anti-Poverty Week in South Australia. For some of the examples (particularly in the higher unit costs category), the sums of money may not be huge, but the percentages are significant and if extrapolated across a range of costs for low income households, the poverty premiums can be significant. For other examples, the amounts of money expended are the same regardless of income, but the poverty premium is in the different relative impact on the household budget and can be expressed as the number of times greater the impact is for those on low incomes than for those on higher incomes.

No.	Product	Highest Poverty Premium
<b><i>When You Can't Afford Money Saving Technology</i></b>		
1	Telecommunications Technologies	328%
2	Credit Services	46%
3	Rooftop solar panel electricity	52%
<b><i>When Extra Fees and Charges Are More Likely</i></b>		
4	Bank Dishonour Fees	5x
5	Energy Pay-on-Time Discounts	28%
<b><i>When You Can't Afford to Buy in Bulk</i></b>		
6	Toilet Paper	74%
7	Public Transport	50%
8	Telecommunications Volume	490%
<b><i>When Flat Rate Expenses Hurt More</i></b>		
9	Traffic fines	5.8x
10	Food costs	2.5x
<b><i>Psychological Premiums</i></b>		

## Examples of Poverty Premiums

### When You Can't Afford Money-Saving Technologies

#### Telecommunications Technologies

Telecommunications are essential in emergencies, for people to stay connected with friends and community, and increasingly to access government services, news and information, education and employment opportunities, and online commerce. However, the access paths available to those on the lowest incomes create additional poverty premiums. Those who are homeless or lacking credentials for post-paid plans, or those simply seeking to limit telecommunications costs often choose (or are forced onto) pre-paid plans. For many in poverty the only internet connection is via a mobile phone.

SACOSS compared the unit price of data in similar cost plans of one leading telecommunications retailer to see the premium on pre-paid and mobile data against those who access data via a fixed home plan.

	\$60/mth Pre-paid Plan	\$60/mth Post-paid Plan	<b>Pre &amp; Post- paid plan Poverty Premium</b>	\$70 Home Internet Data Plan	<b>Pre-paid Mobile vs Home Internet Poverty Premium</b>
\$ per GB data	\$6.00	\$4.00	<b>50%</b>	\$1.40	<b>328%</b>

The price structure differs markedly between retailers and not all carry the same poverty premiums. However, the massive price difference for data between mobile and fixed home services is widespread and has particular impact on people on low incomes whose only connection is mobile.

Overall, at the national level the Australian Digital Inclusion Index shows that the value for money obtained by the highest income quintile is more than three times that of the lowest income quintile. From the index scores and methodology, SACOSS calculates the poverty premiums as follows:

	<b>Australia</b>		<b>South Australia</b>	
	Score	Approximate GBs of data per \$1 expenditure	Score	Approximate GBs of data per \$1 expenditure
Lowest Income Quintile	44.4	1.2	45.0	1.2
Highest Income Quintile	66.4	3.9	60.8	2.6
<b>Poverty Premium</b>		<b>225%</b>		<b>116%</b>

### Credit: Pay Day Loans v Credit Card Interest

Financial services facilitate access to goods and services, and credit is important because it allows households to manage their finances, defer or smooth out payments for large expenditures, and to meet unexpected costs. However, many low income households and those whose financial struggles have resulted in poor credit ratings can't get bank credit or credit cards and are therefore forced to rely on other sources of credit – including pay day loans. These pay day loans usually have large establishment fees (relative to the amount of the loan) and high effective interest rates, while those with higher incomes/more wealth can access cheaper bank credit.

SACOSS compared the cost of getting cash on credit through a major bank and a prominent pay day lender for one year. The rates charged by both institutions are broadly comparable to the rates offered by similar institutions so provide a reasonable comparison between the different types of credit.

Loan Amount	Bank Credit Card		Pay Day Lender	
	Amount of Repayment above Initial Capital	Effective Interest Rate	Amount of Repayment above Initial Capital	Effective Interest Rate
\$1,000	\$217.40	21.74%	\$680	68%
<b>Poverty Premium*</b>				<b>46%</b>
\$3,000	\$652.20	21.74%	\$1,828	61%
<b>Poverty Premium*</b>				<b>39%</b>

Source: <https://www.nab.com.au/personal/interest-rates-fees-and-charges/indicator-rates-for-other-personal-lending>; <https://nimble.com.au/faq/how-much-does-it-cost/>

### Solar PV and electricity costs

Energy costs have been a major focus of public commentary around cost of living pressures, and clearly impact on lower income households more than others. The ABS Household Expenditure Survey (2017a) showed that nationally energy costs accounted for 4.4% of household expenditure for the 20% of houses with the lowest incomes, but only 2.1% for the highest income quintile (adjusted for equivalent household size). However, the impact is not just the quantum expenditure, but also the “bill shock” caused by steep price rises resulting in large lumpy expenditures which can cause serious financial pressure for those with little room to move in the household budget.

Rapid energy prices and the need to take action to address climate change has led many South Australian households to put solar panels on their rooves. Few are self-sufficient or “off-grid”, but the option of solar panels is not generally open to renters and those on very low incomes who simply could not afford the capital costs. This creates a poverty premium as the solar households buy their way to cheaper electricity.

Using data from a variety of sources, SACOSS calculates the poverty premium paid by those who don't have solar power as follows.

	Average annual bill - 6,000kW household*	Initial Solar Capital Cost**	Lifespan of PV solar system	Solar Capital Cost per year***	Annual Solar Expenditure	Poverty Premium
Households with 3kW solar system	1,300	\$4,800	20 years	\$432	\$1,732	
Households without solar	2,625				\$2,625	<b>52%</b>

\* Estimates from (SvdP, 2017);

\*\* Adelaide May 2017 average price from <https://www.solarchoice.net.au/blog/3kw-vs-5kw-solar-system-payback-comparison>

\*\*\* Capital costs for one year is a simple even proportion of expenditure spread over the years (\$240p.a.), plus interest forgone (calculated at 4%) on the original capital.

Obviously the bills will vary across households. Different consumption patterns and solar feed-in tariff rate make estimating costs difficult, and the capital cost calculation above is not sophisticated (and is different from the more usual “Return on Investment” figures which see solar costs recovered in around 7 years). However, the figures do suggest a reasonable order of magnitude of the poverty premium paid by those who can’t afford solar installation.

## When Extra Fees and Charges Are More Likely to Apply

### Bank Dishonour Fees

Banks and other financial institutions charge fees for when they have to dishonour or reject a transaction because there is insufficient funds in an account to cover the transaction. These fees are more likely to apply to those on low incomes who struggle to maintain a balance to cushion unexpected expenses, miscalculations or the impact of automatic debits coming when there is no money in the account. However, it is not just that such fees are more likely to apply to those on the lowest incomes, but the impact is also likely to be greater as the fee will represent a greater proportion of their income.

Most bank dishonour fees checked by SACOSS are in the range of \$5 to \$15 per day or per transaction, but sometimes these can be cumulative. Penalties can apply to each step of the process. For instance, one credit union charges \$5 where there are insufficient funds to cover a direct debit, \$15 for sending a second letter notifying the customer of a shortfall, and \$25 for a notice of enforcement fees. Thus, someone who does not have money for a scheduled payment (eg. rent) and does not have the money to rectify this in time may face a \$40 fee.

Again, dishonour fees are more likely to apply and accumulate to those on the lowest incomes, and if fees from a couple of dishonours amounted to, for instance, \$30 per month that would represent just 0.5% of average monthly wage, but 2.5% of Newstart for a single person. In this case, it is a relative poverty premium of bank fees having 5 times the impact on the budget of someone on Newstart as for someone on an average wage.

While this poverty premium is based on a percentage of income, it should be noted that some banks have purpose-built accounts for those on low incomes which don't have these fees, or provide exemptions for pensioners and those with Health Care Cards, or have specific hardship policies for those in financial trouble.

### Energy Pay on Time Discounts

Most energy companies (and others) currently offer discounts for customers paying on-time. While these discounts are available to anyone, those on very low incomes have less room in their budget and are more likely to have cash flow problems which make it harder to consistently pay bills on time.

In their latest "Tariff Tracker" update, St Vincent de Paul (2017) estimate that the average discount on an annual market offer electricity bill for those who pay on time is \$340 or 12.8% of the bill. In addition to these discounts, there may also be specific late payment fees. For instance, in South Australia AGL, Origin and Energy Australia, all offer discounts of between 10% and 18% if bills are paid on time, but they also charge \$12-13 for each bill paid after the due date.

The largest difference between on time and late paid bills (taking into account both on-time discounts and late payment fees) for an average household was a massive \$687 or a poverty premium of 28% of the annual bill (SVdP, 2017).



## When You Can't Afford to Buy in Bulk

### Toilet paper

It is common retail practice for things bought in bulk to have cheaper unit cost. This represents the supply cost savings in larger quantity purchases, and a market incentive to purchase more. However, for those without the money to buy in bulk, there is a poverty premium on even the most basic products – and while some households may buy in bulk to save on toilet paper for instance, they can't necessarily "super-size" their whole weekly shopping and so will be hit with the poverty premium elsewhere.

SACOSS compared the price of two different package sizes of two brands of toilet paper from a leading retailer's website – one premium brand, the other a home brand – and calculated the cost per roll.

	Cost for smallest quantity	Small Quantity Cost per Roll	Cost for largest quantity	Largest Quantity Cost per Roll	Poverty Premium
Premium Brand	\$7.00/8 rolls	\$0.87	\$12.00/24 rolls	\$0.50	<b>74%</b>
Home Brand	\$3.70/8 rolls	\$0.46	\$8.50/24 rolls	\$0.35	<b>31%</b>

Source: <https://www.woolworths.com.au/shop/search/products?searchTerm=toilet%20paper>

This poverty premium calculation here is simply unit cost on a like-for-like comparison, not the difference between brands or quality. While the sums of money here are small, as noted above, when extrapolated across a whole weekly shop – the money can add up.

### Public Transport Fares

Public transport is a necessity to allow many people mobility to get to shops, employment, services or to engage with friends and community. There are varying concession rates for those on the lowest incomes in the Adelaide metro transport system, although these usually require some form of application and evidence of income. However, alongside these concessions, there are poverty premiums built in to ticketing based on the use of the Metro Card (with an initial cost of \$5) and the ability to pay upfront for multiple trips.

The table shows that, for those who could not afford to purchase a Metrocard or to put money on the card, or are only one-off users of public transport, the poverty premium is around 50%. This means that the single trip costs 50% more than the Metrocard version.

	Regular Peak Trip	Regular Concession
Metrocard	\$3.62	\$1.79
Single Metroticket	\$5.40	\$2.70
<b>Poverty Premium</b>	<b>49%</b>	<b>50.1%</b>

### Telecommunications Volume

As noted above, telecommunications are an essential product, but like many other products the unit price becomes cheaper the more you can afford to buy. SACOSS compared the difference in unit price of data (ie. value for money) between the cheapest and most expensive mobile phone plans of three leading telecommunications retailers.

	Cheapest Plan \$ per GB of data	Top Range Plan \$ per GB of data	<b>Poverty Premium</b>
Retailer 1	\$19.50	\$3.30	<b>490%</b>
Retailer 2	\$10.00	\$2.88	<b>247%</b>
Retailer 3	\$12.50	\$3.57	<b>250%</b>

The comparison of unit pricing shows that those on the cheapest plan are paying up to 490% higher unit prices than those on the most expensive plan offered by that retailer.

We have not named the retailers because the point is to highlight the extent of the poverty premium, not to single out any particular retailer for what is a standard industry practice. This price structure is in part because the mobile phone plans have a network access or service charge built in which needs to be covered no matter what level of usage (so most of the cheap plan is just a basic network access cost). This is understandable from a business point of view, but creates a heavily regressive rate structure and the very large percentages in the poverty premiums.

## When Flat Rate Expenses Hurt More

### Traffic Fines

Traffic fines apply to anyone in the community in breach of the law and are required for community safety to provide disincentive for dangerous driving. However, the impact is felt more by those on low incomes because the same flat rate applies to everyone and severe fines can cause real hardship for those on low incomes.

This flat rate structure is important in terms of equity, but also in terms of impact. To the extent that fines are an incentive to “abide by the rules and drive safely” there is less incentive for those on higher incomes to obey the law. There is equally as much danger for the community if someone on a high income is going 80kmh in a 60kmh area as it is if the driver is on a low income.

Because the amount of money fined is the same, the poverty premium is a relative one based on the differing impact on the household budget.

Offence	Fine	% of Average Income		Poverty Premium: Relative Budget Impact
		Newstart Single Person Payment (\$268pw)	Full Time Wage (SA) (\$1,507pw)	
Failing to indicate left turn	\$310	116%	21%	<b>5.5x</b>
Speeding: 75kmh in 60kmh area	\$371	138%	24%	<b>5.8x</b>
Failure to give way at roundabout	\$419	156%	27%	<b>5.8x</b>

Sources: Penalties from SA government website <http://www.mylicence.sa.gov.au/road-rules/offences-and-penalties#summaryoffences>; Newstart payment from Centrelink (2017); Average Full Time Earnings (seasonally adjusted) from ABS (2017d)

SACOSS (2017) has proposed that South Australia should look at adopting the model in Finland where fines are set as a proportion of weekly income. In this system the fine is set in terms of a number of days with the monetary value of each driver’s day fine derived from their income (Linqvist, 2016). There would be implementation problems to overcome in such a system in Australia, but the principle is sound in terms of fairness, proper incentives and removing the poverty premiums.

### Food

Food is obviously essential for everyone, and in Australia it is the second largest area of household expenditure (after housing). But on average the poorest households spend proportionately more of their income on food than other households.

The latest ABS *Household Expenditure Survey* (2017a) shows that for comparable (equivalised) households across Australia, expenditure on food accounts for:

- 9.8% of the disposable income of the highest income quintile households
- 13.9% of the disposable income for average Australian households
- 24.5% of the expenditure of the poorest 20% of households.

Households in the lowest income quintile spent on average \$144.40 of food (adjusted for household size). If they spent the same proportion of their income as did the highest income quintile households, they would have spent only \$57.50. The poverty premium here is a relative one (not an extra \$ cost) with the impact of the cost of food on the household budget of the lowest income households being 2.5 times greater than on the highest income quintile households.

These figures do not take account of the different quality of food consumed (which presumably may also increase as income increases) or the ability to eat out more and at better restaurants as household income increases. If these were taken into account, the food differences and the poverty premium between the highest and lowest income households would be even greater.

## Psychological Premiums

In addition to the above poverty premiums which arise out of the way the market is structured and experienced by those on the lowest incomes, there are a range of expenditures which we might regard as psychological poverty premiums. This is not an attempt to measure broad social costs (important as that is), but an accounting for the financial premiums that come from the psychological condition of living in poverty. Linda Tirado, a US author and activist who has lived in dire poverty famously explained in a blog that went viral, that sometimes poverty results in people making seemingly extravagant and poor financial decisions (Tirado, 2014). This is an immediate and powerful reason for this poverty premium.

Tirado recounted her own experience:

I make a lot of poor financial decisions. None of them matter, in the long term. I will never not be poor, so what does it matter if I don't pay a thing and a half this week instead of just one thing? It's not like the sacrifice will result in improved circumstances; the thing holding me back isn't that I blow five bucks at Wendy's. It's that now that I have proven that I am a Poor Person that is all that I am or ever will be. It is not worth it to me to live a bleak life devoid of small pleasures so that one day I can make a single large purchase. I will never have large pleasures to hold on to. There's a certain pull to live what bits of life you can while there's money in your pocket, because no matter how responsible you are you will be broke in three days anyway.

Tirado went on to note that this is not the totality of her or anyone's experience of poverty, but they are thoughts "that are never too far away".

These psychological pressures are no less real than the other poverty premiums noted in this report. This is why tackling poverty requires a holistic and strategic response engaging the whole community, not just piecemeal band-aid programs to address immediate needs (although they are also vital in the short term). Alleviating poverty requires getting more money to the poorest people in our society, but it requires much more as well.

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