5 September 2012

Senator Back
Chair
Senate Education, Employment and Workplace Relations References Committee
Parliament House
Canberra ACT 2600

Dear Senator

Re: Inquiry into the adequacy of allowance payments

Thank you for the opportunity to appear before the Committee for this Inquiry on 28 August. I am writing to follow up a number of issues raised by Senators on the day.

Attached are two reports we indicated we would send to you:

- The research report by Saunders and Wong that examined deprivation among people on different social security payments;
- Our submission to a recent inquiry into administrative 'red tape' in employment services which explores a number of problems and options for reform in the Job Services Australia system.

I also attach a report we prepared in advance of this year's Budget entitled 'Waste not, want not'. This report, which was also tabled at the Legislation Committee's concurrent inquiry into the 'Fair Work Incentives' Bill, examines options to raise revenue and reduce expenditure in order to restore a Budget surplus and finance expenditures such as necessary improvements to social security payments.

We shall prepare a separate more detailed response to Senator Siewert's questions, which we received today. However I would like to foreshadow our response to one key issue the Senator raised which we didn't cover in the hearing: the role of supplementary payments such as Family Tax Benefit and Rent Assistance in the 'package' of income support payments for unemployed people and students.

Some have argued that the circumstances of people relying on allowance payments are not as bleak as we have presented, because they also receive supplementary payments. In response, I would like to raise three points.

First, recipients of allowance payments do not receive all of the supplements: they do not, for example receive the $30 per week Pension Supplement or the $10 per week Utility Allowance and ordinarily do not receive the $31 Pensioner Education Supplement. As they also face many of the same expenses as pensioners including rising power bills and the costs of participating in courses, this is inequitable. It also means that the gaps between pension and allowance payments are often wider than indicated when we compare the base rates alone.

Second, the supplements are only paid to people who face special additional costs. That is their purpose: not to meet the basic living costs that are common to all people on income support payments (which is of courses the purpose of ‘base rate’ income support payments). Therefore, recipients of supplementary payments are often financially worse off than those without supplements. For example, the Departmental submission indicates in table 19 that 62% of NSA recipients are in ‘rental stress’ (that is, they pay more than 30% of their income on rent). One reason for this is that the maximum rate of Rent Assistance for a single person is around $60 per week, well below typical rent levels. So people receiving Rent Assistance are likely to be *more* financially stressed than those who are not eligible for it. Similarly, allowance recipients with children *need* the extra income they obtain from Family Tax Benefit to attain a similar living standard to that of a person without children, because children are costly. Much of the media discussion of supplements implies that are ‘bonus’ payments that raise people’s living standards relative to those without supplementary payments. In our view this is very misleading.

Third, care should be taken when assessing the impact of supplementary payments on work incentives. For example, Figures 33 to 35 in the Departmental submission suggest that the overall ‘package’ of income support available to many families with children exceeds the minimum wage. This ignores the fact that Family Tax Benefit extends in full to families on a single fulltime minimum wage. It follows that when we compare the disposable incomes of low-income families on and off income support, Family Tax Benefit should therefore be included on both sides of the comparison. When this is done, as in table 10 of our submission (which used OECD data) we find that families with children on income support with no earnings typically receive up to two thirds of the disposable income of the same family on a low fulltime wage (including family payments and rent assistance). This is an important point because it counters the myth that families are financially better off relying fully on income support than securing a low paid fulltime job.

Should the Committee have further queries, we are happy to respond to them.

Yours sincerely

Cassandra Goldie
Chief Executive Officer
Australian Council of Social Service

Towards more efficient and responsive employment services: submission to APESAA

ACOSS Paper 184

Australian Council of Social Service

Locked Bag 4777, Strawberry Hills, NSW, 2012. T (02) 9310 6200 F (02) 9310 4822

info@acoss.org.au www.acoss.org.au

This submission was prepared by ACOSS Senior Policy Officer Peter Davidson in consultation with Employment policy advisers.

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Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Email: info@acoss.org.au
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Contents

Summary

ACOSS welcomes the opportunity to make a submission to this important inquiry on how Job Services Australia (JSA) and Disability Employment Services (DES) purchasing arrangements can be streamlined to reduce red tape and improve the responsiveness of these systems to jobseeker and employer circumstances and needs.

As these issues are complex and interaction among experts is more likely than a series of individual submissions to identify commonly perceived problems and solutions, we recommend that the Panel convene roundtables in the first quarter of 2012 to explore these issues in greater depth together with a range of stakeholders, and would be pleased to participate in further discussions with the Panel.

This submission focusses primarily on JSA, though many of the comments apply equally to the DES system. We do not, however, support the integration of the two systems, at least at this stage, as there is a risk that the benefits of specialisation in disability employment services would be lost.

The challenge for employment services

Employment services today are working with a growing proportion of income support recipients that remain unemployed long-term, or are at risk of prolonged unemployment:

- One out of every two Newstart Allowance recipients had received the payment for over 12 months;
- One out of three was aged over 44;
- One out of six had a partial work capacity.
- More than two out of five had less than Year 12 qualifications.[1]

These jobseekers are likely to need one or more of the following:

- intensive case management,
- vocational or basic skills training,
- work experience in regular employment,
- integrated service provision from a range of employment, health and social support services.

The challenge for providers is to invest in the most effective assistance for each jobseeker without over-investing, and the challenge for Governments is to design an employment services system that gives providers the resources and incentives to do so.

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[1] ACOSS (2011), *Beyond stereotypes*. Data on qualifications are for 2006 and are drawn from Cai L et al (2007), *Human capital and patterns of employment and welfare receipt*, Melbourne Institute Report 08/2007.

Weaknesses of the present system

In theory, programs such as the Job Network and JSA that are contracted out to non-Government providers and funded to outcomes are more innovative, responsive to consumers, and cost effective than programs in which providers are funded to offer fixed service inputs. In practice, while providers have been responsive to signals from the purchaser to achieve quick employment outcomes at a low cost, the drivers of responsiveness to the 'end' consumers – jobseekers and employers – are indirect and relatively weak.

In the Job Network, service innovation and responsiveness to consumers were blunted by requirements and incentives that encouraged providers to offer a standardised sequence of services aimed at placing jobseekers in the first available job at the lowest possible cost. Further, there was an increasing tendency for the purchaser to determine how services were offered and administrative burdens for providers were high.

The level of resources available to providers to assist the most disadvantaged jobseekers were typically well below what would be required to offer intensive, individually tailored services. The system was reasonably effective at keeping jobseekers active in the labour market but not at helping overcome barriers to employment.

These problems were acknowledged when the Job network was replaced by JSA, and the following improvements were made:

- greater targeting of assistance towards disadvantaged jobseekers in their first year of unemployment (including Stream 4 jobseekers who were previously assisted through the Personal Support program);
- more flexibility for providers to determine the timing and nature of periods of more intensive training, work experience or other activity. This was intended to support innovation and to keep jobseekers 'active' in a more productive way;
- measures to simplify administration, for example of the Employment Pathway Fund;
- a more open and collaborative relationship between the Department and providers[2].

However the system remains complex, over-engineered and under-resourced. Most disadvantaged jobseekers do not receive the individual help they need. There is still too much focus on short term employment outcomes and too little on long term intensive work with jobseekers and employers to ensure that jobs are sustained. As with Job Network, incentives embedded in the fee structure and performance management system of JSA still appear to drive providers towards a standardised model of service. The system does not fully engage and respond to the needs of its end consumers – jobseekers and employers.

[2] O'Connor B (2008), *The future of employment services in Australia*, Department of Education, Employment and Workplace Relations, Canberra

Options for reform

The Government has six levers available to it to improve the responsiveness of the employment service system to its end consumers and to change its culture from one of administering and complying with requirements to one of flexible, individual assistance for jobseekers and employers.

Under each of the following six headings, we present a set of options to overcome the problems identified above. Some are identified as 'major structural reforms' of the employment services system, the implications of which would have to be very carefully evaluated in consultation with providers, advocates and other experts. Others are labelled 'short to medium term reforms' which could readily be implemented, subject to consultation, in the 2015 contract round.

We emphasise that these are not formal recommendations – they are ideas for reform presented in the spirit of the current inquiry rather than firm policy proposals from ACOSS. Further, they are not presented as a 'package' of reforms. Each option has implications for other elements of the employment services system, so the packaging of reform would also have to be carefully considered.

1. Licensing and accreditation arrangements

Possible structural reforms:

- A licensing system could replace part of the regulation of service standards embedded in service contracts. Common elements of licensing regimes include a set of minimum service standards, a regulator (preferably independent of the organisation purchasing the service), and a fair, transparent and accessible formal complaints system.
- This could include a minimum qualification requirement for those providing direct services to jobseekers and employers.

2. Competition for business share

Possible short to medium-term reforms:

- Encourage jobseeker choice of provider by giving jobseekers more time to make the initial choice, allowing them to change provider (within limits) without having to justify this to DEEWR, and improving information about local providers through websites and seminars.
- Offer providers a more secure guarantee of business share (possibly through a system of 'preferred contractors, chosen on the basis of consistently above-average performance) while at the same time increasing business share tolerances to enhance choice for jobseekers.

Possible structural reforms:

- Attach funding to individual consumers (jobseekers, and possibly employers) and increase their ability to choose the service that best suits their needs by removing guaranteed business shares. This is the system that operates for child care services (for example) and was recommended for employment services by the Productivity Commission in 2002. Minimum service standards would be enforced through licensing arrangements and incentives to improve service performance would be strengthened by replacing the present system of payment for 'gross' outcomes with payment for 'net' outcomes (see 'payments for outcomes' below).

3. Payments for outcomes

Possible short to medium-term reforms:

- Extend the duration of employment outcomes that attract outcome payments, for example from three months and six months to six months and 12 months, to encourage greater emphasis on longer term, stable employment outcomes for jobseekers.
- Remove the distinction between provider assisted and brokered outcomes and simplify the outcome payments structure.

Possible structural reforms:

- Strengthen the role of outcome payments as incentives for providers by linking outcome payments to the star ratings system (paying to 'net' rather than 'gross' outcomes). Outcome payments could be substantially increased but then limited to outcomes above a minimum level – somewhat below the average outcome expected for a given category of jobseeker in each Employment Service Area. Ultimately, this could replace the current performance management system (see 'competition for business share', above), if this is considered desirable.

4. Collaboration between employment and other services to assist people with multiple needs

Possible short to medium-term reforms:

- To encourage partnerships between employment service and training providers to improve the qualifications and job prospects of low skilled jobseekers, introduce supplementary funding for employment service providers that collaborate with RTOs to improve the qualifications of low skilled jobseekers (including for those who are themselves RTOs) and for RTOs that work with employment service providers to deliver training and related supports that are more relevant to the needs of disadvantaged jobseekers (given the greater difficulty in improving the qualifications of this group).

Possible structural reforms:

- To encourage partnerships between employment service providers and local health and social support services to build pathways to jobs for people with multiple barriers to employment in disadvantaged localities, offer supplementary funding for employment services to work with relevant local health and social support services, and encourage State and Territory Governments to supplement the funding of those services for the same purpose.
- The Local Connections to Work program or a similar joint interview and assessment process at the local level could provide the gateway to these more comprehensive services for the minority of jobseekers with entrenched, multiple barriers to employment.

5. Service fees and the Employment Pathway Fund (EPF)

Possible short to medium-term reforms:

- Maintain some form of Employment Pathway Fund but further ease the administrative requirements surrounding it.
- Reduce the role of service fees in the payment structure for employment service providers and introduce greater flexibility into the sequencing of interviews with jobseekers.
- Allow providers to make greater use their own information technology platforms by reducing the level of detailed information that has to be input into the Department's system.

Possible structural reform:

- To facilitate jobseeker engagement with employment services, give disadvantaged jobseekers the option, under certain conditions, to choose how a portion of the EPF is spent by the provider. This is similar in principle to the Dutch system of Individual Reintegration Agreements.

6. Adequate, well-targeted investment in disadvantaged jobseekers.

Possible short to medium-term reforms:

- Absorb Stream 1 of JSA into the existing Stream 2
- Replace the Work Experience phase with a continuation of Stream 3 levels of assistance (service fees and Employment Pathway Fund credits) for each additional year of unemployment.

Possible structural reform:

- Administratively separate the provision of less intensive employment services for short term unemployed people assessed as ‘job ready’ from the more intensive services for those in higher streams and long term unemployed people. This could be done by providing services for a merged ‘Stream 1 and 2’ group of jobseekers through Centrelink, leaving JSA providers to specialise in assistance for disadvantaged jobseekers (Streams 3 and 4, and long term unemployed people).

1. The challenge: to reduce entrenched unemployment

The main objectives of these employment services are to increase the employment prospects of unemployed people and reduce reliance on public income support.

Most unemployed Australians on Newstart or Youth Allowances secure employment within three months of claiming benefits. This group needs limited help with job search. A substantial investment in employment assistance for this group would incur significant deadweight costs for Government.

The main challenge for employment services today is how best to assist the minority that remain unemployed long-term, or are at risk of doing so. Due to their longer payment durations, this group forms a majority of jobseekers on income support at any given point in time. Despite Australia's relatively low unemployment rate they face increasingly steep barriers to employment (see Figure 1). This is due to a selection effect - as unemployment has fallen employers have offered jobs more quickly to 'job ready' unemployed people leaving a relatively disadvantaged group on unemployment payments.

Last year, for example:

- Six out of every ten Newstart Allowance recipients had received the payment for over 12 months;
- One out of three was aged over 44;
- One out of six had a partial work capacity.
- More than two out of five had less than Year 12 qualifications.[3]

Many disadvantaged jobseekers live in areas with high and entrenched levels of unemployment. A significant minority (of unknown size) faces combinations or employment, health and personal barriers to employment that require sustained, intensive and integrated delivery of employment, health and social support services.[4]

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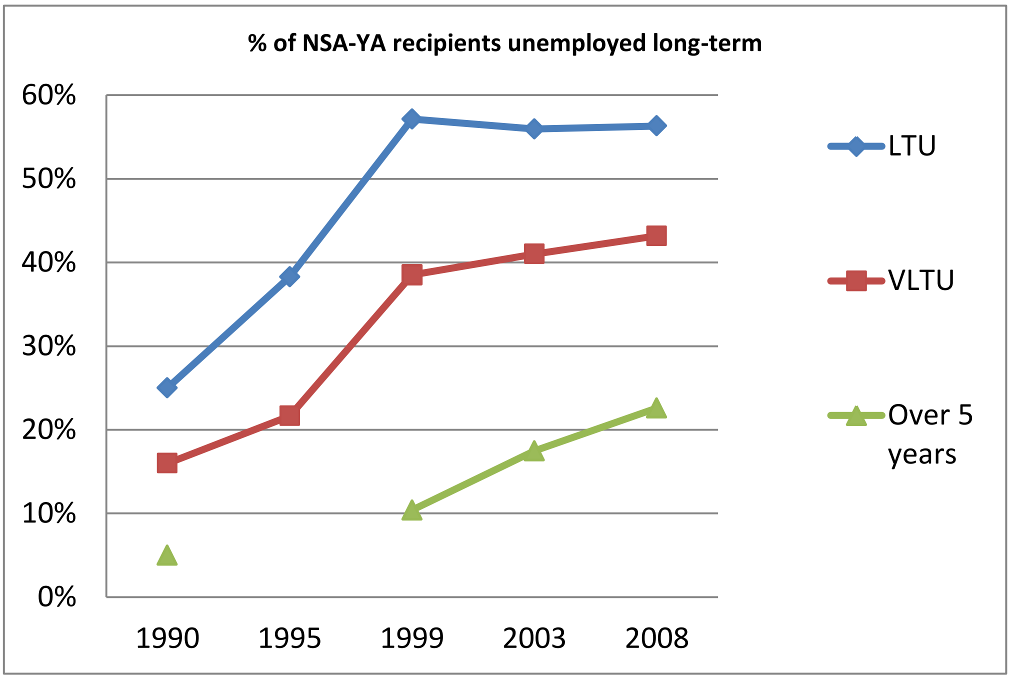
[3] ACOSS (2011), *Beyond stereotypes*. Data on qualifications are for 2006 and are drawn from Cai L et al (2007), *Human capital and patterns of employment and welfare receipt*, Melbourne Institute Report 08/2007.

[4] It cannot be assumed that this group equates with Stream 4 jobseekers.

Figure 1: The changing profile of Newstart and Youth Allowance (Other) recipients



Source: FaHCSIA (various years), *Income Support Customers, a statistical overview*.

The employment services system therefore needs to deliver substantial, individually tailored assistance to a large number of disadvantaged jobseekers – well beyond the target group for 'Stream 4' services. It also needs to provide basic job matching and job search assistance services for those unemployed people without identified barriers to employment, and to distinguish between these two groups to target levels of assistance according to need.

Figure 2 shows how jobseekers using JSA services through the year to March 2011 were distributed into different Streams, and compares their employment outcomes.[5] It shows that 35-40% of JSA clients were either in streams 3 or 4 or in work experience (that is, long term unemployed), and that their average employment outcomes were less than 40% compared with more than 50% for Stream 1 and 2 jobseekers.[6] The proportion of jobseekers in Work Experience can be expected to rise substantially by the end of this contract as more people complete their first year of JSA services.

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[5] This is a different statistic to the point-in-time estimates of NSA-YA recipients shown above.

[6] The proportion of Work Experience jobseekers who are not also in Streams 3 or 4 (and hence double-counted in this estimate) cannot be calculated from the data available; however we understand the majority are in Stream 3.

Figure 2: Employment outcomes of unemployed people using JSA services, through the year to March 2011

Service received	No of jobseekers	% employed 3 months after assistance
JSA Stream 1	502,000 (34%)	58%
JSA Stream 2	462,000 (31%)	54%
JSA Stream 3	338,000 (23%)	35%
JSA Stream 4	172,000 (12%)	25%
JSA Work experience*	168,000 (11%)	37%
All JSA	1,473,000 (100%)	49%
DES (Disability Employment Services)	109,000	35%

DEEWR (2011) Labour Market Assistance Outcomes, year ending June 2011 and Senate Education Employment and Workplace Relations Committee EW0711_12
Note that most employment outcomes are part-time so that many with employment outcomes are still on income support.
* Those undertaking a work experience activity are also counted within their Stream, above.
Note that many of those employed after assistance would have secured a job without the program, so this table does not measure the outcomes achieved by the program.

Although employment assistance does not typically make a big difference to employment outcomes for job-ready unemployed people, well-designed and targeted employment services for disadvantaged jobseekers can achieve a 10 percentage-point improvement in employment outcomes over the medium term (6 to 12 months), and can do so on a large scale.[7] Although at first blush this is a small impact, if it can be sustained for a number of years as unemployment falls and most do not return to income support, then employment assistance will greatly reduce unemployment and reliance on income support. Well designed, well targeted employment programs for disadvantaged jobseekers have substantial fiscal and social benefits. These extend well beyond reducing unemployment since long term unemployment has adverse social impacts, especially when it is concentrated within families and local communities.

[7] DEWR (2006a). 'Customised assistance, job search training, and work for the dole, a net impact study', Department of Employment and Workplace Relations; DEEWR (2010a), Labour market assistance, a net impact study; OECD (2005), Employment Outlook, Organisation for Economic Cooperation and Development, Paris.

While 'activation' (consistent engagement of jobseekers with the labour market) is a key prerequisite of effective employment assistance, long-term and disadvantaged jobseekers generally need more than activation and basic job search assistance to help them overcome their hurdles to employment.

They are likely to need one or more of the following:

- intensive case management,
- vocational or basic skills training,
- work experience in regular employment,
- integrated service provision from a range of employment, health and social support services.

Close collaboration with employers to assist these jobseekers to settle into a job, upgrade their skills, and, where necessary, to help the employer with supervision and job re-design, is also crucial in many cases.

Disadvantaged jobseekers need intensive, individually tailored assistance. The challenge for providers is to invest in the most effective assistance for each jobseeker without over-investing. The challenge for Governments is to design an employment services system that gives providers the resources and incentives to do so.

2. The outcomes-based employment services purchasing model: what has changed and what has stayed the same

In theory, contracting for employment services can improve the efficiency of services by removing them from the rules-based environment of Government service delivery, encouraging competition, increasing responsiveness to the needs of service users, containing costs, and creating more space for innovation. Further, by funding to outcomes rather than inputs, Governments theoretically give providers more scope to innovate and tailor services according to need.

Few employment service providers, consumers, advocates and expert commentators would argue that the present employment services system achieves these things. Compared with overseas systems, the Australian system has fostered competition and contained the cost of delivering a standardised service, but innovation and consumer responsiveness are limited.

A significant constraint on the system's responsiveness to jobseekers and employers is that it operates as a Government purchasing regime, not an employment services 'market' as it was once described. The key relationship is that between the Department and providers. Providers have been very responsive to signals from the purchaser to achieve quick employment outcomes at a low cost. However, the drivers of responsiveness to the 'end' consumers – jobseekers and employers – are indirect and relatively weak. Too often, their role is reduced to that of 'followers of rules' rather than active participants who influence or shape of the services provided. If the system is to be effective in assisting more disadvantaged jobseekers, its responsiveness to the 'end' consumers will have to improve.

There is no simple formula for the design of a cost effective employment services system for disadvantaged jobseekers – one that encourages intensive engagement with jobseekers and employers and efficient investment in each jobseeker. Since the establishment of the Job Network, Australia and other countries have experimented with different solutions as problems have emerged.

In particular, it soon became clear that the original 'black box' purchasing model for the Job Network, which paid providers a capitation fee for each new client and outcome fees once they secured a job, could lead to 'parking' of harder to place jobseekers. This reduced the program's effectiveness and was also contrary to Government 'activation' policies. The Active Participation Model (APM) introduced in 2003 sought to resolve this problem through the introduction of fee for service arrangements and a Job Seeker Account (now the Employment Pathway Fund), which providers could only use for a range of 'additional' services for jobseekers.

This shift towards greater Government direction of provider activity, together with an over-emphasis on the benefit compliance role of employment assistance, was the genesis of many of the 'red tape' problems that confronted the new Government when it designed JSA. However, a return to the 'black box' approach (which is now being pursued in the United Kingdom) would likely lead to a resurgence of 'parking' and make it more difficult for Government to ensure that providers are held accountable to deliver a quality service for all.

In the Job Network and JSA systems, the most powerful driver of provider investment in jobseekers is the performance management system (especially the 'star ratings') rather than outcome payments. In 2009-10, outcome payments comprised only 13% of Government expenditure on JSA, compared to 62% for service fees and 25% for the EPF.[8] The star ratings also have much greater impact on provider decision-making because they determine the survival of the outlet – whether it must tender to keep its business share and whether it loses it - rather than marginal changes in its level of funding.

One advantage of the star ratings over outcome payments as a driver of service improvement is that the former are based on the 'value-added' by the service (its net employment impact) rather than 'raw' employment and training outcomes.

A major problem with reliance on the performance management system to improve services is that the threat of a loss of business is a blunt instrument and the tender process is highly disruptive both for the system and for jobseekers and employers. A further potential problem is that, to the extent that the performance management system extends beyond 'star ratings' (an outcome measure) and also measures service inputs, the purchaser will determine the way in which the service is provided. This increases the red tape burden and may crimp innovation, reflecting the tension between outcomes-based purchasing and the purchase of specified services to ensure minimum standards and quality.

A further weakness of the Job Network was the inadequate resourcing of assistance for disadvantaged jobseekers. An individually-tailored service must be well resourced. A provider's 'freedom' to adapt services to individual needs depends on this as much as it relies on a lack of excessive regulation and 'red tape'. Official evaluations confirmed anecdotal impressions at the time that average levels of investment in vocational training, wage subsidies and other help to overcome barriers to employment were very low. On average only 25% of disadvantaged jobseekers receiving Customised Assistance (the highest level of assistance) received training and the average cost of training was just $350. Similarly, only 10% received subsidised employment and the average cost was $2,590.[9] To the extent that providers relied on the Job Seeker Account to fund these services, the

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[8] Senate Education, Employment and Workplace Relations Committee, EW0713_12. Note that this was a period of higher unemployment.

[9] DEWR (2006f), Jobseeker account evaluation, pp12, 20.

average investment in such services could not be much greater than $1,000 for each jobseeker – though providers had the flexibility to redistribute Job Seeker Account credits between jobseekers.

Significant changes introduced with JSA to deal with these problems were:

- greater targeting of assistance towards disadvantaged jobseekers in their first year of unemployment (including Stream 4 jobseekers who were previously assisted through the Personal Support Program);
- more flexibility for providers to determine the timing and nature of periods of more intensive training, work experience or other activity. This was intended to support innovation and to keep jobseekers 'active' in a more productive way;
- measures to simplify administration, for example of the Employment Pathway Fund;
- a more open and collaborative relationship between the Department and providers.

However, these changes also had downsides:

- Since the overall level of resources in the employment services system was reduced (JSA cost less than the programs it replaced), higher levels of support for jobseekers in their first year of unemployment came at the expense of lower levels of support for long term unemployed people and Stream 1 jobseekers;
- Employment Pathway Fund credits for long-term unemployed people in the Work Experience phase are generally much less than the Job Seeker Account credits available to assist jobseekers in Job Network 'Customised Assistance'. Work experience and training are thus poorly resourced in the Work Experience phase. While an additional $1,000 EPF credit will become available this year for providers to assist each very long term unemployed jobseeker, this one-off EPF credit must fund up to 11 months of 'activity' per year – an average of less than $100 for each month of intensive activity;
- The introduction of four streams of assistance and the distinction between provider assisted and brokered outcomes greatly increased the complexity of the system and its focus on identifying each jobseeker's 'barriers' as distinct from their employment potential.

It is clear that a high quality service cannot be assured through the present system of service and outcome fees, and Star Ratings alone. Anecdotally, JSA consultants have high caseloads and low qualifications, and devote considerable time to administrative activities. Notwithstanding efforts to reduce 'red tape' in the employment services system, it is unlikely that these factors have substantially changed since the introduction of JSA, as the basic structure of the employment services system remains unchanged.

Detailed data are not available for JSA but a survey of Job Network staff in 2008 by Considine and colleagues found that the average consultant caseload was 110 jobseekers and on average consultants saw 12 jobseekers per day. Among Job Network employees (not only consultants), 17% had worked in the sector for less than a year and 31% for more than five years. Among front-line staff, just under 30% had Year 12 qualifications or less, just over 30% had a vocational certificate, and around 15% had a degree or diploma. They typically allocated 45% of their time to jobseekers, 12% to employers and 25% to 'contract compliance' activities. Around 70% indicated (1 to 3 on a scale of 1 to 7) that their job was routine in nature.[10]

In an open market, consumers have a degree of influence over the quality of services provided. They can choose to go elsewhere. To a large extent, however, jobseekers are 'captive consumers' since they are required to participate in the system and it gives them very little opportunity to exercise effective choice of provider or to genuinely 'negotiate' the contacts of their Employment Pathway Plan. The system is designed to enforce behavioral requirements rather than to engage jobseekers as consumers.

This is illustrated by the lack of time given to jobseekers to make a considered choice of provider when they first apply at Centrelink for income support. The social security legislation requires that they register with a provider within two days. This was previously 14 days but it was shortened in order to 'rapidly connect' jobseekers with providers in the hope that some would abandon their benefit claims and others would find a job quickly. From the standpoint of efficient delivery of employment assistance to people who may need help over a long period of time, this is false economy. From the outset it sends the message to jobseekers that their relationship with providers is one of passive compliance rather than active engagement. This contributes to the number of 'no shows' at appointments with providers, which in turn generates more administrative and compliance activity and diverts providers from their role in helping people secure employment.

From the introduction of the Job Network to the establishment of JSA, the rate of attendance at provider interviews among disadvantaged jobseekers has rarely exceeded 70%. While this is due in part to unavoidable reasons such as illness or jobseekers obtaining employment, these attendance rates have prompted a good deal of policy effort to strengthen compliance arrangements, including the recent introduction of immediate payment suspensions for non attendance. Less effort has been devoted to reforms that make the employment services system more responsive to jobseekers - to convince them that interviews are worthwhile attending because the provider will offer practical assistance that improves their job prospects. The message often conveyed to jobseekers is 'you must attend' rather than 'you should attend because this will help you find a job'.

The distinction between provider assisted and brokered outcomes was intended to encourage providers to engage more with employers rather than rely on jobseekers to find employment themselves. Anecdotally, it has not had the intended effect. Intensive work with employers to encourage and assist them to employ disadvantaged jobseekers and to keep them on is the exception rather than the rule. Yet it is clear that if we are to make substantial progress in reducing unemployment among groups such as very long term

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[10] Considine et al 2008, *Activating states, transforming the delivery of welfare to work services in Australia the UK and Netherlands*, Australian report back to Industry partners, December 2008.

unemployed people, people with disabilities, mature age people with low skills, and Indigenous people, as much effort will have to be devoted to working with employers as to preparing jobseekers for employment.

Apart from the general incentives in the system to achieve employment outcomes (star ratings and outcome payments) there is no coherent system of incentives or resources to support collaboration between providers and other key services including training organisations and health and social support agencies. Providers were required to address these requirements in their tenders but it is difficult, and probably counter-productive, for the Department to ‘enforce’ such cooperation. It would be better to build incentives for such collaboration into the fee structure for providers and the funding arrangements for other training and support services, especially in deeply disadvantaged areas.

The above criticisms of the present employment services model are not directed at providers or their employees, who often ‘go the extra mile’ for jobseekers and employers despite the constraints of the model. They are directed at the factors that constrain them from doing their job properly, among which ‘red tape’ is a symptom of deeper problems.

3. Possible directions for reform

The Government has a number of levers available to it to improve the responsiveness of the employment service system to its end consumers and to change its culture from one of administering and complying with requirements to one of flexible, individual assistance for jobseekers and employers, including:

- licensing and accreditation arrangements;
- competition for business share;
- payments for outcomes;
- incentives for collaboration between employment and other services to assist people with multiple needs;
- service fees and the Employment Pathway Fund (EPF);
- adequate, well-targeted investment in disadvantaged jobseekers.

We respond to questions raised in the Discussion Paper below by discussing each of these 'levers' in turn. We present a series of options for reform rather than definite recommendations for change at this stage. Clearly, reform in any one of these areas would require adjustments elsewhere as they are an integrated system.

As a first step towards identifying changes that would make the system more responsive to jobseekers and employers, we suggest that the Government consult with focus groups of different segments of the jobseeker and employer populations to gauge their perceptions of the main strengths and weaknesses of the present employment services model and their priorities for reform. Focus groups would give people an opportunity to explore these issues in more depth than is possible in opinion surveys alone.

1. Licensing and accreditation arrangements

One of the most straightforward levers to improve service quality and responsiveness is a licensing system which imposes minimum service requirements for providers seeking to enter the market, or remain within it. These requirements are currently imposed through contracts with the purchaser rather than by legislative regulation. Legislative regulation would arguably introduce greater certainty and transparency into the system, provided it replaces the regulation of aspects of service delivery that already operates through contracts and does not simply add another layer of reporting and compliance requirements for providers.

Common elements of licensing regimes include a set of minimum service standards, a regulator (preferably independent of the organisation purchasing the service), and a fair, transparent and accessible formal complaints system.

An independent specialised regulator for employment services could improve transparency and help empower consumers, since the roles of purchaser and (quality) regulator would be separated. If an independent regulator were established, it should handle complaints from consumers and regularly publish reports on the quality and effectiveness of the system as a whole, and should have reasonable access to the administrative data and research capacity required for this task.

Beyond basic service standards such as those contained in the service guarantees, it would be counterproductive to undertake detailed regulation of the range of services provided to jobseekers and employers by individual providers – whether by the purchaser or an independent regulator. Minimum qualifications for staff, greater transparency in relation to the services provided, rewards for desirable outcomes, and empowerment of end consumers are likely to be more effective levers for service improvement than detailed audits of service delivery by the each provider.

Since the provision of employment services for disadvantaged jobseekers is complex work requiring substantial skills, a critical element of any licensing regime for employment services would be a minimum qualification requirement for those providing direct services to jobseekers and employers. These requirements apply to most professional services, from child care to health care and legal services. They are designed to ensure that the people providing the service are capable of providing a service to a professional standard.

Although, on the face of it, a requirement that consultants hold minimum formal qualifications is a blunt and intrusive instrument to improve service quality, it allows Governments to step back from regulating the detailed provision of the service since consumers can be more confident that a certain quality of service will be offered. In any event, an individually tailored service for disadvantaged jobseekers ('case management') requires front line staff who are capable of exercising substantial judgement and discretion - that is, professional employees. A professionalised workforce is also a force for service improvement in its own right.

Transparency is crucial to any effort to improve service quality and outcomes, including through empowerment of consumers. Whether or not a licensing system is introduced, providers should be required to give consumers and the public sufficient information to make their own assessment of the range of services they provide and how they are provided (the provider's service delivery strategy) – rather than relying exclusively on star ratings information and treating service provision as a 'black box'. For competition among providers to work to boost service standards, service users need to know what forms of assistance they can reasonably expect to receive from different providers.

It would also be worth exploring ways to encourage, or require, providers to share information on effective strategies to assist disadvantaged jobseekers to secure employment. While this would increase the risk that investment in new techniques would benefit competitors, it would help ensure that best practice is disseminated more widely and rapidly. At the least, funding for service innovation should be subject to the provider's willingness to share information and data on successful (and unsuccessful) methods, and the

Department should assist providers to evaluate new methods through experiments (for example using random assignment methods to measure the impact of a new approach).

Independent researchers should also be encouraged and supported to evaluate new techniques, for example by improving access to administrative databases and contracting them to undertake evaluations of experimental programs. For at least the past decade, the vast majority of evaluations of employment assistance in Australia have been conducted by the purchasing Department or researchers contracted by that body. While Departmental evaluations are generally of a high standard (and Australian Governments have assessed the effectiveness of new and existing employment programs more thoroughly and consistently than most OECD countries), service design and effectiveness could be improved if independent researchers and evaluators were more consistently involved in this field of research (as is the case in the United Kingdom, for example).

More detailed information should be provided on a regular basis on the profiles of employment service clients, the services they receive, and the outcomes attained. The regular Labour Market Assistance Outcomes publication is a good starting point, but the public and independent experts must await the publication of program evaluations (which may be publicly released some years after the reports were completed) to obtain more detailed data collected in 'real time' – for example on paid outcomes, expenditures of Employment Pathway Fund credits, and the average cost of assistance for different groups of jobseekers.

A further option to strengthen service standards is a voluntary system of 'higher level' accreditation above and beyond minimum standards (for example, along the lines of that applying to General Practice surgeries) to encourage providers to offer and market a higher standard of service. To some extent, the star ratings play this role though they do not directly measure service quality.

2. Competition for business share

The system of performance management (which has remained essentially unchanged since the Job Network) plays a critical role in the present employment services purchasing system. It is widely recognised that competition for business share is a stronger driver of performance than outcome payments. Performance management and tenders act as a substitute for competition among providers to attract jobseekers and employers, which is limited in the present system. Instead, providers compete to attract business share from the purchaser (the Government), mainly by improving their star ratings and/or tendering to provide services.

There is evidence to suggest that the maturation of a performance management system based on 'star ratings' and tenders significantly improved the efficiency of Job Network services (the average 'net employment impact' of employment assistance) in the late 1990s and early 2000s, though it is less clear whether it has promoted 'continuous improvement' since then.[11] Anecdotally, service innovation has been limited since the beginning of the third employment services contract (the APM model) in 2003.

On the other hand, the present performance management system has high transaction (administrative) costs for providers and the Department and 'full' tenders are very disruptive of services and service performance. For example, there were a clear 'dips' in the performance of the system during and immediately after the 2000 and 2003 tenders when large numbers of jobseekers had to transition from one provider to another and many new or expanding providers had to establish services from scratch[12].

The star ratings system which sits at the centre of the present performance management system appears on the whole to measure the relative performance of providers reasonably objectively and accurately. Its most significant weaknesses are those of outcomes based purchasing generally: the measurement of the 'employability' of a group of jobseekers will always be imprecise, and the system encourages providers to concentrate their efforts on those disadvantaged jobseekers (that is, individuals drawn from the groups attracting the highest outcome payments and star ratings weights) whom consultants believe are closest to employment (for example, those already strongly motivated to seek employment). Since provider resources are very limited (including for disadvantaged jobseekers), consultant caseloads are high, and the average net impact of services is not large (for example, up to a 10% improvement in the probability of employment in the short term), providers can best improve their star ratings by focusing on this sub-set of disadvantaged jobseekers and providing a limited service to others. While this may be an efficient strategy for individual providers, it is not consistent with Government policies to 'activate' and assist all disadvantaged jobseekers.

Given these weaknesses, there is a point beyond which the intensification of competition for business share through star ratings will yield diminish returns (in service quality and effectiveness). Incentives for providers to 'game' the system (for example, through the misuse of wage subsidies) also increase with the intensity of competition. To guard against

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[11] DEWRSB (2001), *Labour market assistance outcomes*, Year ending June 2001, Department of Employment, Workplace Relations and Small Business, Canberra; Productivity Commission (2002), *Report of the independent review of the Job Network*, Canberra; DEWR (2006a), *Customised assistance, job search training, and work for the dole, a net impact study*, Department of Employment and Workplace Relations, Canberra

[12] Australian National Audit Office (2005b), *Implementation of Job Network Employment Services Contract 3,* Canberra. While a large proportion of jobseekers in the employment services system also had to change providers after the 2009 tender, that transition process was better managed and it is difficult to compare the performance of the last iteration of the Job Network and the first JSA contract as the two programs are structured differently.

this and protect the public reputation of the program the Department must then intensify its monitoring of provider practices and adjust provider incentives (the rules of the game) repeatedly. This needlessly increases transaction costs and the extent of monitoring and regulation of provider activity.

An alternative way to structure competition among Government subsidised services, which was recommended for employment services by the Productivity Commission, is to attach funding to individual consumers (jobseekers, and possibly employers) and increase competition among providers to attract consumers by removing the system of guaranteed business shares.[13] Minimum service standards would be enforced through licensing arrangements. This is the system that operates for child care services, for example. Such a system is likely to improve provider responsiveness to jobseekers, though it may not accurately reward their contribution to employment outcomes achieved. For this reason, any move in this direction should be accompanied by a strengthening of the system of outcome payments (see discussion of this below).

An employment services system along these lines was implemented in Holland in the mid 2000s for unemployment insurance recipients: Individual Reintegration Agreements or IROs. IROs were offered to jobseekers as an option alongside standard reintegration services that offered standardised packages of training, wage subsidies and employment counseling to cohorts of jobseekers (provided by contracted non-government providers who were paid to outcomes). Jobseekers chose an IRO provider on the basis of the services they agreed to provide, up to a ceiling of 5,000 Euros. Their registration with the provider, and the service agreement itself, still had to be approved by the purchaser (the social insurance agency), so the purchaser still had an opportunity to assess whether the agreement was likely to work for each jobseeker. Initial evaluations suggested that IROs were at least 10% more effective in assisting jobseekers into employment, possibly due to a combination of motivation effects and greater provider responsiveness to the needs of jobseekers. IROs proved very popular among jobseekers and their introduction led initially to a large increase in new (mostly small) providers, though the market later consolidated.[14]

The present JSA system 'tolerates' jobseeker choice up to a degree and beyond this it imposes 'guaranteed' business shares. Since jobseekers are given a largely passive role in the system this is straightforward to administer because only a minority actively choose their provider. The objectives of this system of regulated competition include to build a degree of stability into funding for providers, to reward high performing providers with more business share, and to exclude weaker performers – though of course there is a tension between the first of these goals and the other two.

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[13] Productivity Commission (2002), *Report of the independent review of the Job Network*, Canberra

[14] Sol E, et al (2008) *Activation as a socioeconomic and legal concept – laboritorium the Netherlands*, in Eichhorst W, et al (2008), *Bringing the jobless into work*, Springer, Berlin.

While it increases the stability of the employment services system to a degree the system of guaranteed business shares is a key stumbling block to a more active role in the system for jobseekers (and possibly employers) as consumers. At the same time, the system of allocation of business shares through the performance management system and tenders can have a destabilising effect on services. Less frequent tenders, or a ‘longer’ guarantee of business share (for example through five year contracts), are not necessarily the best answer to this problem, as this would make it more difficult for Governments to make necessary adjustments to the system from time to time and to support continuous improvement in services, such as through the introduction of new providers.

If the more radical reform advocated by the Productivity Commission is not pursued, it would be worth exploring reforms that offer a more secure guarantee of business share for providers (perhaps at a lower level), while opening up more opportunities for jobseekers to choose their provider and to change providers if not satisfied with the service. The rolling over of business share for all but the lowest performing minority in the recent mid-term reallocation of business share was a good example of a practical compromise between raising performance through competition and stability in the employment services system. Another option which would have similar effects is a system of ‘preferred providers’, chosen on the basis of consistently above-average performance.

To strengthen jobseeker choice and competition among providers to attract jobseekers, at the least jobseekers should be given more time to make the initial choice, and permitted to change provider (within limits) without having to justify this to DEEWR. The flow of information to jobseekers about the services each local provider offers could be improved using official websites and seminars at Centrelink for new recipients of unemployment payments.

3. Payment for outcomes

Payment for outcomes can be a powerful lever to encourage efficient provider investment in jobseekers but its role has been reduced over the years in contrast to that of service fees, and has been overshadowed by performance management system.

The present employment services system uses the same data on employment outcomes achieved by providers in two different ways to prompt providers to improve their performance: it pays for employment outcomes and allocates business shares according to employment outcomes. These two performance improvement strategies overlap to a considerable degree, which suggests that it may be possible to combine them into a single process, and thereby reduce transactional costs and the service disruption arising from large scale tenders.

One option to strengthen the role of outcome payments and reduce reliance on the current performance management system (if this is considered desirable) would be to link outcome payments to the star ratings system. Outcome payments could be substantially increased but then limited to outcomes above a minimum level. This could be based upon (though somewhat lower than) either the projected level of outcomes that would be achieved without assistance, or average outcomes for jobseekers with similar characteristics in the same Employment Services Area. In addition to using its regression model to award star ratings, the Department could use it to award outcome payments. This may reduce the need to rely on the reallocation of business share as a performance improvement mechanism.

If the Productivity Commission's model of 'open competition' among licensed providers to attract jobseekers were implemented, it would be important (as discussed above) to strengthen the role of outcome payments in this or some other way as an inducement to improve performance.

A major advantage of paying to 'net' rather than 'gross' outcomes is that the 'deadweight cost' of outcome payments (the extent to which providers are rewarded for outcomes that would occur in the absence of employment assistance) would be reduced, which in turn would create room to increase outcome fees substantially.[15]

The main downsides of paying providers for 'net' employment outcomes rather than 'gross' outcomes include the difficulty of measuring 'net impacts' (or a reliable proxy) and the greater volatility of outcome payments that would result. If providers were paid only for the value they add to employment outcomes, and outcome fees were increased accordingly, then outcome payments would be much more sensitive to small variations in provider performance. Therefore, it is not clear whether replacing regular tenders for business share with a system of payment for net outcomes would stabilise the system. As with any system of performance management which relies on competition among providers, it is likely that it would replace one form of instability with another.

For these reasons, if such a system were introduced it would be sensible to experiment with systems of outcome payments that lie somewhere on the spectrum between full payment for 'gross' employment outcomes (the present system) and payments that are restricted to the estimated improvement in individual employment outcomes achieved by providers. For example, the minimum expected employment outcome above which providers are paid could, at least initially, be set at a level well below average outcomes achieved for a given category of jobseeker.

[15] For a discussion of options to improve the efficiency of outcome payments, see Tergeist P & Grubb D (2006), *Activation strategies and the performance of employment services in Germany, the Netherlands and the United Kingdom*, OECD Social Employment and Migration Working Paper 42, OECD, Paris.

Consideration should be given to extending the duration of employment outcomes that attract outcome payments, for example from three months and six months to six months and 12 months, to encourage greater emphasis on longer term, stable employment outcomes for jobseekers. The United Kingdom has recently extended the qualification period for employment outcome payments in order to encourage investment in strategies that improve outcomes over the longer term, such as training. For the same reason, consideration could also be given to limiting at least the first payment to a continuous period of employment with a single employer. While most short term employment outcomes (including casual jobs) are associated with longer term employment outcomes, these changes would encourage a longer term orientation towards employment assistance, and are also likely to encourage closer relationships with employers.

While they are potentially a powerful driver of service improvement, it is not possible to design a system of outcome payments that produces exactly the desired response from providers. 'Parking' and inappropriate use of wage subsidies (though when properly used, wage subsidies are an effective form of employment assistance) are two examples of 'unintended consequences' of the incentives embedded in outcome payments and the star ratings system.

There has been a tendency in recent years to increase the complexity of outcome payments in order to fine tune provider incentives. The distinction between provider assisted and brokered outcomes is a recent example of a change that increased complexity and administrative cost without apparently achieving the desired outcome – to improve provider engagement with employers. This distinction could be removed and the outcome payments structure could be greatly simplified.

4. Collaboration between employment and other services to assist people with multiple needs

A key challenge for the Government's skills development and social inclusion agendas is to design incentives and supports for collaboration between employment service providers and related support services for disadvantaged jobseekers including training providers, health services and social support services.

The effective integration of employment assistance and education and training for jobseekers is a long standing goal of Australian Governments. It is fair to say that no strategy adopted to date has been particularly effective in pursuing employment and skills enhancement goals simultaneously. The historical division of Government administration into employment and training departments (or sections within departments), and the division of responsibilities between Commonwealth and State are part of the problem here. But it runs deeper than the so-called 'silo effect' in policy development and service provision. These and other Government 'silos' have often developed in response to a need for specialisation in policy development and service delivery.

In the case of employment and training programs, there is a tension between policies that maximise people's job prospects in the short term (which typically reward service providers for short-term job outcomes) and those which improve their skills and qualifications (which typically reward service providers for qualifications attained) and thereby indirectly enhance their longer term career prospects. This is reflected in the long standing policy debate between 'work first' and 'human capital development' strategies to assist jobseekers into stable employment. To some extent, this tension is eased if a longer term view is taken of employment outcomes, since skill development programs typically have their greatest impact two or more years after participants leave the program[16]. Therefore, one of the benefits of extending the duration of employment that attracts outcome fees for JSA providers is that it would increase incentives to invest efficiently in training and to collaborate with training providers to improve the skills of jobseekers.

A related problem is that mainstream education and training programs often fail to improve the qualifications of disadvantaged jobseekers, especially early school leavers. Often, this is because they leave the course before completion. Those with the lowest qualifications typically require intensive support beyond teaching (including financial support with training costs) and training that is work-centred (or combined with paid employment), rather than traditional classroom based training.[17]

It is unlikely that these tensions between employment and training programs can be resolved by combining them into a single program. This would confuse employment and training goals and may well reduce the chances of achieving either one in a cost effective way. Further, collaboration between service providers such as JSA and RTO providers cannot be 'dictated' through funding contracts. The answer may be to attack the problem at both ends by increasing incentives and resources for employment services such as JSA to invest in training while at the same time revising mainstream vocational education and training programs to better meet the needs of jobseekers.

Supplementary funding could improve the incentive and scope for these providers to work together to develop education and training programs that meet the particular needs of disadvantaged jobseekers. For example, employment service providers that collaborate with RTOs to improve the qualifications of low skilled jobseekers (and those who are themselves

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[16] Card D, Kluve J & Weber A (2009), 'Active labour market policy evaluations, a meta analysis', *IZA Discussion Papers* No 4002, Institute for the Study of Labor, Bonn.

[17] ACOSS 2007, The role of education and training in welfare to work; Barnett, K & Spoehr J (2008), *Complex not simple, the vocational education and training pathway from welfare to work,* National Centre for Vocational Education Research, Adelaide.

RTOs) could be offered additional funding that is subject to the attainment of higher qualifications. RTOs that work with employment service providers to deliver training and related supports that are more relevant to the needs of disadvantaged jobseekers could also receive supplementary funding through mainstream training programs, given the greater difficulty in achieving outcomes for this group. Part of this funding could be conditional upon the attainment of related employment outcomes. The respective providers could be given the option of jointly applying for and 'pooling' these supplementary funds to support collaboration. It would be worth experimenting with a range of pilot schemes along these lines to establish what works best.

A similar approach could be taken to the integration of employment and other support services for deeply disadvantaged jobseekers such as health, housing and social support services. It is clear that mainstream services have not worked well for many jobseekers with multiple barriers to employment. Case conferencing and team based approaches to service delivery in which employment, health, housing and other local services collaborate closely are rare on the ground, and these arrangements usually operate in an ad hoc way outside program guidelines and funding arrangements.

As suggested above in regard to employment and training services, a system of supplementary funding that is either paid to each 'specialist' service provider or pooled among them could then be introduced to encourage and support local collaboration. One option here is for a single local agency (usually the one with the most intensive involvement with the client) to undertake the role of 'lead agency' and apply for and disperse supplementary funding.

The first step is to clearly identify the minority of jobseekers in disadvantaged regions who would benefit from this more intensive and collaborative approach, since it would be relatively costly. Selection of clients for this more intensive suite of services should be undertaken as far as possible at the local level, rather than simply targeting population groups such as young parents or program participants such as Stream 4 jobseekers on a national basis. For example, if eligibility for Stream 4 of JSA was used as the demarcation line between mainstream provision through JSA and a new 'wrap-around' program, it is not clear that the program would be well targeted. It is likely that many Stream 3 jobseekers have multiple barriers to employment and would benefit more from wrap around services than many Stream 4 jobseekers.

The assessment of need for more intensive and collaborative servicing could either be undertaken by the Department of Human Services or by each of the agencies involved in each local collaboration, and this could be followed by a case conference among the relevant agencies. Alternately, the Local Connections to Work (LCW) program could be expanded to provide a gateway to this more intensive form of 'wrap around servicing' (though LCW itself is not a substitute for this form of assistance).

While it may be worth experimenting with 'wrap around' service models in which a single provider offers the full range of additional employment, health, housing and other intensive supports needed by people with multiple disadvantages, or brokers the provision of those services among local providers, the risk with these more centralised or 'hub and spoke' models is a loss of the benefits of specialisation and clear lines of accountability to help individuals achieve clear outcomes. If separate programs and services (outside the scope of mainstream employment, health, housing and other programs) were established for this purpose, it would be a challenge to integrate these with the various mainstream programs. Yet this would be essential because the same individuals would typically be clients of a number of programs at the same time, while others would move between the new program and mainstream programs at different points in time.

5. Service fees and the Employment Pathway Fund

In 2009-10 service fees accounted for 62% of JSA funding. Reducing reliance on service fees is one way to swing the pendulum away from the current transaction-based model of service provision towards more flexible, individually tailored services.

If reliance on service fees were reduced, a different way would have to found to keep prevent 'parking' by providers and including to ensure that providers maintain regular contact with every jobseeker. This is important to ensure that a good service is provided and that jobseekers are active in the labour market. If a more flexible way could be found to achieve this, so that each interview has a clear purpose from the standpoint of both the provider and the jobseeker, it might also reduce the considerable provider resources devoted to enforcing jobseeker compliance with interview requirements that often have no bearing on employment outcomes. For example, following the introduction of the Active Participation Model, when a stricter requirement was introduced for regular interviews during the first half of the Customised Assistance phase of the Job Network, considerable provider resources were diverted to ensure compliance (attendance at interviews) yet providers reported that more frequent interviews made little difference to employment outcomes. Ironically, the APM evaluation found that the requirement did not increase the frequency of interviews in any event.[18]

One of the major sources of red tape and administrative burden for providers is the information technology platform they are required to use to record transactions with jobseekers. This should be used as a tool for recording essential information, yet it often drives the interaction between consultants and jobseekers. Providers could be allowed to make greater use their own information technology platforms by reducing the level of detailed information that has to be input into the Department's system.

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[18] DEEWR 2008, APM Evaluation.

The Employment Pathway Fund encourages provider investment in disadvantaged jobseekers and it provides a database to assess which interventions work best for different jobseekers. The main risks with this approach are the potential for high administrative burdens for providers and a tendency for Governments to be too directive in determining how the funds may be spent. These factors have contributed to under-spending of the Fund. However, in the absence of a mechanism such as the EPF, Governments would be likely to rely more on more intrusive mechanisms such as service fees or program-based funding (for example, a directive to deliver training courses) to overcome problems with outcomes-based purchasing such as creaming and parking.

A major problem with the present EPF is that it is inadequately resourced for disadvantaged jobseekers (see discussion of resourcing below).

One way to improve jobseeker motivation and engagement with the system would be to give disadvantaged jobseekers the option, under certain conditions, to choose how a portion of the EPF is spent by the provider. This is similar in principle to the Dutch system of Individual Reintegration Agreements discussed above.

6. Adequacy and targeting of resources

JSA and its predecessor are actually at least two programs rolled into one: a basic job matching and job search assistance service for 'job ready' jobseekers, and a more intensive service for long term unemployed people and those most at risk of prolonged unemployment.

Jobseekers are streamed into these different levels of service using profiling instruments (JCSI and JCA). On the whole they do a reasonably good job of predicting the likely employment outcomes for different jobseekers. A significant weakness of the profiling system, discussed earlier in this submission, is the speed with which 'new' jobseekers are assessed and referred to employment assistance. Also, many assessments are made over the phone. This results in non-disclosure of sensitive or complex information, since the assessor rarely has the opportunity to establish a professional relationship with the jobseeker before undertaking the assessment.

The main problems with the present system of 'streaming' of jobseekers within JSA are that it is much too complex, and that too few resources are targeted to long term unemployed people. When JSA was introduced, its budget allocation was lower than the sum of that of the programs it replaced. At the same time, the average level of resources allocated to Stream 3 and 4 jobseekers in their first year of unemployment were increased. This was to a large extent achieved by cutting the average level of assistance for jobseekers now in Stream 1 and for long term unemployed people generally (in the so-called 'Work Experience phase').

There is a strong case for abolishing Stream 1 since it does not allow even a minimum adequate level of service for job ready jobseekers, and employment outcomes for Streams 1 and 2 are not greatly different (though this is due in part to the upgrading of redundant workers to stream 2).

There is a strong case to retain the distinction between Streams 2 and 3 since the latter group is clearly more disadvantaged in the labour market. For example, the difference between their average employment outcomes is greater than that between Streams 3 and 4 (see Figure 2). In the absence of a Stream 3 or equivalent, many of those facing a high risk of long term unemployment would receive a minimal level of service.

The greatest flaw in the present distribution of employment assistance resources among different jobseekers is the very low level of investment devoted to long term unemployed people in the 'Work Experience phase'. It is as though, have tried to overcome the barriers to work of Stream 3 and 4 jobseekers in their first year of unemployment, the system then gives up on them. Providers are typically funded to offer long term unemployed people an interview every two months and $500 worth of work experience or training.

As figures 3 and 4 show, typical service fees and EPF credits (taken together) for a Stream 3 jobseeker fall from $2,200 to $1,200 in their second year of unemployment (the first year of Work Experience), rise slightly in the second year to $1,400, then drop to $400 (below Stream 1 levels) for each subsequent year. The increase in resources in the third year is due to this year's Budget decision to increase EPF credits for very long term unemployed jobseekers, to facilitate the introduction of a new period of 11 months of compulsory work related activity during the second year of unemployment. However, this is the last EPF credit paid in respect of a long term unemployed jobseeker for the remainder of their unemployment spell.[19]

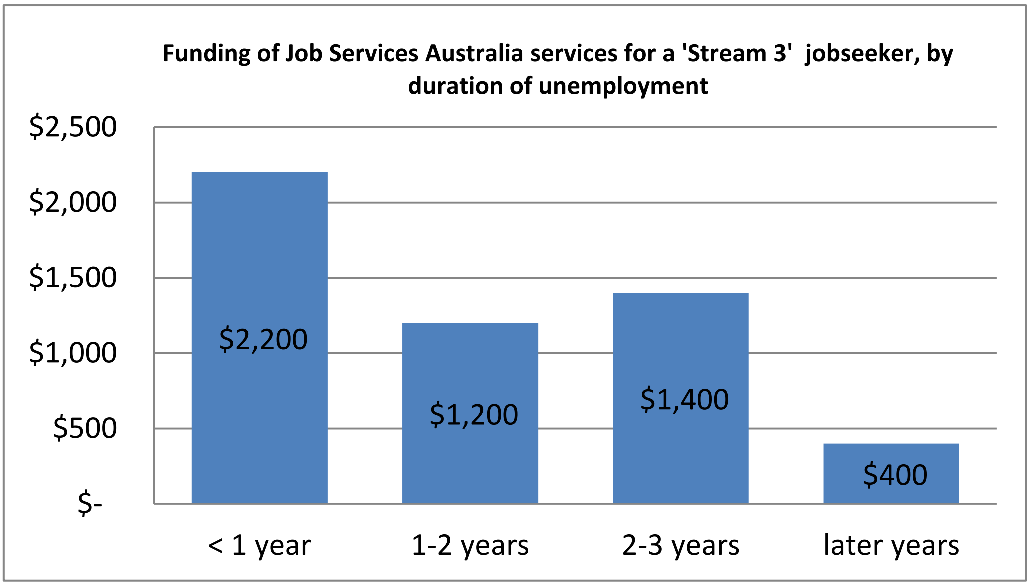
[19] Importantly, providers have the flexibility to 'reallocate' EPF credits to raise the level of investment in other jobseekers, but this is a zero sum game – it comes at the expense of the jobseekers who attracted the credits in the first place.

Figure 3: Job Services Australia fee structure 2012-13 (simplified)

	Stream 1 (least disadvantaged)	**Stream 2**	**Stream 3**	**Stream 4 (most disadvantaged)**
Initial phase of JSA assistance (first 12 months of unemployment)				
Typical service fees	$781	$885	$1,120	$1,919
Employment Pathway Fund credits	$11	$550	$1,100	$1,100
Typical outcome fees	$440	$440-$2,456	$440-$3,940	$440-$3,940
'Work experience phase' after 12 months of unemployment				
Typical service fees	$722 for first year of work experience, $398 p.a. thereafter	$722 for first year of work experience, $398 p.a. thereafter	$722 for first year of work experience, $398 p.a. thereafter	$722 for first year of work experience, $398 p.a. thereafter
Employment Pathway Fund credits	$500 in first year of work experience $1,000 in second year	$500 in first year of work experience $1,000 in second year	$500 in first year of work experience $1,000 in second year	$500 in first year of work experience $1,000 in second year
Typical outcome fees	$550-$2,258	$550-$3,350	$550-$5,550	$550-$5,550

Source: DEEWR 2008, Request for tender for employment services 2009-12, updated after 2011-12 Budget.

Figure 4: Resources for JSA providers to invest in a typical 'Stream 3' jobseeker



Note: Service fees and Employment Pathway Fund credits for a typical 'Stream 3' jobseeker in 2012-13.

Previous employment services systems in Australia, and most overseas models, offer more intensive help for long term unemployed people, not less. Given that the average 'net employment impact' of employment assistance *increases* after a year's unemployment it is inefficient to reduce the allocation of resources to jobseekers once they become unemployed long term[20]. It is also inequitable since long term unemployed people face a high risk of more prolonged unemployment and social exclusion.

The system could be simplified and its effectiveness improved by replacing the Work Experience Phase with fee structure similar to that for Stream 3 jobseekers in their first year of unemployment. Since individuals are allocated to that Stream on the basis of a high risk of long term unemployment, and most current 'Work Experience phase' jobseekers are allocated to that Stream, this would make the transition to services for long term unemployed people relatively seamless, without introducing incentives for providers to delay assistance. Compared to the present system described in figure 4 above, each long term unemployed jobseeker would attract a total of around $2,200 per year in funding through service fees and EPF credits. This does not imply the encouragement of providers to repeat 'failed' interventions each year: the providers would still choose how to spend the EPF credits each year, and could still re-allocate them from one jobseeker to another. On the contrary, it gives them the resources they need to individualise assistance for each long term unemployed jobseeker and work more intensively with them.

[20] DEEWR (2010a), Labour market assistance, a net impact study.

This reform would require more resources, but given the high risk of prolonged reliance on income support and social exclusion among long term unemployed people, it would be money well spent, provided the program is effective in significantly improving job prospects of long term unemployed jobseekers.

It would also improve the quality and variety of compulsory periods of intensive activity (work experience and training) for long term unemployed people. Further, if the 'new' 11 month period of intensive activity for very long term unemployed was reduced to six months, this would also assist providers to invest in worthwhile, intensive activities that improve their employment prospects rather than purchasing the cheapest available programs to 'fill out' 11 months of activity.

A more fundamental change that is worth considering is to administratively separate the provision of less intensive employment services for short term unemployed people assessed as 'job ready' from the more intensive services for those in higher streams and long term unemployed people. This could be done by providing assistance for a merged 'Stream 1 and 2' group of jobseeker through Centrelink, leaving JSA providers to specialize in assistance for disadvantaged jobseekers[21]. A similar division of labour applies in many countries that have been relatively successful in reducing unemployment, including the Netherlands and United Kingdom.

The main advantages of this approach are:

- A more seamless, and possibly more cost-efficient, income support and employment assistance service for job-ready jobseekers if this were provided through Centrelink;
- It would enable JSA providers to specialise in assisting more disadvantaged jobseekers, which could facilitate a culture shift from a large scale transaction- based service towards a more individualised assistance for disadvantaged jobseekers.

Providers would still be required to offer the full suite of employment services to disadvantaged jobseekers, and would concentrate on marketing those jobseekers to prospective employers, which might also improve their engagement with employers. For example, the most effective disability employment services (which of course specialise in assisting jobseekers who would normally be hard to place) devote considerable efforts to finding employers willing to take on people with disabilities and working with them intensively to redesign the job and train and support the jobseeker.

[21] This already operates for Stream 1 jobseekers, to the extent that Centrelink is their main point of contact for the first 3 months. However, Centrelink is not properly resourced to provide basic job matching assistance.

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Deprivation and Other Indicators of the Living Standards of Older Australians

Draft Report

Peter Saunders and Melissa Wong

COMMISSIONED BY THE DEPARTMENT OF FAMILIES, HOUSING, COMMUNITY SERVICES AND INDIGENOUS AFFAIRS

Social Policy Research Centre

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Contact details

Peter Saunders
Phone: +61 (0)2 9385 7806
Fax: +61 (0)2 9385 7838
Email: p.saunders@unsw.edu.au
Social Policy Research Centre
University of New South Wales
Sydney NSW 2052
Australia

Contents

List of Tables

List of Figures

Executive Summary

Overview

- This paper presents a range of evidence that is relevant to assessing the adequacy of the payments to different groups, including age pensioners. The analysis extends the results generated by a recent study of deprivation in Australia.

- The focus is primarily on the relative position of older Australians who rely on the Age Pension as their principal source of income. Comparisons are drawn with the circumstances of other groups, including those reliant on other forms of income support, self-funded retirees and low-wage workers.

- The estimates have been derived from data collected in a national survey conducted in 2006 by the Social Policy Research Centre (SPRC). The survey data allow the living standards of different groups to be assessed and compared using a variety of indicators.

- Much of the evidence presented draws on the concept of deprivation, which measures the extent to which people are unable to afford goods and services that are widely regarded as necessary.

The Standard of Living and Income

- The standard of living is subject to formidable conceptual and measurement challenges. Like many other economic concepts, its familiarity and use in public debate and discussion conceals many layers of conceptual and technical complexity.

- The Ministry of Social Development in New Zealand has defined the economic standard of living as concerning 'the physical circumstances in which people live, the goods and services they are able to consume and the economic resources they have access to'

- Although cash (disposable) income is an important determinant of the standard of living, the benefits associated with free or subsidised government services are also important – particularly for older people. So too are the needs that have to be met out of income.

- Adjusting disposable income to allow for imputed noncash incomes and to reflect differences in needs can make a large difference to how the circumstances of specific groups compare with each other.

- The OECD has argued that income measures do not provide a full picture of "command over resources": they neglect individuals' ability to borrow, to draw from accumulated savings, and to benefit from help provided by family or friends, as well as consumption of public services such as education, health and housing

- The role and importance of these neglected factors will only emerge if the focus is shifted away from income onto a broader framework that also incorporates these other contributors to the standard of living.

Alternative Indicators

- Three broad sets of indicators are used to assess the living standards of different groups:

  - A **deprivation approach** – defined as an enforced lack of socially perceived necessities

  - A **series of objective indicators** that cover four domains: access to economic resources; hardship (or missing out); restricted social participation; and financial stress

  - A **series of subjective indicators** that capture satisfaction with the standard of living, accommodation and location, perceptions of health status, income managing, degree of choice and control, and the incidence of adverse health-related experiences

- The interpretation of the estimates for any single indicator may be subject to debate and different indicators may point in different directions. Emphasis should thus be given to what the suite of indicators taken together implies about the living standards of different groups and the adequacy of their incomes.

Deprivation

- The deprivation approach was developed to provide an alternative way of identifying poverty that relates more directly to the living standards actually experienced.

- Deprivation is now widely used by researchers used to identify who is experiencing poverty. It also forms part of the official poverty measures adopted by the British and Irish Governments.

- The growing popularity of deprivation indicators has been described as having 'swept the social policy world as a complement, or even as an alternative, to household income as the primary measure of living standards'

- The approach involves three stages:

  - Identifying which of a list of items are necessities, defined as things that no-one should have to go without.

  - Identifying whether or not people have each necessary item (or participate in each necessary activity).

  - Establishing that those who do not have the item (or activity) are missing out because they cannot afford it.

- Differentiating between not be able to afford an item and not wanting it (as much as another item) has been seen as a weakness of the deprivation approach, because it means that the estimates reflect subjective views (or preferences) and is thus not a purely objective measure of the standard of living.

- Although imperfect, the use of an affordability criterion to filter out those who choose to forego particular items, focuses on the constraining influence of a lack of resources (relative to needs) that is the defining feature of poverty and an important indicator of the standard of living generally.

- Although deprivation studies are in their infancy in Australia, a considerable amount of work has been done in measuring and analysing hardship and financial stress that are close cousins of deprivation. A solid foundation of data and research exists and the current study builds on this evidence-based platform.

Data and Methods

- The data used in the study were collected in 2006 in the SPRC's *Community Understanding of Poverty and Social Exclusion* (CUPSE) survey. The CUPSE survey was sent to a random sample of 6,000 adults and 2,704 responses were received, representing a response rate of 47 per cent.

- The sample is a reasonable representation of the population, although it contains an over-representation of people aged 50 and over relative to those aged under 30.

- Seven sub-samples of respondents was identified according to their main source of income in the previous week:

    - Low-wage workers
    - Self-funded retirees
    - Age pensioners
    - Veteran's affairs pensioners
    - Disability support pensioners
    - Parenting Payment recipients
    - Newstart Allowance recipients

- The extent of deprivation among these groups was based on 19 items identified as essential from the list of 61 items included in the CUPSE survey. These items were all regarded as essential by at least a majority of survey respondents.

- The identified essentials include medical treatment if needed, a substantial meal at least once a day, regular social contact with other people, a telephone, a washing machine, presents for family and friends each year, compute skills and a week's holiday away from home each year.

Results: Deprivation

- Deprivation scores were calculated for each sub-group by averaging the number of essential items that respondents did not have and could not afford, and the incidence of multiple deprivation was also estimated.

- On both indicators, the age pensioner group ranked third highest overall in terms of their standard of living based on the extent of deprivation experienced.

- Their implied standard of living was 'well below that of the self-funded retirees and just veterans affairs pensioner groups, but above that of low-wage workers and those mainly dependent on the other three income support payments.

- The three essential items that age pensioners are most likely to be deprived of are (in order) a week's holiday away from home each year, dental treatment when needed and computer skills.

- The next three items where age pensioner deprivation is most prevalent all relate to efforts to protect against unforeseen risks: up to $500 in emergency savings, comprehensive motor vehicle and home contents insurance.

Results: Other Indicators

- The relative living standards ranking of the age pensioner group derived from the 16 objective indicators is similar to that produced by the deprivation measure. The ranking of the age pensioner group varies between 2nd and 3rd highest, with a median rank of 3rd.

- The ranking of the age pensioner group using the subjective indicators is slightly higher, placing it equal second behind self-funded retirees and similar to the veteran's affairs pensioners.

- The fact that the implied standard of living ranking of the age pensioner group is somewhat higher using the satisfaction indicators than the objective indicators is consistent with a number of alternative explanations.

- There may be some degree of preference adaption taking place, so that older people adjust to their reduced objective circumstances more readily than other groups. Older people's aspirations decline as they age, allowing them to maintain their level of satisfaction despite a lower living standards. The needs of older people may decline in ways that are not adequately captured in the indicators, so that a given level of resources is capable of supporting a higher standard of living.

- There is probably an element of truth in all three explanations, although more work would be required to establish the relative importance of each of them.

Results for Age Pensioner Categories

- The analysis was repeated on a breakdown of the age pensioner group into sub-groups differentiated by:
    - Gender
    - Age (under 75/75 and over)
    - Living arrangements (lives alone/lives as a couple)
    - Housing tenure (Owner or purchaser/renter)
- Although the sample sizes are small in some cases, the estimates reveal that females face higher deprivation than males, that the younger-aged group is more deprived than those aged over-75, that pensioners living alone are more deprived than couples, and that renters are more deprived than owner/purchasers.
- Many of the differences between those living alone and couples, and between owner/purchasers and renters are statistically significant.
- This pattern is broadly confirmed when the objective and subjective indicators are compared across different groups of age pensioners. However, small sample size means that few of the observed differences are statistically significant. Those that are significant are heavily concentrated among the breakdowns by living arrangement and housing status.
- A further breakdown of the living standards indicators between age pensioners who are renting in the private and public sectors reveals a somewhat mixed pattern, although the general tendency was for those renting in the private sector to be worse off.
- However, very few of the observed differences were statistically significant, making it problematic to draw any firm conclusions about the relative living standards of the two groups. This is another area that would benefit from further research.

Overall Conclusions

- This report is based on the view that income-based measures of living standards cannot logically be used to inform assessments of income adequacy. This requires the use of an independent benchmark of adequacy.
- The deprivation approach provides such a benchmark, and has been supplemented by a range of other living standards indicators.
- In overall terms, the results show that those reliant on an age pension experience higher average living standards than several of the other groups of social security payment recipients. This suggests that the *adequacy* case for increasing the Age Pension applies with even greater force to these other payments.

- The differences in the living standards of different groups of age pensioners suggest that a realigned payment structure would improve the adequacy of the system as a whole and treat different groups of pensioners more equitably.

- There is a particularly compelling case for improving the adequacy of payments to those age pensioners who are living alone, and to those living in rented accommodation.

1 Introduction

In May this year, the Minister for Families, Housing, Community Services and Indigenous Affairs announced that the Secretary of the Department would lead a review into measures that might be adopted to strengthen the financial security of seniors, carers and people with a disability. The establishment of the Pension Review follows concern that recent rises in cost of living pressures have made it harder for those dependent on the maximum rate of pension and with few assets to make ends meet.

This paper presents a range of evidence that is relevant to assessing the adequacy of the payments to different groups, including age pensioners. The analysis draws on the methods and data generated by a recent study of deprivation in Australia (Saunders, Naidoo and Griffiths, 2007). The focus is primarily on the relative position of older Australians who rely on the Age Pension as their principal source of income. Comparisons are drawn with the circumstances of other groups, including those reliant on other forms of income support such as the Disability Support Pension – another payment that is under consideration as part of the Review.

The importance of ensuring that older Australians have access to adequate income support, as well as to appropriate and affordable health care and aged care services has been acknowledged in several recent government reports. It was emphasised by the Senate Community Affairs References Committee (CARC) in its *Report on Poverty and Financial Hardship* (CARC, 2004: 351), and more recently by the Senate Standing Committee on Community Affairs. The latter Committee found that people on low incomes are disproportionately affected by rises in the cost of petrol, food, medical care and rental housing, and concluded that 'the maximum rate of pension may be insufficient to maintain a basic, decent standard of living', and that 'those most at risk of financial stress are single pensioners receiving the maximum rate of pension and living in private rental accommodation' (cited in Harmer, 2008: v). These and related concerns over the adequacy of the pension have provided the impetus for the establishment of the Pension Review.

This report contributes to the assessment of the adequacy of the Age Pension (and other income support payments) by presenting a range of evidence on the material circumstances and living standards of older Australians, other income support recipients and low-wage workers. The estimates have been derived from data collected in a national survey conducted in 2006 by the Social Policy Research Centre (SPRC) at the University of New South Wales. The survey data allow the living standards of different groups to be assessed and compared using a variety of indicators. The indicators can be grouped into two broad categories: the first category captures the standard of living in *objective* terms by analysing the material circumstances reported by respondents in relation to different dimensions of their standard of living; the second category relies on a range of expressed *subjective indicators* that embody people's own perceptions of their circumstances, as revealed in responses to questions that ask directly about them.

Much of the objective evidence presented draws on recent studies of deprivation, which measure the extent to which people are unable to afford goods and services that are widely regarded as necessary (or essential – the two terms are used interchangeably). Although there is some disagreement about whether or not the indicators of deprivation can genuinely be regarded as objective given how they are derived, the approach is now commonly used to validate income-based poverty measures (Boarini and d'Ercole, 2006; Whelan, Nolan and Maître, 2008) and compare the living standards of different groups (Brewer, Muriel, Phillips and Sibieta, 2008).

The value of using deprivation to inform decisions about the adequacy of social security payments was acknowledged in Australia over a decade ago by the then Department of Social Security (DSS), which noted that the approach:

> '… provides a direct measurement of living standards and has a very high information content. In focusing on outcomes rather than inputs, it is able to capture subtle variations in circumstances which may significantly affect living standards. Through describing the circumstances of low income families in terms of their ownership of goods, participation in activities and access to resources, it is possible to present a whole view of their circumstances' (DSS, 1995: 24)

Reflecting these perceived strengths of the approach, the Department recommended that work on deprivation should form a central component of its proposed composite framework for adequacy assessment (DSS, 1995: 31).

That recommendation was not acted upon and little official interest has been shown in using the deprivation approach to inform issues of payment adequacy since that time. This report redresses this omission by using the approach to examine the relative adequacy of different payment types (including the Age Pension), and of payments made to different sub-groups of age pensioners. The report is organised as follows: Section 2 describes the most common approach used to measure the standard of living, which is based on income (adjusted in various ways), and lists some of the limitations of the income approach. Section 3 discusses the deprivation approach, focusing on is use as a living standards indicator. Section 4 then describes the survey from which the data have been derived and explains how it has been used to produce the indicators. Section 5 presents results comparing indicators across different groups, differentiated by their principal source of income. Section 6 focuses on what the indicators reveal about the living standards of different groups of older Australians whose main source of income is the Age Pension. Section 7 summarises the main implications of the findings.

2 Measuring the Standard of Living: The Income Approach

The standard of living is one of the most important, but elusive concepts in economics. As Nobel Prize winning economist Amartya Sen (1987: 1) has put it:

> 'It is hard to think of an idea more immediate than that of the standard of living. It figures a good deal in everyday thought. It is, in fact, one of the few economic concepts that is not commonly greeted with the uncommon skepticism reserved for other concepts of economics … we do not believe we are indulging in technicalities when we talk about the living standard of the pensioners, or of the nurses, or of the miners, or – for that matter - of the chairman of the coal board. The standard of living communicates, and does so with apparent ease'

Sen is undoubtedly correct in his assessment of the importance of the standard of living, but he goes on to argue that it is subject to formidable conceptual and measurement challenges. Like many other economic concepts, its familiarity and use in public debate and discussion conceals many layers of conceptual and technical complexity. Although the conceptual issues are important, they are not the main focus of the following discussion, which concentrates on the challenges associated with measuring living standards using available data.

For this purpose, the definition of 'economic living standard,' recently proposed by the Ministry of Social Development in New Zealand (2008: 56) captures the dominant features of the concept of the standard of living:

> 'Economic standard of living concerns the physical circumstances in which people live, the goods and services they are able to consume and the economic resources they have access to'

What is most notable about this definition is its emphasis not just on available economic resources, but also its reference to people's physical circumstances and their ability to consume. These latter components will depend on factors other than current economic resources, including the needs that have to be met (e.g. those arising from ill-health or disability) the buffer provided by past accumulation of resources and/or access to credit, and the extent to which goods and services are provided free (or subsidised) by government.

These factors can exert an important influence on the living standards of older people in particular, because this group is most likely to have accumulated assets during the earlier phases of their life course and face declining health that results in increased reliance on health and community care services provided free or heavily subsidised by government. These factors explain why it is potentially misleading to rely on income alone to measure the living standard of older people (as well as other groups). Income is, however, the most common metric used to compare the living standards of different groups, and this approach has been used to examine the living standards of older Australians (Whiteford and Bond, 2000) and of Australian households more generally (Headey and Warren, 2008).

Although cash (disposable) income is an important determinant of the standard of living, factors such as non-cash income (or social wage benefits) provided in the form of free or subsidised government services are also important – particularly for older people. So too are the needs that have to be met out of income, whether it is received as cash or as noncash benefits in–kind. Adjusting disposable income to allow for imputed noncash incomes and to reflect differences in needs can make a large difference to the estimated circumstances of specific groups, and to how they compare with each other.

This is illustrated in Table 1, which draws on estimates produced by the Australian Bureau of Statistics (ABS) of the reported cash and imputed noncash incomes of households at different stages of the life cycle. The relative position of the older age groups (those aged 65 and over) is sensitive to how broadly income is defined, because both cash transfers and noncash benefits vary systematically over the life cycle. To give an example, whereas the average disposable income of those aged 65-74 is less than 69 per cent of that for those aged 15-24, this relativity increases to 79 per cent when expressed on the basis of final incomes. Although the estimates take no account of differences in household size and hence in the needs of different households (which also vary with age over the life cycle), Table 1 illustrates that different definitions of income have a marked impact on the relative standing of different life cycle groups.

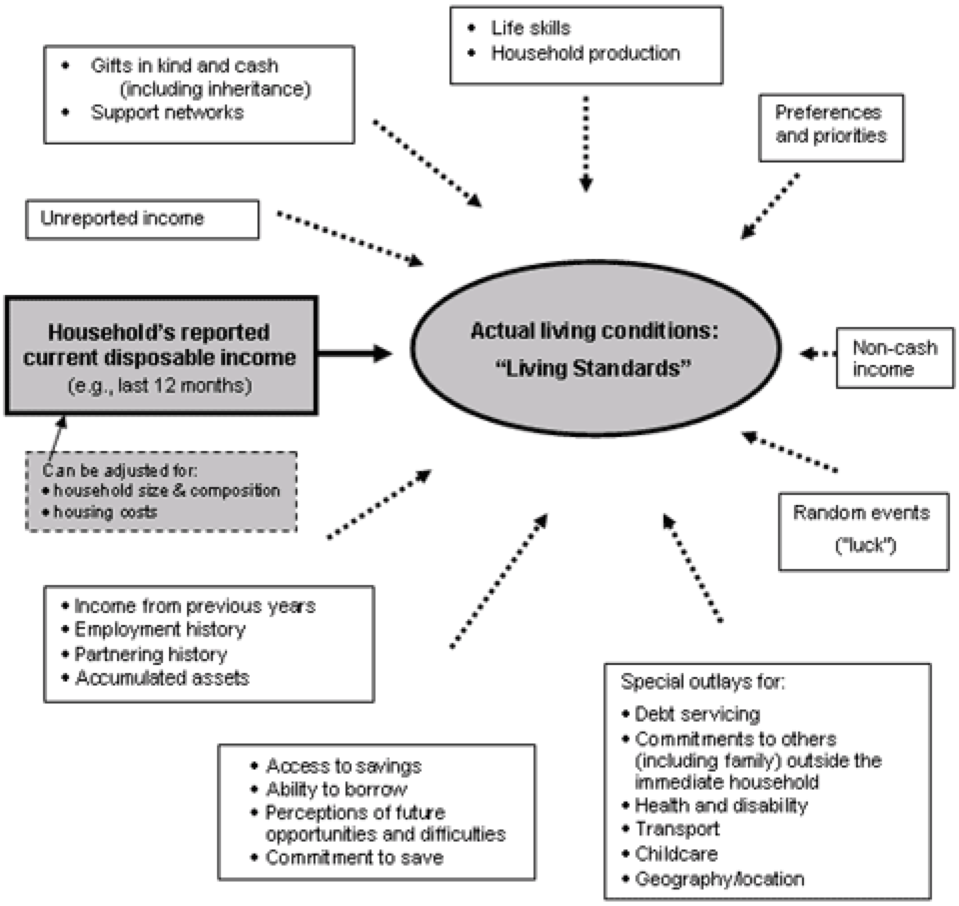
Table 1: Household Incomes, Benefits and Taxes by Age

	Age of Reference person:						
	15-24	25-34	35-44	45-54	55-64	65-74	75+
Private income	829.9	1187.3	1207.6	1379.2	870.8	351.4	245.6
Plus cash transfers	108.3	95.1	116.2	94.9	135.0	237.1	256.7
Equals Gross income	938.2	1282.5	1323.8	1474.2	1005.9	588.4	502.3
Minus taxes on income	153.9	262.6	273.0	309.4	175.6	50.4	29.1
Equals disposable income	784.2	1019.8	1050.7	1164.7	830.3	538.0	473.2
Plus noncash benefits	170.4	194.1	305.2	235.5	178.6	218.9	281.4
Equals Full income	954.6	1214.0	1355.9	1418.2	1008.9	756.9	754.6
Minus indirect taxes	128.6	150.2	165.5	180.9	152.4	103.9	71.7
Equals Final income	826.0	1063.8	1190.4	1237.3	856.5	653.0	682.9

Source: ABS (2007: Table 23).

Extending the definition of cash income to include noncash components provides a more comprehensive measure of the standard of living (because it captures the contribution of both market activity and state benefits and taxes) but it only touches the surface of what is a complex and multi-layered relationship. This complexity is illustrated Figure 1, which shows that the current standard of living depends not only on recent levels of income (cash and noncash) but also on income received in the past, which in turn reflect and influence how much accumulation has taken place, as well as on a range of other factors. These not only include noncash incomes (see Table 1) but also such factors as life skills (the ability to translate economic resources into the items that affect living standards), luck (an unexpected problem with the car or a win on the horses), and preferences and priorities (extra resources will have differing effects on misers than on gluttons).

Figure 1: Same Current Income – Different Actual Living Conditions



Source: Perry, 2002: Figure 1.

The limitations of the income approach in capturing variations in the standard of living (between groups as well as over time) have become increasingly apparent. This is illustrated in a recent report from the Organisation for Economic Cooperation and Development (OECD), which has noted, in the context of poverty measurement studies, that:

> 'Income measures do not provide a full picture of "command over resources": they neglect individuals' ability to borrow, to draw from accumulated savings, and to benefit from help provided by family or friends, as well as consumption of public services such as education, health and housing' (Boarini and d'Ercole, 2006, p. 10).

The role and importance of these neglected factors will only emerge if the focus is shifted away from income onto a broader framework that also incorporates the other contributors to the standard of living identified in Figure 1. The deprivation approach has provided a framework for achieving this and recent work conducted by the OECD Secretariat has approached the identification and measurement of poverty from a deprivation perspective. In a comparative study of material deprivation it has been argued that:

> 'Poverty is a complex issue, and a variety of approaches are required for its measurement and analysis. While monetary measures of income

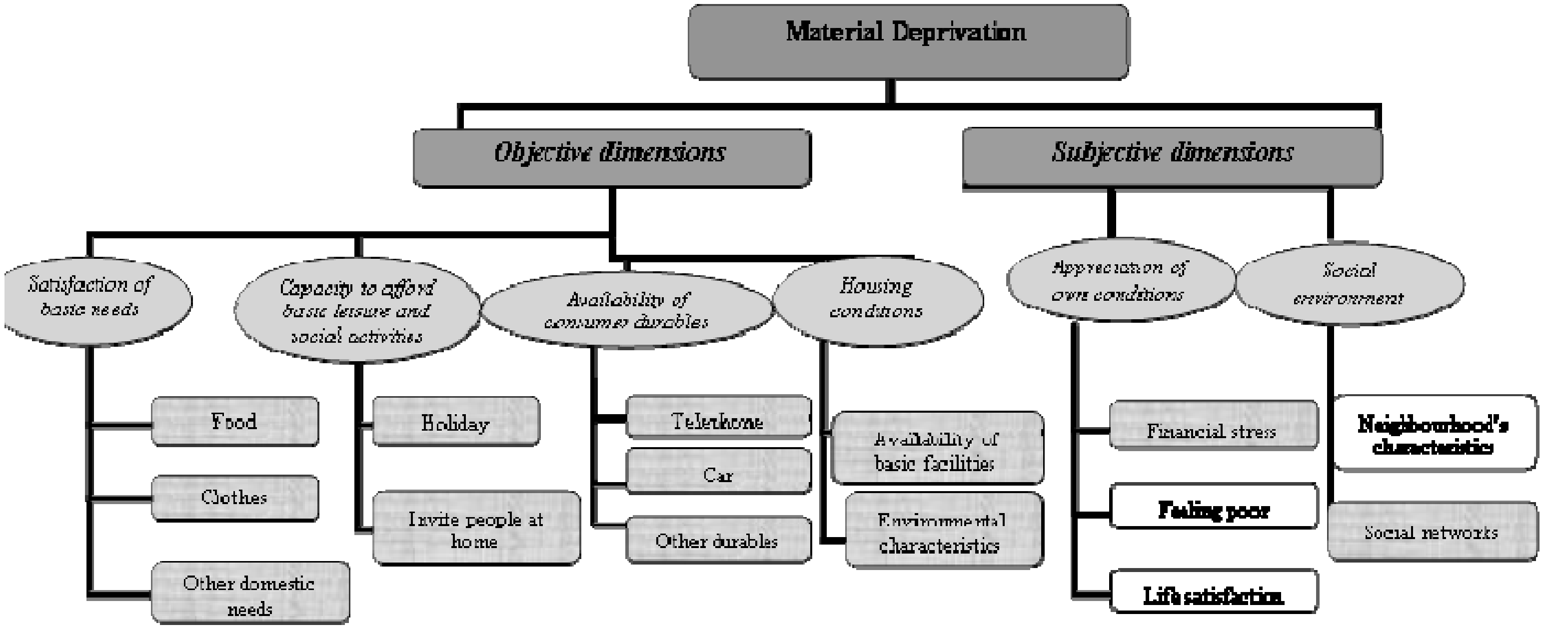
> poverty are widespread, a long-standing tradition relies on non-monetary measures based on either the respondent's self-assessment of their own conditions or on measures of ownership of consumer goods and living standards. Measures of material deprivation fall into this latter category. These measures rest on shared judgements about which items are more important to provide a "decent" living standard, irrespective of people's preferences and of their capacity to afford these items' (Boarini and d'Ercole, 2006: 6)

The different dimensions of deprivation and the main components of each dimension are shown in Figure 2, which extends the framework presented in Figure 1 by including a role for subjective perceptions and being more precise about some of the factors and items that influence the degree of deprivation actually experienced.

The multi-dimensional nature of the deprivation approach (discussed more extensively in the following section) suggests that there is much to be gained by adopting a more comprehensive framework than one focused just on income when studying living standards. Two more practical considerations reinforce this superiority. The first relates to the notoriously difficult problems associated with producing accurate information on income in surveys: people are reluctant to reveal information about their income, and when they do, they often forget some income sources or mis-report amounts received infrequently (Australian Bureau of Statistics, 2002; 2003). These problems have led some researchers to supplement or replace income with other measures of economic resources when identifying different forms of poverty (Headey, 2006).

The second for favouring a measure other than income relates more specifically to the goal of assessing the living standards of different groups of income support recipients as a way of assessing the relative adequacy of different payments. Clearly, this exercise requires a living standards benchmark that is *independent* of income, since the use of income itself cannot be used to assess its adequacy. Income measures have their place, but they cannot logically be employed to assess income adequacy.

Figure 2: The OECD Deprivation Framework



Source: Boarini and d'Ercole, 2006: Figure 1.

Even if it were possible to develop a comprehensive income measure that incorporated all of the factors that influence the economic (or material) standard of living, it would still be necessary to adjust for the needs of different households before direct comparisons can be made. This is normally done using an equivalence scale, which measures the relative needs of different households as reflected in the number and characteristics (e.g. age and labour force status) of household members. However, there is no agreed method for estimating relative needs and hence of deriving the equivalence adjustment factor, yet this can have a large impact on the comparisons. These problems become even more acute when income includes noncash components, since it is not obvious that the same relative needs to apply to these as to cash income.

The importance and impact of choice of equivalence scale can be illustrated with an example. One of the most commonly used scales (internationally, and in Australia, where it is now used by the ABS in its income distribution reports) is the modified OECD scale, which assigns a score of 1.0 to the first adult in the household, 0.5 to each subsequent adult and 0.3 to each dependent child. A household consisting of two adults would thus have equivalence score of 1.50 times that of a single person living alone. The maximum fortnightly basic age pension payment rates are currently (November 2008) \$562.10 (single) and \$939.0 (couple, combined). This implies that the payment to the couple is 1.67 times higher than that for a single person – well above the estimated couple to single person needs relativity of 1.50 implied by the OECD equivalence scale.

This difference can become important when measuring poverty, because poverty status depends upon the level of income adjusted for need relative to a poverty line. Thus, a single person income poverty line of \$600 a week would mean that all those solely dependent on the single rate of age pension would be below the line (and hence poor) while all couple pensioners would be above the two-person poverty line (equal to \$600 x 1.5 = \$900) and hence not poor. Although this hypothetical example is intended to illustrate the point, the issues becomes acute in practice because pensioner incomes tend to be bunched closely together around the region where poverty lines are conventionally set (i.e. at around half of the median). A recent SPRC study using the OECD scale and a poverty line equal to 50 per cent of median income estimated that the poverty rates in 2005-06 for single people aged 65 and over was 46.9 per cent, while that for older couples was much lower, at only 17.8 per cent (Saunders, Hill and Bradbury, 2007: Table B.4). If the poverty line is increased to 60 per cent of the median, both poverty rates increase (to 65.9 per cent and 43.8 per cent, respectively) but the relative poverty risk facing single older people is now much lower, compared to that facing older couples.

The large swings in poverty rates and in the relative risks facing the two groups is a reflection of the difference between the pension relativity of 1.67 and the assumed needs relativity of 1.50: older couples appear better off because their relative needs are assumed to be lower than the payment relativity implicit in the couple to single pension payment rates. This apparently perverse result could be largely removed if the single rate of pension were increased to match the same relativity as is implied by the OECD scale, i.e. from \$562.10 to \$626, or by 11.4 per cent. With the payment for couples unchanged at \$939, the pension relativity would then be the same as the needs relativity and the poverty rates of single older people and older couples fully dependent on the pension would be the same.

It is also important to acknowledge that when the equivalence adjustment is applied to derive equivalised or adjusted income, this is taken to represent the standard of living attained by all individuals in the household because income is assumed to be shared equally among all household members. This latter assumption is at odds with evidence showing that equal-sharing is not always the norm (particularly among families with children, or single-income couples generally). Unequal sharing of income may be less of a problem among older households, although it may exist to some degree, casting further doubt on the conventional income-based approach.

All of the above limitations of the standard income approach suggest that there is value in using a measure that relates more directly to the standard of living actually achieved. Not only would such an approach avoid the problems surrounding the measurement of income, it would also obviate the need to make an equivalence adjustment (because living standards capture the impact of resources and needs). It also allows (at least in principle) the standard of living to vary among individuals within the same household. The challenge facing such an approach is to find an alternative that is capable of capturing the role that income and other economic resources undoubtedly play, whilst drawing more directly on the living standards that are derived from the goods and services that are actually achieved.

One possible approach is to use consumption expenditure rather than income as an indicator of the standard of living, on the grounds that spending is the process that acquires the goods and services that determine the standard of living. Some studies of trends in inequality have preferred to use expenditure rather than income, on the grounds that the possibility of engaging in consumption smoothing in the face of income volatility suggests that consumption provides a better measure of the standard of living actually achieved (Barrett, Crossley and Worswick, 2000). Others have used income and expenditure together to better identify households with low levels of economic well-being (Headey and Warren, 2008) or to provide more convincing evidence that poverty exists (Saunders, 1997; Saunders and Hill, 2008). However, measurement problems are still an issue for consumption spending, particularly with items purchased infrequently such as consumer durables, and it is still necessary to make an equivalence adjustment to allow for differences in the needs of different households.

3 The Deprivation Approach

The main alternative to using income or consumption as the basis for measuring the standard of living is derived from the concept of deprivation. The deprivation approach was originally developed in its modern form by the British sociologist Peter Townsend (1979), who used it as the basis for his pioneering study *Poverty in the United Kingdom* (Townsend, 1979). Since then, the approach has become increasingly popular as an alternative to poverty line (income) studies that seeks to locate the identification of poverty within a living standards framework (Saunders, 2005).

Townsend's analysis is based on a broader conception of poverty than just low-income, as the following quotation makes clear:

> 'Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns and activities.' (Townsend, 1979: 31)

Although many aspects of Townsend's original study have attracted criticism, much of this criticism has focused on the problems involved in using a threshold in the deprivation profile to identify an income poverty line (Piachaud, 1981). However, the approach is now widely used to identify disadvantage (Pantazis, Gordon and Townsend, 2006), or combined with income to identify consistent poverty – situations where low income and deprivation exist together (Maître, Nolan and Whelan, 2006; Whelan, Nolan and Maître, 2008).

The approach developed by Townsend has been incrementally refined in a series of studies (Gordon and Townsend, 1997; Gordon and Pantazis, 2000; Gordon, 2006) building on the important study by Mack and Lansley (1985). Deprivation indicators are now incorporated into the official poverty measures developed by governments in Britain (Department for Work and Pensions, 2003) and Ireland (Combat Poverty Agency, 2002) and has become increasingly influential in many other EU countries (Guio, 2005: Whelan, Nolan and Maître, 2008).

The increased prominence of deprivation in the poverty literature reflects its resonance with the definition of poverty adopted by the Irish Combat Poverty Agency, which states that 'people are living in poverty if their incomes are so inadequate as to preclude them from having an acceptable standard of living'. This definition leads naturally to two approaches to studying poverty:

- *Poverty line studies*, which compare reported incomes with an external benchmark of adequacy (a poverty line); and

- *Living standards studies*, in which living standards indicators are compared with an external benchmark of acceptability.

Australian poverty research has, until recently, been dominated by the former approach, although the deprivation approach has been applied in a small-scale study of social security recipients (Travers and Robertson, 1996) and on a nation-wide basis in a recent study conducted by the SPRC (Saunders, Naidoo and Griffiths, 2007; 2008).

Although the deprivation approach has mainly been used to identify who is living in poverty, it can also be used to compare living standards more generally. Interest in applying the deprivation approach to measure living standards has been growing rapidly as the limitations of the traditional (income-based) approach have become increasingly apparent. As Berthoud and Bryan (2008: 14) have recently noted: 'Indicators of material deprivation have swept the social policy world as a complement, or even as an alternative, to household income as the primary measure of living standards'. However, they also warn (p.15) that 'they are just indicators, and it is unhelpful to treat them too literally as direct measures of people's experience'.

In his original study, Townsend asked people if they had each of a list of items he regarded as necessities, and derived a deprivation index by summing the number of items that each household was lacking. Subsequent studies have improved on the approach in three main ways: *first*, by asking separately whether each of the items included in the list are necessary; *second*, by differentiating between those who lack each item because they cannot afford it and those who choose not to have it; and *third*, by exploring alternative ways of deriving an aggregate index of deprivation.

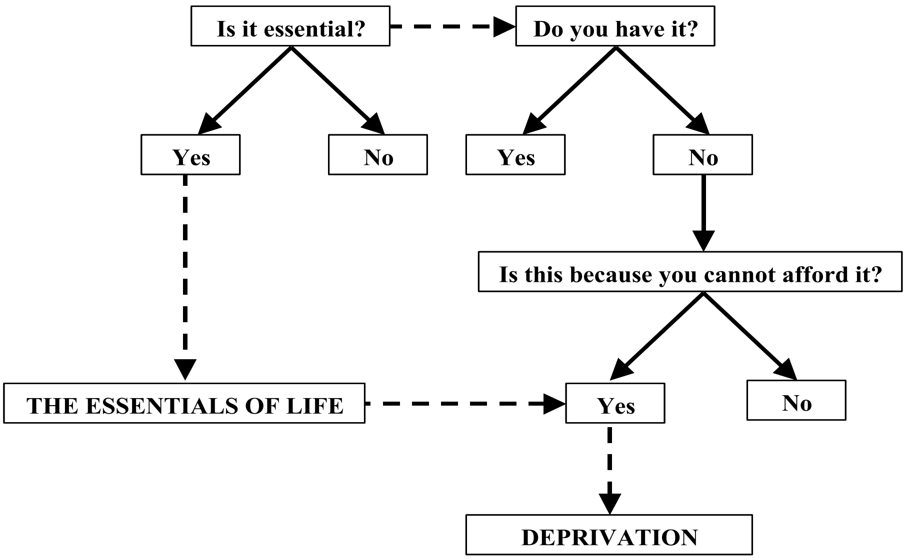
The way in which the first two of these issues is now addressed is illustrated in Figure 2, which shows the sequencing of questions used to identify deprivation. Survey respondents are first asked whether or not they think that each item is essential – not for themselves but for people in general.[1] They are then asked whether or not they have each item and, if they do not, whether this is because they cannot afford it or because they do not want it.[2] The responses to the first question are used to identify those items that are regarded as essential by a majority of respondents (or, by applying an appropriate system of weights, an estimate of those items that would be regarded as essential by a majority of the community). A 50 per cent (majority support) benchmark is normally imposed to identify necessities, reflecting its use in other areas of social choice - although it is possible to examine how sensitive the results are to the use of different support thresholds (See Saunders and Naidoo, 2008).[3]

1 The actual questions asked in the CUPSE survey defined essential items as 'things that no-one in Australia should have to go without today'.

2 The CUPSE questionnaire simply asked of those who did not have each item, whether or not this was because they could not afford it.

3 It is common for budget standards studies to apply a 75 per cent ownership/participation rule when deciding if items are sufficiently widely owned (or undertaken) for them to be included in the low cost standards (see Bradshaw, 1993; Saunders et al., 1998).

Figure 3: Sequence of Questions Used to Identify Deprivation



It is important to acknowledge that one finding to emerge from previous deprivation studies is that the responses to the questions shown in Figure 3 can vary systematically between different groups. In general, the overseas evidence indicates that older people are more likely than others to say that items are essential, but less likely to say if they do not have the item, that this is because they cannot afford it (Van den Bosch, 2001; McKay, 2004). Evidence from the SPRC study also shows that there is greater support for items being necessary among older people (aged 65 and over) than among younger people (aged under 30) (Saunders, Naidoo and Griffiths, 2007: Figure 4.C). This in itself does not affect the results generated by the deprivation approach, because it is the average level of support for items being essential that drives the results not the level of support among specific groups. It can, however, make the results for some groups more sensitive to alternative weighting schemes than for others.

Of greater concern is the possibility that some groups may be less willing to acknowledge that they cannot affords necessary items than others, as this will have a direct impact on estimated deprivation among the two groups and create a bias when using deprivation to compare their living standards. If older people are less willing than other groups to acknowledge that affordability is a factor preventing them from acquiring identified necessities, this will cause them to show up as less deprived (and hence with a higher standard of living) than otherwise. These possibilities should not be lost sight of when interpreting the results presented later.

Once the necessary items have been identified, the other two questions shown in Figure 3 identify who does not have each item and, among these, those who do not have the item because they cannot afford it. It is only those who cannot afford the identified necessities who face an *enforced* lack and are thus deprived. Those who choose to go without a necessary item are expressing a preference and because they are not constrained by a lack of resources, are not deprived. This step in the process of identifying deprivation is somewhat problematic, because of the inter-connected nature of consumption decisions: what one person may perceive as an enforced lack of item A may be seen by someone else as a choice to give priority to item B (McKay, 2004).

This problem has been highlighted in a recent study by the Institute of Fiscal Studies (IFS), which cites the following example to illustrate the point:

> '…imagine that two otherwise-identical, hypothetical families have exactly the same disposable income in a particular month and have spent all but the remaining £5 in exactly the same way. Assume that these two families are then faced with the following choice: 'Should we spend the remaining £5 a week on household contents insurance (on the list of survey questions) or should we spend it on more nutritious food (not on the list of survey questions)?' The family that, on balance, preferred the more nutritious food is likely to have said that it wanted, but could not afford, household contents insurance. Therefore … the family that chose the more nutritious food will be classed as more deprived that the family that bought household contents insurance, simply because of its *preference* for nutritious food over household contents insurance. However, it is very difficult to argue that the two families have different standards of living – they just choose to spend some of their money in slightly different ways' (Brewer, Muriel, Phillips and Sibieta, 2008: 64; italics in the original)

The basic point is that the method used to identify deprivation is partly a reflection of people's preferences and their subjective assessment of their circumstances, as captured in their response to the 'Can you afford it?' question. This undermines claims that the method provides a purely objective measure of the standard of living (Berthoud and Bryan, 2008), and has led the IFS group to argue that the threshold used to identify deprivation (the numbers of items lacking that cannot be afforded) is 'essentially arbitrary'. This point was initially made by Berthoud, Bryan and Bardasi (2004) who argued that the affordability question is not capable of distinguishing between the role of constraint and choice in influencing consumption decisions. From this it follows that:

> 'Either the material deprivation score is a prescribed list of items families should not lack – in which case the policy response should be to provide the items – or the government intends it as an indicator of living standards (which we think more likely), in which case it will inevitably conflate preferences and living standards' (Brewer et al., 2008: 65)

The fact that there may also be systematic differences in the identification of which items are essential simply compounds this problem and distorts comparisons between different groups.

Notwithstanding these conceptual limitations, a key feature of the deprivation approach is the use of an affordability criterion to filter out those who choose to forego particular items. Although imperfect, this aspect of the approach attempts to place the focus on the constraining influence of a lack of resources (relative to needs) that is the defining characteristic of poverty and an important indicator of the standard of living generally.

The above description explains how separate instances of deprivation are identified in the space of necessities. In order to obtain an overall measure of the extent of deprivation (and hence an indicator of the standard of living), it is necessary to combine the separate instances into an aggregate index of deprivation. The most common way of doing this is to simply sum the number of essential items that are lacking because they cannot be afforded. Studies have explored the impact of applying weights to each item when aggregating them, where the weights attached to each item vary with either the degree of support for the item being essential ('preference weighting'), or with the percentage of the population that actually has each item ('prevalence weighting') (Willitts, 2006).

One practical advantage of applying weights is that the use of such weights avoids the need to draw a dividing line between essentials and non-essentials, since every item appears in the index, weighted by the proportion that regard it as essential (or by the proportion that has it). The implication is that going without an item that receives near universal support for being necessary or is very widely owned in the community, carries a greater weighting than going without an item that has less support for being necessary, or is less widely owned. The advantage of the weighting approach has been emphasised by Van den Bosch (2001: 396) who argues:

> '…such a sharp distinction between necessities and non-necessities seems inappropriate. It is much more defensible to … give each item a weight based on the proportion of the population that regards it as a necessity'.

In practical terms, those studies that have experimented with a range of alternative weighting schemes have found that they make relatively little difference to the overall extent of deprivation, or to the identification of those groups that are most affected by it (Halleröd, 1995; Halleröd, Bradshaw and Holmes, 1997). Evidence presented in Saunders, Naidoo and Griffiths (2007: Table 1) and confirmed by subsequent analysis (Saunders and Naidoo, 2008) shows that this is also the case for Australia. Both weighting schemes produce a more nuanced index of deprivation, but at a cost of increased complexity and less transparency (and possibly also reduced understanding). People can relate easily to the idea of using a majority rule to identify which items are essential and the distinction between essential and non-essential items is widely understood and accepted as legitimate. So too is the idea of adding up the number of separate instances of deprivation to derive an overall index and the related use of the summed index to measure the severity of deprivation. The use of a simple aggregated index score has also received support from the analysis of the financial hardship data in the *Household Income and Labour Dynamics in Australia* (HILDA) survey undertaken by Butterworth and Crosier, 2005). For these reasons, the grounds for using an unweighted index based on a threshold definition of essentials are strong and this approach is adopted in the remainder of this report.

Reference has already been made to the pilot deprivation study undertaken over a decade ago by Travers and Robertson (1996) as part of the DSS Adequacy Project. The approach adopted there was described as follows:

> 'This study follows a tradition of research on standards of living where questions on income are supplemented by questions on how people are actually living in terms of their possessions, housing, transport, social activities, as well as how they themselves view their living standards. One

> of the primary tasks of the study is to see if relative deprivation in terms of these direct measures follows a similar pattern to deprivation in terms of income. In other words, the study addresses the question: are those who are worst off in terms of income also worst off in terms of housing, transport, social activities, and morale?' (Travers and Robertson, 1996: 1)

Although restricted to examining patterns of relative deprivation among a relatively small sample of DSS clients, the study applied a deprivation methodology to identify which of a series of 'basics of life' items were regarded as necessities by participants in a series of focus groups, and then applied a weighting scale to each item, where the weight reflected the percentage that agreed that the item was necessary. The items were assigned a score ranging between zero ('not necessary') and 4 ('very necessary') and an index of deprivation was derived by summing the number of necessary items that people were lacking and could not afford.

The results were sufficiently interesting for the authors to recommend that:

> 'The questionnaire developed and tested in this pilot study be used in a national survey. Ideally, such a survey should not be confined to clients of the DSS. The reason for this is that a survey of DSS clients can tell us only about relative deprivation among clients, that is, whether one group is faring better or worse than another. It does not tell us how DSS clients are faring relative to the population at large.' (Travers and Robertson, 1996, p. vi)

These recommendations were never taken up, although variants of some of the questions developed in the study have been included in the *Household Expenditure Survey* (HES) conducted by the ABS since 1998-99. Similar questions have also appeared the *General Social Survey* (GSS) conducted by ABS (2003), and the longitudinal survey of *Household, Income and Labour Dynamics in Australia* (HILDA) Survey (Wooden and Watson, 2002). The data generated by these questions has been used to measure the incidence of financial stress or hardship in a series of studies (Bray, 2001; McColl, Pietsch and Gatenby, 2001; Department of Family and Community Services, 2003; Breunig and Cobb-Clark, 2006; Headey and Warren, 2007). They have also been used as an input into the development of indicators of poverty based on Sen's notion of capability (Headey, 2006).

These studies have generated valuable information, but they do not allow deprivation to be estimated because not attempt is made to establish the degree of support the items included being necessary. This is a crucial feature of the deprivation approach because it bases the identification of deprivation on community opinion about which items are necessary, and this provides the approach with greater legitimacy and the estimates themselves with increased credibility.

Although deprivation studies are in their infancy in Australia, a considerable amount of work has been done in measuring and analysing hardship and financial stress that are close cousins of deprivation. A solid foundation of data and research exists and the results presented below build on this platform to show how deprivation can shed important new light on issues associated with the standard of living and income adequacy.

4 Data and Methods

4.1 The CUPSE Survey

The *Community Understandings of Poverty and Social Exclusion* (CUPSE) survey forms part of a project that is developing new indicators of social disadvantage to complement the existing poverty instruments. The underlying premise of the project is that 'social disadvantage takes many different forms, and the identification and measurement of poverty and other forms of disadvantage must be grounded in the actual living standards and experiences of people in poverty' (Saunders, Naidoo and Griffiths 2007: 2). The project was funded under two Australian Research Council grants, one of which was conducted in collaboration with Mission Australia, the Brotherhood of St Laurence, Anglicare, Diocese of Sydney and the Australian Council of Social Service (ACOSS), who provided cash and in-kind support.[4] Analysts from these agencies assisted with the development of the survey instrument and facilitated contact their front-line staff and clients whose views were reflected in the questionnaire.

Prior to the survey being conducted, a series of focus group discussions were held with welfare service users and staff designed to provide a better understanding of the experience of poverty and disadvantage and obtain their views on what are the essential ingredients of a decent standard of living (Saunders and Sutherland, 2006). These views influenced both the content of the CUPSE questionnaire – which items were included as potential necessities - and its structure – how the different items were grouped together in broad living standard domains.

The questionnaire included many of the questions asked in previous studies of deprivation, exclusion and living standards conducted in Britain (Pantazis, Gordon and Levitas, 2006), Ireland (Nolan and Whelan, 1996) and New Zealand (Krishnan, Jensen and Ballantyne, 2002). The aim of drawing on the information generated by the focus group discussions and questions used in previous deprivation studies was to ensure that the CUPSE questionnaire included items that were known to be associated with deprivation and hardship. By grounding the survey in the experience of poverty in this way, the aim was to generate responses that captured the realities of poverty rather than the views of researchers.

The survey was mailed to a random sample of 6,000 members of the adult population drawn from the Australian federal electoral roll in mid-April and by early-August 2,704 people responses were received, representing a response rate of 46.9 per cent.[5] The sample is broadly representative of the general population as revealed in official (ABS) statistics, particularly in relation to such socio-economic variables as gender, country of birth, labour force status, main source of income, housing tenure,

4 The project 'An Integrated Framework for Developing Credible Indicators of Deprivation and Other Distributional Markers' was funded under ARC Discovery grant DP0452562, while the 'Left Out and Missing Out' project was funded under ARC Linkage grant LP0560797.

5 A shorter version of the survey was completed by 673 clients of selected welfare services provided by the collaborating agencies, at the point of accessing services. Comparisons of the findings of the two surveys are contained in Saunders, Naidoo and Griffiths (2007). Attention focuses here solely on the larger (community) survey.

educational attainment and disability status. There is a slight under-representation of those who have never been married; live alone; Indigenous Australians; and those with incomes between $1,000 and $2,000 a week. The main difference between the CUPSE sample and the general population is age-related; CUPSE over-represented older people (over age 50) and under-represented younger people (under age 30): further details are provided in Saunders, Naidoo and Griffiths: Chapter 3 and Appendix A).[6]

It is important to emphasise that these features of the CUPSE sample should not give rise to any biases when comparing the circumstances of different groups, which is the focus of the analysis reported below. Against this, it is also relevant to note that the CUPSE questionnaire was completed by individuals, who provided information about their own views and circumstances, as well as information about other members of their household. Some of this latter information was, however, somewhat rudimentary and assumptions had to be made in order to derive a household structure variable.[7]

4.2 Sample Selection

Some of the questions included in the CUPSE survey reflect its status as a mailed questionnaire – a feature that places restrictions on how complex the questions can be and thus on the degree of sophistication of the variables derived from them. The income question, for example, sought information on income in broad ranges and is thus not suitable for some forms of analysis (e.g. studies of income poverty) that require a greater degree of detail than was provided.[8] One of the CUPSE variables that form the basis of much of the following analysis relates to the principal source of income. The precise question asked was:

What was the MAIN source of income of you/your family last week?

Table 2 lists the response categories provided in the questionnaire and presents a breakdown of the responses into each of them. A small number of adjustments to the samples shown in Table 2 were made after cross-checking the information provided for consistency with other information (on such variables as age, household type and labour force status).[9]

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6 This is a common feature of mailed surveys. Adjusting the sample data for age differences by re-weighting has relatively little impact on the unweighted results and does not alter the conclusions described below.

7 For example, respondents were asked to indicate if they were living in a group household, but no information was collected about the characteristics (or even the number of) other household members, and assumptions had to be made about the structure of the household. These issues are of less importance for the analysis conducted here, which does not rely to any great extent of these constructed variables.

8 The weekly income ranges specified in the CUPSE questionnaire were: Less than $100; $100 to $199; $200 to $299; $300to $399; $400 to $499; $500 to $599; $600 to $699; $700 to $799; $800 to $899; $900 to $999; $1,000 to $1,499; $1,500 to $1,999; $2,000 and over; and no or negative income.

9 Particular attention was paid to ensuring that the age pensioner group only contained individuals that were at or above age pension age.

Two more significant variations involved restricting those mainly dependent on interest, dividend or superannuation income to those aged 65 or over (hereafter referred to as the 'self-funded retirees' group) and restricting wage and salary earners to respondents aged between 18 and 64, with at least one full-time worker in the household and gross family incomes between $500 and $799 a week (referred to hereafter as the 'low-wage workers' group).[10] The resulting categories and adjusted sample sizes are shown in Table 3, and these sub-samples are the source of the empirical results presented later.

Table 2: Breakdown of CUPSE Sample by Main Source of Income

	Sample Breakdown	
Main Source of Income	Numbers	Percentage
Wages or salaries	1568	65.0
Interest, dividends, superannuation, etc.	161	6.7
Age Pension	336	13.9
Veterans' Affairs Pension	51	2.1
Disability Support Pension	80	3.3
Parenting Payment	54	2.2
Newstart Allowance	40	1.7
Other Centrelink payment	33	1.4
Other source of income	91	3.8
Missing values/multiple responses	290	-
Total sample	2704	100.0

Source: CUPSE survey.

Table 3: Adjusted Categories and Sample Sizes

	Sample Breakdown	
Main Source of Income	Numbers	Percentage
Low-wage workers	205	24.4
Self-funded retirees	98	11.7
Age Pensioners	320	38.1
Veterans' Affairs Pensioners	48	5.7
Disability Support Pensioners	76	9.1
Parenting Payment Recipients	53	6.3
Newstart Allowance Recipients	39	4.7
Total sample	839	100.0

Source: CUPSE survey.

The main focus of interest here is on using the deprivation indicators to assess the living standards of the age pensioner group – both in comparison with the other groups identified in Table 3, and as between different sub-groups of age pensioners. The degree of detail that can be examined within the age pensioner group is limited by the overall sample size, but comparisons based on the sub-categories shown in Table 4 have been conducted. It is important to note that the sample sizes shown are upper limits because most of the analysis involves additional variables that may contain missing values, restricting the actual samples below those shown.

10 The standard federal minimum wage prevailing at the time that the survey was conducted (April to July 2006) was $484.50; it was increased to $511.86 in October 2006 (Source: Australian Fair Pay Commission, 2006)

Table 4: Sub-Categories Within the Age Pensioner Group

Sub-category [(a)]	Sample Breakdown Numbers	Percentage
Gender:		
Male	145	45.3
Female	175	54.7
Age:		
Up to 74 years	200	62.5
75 and over	120	37.5
Living arrangement:		
Single, lives alone	102	37.8
Married, lives as couple	168	62.2
Housing tenure:		
Owner/purchaser	241	83.4
Renter (public or private)	48	16.6

Note: (a) There are also a small number of cases that lie outside the specified categories (e.g. pensioners living with other people, such as their children; boarders and those in other housing tenures), and these have been excluded, as are respondents who did not provide the relevant information.
Source: CUPSE survey.

4.3 Necessities and Deprivation

As indicated earlier, respondents to the CUPSE survey were presented with a list of items and asked to provide Yes/No answers to three questions about each item:

- Is it essential?
- Do you have it?
- If you do not, is this because you cannot afford it?

The last question was only asked of those items that individuals could buy for themselves, and was not asked of those items that are either provided free of charge at the point of consumption (e.g. access to many forms of medical care), or cannot be purchased (e.g. items such as English language proficiency and a minimum level of education). In addition, some of the items relate only to the needs of specific sub-groups in the community (e.g. access to mental health services, if needed). A study of general deprivation relates only to items that meet universal needs that people may go without because they cannot afford them, so those items that do not involve an immediate and direct cost to users or are not generally applicable were also excluded from further consideration (irrespective of whether or not they were regarded as essential).[11]

A total of 61 items were included in the CUPSE questionnaire, of which 40 met the above criteria for being relevant to the general issue of deprivation. These items are

11 Some of the other omitted items include the ability to read and speak English, supportive family relationships and a basic level of education, all of which were regarded as essential by more than 50 per cent of respondents. The dividing line between items that meet universal needs and those that meet specific needs is not clear-cut, although items were described in ways that emphasised their universal nature (e.g. access to dental treatment, when needed).

identified Table 5, which also shows the percentage of respondents that said each item is essential, the percentage that had each item, and the percentage that did not have and could not afford each item. Items included in the questionnaire for which it was not appropriate to ask the ‘Can you afford it?’ question have been omitted from Table 5, since these do not feature in the following discussion. This reduced the total number of items from the original 61 to 44, and a further 4 items were removed because they relate to specific needs, further reducing the number of relevant items from 44 to 40. When identifying those items regarded as essential by a majority (at least 50 per cent) the survey responses were re-weighted to reflect the age structure of the population in order to avoid any response bias in this key step in the analysis. In practice, this made very little difference to the results and the unweighted percentages are very close to those shown in Table 5.[12]

[12] Two items that received very close to majority support for being essential were a car and a separate bedroom for children aged over 10. In both cases, the degree of support for them being essential varied across age categories, with older people (aged 65 and over) far more likely than younger people (aged under 30) to regard both as essential. If population weights are used to weight the sample, support for the car being essential falls below the 50 per cent cut-off and it was therefore omitted from the list of essentials. The separate bedroom for older children was included in the list, on the grounds that well over a majority of those who are old enough to have children of this age themselves regarded it as being essential.

Table 5: Items Used to Identify Deprivation: Support for being Essential and Prevalence Rates (percentages)

Item	Is it essential? (weighted)	Has the item (prevalence rate, unweighted)	Does not have and cannot afford (unweighted)
Medical treatment, if needed	99.9	97.0	2.0
Warm clothes and bedding if it's cold	99.8	99.6	0.2
A substantial meal at least once a day	99.6	98.5	1.1
Able buy medicines prescribed by a doctor	99.3	95.7	3.9
Dental treatment, if needed	98.5	81.3	13.9
A decent and secure home	97.3	92.1	6.7
Children can participate in school activities & outings	94.7	68.9	3.5
A yearly dental check-up for children	94.3	71.4	9.1
A hobby or leisure activity for children	92.5	74.1	5.7
Regular social contact with other people	92.5	87.0	4.7
Secure locks on doors and windows	91.6	87.5	5.1
A roof and gutters that do not leak	91.5	90.0	4.6
Furniture in reasonable condition	89.3	96.4	2.6
Up to date schoolbooks/clothes for children	88.5	66.0	3.8
Heating in at least one room of the house	87.4	92.0	1.8
A separate bed for each child	84.0	85.5	1.6
A telephone	81.1	96.8	1.5
Up to $500 in savings for an emergency	81.1	76.1	17.6
A washing machine	79.4	97.9	0.8
Home contents insurance	75.1	83.8	9.5
Presents for family or friends at least once a year	71.6	87.5	6.6
Computer skills	68.7	67.5	5.2
Comprehensive motor vehicle insurance	60.2	83.4	8.6
A weeks holiday away from home each year	52.9	56.3	22.4
A television	50.9	98.8	0.2
A separate bedroom for each child over 10	49.1	70.4	6.1
A car	47.8	92.3	3.7
Up to $2,000 in savings for an emergency	44.4	57.9	28.1
A special meal once a week	35.9	44.8	15.3
A night out once a fortnight	35.6	38.7	20.5
A spare room for guests to stay over	31.5	70.4	12.9
A home computer	25.9	74.8	8.5
A mobile phone	23.0	81.8	3.7
Access to the internet at home	19.7	66.7	9.9
A clothes dryer	18.9	61.7	7.6
A printer	18.6	68.8	8.6
A DVD player	17.2	83.1	3.7
An answering machine	12.3	54.0	5.0
A dishwasher	7.6	48.6	11.3
A fax machine	5.3	27.8	8.5

Six of the items that appear above the majority support benchmark shown in Table 5 refer to the needs of children and these are also not generally applicable, particularly in a study that is focusing on the living standards of older people, very few of whom are living with dependent children (defined as those aged 17 and under).[13] These 6 items were thus also excluded. Finally, in an extension of the original SPRC work Saunders and Naidoo (2008) have shown that standard validity and reliability tests used to refine the list of deprivation items (see Gordon, 2006) suggest the removal of a television set, further reducing the list of essential items on which the analysis reported here is based from 26 to 19. For convenience, the 7 omitted items are shown in shading in Table 5.

The 19 identified necessities can be grouped into the following five broad areas of need:[14]

- *Basic subsistence needs* – warm clothes and bedding; a substantial daily meal; washing machine; computer skills; furniture in reasonable condition; heating in at least one room.
- *Health needs* – medical treatment if needed; prescribed medications; dental treatment if needed.
- *Accommodation needs* – a decent and secure home; secure locks on doors and windows; roof and gutters that do not leak.
- *Social functioning needs* - regular social contact with others; a telephone; presents for family and friends; an annual holiday.
- *Risk protection needs* – Up to $500 in emergency savings; home contents insurance; comprehensive motor vehicle insurance.[15]

Although the location of some items in one domain rather than another is a matter of judgement (e.g. should home contents insurance be included under accommodation needs or under risk protection?), the five domains encompass most basic needs as identified in other needs studies.

As indicated earlier, the extent of deprivation has been measured using a simple unweighted summed index of the number of essential items that each household is

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13 The child-related items were kept in the original analysis reported in Saunders, Naidoo and Griffiths (2007) because of the interest in estimating the extent and nature of deprivation in families with children. However, this has the effect of making the maximum deprivation score for households with children higher than that for other households, sand this can distort comparisons between them.

14 The identification of groupings of necessary items can be based on statistical analysis (e.g. principal components analysis) although this does not avoid the need to make judgments about the findings, and the heuristic approach of grouping items that meet similar needs together is preferred (although most of the analysis focuses on overall as opposed to item-specific deprivation.

15 It might be seen as anomalous that a car did not receive majority support for being necessary yet comprehensive motor vehicle insurance did. However, this implies that most people do not regard a car as essential but if there is one it should be adequately insured.

lacking because they cannot afford it. These scores are calculated for individuals respondents and averaged across household types in order to compare and assess differences in living standards between the groups identified in Table 3 and, in the case of age pensioners, between the different sub-groups identified in Table 4. Although this is the most common indicator used in deprivation studies, problems arise in the treatment of missing values (i.e. those who did not answer the “Can you afford it?”question). Index scores generally treat these cases as not being deprived of the item, because the alternative would involve excluding all respondents who did not answer all of the questions, which would result in a large decline in sample size and a resulting loss in the efficiency of the estimates.

There is thus the potential for this to induce a bias in the findings if the propensity to not answer the affordability question varies systematically across respondent types. Although analysis of the CUPSE data suggests that this is not an issue in practice, an additional deprivation measure has been used which minimises (but does not avoid entirely) any bias arising from the treatment of missing values. This index is the percentage of respondents in each group who are deprived of a minimum number of the identified necessities. Although selection of the minimum number of items introduces a degree of arbitrariness into the approach, the size of the minimum can be varied and the sensitivity of the results examined. More generally, the use of an indicator of deprivation other than the mean index score allows the robustness of the results to be assessed.

4.4 Other Indicators of Living Standards

Objective Indicators

The information collected in the CUPSE survey allows a number of other objective indicators of living standards to be specified and measured. These indicators are objective in the sense that respondents were asked to provide factual information about their current and past circumstances, although no attempt has been made to use external sources to validate the accuracy of the information provided. The indicators have been grouped into the following four broad areas:

- Access to economic resources other than income;
- Hardship (or missing out);
- Restricted social participation; and
- Financial stress

The indicators used in each area are defined in Table 6, which also provides information on the survey questions on which the indicators are based. Two income measures have been included among the economic resource indicators: weekly gross income and weekly equivalised disposable income.[16] The conceptual limitations of these income variables have already been discussed, as have the limitations of the

[16] The income variables have been derived after setting each response to the mid-point of the indicated income range (set at $2,500 for those with incomes of $2,000 or above). Those reporting no or negative income have been excluded.

CUPSE income variable itself. These considerations imply that the income estimates should be treated with caution, although they have been included so that the contrast between these and the other indicators can be assessed.

Most of the remaining indicators have been derived from questions that asked for information about adverse events that were experienced over the last twelve months because of a shortage of money (or lack of affordability). Some of the indicators (particularly those in the hardship/missing out category) are similar to those included as essential items in Table 5. However, whereas the deprivation analysis is based on one's inability to afford essential items *currently*, the analysis of other living standards indicators reflects events that occurred *over the last twelve months*, locating the identification of economic adversity within a longer-term context.

The results presented later are shown as mean values (in relation to the two income measures), the percentage of respondents who reported being in each situation (in relation to access to the other economic resource indicators and lack of control) or the percentage that reported experiencing each adverse event (by indicating that they has experienced the event). The access to economic resources indicators have been defined so that a higher value is indicative of a higher standard of living, whereas the other indicators reflect the incidence of adverse events, so that a higher value implies a lower standard of living (because respondents were asked to tick a box if they had experienced the event).

Table 6: Other Objective Living Standards Indicators

Indicator/descriptor	Description and Definition
Access to economic resources:	
Gross weekly income	Derived from mid-points of income ranges
Equivalised weekly disposable income	As above, with taxes imputed and the OECD equivalence scale applied
Level of assets (Assets)	% with at least $50,000 in assets (net of home and superannuation)
Level of savings (Savings)	% that has at least $2,000 in savings for use in an emergency
Hardship/missing out:	
Over the last 12 months, because of a lack of affordability:	
Went without food when hungry (No food)	Response to multiple choice question
Got behind with rent or mortgage (Got behind)	Response to multiple choice question
Had to move house (Moved house)	Response to multiple choice question
Wore bad-fitting or worn-out clothes (Worn-out clothes)	Response to multiple choice question
Could not afford to see a doctor (Missed doctor)	Response to multiple choice question
Could not afford to see a dentist (Missed dentist)	Response to multiple choice question
Unable to buy prescribed medicines (Missed prescriptions)	Response to multiple choice question
Has not spent $100 or more on a ‘special treat’ for self (No special treat)	Response to multiple choice question
Restricted social participation:	
Over the last 12 months, because of a shortage of money:	
Couldn’t go out with friends because unable to pay one’s way (Unable to pay way)	Response to multiple choice question
Unable to attend a wedding or funeral (Missed wedding or funeral)	Response to multiple choice question
Does not have a social life (No social life)	Response to multiple choice question
No participation in social or community activities (No community participation)	Did not participate in volunteering, educational, religious, cultural, sport or political activities
Financial stress:	
Over the last 12 months:	
Could not keep up with domestic utility bills (Unpaid bills)	Response to multiple choice question
Had to pawn or sell something or borrow money (Pawned, sold or borrowed)	Response to multiple choice question
Sought assistance from a welfare agency (Welfare assistance)	Response to multiple choice question
Unable to raise $2,000 in a week in an emergency (Can’t raise $,2000)	Response to multiple choice question

Source: CUPSE survey.

Subjective Indicators

The subjective indicators are differentiated from the objective indicators described above by the fact that the questions from which they were derived make explicit reference to the perceptions of respondents, either by asking them to rate or assess different aspects of their lives, or to indicate how satisfied they are with different aspects of their circumstances, or to provide an assessment of their circumstances. The full list of subjective living standard indicators is presented and described in Table 7. The subjective indicators have all been defined so that a higher value is indicative of a higher (perceived) standard of living.

Table 7: Subjective Living Standards Indicators

Indicator/descriptor	Description and Definition
Self-rated standard of living (SOL rating)	% who rate SOL very high or high Mean score on a 5-point scale
Satisfaction with standard of living (Satisfaction with SOL)	% who are very satisfied or fairly satisfied Mean score on a 5-point scale
Satisfaction with financial situation (Satisfaction-financial)	% who rank 8-10 on a 10-point scale Mean score on a 10-point scale
Satisfaction with current accommodation (Satisfaction-accommodation)	% who are very satisfied or fairly satisfied Mean score on a 5-point scale
Satisfaction with location (Satisfaction-location)	% who are very satisfied or fairly satisfied Mean score on a 5-point scale
Satisfaction with care and support received from family and friends (Satisfaction-care & support)	% who are very satisfied or fairly satisfied Mean score on a 5-point scale
Happiness (Happiness)	% who are very happy or happy Mean score on a 4-point scale
Subjective health status (Health status)	% who say their health is excellent or good Mean score on a 4-point scale
Self-assessed as poor (Not poor)	% who identified themselves as not poor
Unable to manage on current income (Income managing)	% who indicated that they do have just or more than enough to get by on
Degree of choice and control over your own life and the things that happen to you (Has control)	% who report a score of 8-10 on a 10-point scale Mean score on a 10-point scale
Over the last 12 months:	
Often felt too sick to get out of bed in the morning (Too sick)	Response to multiple choice question
Felt depressed and lacking in self-esteem (Depressed)	Response to multiple choice question
Often felt anxious about one's problems (Anxious)	Response to multiple choice question
Felt isolated and lonely (Isolated & lonely)	Response to multiple choice question

Because of the nature of both the objective and subjective indicators, a degree of caution must be applied when drawing conclusions from the results presented. There are several reasons for this. First, the accuracy and reliability of the data provided and the meaning of some of the indicators may be open to interpretation: for example, how are 'bad-fitting or worn-out' clothes or a 'special treat' perceived by respondents in different situations, and to what extent does the absence of the latter reflect a lack of resources or the choice to live a modest or frugal lifestyle? These issues of meaning and interpretation become even more problematic in the case of the subjective indicators, where the information provided reflects (as it should) the perceptions, aspirations and disappointments of those surveyed.

Although questions can be raised about the quality of the information provided in response to questions seeking information about subjective perceptions (particularly in postal surveys like CUPSE, where there is no opportunity to query or follow-up the responses provided), there is a general consensus that such information is broadly consistent with more objective data. As one recent UK study of well-being among older people has noted:

> 'However imprecisely defined, Government studies have used measures of happiness and satisfaction, as reported by respondents themselves, to compare levels of wellbeing between various groups of people. There

> does seem to be consistency between the findings and a general confidence in the measures of wellbeing.' (Allen, 2008: 13)

Having said this, however, it would not be appropriate to place too much weight on the implications drawn from any single indicator. It is important to remember that they are indicators, not measures, and thus provide signposts that point in particularly directions or highlight likely trends. For this reason, the wisest approach is to base assessments on what a range of indicators, *taken together*, rather than relying exclusively on what is revealed by any one indicator, taken in isolation. If all indicators point in a similar direction, one can have greater confidence that they are capturing the underlying reality than if the different indicators point in different directions.

A more challenging problem relates to the use of indicators to compare the circumstances (e.g. living standards) of different groups. The problem that arises here relates to the possibility that the benchmarks used by different groups when they formulate their responses may differ. These possibilities reflect the existence of preference drift or preference adaption effects – the tendency for expectations to mirror actual experience, with the result (for example) that those that are less well-off lowering their expectations and thus expressing increased satisfaction relative to the reduced benchmark of comparison. These effects can distort the between-group comparisons, because the circumstances that are used differentiate between the groups – age, labour force status, disability and sole parenthood – may be associated with preference drift effects that will dilute the observed differences.

Related to this issue is the general problem that arises when comparing the circumstances of groups that differ systematically by age using point-in-time or cross-section data. It is not possible with such data to identify the impact of cohort effects that can systematically distort the comparisons and lead to inappropriate conclusions. People at different points in their life cycle will also differ in relation to factors such as income, accumulated assets and health status, all of which will affect the indicator comparisons, directly and indirectly.

Of relevance in this context is an important UK study that has produced evidence showing that, contrary to the findings of cross-section studies, longitudinal studies suggest that:

> '… as people move on in life and their activities become more restricted, they find it more difficult to ensure that their limited income meets the basics of material consumption listed in deprivation indicators' (Berthoud, Blekesaune and Hancock, 2006: 94)

This finding is at odds with the findings to emerge from cross-section studies, which indicate that:

> 'Pensioners have lower average incomes, and a higher risk of income-poverty, than adults below pensionable age. But structured measures of living standards, or of 'deprivation', have suggested that pensioners do not experience as much hardship as might be expected. And it has been shown that pensioners tend to spend less than their income. The contrast between these perspectives is potentially important, either for an assessment of the

> living standards of older people, or for an assessment of the validity of measures of living standards' (Berthoud, Blekesaune and Hancock, 2006: 1)

This research suggests that the relationship between age and deprivation reflects a cohort effect and two offsetting ageing effects. The cohort effect captures the lower expectations of earlier generations, which allows them to exert tighter control over their spending and thus be more efficient at converting income into a standard of living. The beneficial ageing effect captures the impact of increased restriction on activities, which reduces expectations and results in greater acceptance of and contentment with the kinds of consumption items included in deprivation indicators. The detrimental ageing effect works in the opposite direction, with increased restriction on activities reducing the ability of income to meet the needs implied by deprivation indicators. It is the existence of this latter effect that casts doubt on the standard finding that deprivation tends to decline with age in a cross-section sample, since it suggests that deprivation increases as individuals age.

It is not possible to isolate these separate effects in Australia using the CUPSE data which provides only a cross-section (point in time) snapshot of deprivation and living standards. It might be possible to examine this issue using the longitudinal data collected in the HILDA survey, although this has not been attempted (and will, in any case, be limited by the restricted number of deprivation indicators available). It is, however, another important issue to be borne in mind when interpreting the results.

5 Comparisons by Main Source of Income Categories

5.1 Deprivation

The measurement of deprivation has been based on those who do not have and cannot afford the truncated list of 19 'essentials of life' identified in Table 5 using two indicators: the mean score index, derived by summing the number of deprivations for each individual and then averaging across demographic groups; and the incidence of multiple deprivation, specified as the percentage in each group who are deprived of a minimum number of items.

Table 8 shows, for each of the main income source categories described earlier, the mean deprivation scores and the percentages who are deprived of up to 10 of the identified essentials of life. On average, the self-funded retiree group experiences very little deprivation (mean score = 0.09), whereas age and veteran's affairs pensioners are both deprived of about one essential item on average, low-wage workers are deprived of around 2 items on average, disability pensioners are deprived of about 3 items on average, and Parenting Payment and Newstart Allowance recipients are both deprived of more than four items on average. It is important to remember that the approach used to identify deprivation depends on there being majority support *among the community at large* for items that are regarded as essential *for everyone*. It is thus not the views of members of these groups themselves that determine whether or not they are deprived and how much deprivation they face, but a benchmark that reflects community opinion.[17]

Using this benchmark, the results in Table 8 suggest that members of the age pensioner group (the column entries shown in bold) are, on average, worse off than self-funded retirees, have a similar living standard to those receiving a Veteran's Affairs Pension, but considerably better-off than low-wage workers and those receiving either a Disability Support Pension, Parenting Payment or Newstart Allowance.

The ranking of groups by the incidence of multiple deprivation is similar to that based on the mean index scores. Since the patterns are similar across all the multiple deprivation categories, discussion will focus on the incidence of those in each group who are deprived of four or more essential items (the row estimates shown in bold in Table 8). When this measure is applied, the incidence of deprivation in the CUPSE community sample as a whole is 14.2 per cent – around one-in-seven (Saunders, Naidoo and Griffiths, 2007: Table 5). Given that this indicator reflects multiple deprivation, it is less convincing to claim that deprivation is the result of individual preference as opposed to a consequence of a lack of resources.

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[17] If the percentage of the total CUPSE sample that regards each item as essential shown in Table 5 was replaced by the percentage of age pensioner recipients as defined here, four additional items would be identified as essential. They are (with percentage support among the age pensioner group in brackets): a car (63.1 per cent); up to $2,000 in savings for an emergency (61.7 per cent); a special meal once a week (51.0 per cent); and a spare room for guests to stay over (63.9 per cent). This difference reflects the fact that there is a general tendency for a higher percentage of older people to regard items as essential than other respondents, although the differences are not that large and will not exert a large impact on the results.

Table 8: Deprivation Mean Scores and Multiple Incidence Rates, by Main Income Category

Indicator	Income Category: Low-wage Worker	Self-funded Retiree	**Age Pensioner** (b)	Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
Mean deprivation index score:							
	2.14	0.09	**0.99 (3)**	0.87	3.01	4.63	4.18
Incidence of multiple deprivation (number of items lacking and unaffordable):							
0	43.1	93.9	**61.2 (3)**	71.7	24.3	11.5	12.8
At least 1	56.9	6.1	**38.8 (3)**	28.3	75.7	88.5	87.2
At least 2	44.5	2.0	**21.2 (2)**	28.3	59.5	73.1	74.4
At least 3	31.7	1.0	**14.7 (2)**	15.2	48.6	69.2	66.7
At least 4	**23.8**	**0.0**	**9.8 (3)**	**8.7**	**32.4**	**57.7**	**59.0**
At least 5	19.3	0.0	**7.2 (3)**	4.3	24.3	48.1	51.3
At least 6	13.4	0.0	**3.9 (3)**	2.2	21.6	38.5	33.3
At least 7	10.4	0.0	**2.3 (3)**	0.0	13.5	28.8	20.5
At least 8	4.9	0.0	**1.3 (3)**	0.0	8.1	15.4	12.8
At least 9	3.5	0.0	**0.3 (3)**	0.0	5.4	13.5	7.7
At least 10	2.5	0.0	**0.0 (1=)**	0.0	4.0	9.6	2.6

Notes: (a) Percentages are expressed after omitting missing values; (b) Figures in brackets show ranking.
Source: CUPSE survey.

On this measure, none of the self-funded retiree group is deprived, whereas deprivation affects around 10 per cent of age and veteran's affairs pensioners, close to a quarter of low-wage workers, almost a third of disability pensioners and well over half of those receiving Parenting Payment and Newstart Allowance. These estimates thus suggest that while a significant proportion of those receiving an age pension are facing a moderately high level of multiple deprivation, there are several other groups dependent on government income support who face higher deprivation and thus a lower standard of living.

Having explored the overall level and severity of deprivation, Table 9 shows the separate deprivation incidence rates for all 19 essential items for each of the seven main income source categories. Although it would also have been of interest to examine the item-specific deprivation rates among those who are defined as deprived in overall terms, small sample size prevents this from being undertaken – here and when discussing the breakdown within the age pensioner group later. A greater degree of caution applies to these results, since differences in the individual item deprivation rates are more likely to reflect variations in individual preferences than the aggregate rates discussed above.

With this caveat in mind, the three essential items that age pensioners are most likely to be deprived of are (in order) a week's holiday away from home each year, dental treatment when needed and computer skills. While the latter item may reflect the recent rapid growth of computer-related IT technology that older people may not feel it is worth the effort to master, the other items are among the most common examples of deprivation among the community generally. The next three items where age pensioner deprivation is most prevalent all relate to efforts to protect against unforeseen risks: up to $500 in emergency savings, comprehensive motor vehicle and home contents insurance. The fact that many age pensioners are unable to afford to protect themselves from risks in this way suggests that their standard of living does not meet what the community regards as acceptable. The ranking of deprivation rates across the essential items for the other income groups is similar to that for age pensioners and is not discussed further.

Table 9: Essential Item Deprivation Rates Among Main Income Source Categories (percentages) [(a)]

Item	Low-wage Worker	Self-funded Retiree	**Age Pensioner** [(b)]	Income Category: Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
Medical treatment, if needed	4.0	1.1	**1.4 (3)**	0.0	2.9	10.2	22.0
Warm clothes and bedding if it's cold	0.5	0.0	**0.0 (1=)**	0.0	0.0	2.0	2.6
A substantial meal at least once a day	2.6	0.0	**0.7 (3)**	0.0	11.3	3.9	10.3
Able to buy prescribed medicines	11.7	1.0	**2.1 (3)**	0.0	11.6	12.8	16.7
Dental treatment, if needed	27.5	2.1	**13.1 (3)**	2.4	31.9	54.0	44.7
A decent and secure home	10.4	1.0	**6.5 (2)**	7.3	20.3	44.0	23.1
Regular social contact with others	11.2	0.0	**6.0 (3)**	5.0	17.4	15.2	20.6
Secure locks on doors & windows	10.2	1.1	**6.6 (3)**	10.0	13.2	15.7	7.7
A roof and gutters that do not leak	8.7	0.0	**4.1 (3)**	2.5	7.3	20.8	10.3
Furniture in reasonable condition	4.7	0.0	**1.4 (3)**	0.0	13.1	21.6	5.3
Heating in at least one room	5.6	0.0	**1.4 (2)**	2.5	6.3	12.0	5.1
A telephone	2.5	0.0	**0.4 (3)**	0.0	3.2	15.7	13.2
Up to $500 in emergency savings	32.1	0.0	**10.2 (2)**	17.5	42.6	56.9	53.8
A washing machine	2.1	0.0	**0.4 (3)**	0.0	1.6	3.9	10.5
Home contents insurance	19.2	0.0	**8.3 (3)**	2.6	29.8	52.9	55.6
Presents for family or friends	12.1	0.0	**7.4 (3)**	4.6	24.6	28.3	29.7
Computer skills	7.6	1.1	**11.2 (3)**	16.2	19.4	16.0	18.9
Comprehensive MV insurance	9.8	0.0	**8.5 (3)**	7.9	31.7	36.7	36.8
A week's holiday away from home	40.2	2.2	**23.6 (3)**	21.9	52.2	64.6	69.4

Notes: (a) Percentages are expressed after omitting missing values; (b) Figures in brackets show ranking.
Source: CUPSE survey.

5.2 Objective Indicators

The objective indicators shown in Table 10 have been separated into the four main areas described earlier. The first represents the *level of access* to economic resources other than income, the second reflects the *consequences* of trying to manage on an inadequate level of resources (income and other elements), and the third and fourth seek to capture more directly the *outcomes* associated with not having enough – in terms of hardship and reduced or restricted social participation. The results show the mean value of each indicator across each of the seven main income source categories and the ranking of the age pensioner category within the seven categories (where a higher ranking is indicative of a higher standard of living for the first two indicators, and a lower ranking implies a higher standard of living for the remaining indicators).

Table 10: Objective Indicators of Standard of Living, by Income Category (percentages) [(a)]

Indicator	Income Category: Low-wage Worker	Self-funded Retiree	**Age Pensioner** [(b)]	Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
Access to economic resources:							
Gross income	660.7	970.8	**383.6 (6)**	559.5	387.2	473.6	268.4
Equivalised disposable income	304.3	487.1	**227.2 (4)**	293.2	202.0	214.6	160.1
Assets	53.2	92.8	**50.6 (4)**	52.1	28.9	9.4	15.4
Savings	37.3	96.8	**68.9 (3)**	69.0	29.0	12.0	22.2
Financial stress:							
Unpaid bills	21.5	2.0	**5.3 (6)**	16.7	48.7	62.3	48.7
Pawned, sold or borrowed	13.2	0.0	**1.9 (6)**	4.2	17.1	30.2	23.1
Welfare assistance	3.9	0.0	**0.6 (6)**	2.1	13.2	26.4	25.6
Can't raise $,2000	21.5	2.0	**18.4 (5)**	16.7	48.7	62.3	48.7
Hardship/missing out:							
No food	8.3	0.0	**0.9 (6)**	2.1	10.5	17.0	12.8
Got behind	15.6	0.0	**0.9 (6)**	2.1	13.2	35.8	15.4
Moved house	2.4	0.0	**2.2 (6)**	4.2	7.9	17.0	12.8
Worn-out clothes	18.5	2.0	**4.7 (5)**	2.1	22.4	43.4	30.8
Missed doctor	8.8	1.0	**1.9 (5)**	0.0	3.9	17.0	7.7
Missed dentist	27.8	2.0	**10.0 (5)**	4.2	31.6	45.3	33.3
Missed prescriptions	11.2	1.0	**2.2 (5)**	2.1	13.2	22.6	12.8
No special treat	36.6	14.6	**51.6 (4)**	32.6	64.8	64.2	56.4
Restricted social participation:							
Unable to pay way	38.1	3.1	**14.7 (5)**	12.5	43.4	64.1	56.4
Missed wedding or funeral	4.4	0.0	**2.2 (4)**	0.0	6.6	7.5	12.8
No social life	14.5	12.9	**19.6 (5)**	29.5	33.8	33.3	26.3
No community participation	30.7	15.3	**39.4 (3)**	39.6	57.9	30.2	33.3

Notes: (a) Percentages are expressed after omitting missing values; (b) Figures in brackets show ranking.
Source: CUPSE survey.

Given the large amount of evidence presented, it is necessary to focus on specific aspects of the findings. With this in mind, the discussion concentrates on what the results in general imply for the comparative ranking of the age pensioner group in terms of their standard of living. Looking first at the economic resource indicators, the two income measures differ in absolute value (reflecting the impact of the progressive income tax and differences in household size and structure between the groups), but the relative position of the groups is broadly unchanged. Age pensioners appear much better on the latter measures, primarily because they live in households with fewer people (i.e. no children) than all of the other groups. The equivalised disposable income relativities are well below those for gross income because of the nature of the tax system plus the fact that income and household size are positively related. The between-group equivalised disposable income relativities in Table 10 differ from the deprivation score relativities shown in Table 8, with age and veteran's affairs pensioners appearing better on a deprivation basis and low-wage workers worse.

Turning to the other indicators (and acknowledging the limitations of the income measures), it is clear that in terms of having both at least a modest level of assets and short-run access to $2,000 in savings, the age pensioner group fares well relative to the other groups. On both measures, the age pension group ranks behind self-funded retirees, similar to the veteran's affairs pensioner group (and, on the assets measure, similar to low-wage workers), but well ahead of the Disability Support Pension, Parenting Payment and Newstart Allowance groups.

In terms of financial stress, the living standards of the age pensioner group rank even higher – 5^{th} or 6^{th} out of 7, where a rank of 7 implies the highest living standard – achieved in all four cases by the self-funded retiree group. Across all of the outcome-focused indicators, the ranking of the age pensioner group varies between 4^{th} and 6^{th}, with a modal (and median) rank of 5^{th}. These comparisons reinforce the fact that self-funded retirees enjoy a higher living standard than age pensioners in all dimensions, but they also highlight the dire circumstances of Parenting Payment recipients (mainly sole parents), who rank lowest on all but four of the indicators. The age pensioner group ranks closest to the veteran's affairs pensioners, followed by low-wage workers.[18]

Across all 16 indicators, the age pensioner group fares better than low-wage workers in all but three instances - no special treat, no social life and no community participation. It is possible that in relation to the latter two items, the reason has less to do with available resources than with factors such as ease of mobility and membership of social networks. Finally, the age pensioner group experiences lower rates of deprivation than the disability support pensioner group across all 18 indicators, often considerably so. Despite being eligible for a higher payment, the indicators imply that living standards of disability support pensioners are similar to those receiving Newstart Allowance – a finding that may reflect the adverse impact of the greater needs (and hence higher costs) among those with a disability (Saunders, 2007).

5.3 Subjective Indicators

The satisfaction-based subjective indicators in Table 11 reveal a consistent ranking of the different groups across all dimensions. Self-funded retirees rank highest on all 12 indicators, followed by age and veteran's affairs pensioners in most cases, these two groups having similar scores. Next comes low-wage workers, followed by the Disability Support Pension, Parenting Payment and Newstart Allowance groups – all of which have similar scores across all of the indicators. The gap between the indicator scores for the age and disability pensioner groups is large, but generally less so than the gap between the objective indicators for these two groups shown in Table 8.

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18 The different main income source categories are likely to vary in terms of family size and structure, with some more likely to have children than others. However, the impact of these differences in need should be captured by the deprivation indicators, as explained earlier, negating the need to adjust the estimates using an equivalence scale.

The fact that the implied standard of living ranking of the age pensioner group is somewhat higher using the satisfaction indicators than the objective indicators is consistent with a number of alternative explanations. The first is that there is some degree of preference adaption taking place, so that older people adjust to their reduced objective circumstances more readily than other groups. Another explanation is that many older people's aspirations decline naturally as they age (irrespective of their actual circumstances at younger ages), allowing them to maintain their level of satisfaction despite lower living standards. The third is that the needs of older people are declining in ways that are not adequately captured in the indicators, so that a given level of resources is capable of supporting a higher standard of living. There is probably an element of truth in all three explanations, although more work is required to establish the role of each of them.

The patterns revealed by the second set of subjective indicators shown in Table 12 is very similar to that shown in Table 11, the main difference being the lower ranking of the age pensioner group on the questions relating to subjective health status and the incidence of feeling too sick to get out of bed in the morning. The ranking of the other groups is similar to that already described, although the health status indicators display somewhat different patterns, reflecting the cross-sectional relationship between health, disability and age.

As indicated earlier, because of the nature of the indicators used and the problems associated with interpreting their implications unambiguously, it is wise to base any conclusions on what the indicators suggest as a whole, rather than drawing inferences from specific indicators. In fact, however, the picture implied by most of the individual indicators and by the complete set is similar in this case.

Because the primary focus of this paper is on what the deprivation indicators reveal about the standard of living of different groups, attention is focused on this aspect of the findings. The results in Tables 8 and 9 show consistently that the age pensioner group faces a relatively low level of deprivation – in aggregate (Table 8) and across specific items (Table 9). Although the age pensioner group faces higher deprivation and thus a lower standard of living than the self-funded retirees group, it faces a similar level of deprivation as the veteran's affairs pensioner group, and in virtually all cases shows up as less deprived than the low-wage workers group. The results also show that recipients of the age pensioner for whom it is their principal source of income fare consistently better than those mainly reliant on the disability pension and better off again than those reliant on either Parenting Payment or Newstart Allowance.

Table 11: Satisfaction- Based Subjective Indicators of Standard of Living, by Income Category (percentages) [(a)]

Indicator	Income Category: Low-wage Worker	Self-funded Retiree	**Age Pensioner** [(b)]	Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
SOL (%)	17.2	45.4	**11.0 (3)**	11.0	2.7	3.8	5.1
SOL (mean score)	3.0	3.5	**2.9 (4)**	3.2	2.4	2.4	2.2
Satisfaction with SOL (%)	48.0	84.5	**62.8 (3)**	73.5	24.6	25.0	25.6
Satisfaction with SOL (mean score)	3.3	4.3	**3.6 (3)**	3.9	2.7	2.7	2.8
Satisfaction-financial (%)	6.9	61.5	**24.0 (3)**	41.7	5.6	3.8	7.7
Satisfaction-financial (mean score)	4.9	7.6	**5.7 (3)**	6.8	3.8	3.7	3.7
Satisfaction-accommodation (%)	77.6	96.8	**89.5 (2)**	86.7	75.0	58.5	69.2
Satisfaction-accommodation (mean score)	4.0	4.7	**4.4 (3)**	4.4	3.9	3.5	3.8
Satisfaction-location (%)	81.9	96.8	**88.3 (3)**	91.3	74.7	66.0	82.1
Satisfaction-location (mean score)	4.1	4.71	**4.4 (3)**	4.5	4.0	3.7	4.1
Satisfaction-care & support (%)	76.5	92.3	**86.2 (2)**	80.4	72.6	49.0	68.4
Satisfaction-care & support (mean score)	4.1	4.5	**4.3 (2)**	4.1	3.8	3.3	3.7

Notes: (a) Percentages are expressed after omitting missing values; (b) Figures in brackets show ranking.
Source: CUPSE survey.

Table 12: Other Subjective Indicators of Standard of Living, by Income Category (percentages) [a]

Indicator	Income Category: Low-wage Worker	Self-funded Retiree	**Age Pensioner** [b]	Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
Happiness (%)	79.9	95.9	**88.5 (3)**	91.4	58.1	67.3	71.8
Happiness (mean score)	2.8	3.2	**3.0 (3)**	3.1	2.50	2.6	2.8
Healthy (%)	74.0	73.4	**51.5 (6)**	60.0	19.2	73.1	56.4
Healthy (mean score)	2.9	2.9	**2.5 (6)**	2.6	1.90	2.8	2.6
Not poor	81.4	99.0	**81.0 (4)**	87.2	56.6	50.9	48.7
Income managing	89.2	99.0	**94.5 (3)**	100.0	74.0	80.8	74.4
Has control (%)	25.7	55.2	**38.6 (3)**	53.2	21.1	21.1	25.6
Has control (mean score)	6.30	7.4	**6.6 (3)**	7.1	5.3	5.7	5.79
Too sick	5.4	1.0	**13.5 (5)**	2.1	22.4	18.9	12.8
Depressed	36.6	7.1	**13.4 (3)**	6.2	52.6	60.4	51.3
Anxious	43.4	25.5	**28.1 (2)**	37.5	55.3	71.7	46.1
Isolated & lonely	22.9	4.1	**10.9 (2)**	16.7	34.2	47.2	35.9

Source: CUPSE survey.

In summary, although the results do not necessarily imply anything about whether or not the Age Pension is adequate at current levels, it does appear to be the case that the Age Pension is more adequate than the existing payments made to people with a disability, Parenting Payment recipients (mainly sole parents) and those whose eligibility for income support is a consequence of unemployment.

6 Comparisons within the Age Pensioner Group

The results in this section examine the various indicators among different sub-groups within the age pensioner group that was the focus of the previous section. The sub-categories on which this analysis is based are identified and defined in Table 4. The format of the analysis follows that used in the previous section, although it is important to bear in mind that the sample sizes are much smaller for this more detailed disaggregation and that this is likely to increase the probability that the observed differences may reflect sampling error. To allow for this possibility, the statistical significance of the estimated differences is assessed and results presented alongside the comparisons.[19]

6.1 Deprivation

The mean deprivation index scores and incidence of multiple deprivation across the age pensioner sub-categories are presented in Table 13. The differences in the mean deprivation scores are statistically significant when the groups are differentiated by age, living arrangement and housing tenure, but not when they are differentiated by gender. Although the difference is not statistically significant, females pensioners have a deprivation score that is more than one-quarter (26.4 per cent) higher than that of males.[20] Of greater interest is the fact that the mean deprivation score of those aged 75 and over is only half that of the younger age group, despite the older group containing more females (55 per cent) who experience higher deprivation on average than males.

Pensioners living alone face higher deprivation that those living with their partner, the difference in mean deprivation scores being large numerically and significant statistically. However, by far the largest differences are those relating to housing tenure: age pensioners who are renting their homes have a mean deprivation score that is 3.8 times higher than those who are either own their home outright or are paying off a mortgage - the vast majority of whom (almost 95 per cent) are outright owners.

Tests of significance have only been applied to one of the indicators of multiple deprivation – the incidence of four or more items – since the patterns are similar across each of the indicators. The between-group relativities for this measure are similar to those for the deprivation index. However, the differences are statistically significant between groups differentiated by age and housing tenure, but not for those differentiated by gender and living arrangement.

[19] It would have been possible to test for the statistical significance of the differences presented in Section 5, although there is no obvious benchmark against which to assess the estimates for the group whose main source of income is the age pension, and for this reason tests of statistical significance were not conducted.

[20] The average age of male and female pensioners in the sample is virtually the same, at 73.4 years for males and 72.3 years for females.

Table 13: Deprivation Mean Scores and Multiple Incidence Rates by Age Pensioner Characteristic [(a) (b)]

	Gender:		Age:		Living arrangement:		Housing tenure:	
	Male	Female	Under 75	75 and over	Lives alone	Lives as a couple	Owner/ purchaser	Renter
Mean deprivation index score:								
	0.87	1.10	1.21	0.61*	1.34	0.72**	0.68	2.56**
Incidence of multiple deprivation (number of items lacking and unaffordable):								
0	64.7	58.3	56.4	69.6	54.1	65.9	68.7	20.9
At least 1	35.2	41.7	43.6	30.4	45.9	34.1	31.3	79.1
At least 2	19.4	22.6	26.7	11.6	29.6	14.6	14.6	53.5
At least 3	12.9	16.1	17.9	8.9	21.4	9.8	9.9	39.5
At least 4	**8.6**	**10.7**	**12.3**	**5.4***	**14.3**	**6.7**	**5.6**	**27.9****
At least 5	5.8	8.3	9.2	3.6	12.2	3.7	4.3	20.9
At least 6	2.9	4.8	5.6	0.9	6.1	1.8	1.3	16.3
At least 7	1.4	3.0	3.1	0.9	3.1	0.6	0.9	9.3
At least 8	0.7	1.8	2.1	0.0	1.0	0.6	0.4	7.0
At least 9	0.0	0.6	0.5	0.0	0.0	0.0	0.0	2.3
At least 10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: (a) Percentages are expressed after omitting missing values. (b) An asterisk (*/**) indicates that the difference in mean deprivation score between the two categories is statistically significant (ρ = 0.05/0.01). Where there is no asterisk the difference is not statistically significant (ρ = 0.05).
Source: CUPSE survey.

Table 14 replicates the earlier Table 9 by showing the deprivation incidence rates of specific items disaggregated by the pensioner characteristics shown in Table 13. The caveat that applies to the earlier results about the impact of differences in individual preferences applies with at least as much force as those shown in Table 14 (possibly more, since the sub-groups may be more likely to bring together pensioners with similar preferences). As before, these results show the item deprivation rates for all of those within each age pensioner category since small sample size prevents a breakdown into only those who are deprived in overall terms. The large volume of material presented in Table 14 cannot be summarized easily and the following discussion describes some of the main features, focusing on the main differences within each characteristic, and on the items where the differences are most pronounced.

Table 14: Essential Item Deprivation Rates By Age Pensioner Characteristics (percentages) (a) (b)

	Gender		Age		Living arrangement		Housing tenure	
	Male	Female	Under 75	75 and over	Lives alone	Lives as a couple	Owner/ purchaser	Renter
Medical treatment, if needed	1.6	1.3	1.1	2.0	2.4	0.6	1.4	2.6
Warm clothes and bedding if it's cold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A substantial meal at least once a day	0.8	0.7	1.1	0.0	0.0	0.0	0.5	2.5
Able to buy prescribed medicines	0.8	3.2	2.1	2.0	4.5	0.6	1.4	4.8
Dental treatment, if needed	11.7	14.3	15.5	8.5	23.2	9.1**	9.1	30.8**
A decent and secure home	5.6	7.4	8.8	2.1*	8.4	4.6	0.5	35.9**
Regular social contact with others	5.8	6.1	5.4	7.1	12.4	0.7**	3.9	15.8
Secure locks on doors & windows	3.1	9.6*	7.3	5.3	8.3	4.0	5.8	10.0
A roof and gutters that do not leak	3.3	4.9	4.5	3.4	5.0	3.5	2.9	5.9
Furniture in reasonable condition	2.4	0.7	1.1	2.1	2.4	0.6	0.9	2.4
Heating in at least one room	0.8	2.0	2.2	0.0	2.4	1.3	0.9	2.5
A telephone	0.8	0.0	0.5	0.0	0.0	0.6	0.0	2.4
Up to $500 in emergency savings	9.7	10.6	14.0	3.2**	11.5	9.2	7.8	26.3*
A washing machine	0.0	0.7	0.6	0.0	0.0	0.0	0.5	0.0
Home contents insurance	6.2	10.1	12.0	1.1**	15.5	3.3**	2.4	37.5**
Presents for family or friends	6.4	8.3	7.7	6.8	10.4	5.3	3.9	21.6*
Computer skills	7.4	14.7	11.6	10.4	15.3	10.1	9.3	16.2
Comprehensive MV insurance	7.1	9.7	9.4	6.6	11.8	4.5	5.8	23.1*
A week's holiday away from home	23.6	23.6	26.4	17.6	30.8	20.6	20.4	45.9**

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (*/**) indicates that the difference in mean deprivation score between the two categories is statistically significant (ρ = 0.05/0.01). Where there is no asterisk the difference is not statistically significant (ρ = 0.05).
Source: CUPSE survey.

In relation to the differences between each pensioner characteristic grouping, the three items where deprivation among female pensioners exceeds that among males by the largest degree are ability to buy prescribed medications, secure locks on doors and windows and computer skills. The three items where the deprivation rates diverge most between the younger and older groups are a decent and secure home, up to $500 in emergency savings, and home contents insurance. For the breakdown by living arrangements, the three areas of greatest difference are dental treatment if needed, regular social contact with other people, and home contents insurance. Finally, for the breakdown by housing tenure, the three items where deprivation rates differ most are a decent and secure home, home contents insurance, and presents for family and friends at least once a year.

Some of these differences may reflect, at least in part, differences in how the items have been interpreted by different groups when responding to the CUPSE survey.

Thus, for example, female pensioners may feel more vulnerable and thus be more acutely aware of security risks than males and may be more likely to say that they do not have ‘secure’ locks on doors and windows. Other differences such as not having up to $500 in emergency savings may also reflect the fact that some groups (e.g. older pensioners) may feel that they are less likely to face such an emergency than those who are younger. For all of these reasons, the results in Table 14 need to be interpreted with care.

Despite these reservations, the most important implication of the results presented in Table 14 is that the deprivation rate differences based on the latter two characteristics – living arrangements and housing tenure – are far greater than those based on either gender or age. Living arrangements and housing tenure also account for most of the cases where the differences are significant. The five items that display the greatest difference between the sub-groups of age pensioners are dental treatment if needed, regular social contact with other people, up to $500 in emergency savings, home contents insurance, and a week’s holiday away from home each year. These overlap with the items that have the highest deprivation rates (see Table 9), although this outcome is not inevitable.

6.2 Objective Indicators

The comparisons shown in Table 15 replicate those presented in Table 9 for sub-groups based on the characteristics of those in the age pensioner group, as opposed to comparing across groups differentiated by their principle source of income. Many of the differences shown are not statistically significant, and those that are relate to the classifications based on living arrangement (single versus couple) and housing tenure (owner/purchasers versus renters). Four of the five instances where the difference is significant for these classifications relate directly or indirectly to the economic circumstances of the groups being investigated: lack of assets; low savings; an inability to raise funds in an emergency; and not being able to pay ones way when out with friends. This thus provides reasonably compelling evidence that the standard of living of single pensioners is below that of couples, as is that of renters compared with owner/purchasers.

Table 15: Objective Indicators of Standard of Living, by Income Category (percentages) [(a) (b)]

	Gender		Age		Living arrangement		Housing tenure	
	Male	Female	Under 75	75+	Lives alone	Lives as a couple	Owner/ purchaser	Renter
Access to economic resources:								
Assets	55.9	46.2	48.5	54.2	41.0	58.9**	56.7	27.7**
Savings	71.4	66.7	67.6	71.3	59.8	72.3	77.5	35.0**
Financial stress:								
Unpaid bills	6.2	4.6	8.0	0.8**	6.9	3.0	4.1	12.5
Pawned, sold or borrowed	0.7	2.9	3.0	0.0	1.0	1.8	0.4	6.3
Welfare assistance	0.7	0.6	1.0	0.0	0.0	0.6	0.0	4.2
Can't raise $,2000	18.6	18.3	20.5	15.0	20.6	16.1	13.3	43.8**
Hardship/missing out:								
No food	0.7	1.1	1.5	0.0	1.0	0.6	0.4	4.2
Got behind	0.7	1.1	1.0	0.8	2.0	0.6	0.0	6.3
Moved house	1.4	2.9	3.0	0.8	4.9	1.2	0.4	12.5*
Worn-out clothes	2.1	6.9*	5.5	3.3	2.9	4.2	3.7	4.2
Missed doctor	0.7	2.9	2.5	0.8	2.9	0.6	1.7	4.2
Missed dentist	11.7	8.6	13.0	5.0*	11.8	8.3	9.1	14.6
Missed prescriptions	0.7	3.4	2.5	1.7	3.9	1.2	1.2	6.3
No special treat	55.6	48.2	49.0	56.0	53.1	52.1	48.7	59.6
Restricted social participation:								
Unable to pay way	15.2	14.3	19.5	6.7**	19.6	13.7	10.4	33.3**
Missed wedding or funeral	2.8	1.7	3.0	0.8	2.9	1.2	1.7	4.2
No social life	20.9	18.5	18.6	21.5	26.3	14.4*	20.6	15.9
No community participation	46.2	33.7*	35.5	45.8	43.1	31.0*	35.7	47.9

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (*/**) indicates that the difference in mean deprivation score between the two categories is statistically significant (ρ = 0.05/0.01). Where there is no asterisk the difference is not statistically significant (ρ = 0.05).
Source: CUPSE survey.

6.3 Subjective Indicators

The results in Tables 16 and 17 show the differences in the two sets of subjective indicators between the age pensioner categories that correspond to those presented for the different main income source categories in Tables 11 and 12, respectively. As before, the asterisks (*) indicate that the difference in the estimates for the two categories is statistically significant.

Table 16: Satisfaction- Based Subjective Indicators of Standard of Living, by Income Category (percentages) (a) (b)

Indicator	Gender		Age		Living arrangement		Housing tenure	
	Male	Female	Under 75	75+	Lives alone	Lives as a couple	Owner/ purchaser	Renter
SOL (%)	8.5	13.2	9.7	13.3	14.6	8.0	10.8	12.5
SOL (mean score)	2.82	2.97*	2.90	2.91	2.80	2.95	2.97	2.67*
Satisfaction with SOL (%)	60.3	64.9	63.8	61.1	61.5	67.5	67.2	50.0*
Satisfaction with SOL (mean score)	3.47	3.6	3.55	3.58	3.53	3.63	3.66	3.23*
Satisfaction-financial (%)	17.5	29.6*	21.5	28.2	24.7	23.5	28.4	11.1**
Satisfaction-financial (mean score)	5.48	5.85	5.52	5.95	5.46	5.81	5.98	4.56**
Satisfaction-accommodation (%)	90.0	89.2	89.7	89.2	83.3	94.5**	96.2	67.4**
Satisfaction-accommodation (mean score)	4.44	4.43	4.43	4.45	4.30	4.57*	4.60	3.86**
Satisfaction-location (%)	88.0	88.6	86.2	92.1	88.9	89.5	92.7	80.0*
Satisfaction-location (mean score)	4.37	4.36	4.32	4.43	4.26	4.48*	4.50	4.02**
Satisfaction-care & support (%)	87.0	85.4	84.1	89.9	82.3	87.6	87.0	81.8
Satisfaction-care & support (mean score)	4.35	4.25	4.23	4.41	4.15	4.39*	4.34	3.98*

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (*/**) indicates that the difference in mean deprivation score between the two categories is statistically significant (ρ = 0.05/0.01). Where there is no asterisk the difference is not statistically significant (ρ = 0.05).
Source: CUPSE survey.

Of the total of 96 differences shown in these two tables (24 indicators across four pension sub-categories), there are 16 instances where the difference is statistically significant. As in the case of the deprivation and objective indicators presented earlier, the significant differences are concentrated among groups classified according to their living arrangements (4 cases) and housing tenure (10 cases). These results again highlight the important role that housing tenure (and living alone) play in affecting the standard of living of those who are dependent on an Age Pension. The three areas of subjective well-being that feature most prominently among the significant cases are satisfaction with financial situation, satisfaction with location, and (most particularly) satisfaction with accommodation. Of concern also is the finding that the subjective health status of age pensioners who are renting is significantly lower than that of owner/purchaser age pensioners.

Although many of the differences shown in these two tables are not statistically significant (a reflection of the large standard errors associated with small sample size), it is notable that the estimates themselves consistently show that age pensioners living alone and those who are renting have a lower level of subjective well-being than those living as a couple and owner/purchasers, respectively. The estimates thus present a consistent picture of relative well-being between the different pensioner categories, even though the statistical analysis is not able to confirm the robustness of this in many instances.

Table 17: Other Subjective Indicators of Standard of Living, by Income Category (percentages) (a) (b)

Indicator	Gender		Age		Living arrangement		Housing tenure	
	Male	Female	Under 75	75+	Lives alone	Lives as a couple	Owner/ purchaser	Renter
Happiness (%)	87.8	89.1	87.7	89.9	84.0	91.9	90.7	81.3
Happiness (mean score)	2.96	3.02	3.00	2.99	2.95	3.06	3.04	2.90
Healthy (%)	48.9	53.8	54.2	46.8	45.7	54.0	55.5	39.5
Health status (mean score)	2.48	2.55	2.57	2.42	2.43	2.55	2.56	2.4 2
Not poor	76.9	84.4	80.0	82.6	78.9	83.3	85.2	67.4*
Income managing (%)	33.6	45.5*	39.5	41.1	33.7	42.6	48.5	8.5**
Income managing (mean score)	2.29	2.40	2.33	2.37	2.26	2.37	2.43	2.02**
Has control (%)	35.9	40.8	37.9	39.7	46.4	37.7	42.1	31.9
Choice & control (mean score)	6.50	6.62	6.56	6.58	6.76	6.55	6.77	6.00*
Too sick	2.8	1.7	3.0	0.8	2.0	2.4	1.7	4.2
Depressed	11.0	15.4	14.5	11.7	11.8	12.5	11.2	12.5
Anxious	21.4	33.7*	25.5	32.5	35.3	24.4	24.9	41.7*
Isolated & lonely	9.7	12.0	12.0	9.2	20.6	3.6**	7.9	20.8*

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (*/**) indicates that the difference in mean deprivation score between the two categories is statistically significant (ρ = 0.05/0.01). Where there is no asterisk the difference is not statistically significant (ρ = 0.05).
Source: CUPSE survey.

One of the factors that has emerged as important determinant of the living standards of the different pensioner categories in the above analysis is housing tenure, specifically whether the person owns (or is purchasing) their home or is renting. The comparisons have treated renters as a single group, despite the differences that may exist between those renting in the private sector and those in social housing provided through the public sector. This decision was taken to maintain a reasonably large sample size, given that the renter category as a whole only contains 48 cases (Table 4).

It is, however, of interest to examine and compare the circumstances of the two groups of pensioner renters, and this is done in Table 18. These results compare the living standards of private and public renters using the incidence of deprivation among all 19 essential items, the mean deprivation score across these items, and the other objective and subjective well-being indicators described above.

The numbers involved are very small and this greatly reduces the probability that the differences are statistically significant, as is borne out by the fact that there are only two instances where the differences are statistically significant. One of these cases relates to the economic circumstances (assets) where the difference was statistically significant in the earlier analysis (Table 15). These findings thus reinforce the importance of housing tenure as a determining factor in the standard of living of age pensioners. It is also worth noting that the ranking of the two groups varies according to which indicator is used. Thus, many of the estimates of the incidence of deprivation and mean deprivation scores suggest that private renters are faring worse than public renters. There are, however, individual instances where the opposite is the case. Interestingly, for the four items that relate specifically to accommodation conditions - a decent and secure home, secure locks on doors and windows, a roof and gutters that do not leak, and home contents insurance – those who are renting in the public sector show up as having a considerably lower standard of living than those renting privately.

Table 18: Indicators of Disadvantage among Renting Age Pensioners, by Rental Sector (percentages) [(a) (b)]

Deprivation Item	Incidence of deprivation: Private renters	Public renters	Other Objective Indicators	Private renters	Public renters	Selected Subjective Indicators (mean scores)	Private renters	Public renters
Medical treatment, if needed	0.0	6.2	Assets	45.8	8.7**	SOL	2.76	2.57
Warm clothes and bedding if it's cold	0.0	0.0	Savings	47.6	21.1	Satisfaction with SOL	3.12	3.35
A substantial meal at least once a day	4.5	0.0	Unpaid bills	8.0	17.4	Satisfaction-financial	4.57	4.55
Able to buy prescribed medicines	8.3	0.0	Pawned, sold or borrowed	0.0	8.7	Satisfaction-accommodation	3.91	3.81
Dental treatment, if needed	36.4	23.5	Welfare assistance	0.0	8.7	Satisfaction-location	4.00	4.05
A decent and secure home	42.9	27.8	Can't raise $,2000	36.0	52.2	Satisfaction-care & support	3.65	4.33*
Regular social contact with others	18.2	12.5	No food	4.0	4.4	Happiness	2.80	3.00
Secure locks on doors & windows	4.5	16.7	Got behind	4.0	8.7	Healthy	2.52	2.30
A roof and gutters that do not leak	0.0	14.3	Moved house	12.0	13.0	Income managing	1.96	2.09
Furniture in reasonable condition	4.3	0.0	Worn-out clothes	0.0	8.7	Choice & control	5.71	6.30
Heating in at least one room	4.5	0.0	Missed doctor	4.0	4.3			
A telephone	4.5	0.0	Missed dentist	8.0	21.7			
Up to $500 in emergency savings	40.0	11.1	Missed prescriptions	8.0	4.3			
A washing machine	0.0	0.0	No special treat	50.0	69.6			
Home contents insurance	26.1	52.9	Unable to pay way	28.0	39.1			
Presents for family or friends	23.8	18.7	Missed wedding or funeral	0.0	8.7			
Computer skills	14.3	18.7	No social life	13.6	18.2			
Comprehensive MV insurance	19.0	27.8	No community participation	44.0	52.2			
A week's holiday away from home	47.6	43.7						
Mean deprivation score	2.67	2.42						

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (*/**) indicates that the difference in mean deprivation score between the two categories is statistically significant (ρ = 0.05/0.01). Where there is no asterisk the difference is not statistically significant (ρ = 0.05).
Source: CUPSE survey.

The objective indicators shown in the middle column of Table 18 reveal a somewhat different story, with private renters showing up as worse off than public renters across all but one of the 18 indicators. Finally, the subjective indicators in the final column of Table 18 are very similar across the two groups, with the exception of satisfaction with care and support, where public renters far better than private renters. However, very few of the differences shown in Table 18 are statistically significant, making it problematic to draw any firm conclusions about what they imply about the relative living standards of the two groups.

7 Conclusions

This report has examined a variety of indicators of the living standards of older Australians in receipt of an Age Pension and compared them with the living standards of other groups. The principal aim of the analysis is to provide evidence that can contribute to a better understanding of the adequacy of the Age Pension, relative to other income support payments and to selected other forms of market income. The implications of the evidence for the adequacy of payments made to different groups of age pensioners have also been examined.

The indicators include both objective and subjective components and are related more directly to the standard of living actually achieved than income-based measures. Particular emphasis has been given to applying a deprivation approach. This involves identifying items regarded as necessities by a majority of the community and defining deprivation to exist when people say that do not have and cannot afford these items. Deprivation has emerged as an important new way of identifying who is experiencing poverty, but the approach can also be used to compare living standards more generally.

The use of a deprivation approach avoids many of the problems associated with measuring poverty and living standards using income. Problems have been identified with the accuracy and reliability of survey-based income measures, and controversy surrounds the merits of alternative adjustments to income to allow for differences in household need (the equivalence scale issue).

Most important of all, income-based measures of living standards cannot logically be used to inform assessments of income adequacy, since this requires the use of an independent benchmark of adequacy. The deprivation approach provides such a benchmark.

There are, however, several acknowledged problems with the deprivation approach itself. There is concern that the use of majority rule support as the criterion used to identify necessities is somewhat arbitrary. It is also not clear that the method used to identify deprivation is capable of distinguishing between items that cannot be afforded and items that people choose to forego in favour of something else. This implies that measures of deprivation may not be entirely independent of people’s preferences, but may to some extent embody a subjective component. Finally, the quality of the data used to estimate deprivation may be subject to similar problems of mis-reporting that has undermined the quality of the income statistics.

These factors, in combination with the exploratory nature of the survey from which the estimates of deprivation have been derived, suggest that a degree of caution should apply to the findings. It would certainly be unwarranted to draw strong conclusions from any single indicator, and a wiser approach would be to examine the weight of the evidence – what a range of indicators *taken together* – implies about the standard of living of different groups.

In fact, the conclusions implied by the different indicators are remarkably similar, adding strength to their overall voracity.

The indicators were derived from data collected in a random sample of Australian adults conducted in 2006. The survey produced a sample of over 2,700 respondents, representing a response rate of close to 47 per cent. The sample is broadly representative of the total population and there are no obvious instances of systematic non-response likely to produce biased findings.

The first set of comparisons focused on comparing groups differentiated by their main source of income. Those whose main source of income was the Age Pension were compared with income support recipients mainly dependent on a Veteran's Affairs Pension, a Disability Support Pension, Parenting Payment and Newstart Allowance. Two other groups – older people whose main source of income was interest, dividends or superannuation (self-funded retirees), and full-time workers with low-income (low-wage workers) – added a further dimension to the comparisons.

A clear and consistent ranking of the living standard of these groups is provided by the deprivation-based indicators, and by the other objective and subjective indicators examined. On virtually all of the indicators, the self-funded retiree group has the highest standard of living, followed by veteran's affairs pensioners, age pensioners and low-wage workers. The relative ranking of these three groups varies across the indicators, although the age pensioner group most often ranking third highest overall – slightly behind those in receipt of a veteran's pension and slightly ahead of the low-wage workers group.

Almost every indicator shows the age pensioner group as ranking above those whose main source of income is one of the other three income support categories examined: Disability Support Pension, Parenting Payment or Newstart Allowance. These results do not of themselves indicate whether or not the current level of the Age Pension is adequate, but they do strongly suggest that the *relative* adequacy of the Age Pension (its ability to meet the needs of recipients) is above that of the Disability Support Pension, Parenting Payment and Newstart Allowance.

The second stage of comparisons compared the living standards of different groups of age pensioners, differentiated by their gender, age, living arrangements and housing tenure. These four characteristics were specified dichotomously so that tests of the statistical significance of the observed differences could be conducted. The results reveal relatively little difference in the circumstances of age pensioners differentiated by age or gender, although the differences between the estimates for those classified by their living arrangement and housing tenure are statistically significant.

Pensioners who live alone have a lower standard of living than those living as a couple, while those renting (either in the private or public sectors) are significantly worse off than those who own their home or are purchasing it. More detailed comparisons of the two categories of renters failed to uncover any systematic differences across all of the indicators, mainly because the sample sizes were very small.

In overall terms, the results show that those reliant on an Age Pension experience higher average living standards than several of the other groups of income support payment recipients. This suggests that the *adequacy* case for increasing the Age Pension applies with even greater force to these other payments. The differences in the living standards of different groups of age pensioners suggest that a realigned payment structure would improve the adequacy of the system as a whole and treat different groups of payment recipients more equitably. There is a particularly compelling case for improving the adequacy of payments to those age pensioners who are living alone and those living in rented accommodation.

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Waste not, want not: Making room in the Budget for essential services

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Locked Bag 4777, Strawberry Hills, NSW, 2012.

T (02) 9310 6200 F (02) 9310 4822

info@acoss.org.au www.acoss.org.au

This paper was prepared by Peter Davidson, Senior Policy Officer, in consultation with Dr Cassandra Goldie, Chief Executive Officer and ACOSS policy advisors, and with production assistance from Penny Dorsch, Publications and Information Officer.

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Locked Bag 4777
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Summary

The Government aims to restore the Federal Budget to surplus in 2012-13.

ACOSS and other advocates for people facing poverty and social disadvantage aim to repair gaping holes in our social safety net. Higher social security payments and better employment services are needed to lift unemployed people and sole parents out of poverty; a National Disability Insurance Scheme is needed so that people with disabilities can participate in community life; and people on low incomes need affordable dental care.

How can these goals be reconciled? The answer is by cutting waste and poorly targeted programs from both the expenditure and revenue sides of the Budget: *waste not, want not!*

Action can be taken in this Budget to meet the most pressing social needs while at the same time restoring the Budget to surplus. A Budget surplus in 2012-13 is not a desirable goal in itself, but it does present the opportunity for Government to focus on measures to improve fairness. Now that the economy is recovering from the Global Financial Crisis, this is the right time to start saving to meet future needs - including to protect the most vulnerable in any future economic downturn and to meet the costs of health and care services for an ageing population[1]. The alternative is a future where users have to pay for essential health and community services because Governments lack the ability to do so.

This report identifies $8 billion of poorly targeted expenditure programs and tax breaks that could be cut and redirected to other priorities. We also argue for a restructure of $16 billion of annual tax breaks for superannuation contributions so that they go to those who need them most – low and middle income earners.

Debate about 'middle class welfare' often narrowly focuses on tightening income tests in our social security system. Yet these payments are already more tightly

[1] We do not know yet how much would have to be saved to restore a surplus in 2012-13. In last year's MYEFO Statement, the Treasury *already* forecast a small surplus for 2012-13 of $1.5B but later estimates suggest that company tax and capital gains tax revenues are lower than expected at that time. That is why the Government would need to make more savings to restore a surplus in 2012-13. However the required savings are much less than the difference between the forecast deficit for 2011-12 and 2012-13 of around $40B in the MYEFO. Most of the estimated improvement in the Budget bottom line between those two years will come from improved economic conditions since the GFC, not from Budget cuts. Thus, the impact of further Budget savings on the economy is likely to be more modest than some predict, and would probably be more than offset by any interest rate cuts.

targeted than any other wealthy OECD country[2]: The 20% of households on the lowest incomes receive over 12 times the social security payments received by the top 20%[3]. In 2007, Australia spent just 7.4 % of GDP on social security, the seventh lowest in the OECD and below the US. We are also overall one of the sixth lowest taxing countries in the OECD.

Nor is it 'wasteful' to provide universal essential services such as health care, public schools and public transport. Taxpayers expect Governments to use their taxes to make these services available to all. The wasteful expenditures and tax breaks we target here:

- *disproportionately* benefit higher income households,
- *inflate the cost* of essential services for everyone else, and/or
- enable individuals with higher incomes and assets to avoid income tax.

Over the five years before the Global Financial Crisis in 2008, Federal Government Budgets benefited from a mining boom-induced surge of revenues from company income tax and Capital Gains Tax. Instead of investing this windfall to remove gaping holes in the social safety net such as mental health, dental care and disability services, and building up reserves to meet future needs, poorly targeted programs were expanded and income tax cuts were offered every year. As a result future Governments are faced with the rising cost of poorly targeted programs which must be met from a weakened personal income tax base, now that mining boom related tax revenues are falling away[4].

In this Report ACOSS identifies $8 billion per year in wasteful or poorly targeted programs:

1. Poorly targeted subsidies for 'gap fees' or other private expenditures for health and community services:

- Remove the Private Health Insurance Rebate from ancillary or 'extras' cover ($1.1B)
- Abolish the Extended Medicare Safety Net ($0.5B)
- Abolish the Medical Expenses Tax Offset ($0.5B)

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[2] There are two significant exceptions. The first is the assets test for pensions which is too generous following a major easing in 2006. A couple can have investments (other than their home) worth $1 million and still receive a part pension. The second is the payment of Family Tax Benefit Part B to couples in order to help them care for *school-age* children at home (up to the age of 18 years).

[3] Whiteford, P (2010), *The Australian tax-transfer system*, Economic Record.

[4] Parkinson M (2012), speech to Australia-Israel Chamber of Commerce, Sydney 7 March 2012 (see www.treasury.gov.au; Swan W (2012), speech to Australian Business Economists, Sydney 28 March (see www.treasurer.gov.au).

- Abolish the Education Tax Refund ($1B);
- Limit the tax deduction for self-education expenses ($0.3B)

2. Poorly targeted tax concessions (tax breaks), that don't attract the same budgetary scrutiny as direct Government spending:

- Taxing 'golden handshakes' for departing employees at their marginal tax rates instead of the flat tax rates of 15% or 30% that now apply ($0.3B);
- Not implementing the deferred 50% discount for income tax on interest income, unless this is linked with an increase in taxes on capital gains as proposed in the Henry Report ($0.5B);
- Either removing the Senior Australians (SATO) and Mature Age Workers (MAWTO) Tax Offsets ($1.8B), or restricting them to pensioners;
- Removing the extra Capital Gains Tax concessions for small businesses which apply in addition to the 50% discount of tax for capital gains available to individual taxpayers generally ($1B).

3. Tax shelters that enable people on high incomes to avoid their income tax obligations:

- the tax treatment of private discretionary trusts be tightened to restrict these tax avoidance opportunities ($1B).

More details of these proposals are provided in the attached table.

1. Poorly targeted subsidies for 'gap fees' or other private expenditures for health and community services

Programs such as Medicare, the Pharmaceutical Benefits System, and Child Care Benefit are examples of well-designed subsidies for essential services. The meet most of the cost of the targeted services for low and middle income households and provide significant help for those on high incomes as well. If the subsidies are 'capped' at the right level, they should not inflate the cost of providing these services for consumers or Governments. Direct funding of public hospitals and schools by Government is another cost effective way to provide services that the community expects to be available, as long as the right mix of resources and incentives are given to the providers (in many cases State Governments).

In response to concerns about rising costs for human services (often due to the failure to adequately index the above programs), as well as demand pressures on services such as public hospitals, Governments have over the last decade and a half introduced an extra layer of 'top up' subsidies to assist with 'gap fees' or subsidise private expenditures on these services. These include:

- the Extended Medicare Safety Net,
- The Child Care Tax Rebate,
- The Private Health Insurance Rebate.

The trouble with these subsidies for 'gap fees' is that they disproportionately benefit people on higher incomes and inflate the cost of the services for everyone else. They are 'upside down welfare'.

A good example is the 'Extended Medicare Safety Net'. It covers 80% of the 'gap fees' or out of pocket expenses remaining after Medicare rebates have been paid. This encourages providers such as medical specialists to raise their charges to capture this 'gap fee' subsidy. For every dollar spent by the Government on the extended safety net from 2003 to 2009 for services such as varicose vein treatment, cataract surgery and some IVF services, doctor's fees rose by almost 80 cents. Also, since the highest 'gap fees' are usually paid by people on high incomes (who can afford to buy more expensive services), they and the service providers are the main beneficiaries. A simpler and more effective way to keep these medical costs under control would be to increase the Medicare 'schedule fees' so that gap fees are lower for everyone in the first place.

More broadly speaking, where the 'gap' between a public subsidy (such as a Medicare rebate) and the fees charged for a service is too high, the best and fairest solution is to increase the subsidy in that program, rather than set up a separate program to reduce gap payments. Similarly, the most cost effective ways to reduce pressure on public hospital services is to promote population health programs, increase the resources in the public primary care sector and improve the efficiency of public hospital funding, not increase subsidies to private providers operating in fee-for-service arrangements.

In this Federal Budget, we propose that the following poorly targeted subsidies for health and community services be removed or cut back:

- Remove the Private Health Insurance Rebate from ancillary or 'extras' cover ($1.1B)
- Abolish the Extended Medicare Safety Net ($0.5B)
- Abolish the Medical Expenses Tax Offset ($0.5B)
- Abolish the Education Tax Refund ($1B);
- Limit the tax deduction for self-education expenses ($0.3B)

More details of these proposals are provided in the table attached.

The savings could either be used to help restore the Budget to surplus or to improve essential health and community services in a fairer and more efficient way, such as a public dental scheme and by improving the quality of teaching in schools.

We also propose that the Child Care Tax Rebate, which reduces gap fees for child care after Child Care Benefit entitlements have been paid, be integrated with the Child Care Benefit into a single payment, as proposed in the Henry report. *This would not be a cost cutting measure* – the goals would be to increase support for low and middle income families with child care costs and reduce inflation in child care fees.

In future Budgets, the Government should review all public subsidies for 'gap fees' and other private expenditures on human services to assess how they are distributed according to household income, whether they are cost effective, whether they are simple for service users and providers to access, and to what extent they inflate the cost of the services they subsidise. The outcomes of these reviews should be published.

2. Poorly targeted tax concessions

Although tax breaks (for example, tax rebates) are not generally regarded as spending programs, they often have the same effect. A good example is the health insurance rebate which can either be claimed as a direct subsidy for a service or as a tax rebate at the end of the year. Yet because tax breaks are not treated in the same way as direct expenditures, they often escape scrutiny in the annual Budget process. Governments often spend more time poring over million-dollar expenditure programs in search of savings while glossing over billion-dollar tax expenditures.

As a result, much of the 'waste' in the Budget is hidden away on the tax side of the ledger. A further problem with meeting social needs through tax breaks is that the bottom 25% of individuals whose incomes are too low to pay tax do not benefit at all.

Treasury keeps an annual tally of the main tax breaks and their cost to the Budget in its Tax Expenditures Statement. The latest estimates that tax expenditures will cost the Government $112 billion in 2010-11 compared with $356 billion of direct expenditures in that year[5].

An example of poorly targeted tax breaks is the rapid growth over the last decade in special tax breaks for people of mature age. Although their cash incomes may be low, many of the top 20% of people over 65 years have substantial assets (including a fully-owned home) and have living standards well above average. They have benefited substantially from the introduction of tax breaks such as the Senior Australians Tax Offset and Mature Age Workers Tax Offset, and the removal of tax from most superannuation benefits. The effective tax free threshold for a couple over 65 years is now $55,000 compared to $32,000 for a dual earner couple under 65 due to the combination of tax rebates available. Well-advised higher income earners over 65 can 'churn' their wages and investments through self-managed superannuation accounts so that they need not pay tax above 15 cents in the dollar. Before the Global Financial Crisis, less than one quarter of individuals over 65 years paid income tax despite the substantial wealth of a significant minority within this age group.

This loss of income tax revenue from older people in Australia who can afford to pay is not sustainable. In 20 years' time, over one in five people will be aged over 65 compared with one in seven today[6]. In 30 years the number of people over 85 years of age – those with the highest health and aged care needs - will triple. If current federal health and aged care programs are maintained, their cost will rise by 4% of GDP by 2050 (equal to an increase of $60 billion a year in today's dollars, or the whole of the current Federal Health Budget)[7]. The recent aged care package shows clearly the choice we face as a nation between strengthening tax

[5] Treasury (2012), Tax expenditures statement 2010-11.
[6] Aged Care Alliance (2012), Blueprint for Aged Care reform.
[7] Swan (2010), Australia to 2050, future challenges.

revenues to share the cost of essential health and aged care services or increasing user charges.

In this Federal Budget poorly targeted or poorly designed tax concessions should be reduced or removed by:

- Taxing 'golden handshakes' for departing employees at their marginal tax rates instead of the flat tax rates of 15% or 30% that now apply ($0.3B);
- Not implementing the deferred 50% discount for income tax on interest income, unless this is linked with an increase in taxes on capital gains as proposed in the Henry Report ($0.5B);
- Either removing the Senior Australians (SATO) and Mature Age Workers (MAWTO) Tax Offsets ($1.8B), or restricting them to pensioners;
- Removing the extra Capital Gains Tax concessions for small businesses which apply in addition to the 50% discount of tax for capital gains available to individual taxpayers generally ($1B).

More details are provided in the attached table. These or similar proposals were advocated by the *Henry Report* on the tax transfer system[8].

We also advocate a revenue-neutral restructure of the unfair and wasteful tax breaks for superannuation contributions. Superannuation tax breaks are by far the largest tax expenditure - estimated by Treasury to cost $32 billion annually, about the same as the age pension. Of this, $16 billion is 'spent' to subsidise contributions to superannuation funds, especially those made by employers. Those contributions are taxed at a flat rate of 15% instead of the individual's marginal tax rate. As a result it is strongly biased towards those on the top marginal tax rate, who save over 30 cents in tax for every dollar contributed to super by their employer compared to no tax saving at all for those on the lowest wages. We estimate that half the $16 billion spent on this tax break in 2007 went to the top 12% of taxpayers[9].

We propose that *in this Federal Budget*, tax breaks for superannuation contributions be redirected to those who need them most – low and middle income earners. This can be done by implementing a scheme along the lines of that proposed by the Henry Report where employer contributions are taxed at the individual's marginal rate before they are deposited into the fund, and this is offset in full or in part by a rebate on all contributions up to an annual cap. This *revenue-neutral* reform could double the future increase in superannuation

[8] Australia's Future Tax System (2009), Report to the Treasurer.

[9] ACOSS (2012) Building super on a fair foundation, ACOSS Paper 185 at http://acoss.org.au/images/uploads/Reform_of_taxation_of_super_contributions_ACOSS.pdf

benefits for individuals below average earners resulting from the 3% increase in compulsory Superannuation Guarantee contributions. The Government's proposal to increase the annual cap for contributions that attract a tax break from $25,000 to $50,000 for individuals over 54 should not proceed as this would mainly benefit taxpayers who are already able to secure their retirement future.

Further, *in future Budgets, '*tax expenditures' should be grouped together with similar direct expenditures when weighing up whether Government programs are delivering value for money, as advocated by the OECD[10]. The Treasury should regularly publish an analysis of how all major tax concessions for individuals are distributed, according to income.

3. Income tax shelters

A basic principle of income taxation is that people should pay tax according to their ability to pay. For this reason, marginal tax rates are higher for those on higher incomes.

This principle is undermined by tax shelters that allow people on higher incomes to reduce their effective tax rates to the same as those paid by average income earners, or even less.

Many of these tax shelters have no clear justification; they are historical anomalies. A good example is the tax treatment of different investment and business structures. The tax treatment of sole traders, private trusts, and private companies is very different. Since private discretionary trusts (so called 'family trusts') benefit from the most generous tax treatment, they have increasingly been used by wealthy investors and business owners. These trusts can be used to avoid income tax by splitting income with a family member, delaying payment of Capital Gains Tax, and by passing on investment tax breaks from the trust to its beneficiaries. The income from private discretionary trusts rose from $22 billion in 2000 to $37 billion in 2008, a 70% increase in 8 years[11].

In this Federal Budget, to improve the fairness and integrity of the income tax system, ACOSS proposes that:

- the tax treatment of private discretionary trusts be tightened to restrict these tax avoidance opportunities ($1B) – see attached table.

[10] Working Party of Senior Budget Officials (2009), Best practice guidelines – off budget expenditures and tax expenditures, OECD.
[11] ATO 2011, *Taxation Statistics* 2008-09.

In future Budgets, the tax shelters most commonly used by individuals on high incomes should be reviewed to establish who benefits from them, whether they have a clear policy justification and whether their policy aims (if any) can better be met in other ways. This includes the unlimited deductibility of expenses associated with investments yielding capital gains (negative gearing) and the ability of taxpayers to shelter personal income in private companies.

Attachment: Budget savings proposed by ACOSS

Measure	**Current policy**	**Detail of ACOSS proposal**	**Rationale**	**Saving ($ million in a full year)***
(1) Poorly targeted subsidies for health and community services				
Remove *private health insurance rebate* from ancillary health cover	For every dollar paid for private health cover up to an annual cap, the Government rebates policy holders 30 to 40 cents, depending on their age. This includes hospital cover and ancillary or 'extras' cover (such as dental, optometry, physiotherapy and chiropractic treatment)	The rebate should be removed from 'extras' cover and limited to hospital treatment. This would be in addition to recent legislation to income test the rebate (for singles earning over $83,000 the rebate reduces to 20 per cent until at $129,000 the rebate cuts out completely). For families, the rebate reduces once family incomes reach $166,000.	The rebate is supposed to reduce public hospital costs but extras cover is not directly related to hospital care (and in any event private hospital cover has doubtful impacts on public hospital costs). Higher income earners are more than likely people on lower incomes to have extras cover. For example, many high income earners claim dental care from their extra cover while low income earners who can't afford insurance struggle to pay for dental care.	$1,100m (total cost of the Rebate is over $4,000m)
Abolish the	The Extended Medicare Safety	The Extended Medicare Safety Net	The cost of the Extended	$500m

Extended Medicare Safety Net	Net (EMSN) subsidises out-of-pocket costs (gap fees) for out-of-hospital Medicare services including GP specialists, and pathology services. Once gap fees exceed a fixed amount per year, up to 80% of the gap is paid for by Medicare. This is on top of the normal Medicare refund of 80%-100% of the 'schedule fee' (fixed by the Government). Gap fees covered by the EMSN consist of the difference between what the service (e.g. a medical specialist) charges and the schedule fee.	should be abolished. Where gap fees for essential medical services are too high, a fairer and simpler way to reduce them would be to increase the Medicare Schedule Fee for those services.	Medicare Safety Net has risen 20 per cent a year recently and most rebates go to high-income earners. 55% of EMSN spending goes to the 20% of families living in Australia's wealthiest areas. Only 4% of it goes to the 20% of Australian families living in the poorest areas[12]. Half is used for obstetrics and IVF services. The EMSN inflates the cost of services (especially specialists) for everyone. A Government review of the scheme in 2009 found that in the case of varicose vein treatment, cataract surgery and some IVF services, for every dollar spent by Govt on the EMSN, doctor's fees rose by 78 cents between 2003 and 2009[13].	

[12] Australian Government (2009), Extended Medicare Safety Net Review Report.

[13] Van Gool, Kees (2009), *The Medicare Safety Net: review and response*. Economics Research and Evaluation (CHERE), University of Technology, Sydney Survey No 14.

Abolish *Medical Expenses Tax Offset*	A tax rebate of 20% for annual medical expenses (including Medicare gap fees) over $2,000.	Abolish this Tax Offset. Where gap fees for essential medical services are too high, a fairer and simpler way to reduce them would be to increase the Medicare Schedule Fee for those services or incorporate them into Medicare or the Pharmaceutical Benefits Scheme (PBS).	This is an inequitable way to assist people with high medical expenses, as it is only available to taxpayers (e.g. not to retired people whose incomes are too low to pay tax). It can be used to fund expensive procedures such as laser eye surgery which Governments have decided should not be covered by Medicare. It's fairer and more cost effective to assist people with these costs through Medicare and the PBS.	$500m
Integrate the *Child Care Tax Rebate* with the better-targeted Child Care Benefit	The Child Care Tax Rebate (CCTR) covers 50% of child care 'gap fees' up to $7,500 per year. Gap fees are the difference between the Child Care Benefit (CCB) and fees charged by the service.	The CCTR and CCB should be integrated into a single Child Care Benefit. All families regardless of income would be eligible for a minimum level of the new Benefit (for example	The CCTR disproportionately benefits high income families because they have the highest gap fees (they receive less in the income-tested CCB and purchase more expensive care). Families generally have to earn	Revenue neutral (Total cost of fee subsidies is $4,000m, of which $1,700m is for CCTR and

	CCB is means tested on family incomes above $38,000 and cuts out at $130,000 for a family with 2 children. It provides fixed hourly subsidies for formal child care (in centres, family day care or after school care) for between 24-50 hours a week of care, if the parent is employed or in training, or the child is disadvantaged. Maximum hourly rates of CCB are indexed to the CPI which has grown much more slowly than increases in child care fees, so 'gap fees' are growing every year. Because CCB is income tested, high income families have the highest gap fees and benefit most from the CCTR. A family must usually earn at least $ to receive the maximum amount of CCTR.	30% of child care costs up to an annual cap). Low and middle income families would be entitled to higher subsidies (for example up to 90% of the fees charged up to the cap). The new Benefit would better reflect the actual costs of providing formal child care, especially for the under three's, and would be indexed at a faster rate than the CPI. The Fringe Benefits Tax exemption for child care on employer premises should be abolished and the savings absorbed into the new Benefit. The Henry Report recommended these changes. NATSEM estimates if the Henry Report proposal was implemented, typical gap fees for a sole parent with a 2 year old in care costing $164pw would fall by $29pw if she earns $40,000 and by $9pw if she earns $75,000, but would rise by	at least $90,000 to receive the maximum level of CCTR[14]. The CCB mainly benefits low and middle income families but is only indexed to the CPI. Since child care fees rise well above the CPI, gap fees will also rise faster than the CPI. Thus, a growing proportion of overall child care funding will go into the CCTR and to families on higher incomes. Low and middle income parents are more likely than high income parents to be discouraged from paid employment if child care costs are too high. So redistributing child care subsidies to low and middle income families would boost employment participation as well as improving the system's fairness. This can be done by integrating	$2,300m is for CCB)

[14] Core Economics, Child Care in Crikey, by Joshua Gans, accessed at http://economics.com.au/?p=1146.

		$25pw if she earns $130,000.	the CCTR and CCB, as proposed. The proposed system would also be simpler and child care services could deduct the subsidy from their fees. The FBT concession disproportionately benefits a minority of high income parents whose employers offer child care on site. Savings from charging these employers FTB for child care services could be used to improve Child Care Benefits for everyone.	
Abolish the *Education Tax Refund*	The Education Tax Refund (ETR) provides an annual 50% rebate off the cost of school expenses (such as information technology, books and uniforms). The maximum value of the rebate is $400 p.a. for primary school students and $800 for high school students. It is income tested on family income, so that families not	Abolish the Education Tax Refund (ETR)	It is not clear why Government should subsidise these expenses. Improving the quality of teaching in schools should be a higher priority, and this is a bigger concern for parents in any event, than ancillary expenses such as uniforms. A better response to concerns about the costs of raising children is to increase Family	$1,000m

	eligible for Family Tax Benefits (e.g. a family with two children earning more than $112,000) are excluded.		Tax Benefits (as the Government did for teenagers in last year's Budget) and let parents decide how the extra funds will be spent. This would remove the need for parents to keep receipts for school-related costs. The ETR is also likely to increase costs in cases (such as school uniforms) where there is virtually a monopoly in the provision of the item.	
Limit the *tax deduction for self-education expenses*	Course fees, books, travel and other expenses for training courses related to current employment are tax deductible at the individual's marginal tax rate, beyond the first $1,000p.a. in expenses. Thus there is a minimum level of expenses that can be claimed but not a maximum level.	Reduce the deduction for self-education expenses by one quarter by capping the allowable deductions annually. Alternately, claims for these expenses could be disallowed.	Although this is technically a valid work related deduction, it is an inequitable way to support training because it disproportionately benefits professionals who engage in regular in service training (e.g. lawyers). It does not benefit low skilled workers and jobseekers who train to improve their future career prospects, and does not benefit anyone whose income is too low to pay tax.	$250m (total deductions claimed in 2008 were $1,000m)

			HECS, student allowances, and other options such as a guarantee of free education and training up to a minimum level of skills are fairer ways to support lifelong learning.	
		(2) Poorly targeted tax expenditures		
Fairer and more consistent tax treatment of lump sum termination payments such as '*golden handshakes*'	Eligible Termination Payments are payments made by the employer on termination of employment. Some ETPs, including '*golden handshakes*' (gratuities to departing senior employees) are taxed at flat rates of 15% (if the recipient is over 54) or 30% (if they are younger). 'Golden Handshake' amounts over $140,000 are taxed at the recipient's marginal tax rate (usually 45%). Genuine redundancy payments (where the employee's job has	Employment Termination Payments such as 'golden handshakes' in excess of the tax free limit for redundancy payments should be taxed at the recipient's *marginal tax rate* instead of a flat rate of 15% or 30%. There would be no change to taxation of genuine redundancy payments, superannuation or invalidity payments. The Henry Report advocated reform in this area.	The low flat tax rates for 'golden handshakes' are unfair as they disproportionately benefit high income earners. They are also used for tax avoidance purposes. This measure would increase the tax payable on large golden handshakes (over $140,000) by around $30-$50,000.	$300m

	been abolished) also have a special tax free threshold of \$8,435 plus \$4,218 per year of service.			
The postponed *50% discount of personal tax on interest income* should not proceed.	Interest income from cash deposits and bonds is taxed at the individual's marginal tax rate. In response to a Henry Report proposal, the Government proposes to introduce a 50% discount of personal tax on interest income of up to \$500 per year, thus halving the marginal tax rate that would normally apply. For example, a bank balance of \$10,000 earning 5% interest would yield \$500. The implementation of this change has been postponed to 2014. The proposed 50% discount is similar to that which already applies to capital gains (from	The proposed 50% discount for interest income should not proceed. The Government should instead reconsider the original Henry Report proposal to reduce the 50% tax discount for capital gains to 40% and use the savings to introduce an equivalent 40% tax discount for interest income.	The idea behind the Henry Report's proposals was to equalise the tax treatment of capital gains and bank interest so that the tax system does not bias investment decisions between property and shares, and interest earning accounts and bonds. The original Henry Report proposal would have improved fairness by raising taxes on capital gains (over 60% of which go to the top 10% of taxpayers). Introducing a tax discount on interest income without increasing Capital Gains Tax would be costly. It is unlikely to have significant impact on private saving levels as the	\$500m (no impact in 2012-13 due to its postponement by the Govt)

	sale of property and shares).		benefits for any single taxpayer are very limited.	
Restrict *tax rebates for seniors* to pensioners	The *Senior Australians Tax Offset* (SATO) provides for a tax rebate of up to $2,200 p.a. for individuals over 64 years of age with incomes (wages or investments) up to $48,000 p.a. (couples up to $80,000) regardless of their level of assets. It is paid in addition to the $1,500 *Low Income Offset* (LITO), which has increased in recent years. A single person on up to about $70,000 receives all or part of the LITO which effectively increases the standard $6,000 tax free threshold to $16,000. SATO is paid as an alternative to the *Pensioner Tax Offset* (PENTO), which prevents the Age Pension plus earnings under the 'pension free area' from being taxed. It was originally	The SATO and MAWTO should be limited to people over 65 receiving pensions – those whose income and assets both fall within the pension limits (income below $43,000 for singles and $66,000 for couples, assets apart from home below $700,000 for singles and $1,000,000 for couples). This would only affect the top 20% or so of people over 64 since around 80% are pensioners. Alternately both rebates could be abolished, in which case pensioners could still rely on the Low Income tax Offset, the Pensioner Tax Offset, and the non-taxation of superannuation benefits to reduce their income tax. The Henry Report advocated replacing these and other tax offsets with a higher tax free threshold for all.	The SATO extends to relatively well-off Seniors (within the top 20%) who have incomes or assets too high to qualify for a pension. The proposed reform would limit this tax break to those on a pension. Due to SATO and other tax offsets, the effective tax free threshold for Seniors is $30,000 for singles and $53,000 for couples, compared with $16,000 each for younger taxpayers (due to the tax free threshold plus the LITO). This is unfair. Note that superannuation benefits are not taxable, so are not even included in these tax free thresholds. Even if SATO was abolished entirely, pensioners would still benefit from the LITO, the Pensioner Tax Offset (PENTO) and tax free super benefits.	Up to $1,300m for SATO (if abolished completely), and up to $500m for MAWTO

	targeted to independent retirees. The *Mature Age Workers Tax Offset* (MAWTO) is a tax offset of up to $500 for wage earners over 54 years. It is paid to those earning up to $63,000. It is paid in addition to the SATO to those over 64 years.		Given that the tax free thresholds for Seniors are already very high, and would still be high despite the proposed change to SATO, the MAWTO is not needed to encourage them to remain in paid work. There is no evidence to show that it increases employment among people of mature age. Their main barriers to workforce participation are disabilities, caring roles, skills, and discrimination rather than a lack of financial incentive.	
Remove additional *Capital Gains Tax concessions for small business*	Individual taxpayers receive a discount of 50% off their marginal tax rate on capital gains (profit from sale of assets such as property and shares). In addition to this tax break, small business owners (with annual turnover under $2m) get further tax breaks on the sale of active business assets (eg a property used for a business). These include:	These additional Capital Gains Tax concessions for small business assets should be removed, so that the normal Capital Gains Tax rules apply (i.e. in most cases only half the capital gain is taxed). This was proposed by the Henry Report.	Capital gains are already very lowly taxed in Australia – generally at half the taxpayer's marginal tax rate. This encourages speculation in assets such as property and shares. The extra small business tax breaks give the most benefit to relatively wealthy small business owners – those with substantial business assets and property.	$1,000m

	- a doubling of the 50% discount (so in most cases only one quarter of gains are taxed), - a complete exemption for small business assets held for over 15 years, - a complete exemption for assets sold for retirement purposes by a business owner over 54 years of age. The reason given for introducing these concessions was that small business owners used their business assets as their retirement savings, and so should receive a special tax break for this purpose.		As with Capital Gains Tax concessions generally, they encourage business owners to speculate in property rather than concentrating on growing their business (they discourage businesses from growing above $2m in turnover) and increasing their ordinary profits. They encourage tax avoidance. Well-advised small business owners need never pay tax on their capital gains. The rules are also very complex. Small business owners, like everyone else, should be encouraged to save for their retirement through superannuation rather than by avoiding tax on capital gains.	
Restructure *tax concessions for superannuation*	Superannuation contributions made by employers are taxed at a flat rate of 15% in the hands of the fund, up to an annual contribution limit of $25,000 - or $50,000 if the employee is over	A simpler and fairer annual rebate should replace all existing tax concessions for superannuation contributions. Income tax at each employee's	The present 15% flat tax on employer contributions is unfair and poorly targeted to increase retirement saving.	Revenue neutral

	49 years of age. To improve the equity of this tax break, the Government proposes to introduce a Government contribution of 15% to offset the tax payable on contributions made for individuals below the tax free threshold (so that their super contributions are not taxed at a higher rate than their wages). However, the Government plans to reverse a previous Budget decision to reduce the annual cap for contributions attracting the 15% tax rate from $50,000 to $25,000 for people over 49 years. This would increase the concessions available to high income earners.	marginal rate should be deducted by employers from all contributions forwarded to the employee's superannuation fund, with the rebate paid into the employee's super account at the end of each year. The rebate could, for example, be paid at the rate of 100% of contributions up to a low flat annual contributions ceiling (e.g. $350), plus 20% of additional contributions up to a higher flat annual ceiling (e.g. $8,000). This change would be broadly revenue-neutral. This is similar to a proposal in the Henry Report, except that employer super contributions would not be taxed in the hands of employees as Henry proposed.	It has the same regressive effect as replacing the progressive income tax scale with a flat tax. High-earners save over 30 cents in tax per dollar contributed while those below the tax free threshold receive no tax break at all (even when the proposed Government Contribution is in place). The proposed rebate would shift superannuation tax breaks to those who need them most, from high to low and middle income-earners. This change is likely to boost retirement saving (since high income earners will save without big tax breaks) and future age pension savings (since high earners are less likely to claim pensions).	(The annual cost of tax breaks for super contributions is $16 billion)

(3) Tax shelters				
Tighten tax treatment of *private discretionary trusts (so called 'family trusts')*	Family trusts (also called discretionary trusts) are used to hold investment assets (e.g. property and shares) on behalf of beneficiaries or for a family business. The trustee can elect to allocate income from these assets to any beneficiary (usually a family member) in each year. The trust is not taxed on its income (unlike a company) but the beneficiaries are supposed to be taxed on the annual income they receive from the trust, at their marginal tax rates. To prevent tax avoidance, any un-allocated income is supposed to be taxed within the trust at the top marginal rate.	Beneficiaries should be fully taxed on any capital gains (from sale of assets) obtained by the trust. If capital gains are reinvested in the trust, the trust should be taxed on them at the top marginal rate. Tax concessions associated with the trust's investment assets (for example building depreciation) should not 'flow through' fully to the beneficiaries of family trusts. This would bring the tax treatment of family trusts more into line with that of other trusts ('fixed trusts') and companies. These measures would not extend to public trusts (eg 'unit trusts' for property investment) or trusts established to hold assets for people such as children with a disability. Another option to reduce tax	Family trusts are often used to avoid tax by wealthy investors and business owners. They are also used to protect assets from creditors and to hold them for the future benefit of family members who are not yet ready to manage their own affairs. The key point is that people should not obtain a tax advantage from using these trusts. Tax can be *avoided* (legally) by splitting income with a lower-taxed family member (though not a dependent child) or a family company that is a beneficiary of the trust; by not attributing capital gains to beneficiaries so that they can be taxed in a timely way; and by using a trust to artificially 'convert' other forms of income into capital gains.	$1,000m

		avoidance opportunities and tax different entities more consistently is to tax family trusts as companies. That is, the trust is taxed on its income at 30%, beneficiaries are taxed on dividends received and receive imputation credits (in effect a refund of the tax paid by the company), and tax concessions are not passed on to beneficiaries but must be offset against the income of the trust. A further option is to 'attribute' the trust's income to the individual who controls the trust (as we already do for social security income test purposes), in order to prevent family trusts being used to 'split' income with family members.	Tax can be *evaded* (illegally) using complex trust structures where income is concealed or transferred overseas, making it hard for the Tax Office to follow the paper trail. For example, in 'Operation Wickenby' the ATO uncovered tax evasion using complex trust structures to shift income overseas where it was not taxed. Beneficiaries of discretionary trusts also benefit from tax breaks not fully available to beneficiaries of fixed trusts or company shareholders. This is inequitable. In 2008 there were 475,000 private discretionary trusts compared to 300,000 a decade before that (a 60% increase). About half were for investors and half for active businesses. Contrary to popular myth, only about 5% were for farm enterprises.	

			Income of these trusts rose from $22 billion in 2000 to $37 billion in 2008, a 70% increase over 8 years.	

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