

# Budget 2021 – Social Services

## Indexing overview

Women are over-represented in reduced employment outcomes, levels of poverty, and reliance on income support payments. Women were disproportionately impacted by COVID19, through job losses and extra care responsibilities. These effects will be carried through to the future.

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

## Indexing

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### 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. However, for the first time in 20 years, most payments did not receive a cost of living index adjustment in September of 2020. This was directly related to the economic downturn Australia was experiencing.

## Gender implications

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### Why is this an issue for women?

Because women are overrepresented as 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.

JobSeeker, formerly known as Newstart, normally only rises in line with the cost of living. Other than small adjustments, for example when the GST was introduced in 2000, the current budget measure will be the first time the benefit has been increased in real terms since the early 1990s. Despite the increase JobSeeker will remain well below usual measures of the poverty line (noting Australia does not have an official poverty line).

The JobSeeker payment is normally 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](#), 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). Consequently, [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].

This problem was identified by the [Harmer](#) review into pensions; 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 per cent of households compared to the least disadvantaged 20 per cent of households) and the average across all households is provided below (Table 1). This data is drawn from the most recent [Household Expenditure Survey](#), 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 per cent more on food as a percentage of overall expenditure than the highest income households, 26 per cent more on housing, 72 per cent more on utilities and 42 per cent more on communications. Conversely, these households spend 21 per cent less on clothing and nearly 40 per cent 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
<b>Food</b>	16.6%	19.1%	14.3%	+28.7%
<b>Clothing</b>	3.1%	2.5%	3.1%	-21.4%
<b>Housing</b>	19.6%	23.4%	18.0%	+26.1%
<b>Medical</b>	5.8%	5.8%	5.7%	+1.7%
<b>Transport</b>	14.5%	12.5%	15.7%	-22.7%
<b>Communications</b>	3.3%	4.0%	2.6%	+42.4%
<b>Recreation</b>	12.1%	9.0%	13.4%	-39.3%
<b>Utilities</b>	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. 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 hospitalization.

Prior to COVID-19 data demonstrated that essential services – those items which make up the majority of household expenses for low-wage households – were experiencing [inflation at a higher rate](#) than other consumer goods and services. Wage growth has remained at a [record low rate](#) for the second quarter in a row.

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](#) 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.* (emphasis added)

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

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.

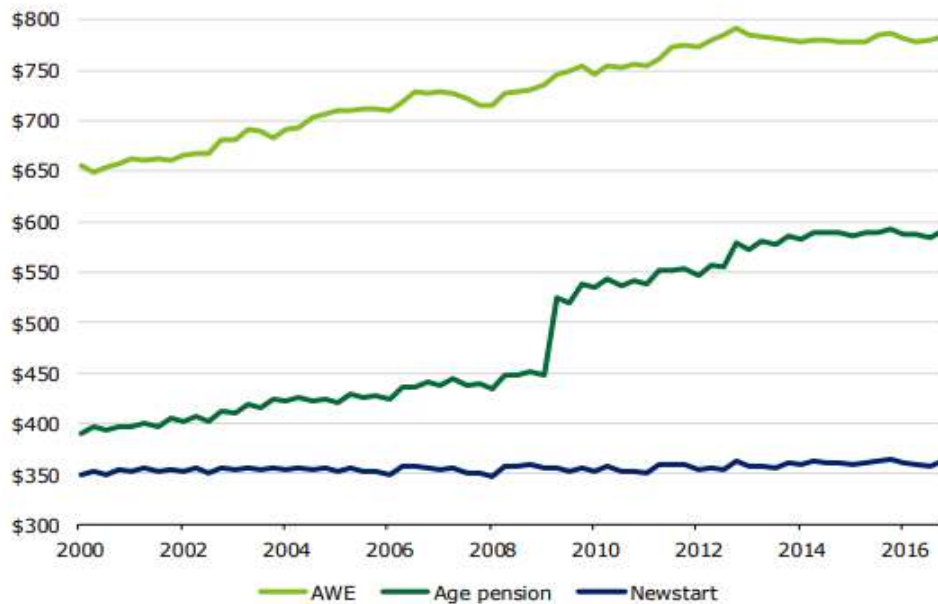
This practice is due to the analyses and recommendations put forward by the Harmer review. Importantly, the review was limited to the pension payment only, although the author did demonstrate how using the 'plutocratic' CPI was quickly reducing the true value of the Newstart Allowance.

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. 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.

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 2021 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.

### Recommendations

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- Income support payments should be calibrated to keep households out of poverty.
- The PBLCI, as designed by the ABS, should be utilized to better reflect true cost of living increases for all income support payments.