



ACOSS AND UNSW SYDNEY

# POVERTY IN AUSTRALIA 2020

PART 1: OVERVIEW



UNSW  
SYDNEY



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All images in this publication are representative only, and are not images of people we know are living in poverty.

# ACOSS Partners

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# Glossary

<b>ABS</b>	Australian Bureau of Statistics
<b>ACOSS</b>	Australian Council of Social Service
<b>After housing costs income</b>	Disposable income minus housing costs
<b>Before housing cost income</b>	Disposable income (without any deduction of housing costs)
<b>CPI</b>	Consumer Price Index
<b>ES</b>	Energy Supplement
<b>FTB</b>	Family Tax Benefits
<b>GFC</b>	Global Financial Crisis
<b>NSA</b>	Newstart Allowance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PP</b>	Parenting Payment
<b>Poverty line</b>	50% of median household after (or before) housing costs income
<b>Poverty gap</b>	Measure of the average depth of poverty for those living below the poverty line
<b>RA</b>	Rent Assistance
<b>UNSW Sydney</b>	University of New South Wales, Sydney

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# Foreword

“Poverty in Australia 2020: Part 1 Overview” continues efforts by the ACOSS/UNSW Sydney Poverty and Inequality Partnership to fill the knowledge gap about the prevalence and profile of poverty in Australia. Utilising the latest data available from the Australian Bureau of Statistics (ABS), it paints a picture of entrenched and deep poverty, despite Australia’s relatively high national wealth.

Australia has adopted the United Nations Sustainable Development Goals, the first of which is to ‘end poverty in all its forms’, yet Australia still lacks a plan to reduce poverty, or even a nationally agreed definition of what poverty is.

The ACOSS/UNSW Sydney Poverty and Inequality Partnership is a 5 year research and impact collaboration that combines quality research with effective advocacy for systemic change. Partners include leading social policy, health, law and housing researchers, with major social service providers and advocates from ACOSS’ membership.

The partnership has recently farewelled Professor Peter Saunders, who retired after a long and distinguished academic career. Peter is a leading global expert on poverty and inequality and we have been honoured to work with him to continue to shine a light on the nature and extent of poverty and inequality in Australia. Professor Carla Treloar has stepped into the role of Partnership lead at UNSW Sydney, with Associate Professor Bruce Bradbury now the academic research lead.

We’re delighted to see the Partnership flourishing, with new research initiatives exploring both the geographic distribution of poverty and its health impacts due for publication this year, along with the core reports on Poverty and Inequality in Australia.

We gratefully acknowledge the leadership of the ACOSS Board and President and the UNSW Vice Chancellor Ian Jacobs along with UNSW Deputy Vice-Chancellor Equity, Diversity and Inclusion Professor Eileen Baldry in championing this initiative. We also sincerely thank all the ACOSS partners for their generous support: Anglicare Australia; Australian Red Cross; the Australian Communities Foundation Impact Fund (and two sub-funds - Hart Line and Raettvisa); the BB & A Miller Foundation; the Brotherhood of St Laurence; cohealth; the David Morawetz Social Justice Fund; Good Shepherd Australia New Zealand; Mission Australia; the St Vincent de Paul Society; the Salvation Army; and The Smith Family. The ACOSS staff team have continued to bring passion and determination to drive this collaboration, and we thank Jacqueline Phillips and Penny Dorsch along with Dr Peter Davidson for his work in drafting the reports.

Finally, we acknowledge our academic partners with whom we are working to broaden our lens on the links between poverty and inequality and housing, justice and health service access and outcomes: Associate Professor Bruce Bradbury, Senior Research Fellow Trish Hill and Research Fellow Melissa Wong from the Social Policy Research Centre; Professors Bill Randolph and Hal Pawson from City Futures Research Centre; Professors Mark Harris and Evelyne de Leeuw, and Associate Professor Margo Barr from the Centre for Primary Health Care and Equity; and Professor Brendan Edgeworth and colleagues from the Faculty of Law.



A handwritten signature in black ink that reads "Cassandra Goldie".

**Dr Cassandra Goldie**



A handwritten signature in black ink that reads "Carla Treloar".

**Professor Carla Treloar**

# Introduction

The Poverty in Australia 2020 Report is the latest in the Poverty in Australia series, part of the Poverty and Inequality Partnership between ACOSS and UNSW (Sydney).<sup>1</sup>

This is the sixth ACOSS report on poverty and the third joint report from the Poverty and Inequality Partnership. It updates earlier poverty reports.

This first part of Poverty in Australia 2020 shows the proportion of all people, and children, living in poverty in 2017-18<sup>2</sup> (the latest year for which household incomes data are available from the Australian Bureau of Statistics), together with the average gap between household incomes and the poverty for those living below it (the 'depth' of poverty).

It also outlines trends in overall poverty levels from 1999 to 2017 and discusses the main drivers of changes in poverty including trends in overall household disposable incomes, social security payment rates, and housing costs.

Subsequent parts of the Report will be released through 2020, dealing with:

- Levels of poverty, and the profile of those in poverty in 2017, among different demographic groups and people with different sources of income; and
- Trends in poverty among these groups.

This information contributes to a better understanding of the extent of poverty, the circumstances of financially vulnerable and disadvantaged people in Australia, and the main factors influencing poverty levels.

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<sup>1</sup> The companion publication, 'Inequality in Australia' profiles income and wealth inequality.

<sup>2</sup> Referred to as '2017' in the rest of the Report for simplicity.

# Snapshot of poverty in Australia

## In 2017-18:

- The poverty line (50% of median income, before deducting housing costs) for a single adult is \$457 per week (pw). For a couple with two children, it is \$960pw.<sup>3</sup>
- 3.24 million people (13.6% of the population or over one in eight) are estimated to be living below the poverty line, after taking account of their housing costs.
- 774,000 children under the age of 15 (17.7% of all children or over one in six) are living below the poverty line.
- The average 'poverty gap' (the difference between the incomes of people in poverty in various types of families and the poverty line) is \$282pw.
- Social security payments for single people without children are generally below the poverty line. The single rate of Youth Allowance (plus Rent Assistance and Energy Supplement) is \$168pw below the poverty line, Newstart (plus these supplements) is \$117pw below, while the single pension (plus Pension and Energy Supplements) is closer to the poverty line, but still \$10pw below.<sup>4</sup>
- Poverty in Australia is just above the OECD average level, placing us among a group of wealthy nations with above-average poverty.

## Trends (from 1999-00 to 2017-18):

- The clearest trend to emerge from the data was a rise in poverty during the boom years (between 2003-08), after which it plateaued.
- The poverty rate rose from 11.5% of all people in 2003 to 14.4% in 2007, fell to 12.6% in 2009, then rose to 13.1% in 2017.<sup>5</sup>
- Child poverty was consistently higher than overall poverty but followed a similar pattern. It rose from 14.3% in 2003 to 18.1% in 2007. After declining to 16.4% in 2013-14, it rose to 16.9% in 2017.

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<sup>3</sup> We use the poverty measure adopted by the Organisation for Economic Cooperation and Development (OECD), which is disposable income below half that of the median (middle) household. We adjust this for household size and also housing costs.

<sup>4</sup> Most pension recipients own their homes, so do not receive Rent Assistance.

<sup>5</sup> To facilitate comparisons over time, the trend data are calculated differently to the figures for 2017 cited above. Using the latest ABS income definition, poverty rose slightly from 13.2% in 2015 to 13.5% in 2017.

## Drivers

- Since the poverty measure used here is benchmarked to median (middle) household incomes and takes account of housing costs, changes in household incomes (hours of paid work, wage rates, social security and tax changes) and housing costs impact poverty levels.
- The role of household incomes has been mixed.
- Rapid growth in median household incomes from 2003 to the Global Financial Crisis (GFC) in 2008 (averaging 4% a year after taking inflation into account), along with greater earnings inequality, lifted poverty rates as those with the lowest incomes fell behind.
- Since 2008, median household disposable incomes (and the poverty line) have grown more slowly (by an average of just 0.5% a year to 2017) while unemployment declined from an average of 6.2% in 2008 to 4.8% in 2017.<sup>6</sup> These factors, together with a \$32pw pension increase in 2009, reduced poverty after the GFC.
- Their impact was offset by increases in housing costs for people with low incomes after 2007, which increased poverty. Overall housing costs rose by an average of 4% a year from 2007 to 2017.
- From 2005 to 2017, average housing costs for the lowest 20% of working-age households (under 65 years) grew more than twice as fast as those of the middle 20% (by 42% compared with 15%).
- Further, the freezing of Newstart Allowance (after inflation) for 25 years, together with the transfer of many sole parents to Newstart from 2007 (80,000 in 2013 alone), increased poverty and the depth of poverty among those affected.

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<sup>6</sup> The unemployment rate has since risen to 5.1% in December 2019 (ABS (2020), Labour Force, Australia, December 2019, Cat No 6202).

# 1. How poverty is measured in this report

For the purpose of this report, people are in poverty when their household's disposable income (after accounting for tax and housing costs) falls below a level considered adequate to achieve an acceptable standard of living. Rather than measure living standards directly (for example, by asking people whether they have to go without necessities), we set a benchmark for the adequacy of household incomes of one-half (50%) of the median or 'middle' household disposable income. This is the 'poverty line'. For comparative purposes, we also report the number of people who fall below a higher poverty line set at 60% of median household disposable income.<sup>1</sup>

In this way, we measure poverty by comparing the spending capacity of people with low incomes with that of 'middle Australia'. This is appropriate, since the cost of achieving an acceptable standard of living varies over time and between countries as living standards rise or fall. One example is the ability of families to connect with the world using mobile phones or the internet. Similarly, minimum standards for housing have changed over time – such as access to an indoor toilet.

It does not follow that these poverty measures are simply measuring overall inequality, or that poverty cannot be eliminated while income inequality exists. It can be eliminated by lifting the lowest incomes (including social security payments, paid working hours and minimum wages) to at least half the median level. As the international comparison in this report reveals, different countries have markedly different poverty levels. Poverty also varies over time within Australia in response to policy changes such as the increase in pensions in 2009.

People's spending power is affected by more than their incomes. This report also takes account of two factors that have a large impact on the ability of a household to live decently at a given level of income.

First, we adjust (or 'equivalise') disposable incomes to take account of family size. Clearly, a couple with two children needs more money to achieve the same living standard than a single person living alone. Poverty lines are adjusted in this way, as illustrated in Table 1. So the 50% of median income poverty line for a single person is \$457pw in 2017, and that for a couple with two children is \$960pw.

Second, we take account of variations in the largest fixed cost of most low-income households: housing. At a given level of income, outright home-owners can achieve a much higher standard of living than most tenants or people with mortgages because their housing costs are lower. This is especially important when measuring poverty among older people.

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<sup>1</sup> The 50% of median income poverty line is used by the OECD, while the higher 60% of median income poverty line is used by the European Union. Australia does not currently have an official national poverty line, despite our obligation under the Sustainable Development Goals to 'by 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions. See: <https://www.un.org/sustainabledevelopment/poverty/>

To take housing costs into account, a separate set of ‘after-housing costs’ poverty lines is used (last two columns of Table 1). These are calculated by subtracting housing costs from disposable income before calculating the median, so they are lower than the ‘before housing costs’ poverty lines. In 2017 the after-housing costs poverty line for a single adult is \$370pw (compared with \$457pw ‘before housing’). The after-housing costs poverty line is the amount of money needed to buy all other essentials after housing is paid for. The poverty status of each household is established by deducting its housing costs from its disposable income and comparing the remaining amount with the after-housing costs poverty line.<sup>2</sup>

**Table 1: Poverty Lines by family type, 2017-18 (\$pw after tax, including social security payments)**

	<b>50% of median income, before housing costs</b>	<b>60% of median income, before housing costs</b>	<b>50% of median income, after-housing costs</b>	<b>60% of median income, after-housing costs</b>
<b>Lone person</b>	\$457	\$548	\$370	\$444
<b>Couple only</b>	\$686	\$823	\$555	\$665
<b>Sole parent, 2 children</b>	\$731	\$877	\$592	\$710
<b>Couple, 2 children</b>	\$960	\$1152	\$776	\$932

Note: The main poverty line used in this report is 50% of median income

We report the results of this research in two ways.

First, we report the number of individuals in households living below each of the 50% and 60% of median income poverty lines.<sup>3</sup> This gives us estimates of the number and percentage of people living in poverty.

Second, we calculate ‘poverty gaps’ for people living below the poverty line. This tells us about the depth or severity of poverty: how far below the poverty line are those living in poverty? The poverty gap is expressed in dollars per week and as a percentage of the poverty line.

Further detail of the methods used to produce the estimates in this report is contained in the [Methodology Page](http://povertyandinequality.acoss.org.au/methodology) of the poverty and inequality website at <http://povertyandinequality.acoss.org.au/methodology>

Further information on the state of poverty at the local level in Victoria and NSW is available at the websites of the Victorian and NSW Councils of Social Service. These interactive analyses provide spatial poverty rates broken down by various demographic attributes such as gender and age; household type; employment status and more.<sup>4</sup>

<sup>2</sup> To compare poverty lines with community incomes, such as social security payments, we use the before-housing costs (BHC) poverty lines.

<sup>3</sup> The data used are from the latest ABS Survey of Income and Housing (2017-18). We exclude from the survey sample households reporting zero or negative incomes and self-employed households, since their reported incomes are not good indicators of their living standards. Estimates of the total number of people who are below the poverty line (as opposed to the poverty rate) compensate for these exclusions by inflating the estimates by the ratio of the total population to the non-excluded population. For the overall estimate of poverty numbers, this is equivalent to assuming that the excluded households (e.g. self-employed households) have the same poverty rate as those not excluded.

<sup>4</sup> You can view these maps at <https://maps.ncoss.org.au/> (NCOSS) and <http://povertymaps.vcoss.org.au/> (Victoria)

## 2. People in poverty in 2017

After taking account of housing costs, more than one in eight people (13.6%) live below the 50% of the median income poverty line (Table 2). The poverty rate among children is much higher, more than one in six (17.7%), while the poverty rate among young people is 13.9%. In total, there are 3.24 million people in poverty in Australia, including 774,000 children and 424,800 young people.<sup>5</sup>

The ‘poverty gap’ (the average gap between the incomes of people in poverty and the poverty line), is \$282pw, which is 42% of the (after-housing) poverty line.<sup>6</sup> That is, people in households below the poverty line have incomes that average \$282pw below the line, after adjusting for housing costs. It is important to measure poverty gaps, because even if the rate of poverty is reduced, this could still leave many people well below the poverty line.

### EILEEN’S\* STORY

“After years of mental and financial abuse, I finally got the strength to leave my marriage. I knew things were going to be tough, but I never dreamed of the horrible situations the last 6 years would bring to me. Initially I was homeless for 10 months, just couch surfing with friends and family, but managing to keep my job. I was able to secure a townhouse for my teenage daughter and I to live in for 3 years, using my child support and rent assistance. In 2017 [the company I worked for] closed its doors and my daughter turned 18, which meant no support from my ex. The stress sent me into a spiral of depression and anxiety, which then led to being homeless again with no income. I had a total mental breakdown, and was couch surfing once again. At this time I was apparently on high priority emergency housing with public housing. Trouble is, during the time you are “supposedly” on emergency housing, usually your mental state is in no state to be able to gather all the paperwork [required]...

I am now on \$570.00 a fortnight, I pay \$400 a fortnight on rent [in a private rental] which leaves \$170 a fortnight to exist on (you definitely don’t live on it). I am 56, have never been on any government benefits until I left an abusive marriage, and I can’t see how anything is going to change for me too much.”

\*name has been changed

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5 Other poverty research published recently, including the OECD’s international comparisons in Figure 1 below and a report by the Productivity Commission (Productivity Commission 2018, Rising inequality? A stocktake of the evidence, Commission research paper), also use the 50% of median income poverty line but did not take housing costs into account. This is the main reason for differences in poverty rates reported in those studies and ours. The Melbourne Institute also estimated poverty rates using the 50% of median income poverty line, but based on a before-housing costs measure and a different data source (the HILDA survey) to that used here (Wilkins R et al 2019, The HILDA Survey, Selected findings from waves 1-17, Melbourne Institute).

6 Note that this average figure is not adjusted for household size, so it is boosted by the larger poverty gaps of people in larger households. The average poverty gap for single people living in poverty would be significantly less than this.

**Table 2: Number and percentages of people below the 50% and 60% of median income poverty lines, and average poverty gaps (\$pw and as a % of the 50% median income poverty line)**

	<b>50% OF MEDIAN POVERTY LINE</b>	<b>60% OF MEDIAN POVERTY LINE</b>
<b>PERCENTAGES</b>		
<b>All people</b>		
Percentage of people below the poverty line	13.6%	21.0%
<b>Children &amp; young people</b>		
Percentage of children (under 15yrs) below the poverty line	17.7%	25.7%
Percentage of young people (15-24yrs) below the poverty line	13.9%	19.3%
<b>NUMBERS</b>		
<b>All people</b>		
Number of people below the poverty line	3,239,000	5,010,000
<b>Children &amp; young people</b>		
Number of children (under 15yrs) below the poverty line	774,000	1,128,000
Number of youth (15-24yrs) below the poverty line	424,800	590,100
<b>POVERTY GAP</b>		
<b>Average poverty gap for those below the poverty line (\$ per week)</b>	\$282pw	\$292pw
<b>Average poverty gap for those below the poverty line (% of poverty line)</b>	42.0%	36.0%

Note: 'After-housing' poverty measures are used here. The poverty gap is the difference between the average incomes of those below the poverty line and the poverty line. Unlike the poverty line, the dollar amounts shown here are not adjusted downwards for household size (equivalised) where the household has more than one person.

More detailed breakdowns of the rates and profiles of poverty for different groups in the population will be published in the next instalment of 'Poverty in Australia'.

## 2.1 The relationship between social security payments and poverty

The main purpose of social security payments is to prevent poverty, but in most cases people need private income above and beyond social security in order to escape it.<sup>7</sup>

Table 3 compares maximum rates of major social security payments with before housing poverty lines for singles and couples without children in March 2018.<sup>8</sup> In contrast to the poverty gaps in Table 2, the 'gaps' between maximum payment rates and poverty lines shown here are based on 'cameo' families relying fully on social security, so they do not take account of the private incomes or housing costs of different families. This shows that in March 2018, maximum pension payments sat \$2pw below the poverty line for couples and \$10pw below it for singles. When we take housing costs into account, recipients of the Age Pension who rent their homes face a greater risk of poverty, on average, than those who own their homes outright.<sup>9</sup>

In March 2018, Newstart and Youth Allowances were well over \$100pw below the poverty line. For example, maximum single rates of Newstart Allowance and Youth Allowance were \$117pw and \$168pw below the line respectively.

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7 Social security payments include income support payments for adults in families with low incomes (divided into the higher pension payments such as Age Pension and lower allowance payments such as Newstart Allowance), Family Tax Benefits for children in low and middle income families, and supplementary payments such as Rent Assistance for low-income families renting privately.

8 Maximum payment rates in this table include Rent Assistance (apart from pension payments since most pensioners are home-owners). Those with Rent Assistance are likely to face higher housing costs (since Rent Assistance is only paid once rents exceed a minimum level) while those without it have lower incomes.

9 Harmer J (2008), Pension Review discussion paper, Department of Families, Housing, Community Services and Indigenous Affairs, Canberra; Davidson P et al (2018), Poverty in Australia (ACOSS and UNSW Sydney).

**Table 3: Comparison of social security payments for single people and couples without children with 'before housing costs' poverty lines (March 2018)**

	<b>50% OF MEDIAN INCOME POVERTY LINE, BEFORE HOUSING COSTS (\$PW)*</b>	<b>SOCIAL SECURITY PAYMENTS (\$PW)</b>	<b>POVERTY LINE MINUS PAYMENTS (\$PW)</b>
<b>SINGLE</b>			
<b>YOUTH ALLOWANCE (+RA+ES)*</b>	\$457	\$289	\$168
<b>NEWSTART ALLOWANCE (+RA+ES)*</b>	\$457	\$340	\$117
<b>PENSION (+PS+ES)*</b>	\$457	\$447	\$10
<b>COUPLE (COMBINED)</b>			
<b>YOUTH ALLOWANCE (+RA+ES)*</b>	\$686	\$517	\$169
<b>NEWSTART ALLOWANCE (+RA+ES)*</b>	\$686	560	\$126
<b>PENSION (+PS+ES)*</b>	\$686	684	\$2

\* Poverty line does not deduct housing costs and uses the (higher) post 2007 ABS income definition. Find out more in Chapter 3.

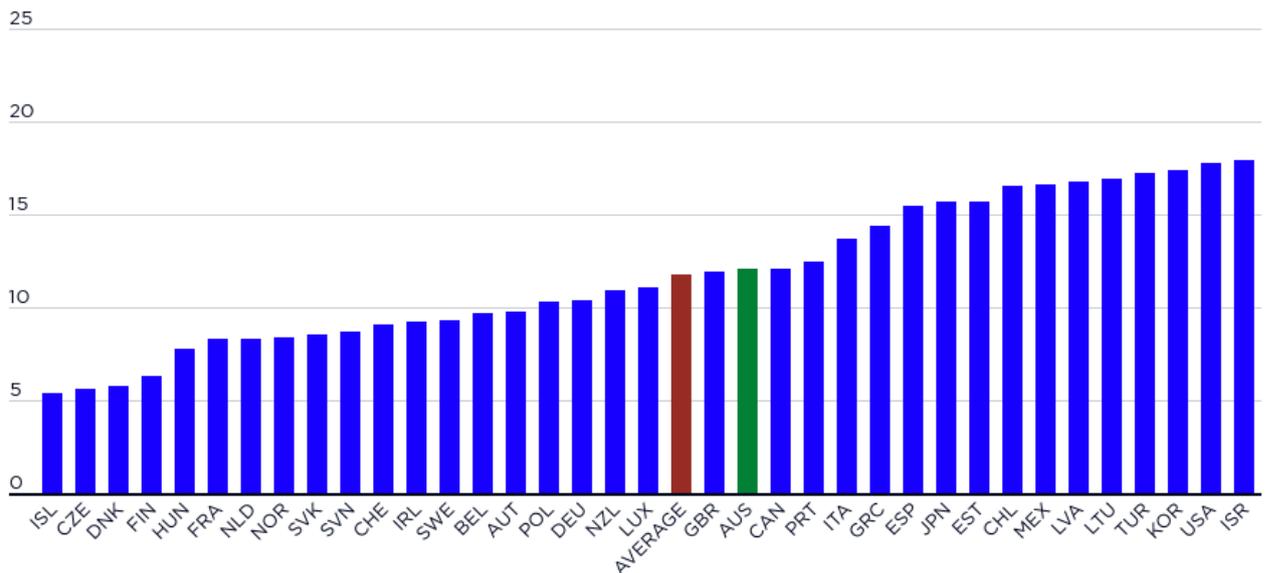
Payments include Pension and Energy Supplements (PS+ES) for pensions, and Rent Assistance (RA) and Energy Supplement (ES) for Newstart and Youth Allowance recipients (who are more likely to rent). Payment rates shown are for March 2018.

## 2.2 International comparison

The Organisation for Economic and Social Development's (OECD) estimate for the overall rate of poverty in Australia in 2016 is 12.1% (compared with our estimate for 2017 of 13.6%). This is slightly above the OECD average of 11.8% (Figure 1). Among the wealthier OECD nations, Australia has relatively high poverty rates.

Although the OECD uses the same 50% of median income poverty line, differences in the research methodology (in particular, housing costs were not taken into account by the OECD and they use a different adjustment for household size) mean that the results are close to but not the same as those reported from our research.

**Figure 1: Poverty rates in OECD countries in 2016 (% of people)**



### PAT'S\* STORY

"I was homeless at 15. Youth Allowance meant that I didn't starve to death, but it did mean that on top of the challenge of finishing high school while essentially couch surfing and moving 11 times in my senior years, I was hungry. I didn't get any help to manage the allowance I received and I would often run out of food well before my next payment and drink water to try and fill up enough just to get to sleep. It also meant that I entered adulthood with a terrible credit history, as the allowance I had didn't stretch to cover electricity, rent and other bills. I spent hours each month in distressing phone calls begging for extensions from power companies etc. It just didn't stretch that far. It was time I could have been studying like my peers and doing better at school and university."

\*name has been changed

## 3. Trends in overall poverty from 1999 to 2017

We now turn to trends in poverty among all people over the period from 1999 to 2017.

One challenge when measuring trends in poverty in Australia is a series of changes in income definitions applied by the ABS to its income surveys during the 2000s. To overcome this problem, we use two measures:

- the income measure adopted by the ABS in 2005-06 that was similar to those used in previous years and continues to be updated; and
- the most up-to-date measure adopted by the ABS from 2007-08.<sup>10</sup> This latest measure (which accounts for such factors as employee fringe benefits) is the one we used in Table 2 above to measure poverty in 2017-18.<sup>11</sup>

### 3.1 Trends in poverty rates among all people

Figure 2 shows changes in the rate of poverty among all people from 1999 to 2017, based on the (older) income measure used by the ABS in 2005-06 (blue line). For completeness, the red line shows the (higher) poverty rates derived from the newer 2007-08 ABS income measure.

Broadly speaking, poverty declined in the early 2000s, rose in the boom years up to the GFC, declined sharply around 2009, and then stabilised.

The proportion of people in poverty fluctuated in a band between 11.5% and 14.5% from 1999 to 2017. Poverty declined substantially from 13.1% in 1999 to 11.5% in 2003, then rose sharply during the boom years to 14.4% in 2007. Following the GFC in 2008 and a pension increase in 2009, it fell to 12.6%, then rose modestly to 13.1% in 2017.<sup>12</sup>

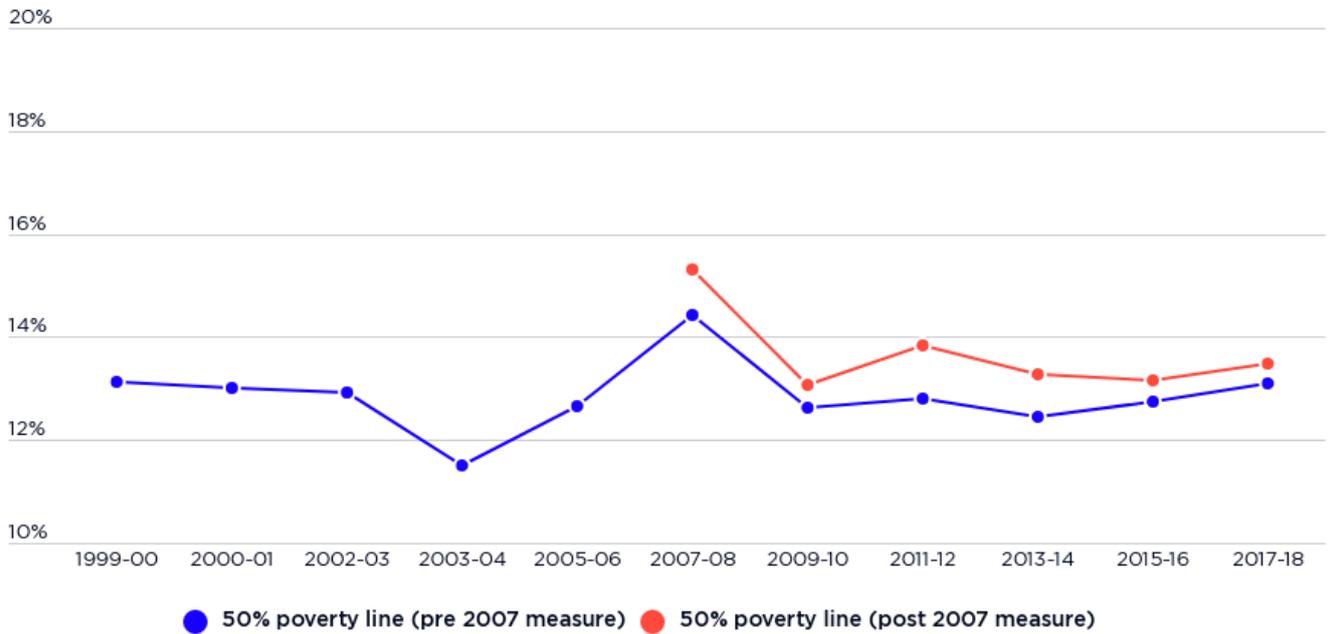
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<sup>10</sup> The [Methodology Page](http://povertuyandinequality.acoss.org.au/methodology) explains the method used, at <http://povertuyandinequality.acoss.org.au/methodology>. For discussion of these measurement challenges, see Wilkins (2010) Evaluating the Evidence on Income Inequality in Australia in the 2000s Economic Record, Vol 90, No 288, pp 63-89; and Saunders P, Bradbury B & Wong M (2016), Poverty in Australia since the financial crisis: the role of housing costs, income growth and unemployment, Journal of Poverty and Social Justice, Vol 24, No 2, pp 97-112.

<sup>11</sup> As a result, the poverty lines (and poverty rates) in the above (static) analysis of poverty in 2017-18 are higher than those reported in the trend analysis.

<sup>12</sup> To facilitate comparisons over time, the trend data are calculated differently to the figures for 2017 cited in Chapter 1, Using the latest ABS income definition, poverty rose slightly from 13.2% in 2015 to 13.5% in 2017.

**Figure 2: Percentage of all people in poverty from 1999-2017 (50% of median income poverty line, after-housing costs)**



Note: The poverty line used is 50% of median income, taking account of housing costs. The lower line shows poverty rates measured using the pre-2007 income definition, while the higher line is based on the post 2007 income definition.

### 3.2 Main drivers of trends in overall poverty

Since the poverty line we use in this report is benchmarked against median household disposable income, changes in this ‘middle’ income level affect measured poverty rates.<sup>13</sup>

Changes in the incomes of low-income households, including the level of social security payments and unemployment rates, have a more direct impact on poverty.

Since we take account of housing costs when measuring poverty (by deducting people’s housing costs from their incomes), changes in housing costs - especially for people with low incomes - also affect poverty rates.

We discuss each of these factors in turn.

<sup>13</sup> This is consistent with the conventional ‘relative’ view of poverty: that it is best measured in comparison to the living standards and expectations of the broader community at a given point in time. (Saunders P & Naidoo Y 2018, Mapping the Australian poverty profile: A multidimensional deprivation approach, Australian Economic Review, Vol 51, No3, pp1-15).

### 3.3 The effect of trends in median incomes

Figure 3 shows that median household disposable incomes rose sharply from 1999 to the GFC in 2007-08 (especially from 2003-2007), and then grew much more slowly. The contrast is striking: from 1999 to 2007 median household incomes grew by an average of 4% a year and from 2007 to 2017 they grew by just 0.5% a year. This is consistent with the economic boom conditions prevailing in the first period, and the slow-down in growth in Gross Domestic Product (GDP) and household incomes after 2008.<sup>14</sup>



Photo by Nathan Anderson on Unsplash

<sup>14</sup> A key contributing factor to slower growth in median household incomes is sluggish wage growth since the GFC (Treasury 2017, Analysis of wage growth, Canberra). For more detailed analysis of these income trends, see Davidson P et al (2018), Inequality in Australia, Australian Council of Social Service and UNSW Sydney.

**Figure 3: Trends in median household disposable incomes, before and after deducting housing costs (in constant 2017-18 dollars per week).**



Note: Incomes include social security payments and tax, and are adjusted downwards for household size (equivalised). Due to the adjustment for household size, the median values are much lower than actual median household disposable incomes.

Pre and post 2007 definition refers to the income definitions used by ABS (which increased measured incomes after 2007).

'After-housing costs' are derived by deducting median housing costs from median household disposable incomes.

All incomes are adjusted for inflation, to 2017-18 dollars per week.

Where people on the lowest incomes fall behind as wider community incomes grow strongly, poverty is likely to increase. This was the case during the boom period from 2003 to 2007. The sharp rise in median incomes (against which the poverty line is benchmarked) was not accompanied by an equally strong increase in the lowest incomes. It does not follow from this that poverty cannot be reduced when incomes generally are 'booming'. This depends on the extent to which growth in incomes is widely shared. For example, the incomes of those below the poverty line could rise more rapidly than the median due to reductions in unemployment and/or increases in social security payments.

On the other hand, weak income growth such as that experienced in Australia since 2007 can lead to a reduction in poverty as measured here, by slowing increases in the poverty line. Again, this is not inevitable: in the event of a recession, unemployment would rise substantially and this is likely to reduce the incomes of low-income households relative to the median household, increasing poverty. The period since 2007 is unusual in that years of below-average growth were not accompanied by a recession or a large rise in unemployment.

The key factor in both cases is the extent to which those below the poverty line share in the income growth of households generally. Strong growth in incomes that is widely shared is clearly a better outcome than the weak income growth across the board we have seen since the GFC.

### 3.4 The effect of trends in social security payment rates

Social security policies clearly have an impact on poverty, for better or for worse. As discussed previously, in 2018 most major income support payments are below the poverty line, so to escape poverty people needed to supplement or replace them with private income from other sources.

Figure 4 compares trends in maximum pension and Newstart Allowance rates and poverty lines from 1999 to 2018.<sup>15</sup>

It shows that while Newstart Allowance for singles was consistently well below the poverty line, it was above the line for couples up until 2004. This reflects an historical legacy: unlike payments for singles, unemployment payments for couples were tied to the pension rate until 1998.

In contrast, pension rates for both singles and couples have closely tracked poverty lines. One reason for this is that pensions are indexed in line with both movements in prices and wages (whichever is larger).

The impact of the \$32pw increase in the single pension rate in 2009 is clearly visible, lifting that payment close to the poverty line in 2010. It rose above the poverty line in 2014, then fell back towards it in 2018.<sup>16</sup>

The couple pension rate was above the poverty line up to 2006, fell below it from 2006 to 2012, then rose slightly above it up to 2018.

## MARIA'S\* STORY

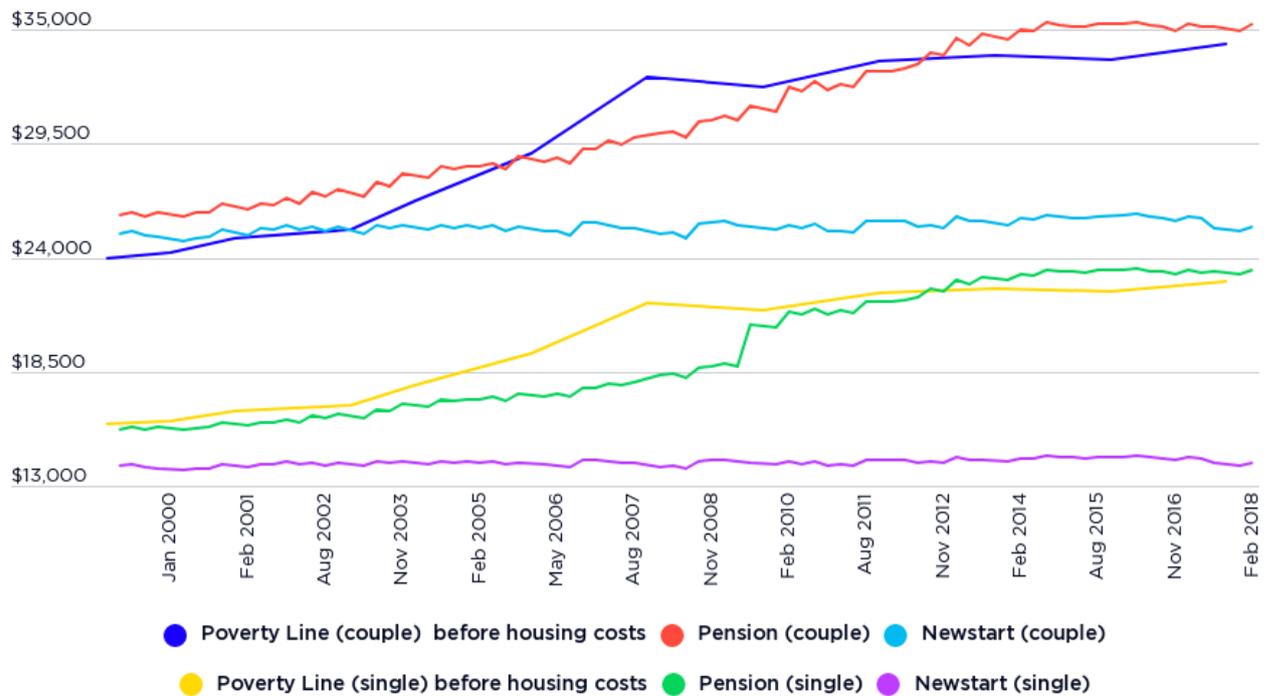
“I spent 6 months in hospital last year and resigned my job as if and when I can return to work is uncertain. I suffer chronic pain and am no longer able to drive. Nor is it safe for me to take public transport. And you certainly can't afford taxis. My medical problems are numerous but I've been told I don't qualify for disability. My son had had to stop work in order to take me to appointments (like physio) - although now Centrelink says he can't do that anymore. We have applied for carer allowance for him but have been knocked back even for that. We are fortunate that we are in community housing but even so we are only just keeping our heads above water. Every shopping day is stressful. No haircuts. I have to buy expensive shoes because of nerve damage. I can't get to see the specialist I need to because the wait list is a year and I can't afford to go private. I'm thankful for what I have but it's so hard for us both. The depression and anxiety I feel is worse knowing that I have nothing to fall back on if things go wrong again. I rely on the kindness of friends. Our [life] shouldn't be this tough. And I know there are many more with stories as bad or worse than mine.”

\*name has been changed

<sup>15</sup> Unlike in Table 3 above, Rent Assistance is not added to Newstart Allowance, and the poverty line used is based on the (lower) pre-2007 ABS definition. This means that the gaps between these payments and poverty lines are generally smaller than in Table 3.

<sup>16</sup> Table 3 showed that, based on the latest ABS income measure, pension rates were slightly below the poverty line in March 2018.

**Figure 4: Comparison of poverty lines with pension and Newstart payments for singles and couples without children (in 2017-18 dollars per annum).**



Note: These data were collected at irregular times (for example sometimes annually and sometimes biennially).

Poverty line is 50% of median income (before housing costs) using the pre 2007 ABS income definition (so slightly lower than in Table 1).

To simplify, neither Newstart Allowance nor pensions include Rent Assistance (unlike Table 3).

Annual payment levels are expressed in constant 2017-18 dollars (adjusted for inflation).

### 3.5 The effect of trends in housing costs

By comparing trends in poverty before and after deducting housing costs from income (Figure 5), we can gauge the impact of trends in housing costs on poverty.

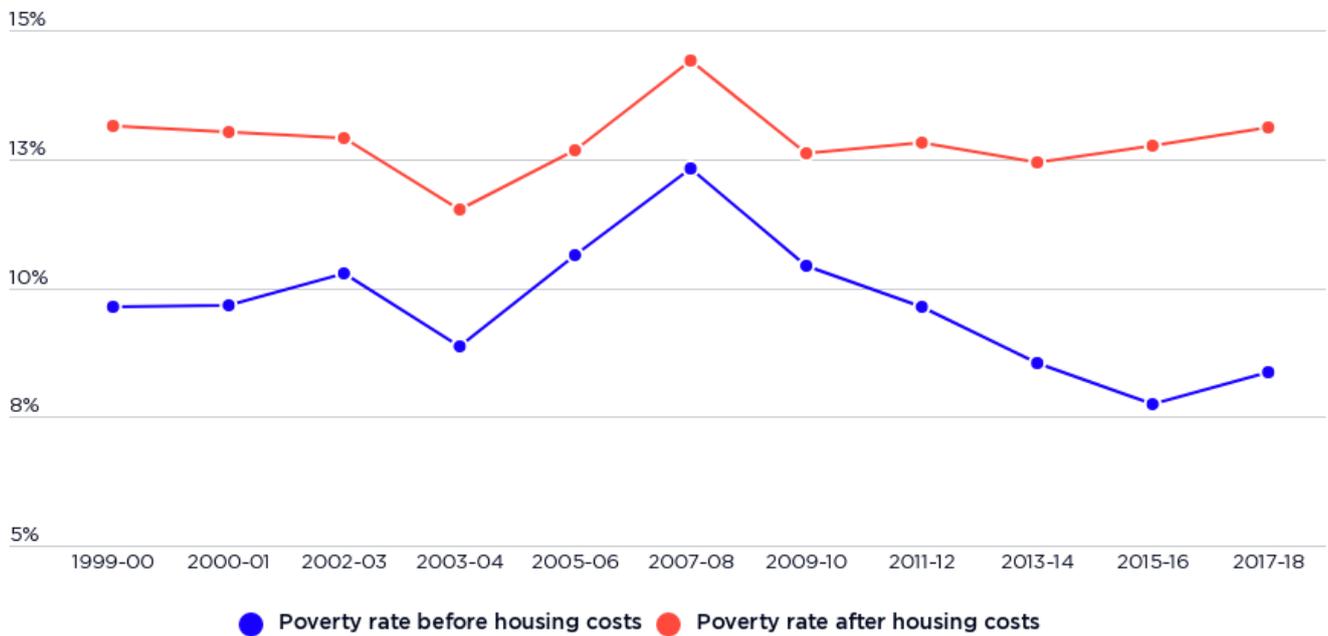
The difference in poverty rates measured using these two poverty lines shrank from 3.5 percentage points in 1999 to 2.1 percentage points in 2007. This suggests that the increase in poverty during that period was mainly due to greater disparities between low and middle-incomes, rather than changes in housing costs.

After 2007, this pattern was reversed. The difference in poverty rates measured using the two poverty lines grew from 2.1 percentage points in 2007 to 4.7 percentage points in 2017. This suggests that the stabilisation of poverty rates after 2007 when housing costs were deducted from incomes (red line - top) was mainly due to increasing disparities in the housing costs of low and middle

income households. As shown by the blue (lower) line, poverty declined over this period when measured before deducting housing costs.

So, increasing disparities in housing costs played a major role in keeping the overall poverty rate at around 12-13% from 2009 to 2017, when it would otherwise have declined. As explained below, average housing costs grew strongly overall, and grew more rapidly among people with low incomes than middle income-earners.

**Figure 5: Comparison of poverty rates measured before- and after-housing costs (50% of median income poverty lines, 1999-2017)**



Note: Percentage of people below 50% of median income poverty line, before- and after-housing costs, using pre 2007 ABS income definition.

Figure 6 shows trends in average housing costs for people of different ages in the lowest and middle 20% of households by income (adjusted for family size).

Consistent with the above analysis, housing costs grew strongly from 2005 to 2017, especially among the lowest 20% of working-age households by income.

From 2005 to 2017, average housing costs for the lowest 20% of working-age households (under 65 years) grew more than twice as fast as those of the middle 20% (by 42% compared 15%).

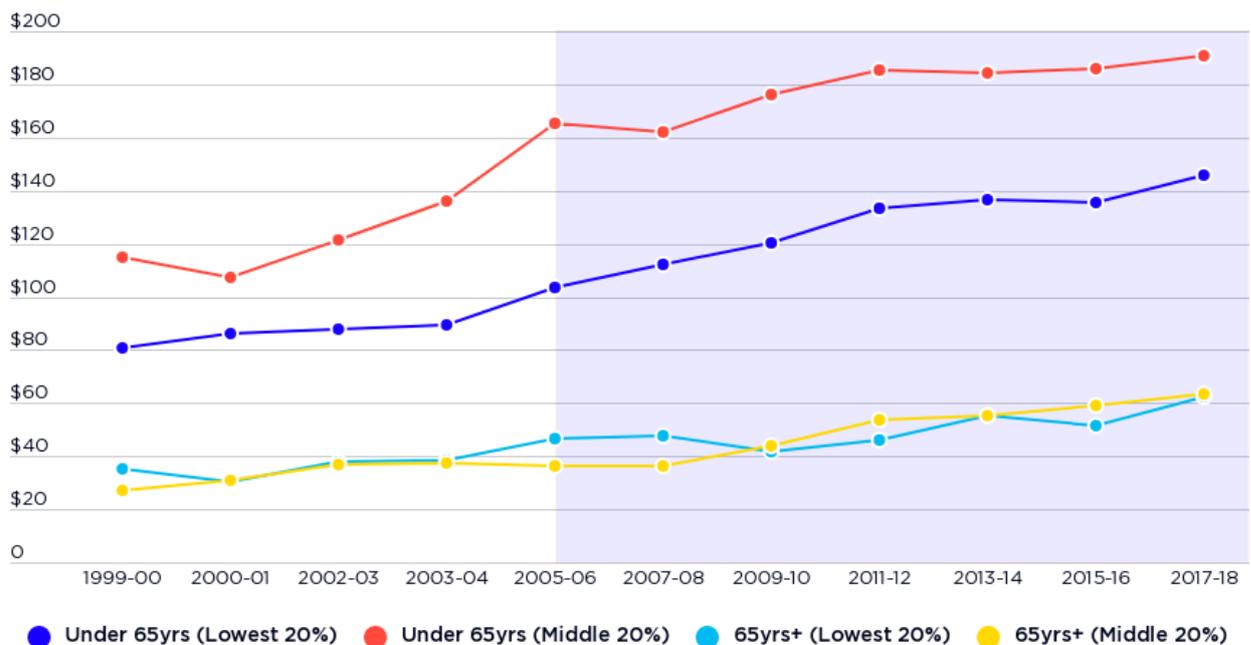
Among the lowest 20% of working age households, average housing costs rose from \$103pw to \$146pw.<sup>17</sup> Average housing costs for the middle 20% rose from \$166pw to \$191pw.

<sup>17</sup> These housing costs are adjusted downwards (equivalised) for households larger than one person, so the values are generally much lower than actual rents and mortgages. These average values are also reduced to the extent that people own their homes outright.

Possible contributing factors for this disparity include higher rent increases for low-income households of working age and rapid growth in the share of renters among that group.<sup>18</sup> Among people under 65 years, the proportion renting their homes privately rose from 21% in 2005 to 29% in 2017.

In contrast, among older people average housing costs for the middle 20% grew more than twice as fast as those of the lowest 20% (75% compared with 32%), but this was from a much lower base so had less impact on poverty rates (on average older people have much lower housing costs). Among the lowest 20% of older people, average housing costs grew from \$47pw to \$62pw, compared with a rise from \$36pw to \$63pw for the middle 20%. A possible contributing factor to the large increase in housing costs for older middle income-earners was a decline in the share of outright home-owners among that group.<sup>19</sup> The proportion of older people renting privately rose from 5% in 2005 to 7% in 2017.

**Figure 6: Housing costs of lowest 20% compared with middle 20%, among people aged under 65 years and 65 years and over (in 2017-18 dollars per week)**



Note: Average housing costs for the lowest and middle 20% of households, ranked by equivalent disposable income. Housing costs include rents and mortgages, and these average amounts include the much lower costs of those who own their home outright.

Costs are adjusted for inflation and expressed in 2017-18 dollars.

These housing costs are adjusted downwards (equivalised) for households larger than one person, so the values are generally much lower than actual rents and mortgages.

<sup>18</sup> Yates J, Ong R & Bradbury B (2016), Housing as the fourth pillar of Australia's retirement income system, discussion paper, prepared for the CSRI Roundtable, 6-7 April 2016. <https://cfsri.files.wordpress.com/2015/09/yates-ong-bradbury-csri-work-stream-1-discussion-paper-5-aug.pdf>  
<sup>19</sup> Yates J et al (2016), *ibid.*



## 4. Trends in poverty among children

The trend in child poverty from 1999 to 2017 was similar to that for overall poverty, except that child poverty was consistently higher, and did not rise as rapidly in the pre-2008 boom or fall as sharply afterwards.

### 4.1 Trends in poverty rates among children

Figure 7 shows that poverty among children moved within a higher band between 14.3% and 18.6% (three to five percentage points higher than 'overall' poverty as shown in Figure 2). Along with overall poverty rates, child poverty declined substantially from 1999 to 2003 (from 18.6% to 14.3%), then rose to 18.1% in 2007. It fell to 16.4% in 2013-14, then rose to 16.9% in 2017.<sup>20</sup>

**Figure 7: Percentage of all children in poverty from 1999-2017 (50% of median income poverty line, after-housing costs)**



Note: The poverty line used is 50% of median income, taking account of housing costs. The lower (blue) line shows poverty rates measured using the pre-2007 income definition, while the higher (red) line is based on the post-2007 income definition.

<sup>20</sup> These figures are based on the pre-2018 ABS income definition (continuous line in graph). For this reason, the poverty rate in 2017 is different to that reported in Table 2. Using the same method applied to the data in Table 2, child poverty rose slightly from 17.2% in 2015 to 17.5% in 2017.

## 4.2 Main drivers of trends in poverty among children

Trends in child poverty were influenced by the same factors as overall poverty, but the following were likely to be especially influential:

- The transfer of approximately 20,000 sole parents whose youngest children were 8 to 15 years old from Parenting Payment to the lower Newstart Allowance each year after 2007, together with an extra 80,000 in 2013 (when previous 'grandfathering' arrangements were removed) likely increased poverty rates among affected families.<sup>21</sup>
- Further, sole parents receiving Parenting Payment and Newstart Allowance did not benefit from the \$32pw increase in pensions in 2009 (which reduced poverty among older people in that year).<sup>22</sup>
- Also from 2009, Family Tax Benefits (FTB) for low-income families were indexed to consumer prices only rather than movements in pension rates and wages. FTB payments were then temporarily frozen (in absolute terms) in 2015.<sup>23</sup>
- These changes, which reversed the Hawke government's policy to reduce child poverty by indexing family payments to wage movements, are likely to have increased child poverty.
- On the other hand, a steady increase in employment among both sole and partnered mothers (a trend which pre-dated and was not due to the transfer of mothers to Newstart Allowance) was likely to reduce child poverty.<sup>24</sup>

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21 From 2009 to 2014, poverty among sole parents relying on income support whose youngest child was 10-14 years old (those affected by the policy) rose from 47% to 66%, while poverty among those whose youngest child was 0-4 years (not affected by the policy) declined slightly from 59% to 58% (Bradbury B (2019), op cit). See also ACOSS (2012), Submission to the Senate Community Affairs Committee regarding the Social Security Amendment (Fair Incentives to Work) Bill (2012).

[http://acoss.org.au/images/uploads/ACOSS\\_2012\\_sole\\_parents\\_submission.docx](http://acoss.org.au/images/uploads/ACOSS_2012_sole_parents_submission.docx)

22 This helps explain why child poverty did not fall as sharply as overall poverty after 2009. Saunders P & Wong M (2011), Using deprivation to assess the adequacy of Australian social security payments, *Journal of Poverty and Social Justice*, Vol 19 No 2, pp99-101.

23 ACOSS (2013), Back to basics - simplifying Australia's family payments system to tackle child poverty.

[https://www.acoss.org.au/wp-content/uploads/2015/06/Back\\_to\\_Basics\\_ACOSS\\_August\\_2013.pdf](https://www.acoss.org.au/wp-content/uploads/2015/06/Back_to_Basics_ACOSS_August_2013.pdf)

24 The proportion of sole parents (with youngest child aged 8-11 years) in employment rose from 57% in 2001 to 66% in 2016. The proportion of partnered mothers employed rose from 71% to 77%. Bradbury B (2019), op cit; Davidson P & Whiteford P (2014), An overview of Australia's system of income support and employment assistance for the unemployed. OECD Social Employment and Migration Working Paper No 129, Paris.

## 5. Trends in poverty gaps

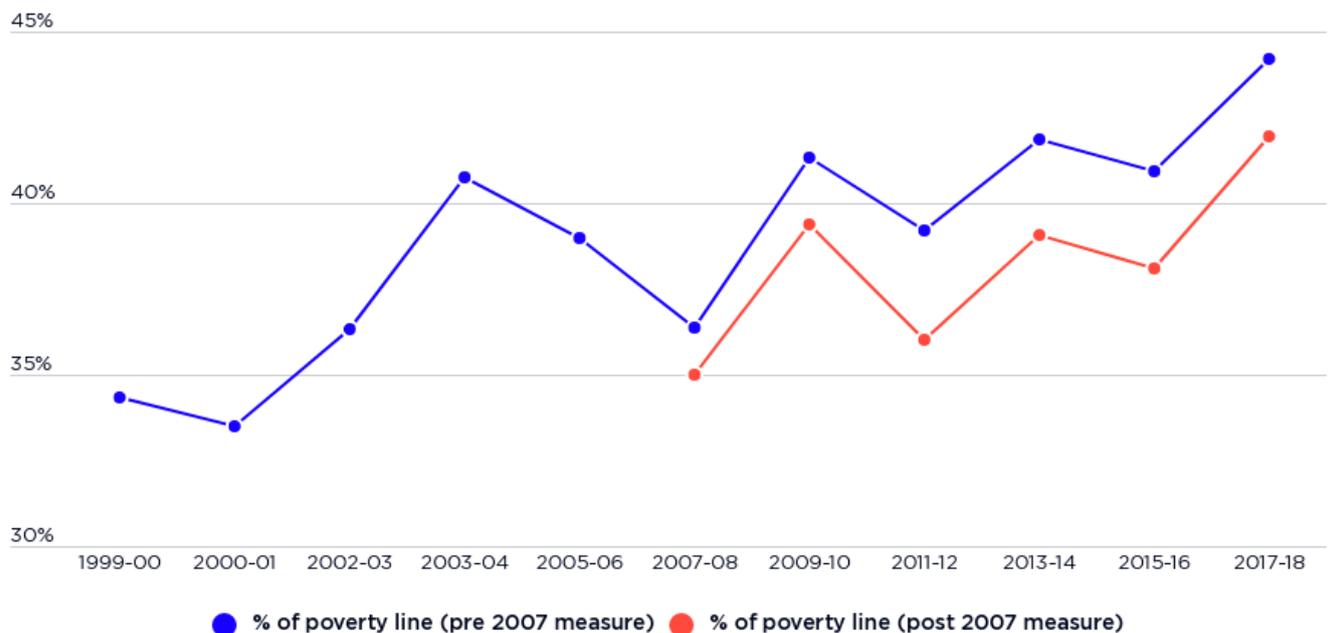
The poverty gap is measured here in two ways: as a percentage of the 50% of median income poverty line (Figure 8), and in constant (adjusted for inflation to 2017-18 values) dollars per week (Figure 9).

Figure 8 shows that the average gap between the household incomes of those in poverty and the poverty line rose from 34.3% of the poverty line in 1999 to 40.8% in 2003, fell in the boom years to 36.3% in 2007, then rose in sawtooth fashion to 44.2% in 2017.

Broadly speaking, this is the opposite pattern to the trends in poverty rates shown in Figure 2. This reflects the changing composition of households below the poverty line. For example, a growing number of older people fell below the poverty line during the boom years from 2003 to 2007, but (relative to others in poverty such as people on Newstart Allowance) their average incomes were not as far below the line.<sup>25</sup> The 2009 pension increase lifted many older people above the poverty line, increasing the share of people below the line with much lower incomes.

This illustrates the need to examine poverty rates and poverty gaps together to gain a full picture of both the level and depth of poverty.

**Figure 8: Average poverty gap for all households in poverty from 1999 to 2017 (as a % of the 50% of median income poverty line, after-housing costs)**



Note: Average gap between the poverty line and the household disposable incomes of people living below it, expressed as a percentage of the poverty line. The higher (blue) line shows poverty gaps measured using the pre-2007 income definition, while the lower (red) line is based on the post 2007 income definition.

25 Davidson P et al (2018), op cit.

Figure 9 shows the average poverty gap for all people living below the poverty line, in dollars per week. These figures are indexed for inflation and are expressed in constant 2017-18 values. They are not adjusted for household size, so the average poverty gaps are boosted by the bigger gaps for larger households.

Figure 9 confirms that average poverty gaps increased after 2007, for the reasons explained above.

**Figure 9: Average poverty gap for all households in poverty from 1999 to 2017 (\$2017-18 per week, using the 50% of median income poverty line after housing costs)**



Note: Average gap between the poverty line and the household disposable incomes of people living below it, expressed in 2017-18 dollars per week (not equivalised). The higher (blue) line shows poverty gaps measured using the pre-2007 income definition, while the lower (red) line is based on the post 2007 income definition.





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