



Research Note: Newstart and other Government Allowances: Incomes, Financial Stress and Poverty

Associate Professor Ben Phillips, Professor Matthew Gray, Cukkoo Joseph and Richard Webster

ANU Centre for Social Research and Methods

September 2019

Introduction

There is currently a policy debate about whether the value of the Australian unemployment benefit (Newstart) should be increased. On the one hand it is argued that [Newstart is not sufficient to cover basic living costs](#) and thus many of those on the payment experience high rates of poverty and hardship and that it creates an incentive for recipients to seek to move onto higher rate payments (ACOSS 2019). It is also argued that the level of Newstart is so low [that recipients cannot afford to look for work](#) (Harris 2019, Business Council of Australia 2019) and that it has flow on effects in terms of a range of adverse social outcomes including homelessness and crime. On the other hand, it is argued that [Newstart is designed to provide short-term financial](#) support during periods of unemployment (The Australian 2019), that having Newstart at a substantially lower rate than other social security payments creates a stronger financial incentive to find paid employment and that the budgetary impact of raising the rate of Newstart is not warranted.¹

There have also been changes, over time, to the eligibility criteria for social security payments which mean that people who would previously received a higher rate pension are no longer eligible for these payments and now receive Newstart. These changes include tightening of Disability Support Pension rules over the last decade, shifting single parents with older dependent children on Newstart incrementally since the mid-2000s and incremental increases in the age of eligibility for the Age Pension since 1995. These changes have resulted in an increasing proportion of Newstart recipients being likely to be on the payment for a longer duration than in the past.

As of September 2019 Newstart provides single person recipients with \$555.70 per fortnight or \$501.70 for each member of a couple. The payment is income and asset tested and some additional payments may be added such as the energy supplement (\$8.80 per fortnight), and rent assistance (up to \$137.20 per fortnight for a single without dependent children). While much of the policy debate has been about the value of Newstart, the value of other allowances are generally similar to Newstart (e.g., Abstudy, Parenting Payment Partnered) and in the case Youth Allowance lower. The latest Department of Social Security data shows there to be around 1.1 million Australians receiving government allowances. Of these, 723,000 receive the Newstart Allowance and 223,000 Youth Allowance.

Over the last quarter of a century under both Coalition and Labor governments the value of the Newstart payment has fallen in value relative to other pensions, such as the Age Pension and the Disability Support Pension. In the mid-1990s the Newstart Allowance was around 90 per cent of the Age Pension, but since that time has fallen to be close to 60 per cent of its value. The fall in the value of

¹ <https://raisetherate.org.au/>, https://www.bca.com.au/a_plan_for_a_stronger_australia

Newstart relative to social security pension payments is largely the result of different indexation arrangements for pensions and allowances. Allowance payments are increased every 6 months in line with the Consumer Price Index (CPI) whereas pensions (such as the age pension and disability pension) are linked to wages which since the mid-1990s (and generally historically) increased at a faster rate than the CPI. While the impact of the different indexation arrangements is generally relatively small over the short-term, over the medium to long-term it makes a substantial difference to payment rates.

This paper presents new estimates of the trends in financial living standards, poverty rates and financial hardship since the 1990s for households categorised according to their main source of income. It also considers changes in these outcomes for households that receive any income, whether or not it is the major source of household income, from a social security allowance payment. This group of households is of interest in terms of assessing trends in financial outcomes as the household analysis takes into account the full range of incomes received by all members of the household.

While not always the case, many households do share resources and incomes. We therefore expect that a household level analysis will provide a more accurate reflection on living standards than would be obtained by undertaking the analysis at the individual level and ignoring other income coming into the household. In addition, data on financial stress is measured at the household level.

Methodology

The paper analyses how household disposable income, financial stress and poverty have changed over the period 1993-94 to 2017-18. Households are categorised by the main source of income in the household (wage and salary income, business income, pensions, allowance, and other). The analysis is based upon Australian Bureau of Statistics (ABS) income and expenditure surveys. These surveys are large, nationally representative household surveys which provide detailed information on income by source of income for each household member, housing costs, and household structure and composition. The expenditure surveys (collected in 2003, 2009 and 2015) also include questions on household financial stress.

In this paper household income is measured by equivalised household disposable income.² Equivalised household disposable income provides a useful measure of the financial position of different household

² Equivalising income converts a household income to a standard single adult income. Here we use the OECD-modified method which divides income by an equivalising factor with 1 for the first adult, 0.5 for subsequent adults and 0.3 for each dependent (children under 15 years of age).

types. The effects of inflation are taken into account by converting all income amounts to 2017 dollars and thus the changes in income are changes in real income.

Poverty is defined using the relative poverty measure of a household being in poverty if its household equivalised disposable income after housing costs is less than 50 per cent of median equivalised disposable income after housing costs.³The 'after-housing' cost poverty line is used because housing costs are a major essential cost of living for low income housing. While there is a debate as to whether the poverty line should be calculated before or after housing costs, it is common in the literature to use the after housing cost poverty line⁴. The poverty threshold is recalculated for each year of data examined and thus is affected by changes in the income of the population as a whole.

The simple poverty measure indicates only whether a household is below the poverty threshold, but not how far below poverty threshold. This means that households with an income only slightly below the poverty line are treated the same as a household with an income well below the poverty line even though the household well below the poverty line is likely to be in a much worse financial position. It also means that very small changes in payment rates relative to the poverty line can lead to large changes in the measured poverty rate between years that are not necessarily indicative of a significant change in poverty. This can occur for the large number of full-rate pensioners, many of whom in a given year, fall just above or just below the poverty.

These issues can largely be overcome by using a poverty gap measure, which is the difference between a household's income and the poverty line in an absolute sense. This captures the 'depth' of poverty for a given household. The poverty gap is averaged for all households (within the household category being considered) regardless of whether they are in poverty or not. Households who are not in poverty have a gap of zero dollars.

The final measure used in this paper is the experience of financial stress by the household. The advantage of this measure is that it aims to measure the actual lived experience of poverty.

³ For the poverty rate and poverty gap measures we do not include the bottom 2 percentage points of the income distribution. This step is taken in line with Australian Bureau of Statistics recommendation to remove very low-income households due to concerns the ABS has with the quality and or representativeness of these incomes.

⁴ After housing income is calculated by deducting housing costs (rents and mortgage costs and rates).

Income Growth between 1993 and 2017

Australia enjoyed substantial increases in household income over the period 1993 to 2017 with the average real income for all households increasing by 68 per cent. There however were big differences in the changes in income between households with different main sources of income. Households whose main source of income were social security allowances have had no real growth in their total household incomes since 1993. Households who received at least some income from allowances fared a little better with growth of 39 per cent but still well below the other major categories of source of income.

By 2017, the average equivalised household incomes of households whose main source of income was allowances was 26 per cent of average income for all households and 51 per cent of the income of households in which the main source of income was pensions. Households with some allowance (any allowance) income have incomes higher than that of pensioner households.

Table 1. Real Weekly Equivalised After-housing Disposable Household Income by main source of household income, 1993-2017 (2017\$)

	<i>Main source of household income</i>					<i>All households</i>	<i>Households receives any income from Allowances</i>
	<i>Wage and Salary</i>	<i>Business</i>	<i>Pensions</i>	<i>Allowances</i>	<i>Other</i>		
1993	\$640	\$572	\$289	\$225	\$454	\$510	\$361
2003	\$758	\$726	\$344	\$233	\$707	\$629	\$425
2009	\$980	\$873	\$414	\$243	\$1,053	\$823	\$535
2015	\$984	\$773	\$459	\$223	\$1,011	\$842	\$505
2017	\$991	\$777	\$441	\$226	\$1,091	\$857	\$502
<i>Growth</i>	55%	36%	53%	0%	140%	68%	39%

Source: ABS Household Expenditure Survey 1993-2015 and Survey of Income and Housing 2017

Poverty Rates over the period 1993 to 2017

Table 2 shows that after-housing poverty rates for Australia increased between 1993 and 2009 from 10.8% to 13.5%, and then have been stable and was 13.9% in 2017. This equates to about 1.26 million households. Amongst households in which allowances were the main source of income the poverty rate in 1993 was 39%. Since 1993 the poverty rate of households in which the main source of income is allowances increased dramatically and was nearly 80% in 2017. With limited real income growth since 2009 poverty rates for Newstart recipients have not altered significantly.

Poverty rates for all households with at least one allowance recipient (any allowance) are 34.4 per cent. This is significantly higher than in 1993 but little changed since 2009.

Table 2. Poverty Rates (After-housing cost) by household Main Source of Income, 1993-2017

	<i>Main source of household income</i>					<i>All Households</i>	<i>Households receives any income from an Allowance</i>
	<i>Wage and Salary</i>	<i>Business</i>	<i>Pensions</i>	<i>Allowances</i>	<i>Other</i>		
1993	4.1%	12.1%	15.8%	39.0%	19.0%	10.8%	22.6%
2003	3.2%	10.0%	25.7%	59.5%	9.1%	11.5%	26.9%
2009	5.0%	16.6%	26.7%	75.6%	13.8%	13.5%	32.8%
2015	6.4%	20.3%	22.3%	82.3%	9.9%	13.0%	33.5%
2017	6.3%	23.4%	25.4%	79.7%	14.9%	13.9%	34.4%

Source: ABS Household Expenditure Survey 1993-2015 and Survey of Income and Housing 2017

The after-housing poverty gap has increased over the period 1993 to 2017 from \$10 per week to \$17 per week (in 2017\$). Households with allowances as their main source of income have significantly higher poverty gaps with an average gap in 2017 of \$124 per week compared to the overall average of \$17. Pensioner households have significantly lower average gaps at just \$22. The poverty gap for allowance households has increased dramatically between 1993 and 2017 from \$25 per week to \$124 per week. The driver of this increase is the lack of real income growth for these households, whereas all households have experienced real income increases of 68 per cent (Table 1). Households with some allowance income also have significantly larger poverty gaps than the rest of the population or pensioner households at \$47 per week in 2017 which is more than triple their 1993 gap.

Table 3. Weekly Poverty Gap (After-housing) by main source of household income, 1993-2017 (\$2017)

	<i>Wage and Salary</i>	<i>Business</i>	<i>Pensions</i>	<i>Allowances</i>	<i>Other</i>	<i>All</i>	<i>(Any Allowance)</i>
1993	-\$4	-\$12	-\$10	-\$25	-\$16	-\$10	-\$14
2003	-\$3	-\$10	-\$16	-\$55	-\$9	-\$9	-\$22
2009	-\$5	-\$25	-\$19	-\$98	-\$27	-\$14	-\$35
2015	-\$8	-\$26	-\$17	-\$114	-\$15	-\$15	-\$41
2017	-\$7	-\$5	-\$22	-\$124	-\$27	-\$17	-\$47
<i>Growth</i>	97%	-58%	130%	389%	74%	78%	225%

Source: ABS Household Expenditure Survey 1993-2015, Survey of Income and Housing 2017

Financial Stress

Table 4 shows the share of households who experience at least three forms of financial stress. The financial stress measures are only available from the 2003, 2009 and 2015 expenditure surveys. The ABS defines 15 different measures of potential stress including 6 ‘missing out’ forms of stress and 9 ‘financial stress’ forms. Such measures include going without meals or being unable to pay utility bills. A relatively large share (41%) of households experience at least one form of stress. In this research we focus on households with significant financial stress where at least 3 forms of stress were recorded.

Overall financial stress has reduced slightly from 17.7% in 2003 to 16.4% in 2015 for all households. The rates of financial stress rates are high and have increased significantly for allowance households – from 48.9 per cent in 2009 to 64.7 per cent in 2015. For pension households the rate has declined modestly from 29.4 per cent to 26.8 per cent. Rates for wage and salary households have also declined modestly from 13 to 12.3 per cent. Stress rates have increased modestly for ‘any allowance’ households up from 40.3 per cent to 43.7 per cent by 2015.

Table 4. Financial Stress by Household Main Source of Income, 2003 - 2015

	<i>Wage and Salary</i>	<i>Business</i>	<i>Pensions</i>	<i>Allowances</i>	<i>Other</i>	<i>All</i>	<i>(Any Allowance)</i>
2003	13.0%	11.9%	29.4%	48.9%	4.2%	17.7%	40.3%
2009	12.9%	9.0%	28.7%	67.9%	5.2%	17.8%	44.7%
2015	12.3%	13.5%	26.8%	64.7%	4.0%	16.4%	43.7%

Source: ABS Household Expenditure Survey 1993-2015

Combined Poverty and Financial Stress

It is not the case that all households who are in poverty are also in financial stress and vice-versa and therefore poverty and financial stress measures do not necessarily capture genuine financial hardship. A stronger measure perhaps is to consider households who are both in poverty and in financial stress.

Table 5 reports this measure by main source of household income.

We estimate that around 5.7 per cent of households report both financial stress and have an income below the poverty line. Allowance households are dramatically more likely to suffer both components (56.4 per cent) which is much higher than in 2003 (33.2 per cent). Households with at least one allowance recipient are also relatively more likely to be categorised as both in poverty and financial stress at 28.1 per cent, up from 23.3 per cent in 2003. The combined measure is much lower for pensioner households (11.9 per cent) which has remained relatively stable since 2003. Wage and salary households have a negligible combined rate at just 1.9 per cent in 2015.

Table 5. Combined Poverty and Financial Stress by Main Source of Income, 2003 to 2015

	<i>Wage and Salary</i>	<i>Business</i>	<i>Pensions</i>	<i>Allowances</i>	<i>Other</i>	<i>All</i>	<i>Any Allowance)</i>
2003	0.8%	2.6%	12.7%	33.2%	1.1%	5.0%	23.3%
2009	1.2%	2.4%	14.8%	52.3%	1.4%	6.1%	28.0%
2015	1.9%	5.5%	11.9%	56.4%	1.5%	5.7%	28.1%

Source: ABS Household Expenditure Survey 2003-2015

Duration Analysis

As noted above one of the arguments for not increasing the rate of Newstart is that it is meant to provide assistance to persons who are unemployed for a short period. However, the payment is provided to persons who remain on the payment for longer durations. As of December 2018, of those on Newstart Allowance, two in three have been on the payment for more than one year and just over one in five for more than 5 years. 4 years earlier durations on Newstart were shorter with just one in ten lasting more than 5 years.

Of those receiving Newstart in June 2019 more than 75 per cent have been on income support for more than 12 months significantly higher than the share at the start of the decade.⁵ The earliest available data show that in February 1994 the rate was much lower at 48.4 per cent. Figure 1 shows the share of

⁵ This statistic is based on duration on income support payments. The duration could incorporate time spent on a payment that is not the Newstart payment such as parenting payment or some other government pension or allowance.

Newstart recipients who have been on income support for more than 12 months through the current decade.

Figure 1. Share of Newstart recipients on income support payments for more than 12 months, 2010 - 2019



Source: [DSS: Labour Market and Related Payments: A Monthly Profile](#)

Simulation of \$75 per week increase to single rate allowances (PolicyMod)

There have been recent [calls](#) for the Newstart Allowance to increase by \$75 per week (Norman 2019). This follows on from the Henry Taxation Review which suggested a \$50 per week increase to the maximum rate in 2009. In today's dollars the Henry Taxation Review recommended increase in the value of Newstart would be \$63 per week.

Using PolicyMod we simulate a \$75 per week increase in the rate and find that the average poverty gap for households decreases to \$81 from \$121 – roughly a one-third reduction⁶. The overall average poverty gap declines from \$15.80 per week to \$14.40 per week or a 9 per cent reduction.

PolicyMod has an 'Optimal Policy Modelling' routine which estimates 'optimal' welfare payment levels for a given budget. Under a budget neutral setting where we minimise the after-housing poverty gap PolicyMod estimates that Newstart Allowance should increase by a more substantial \$102 per week. To offset the increase to Newstart the optimising routine suggests reducing the age pension by \$26 per

⁶ PolicyMod is a static microsimulation model of the Australian tax and transfer system. The model is based on ABS survey of income and housing data from 2015-16. The model provides distributional modelling results for most elements of the personal income tax and transfer system.

week, increasing Parenting Payment Single by \$110 per week and increasing Rent Assistance by \$12 per fortnight. Family payments would remain largely unchanged.

The 'optimal' welfare system for a budget neutral outcome reduces the average poverty gap for households where Allowances are the main income source from \$121 per week to \$72 per week⁷. The overall poverty gap is reduced on average from \$15.80 to \$14.80 – a 6.3 per cent reduction in the poverty gap. The average poverty gap for pensioners would increase from \$17 per week to \$21.3 per week.

Conclusion

While overall there have been substantial increases in real household incomes and rates of poverty and financial stress have changed little since the mid-1990s, households for which allowances (mostly Newstart) are the main source of income there has been no increase in real income and very substantial increases in both poverty and financial stress.

Of households who receive some allowance income around 72 per cent of those households that allowance is not their main source of income. However, households with at least one allowee still have significantly higher poverty and financial stress rates compared to other households including pensioner households and the trend since 1993 has been for these rates to increase.

Poverty rates and financial hardship for households relying heavily on Newstart and other allowance payments have been driven by the payment rates not keeping pace with the general standard of living of other households in Australia, particularly through the 1990s and 2000s where incomes and living standards increased significantly for most Australian households.

While providing a social safety net and poverty alleviation is an important objective of the social security system, it has to be balanced with creating financial incentives for paid employment. The evidence provided in this paper demonstrates that from the perspective of poverty alleviation the rate of allowances is too low and this is worsening as Newstart continues to fall relative to wages and pensions, and recipients are increasingly on allowance payments for long periods of time.

⁷ Poverty gaps calculations in PolicyMod vary slightly from those calculated directly from the ABS Survey of Income and Housing.

References

ACOSS (2019) *Raise the Rate*

Australian Bureau of Statistics (2019) *Survey of Income and Housing 2017-18*, Detailed Unit Record File

Australian Bureau of Statistics (2017) *Survey of Income and Housing and Household Expenditure Survey 2015-16*, Confidentialised Unit Record File

Australian Bureau of Statistics (2011) *Survey of Income and Housing and Household Expenditure Survey 2009-10*, Confidentialised Unit Record File

Australian Bureau of Statistics (2005) *Survey of Income and Housing and Household Expenditure Survey 2005-06*, Confidentialised Unit Record File

Australian Bureau of Statistics (2001) *Household Expenditure Survey 1998-99*, Confidentialised Unit Record File

Australian Bureau of Statistics (1995) *Household Expenditure Survey 1993-94*, Confidentialised Unit Record File

Business Council of Australia (2019) *A Plan for A Stronger Australia*.

Commonwealth Treasury (2009) *Australia's Future Tax System*

Harris, R. (2019) *Labor targets Coalition over growing amount of older Aussies on dole*, Sydney Morning Herald

Kelly, J (2019) *Morrison attacks Labor's 'unfunded Newstart empathy*, The Australian

Norman, J (2019) *Labor-mps-Calling-for-an-increase-in-Newstart-payments*, ABC Online

<https://www.abc.net.au/news/2019-07-17/labor-mps-calling-for-an-increase-in-newstart-payments/11318532>

Phillips, B, Webster, R, Gray, M (2018) *Optimal Policy Modelling: a microsimulation methodology for setting the Australian tax and transfer system*, CSRM Working Paper 10/2018