National Foundation for Australian Women
REAL WOMEN. VISIONARY LEADERSHIP

Budget 2020 – Social Services: Indexing

Indexing Overview

Women were already over-represented in reduced employment outcomes, levels of poverty, and reliance on income support payments prior to the COVID-19 pandemic and its attendant effects on the Australian economy. The recession and the overwhelming focus on male-dominated industries for stimulus support means Australia is facing a 'she-cession.'

In terms of income support, proper indexing of cost of living increases would assist in keeping Australians out of poverty.

Indexing

The Budget

Indexing is not specifically detailed in the budget, other than as it appears in forward estimates for each income support payment type.

Most income support payments are adjusted for cost of living twice yearly, in March and September. For the first time in 20 years, most payments did not receive a cost of living index adjustment in September of 2020. This is directly related to the economic downturn that Australia is currently experiencing (Klapdor, 2020).

Gender implications

Why is this an issue for women?

Because women make up 57 per cent of all income support recipients, and experience poverty at higher rates than their male counterparts, the indexation of income support payments is of critical importance to them.

The JobSeeker payment is indexed to the Consumer Price Index (CPI), which monitors a generic 'basket of goods' for price increases across a broad range of items. Calculated by the Australian Bureau of Statistics (2019c), the CPI includes 11 major groups of expenses:

- Food and non-alcoholic beverages
- Alcohol and tobacco
- Clothing and footwear
- Housing

- Furnishings, household equipment and services
- Health
- Transport
- Communication
- Recreation and culture
- Education
- Insurance and financial services.

Data is drawn primarily from the Household Expenditure Survey and is updated quarterly. The CPI is intended to track changes in cost of living.

However, this approach has two main deficiencies. First, the 'basket of goods' identifies an average cost increase, but fails to differentiate essential services (such as rent, food or utilities) from discretionary costs (such as clothes, leisure pursuits or travel). As a consequence, it unfairly disadvantages people on income support:

> Those receiving government pensions and allowances spend proportionally more of their income on food, housing (rents), communications and utilities than other groups, and hence are more vulnerable to changes in these prices. Conversely, they spend proportionally less on items such as clothing, health, transport and recreation when compared to…'all households'… and thus are less impacted if the price of these items changes. In order to understand the impact of price rises on those receiving government pensions and allowances, more specific calculations are [needed]. (Dufty, 2012, p. 2)

This problem was identified by the Harmer review into pensions (Harmer, 2009); the author differentiated between a 'plutocratic' CPI (what is used) and a 'democratic' CPI, which would weight the essential purchases of middle- and low-income households.

A comparison of household expenditures by socio-economic quintile (that is, the most disadvantaged 20% of households compared to the least disadvantaged 20% of households) and the average across all households is provided below (Table 1). This data is drawn from the most recent Household Expenditure Survey (ABS, 2017), with costs reported not in real dollar terms but rather as a percentage of entire household expenditures. This demonstrates why the CPI is not in fact representative of cost of living increases for households with restricted finances. For example, the most disadvantaged households spend nearly 30% more on food as a percentage of overall expenditure than the highest income households, 26% more on housing, 72% more on utilities and 42% more on communications. Conversely, these households spend 21% less on clothing and nearly 40% less on recreation.

Table 1: Comparison in expenditure between all households, lowest income quintile and highest income quintile (2017)

	All households	20% lowest-income households	20% highest-income households	% Variance low-high
Food	16.6%	19.1%	14.3%	+28.7%

Clothing	3.1%	2.5%	3.1%	-21.4%
Housing	19.6%	23.4%	18.0%	+26.1%
Medical	5.8%	5.8%	5.7%	+1.7%
Transport	14.5%	12.5%	15.7%	-22.7%
Communica-tions	3.3%	4.0%	2.6%	+42.4%
Recreation	12.1%	9.0%	13.4%	-39.3%
Utilities	2.9%	4.5%	2.1%	+72.7%

Source: Jericho, G. (2017), based on Housing Expenditure Survey data (2017).

The only expenditure that is comparable is medical, and this may be in part due to a socialised medical system and in part due to the poorest households foregoing medical treatment (Australian Institute of Health and Welfare, 2018). It seems this is a likely explanation, with recent evidence showing (then) Newstart recipients report poor health at 6.8 times the rate of wage earners, and that they are 1.5 to 2 times increased risk of hospitalisation (Collie, Sheehan & Mcallister, 2019).

Data collected in 2019 indicates that essential services are experiencing inflation at a higher rate than other consumer goods and services. Since the end of 2013 the overall consumer price index has increased 10.4%. However, the cost of essential services – those items which make up the majority of household expenses for low-wage households – is rising at more than twice that rate. For example, education-related costs have risen nearly 25%, childcare is up 26.7%, medical/hospitalisation costs are up 36%, electricity is up 12% and gas has risen 16% (Wright, 2019). Wages have not kept pace, rising between 12-13% since 2013, while Newstart has not grown at all in real terms across that time.

To better reflect real changes in cost of living, an indexation system must include:

1. a weighted indexing that preferences essential costs for lower-income households, and
2. wages growth.

The Australian Bureau of Statistics (ABS, 2019) has already resolved the problem of a weighted index, by creating a new index in 2009 called the Pensioner and Beneficiary Living Cost Index (BPLCI). This is a sub-set of their Selected Living Cost Indexes (SLCIs), which examines the differential impacts of price changes in various goods and services for different household types: employee households (primary income source is from employment); age pension households; other government transfer recipient households; and self-funded retiree households. The PBLCI specifically examines the impacts of price changes on households that are dependent on income support:

> The PBLCI represents the conceptually preferred measure for assessing the impact of changes in prices on the disposable incomes of households whose income is derived principally from government pensions or benefits. In other words, *it is particularly suited for assessing whether the disposable incomes of these households have kept pace with price changes*. (ABS, 2019, emphasis added)

For example, the ABS calculations reveal stark differences in the percentage of household income that goes towards housing – just under 15% for employee households compared to almost 24% for PBLCI households (Ibid.)

The Age Pension has kept pace with true changes in cost of living because it is indexed to real changes in purchasing power:

> Base pensions are indexed twice a year, on 20 March and 20 September, to reflect changes in pensioners' costs of living and wage increases. The pension is increased to reflect growth in the Consumer Price Index and the Pensioner and Beneficiary Living Cost Index, whichever is higher. When wages grow more quickly than prices, the pension is increased to the wages benchmark. The waged benchmark sets the combined couple rate of pension at 41.76 per cent of Male Total Average Weekly Earnings. The single rate of pension is two-thirds of the couple rate. (Department of Social Services, 2019)

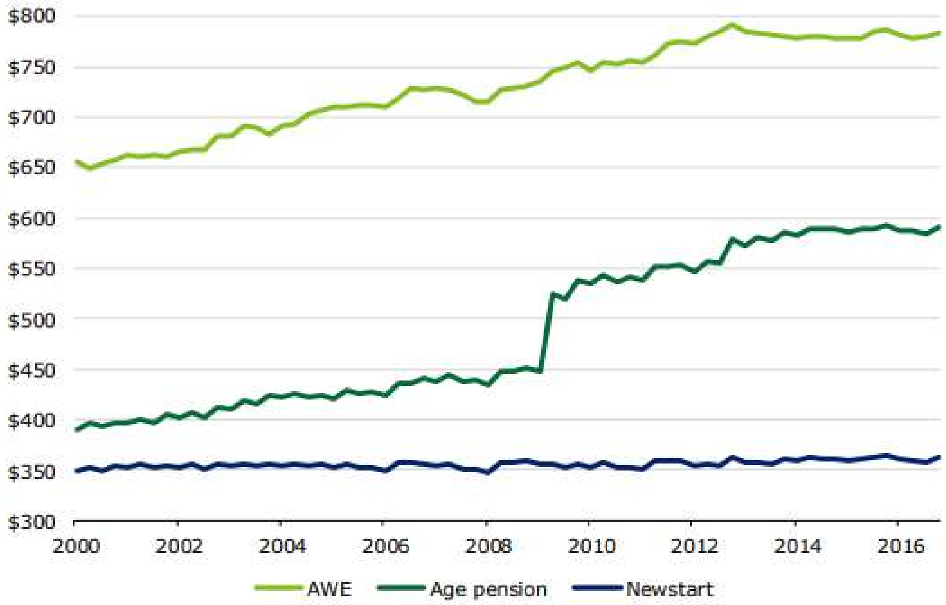
This practice is due to the analyses and recommendations put forward by the Harmer review (Harmer, 2020). Importantly, the review was limited to the pension payment only, although the author did demonstrate how using the 'plutocratic' CPI was quickly reducing the true value of the Newstart Allowance.

Conversely the JobSeeker payment is indexed solely to the CPI. As discussed above, the CPI is a blunt measure of overall changes in consumer costs, and is not designed to reflect cost of living pressures in low income households.

Including a wage index is critical to ensuring income support payments rise commensurate with true changes in the cost of living (Deloitte Access Economics, 2018). Specifically, using the correct index will protect the real value of payments, while benchmarking benefits to the Male Total Average Weekly Earnings ensures there is protection of the standard of living that those payments represent (Lewis, 2015).

The graph in Figure 3, below, demonstrates how poorly calculated indexing left the (then) Newstart payment well behind the Age Pension, when in 2000 there was less than $50 separating the two payments.

Figure 3: Indexing differences on valuations of the pension and the Newstart Allowance compared to average wages (Source: Deloitte Access Economics, 2018)



Source: Commonwealth Treasury; ABS Cat No. 6302.0, 6401.0; Deloitte Access Economics.
Note: series are deflated by the CPI and are in 2000-01 dollars. AWE is average weekly earnings

What are the 2020 Budget impacts on women?

By maintaining the sole use of the CPI in most income support payments, poverty is being exacerbated for many women and their children. With more women relying on income support payments as a result of the Coronavirus pandemic, when the COVID-19 supplements are removed poverty will increase dramatically for thousands of households.

Recommendations

1. Income support payments should be calibrated to keep households out of poverty.

2. The PBLCI, as designed by the ABS, should be utilized to better reflect true cost of living increases for all income support payments.