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Taxes, Transfers and Lifetime Income

Poverty Traps

The Child Support Scheme

Income Support for Young People

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## HOW CASH TRANSFERS AND INCOME TAXES AFFECT THE DISTRIBUTION OF LIFETIME INCOME

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This is a revised version of a paper presented at the Social Policy Research Centre's National Social Policy Conference on 5 July 1991. The contents are based upon the results of a new dynamic cohort microsimulation model constructed as part of a PhI), and the author would like to thank the Department of Social Security and the Association of Commonwealth Universities for the funding which made the project possible.

## ABSTRACT

Many studies have shown that the distribution of income at a *single point in time* is highly unequal and that cash transfers and income taxes successfully redistribute income from the rich to the poor. But do these conclusions still hold true when a much longer time period, such as an entire lifetime, is considered? The paper presents detailed estimates of the lifetime income distribution in Australia and of the degree of lifetime income redistribution achieved by taxes and transfers, based upon the results of a new dynamic cohort microsimulation model.

The results indicate that, although much of the inequality apparent in cross-section studies of income distribution is simply due to the sampled income units being at different stages of their lifecycles, there are nonetheless still major inequalities in lifetime income. Both cash transfers and income taxes are progressive on a lifetime basis, and redistribute income from those with high to those with low lifetime incomes. While males make a net loss from the operation of the tax-transfer system, paying out more in income taxes during their lifetimes than they receive in cash transfers, the bottom 40 per cent of women make a net gain. Despite this, even after assuming full income sharing within the family unit, the equivalent incomes of women during each year of adult life average only 90 per cent of the comparable incomes of men.

## INTRODUCTION

Analyses of cross-section samples of the populations of industrialised countries at a single point in time have typically found the *distribution of income* to be highly unequal. For example, in 1984 the top 10 per cent of Australian households received more than 13 times as much pre-tax income as the bottom 10 per cent (ABS, 1987:22). Broadly comparable inequalities have also been found in OECD and other industrialised countries (Stark, 1977; Sawyer, 1976).

Similarly, the numerous studies of the *income redistribution* achieved by various government taxes and expenditures, also based upon cross-section data, have generally concluded that the net effect of such programs is to successfully redistribute income from rich to poor (Saunders, 1984). While the studies range from those which

simply allocate personal income taxes and cash transfers<sup>(1)</sup>, to those which also embrace other taxes and other types of government expenditure<sup>(2)</sup>, the findings of the latter are strikingly similar. Thus, annual net fiscal incidence studies typically conclude that taxes are broadly proportional to income or slightly progressive (with the progressive effect of income taxes being offset by other regressive taxes); that cash transfers, and to a lesser extent other government expenditures, are progressive; and that the combined effect of both taxes and outlays is to transfer income from the rich to the poor.

But do these conclusions still hold when a much longer time period, such as an entire lifetime, is considered? For example, at any single point in time, a large proportion of those with low incomes are retirees, who might have enjoyed high incomes in the past while in the labour force, or students or teenagers, who will probably earn much higher incomes in the future. It thus seems likely that, if one could somehow measure the past and future incomes of all of those captured in a cross-section survey, their lifetime *incomes* would be much more equally distributed than their incomes during the single year or weeks embraced by the survey. But how much more equal? Similarly, while income taxes appear progressive in net fiscal incidence studies, taking a greater slice of the income of the rich than of the poor, and income-tested cash transfers appear even more effective in directing resources to the poorest in society, it is likely that many of the cash transfer recipients of today were the high income taxpayers of yesterday.

Thus, when a longer time period is considered, it is conceivable that the wide-ranging programs of government taxation and expenditure common to all industrialised countries simply redistribute resources *across the lifecycle of individuals*, funding the cash transfers and services

received by each individual while they are studying or retired from the taxes collected from that same individual during their peak working years. It is therefore possible that government programs do not redistribute income from rich to poor at all, as annual net fiscal incidence studies suggest, but merely enforce the reallocation of income during the lifecycle—in other words, that all of the redistribution achieved by taxation and expenditure programs is *intra-personal*, rather than *inter-personal*.

Answering these types of questions requires lifetime data, which are extremely rare. In Australia, there are no satisfactory data available to answer such questions, so that there is no option but to attempt to simulate realistic lifetime profiles. Economists and econometricians have used a number of techniques in the past to simulate lifetime profiles, but these have been unable to allow for the constant changes in the circumstances of individuals which occur in the real world. The relatively recent techniques of dynamic microsimulation, in contrast, allow the characteristics of individuals within the model to change constantly so that, for example, individuals may enter or leave the labour force, get married or divorced, and so on. The precise techniques used in constructing the models are fairly complex and described in more detail in Harding (1990a, 1990b).

The prototype version of the HARDING model consists of a pseudo-cohort of 2000 males and 2000 females, who are tracked from birth to death and experience major life events such as schooling, marriage and unemployment. The cohort are 'born' in 1986 and live for up to 95 years in a world which remains exactly as it was in their birth year. Given the uncertainty surrounding future changes in marriage and birth rates, labour force participation rates, education rates and so on, this means that a *steady-state* world has been assumed in the initial version of the model. Thus, there is no attempt to estimate what the actual experience of the cohort born in Australia in 1986 will be. Instead an answer is sought to the following question: *If the demographic, labour force, income and other characteristics of the population and all government policies existing in 1986 remained unchanged for 95 years, what would the distribution of income be like and what income redistribution would be achieved by government programs?*

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(1) For example, see Kakwani (1983), Saunders (1982) and Collins and Drane (1981, 1982) for Australia.

(2) For example, see CSO (1990), O'Higgins and Ruggles (1981), Webb and Sieve (1971), Peacock and Browning (1954), Bama (1945) and Canter (1955) for the UK; ABS (1987) and Harding (1984, 1982) for Australia; Reynolds and Smolensky (1977) and Gillespie (1965) for the USA; and Dodge (1975) and Ross (1980) for Canada.

Although the steady-state assumption may appear unrealistic at first glance, it is probably the most useful benchmark against which to evaluate current government policies and changes to those policies. As Summers pointed out in 1956, the constant changes in the distribution of income make data about the lifetime income distribution in the past of little help in analysing the lifetime income distribution of today, while the future distribution of lifetime income is unknown. As a result, both the Canadian DEMOGEN and West German SFB3 dynamic cohort microsimulation models assume a steady-state world when evaluating the impact of both existing and possible government policies (Wolfson, 1988:233; Hain and Helberger, 1986:63).

The processes simulated in the model for each individual for each year of life, which are described in more detail in Harding (1992), include mortality, marriage, divorce and fertility; disability; preschool usage and attendance at a range of different primary, secondary and tertiary sectors; labour force participation, including hours in employment or unemployment each year; earnings and other private income from maintenance, investments, interest, rent, dividends and superannuation; receipt of all the major social security and education cash transfer payments (June 1986 system and rates imputed in accord with rules for eligibility); and, finally, income tax and the Medicare levy, including the dependent spouse, sole parent, pensioner and beneficiary rebates (1985-86 income tax schedules imputed in accord with rules for liability or eligibility).

This means that by the time one of the 4000 individuals in the model 'dies', an enormous amount is known about their lives. For example, in each year of life we know whether they were studying and at what type of institution, their marital status and the age and number of any children, their labour force status and their earnings, their receipt of other private income or cash transfers and the amount of income tax they paid. Housing status has unfortunately not been included in the first version of the model, principally because there were no adequate housing data on the 1986 Income Distribution Survey micro-data tape which could be used for the simulation of housing, and longitudinal data on housing were also not available.

There are, however, some difficult issues involved with undertaking this type of analysis, and their significance should be fully appreciated. First, although it is hoped to include indirect taxes and government expenditures on services in the model in the near future, at the moment assessment of the impact of government is limited to the major cash transfers and the income tax administered by the Federal Government. The results outlined in this paper therefore only deal with the lifetime redistribution of *cash income* directly generated by the major provisions of the federal tax-transfer system. If the analysis embraced indirect taxes, other tax expenditures or expenditure on services, it is possible that quite different conclusions might be reached about the redistributive impact of all government activity or about the distribution of a lifetime income measure which included the imputed value of various government services. Inclusion of state and local government taxes and expenditures might also affect the conclusions. Nonetheless, analysis confined to the impact of income taxes and cash transfers still seems worthwhile, given that these are the major tools designed to achieve income redistribution objectives in modern societies.

A second issue is that in assessing the impact of government upon income redistribution, the distribution of income *after* specified government actions necessarily has to be compared to the distribution of income *before* such actions. This immediately raises the question of what the most appropriate 'before' benchmark-or counterfactual-is. Although heavily criticised (Reynolds and Smolensky, 1977), the most commonly used reference point is the 'zero government counterfactual', which measures the redistributive effect of government against the original distribution of pre-tax and pre-transfer income. While it is clearly invalid to assume that the distribution of factor income would remain the same if there was no government, such an assumption has been implicitly adopted in this study, because there are no data available suggesting how the lifetime distribution of factor income in Australia would change if government miraculously disappeared.

A third issue is the assumed incidence of cash transfers and income taxes. The benefit of cash transfers is assumed to be *fully incident upon*

*those to whom they are paid*, following standard practice in other major incidence studies (e.g. Central Statistical Office, 1990; Reynolds and Smolensky, 1977:39). However, this is not necessarily uncontroversial as, for example, some might argue that the benefit of family allowance is incident equally upon a husband and wife or even upon the children, rather than solely upon a wife who is the formal recipient. Yet these alternative incidence options are also not straightforward. For example, the Government has, as a general rule, made the wife the recipient of family allowance and family allowance supplement, because of doubts about who received the benefit of the allowance when it was paid to the husband. Similarly, it is not clear that the benefits are fully incident upon children (Barro, 1974). Thus, while further sensitivity analysis will be conducted in the near future, the standard incidence assumption has been adopted for this study.

Similarly, the burden of income taxes is assumed to be fully incident upon those legally liable to pay them, even though some individuals may be able to shift forward tax increases (Break, 1974:179). Equally importantly, those with legal liabilities to pay tax are assumed to meet them and no account is taken of the underground economy and possible tax evasion.

#### **THE DISTRIBUTION AND REDISTRIBUTION OF LIFETIME INCOME BY SEX AND DECILE**

In the following analysis *individuals* are ranked by the amount of equivalent income they receive during their lifetimes, and the differing characteristics of those with high and low lifetime standards of living are examined. While any of the various lifetime income and tax measures available in the model could be used to rank individuals, *annualised equivalent family disposable income* has been selected. There are four separate decisions being made here about the income measure.

The first is that *disposable* 'after-income-tax' income has been used in preference to *gross* income, as it provides a more accurate measure of the living standards attained by families. The second is that if *equivalent* income was not used to rank individuals then, for example, a never

married male with a lifetime income of half a million dollars would be regarded as having achieved the same lifetime standard of living as another male with the same lifetime income who for 20 years supported a non-working spouse and four children. Thus, the use of equivalent income to try to improve comparisons of welfare is now widely accepted and, for example, is endorsed by the British Central Statistical Office, who now rank all households by equivalent income in their yearly analyses of fiscal incidence in the UK (CSO, 1990).

It should, however, be appreciated that no equivalence scale can capture fully the differences in the needs of various types of income units due to their differing circumstances. Most equivalence scales do not, for example, allow for the possible differences in income required by families with severely disabled members. There is also extensive debate about whether equivalence scales applicable to low income families are equally applicable to high income families and about how to measure accurately the differences in income required by those in different circumstances (Whiteford, 1985). Despite these problems, equivalent income is now widely used in cross-sectional income distribution studies to rank different types of income units (eg. Kakwani, 1986; O'Higgins et al, 1981, 1988). The alternative of assuming that those with the same monetary income but very different needs have the same standard of living is seen as even more unacceptable. The equivalence scale used is that implicit in the Australian social security system at January 1990.

The third decision is that, although the individual is the income unit which is tracked through time, in the years when a cohort member is living with other adults or children, the equivalent income of the family is attributed to *each individual within that family unit*. If the personal income of individuals was used to assess the living standards of cohort members even during those years when they were part of a family unit then, for example, non-working spouses would appear to have an appalling standard of living, even if they were married to a high income spouse. In the years when individuals are single, their own equivalent income is the measure of 'equivalent family disposable income'. This methodology means that even though only individuals can be followed over a

lifetime, the income measure still takes full account of variation in family circumstances.

Finally, the fourth issue is that it is not immediately obvious how to make sense of lifetime income measures. If the income received by an individual in every year of life is summed, and the population is then divided into deciles of total lifetime income, many of those in the lowest income decile will simply be those who died at a younger age. Their lower lifetime incomes will thus reflect the reduced number of years in which they earned income, rather than necessarily pointing to a low lifetime standard of living. Measures of tax and transfer incidence will be similarly distorted as, for example, those who died early will have received no age pension, and the transfer system might therefore falsely appear to be regressive. To overcome these problems, the incomes received by the cohort in every year of life after the age of 14 were summed and then *annualised* lifetime income measures were derived, by dividing the various lifetime totals by years of life minus 15. The annualised income measures can thus be viewed as the average amount of income received *during each year of adult life*.

Sections 1 and 2 describe the patterns of income distribution and redistribution found when first males and then females are divided into deciles of *annualised lifetime equivalent family disposable income*. Section 3 broadens the analysis to take account of presumed income sharing within the family unit, and discusses how the marked differences between the personal incomes of men and women are attenuated once family circumstances are considered. Section 4 briefly discusses the lifetime income distribution for the cohort as a whole.

## 1. The Lifetime Income Distribution of Males

As one might expect, higher lifetime original (ie. pre-tax, pre-transfer) incomes are the product of higher earnings, greater investment income and increased access to occupational superannuation, with investment income being much more unequally distributed across income deciles than earnings, and the distribution of superannuation income being highly skewed towards those in the top three deciles of lifetime income (Table 1). These trends are reflected in Figure 1, which

shows the composition of *annualised lifetime gross* income by quintile groups, ranked by annualised lifetime equivalent income. For the bottom 20 per cent of males, cash transfers contribute an average 10 per cent of gross income during each year of adult life, and earnings almost all of the remainder. For the top quintile, earnings are relatively less important, cash transfers almost non-existent, and investment income and superannuation together make up almost 20 per cent of annualised gross income.

Those males who received sufficient income to place them in the top 10 per cent of the distribution received on average about \$32,800 in earnings every year, around \$5,700 in investment income and about \$2,750 in superannuation payments, resulting in an annualised *original* (pre-tax, pre-transfer) income of almost \$41,300 (Table 1). In contrast, those males who were placed in the bottom 10 per cent of the income distribution averaged only \$6,850 of earnings, about \$200 of investment income and no occupational superannuation, leading to a total original income of some \$7,000. The dispersion of earnings for males is shown in Figure 2, with just under 30 per cent of all males receiving annualised earnings between \$10,000 and \$15,000 (the midpoints of the various earnings ranges are shown on the vertical axis). Some 70 per cent of all males in the *bottom decile* received annualised earnings of between \$5,000 and \$10,000 during each year of adult life, and only 10 per cent received more than \$10,000. In contrast, about one-quarter of males in the *top decile* of annualised equivalent income received annualised earnings of between \$25,000 and \$30,000, and almost 10 per cent received more than \$50,000 a year.

As Table 2 shows, the higher earned incomes of those in the top half of the income distribution were due in part to their higher hourly wage rate, with the average hourly lifetime wage rate of \$20.75 received by the top decile being almost four times higher than the \$5.30 averaged by males in the bottom decile. However, those in higher income deciles also spent substantially more years in the labour force and, when in the labour force, spent significantly more hours in employment and fewer hours unemployed. For example, those in the top decile averaged 45.2 years in the labour force and 1995 hours of employment during each of those



**Table 1: Annualised Lifetime Income Characteristics of Decile Groups of Men, Ranked by Deciles of Annualised Lifetime Equivalent Disposable Income**

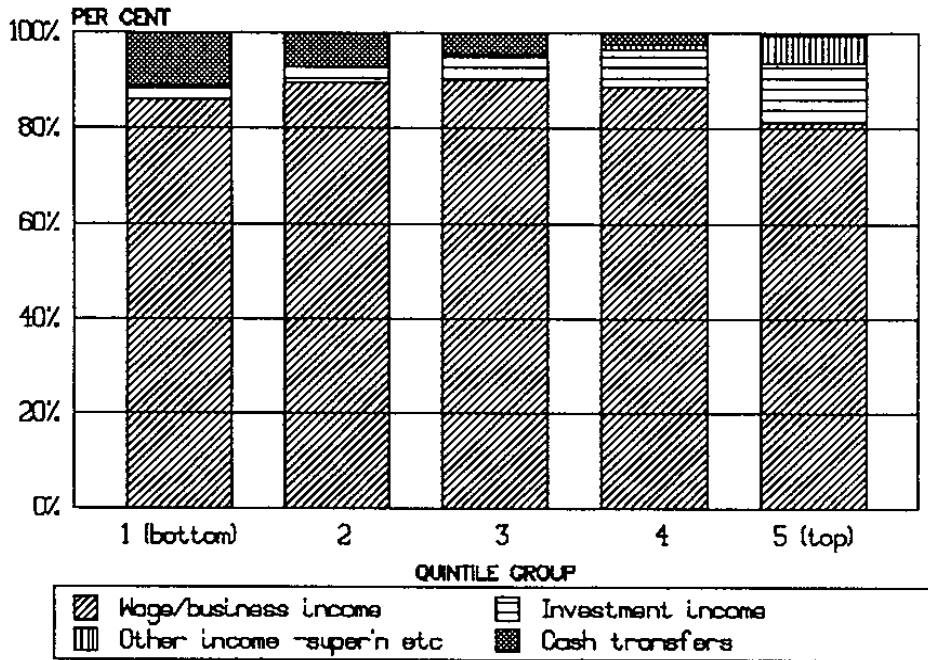
| Measure                                     | Decile of annualised lifetime equivalent disposable income |               |               |               |               |               |               |               |               |               | Average       |
|---|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   | 1  | 2             | 3             | 4             | 5             | 6             | 7             | 8             | 9             | 10            |               |
| Earnings                                    | 6,840  | 8,890         | 10,940        | 12,385        | 13,715        | 15,445        | 16,945        | 19,580        | 23,430        | 32,785        | 16,105        |
| Investment income                           | 200  | 300           | 445           | 470           | 650           | 1,050         | 1,180         | 2,020         | 2,885         | 5,740         | 1,495         |
| Superannuation                              | 0  | 5             | 0             | 5             | 30            | 80            | 125           | 375           | 1,115         | 2,745         | 450           |
| <b>ORIGINAL INCOME</b>                      | <b>7,040</b>   | <b>9,200</b>  | <b>11,385</b> | <b>12,860</b> | <b>14,400</b> | <b>16,575</b> | <b>18,250</b> | <b>21,975</b> | <b>27,435</b> | <b>41,270</b> | <b>18,050</b> |
| Invalid pension                             | 45   | 40            | 25            | 15            | 5             | 10            | 5             | 15            | 5             | 5             | 15            |
| Age pension                                 | 665  | 785           | 750           | 680           | 570           | 470           | 420           | 250           | 115           | 25            | 475           |
| Unemployment and other benefits             | 230  | 185           | 140           | 145           | 140           | 140           | 120           | 110           | 95            | 50            | 135           |
| Education transfers                         | 45   | 35            | 30            | 25            | 25            | 25            | 30            | 30            | 20            | 15            | 20            |
| <b>TOTAL CASH TRANSFERS*</b>                | <b>985</b>   | <b>1,040</b>  | <b>945</b>    | <b>860</b>    | <b>740</b>    | <b>650</b>    | <b>575</b>    | <b>405</b>    | <b>235</b>    | <b>100</b>    | <b>655</b>    |
| <b>GROSS INCOME</b>                         | <b>8,025</b>   | <b>10,240</b> | <b>12,335</b> | <b>13,720</b> | <b>15,140</b> | <b>17,220</b> | <b>18,825</b> | <b>22,380</b> | <b>27,675</b> | <b>41,370</b> | <b>18,705</b> |
| Income tax paid                             | 1,110  | 1,745         | 2,400         | 3,005         | 3,595         | 4,375         | 5,130         | 6,690         | 9,300         | 16,890        | 5,430         |
| <b>DISPOSABLE INCOME</b>                    | <b>6,915</b>   | <b>8,495</b>  | <b>9,935</b>  | <b>10,720</b> | <b>11,545</b> | <b>12,845</b> | <b>13,695</b> | <b>15,690</b> | <b>18,375</b> | <b>24,480</b> | <b>13,275</b> |
| Shared disposable income (family unit)      | 5,985  | 7,550         | 8,595         | 9,500         | 10,320        | 11,220        | 12,225        | 13,565        | 15,525        | 20,740        | 11,525        |
| Equivalent disposable income (family unit)  | 10,050   | 12,795        | 14,530        | 16,140        | 17,600        | 19,115        | 20,905        | 23,265        | 26,750        | 35,505        | 19,675        |
| Equiv income-60:40 split within couples     | 11,205   | 14,290        | 16,340        | 18,075        | 19,970        | 21,425        | 23,420        | 25,940        | 29,945        | 38,745        | 21,945        |
| <b>Lifetime education services income #</b> | <b>38,610</b>  | <b>36,960</b> | <b>39,320</b> | <b>40,660</b> | <b>42,745</b> | <b>41,585</b> | <b>40,290</b> | <b>42,740</b> | <b>43,105</b> | <b>44,895</b> | <b>41,360</b> |

- Includes small amount of child transfers (family allowance and sole parents pension for male sole parents). # This is the total amount of education services income received during the entire lifetime (ie. it has not been annualised). All income figures rounded to nearest \$5. Totals may not sum due to rounding.

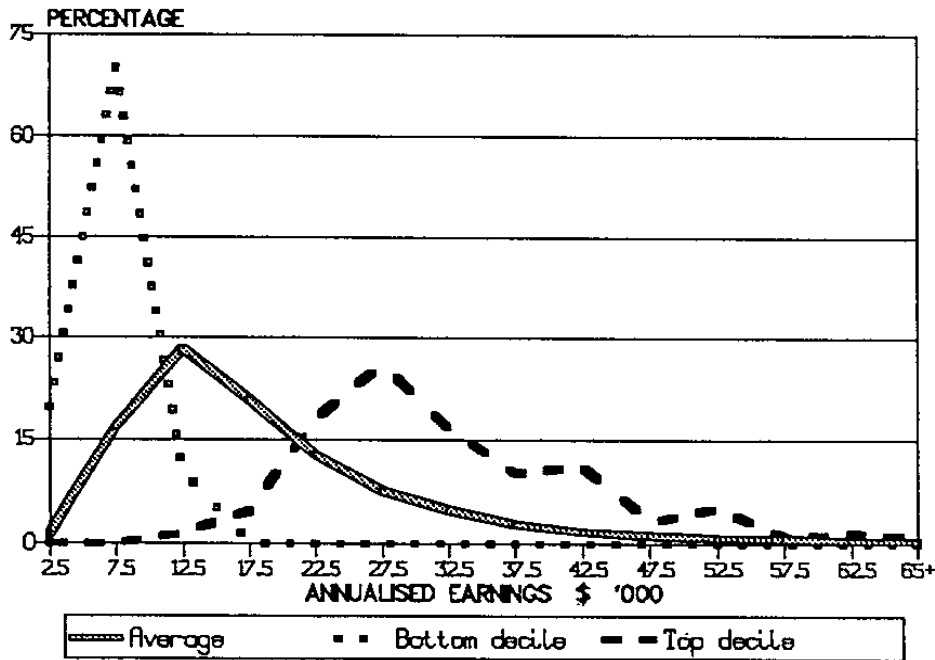
**Table 2: Other Characteristics of Decile Groups of Men, Ranked by Deciles of Annualised Lifetime Equivalent Disposable Income**

| Measure   | Decile of annualised lifetime equivalent disposable income |        |        |        |        |         |         |         |         |         | Average |
|---|--|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
|   | 1  | 2      | 3      | 4      | 5      | 6       | 7       | 8       | 9       | 10      |         |
| <b>1. LABOUR FORCE CHARACTERISTICS</b>                |  |        |        |        |        |         |         |         |         |         |         |
| Av years in labour force (gt one hr per yr)           | 39.7   | 43.4   | 42.9   | 43.8   | 44.4   | 44.7    | 44.6    | 44.0    | 45.0    | 45.2    | 43.8    |
| Av years any unemployment experienced (> 1 hr per yr) | 5.5  | 5.1    | 4.0    | 4.4    | 4.9    | 4.5     | 4.0     | 3.8     | 3.7     | 2.1     | 4.2     |
| Av years worked full-time full year                   | 31.3   | 34.2   | 34.6   | 35.5   | 35.8   | 36.2    | 36.4    | 36.3    | 36.6    | 36.5    | 35.3    |
| Av years of self-employment                           | 13.6   | 11.8   | 9.3    | 8.6    | 8.8    | 8.6     | 8.2     | 7.2     | 8.4     | 10.2    | 9.5     |
| Total hours in l.f. during lifetime                   | 80,743   | 86,931 | 86,679 | 88,674 | 90,084 | 90,680  | 90,589  | 89,391  | 91,255  | 91,198  | 88,624  |
| Av hours in labour force during yrs in labour force   | 1,996  | 1,999  | 2,018  | 2,030  | 2,030  | 2,034   | 2,030   | 2,031   | 2,032   | 2,025   | 2,022   |
| Average hours in employment per yr in l.f.            | 1,897  | 1,918  | 1,953  | 1,961  | 1,955  | 1,968   | 1,969   | 1,972   | 1,977   | 1,995   | 1,957   |
| Average hours of unemployment per yr in l.f.          | 99   | 81     | 65     | 69     | 75     | 66      | 61      | 69      | 55      | 30      | 65      |
| Average hourly wage rate                              | \$5.28   | \$6.66 | \$7.61 | \$8.79 | \$9.43 | \$10.24 | \$11.24 | \$12.68 | \$15.10 | \$20.77 | \$10.78 |
| <b>2. MARITAL AND CHILD STATUS</b>                    |  |        |        |        |        |         |         |         |         |         |         |
| Per cent ever married                                 | 81   | 88     | 86     | 85     | 90     | 86      | 87      | 84      | 89      | 78      | 85      |
| Per cent ever divorced                                | 22   | 33     | 27     | 29     | 29     | 26      | 33      | 31      | 33      | 32      | 29      |
| Av no years with dependent children present           | 15.7   | 16.8   | 16.9   | 16.8   | 17.8   | 16.2    | 15.9    | 15.0    | 15.8    | 12.8    | 16.0    |
| Average years married for ever married                | 40   | 40     | 40     | 41     | 42     | 39      | 39      | 38      | 38      | 34      | 39      |
| <b>3. EDUCATION</b>                                   |  |        |        |        |        |         |         |         |         |         |         |
| Av years of education                                 | 13.5   | 13.7   | 13.6   | 13.9   | 14.2   | 14.1    | 13.9    | 14.2    | 14.2    | 14.7    | 14.0    |
| Av no of years attended govt schools                  | 9.4  | 9.5    | 9.1    | 9.1    | 9.1    | 8.2     | 8.4     | 8.8     | 9.8     | 8.1     | 8.9     |
| Av no of years attended private schools               | 2.7  | 2.6    | 2.8    | 2.9    | 2.9    | 3.8     | 3.5     | 3.4     | 2.3     | 4.2     | 3.1     |
| Av years tertiary education                           | 2.5  | 2.7    | 2.8    | 2.9    | 3.1    | 3.1     | 2.9     | 3.1     | 3.1     | 3.4     | 3.0     |
| Per cent with degree                                  | 9.10   | 9.6    | 12.1   | 17.2   | 19.7   | 19.2    | 18.2    | 23.7    | 25.3    | 33.7    | 18.8    |
| Average years of life                                 | 71.6   | 76.9   | 74.2   | 75.7   | 74.8   | 73.8    | 73.5    | 71.5    | 72.5    | 72.5    | 73.7    |

**Figure 1: Sources of Annualised Lifetime Gross Income for Men, Ranked by Quintile Groups of Annualised Lifetime Equivalent Disposable Income**



**Figure 2: Frequency Distribution of Annualised Earnings for Males**



7 years, while those in the bottom decile averaged only 39.7 years in the labour force and 1895 hours of employment per year during those years.

The higher average wage rates received by those at the top of the income distribution were associated with more years of education and, in

particular, with the attainment of a degree. Of all those who gained a degree during their lifetimes, only 26 per cent received incomes which placed them in the bottom four income deciles, while 44 per cent were in the top three deciles and almost 20 per cent in the top decile. For those who achieved only secondary school qualifications, only 3 per cent reached the top in-

come decile and 17 per cent the top three income deciles, while 41 per cent were clustered in the lowest quintile. Those with some tertiary qualifications were fairly evenly spread throughout the income distribution.

How did government programs affect this original income distribution ? Cash transfers from the government were progressive, and made the gross income distribution more equal than the original income distribution. Education and social security transfers amounted to 12.2 per cent of the annualised gross income received by the lowest income decile, declining to 0.002 per cent for those in the highest income decile.

Those with lower lifetime incomes received more in unemployment and other benefits, reflecting the greater period of time they spent unemployed. Disability also affected lifetime income, with the incidence of severe disability during working years and the associated receipt of invalid pension being concentrated upon those in the bottom three income deciles.

Average age pension received declined as original income and superannuation receipt increased, although those in the lowest income decile averaged somewhat lower age pension receipt than those in the next three deciles, apparently as a result of their significantly shorter lifespans (71.6 years for those in the lowest decile compared to 76.9 years for those in the second decile). The absolute value of education transfers showed no definite pattern by income decile, with those in the bottom deciles being more likely to receive secondary allowances (SAS) in respect of their student children and those in the top deciles being more likely to receive undergraduate or postgraduate tertiary allowances (via the TEAS or PGA schemes) when they were themselves students.

Income tax payments were also progressive, amounting to 13.8 per cent of the annualised gross income of those in the bottom decile and rising to 40.8 per cent of the gross income of the top decile. Figure 3 shows the absolute amounts of annualised taxes paid or transfers received by decile of lifetime annualised equivalent income. For example, those in the highest income decile received less than \$100 a year in transfers but paid out almost \$16,900 a year in income tax, leaving a net deficit each year of around \$16,800.

The variation in the amount of cash transfers by decile is insignificant in comparison to that of income tax, with the latter thus having the major impact upon reducing the variance of incomes. As Figure 3 demonstrates, even for the lowest income decile, average taxes paid exceeded average transfers received, in marked contrast to the results derived from 'snapshot' cross-section studies of tax-transfer incidence.

These effects are also captured in Figure 4, which shows how the dispersion of incomes is reduced at each stage of the tax-transfer system. For example, at the original income stage shown at the left hand side of the graph, the annualised original income of the top quintile of \$34,000 is some 4.2 times greater than the \$8,000 received each year on average by the bottom quintile. After adding any cash transfers received to their original income, this dispersion is narrowed somewhat, with the annualised gross income of the top quintile being about 3.8 times the gross income received by the bottom quintile. Income taxes have a much greater impact, with the disposable incomes of the top quintile falling to just over \$21,000, about 2.8 times more than the annualised disposable income received each year by those in the bottom quintile.

The impact of the tax-transfer system upon the income distribution can also be graphically illustrated using Lorenz curves, which plot the cumulative share of income against the cumulative share of households. The curve representing complete equality of income is thus a diagonal line from the bottom left hand corner of the graph to the top right hand corner: the more unequal the distribution of income, the more the Lorenz curve sags down away from the line of complete equality.

As Figure 5 shows, both lifetime transfers and taxes were progressive, as the distribution of disposable income was much more equal than the distribution of gross income, which was in turn more equal than the distribution of original income. For example, the share of original income received by men in the bottom 10 per cent of all men, ranked by amount of original income received, was only 3.2 per cent; after the receipt of transfers this share had increased to 3.7 per cent of gross income and, after the payment of income taxes, to 4.5 per cent of disposable income. Similarly, the share of in-

Figure 3: Amount of Annualised Lifetime Cash Transfers Received and Income Tax Paid by Men, Ranked by Deciles of Annualised Lifetime Equivalent Income

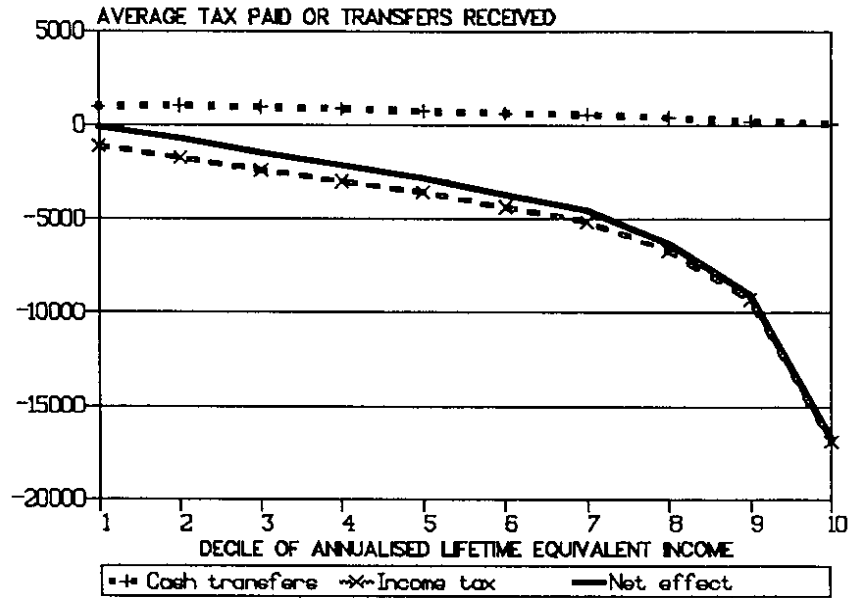


Figure 4: The Effect of Cash Transfers and Income Tax Upon the Lifetime Income Distribution of Men, Ranked by Quintile Groups of Annualised Lifetime Equivalent Income

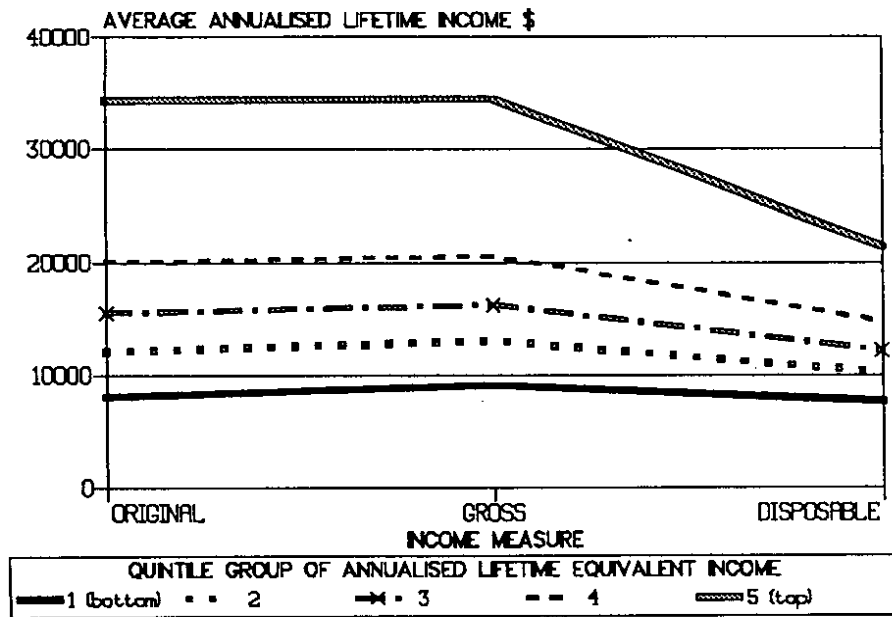
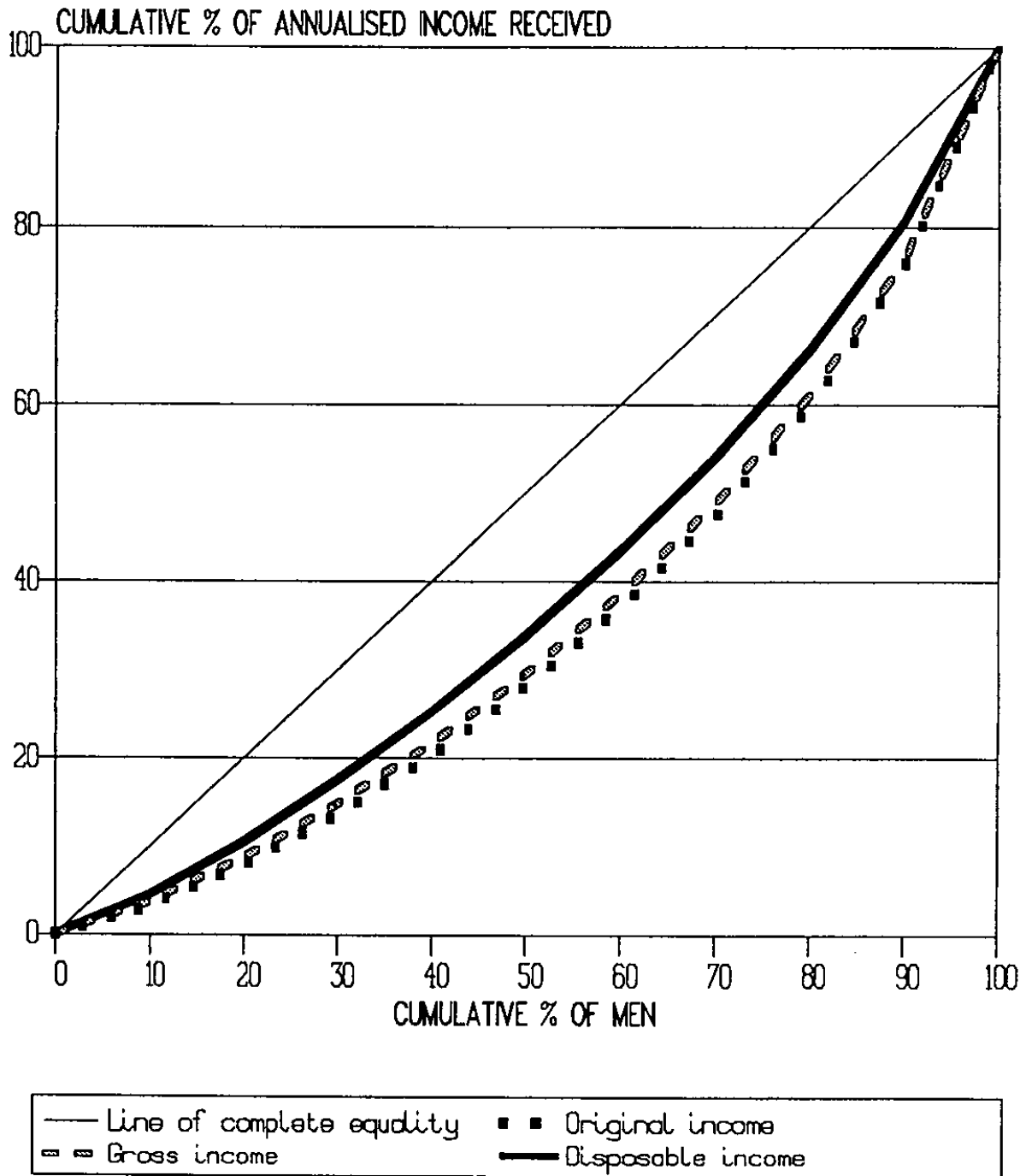


Figure 5: Lorenz Curves of Annualised Lifetime Original, Gross and Disposable Income for Men



Note: Unlike the tables above, where individuals were ranked only once by their annualised equivalent incomes, individuals are re-ranked to produce each of the above Lorenz curves. To derive the Lorenz curve for original income all individuals are ranked by their original income, while to construct the Lorenz curve for disposable income all individuals are first ranked by their disposable income.

come accruing to the highest income recipients was sharply reduced by the tax-transfer system. While the top 10 per cent of males received 24.5 per cent of original income, they gained only 23.7 per cent of gross income and 19.5 per cent of disposable (ie. post tax-transfer) income.

The imputed value of total (not annualised) income received from use of pre-school, primary and secondary school and tertiary education rose as lifetime income increased (Table 1). As shown in Table 2, those in higher deciles were more likely to attend private schools, which received a lower government subsidy than public primary and secondary schools. However, the lower education outlays received by those in higher income deciles while they were in primary and secondary school were more than offset by the imputed value of the tertiary education they received later in life. While the distribution of dollar education outlays was thus slightly pro-rich, the incidence of such transfers was still progressive, as they amounted to a smaller proportion of gross income for those in higher income deciles (see Harding, 1984:19-22 for a fuller discussion of the difference between distribution and incidence).

Although marital and child status seemed to have less impact upon men's lifetime income than education and labour force participation, it was notable that among those in the top decile only 78 per cent had ever married; for those who did marry the average number of years married was 34; and that the average number of years spent in a family with dependent children present was only 12.8. All of these were the lowest figures recorded for any decile.

## **2. The Lifetime Income Distribution of Females**

Women's annualised lifetime earnings were about half of those of men, and the relative gap between the average earnings of the top and bottom deciles was slightly lower, with the top decile earning 4.6 times as much a year on average as the bottom decile (Table 3). Women's earnings were also less dispersed, as a comparison of Figures 6 and 2 demonstrates, with about 40 per cent of all women receiving annualised lifetime earnings of between \$5,000 and \$10,000 a year (the midpoints of the various earnings

ranges are shown in Figure 6). Almost one-third of women in the top decile of annualised lifetime equivalent income received earnings of between \$10,000 and \$15,000 a year, with just under 10 per cent receiving more than \$25,000 a year. In marked contrast, about 90 per cent of women in the bottom decile received average earnings of less than \$5,000 during each year of adult life.

Investment income and superannuation were again more unequally distributed than earnings. The absolute amount of maintenance income received showed no clear pattern by decile, with those in the middle of the income spectrum tending to receive higher average amounts of maintenance.

As Figure 7 illustrates, cash transfers were a much more important source of lifetime income for women than for men, amounting to almost 30 per cent of gross income for women whose annualised lifetime equivalent income placed them in the bottom quintile. In contrast, they comprised a negligible proportion of the gross income received during each year of adult life for women in the top quintile. Investment income was a more significant component of gross income than for men, because of the substantially lower earned incomes of women. The relative contribution made by superannuation was also more equal by quintile for women, reflecting their receipt of such pensions upon the death of their husbands.

To an even greater extent than was apparent for men, the variation in the lifetime earnings of women resulted from different labour force participation patterns (Table 4). Women in the bottom decile averaged only 28.5 years of labour force participation, compared with 38.5 years for women in the top decile. Hours of employment once in the labour force also showed greater variation, with the 1,660 hours per year averaged by women in the top decile being 15 per cent higher than the 1,440 hours averaged by women in the bottom decile. Although still an important contributor to lifetime earnings inequality, the hourly wage rate of women showed less dispersion than that of men, with hourly earnings ranging from \$5.35 for those in the bottom decile to around \$13.90 for those in the top decile.

Table 3: Annualised Lifetime Income Characteristics of Decile Groups of Women, Ranked by Deciles of Annualised Lifetime Equivalent Disposable Income

| Measure                                      | Decile of annualised lifetime equivalent disposable income |              |              |              |              |               |               |               |               |               | Average       |
|--|--|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  | 1  | 2            | 3            | 4            | 5            | 6             | 7             | 8             | 9             | 10            |               |
| Average Earnings                             | 3,260  | 4,555        | 5,390        | 6,260        | 6,545        | 8,365         | 9,790         | 10,230        | 11,750        | 15,110        | 8,125         |
| Investment income                            | 330  | 510          | 530          | 745          | 925          | 1,535         | 1,870         | 2,740         | 3,550         | 5,180         | 1,790         |
| Superannuation                               | 45   | 30           | 80           | 230          | 215          | 220           | 275           | 345           | 590           | 885           | 290           |
| Maintenance                                  | 20   | 40           | 25           | 50           | 60           | 55            | 65            | 30            | 40            | 45            | 45            |
| <b>ORIGINAL INCOME</b>                       | <b>3,655</b>   | <b>5,130</b> | <b>6,025</b> | <b>7,285</b> | <b>7,745</b> | <b>10,180</b> | <b>11,995</b> | <b>13,345</b> | <b>15,940</b> | <b>21,220</b> | <b>10,255</b> |
| Invalid pension                              | 30   | 545          | 20           | 1            | 5            | 10            | 5             | 5             | 0             | 15            |               |
| Age pension                                  | 870  | 1,240        | 1,150        | 1,090        | 1,020        | 920           | 770           | 510           | 400           | 175           | 815           |
| Sole parents pension                         | 460  | 420          | 355          | 295          | 290          | 205           | 160           | 165           | 105           | 105           | 255           |
| Unemployment and other benefits              | 65   | 55           | 55           | 45           | 55           | 45            | 45            | 40            | 40            | 30            |               |
| Child transfers (FA, FIS)                    | 165  | 195          | 170          | 170          | 185          | 170           | 175           | 160           | 160           | 150           | 175           |
| Education transfers                          | 40   | 45           | 35           | 40           | 35           | 30            | 25            | 30            | 20            | 20            | 25            |
| <b>TOTAL CASH TRANSFERS</b>                  | <b>1,630</b>   | <b>1,955</b> | <b>1,815</b> | <b>1,660</b> | <b>1,590</b> | <b>1,370</b>  | <b>1,180</b>  | <b>910</b>    | <b>735</b>    | <b>480</b>    | <b>1330</b>   |
| <b>GROSS INCOME</b>                          | <b>5,285</b>   | <b>7,085</b> | <b>7,840</b> | <b>8,945</b> | <b>9,330</b> | <b>11,550</b> | <b>13,180</b> | <b>14,250</b> | <b>16,670</b> | <b>21,700</b> | <b>11,585</b> |
| Income tax paid                              | 520  | 865          | 1,080        | 1,430        | 1,570        | 2,250         | 2,970         | 3,380         | 4,475         | 6,850         | 2,540         |
| <b>DISPOSABLE INCOME</b>                     | <b>4,765</b>   | <b>6,220</b> | <b>6,765</b> | <b>7,515</b> | <b>7,765</b> | <b>9,300</b>  | <b>10,210</b> | <b>10,875</b> | <b>12,195</b> | <b>14,850</b> | <b>9,050</b>  |
| Shared disposable income (family unit)       | 5,925  | 7,475        | 8,230        | 8,980        | 9,790        | 10,635        | 11,570        | 12,460        | 14,105        | 17,460        | 10,665        |
| Equivalent disposable income (family unit)   | 9,575  | 12,065       | 13,410       | 14,750       | 16,120       | 17,585        | 19,205        | 21,070        | 23,925        | 29,910        | 17,765        |
| Equivalent income-60:40 split within couples | 8,540  | 10,755       | 12,005       | 13,105       | 14,145       | 15,515        | 16,865        | 18,375        | 20,995        | 26,060        | 15,640        |
| Lifetime education services income           | 36,920   | 39,085       | 38,075       | 39,790       | 40,180       | 42,630        | 42,220        | 42,570        | 41,730        | 43,915        | 40,710        |

All income figures rounded to nearest \$5. Totals may not sum due to rounding.



**Table 4: Other Characteristics of Decile Groups of Women, Ranked by Deciles of Annualised Lifetime Equivalent Disposable Income**

| Measure  | Decile of annualised lifetime equivalent disposable income |        |        |        |        |        |         |         |         |         | Average |
|--|--|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|
|  | 1  | 2      | 3      | 4      | 5      | 6      | 7       | 8       | 9       | 10      |         |
| <b>1. LABOUR FORCE CHARACTERISTICS</b>                   |  |        |        |        |        |        |         |         |         |         |         |
| Av years in labour force                                 | 28.5   | 30.1   | 31.2   | 33.2   | 33.2   | 37.3   | 37.1    | 36.5    | 36.3    | 38.5    | 34.2    |
| Av years unemployment experienced                        | 5.5  | 4.3    | 4.4    | 4.4    | 4.5    | 3.8    | 4.1     | 3.7     | 3.5     | 2.8     | 4.1     |
| Av years worked full-time full year                      | 15.6   | 16.4   | 18.4   | 19.6   | 20.0   | 23.3   | 23.0    | 22.7    | 23.2    | 24.9    | 20.7    |
| Av years of self-employment                              | 5.7  | 4.2    | 4.2    | 4.7    | 5.0    | 5.5    | 5.5     | 5.5     | 5.5     | 6.9     | 5.3     |
| Total hours in l.f. during lifetime                      | 46,027   | 48,271 | 51,400 | 54,942 | 55,417 | 63,109 | 62,386  | 61,990  | 61,925  | 66,582  | 57,205  |
| Average hours in labour force during yrs in labour force | 1,571  | 1,564  | 1,605  | 1,627  | 1,646  | 1,673  | 1,659   | 1,678   | 1,681   | 1,709   | 1,640   |
| Average hours in employment per yr in l.f.               | 1,438  | 1,467  | 1,520  | 1,541  | 1,558  | 1,610  | 1,588   | 1,616   | 1,619   | 1,659   | 1,560   |
| Average hours of unemployment per yr in l.f.             | 133  | 97     | 85     | 86     | 88     | 63     | 71      | 62      | 62      | 50      | 80      |
| Average hourly wage rate                                 | \$5.35   | \$6.66 | \$7.06 | \$7.74 | \$7.88 | \$8.89 | \$10.32 | \$10.45 | \$12.11 | \$13.88 | \$9.05  |
| <b>2. MARITAL AND CHILD STATUS</b>                       |  |        |        |        |        |        |         |         |         |         |         |
| Per cent ever married                                    | 85   | 89     | 86     | 89     | 94     | 91     | 92      | 94      | 93      | 95      | 91      |
| Per cent ever divorced                                   | 29   | 31     | 31     | 35     | 34     | 31     | 33      | 26      | 24      | 30      | 32      |
| Per cent ever sole parents                               | 23   | 28     | 25     | 33     | 28     | 24     | 27      | 21      | 16      | 23      | 25      |
| Av no of years with dependent children present           | 19.6   | 20.5   | 19.31  | 9.4    | 20.4   | 19.1   | 19.7    | 18.2    | 18.3    | 18.4    | 19.4    |
| Av no of children born                                   | 1.87   | 2.1    | 1.9    | 1.9    | 2.0    | 1.9    | 1.8     | 1.7     | 1.7     | 1.6     | 1.8     |
| Av years married for those ever married                  | 37   | 35     | 33     | 36     | 36     | 36     | 38      | 38      | 38      | 37      | 37      |
| Av yrs of sole parenthood for sole parents               | 9.3  | 9.3    | 9.2    | 7.7    | 8.9    | 8.1    | 8.2     | 8.7     | 7.5     | 7.4     | 8.4     |
| <b>3. EDUCATION</b>                                      |  |        |        |        |        |        |         |         |         |         |         |
| Average years of education                               | 13.2   | 13.6   | 13.5   | 13.8   | 13.7   | 14.2   | 14.1    | 14.2    | 14.0    | 14.4    | 13.9    |
| Av no of years attended govt schools                     | 9.9  | 9.2    | 9.0    | 8.7    | 8.6    | 9.2    | 9.1     | 8.6     | 8.8     | 8.2     | 8.9     |
| Av no of years attended private schools                  | 2.2  | 2.9    | 3.0    | 3.4    | 3.4    | 2.9    | 3.0     | 3.3     | 3.2     | 4.0     | 3.1     |
| Av years tertiary education                              | 2.1  | 2.5    | 2.5    | 2.6    | 2.7    | 3.0    | 2.9     | 3.1     | 2.9     | 3.1     | 2.7     |
| Per cent with degree                                     | 7.1  | 11.1   | 12.1   | 12.1   | 21.1   | 24.0   | 23.1    | 24.1    | 23.6    | 29.1    | 18.6    |
| Average years of life                                    | 81.6   | 80.4   | 78.2   | 79.7   | 79.1   | 79.3   | 78.3    | 76.8    | 77.8    | 76.5    | 78.8    |

Figure 6: Frequency Distribution of Annualised Lifetime Earnings for Females

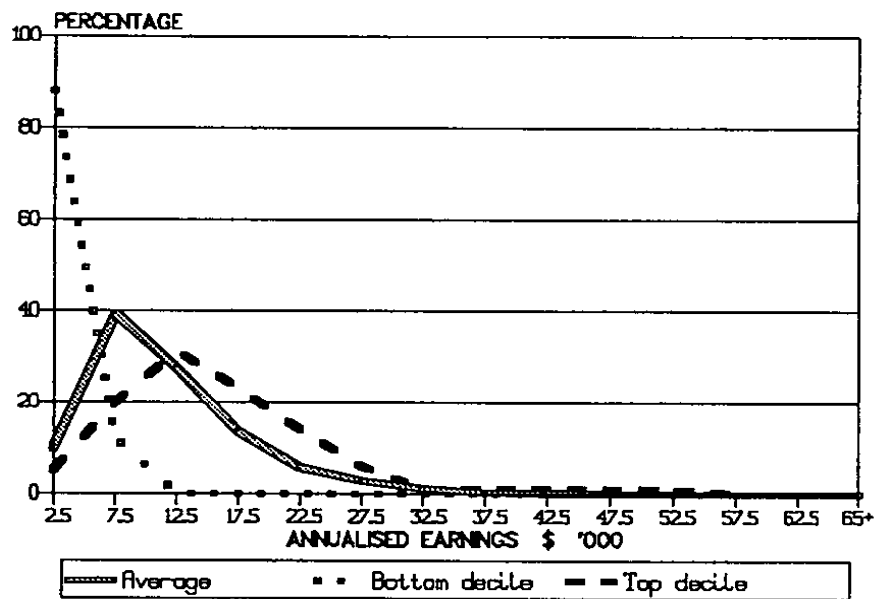
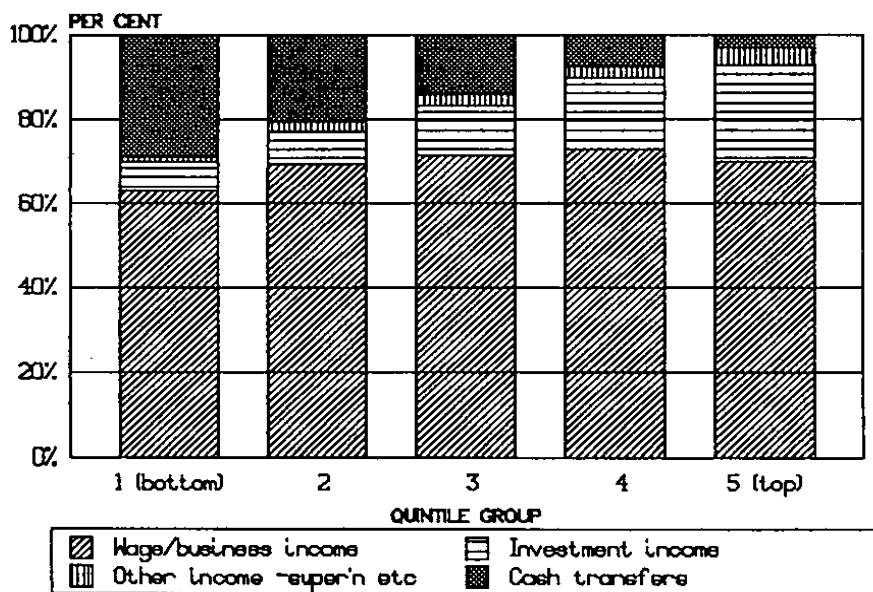


Figure 7: Sources of Annualised Lifetime Gross Income for Women, Ranked by Quintile Groups of Annualised Lifetime Equivalent Disposable Income



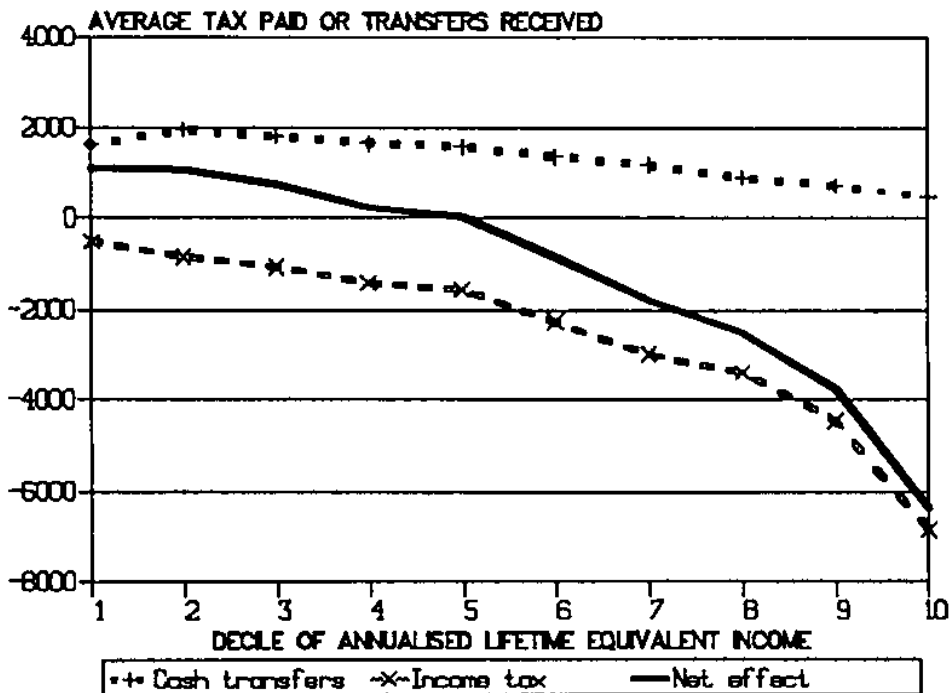
Education was also a significant factor affecting lifetime earnings, with increased lifetime income being associated with greater attendance at private schools, more years of tertiary education and, in particular, the gaining of a degree. Sixteen per cent of those who gained a degree achieved the top equivalent income decile while only 16 per cent were placed in the bottom five deciles. Amongst those who had only gained secondary school qualifications, only 4 per cent made the top income decile and 39 per cent were in the bottom quintile. Those with some tertiary education were again spread quite evenly across the income spectrum.

Average cash transfers received by women were about double those received by men and were again highly progressive, amounting to 30.8 per cent of gross income for those in the lowest income decile and declining to 2.2 per cent of gross income for those in the top decile. For women, characteristics such as being severely disabled and potentially eligible for an invalid pension or being unemployed were less likely to result in receipt of pension or benefit than for men, because the income of husbands more frequently made them ineligible under an income test which took the income of both partners into account. Despite this, low lifetime income was clearly associated with increased unemployment and higher unemployment benefit payments (Table 4).

The amount of sole parent pension received was much higher for women in lower deciles. Interestingly, this was not due to those in low income deciles having a much greater likelihood of ever experiencing sole parenthood, as the percentage ever experiencing sole parenthood did not show a clear trend by income decile but fluctuated greatly (Table 4). However, amongst those who experienced sole parenthood during their lifetimes, an increased number of years spent as a sole parent was correlated with reduced lifetime equivalent income. The amount of age pension received again declined as occupational superannuation increased, so that those in lower income deciles received more age pension.

Income tax was again progressive, amounting to 9.8 per cent of gross income for those in the lowest income decile and rising to 31.6 per cent of gross income for those in the top decile. Figure 8 charts the absolute amount of transfers received and income taxes paid by deciles of annualised lifetime equivalent income. While even for men in the lowest lifetime equivalent income decile the amount of transfers received did not exceed taxes paid, women in the bottom four deciles received on average more in transfers during each year of adult life than they paid in income tax. Only women whose income was sufficiently high to place them in the top half of the lifetime income distribution paid more in taxes than they gained from transfers.

**Figure 8: Amount of Annualised Lifetime Cash Transfers Received and Income Tax Paid by Women, Ranked by Deciles of Annualised Lifetime Equivalent Income**



**Figure 9: The Effect of Cash Transfers and Income Tax Upon the Lifetime Income Distribution of Women, by Quintile Groups of Annualised Lifetime Equivalent Income**

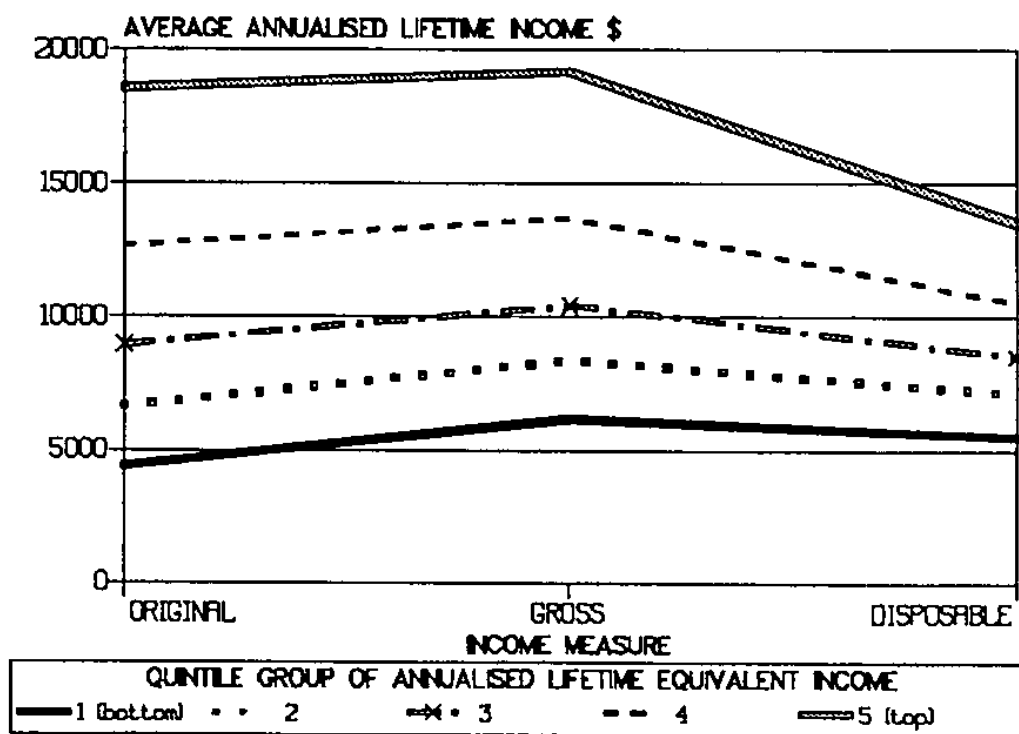


Figure 9 shows the impact of cash transfers and income tax on the average annualised lifetime incomes of women, ranked by quintiles of annualised equivalent income. The gap between the average incomes of the top and bottom quintiles was reduced by cash transfers, as shown by the narrowing of the gap between the top and bottom lines in Figure 9 when moving from original to gross income. While the annualised lifetime original income of the top quintile was 4.2 times that of the bottom quintile, their gross incomes of about \$19,000 were only 3.2 times greater than those of the lowest quintile. Income taxes further reduced these income differentials, so that the average lifetime disposable incomes of the top quintile were only 2.5 times those of the bottom quintile. As the Lorenz curves in Figure 10 also indicate, the effect of taxes and transfers was to make the income distribution progressively

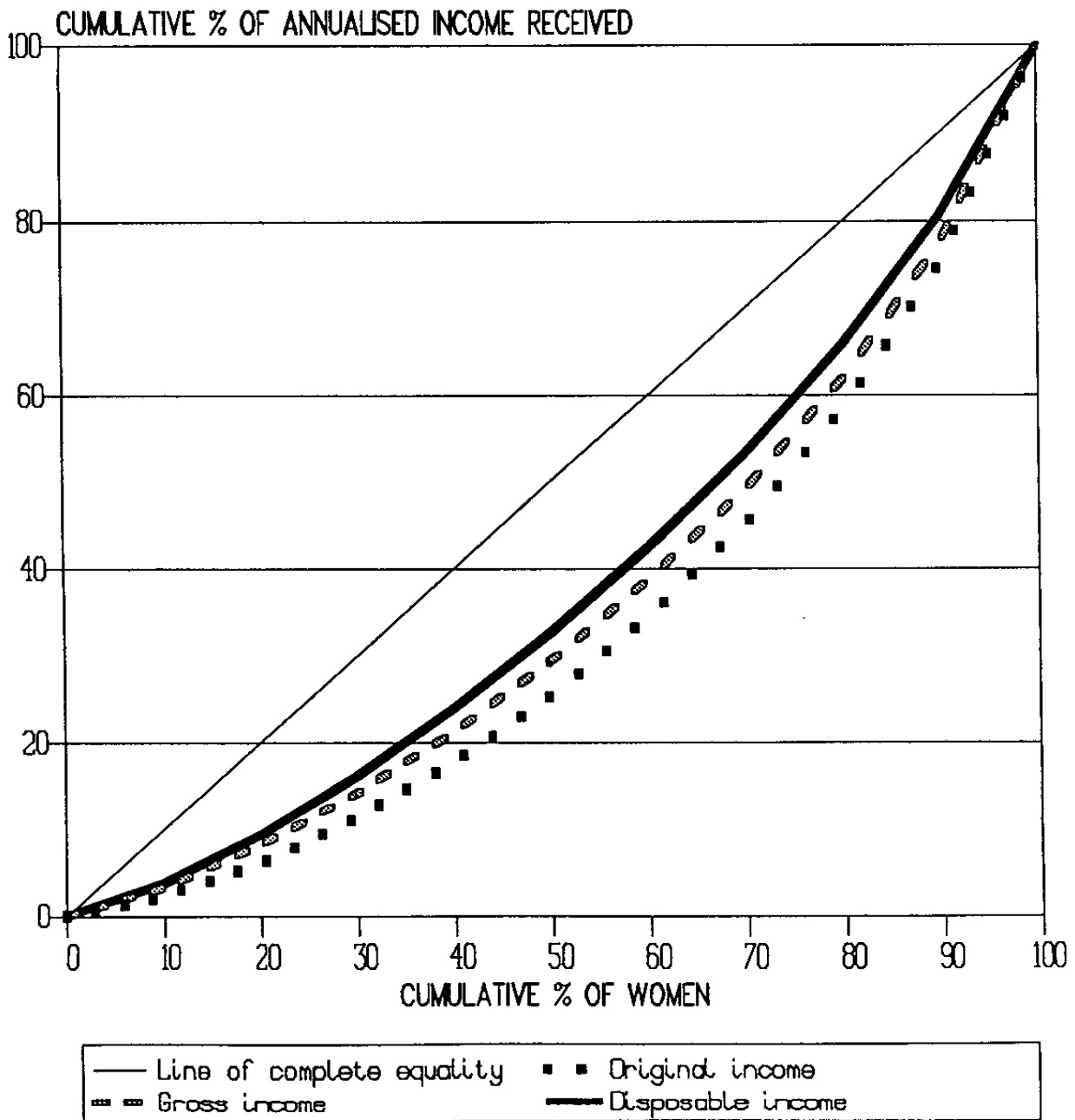
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While the marital and child status of men had relatively little effect on their lifetime standard of living, for women marital and child status played an important role in determining where they would be placed in the lifetime income distribution. Women's lifetime equivalent incomes increased with marriage and decreased with greater family size. This was reflected in Table 4, where a lower percentage of women in the bottom income decile had ever married compared to women in higher deciles, while women in the top decile were the most likely to have ever married but had also borne fewer children.

### 3. Taking Account of Income Sharing Within the Family

While the above analysis has dealt with the personal incomes received by men and women, the personal income distribution does not show the standard of living achieved by each sex, because it takes no account of income sharing within the family unit. Such income sharing helps to attenuate the marked disparities between the personal incomes of men and women

**Figure 10: Lorenz Curves of Annualised Lifetime Original, Gross and Disposable Income for Women.**



described above. For example, the very low earned incomes of many women might not provide an accurate guide to the lifetime standard of living they achieve, because they might be married to high income spouses who share income with them. However, only the incomes of individuals can be tracked in any meaningful way over time, as families dissolve and reform

from year to year, with marriage, divorce, children leaving home, and so on (Elder, 1985:28).

Consequently, two additional income measures were developed for use in the simulation which took varying degrees of account of family circumstances (Tables 1 and 3). The first, shared disposable income, assumed completely equal sharing of income between adults, so that in

married couples all income received was divided equally between each partner, irrespective of the relative contribution of each partner to that combined income. While such equal sharing could be applied to any of the income and tax measures used, disposable income was selected, as it captured the amount of money available to individuals and couples to spend after the intervention of the tax-transfer system. Implicitly, therefore, the measure splits the income taxes paid and cash transfers received by a couple equally between them, irrespective of who actually received the income or paid the taxes. During those years when individuals were single, their shared disposable income was simply the same as their personal disposable income.

The second family-based measure was equivalent disposable income, where an equivalence scale was applied to the total disposable income of a family, and the resulting values for equivalent income were attributed to both partners in the case of married couples. This measure thus goes further than the shared income measure in also taking into account the financial demands imposed by any children, as well as the possible economies of scale enjoyed by a couple living together and sharing accommodation etc, relative to a single person.

Once account was taken of presumed income sharing between couples, the standard of living of women rose sharply. Although the absolute values of equivalent income simply reflect the equivalence scale used, the distribution of equivalent income can be validly compared to that of disposable income. As Figure 11 demonstrates, the distribution of income, once account is taken of needs, is more equal for both men and women than the distribution of personal disposable income, with the shift in the Lorenz curves showing the combined effect of taking account of both income sharing within, and the composition of, the family unit. Interestingly, while the distribution of disposable income is more unequal amongst women than amongst men, the distribution of equivalent income is less unequal amongst women than amongst men, suggesting that the major inequalities in the earned income of women are offset by sharing in the incomes of spouses.

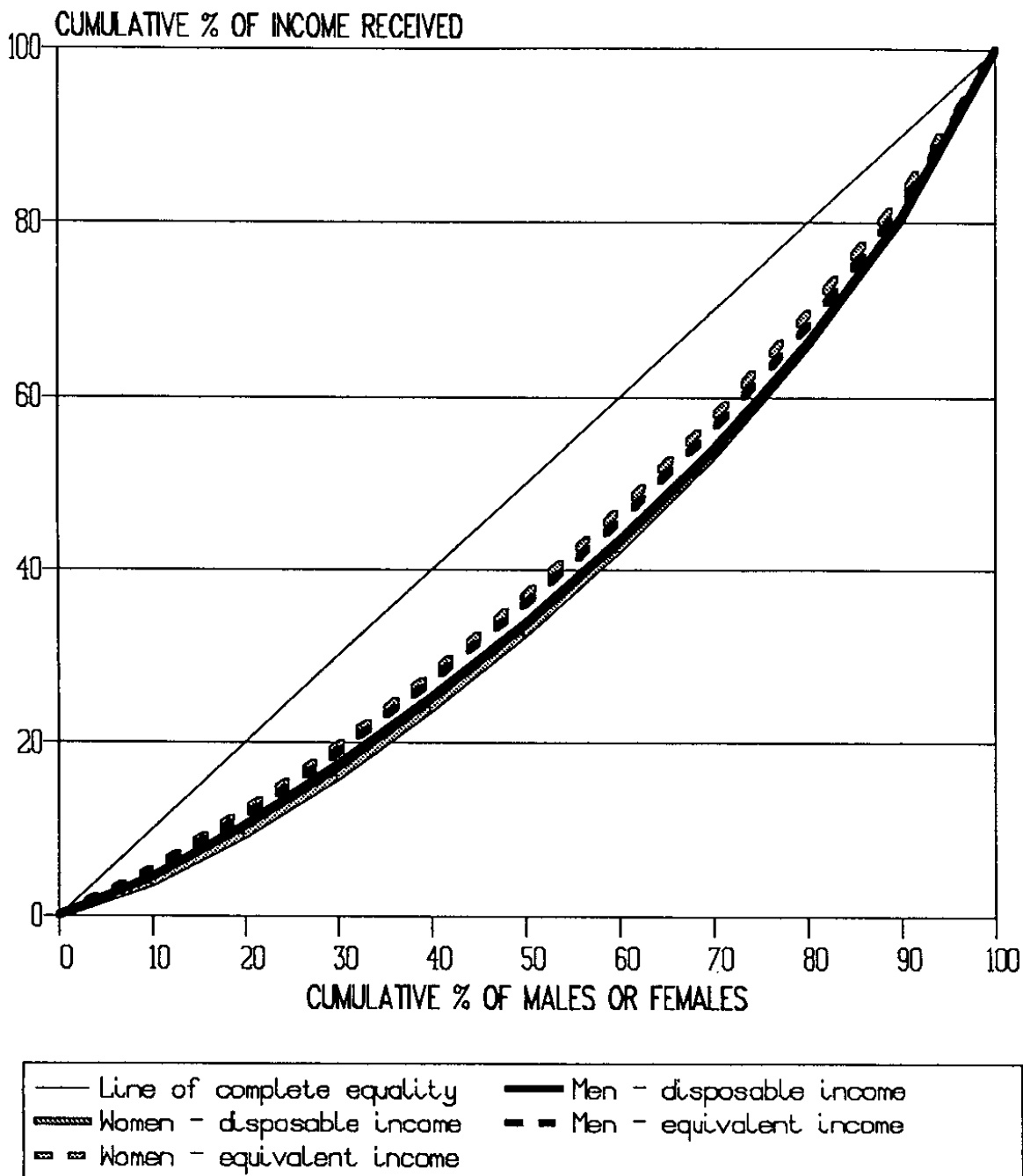
In addition, although the lifetime standard of living of men is higher, the disparity is much

less than a comparison of the personal disposable incomes of men and women might suggest. Figure 12 contrasts the absolute levels of average personal disposable income and family equivalent disposable income received by women in each decile of female annualised lifetime equivalent income with those received by men in comparable male deciles. While the average disposable income received by women in each decile is about 65 to 70 per cent of that of men in the comparable male decile of lifetime equivalent income, the equivalent income of women is some 90 per cent of that of men in comparable deciles.

These results assume, of course, that income is shared equally within the family unit. Research by Pahl (1990), Edwards (1981) and Vogler (1989) has suggested that this is not always the case, and that women tend to fare less well than men, particularly if they are not contributing to earned income. Consequently, the bottom lines in Tables 1 and 3 show the effects of changing the assumption that income is equally shared between married couples, instead assuming that income is split 60:40 in the husband's favour (the same Australian government equivalence scale is used in both cases).

As expected, assuming less equal sharing of income within the family unit results in an increase in the equivalent disposable incomes of men and a decrease in women's incomes. For example, the equivalent income of men ranked in the bottom decile of all men rises by about 11 per cent to \$11,200 when a 60:40 income split is assumed, while that of women in the bottom decile of women falls by almost 15 per cent to \$8,540. Thus, if this degree of unequal sharing is assumed, the equivalent incomes of women in the bottom decile amount to only three-quarters of the income of men in the lowest decile of men—a rather more unequal result than the 95 per cent of the incomes of such men shown in Figure 12. On average, when husbands were assumed to receive 60 per cent of the combined income of couples, the average equivalent income of women fell to only 71 per cent of that of men. This suggests that income distribution might be more sensitive to the assumed distribution of income within the family than many economists have traditionally appreciated.

Figure 11: Lorenz Curves of the Annualised Lifetime Disposable and Equivalent Incomes of Men and Women

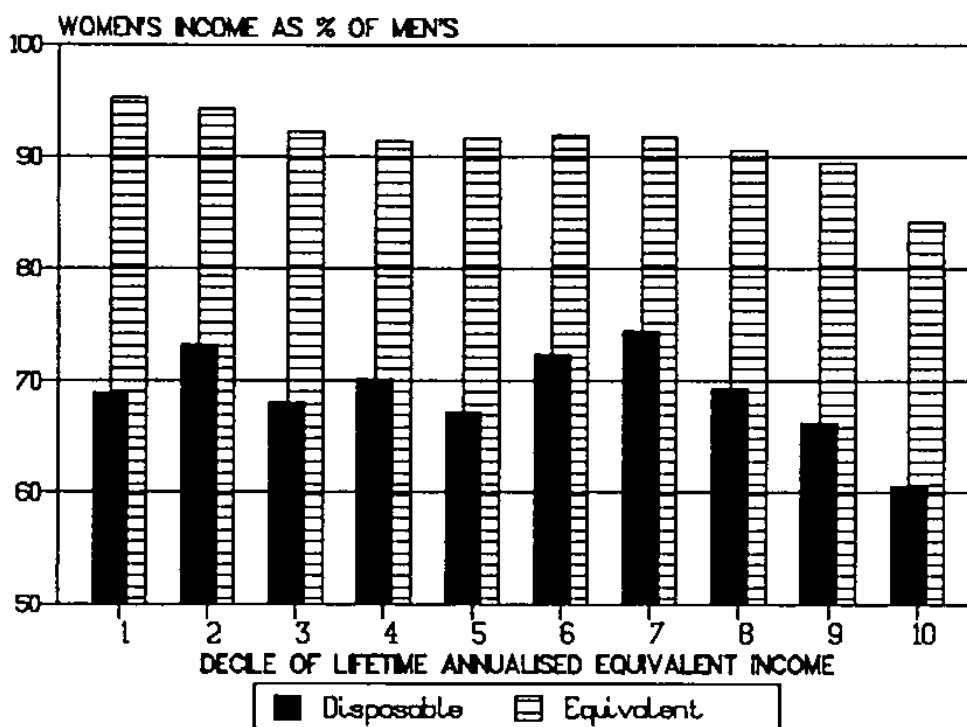


#### 4. The Distribution of Lifetime Income for the Entire Cohort

While the preceding analysis has examined the lifetime incomes of men and women separately, most analyses of income distribution consider the entire population. Consequently, this section

briefly examines the characteristics of lifetime income for the whole of the simulated cohort. Even though the entire cohort is ranked by annualised equivalent income, so that the enormous differences between the personal incomes of men and women are not as apparent as if the cohort was ranked by a measure which did

**Figure 12: Annualised Lifetime Disposable and Equivalent Incomes of Women, Ranked by Deciles of Annualised Equivalent Income, As Percentage of Comparable Incomes of Men**



not take account of family circumstances, women still tend to be clustered at the bottom of the income distribution and men at the top.

Almost one-quarter of all men were ranked in the top two deciles of annualised equivalent income, and 13 per cent of all men were in the top decile (Table 5). In contrast, only 7 per cent of all women were in the top decile, while 23 per cent were clustered in the bottom quintile. Despite this, men still comprised 43 per cent of the bottom decile of annualised equivalent income, and such men amounted to just under 9 per cent of all men.

As one would expect, the 'averaging' of the incomes of men and women means that the original, gross and disposable incomes by decile are higher than those recorded for women only in Table 3 and lower than those achieved by men only in Table 1. Similarly, average cash transfers are lower and income taxes paid by each decile are higher. However, combining the records of men and women created greater dispersion of income across deciles, so that the annualised lifetime disposable income of the top decile was 3.6 times greater than that of the bottom decile.

For the population as a whole, the distribution of annualised lifetime disposable income was therefore still very unequal, with the bottom 10 per cent of all individuals receiving 3.7 per cent of all such disposable income. The bottom half of the income distribution received just under one-third of all annualised lifetime disposable income, while the top decile received one-fifth of all such income.

Those in the top decile again tended to spend more years on average participating in the labour force, with the bottom decile participating in the labour force for an hour or more for only 33.1 years, while for the top decile the comparable figure was 42.9 years. Hours worked per year once in the labour force also showed great variation, ranging from 1750 hours per year on average for those in the bottom decile to 1920 hours for those in the top decile—a difference of about 10 per cent. Average hourly wage rates also varied greatly, from \$5.40 for those in the bottom decile to almost \$18 an hour for those in the top decile.

Years of education were again strongly correlated with higher lifetime incomes, with the top decile undertaking an average 14.5 years of



**Table 5: Annualised Lifetime Income Characteristics of the Cohort, Ranked by Deciles of Annualised Lifetime Equivalent Disposable Income**

| Measure                                    | Decile of annualised lifetime equivalent disposable income |        |        |        |        |        |        |        |        |        | Average |
|--|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
|  | 1  | 2      | 3      | 4      | 5      | 6      | 7      | 8      | 9      | 10     |         |
| Earnings                                   | 4,785  | 6,375  | 7,740  | 8,860  | 10,235 | 11,650 | 13,240 | 14,555 | 17,985 | 25,640 | 12,110  |
| Investment income                          | 270  | 390    | 560    | 670    | 825    | 1,195  | 1,670  | 2,155  | 3,270  | 5,430  | 1,645   |
| Superannuation                             | 25   | 20     | 60     | 150    | 100    | 125    | 195    | 425    | 605    | 2,000  | 370     |
| ORIGINAL INCOME*                           | 5,083  | 6,810  | 8,375  | 9,720  | 11,185 | 13,000 | 15,135 | 17,155 | 21,880 | 33,090 | 14,145  |
| Invalid pension                            | 35   | 25     | 35     | 15     | 10     | 5      | 5      | 15     | 5      | 0      | 15      |
| Age pension                                | 810  | 1,050  | 945    | 910    | 795    | 690    | 555    | 365    | 240    | 70     | 645     |
| Sole parents pension                       | 255  | 230    | 195    | 160    | 120    | 85     | 75     | 70     | 60     | 30     | 125     |
| Unemployment and other benefits            | 140  | 110    | 105    | 90     | 95     | 100    | 80     | 80     | 75     | 50     | 90      |
| Child transfers (FA, FIS)                  | 95   | 110    | 100    | 100    | 90     | 80     | 85     | 75     | 75     | 50     | 85      |
| Education transfers                        | 45   | 40     | 30     | 35     | 25     | 30     | 30     | 25     | 25     | 15     | 30      |
| TOTAL CASH TRANSFERS                       | 1,380  | 1,565  | 1,410  | 1,305  | 1,135  | 995    | 835    | 625    | 480    | 215    | 995     |
| GROSS INCOME                               | 6,465  | 8,375  | 9,785  | 11,025 | 12,320 | 13,995 | 15,970 | 17,775 | 22,360 | 33,305 | 15,140  |
| Income tax paid                            | 770  | 1,210  | 1,655  | 2,085  | 2,550  | 3,195  | 4,000  | 4,785  | 6,895  | 12,675 | 3,980   |
| DISPOSABLE INCOME                          | 5,695  | 7,165  | 8,130  | 8,945  | 9,770  | 10,800 | 11,970 | 12,990 | 15,465 | 20,635 | 11,160  |
| Shared disposable income (family unit)     | 5,960  | 7,300  | 8,400  | 9,240  | 10,060 | 10,880 | 11,900 | 12,925 | 14,860 | 19,225 | 11,095  |
| Equivalent disposable income (family unit) | 9,790  | 12,385 | 13,895 | 15,410 | 16,840 | 18,360 | 20,025 | 22,155 | 25,310 | 32,990 | 18,720  |
| Equivalent inc- 60:40 split within couples | 9,690  | 12,175 | 13,845 | 15,300 | 16,915 | 18,405 | 20,030 | 22,275 | 25,465 | 33,735 | 18,785  |
| Lifetime education services income         | 37,930   | 38,725 | 39,310 | 40,065 | 41,500 | 42,125 | 42,120 | 41,115 | 43,360 | 44,090 | 41,035  |
| Average years in labour force              | 33.1   | 36.2   | 36.5   | 37.8   | 39.9   | 41.2   | 40.6   | 40.5   | 40.9   | 42.9   | 39.0    |
| Average hours in labour force              | 1750   | 1765   | 1785   | 1820   | 1855   | 1845   | 1850   | 1870   | 1870   | 1920   | 1830    |
| Average hours employed                     | 1630   | 1675   | 1705   | 1730   | 1785   | 1770   | 1790   | 1810   | 1810   | 1880   | 1760    |
| Average hourly wage rate                   | 5.40   | 6.55   | 7.35   | 8.15   | 8.50   | 9.65   | 10.60  | 11.45  | 13.50  | 17.95  | 9.90    |
| Average years of education                 | 13.4   | 13.5   | 13.6   | 13.8   | 14.0   | 14.1   | 14.1   | 14.0   | 14.3   | 14.5   | 13.9    |
| Percent female                             | 56.8   | 58.4   | 55.9   | 53.7   | 50.6   | 48.4   | 50.6   | 45.8   | 46.3   | 34.3   | 50.1    |
| Av no of yrs dependent children present    | 17.7   | 19.3   | 17.9   | 18.7   | 18.4   | 17.9   | 17.8   | 16.7   | 17.6   | 14.7   | 17.7    |

\* Includes maintenance. All income figures rounded to nearest \$5. Totals may not sum due to rounding.

education, compared to the average for all males of 13.9 years and for the bottom decile of 13.4 years. The adverse impact of children upon lifetime monetary welfare was also apparent, with those in the top decile spending only 14.7 years in families with dependent children present - well below the population average of 17.7 years.

## CONCLUSION

Even on a lifetime basis, major inequalities in income were apparent. Males in the top decile of male annualised lifetime equivalent income received almost six times as much pre-tax, pretransfer income during each year of adult life as males in the bottom decile, while similar inequalities were observed for females. Higher lifetime original incomes were associated with higher earnings and investment income, and access to occupational superannuation. These factors were in turn correlated with education, family status and patterns of labour force participation.

The top 10 per cent of males, ranked by the amount of annualised original income received, gained almost one-quarter of all the lifetime original income received by males, while the bottom 10 per cent of all males received only three per cent of such income. Similarly, the top 10 per cent of females also gained one-quarter of lifetime original income, while those in the bottom 10 per cent reaped only two per cent of the total.

Both cash transfers and income taxes were progressive, and helped to offset these inequalities in factor income. For example, cash transfers accounted for 12 per cent of the average gross income received during each year of adult life by males in the top decile of annualised lifetime equivalent income, but declined sharply as income increased, to well under one per cent of the gross income of males in the top decile of equivalent income.

Average cash transfers received by women were about double those received by men, due to the combined effects of payment of child transfers to the mother, pensions for sole parents and widows, and greater age pension payments to women (due to their longer lifespans). Such transfers were again highly progressive, amounting to about 45 per cent of the total

income received during each year of adult life for women in the bottom decile of annualised lifetime equivalent income, but only two per cent of the gross income of those in the top decile. Cash transfers thus made the lifetime distribution of income significantly more equal.

Income taxes were also progressive, amounting to 14 per cent of the gross income of males in the bottom decile of annualised lifetime equivalent income, and increasing steadily to reach 41 per cent of gross income for those males in the top decile. The average rates paid by women were lower, due to their lower lifetime incomes, but still increased from 10 per cent of the gross income of females in the bottom decile to 32 per cent of gross income for females in the top decile of annualised lifetime equivalent income.

The joint impact of the higher income taxes paid and lower cash transfers received by men, resulted in males making a net loss from the operation of the tax-transfer system. Even those males in the lowest decile of lifetime equivalent income paid slightly more in income taxes every year on average than they received in cash transfers. In marked contrast, women in the bottom four deciles of female annualised lifetime equivalent income received more in cash transfers during each year of adult life than they paid in income tax. Only the top 50 per cent of women made a net loss.

It should be emphasised again that the results about the incidence of taxes and transfers are affected by the assumption that the benefit of cash transfers is incident upon those to whom they are actually paid and that the burden of income taxes is incident upon those who actually paid them. Although these are the standard assumptions employed in incidence studies, other assumptions are possible and can be tested in the future.

These incidence results also contrast sharply with those of the annual incidence studies, which examine the redistributive effect of cash transfers and taxes at a single point in time, rather than over an entire lifetime (ABS, 1992; Harding, 1984, 1993). While the cross-section studies suggest that on an annual basis there is much greater variance in the distribution of cash transfers than in the distribution of income taxes, on a lifetime basis the converse is true. This

suggests that while cash transfers are more important in redistributing income to the poor at any given point in time, the payment of income taxes throughout the whole of working life, in contrast to social security payments whose receipt tends to be confined to relatively short periods, results in the latter being less significant on a lifetime basis.

Moving from the incidence of taxes and transfers to the lifetime distribution of income, the personal incomes received by males during their lifetimes were much higher than for females, with the annualised lifetime disposable income

for males of \$13,275 being about one-third higher than the average \$9,050 received by females. However, once income sharing within families was taken into account, the differences between the lifetime standards of living of men and women were much less pronounced, with the average annualised equivalent incomes of women amounting to 90 per cent of those of men. This, however, assumed completely equal sharing of income between married couples. If a 60:40 split in favour of the husband was assumed, the average equivalent income received by women during each year of adult life fell to only 71 per cent of that received by men.

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**POVERTY TRAPS:  
ISSUES FOR REVIEW A SUMMARY OF STAGE 1 OF  
THE DSS REVIEW OF POVERTY TRAPS**

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**INTRODUCTION**

This paper outlines the nature and causes of poverty traps, what further we need to know to identify the real policy problems, and what strategies have been and could be used in order to ameliorate any policy problems. The paper is hence concerned with clarifying concepts, issues and facts in an attempt to identify the work necessary for sound policy. This work is being undertaken in the second stage of the Review of Poverty Traps.

**WHAT IS A POVERTY TRAP**

A 'poverty trap' is a circumstance which makes it difficult or impossible for low income people to escape poverty or dependency on social security by increasing their earnings.

There are two broad types of poverty traps - those which are related to income testing and those which are not.

Income tests include social security and education payment income tests, taxation, and the income testing of health cards, concessions, public rents, and child care fee relief. These income tests alone or in combination can lead to rapid decreases in payments or increases in charges as incomes rise and thus can produce a disincentive to increase earnings.

The most frequently used indicator of the location of possible income test related poverty traps is the effective marginal tax rate (EMTR). The EMTR measures what percentage of each additional dollar of earnings (or other private income) will effectively be taken as a "tax". The remaining percentage (ie 100%-EMTR) is the gain in disposable income from each dollar of increased private income. Alternative indicators such as effective average tax rates and effective taxation rates over specific intervals of income have not often been used in Australia although they may be worth exploring.

High EMTRs indicate income test points and interactions which may or may not lead people to restrain their earnings. Evidence of a behavioural response is necessary to confirm the existence of a real poverty trap as opposed to a theoretical problem. For example, a survey of 214 sole parents and unemployment beneficiaries undertaken by the Department in December 1990 found that the decision to work was

often made without reference to its effect on DSS entitlements or consideration of the effect of the interaction of income testing and taxation on disposable income (Poniard, Harrington 1991).

Some other factors, not associated with income test EMTRs, which may be sufficient to prevent low income people from increasing their earnings are:

- lack of accessible jobs (in terms of availability, qualifications and distance);
- the costs and difficulties of child care;
- the desire for the certainty of a regular guaranteed income such as offered by social security; and
- ill health of a person, their spouse, dependants or other relative for whom they are caring.

There are also a number of other barriers to employment which are likely to operate in combination with income test or other poverty traps. These barriers include the costs of employment (eg transport, clothes), poor access to training, misunderstanding of income tests leading to an exaggerated view of their financial or administrative effects, the value placed on caring for one's own children, and the value placed on home production or leisure. These barriers may interact with other factors to convince a social security recipient that they will not be 'better off' by taking a job or increasing their earnings. In an economist's terms, their 'utility' will not be increased.

Poverty traps have been defined in terms of the inability or disincentive for social security recipients to increase their earnings. There are three other related 'traps'. These are the 'welfare trap', the 'investment trap' and the 'fraud trap'. The 'welfare trap' occurs when workers quit employment or decrease their earnings because they believe that they will be at least as well off overall (in terms of income, leisure and "life satisfaction") on social security. The 'investment trap' occurs when a social security recipient invests at an artificially low rate in order to avoid income tests and taxation. The 'fraud trap' occurs when a social security recipient deliberately does not declare income actually received because of the high effective taxation of that income.

## **WHY POVERTY TRAPS AND 'RELATED TRAPS' ARE POLICY PROBLEMS**

Poverty traps and welfare traps are important policy problems because they increase the reliance of the population on social security whilst simultaneously tending to reduce production and national income by lowering earnings. Investment traps also reduce national output by lowering investment in potentially productive activities. When EMTRs are over 50% and under 100% (which is a common circumstance for social security recipients), these three traps will also tend to lower household disposable income and skew its distribution.

Fraud traps are really the reaction of some people to the other traps, presumably combined with an assessment that the administrative system will not detect the fraud. They are worth differentiating from the other traps because the methods for estimating the extent of fraud are different and because the economic effects are different. Fraud traps present problems for the equity and targeting of the tax and transfer systems.

All four types of traps increase the amount of taxation required to fund the social security system and the resulting small increase in the taxation rate may pose a work or investment disincentive for some other members of the population.

High EMTRs are a consequence of the targeting of welfare assistance to those most in need. The policy problem of a poverty trap arises when there are high withdrawal rates over the bands of earnings which a social security recipient could obtain by increasing their work effort. Often these high withdrawal rates are the result of overlapping taxes and income tests.

For example, once a sole parent pensioner (1 child under 13 not renting) starts paying tax his/her combined tax and social security withdrawal rate is currently (September 1991) 66.25% (at \$150.12 pw private income). This withdrawal rate reaches its maximum of 108% when the medicare levy is being shaded in and the non-taxable components of pension payments are being withdrawn (\$406.63 to \$434.00 of private income). In this narrow band the sole parent's disposable income reduces from \$391.44 to \$389.30. In the wider band from \$355.60 to



\$442.00 of earnings the sole parent's disposable income only rises by \$12.79.

Welfare traps arise when net social security and subsidy assistance (eg State housing and concessions) approach the disposable incomes of lower wage earners in a group. However welfare traps can also be caused by removing high EMTRs (which are disincentives to get into the system) from social security recipients. For example, one option for mitigating the high EMTRs faced by sole parent pensioners is to remove these persons from the taxation system. However this would mean that a sole parent losing pension entitlement because of earnings would face a sudden large tax liability. Other sole parents may try to qualify for pension in order to escape tax. A solution would be to have a rebate or a tax credit for non-pensioner sole parents which, by reducing their current tax, would discourage them from attempting to qualify for pension.

This demonstrates that policies which address poverty traps can create welfare traps if they are not well designed. Poverty traps and welfare traps can be seen as two horns of a dilemma and this has important consequences for the design of policy, particularly for substantial changes such as the removal of classes of social security recipients from the taxation system.

## **HOW POVERTY TRAPS ARISE**

This section discusses some of the main points on how high EMTRs arise through the interaction of DSS income tests and income taxation.

### *DSS Income Tests*

Most analysis of poverty traps has focused on the pension and benefit (now allowance) income tests. Other social security income tests are not considered to be a serious poverty trap problem, although some are of interest as welfare traps. For example, the Family Allowance Supplement income test is based on the previous financial year's income. This lowers current EMTRs and is therefore thought to avoid potential poverty traps on changes in current earnings when increases are less than 25%. The family allowance and child support income tests affect people who are not on low incomes and who are already working full-time. These are not considered likely to lead to poverty traps.

The design of the pension and allowance income tests reflects differing work expectations. Allowees are generally expected to be seeking full-time work now or after recovering from sickness (some special beneficiaries are exceptions). Pensioners are generally not expected to work or to work only part-time or casually, although some sole parents are encouraged to prepare for full-time work.

The expectation that allowees should return to full-time work has meant that allowance income tests have been designed to have cut-out points lower than available low full-time wages. This has been achieved by lower free areas (the amount of private income before payment is reduced) and higher taper rates (the amount of payment withdrawn for each dollar of private income) than for pensions. For example, in September 1991, a single adult job search or newstart allowee receives the maximum base payment \$138.85 pw if private income is below \$30pw. Payment is reduced by 50 cents for each dollar of private income between \$30 and \$70pw, and dollar for dollar beyond that point until no benefit is payable when the person has \$188.85pw of private income. A single adult pensioner receives \$153.30pw (including pharmaceutical allowance) below \$42pw private income and a 50% taper applies until there is no pension entitlement at \$348.60pw of private income.

### *Taxability of DSS Payments*

Pensioners and allowees also fall within the taxation system which can operate to reduce their disposable income. Both base allowance and pension (with the main exception of disability support pension) are taxable in addition to earnings and other private income. The main reason for making base payments taxable is that it preserves tax equity with people on similar total incomes who are not pensioners or allowees but who pay tax on their total income.

The non-taxable components of payments include rent assistance, additional pension and allowance for children, guardian allowance and pharmaceutical allowance. These payments are non-taxable because they are essentially part compensation for the additional costs of children or other charges. That is, they are for horizontal equity rather than vertical equity and are analogous to rebates in the tax system.

### *Policies which Reduce the Tax Liability of Pensioners and Allowees*

Pensioners (other than those receiving non-taxable pensions), allowees and AUSTUDY recipients benefit from special tax rebates which generally offset the tax liability applying to the pension/allowance income and, in the case of pensioners, an amount of non-pension income equivalent to the free area. The rebates are withdrawn at the rate of 12.5 cents for each dollar of taxable income over a threshold approximately equal to the annual payment rate plus, in the case of pensioners, the income test free area. Other general rebates such as the sole parent rebate (SPR) and the dependent spouse rebate (DSR) provide further tax relief to some pensioners and allowees.

The Medicare Levy, which cannot be offset by any rebate, can operate to further reduce the disposable income of some pensioners and allowees. Low-income exemption thresholds based on family income protect many pensioners and allowees from having to pay the Medicare Levy. Where income exceeds the threshold the levy is phased in at 20% of taxable income above the threshold until it is equal to 1.25% of total taxable income. Under Section 251U of the Income Tax Assessment Act, sickness allowees and blind pensioners are not required to pay the Medicare Levy.

### *Measuring the Interactions*

Despite the policies which lessen tax liability, the two systems of tax and social security still interact when there is both a reduction in social security entitlement and increased tax liability at a given level or over a range of incomes. In these circumstances, social security recipients can face high effective withdrawal rates, usually measured by effective marginal tax rates (EMTRs). Examples are given in Appendix 1.

The main structural point to notice is that EMTRs are lower than the sum of all withdrawal rates when the payments being withdrawn are taxable, but are equal to the sum of all withdrawal rates when the payments are not taxable. This occurs because when payments are taxable each dollar of taxable income earned reduces taxable DSS payments by the amount of the taper. Thus for a pensioner each dollar of earnings over the

free area results in only a 50 cent increase in taxable income. The tax payable on private income is therefore effectively half what it is when the DSS payments are non-taxable.

This means that making a payment non-taxable will significantly raise EMTRs (other things being equal). This paradoxical result must be borne in mind when evaluating proposals to make payments non-taxable. However, making payments non-taxable will significantly reduce the amount of tax due. This could create horizontal equity problems. For example, it could make it very attractive for seasonal workers to claim job search allowance and get a tax break not enjoyed by workers who work all year for the same income.

### *Other Income Tests*

Apart from the overlap of social security income tests and taxation there are other income tests which can exacerbate the poverty trap by raising EMTRs. These include income tests applying to other Commonwealth government programs, such as child care fee relief, health cards and telephone rental concessions as well as income tests applied by other levels of government, such as State government public housing rent rebates and concessions on State charges.

In assessing the impact of high EMTRs, further research is taking into account the interaction of not just social security income tests with tax but also income tests applying to other Commonwealth government programs and income tests applied by other levels of government. It would also be desirable to estimate the extent to which the value attached to PHB and other health cards is unrealistically high.

### *Non-income Test Factors*

The overvaluation of health care cards demonstrates that poverty traps cannot be measured solely in terms of EMTRs arising from the interaction of various income tests and taxation. Subjective factors such as the value placed on concessions, the misunderstanding of actual withdrawal rates and security of payment may well be more important,

Administrative practice can also mean that actual withdrawal rates faced are different from

the theoretical withdrawal rates. For example, the actual administrative practice of DSS in withholding tax can lower taxation at a point in time, while the fact that payclerks do not allow for pension rebates can raise tax. Other notable administrative practices which alter current EMTRs are the pension earnings credit scheme, the earnings disregard for allowee couples and the use of previous financial year's income in the FAS income test and the income from two financial years before in the Child Support income test.

### **WHICH GROUPS ARE LIKELY TO BE MOST AFFECTED BY POVERTY TRAPS**

Poverty traps affect a group of social security recipients when members of that group decide not to increase their earnings, High EMTRs are only one of the factors influencing this decision and may well not be the most important.

The extent to which a group is affected by poverty traps arising from income testing and taxation will depend upon:

- the nature and extent of the expected labour force participation for the group;
- the level of the effective marginal tax rates actually faced;
- the numbers of persons actually or potentially facing the high effective marginal tax rates;
- the DSS client's perception of poverty traps;
- the relationship between the placement of the high EMTR range and wages available to the group; and
- the placement of the high EMTR in relation to the relevant poverty line or other adequacy standard.

This section briefly reviews how separate groups of social security recipients may be affected by each of these factors and which groups may be most disadvantaged by the combined effects of these factors. The actual effect of many of the factors will be further researched in Stage 2 of the Review. Results of the survey mentioned above (Puniard and Harrington 1991) indicate that for sole parents in particular the care of children is an important barrier to increased workforce participation. Allowees are more likely to face labour market barriers.

### *Labour Force Participation*

The groups which are expected to seek increased earnings are all recipients of job search allowance (JSA) and newstart allowance (NSA), and some recipients of sole parent pension. Recipients of Family Allowance Supplement are expected to retain or increase their current earnings. Non-manifest disability support pensioners will also be assisted to prepare for employment. These expectations of labour force attachment are reflected in DSS income tests and DSS and DEET administrative procedures. Unemployment related payments have the greatest numbers potentially affected.

### *EMTR Levels and Numbers Facing Them*

EMTRs over 100% are undesirable irrespective of their effects on behaviour. People in income ranges where such EMTRs operate are losing disposable income and may not realise it.

Recipients of JSA, NSA and sickness allowance (SA) face the highest effective marginal tax rates of 100% or more over a range from \$70pw to the payment cutout (eg \$188.85 for a single adult or \$316.50 for a couple, excluding pharmaceutical allowance and allowing one earnings disregard for a couple). For special beneficiaries EMTRs are 100% or more from the first dollar of private income. The assumption that this range can be jumped by a return to full time work will be tested with wages data in Stage 2.

Where EMTRs in excess of 100% occur over a very narrow band of income, as in the case of the sole parent discussed above, many people can jump them and thereby increase their disposable incomes. For pensioners, these very high EMTRs occur with the withdrawal of non-taxable payments for children and rent assistance and the shading in of the Medicare Levy. This happens high in the income distribution of sole parents and the actual number affected needs to be estimated before the seriousness of the problem can be gauged.

Sole parent pensioners who are in the labour force face lower EMTRs than do allowees but at a wider range higher in their earnings distribution (see Appendix 1). This may affect their willingness to extend part time and casual work or to undertake full time work. This will be

investigated with EMTR and earnings data in Stage 2 of this project.

High EMTRs (between 51% and 100%) are not necessarily a problem in themselves. Nor are they inequitable. They are a problem if social security recipients facing them restrict their earnings or if they are unduly perceived as unfair. These problems are more likely to take place when the EMTRs span a wide range of private income in addition to being high. Policies deserving close scrutiny are those which could place EMTRs exceeding 80% through the range of normal part-time and casual earnings.

Analysis of poverty traps needs to focus on empirical evidence of real behavioural effects. By examining social security computer data, Stage 2 of this review will estimate the actual numbers subject to high EMTRs or with incomes clustered under certain income test points. Lower than expected labour force participation will be investigated using ABS data.

#### *Perception of EMTRs*

Most social security recipients are unlikely to calculate theoretical EMTRs or to change their behaviour precisely because of them. The most important signals for behaviour are likely to be actual changes in fortnightly payments and tax withholdings. DSS information on the free area, taper rate, 100% withdrawal range and taxation arrangements may have some effect.

Another important behavioural signal is likely to be State housing authority changes to rent rebates in response to changes in total income. The State housing income tests generally add 10% to existing EMTRs. Folklore and media coverage are likely to be very influential. The December 1990 survey found that the majority of those interviewed had little understanding of withdrawal rates and tended to believe that the income test is harsher than it actually is. The ABS Survey of Persons not in the Labour Force will also give estimates of those affected by income test and other poverty traps.

#### *Relationships with Poverty Lines*

It is interesting to note that high EMTRs often occur well above relevant poverty lines. For

example, the point at which social security recipients enter the taxation system (and therefore have EMTRs over 50%) is above the applicable Simplified Henderson Poverty Line often used by academics. Table 1 gives examples. However, the high EMTRs occur well below average weekly earnings for families of the same type. That is, so called 'Poverty traps' do not affect the 'poor' but do affect those on low incomes. A high EMTR which exists at a relatively high level of income could not really be called a 'poverty trap' even though it could be seen as a work disincentive. Nevertheless, the term 'poverty trap' is preferred for high EMTRs through the range of part-time incomes. The term 'welfare trap' is preferred for the high EMTRs in the range of full-time earnings.

#### **WHAT POLICY HAS BEEN INTRODUCED TO AMELIORATE POVERTY TRAPS**

Several hundred million dollars have been spent since 1983 on the alleviation of poverty traps. The most notable single initiative was the Poverty Traps Reduction Act of 1985 which removed the separate income test for rent assistance, introduced pensioner earnings credits and raised pension free areas.

Other significant policies have been the extension of fringe benefits to those returning to work, employment entry payments, separate thresholds on earned income for married allowees and substantial increases in pensioner rebates so that full-rate pensioners are not liable for tax.

From January 1992 an Education Entry Payment of \$200 each year will be available to assist sole parent pensioners to further their education. This will be in addition to the \$30 pw AUSTUDY supplement now payable.

The integration of family payments which was announced in the 1991 Budget will further ameliorate poverty traps for families with children when it is implemented in January 1993. The higher EMTRs and the cutoff point for family payments and rent assistance will be moved into a higher income range whilst cutoff points for pension and benefit will be lowered, thus reducing the welfare trap.

**TABLE 1: COMPARISON OF STARTING INCOMES FOR EMTRS OVER 50% WITH SIMPLIFIED HENDERSON POVERTY LINE AND AVERAGE WEEKLY FAMILY EARNINGS**

| Group  | EMTR over 50% from (a) Family |                       |                           | Simplified Henderson Poverty Line (b) (\$ pw) | Estimated (c) Mean Weekly Earnings Part-time (\$ pw) | Full-time (\$ pw) |
|--|-------------------------------|-----------------------|---------------------------|---|--|-------------------|
|  | Private Income (\$ pw)        | Pretax Income (\$ pw) | Disposable Income (\$ pw) |   |  |                   |
| Single adult male allowee renting privately . . . .              | \$ 30.00                      | \$199.85              | \$190.10                  | \$150.91                                      | \$143.55   | \$463.47          |
| Allowee couple 2 children under 13 renting privately.....        | \$ 45.00                      | \$385.70              | \$371.08                  | \$314.38                                      | \$442.96   | \$621.37          |
| Sole parent pensioner 2 children under 13 renting privately..... | \$138.12                      | \$378.46              | \$378.46                  | \$254.01                                      | \$284.86   | \$461.84          |

- (a) Incomes for September 1991 allowing one earnings disregard for allowee couple
- (b) Before Housing Poverty Line for June quarter 1991. Note that the Poverty Line is a disposable income concept.
- (c) Estimates for May 1991 based on updating ABS Earnings Distribution statistics for August 1988 by gender specific average weekly total earnings. ABS Cat Nos 6310.0 & 6302.0

**WHAT FURTHER POLICY COULD BE CONSIDERED**

Despite the measures described above some poverty traps still exist, as well as high EMTRs at higher levels of private income. Various approaches to these problems have been suggested.

*Integration Proposals*

The Commission of Inquiry into Poverty in 1975 put forward the Henderson Guaranteed Minimum Income scheme to deal with the overlap of social security and taxation systems. Under this scheme the two systems would be effectively integrated. Generally these schemes involve a universal non-taxable, non-income tested cash payment or tax credit with additional payments to persons in certain categories. A uniform tax rate would apply to all other income. Such schemes are costly, require quite high tax rates, reduce work incentives and would be cumbersome to administer.

The guaranteed minimum income proposals do not eliminate the need for at least some portion of the population to have their circumstances assessed by both the Department of Social Security and the Taxation Office. Alternative proposals put forward by the 1975 Taxation Review

(Asprey) Committee and by Ingles (1985) would abolish pension and allowance income tests, make the payments non-taxable and apply a special tax scale to the private income of social security recipients. The effect of these schemes would be to impose higher EMTRs on those with small amounts of private income but lower EMTRs for those with the highest incomes. It is likely that the cut-off for payments would be pushed out, resulting in a greater number of recipients. These schemes would complicate PAYE procedures and probably incur a large cost to revenue. A variation of this scheme would abolish income tests except for a sudden death cut-out point, but tax social security payments on a separate scale. This proposal presents many of the same problems as the Asprey scheme.

*Separation Proposals*

The Government has taken a step in this direction with the plan announced in the 1989 Retirement Incomes Statement to remove age and service (age) pensioners from the taxation system by 1995. It is likely that this will be achieved by a system of age rebates which are sufficient to exempt from tax all aged persons up to the pension cut-off, and which gradually shade out

where income is above this level. That is, where income is just over the pension cut-off, the aged person will not face a sudden large tax liability. For administrative simplicity all age and service (age) pensioners could be exempt from submitting a tax return.

The cost of this approach would depend on the rate at which the rebate is withdrawn and the income test applied to the pension.

A detailed proposal for separation of the taxation and social security systems was put forward by Dixon and Foster in 1983 and involves major changes to both systems. These proposals were further developed in Dixon and Foster 1985 and Dixon 1990.

Separation of the tax and social security systems would give the Department of Social Security maximum flexibility to respond to needs and fiscal constraints, without the complications of interaction with taxation policies. However separation of tax and social security may not be suitable for JSA, NSA and SA recipients as they frequently alternate between social security and employment.

#### *Abolition of either taxation on pensions and allowances, or of income tests*

Unless taper rates are increased to compensate for the abolition of taxation, or tax rates increased for persons in receipt of non income tested payments, these options are usually very costly. These measures are not well targeted as the greatest gains are for those on higher incomes. Equity with non-recipients on similar incomes is compromised.

#### *Changes to the income tests*

Increases in the free area and in child disregards are very costly and move high EMTRs out into higher income ranges rather than reducing them.

Those with very little or no private income do not benefit. Reductions in the taper rate reduce EMTRs and may increase earnings so that actual cost is lower than the static estimates of the cost. However they are not well targeted as those with the highest incomes gain the most and because those with investment income benefit as much as earners. Both these measures push out cut-off points, bringing more people

into the welfare system. Earnings disregards do target incentives on those undertaking work.

Bascand (1987) examined the possibility of abolishing the free area and at the same time reducing the taper rate, at least for pensioners. This would avoid pushing out cut-off points but would disadvantage those with the least income at significant administrative cost. EMTRs would be reduced for persons with income over the free area regardless of whether the income is earned or from investment.

Variable taper rates and free areas may improve targeting and prevent higher cut-offs but they are more difficult for clients to understand and for staff to administer.

Earnings credits reduce EMTRs of those who can get only casual work, ease transition into the workforce and enhance equity between part time workers and part year workers. The earnings credit scheme could be extended to JSA and NSA recipients and/or publicised to make it more understandable.

#### *Rationalisation of Commonwealth and State assistance*

Poverty or welfare traps can be exacerbated by State income tests which add to high EMTRs or reduce the real value of horizontal equity payments, as well as by the withdrawal of State concessions attached to various Commonwealth Health cards. Negotiation with the States may facilitate solutions which address these problems whilst at the same time improving the effectiveness and efficiency of programs.

#### *Changes in income unit treatment*

Separate income testing for all married allowees could alleviate some work disincentives. The earnings disregard is a step in this direction.

The taxation system generally uses the individual rather than the couple as the unit of assessment. This results in differences in disposable income for families with similar gross incomes, depending on the distribution of income between the couple. Transferability of rebates, as with the pensioner rebate, is one way in which the tax system can adopt an income unit treatment of income. Another is family income assessment as in the Medicare Levy arrangements.

### *administrative changes*

The amount of tax paid by a person at a point in time could be reduced if pensioners and allowees with earnings were informed of, and encouraged to use, the provisions which allow the Taxation Office to authorise a variation in PAYE tax. The rate imposed could then take into account the person's eligibility for a pensioner rebate. The allowee rebate is effectively fully utilised in exempting the base allowance from tax.

### *Taxation changes*

The taxation system is not designed especially to meet income support needs, and becomes much more complex when it attempts to do so. Taxation measures intended to address horizontal equity (eg, Dependent Spouse Rebate, Sole Parent Rebate) are not as finely targeted as DSS measures which predominantly address vertical equity concerns.

### *Conclusions on What Further Can be Done*

Measures to abolish poverty traps or reduce high EMTRs usually benefit pensioners and allowees with higher incomes because they are the groups potentially affected. Poverty trap measures are no longer targeted at the poor and only a few of the common proposals would benefit earners more than those with investment incomes. Common proposals such as the extension of free areas can involve large costs but in the end merely move high EMTRs to higher incomes where there could in fact be more earners. The consequent extension of the payment cutout point can bring more people onto income security, ie it creates a welfare trap.

Measures which are targeted more towards earners or those on lower incomes include:

- increasing employment entry payments for sole parents and perhaps allowees (but better coordination with the use of earnings credits is desirable);
- earnings credits for allowees;
- lowering the 100% withdrawal rate on allowances which can result in EMTRs as high as 132.5%;

- extending separate earnings thresholds from married JSA and NSA recipients to sole parent and married pensioners and possibly to single pensioners and allowees;
- increasing allowee rebates;
- changing PAYE withholdings to reflect the value of pension rebates where this will lower tax; and
- reducing the withdrawal rate for those with lower private incomes and increasing it for those with higher incomes in order to improve the situation of those worst off while simultaneously reducing the high cutoff points for pensions (ie a 2 or 3 withdrawal rate).

Given the Government's 1995 commitment, maximum flexibility in addressing poverty traps and high EMTRs may well lie in the longer term separation of the taxation and social security systems (especially for pensioners). An alternative worth examining would be making pensions non-taxable and removing pensioner rebates, whilst increasing the sole parent rebate and possibly introducing an Aged rebate in order to avoid welfare traps.

The shading in of the Medicare Levy is a major cause of unacceptably high EMTRs, forcing them above 100% for some pensioners. The equitable integration of the levy into the general tax scale would alleviate this problem. However, there is no evidence that this theoretical problem changes earnings behaviour.

Further measures, which would require the cooperation of State Governments, could include:

- encouraging extension of non-income tested State concession cards, especially for the aged;
- exempting most non-taxable or special purpose supplementary payments, especially the horizontal equity payments, from State income tests.

Poverty traps unrelated to taxation and income testing would perhaps best be addressed by an expansion of places under active employment and training schemes such as the jobs, Education and Training (JET) program for sole parents, and the Newstart program for the long term unemployed.

**WHAT RESEARCH AND ANALYSIS WILL BE NECESSARY TO IDENTIFY THE REAL PROBLEMS AND APPROPRIATE POLICY OPTIONS**

The research and analysis requirements have been mentioned throughout this paper, In summary they are:

- to look at DSS client income distributions for clustering below critical points, in relation to wages and in relation to EMTRs;
- to look at wages in relation to EMTRs and average tax rates in order to examine whether the disincentives are in areas where jobs are available;
- to look at the actual administrative practice of employers and DSS in giving access to re-

- bates, particularly the pensioner or allowee rebate;
- to look at ABS surveys on reasons for not seeking work to see how many people give the income test as a reason;
- to look at labour force under-representation of particular groups including sole parents; and
- to look at job opportunities and skills shortfalls.

There is little sense in committing large amounts of taxpayers' money to the alleviation of theoretical rather than real poverty traps. It is therefore vital that the necessary investigation of the incidence of real problems is undertaken before policy decisions are made.



TABLE I

Effective Marginal Tax Rates (EMTRs) for a Single Adult JSA/Newstart Recipient with no Dependent Children and Renting Privately (as at August 1991)

| Non-DSS<br>Income(\$/wk) | Total Benefit (\$/wk) | Disposable Income (\$/wk) | EMTR % | Key |
|--------------------------|-----------------------|---------------------------|--------|-----|
| 0.00- 1.00               | 169.85                | 169.85-170.53             | 0      | (1) |
| 1.00- 30.00              | 169.85                | 170.53-190.10             | 32.5   | (2) |
| 30.00- 70.00             | 169.85-149.85         | 190.10-203.60             | 66.25  | (3) |
| 70.00-188.85             | 149.85- 31.00         | 203.60-203.60             | 100    | (4) |
| 188.85-194.86            | 31.00- 25.00          | 203.60-201.65             | 132.5  | (5) |
| 194.86-219.85            | 25.00- nil            | 201.65-196.65             | 120    | (6) |
| 219.85-225.87            | nil                   | 196.65-201.46             | 20     | (7) |
| 225.87-240.92            | nil                   | 201.46-210.50             | 40     | (8) |
| 240.92-398.08            | nil                   | 210.50-334.25             | 21.25  | (9) |

Note: the income ranges used in determining the EMTRs are estimates only as they are based on the estimated pensioner/allowee taxation arrangements for 1991-92 and assume that the current DSS rates apply for the whole financial year.

## APPENDIX 1

## KEY TO TABLE 1

Effective Marginal Tax Rates (EMTRs) for a Single Adult JSA/Newstart Recipient with no Dependent Children and Renting Privately (as at August 1991)

- (1) Income below free area and tax threshold.
- (2) Tax at 20% plus 12.5% loss of allowee tax rebate.
- (3) Income is above first allowance income test free area, where 50% taper applies. 50c loss of allowance, therefore taxable income has increased by 50c; 20% tax plus 12.5% loss of allowee tax rebate on remaining 50c.
- (4) Income is above second allowance income test free area, where 100% taper applies, i.e. \$ for \$ reduction.
- (5) Taxable allowance fully exhausted. Withdrawal of non-taxable components does not reduce taxable income. 100c loss of allowance; 20% tax plus 12.5% loss of allowee rebate.
- (6) Allowee rebate exhausted. 100c loss of allowance; 20% tax rate.
- (7) 20% marginal tax rate.
- (8) 20% marginal rate plus 20% Medicare levy shade-in.
- (9) Normal marginal tax rates plus Medicare levy of 1.25% hereafter.

TABLE 2

Effective Marginal Tax Rates (EMTRs) for a Sole Parent Pensioner with Two Dependent Children  
and Renting Privately (as at August 1991)

| Non-DSS Income (\$/wk) | Total Benefit (\$/wk) | Disposable Income (\$/wk) | EMTR (%) | Key |
|------------------------|-----------------------|---------------------------|----------|-----|
| 0.00- 66.00            | 256.40                | 276.40-342.40             | 0        | (1) |
| 66.00-145.81           | 256.40-216.40         | 342.40-382.31             | 50       | (2) |
| 145.81-303.00          | 216.40-137.90         | 382.31-435.38             | 66.25    | (3) |
| 303.00-367.60          | 137.90-105.40         | 435.38-461.22             | 60       | (4) |
| 367.60-398.08          | 105.40- 89.90         | 461.22-470.36             | 70       | (5) |
| 398.08-459.12          | 89.90- 59.40          | 470.36-477.69             | 88       | (6) |
| 459.12-490.00          | 59.40- 44.40          | 477.69-475.27             | 108      | (7) |
| 490.00-579.00          | 44.40- 0.00           | 475.27-484.93             | 89.25    | (8) |
| 579.00-692.31          | nil                   | 484.93-553.77             | 39.25    | (9) |

Note: the income ranges used in determining the EMTRs are estimates only as they are based on the estimated pensioner/allowee taxation arrangements for 1991-92 and assume that the current DSS rates apply for the whole financial year.

## KEY TO TABLE 2

Effective Marginal Tax Rates (EMTRs) for a Sole Parent Pensioner with Two Dependent Children  
and Renting Privately (as at August 1991)

- (1) Income is below free area: no tax, no pension reduction.
- (2) 50c loss of pension, therefore taxable income has increased by 50c (pensioner continues to be protected from tax by SPR).
- (3) 50c loss of pension, therefore taxable income has increased by 50c;  
20% tax plus 12.5% loss of pensioner tax rebate on remaining 50c.
- (4) Pensioner rebate fully exhausted;  
50c loss of pension, therefore taxable income has increased by 50c;  
20% tax on remaining 50c.
- (5) Taxable pension fully exhausted. Withdrawal of non-taxable components does not reduce taxable income.  
50c loss of pension;  
20% tax.
- (6) As for (5), but with commencement of 38% marginal tax rate.
- (7) 50c loss of pension;  
38% tax plus 20% Medicare shade-in.
- (8) 50c loss of pension;  
38% tax plus 1.25% Medicare levy shade-in.
- (9) Normal marginal tax rates plus Medicare levy hereafter.

## TIME LINE

|               |  |
|---------------|--|
| 1983-84       | Increase in the Sole Parent Rebate (SPR) from \$713 to \$780.<br><br>Increase in pensioner rebate from \$167 to \$250.   |
| March 1984    | Increase in the benefit income test free area from \$10 to \$20 and an increase in the upper limit of the 50% taper from \$60 to \$70.   |
| 1984-85       | Beneficiary tax rebate introduced at \$50 (single) and \$75 (married).<br><br>Dependent Spouse Rebate (DSR) extended to de factos.   |
| 1985-86       | Beneficiary tax rebate increased from \$50 to \$170 (single) and \$75 to \$220 (married).  |
| May 1986      | Increase in benefit income free area from \$20 to \$30.  |
| 1986-87       | Beneficiary tax rebate increased from \$170 to \$190 (single) and \$220 to \$280 (married).  |
| December 1986 | Increase in income tax threshold from \$4595 to \$5100.  |
| July 1987     | Increase in pension free area from \$30 to \$40 (single) and \$50 to \$70 (married combined).<br><br>Separate income test on rent assistance removed.<br><br>Increase in income disregard for each child of a pensioner from \$6 to \$12 a week.                   |
| 1987-88       | Married beneficiary tax rebate increased from \$280 to \$430.  |
| November 1987 | Introduction of the \$1000 earnings credit which enables pensioners to undertake casual employment without experiencing an automatic reduction in pension.<br><br>Child Disability Allowance replaces Handicapped Child's Allowance and is free of an income test. |
| December 1987 | Family Allowance Supplement (FAS) introduced with liberalised income test.   |
| January 1988  | Extension of Pensioner Health Benefits (PHB) card for three months to card holders whose income rises by no more than 25% above the PHB card income limits,  |
| June 1988     | Introduction of a separate income test on maintenance.   |
| 1988-89       | Pensioner tax rebate increased from \$250 to \$430 a year.   |
| December 1988 | Eligibility for FAS is based on previous year's taxable income.<br><br>Integration of the assessment and payment cycles for FAS and family allowance.  |
| 1989-90       | Pensioner rebate increased from \$430 to \$650.<br><br>DSR increased to \$1000 where there are no dependent children and \$1200 where there are dependent children, and amounts indexed annually.<br><br>SPR increased to \$940 and indexed annually.              |

|                |  |
|----------------|--|
| January 1990   | Removal of income test on part time training allowance.<br><br>Rates of family allowance, guardian's allowance, CDA and double orphan's pension indexed annually and FAS adjusted annually to meet benchmarks of adequacy. |
| April 1990     | Earnings credit accrual standardised for all maximum rate pensioners.  |
| June 1990      | Long term sole parent pensioners and long term beneficiaries who move off pension into full time employment to receive HC card for six months after commencement of employment.  |
| July 1990      | Income test free area for pensioners effectively exempted from tax.  |
| September 1990 | Beneficiary couples permitted to receive a further \$15 a week each from earnings alone, over and above the current free area, without losing any benefit.   |
| January 1991   | Employment entry payment extended to sole parent pensioners.   |
| March 1991     | Pharmaceutical allowance became payable to all pensioners.   |
| July 1991      | Annual indexation of pension income test free area.  |
| November 1991  | Employment entry payment to be extended to disability support pensioners.<br><br>PHB card eligibility extended for 12 months for disability support pensioners entering employment.  |
| January 1992   | Introduction of Education Entry Payment for sole parent pensioners   |
| July 1992      | Pensioners earnings credit to be indexed annually  |
| January 1993   | FAS and additional pension/allowance to be integrated  |
| 1995           | Age and service pensioners to be removed from the tax system.  |

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**THE CHILD SUPPORT SCHEME:  
AN EVALUATION OF ITS PERSONAL IMPACT.**

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***Introduction***

Child maintenance policies were radically reformed in June 1988 with the introduction of the Child Support Scheme as a feature of the Federal Government's social justice strategy. Legislation creating the Child Support Agency (as part of the Taxation Office) to collect maintenance from non-custodial parents was enacted. Custodial parents with existing maintenance orders could register them with the Child Support Agency (CSA) for collection. For custodial parents who did not already possess a court order for maintenance, it was still necessary to obtain one; the anticipated difference was that payment could actually be enforced by the CSA. The Department of Social Security became the distributor of child support payments to custodial parents. In October 1989, the reform process was completed with the implementation of stage two of the Child Support Scheme : the use of an administrative formula for calculating the child support liability of noncustodial parents.

The Child Support Scheme has undeniably achieved improvements in the adequacy of child support (maintenance) payments, the coverage of the eligible population and the compliance rate by non-custodial parents. But what are the personal repercussions of the new Scheme? Prior to its introduction, fears about the impact of the Scheme emerged from men's and women's interest groups, lawyers, the non-government welfare sector and sole parents.

Given that more than 95 per cent of sole parent pensioners are women, there is no escaping the gender-specific impact of the reforms: more women are forced to apply for child support and more men are forced to pay child support. The Child Support Agency's slogan-"putting children first"-is an explicit statement of the intention of the Scheme to give priority to the rights of children to share in the living standards of both parents. However, the notion of separating the interests of women from those of their children attracted criticism by some feminists and others who asserted that women would pay the price for their children's improved financial wellbeing. It was argued that the Scheme would lead to an increase in violence perpetrated by non-custodial parents (usually men) towards women, an increase in access

disputes and force renewed contact between former partners who preferred to have nothing more to do with each other. Therefore, the interests of women obliged to participate in the Scheme would be subordinated to those of their children. (See the reference list following this article for examples of such predictions.)

### *The Survey*

In July 1990, a survey of 497 sole parent pensioners in receipt of payments collected by the Child Support Agency was conducted to find out whether participation in the Child Support Scheme led to the anticipated negative repercussions. The Department of Social Security drew a random sample of 1000 sole parent pensioners in Victoria and forwarded the questionnaires on behalf of the author to ensure the confidentiality of respondents. A response rate of 50 per cent was obtained.

The sample and the sole parent pensioner population were well matched on most demographic characteristics, such as sex, number of children, length of time on pension and pre-Scheme maintenance status. Most respondents (91 per cent) were covered by stage one of the Scheme and the remaining nine per cent were covered by stage two. The mean average duration respondents had been in receipt of child support payments was about 19 months. Although the survey was conducted in Victoria, there is no strong reason to believe that the findings of this study can not be generalized to the other states.

Fear of harassment and violence from former partners, concern that former partners might want access or more access to the children and concern about being forced to continue a relationship with former partners have all been documented as reasons for women's reluctance to take maintenance action in the past. Not surprisingly, the survey found that all of these were sources of apprehension for custodial parents at the time they became involved in the Child Support Scheme. However, the survey shows that fears about the personal disruption likely to be caused by involvement in the Scheme were much more widespread than the actual incidence of violence, access disputes and renewal of contact between former partners. The survey demonstrates that the Child Support

Scheme is having a positive impact, particularly in the reduction of conflict between former partners about maintenance and access, and minimizing or eliminating the necessity for contact between former partners.

### *Child Support and Violence*

Although Social Security legislation requires sole parent pensioners to take reasonable maintenance action for continuing eligibility for pension, exemptions are allowed where there is a fear of violence. Despite this, fear of violence was quite prevalent amongst those receiving child support payments. Fear of being harassed by the non-custodial parent after taking action for child support was the most common concern of custodial parents (44 per cent) and fear of a violent reaction was the second most frequently reported concern (31 per cent) of custodial parents in this survey. However, the findings of this survey show that **participation in the Child Support Scheme did not cause the anticipated increase in the incidence of violence.** As would be expected, the incidence of violence declined significantly following separation of the partners with a further sharp drop following registration with the Child Support Agency. Almost 95 per cent of those surveyed had not been subjected to violence from their former partner since they began using the Child Support Agency.

Two women had never been physically harmed by their former partner until they entered the Scheme and another woman who had not previously experienced violence from her former partner was threatened once by him after entering the Scheme. The remainder of those who were physically harmed or threatened by their former partner since participating in the Scheme had all been victims of violence prior to entering the Scheme. In cases where the pattern of violence persisted after custodial parents took action for child support, threats of violence were more common than violence causing physical harm. In most of these cases there had been one violent incident, however, several women had experienced violence from their former partner on more than one occasion since using the Child Support Agency. Table 1 illustrates the previous pattern of violence for those who were harmed or threatened after entering the Child Support Scheme.

**TABLE 1**

## Violence before and after entering the Scheme

| Custodial parents' experience of violence after entering the Child Support Scheme | <u>Threatened</u> with violence by former partner (no.) | <u>Physically harmed</u> by former partner (no.) |
|---|---|--|
| <b>Only After</b> entering the Scheme   | 1   | 2  |
| <b>Before and After</b> entering the Scheme                                       | 80  | 22   |
| Unknown (missing data)  | 1   | 0  |
| <b>Total Violence after entry into Scheme</b>                                     | 82  | 24   |

Whilst a small number of violent men continued to attack and threaten their former partners after they took action for child support, there is no evidence that the continuation of violence in these cases is attributable to the Child Support Scheme.

***Child Support and Access Disputes***

Assertions and fears that the Child Support Scheme would cause an increase in access demands and disputes were based on the presumption of a perceived connection between access "rights" and child maintenance payments. Although access and maintenance are theoretically separate legal issues, in practice, some non-custodial parents believe that payment of maintenance should bestow access rights upon them, and some custodial parents believe that denial of access is a reasonable response to non-payment of maintenance. Prior to the introduction of the Child Support Scheme there were disparate reports about the prevalence of such bargaining over access and maintenance.

Most custodial parents in this survey (75 per cent) reported that the other parent had access to the child(ren) prior to collection of child support by the Agency. However, a quarter of the custodial parents surveyed were concerned that their former partner would want access or more

access to the child(ren). Access demands by non-custodial parents on the grounds that child support was being paid occurred in only a small proportion (nine per cent) of cases in this survey. **Where conflict about access had been a problem for former partners prior to participation in the Child Support Scheme, a decline in arguments was the most common outcome after entry into the Scheme.** Since receiving child support payments collected by the Agency, 25 per cent of custodial parents reported that they argue less about access with their former partner, compared with seven per cent who reported that they argue more about access.

In the vast majority of cases (70 per cent), taking action for child support had no effect on access arrangements, but **where changes in access did occur, there were many more cases of a decline in access rather than an increase.** In a very small number of cases, there were extreme changes in access after taking action for child support: in 17 cases, non-custodial parents who previously had no access began having access to the child(ren); and in 14 cases, noncustodial parents ceased having access altogether.

The vast majority of custodial parents expressed positive attitudes to access and agreed that it is beneficial for their children to maintain contact with their other parent. Although ambivalence about access was also common because it necessitates contact with former partners, just over one-third (36 per cent) of custodial parents agreed that they would like their child(ren) to have more contact with their other parent.

***Child Support and Contact with Former Partner***

Most custodial parents surveyed (73 per cent) had maintained contact with their former partner after the relationship ended and before getting child support. However, 17 per cent felt that in taking action for child support, they were being forced to continue a relationship with their former partner. For a small proportion of custodial parents, organizing child support payments meant a brief renewal of contact with their former partner followed by a reversion to no contact afterwards. In a small number



of cases, custodial parents who had previously broken contact with their former partner had renewed and maintained contact since participating in the Child Support Scheme. However, the incidence of contact between custodial and non-custodial parents being terminated was much larger than the incidence of lapsed contact being renewed, and suggests that the Scheme actually enables contact between **former partners to lapse where this is desired**. Since receiving child support payments, the proportion of custodial parents who have some contact with their former partner declined to 57 per cent. The opportunity to terminate contact with one's former partner would be even greater for those covered by stage two of the Scheme, as custodial parents no longer need to initiate court action for child support; they need only complete an application form for child support and lodge it with the Agency.

### *Arguments about maintenance*

Almost two-thirds (63 per cent) of custodial parents reported that they had argued about maintenance with their former partner prior to receiving child support collected by the Agency. **Participation in the Child Support Scheme had a dramatic effect on reducing conflict between former partners over maintenance** with almost 40 per cent of custodial parents reporting that they argue less about maintenance since registering with the Agency.

### *Child Support and Financial Security*

Some feminists have been critical of the Child Support Scheme on the grounds that the shift in the balance of public/private support for sole parents and their children perpetuates women's financial dependency on their former partners. Although child support is financial support for children by non-custodial parents, feeling financially dependent on their former partner was a concern for some custodial parents (17 per cent) in this survey. However, most custodial parents acknowledged the financial benefits of participating in the Scheme and agreed that the extra money they receive made taking action for child support worthwhile. Many expressed the view

that they now felt more financially secure and that receipt of regular child support payments made budgetting easier.

### *Sole Parents Willingness to Apply for Child Support*

The Child Support Scheme was designed not only with the intention of ensuring that noncustodial parents are more compliant with their child support obligations, but also to ensure that child support is actively sought by custodial parents. This latter intention is embodied in Social Security legislation which obliges sole parent pensioners to take reasonable action for child support or lose pension entitlement. Prior to the introduction of the Scheme, there was opposition to this coercive aspect of the reforms with some feminists arguing that sole parents ought to have a choice about whether or not they wish to collect child support. However, these misgivings were not shared by the vast majority of custodial parents in this survey who were happy to register with the Child Support Agency. In fact, about half of those who were obliged to register with the Agency preempted enforcement of this obligation by Social Security and registered because of perceived advantages of the new Scheme-mainly the hope of getting regular maintenance.

Despite the willingness of most custodial parents to use the Agency, almost half of the respondents indicated that they had mixed feelings about it at the time they applied. When asked to weigh up the costs and benefits of their involvement in the Scheme, the degree of ambivalence had dropped by half. This ambivalence was probably related to the concerns that custodial parents had about the consequences of being involved in the Scheme. Those who were obliged by Social Security to take action for child support were marginally more concerned about most of the perceived consequences of this action than those who chose to participate. However, compulsory participants were significantly more worried about access increasing as a result of taking action for child support. Table 2 illustrates the concerns felt by custodial parents at the time they applied to the Agency for the collection of child support.

TABLE 2

Concerns of custodial parents about involvement in the Scheme

| Type of Concern/Worry #   | %  |
|---|----|
| * Harassment from former partner                                    | 44 |
| * Violent reaction from former partner                              | 31 |
| * Former partner might want access or more access to the child(ren) | 25 |
| * Admitting to former partner not coping financially                | 19 |
| * Forced to continue relationship with former partner               | 17 |
| * Former partner might want custody of child(ren)                   | 16 |
| * Former partner might find out address                             | 11 |
| * Might ruin reconciliation prospects with former partner           | 3  |
| * Proving paternity could be a problem                              | 2  |

\* Respondents could tick as many of these concerns as they felt were applicable. Therefore percentages do not total 100. Percentages have been rounded.

### Conclusion

Fears about the negative repercussions of the Child Support Scheme for women-increased violence by their former partners, more access disputes, financial dependency on former partners and renewal of contact with former partners - have proved unfounded. The study has shown that custodial parents are safely participating in the Child Support Scheme without negative repercussions on other important aspects of their lives.

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**INCOME SUPPORT FOR YOUNG UNEMPLOYED  
PEOPLE:  
ISSUES OF ADEQUACY, COST OF LIVING AND  
PARENTAL SUPPORT**

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It is important that income support policies for young people provide adequate financial support. However, what constitutes 'adequate economic support' for people aged under 21 is a contentious issue. While questions continue to be asked about the adequacy of payments, there is no objective, universally accepted measure of an 'adequate' income. Resolution of the issue is also confounded by the absence of suitable data on the living conditions and costs of the young unemployed.

When examining the issue of adequacy of income support payments to young people, various welfare groups and State government departments have criticised the age-related structure of youth income support for unemployed youth. They have questioned the assumption that the cost of living, particularly the cost of accommodation, is lower for 16 to 20 year olds than for those aged over 20 and that young people living with their parents have lower living and accommodation costs because they receive parental support.

The primary purpose of this paper is to examine existing data regarding the living costs of young unemployed people and the relationship between these costs and the adequacy and structure of income support payments. To this end, the paper also examines some of the underlying assumptions of the age-related payment structure of job Search Allowance (JSA) and Newstart Allowance (NSA). These payments have replaced Unemployment Benefit (UB). From July 1991, JSA is payable to unemployed persons aged 16 to 17, regardless of duration of unemployment, and to persons aged 18 and over in the first 12 months of unemployment. NSA is paid to persons aged 18 and over who have been unemployed for 12 months or longer.

**Development of age-related payments**

Prior to 1973, the rate of Unemployment Benefit (UB) was differentiated according to age-an adult rate for people aged 21 years and over, an intermediate rate for those aged 18 to 20, and a junior rate for those aged 16 to 17. The historical reasons for such a structure are not altogether clear, but there is an obvious parallel with the age-related award wage structure. At the time of the introduction of the Unemployment and Sickness Benefit Act of 1944, there

was no debate regarding the age-related rate structure. It can only be assumed that at the time a distinction between junior and adults rates was taken for granted. It is most likely to have been based on relativities in the wage system and the idea of a needs-based wage structure—that is, the needs of young, single people were considered to be less than those of adults.

In March 1973, however, benefit became payable at the same rate for all ages. Concern about the alignment of single UB rates was expressed at the time by the Opposition, but their concern about the incentives for young people to look for work were disputed by the Government (Kewley, 1989).

Age-related rates were reintroduced in November 1975 when the single under 18 rate was not increased along with other rates. The 'junior' rate was 'frozen' at \$36 until November 1982, when it was raised to \$40. The Government at the time did not explain why age gradation was re-introduced (Kewley, 1980).

The current Government has continued to differentiate single benefit rates according to the age of the recipient (see Table 1). In addition to the adult and junior rates, an intermediate rate for those aged 18 to 20 was reintroduced in November 1985 to facilitate the introduction of uniform age-related rates of allowances for students and the unemployed, as part of the Government's education and income support strategy for young people.

Priority One (1986-87 Budget) was introduced in recognition of radical change in the economic position of young people, notably their declining share of full-time employment and rising unemployment. It outlined a set of programs to increase post-compulsory school retention rates, and to increase places in tertiary education and training. At the same time, youth income support was restructured so that income support encouraged young people into education, training or employment, or some combination of these. Since 1986, the Commonwealth Government has been consistent in pursuing this strategy.

At the same time as these developments in youth policy, there have been considerable constraints on public spending which have also

influenced the rationalisation of youth income support programs.

The payment of lower rates of income support to unemployed single people aged under 21 has been justified on a number of grounds, including:

- the need for youth income support payments to take into account the prevailing differentials between youth and adult wages;
- a recognition that rates of income support should not offer young people inappropriate incentives to leave home early;
- an acknowledgement that young people generally receive direct or indirect assistance from their parents in meeting their living costs; and
- the maintenance of parity under the Common Allowance Structure between DSS income support, AUSTUDY and other payments for young people of the same age to ensure that there are no disincentives to undertake education or training.

The introduction of the parental income test for JSA in 1988 also reflected the view that parents should, where possible, take responsibility for income maintenance from 16-17 year old unemployed children in the same way as they are expected to do for 16-17 year old students.

### **Parental responsibility**

A distinction needs to be made between parental responsibility and parental support: where a parent has responsibility for a child, financial and other support would be an integral part of such responsibility. However, parents can also provide support to their children without necessarily maintaining responsibility for them. In the social security system, this distinction is made on the basis of age. People aged under 18 are expected to be the primary responsibility of their parents, and consequently parental support is also assumed. However for people aged 18-20, parental responsibility is not necessarily expected, but at least some degree of parental support is assumed where these young people reside with their parents.

The issue of parental responsibility for people aged under 18 revolves around the question of whether income support payments are adequate given what may be reasonably expected of ongoing familial support for these people.

**Table 1: Single unemployment benefit/job Search Allowance/Newstart Allowance:  
Maximum weekly rates (\$),1966-1992**

| Date      | JSA<br>minimum | Payments to 16-17 year olds |            |                 | Payments to 18-20 year olds           |   | Payments to<br>21 year olds<br>and over |
|-----------|----------------|-----------------------------|------------|-----------------|---------------------------------------|---|---|
|           |                | JSA maximum                 | Indep. JSA | Homeless<br>JSA | At home<br>intermediate<br>UB/JSA/NSA | Away from<br>home<br>intermediate<br>UB/JSA/NSA |   |
| 14.2.66   |                | 3.50                        |            |                 |                                       | 4.75  | 8.25                                    |
| 27.9.69   |                | 4.50                        |            |                 |                                       | 6.00  | 10.00                                   |
| 29.9.71   |                | 4.50                        |            |                 |                                       | 6.00  | 10.00                                   |
| 25.2.72   |                | 7.50                        |            |                 |                                       | 11.00   | 17.00                                   |
| 16.3.73   |                | 21.50                       |            |                 |                                       | 21.50   | 21.50                                   |
| 26.9.73   |                | 23.00                       |            |                 |                                       | 23.00   | 23.00                                   |
| 22.3.74   |                | 26.00                       |            |                 |                                       | 26.00   | 26.00                                   |
| 31.7.74   |                | 31.00                       |            |                 |                                       | 31.00   | 31.00                                   |
| 19.5.75   |                | 36.00                       |            |                 |                                       | 36.00   | 36.00                                   |
| 1.11.75   |                | 36.00                       |            |                 |                                       | 38.75   | 38.75                                   |
| 1.5.76    |                | 36.00                       |            |                 |                                       | 41.25   | 41.25                                   |
| 1.11.76   |                | 36.00                       |            |                 |                                       | 43.50   | 43.50                                   |
| 1.5.77    |                | 36.00                       |            |                 |                                       | 47.10   | 47.10                                   |
| 1.11.77   |                | 36.00                       |            |                 |                                       | 49.30   | 49.30                                   |
| 1.5.78    |                | 36.00                       |            |                 |                                       | 51.45   | 51.45                                   |
| 1.11.78   |                | 36.00                       |            |                 |                                       | 51.45   | 51.45                                   |
| 1.11.79   |                | 36.00                       |            |                 |                                       | 51.45   | 51.45                                   |
| 1.5.80    |                | 36.00                       |            |                 |                                       | 51.45   | 51.45                                   |
| 1.11.80   |                | 36.00                       |            |                 |                                       | 53.45   | 53.45                                   |
| 1.5.81    |                | 36.00                       |            |                 |                                       | 53.45   | 53.45                                   |
| 1.11.81   |                | 36.00                       |            |                 |                                       | 58.45   | 58.45                                   |
| 1.5.82    |                | 36.00                       |            |                 |                                       | 58.10   | 58.10                                   |
| 1.11.82   |                | 40.00                       |            |                 |                                       | 64.40   | 64.40                                   |
| 1.5.83    |                | 40.00                       |            |                 |                                       | 68.65   | 68.65                                   |
| 1.11.83   |                | 45.00                       |            |                 |                                       | 73.60   | 73.60                                   |
| 1.5.84    |                | 45.00                       |            |                 |                                       | 78.60   | 78.60                                   |
| 1.11.84   |                | 45.00                       |            |                 |                                       | 81.10   | 81.10                                   |
| 1.5.85    |                | 45.00                       |            |                 |                                       | 85.20   | 85.20                                   |
| 1.11.85   |                | 50.00                       |            |                 |                                       | 88.20   | 91.45                                   |
| 1.5.86    |                | 50.00                       |            | 76.00           |                                       | 88.20   | 95.40                                   |
| 1.11.86   |                | 50.00                       |            | 76.00           |                                       | 91.20   | 99.20                                   |
| 13.6.87   |                | 50.00                       |            | 76.00           |                                       | 91.20   | 104.75                                  |
| 13.12.87  |                | 50.00                       |            | 76.00           |                                       | 91.20   | 108.40                                  |
| 1.1.88    | 25.00          | 50.00                       |            | 76.00           |                                       | 91.20   | 108.40                                  |
| 1.7.88    | 25.00          | 50.00                       |            | 76.00           |                                       | 91.20   | 112.10                                  |
| 1.1.89    | 25.00          | 53.55                       |            | 81.40           |                                       | 97.70   | 116.00                                  |
| 1.7.89    | 25.00          | 53.55                       |            | 81.40           |                                       | 97.70   | 120.65                                  |
| 1.1.90    | 26.90          | 57.60                       |            | 95.10           |                                       | 105.15  | 124.75                                  |
| 1.7.90    | 26.90          | 57.60                       | 95.10      | 95.10           | 69.29                                 | 105.15  | 130.00                                  |
| 1.1.91    | 28.95          | 62.05                       | 102.40     | 102.40          | 74.55                                 | 113.25  | 134.30                                  |
| 1.7.91(a) | 28.95          | 62.05                       | 102.40     | 102.40          | 74.55                                 | 113.25  | 138.85                                  |
| 1.1.92    | 29.95          | 64.15                       | 105.90     | 105.90          | 77.10                                 | 117.10  | 138.85                                  |

(a) Unemployment benefit was replaced by Jobsearch Allowance (GSA) and Newstart Allowance (NSA) on 1 July 1991.

It has been argued that changes in government policy towards youth which encourage those aged 16-17 years old to engage in education or training of some kind has led to the lengthening of the period of youth dependence on their parents (Maas and Hartley, 1988). This is reflected in the current structure of age-related income support payments, with rates for 16-17 year olds set at a level that manifestly discourages young unemployed people from leaving home. The introduction of JSA in 1988—a job search allowance with a parental income test—confirmed the economic maintainance of 16-17 year olds as the primary responsibility of parents.

Changes to the rate of JSA in 1990 added another structure to the system by distinguishing between those who are independent and those who are not. Sixteen and seventeen year olds who can satisfy the strict criteria for independence can receive higher rates of payment than those who live with their parents. In the legislation, an independent young person is defined, in part, as one who has lived away from their parent(s) for 6 months or longer and does not receive regular financial support from their parent(s). The strict eligibility criteria for independent rates of payments for 16-17 year olds is clearly intended to discourage the early leaving of home and reinforce the expectation of parental support. (Young homeless 16-17 year olds may qualify for the same rate as the independent rate, subject to stringent eligibility criteria).

The issue of parental responsibility becomes more complex for those unemployed persons aged 18-20. The distinction between an intermediate rate of JSA/NSA paid to those aged 18-20 and an adult rate of JSA/NSA paid to those aged over 21 reflects an expectation that 18-20 year olds would normally be subsidised by some form of ongoing parental support. The S.A. Youth Incomes Taskforce (1988) suggests that in principle it is odd to presume ongoing childlike dependency on their parents when eighteen year olds can assume full rights of political adulthood or independent citizenship. Even if the system does not presume dependency on parents, its current structure of payments certainly aims to maintain the reliance of 18-20 year olds on parental support. This is particularly contentious for this age group, who are legally recognised as independent adults and

yet receive income support at a rate between junior and adult levels.

Changes to the intermediate rate of JSA/NSA (then UB) in 1990 added another structure to the system of income support for the unemployed by distinguishing between those recipients who live away from home and those who live with their parents. The independence criteria for 18-20 year olds are not as strict as those for 16-17 year olds, with living away from parents used as an indicator of independence and the payment of a higher rate of intermediate JSA/NSA. No mention is made in the legislation of financial support from parents. The payment of different rates to 18-20 year olds is more a reflection of differences in the living costs of those at home and those away from home, rather than an expectation of parental support.

### **Relationship to wage relativities**

When deciding on appropriate levels of income support, consideration is often given to wage relativities for under 21 year olds.

At January 1992, the maximum rate of JSA for 16-17 year olds was 46 per cent of adult JSA/NSA (the minimum rate payable irrespective of parental means was 22 per cent), and the independent/homeless rate of JSA was 76 per cent of adult JSA/NSA. These relativities, with the exception of the minimum rate of JSA, are broadly in line with award wage relativities for 16 to 17 year olds. Award wage relativities for 16 to 17 year olds range from a low of 40 per cent to a high of 80 per cent, depending on the award, the average being 56 per cent (see Table 2).

The intermediate rate of JSA/NSA for 18-20 year olds is currently 84 per cent of the adult rate of JSA/NSA for those living away from home, and 56 per cent for those living at home. Again, these relativities are consistent with the wage relativities for this age group. Those major awards with the greatest coverage of employed juniors are within the range of 65 per cent for 18 year olds to around 90 per cent for 20 year olds, the average for 18-20 year olds as a group being 82 per cent (see Table 2).

Table 2: Age relativities in Federal awards with major coverage of junior employees

|   | Age (yrs) |    |      |      |      |
|---|-----------|----|------|------|------|
|   | 16        | 17 | 18   | 19   | 20   |
| <b>Low relativity awards</b>                        |           |    |      |      |      |
| Vehicle industry-repair services and retail         | 47.5      | 50 | 62.5 | 75   | 87.5 |
| Printing, graphic arts awards                       | 40        | 50 | 60   | 75   | 90   |
| Building trades awards                              | -         | 45 | 55   | 75   | 90   |
| <b>Medium relativity awards</b>                     |           |    |      |      |      |
| Commonwealth govt clerical, incl postal and telecom | 50        | 60 | 70   | 81   | 91   |
| Banking, insurance industry                         | 50        | 60 | 70   | 80   | 90   |
| Local govt clerical                                 | 50        | 60 | 70   | 80   | 90   |
| Various other clerical, retail                      | 50        | 60 | 70   | 80   | 90   |
| Meat industry awards                                | 50        | 60 | 75   | 85   | 100  |
| Metal and related manufact. awards                  | 45        | 55 | 65   | 78.5 | 93   |
| Clothing trades                                     | 50        | 60 | 69   | 75   | 85   |
| Footwear manufacturing                              | 55        | 66 | 77   | 86   | 94   |
| Timber industry                                     | 40        | 55 | 70   | 85   | 100  |
| Textile industry                                    | 50        | 59 | 69   | 80   | 100  |
| <b>High relativity awards</b>                       |           |    |      |      |      |
| Ford Aust. vehicle industry                         | 60        | 80 | 100  | -    | -    |
| Hotels and retail liquor industry                   | 60        | 70 | 80   | 90   | 100  |
| Liquor and allied accommodation                     | -         | 80 | 100  | -    | -    |
| Supermarkets etc. (NT)                              | 60        | 70 | 80   | 90   | 100  |
| Transport workers                                   | -         | -  | 70   | 80   | 100  |

Source: Department of Industrial Relations, 1985

- Not available

It is apparent, then, that age relativities on rates of JSA/NSA correspond broadly with their counterparts in the award wages system.

The majority of young people in the workforce (both full and part-time) are paid less than full adult rates, either because they are under contracts of training which have special rates of pay attached to them or because they are employed under awards which specify age-related rates for employees until the age of 18 to 21.

The major rationales which have been advanced for junior wage rates are the differing social needs of young people, the need to encourage young people into more highly skilled and economically desirable areas, the differing work value of jobs done by young people and adults, and the need to offset the training component which is assumed to be included in employment for juniors (Short, 1987).

However, the use of age as a criterion in wage setting for young people is under review. In November 1990 the Conference of Labour Min-

isters endorsed the principle of a training wage, agreeing that youth and training wages would be reviewed award-by-award as a part of award restructuring, consistent with the principles agreed by Governments. It was also agreed that rates for young people should reflect the principles that apply to the rest of the workforce under award restructuring. Since then the Government has supported the training wage concept for young people before the Industrial Relations Commission as a suggested replacement for junior rates.

The move away from an age-based system of wage determination for young employees could have major implications for the structure of income support for young people who are in the labour force and particularly for age relativities in the current JSA/NSA structure. It questions the appropriateness of an income support structure based on assumptions of need or cost of living. It also questions the basis on which the age relativities in the system are based.



## Incentive issues

The objective of introducing parity between education allowances and unemployment payments for young people has been to create a neutral system of incentives for low income young people to remain in or re-enter education, or to enter the labour force to look for jobs. The belief that the differential rates of unemployment payments and educational allowances were a disincentive to young people to remain in education led to the alignment of income support payments under the Common Allowance Structure. The choice of benefit levels below those available to unemployed adults was influenced by the belief that a more substantial benefit would enable young people to live independently of their families and would therefore encourage them to leave home for relatively trivial reasons and become dependent instead on the state. However, there has been little investigation of the relative importance of financial inducements in decisions young people make about the types of activity they pursue.

The Youth Affairs Council of Australia (in Human Rights and Equal Opportunity Commission, 1989) has argued that a preferable approach would be a system of payments designed for need rather than incentives. However incentive and disincentive effects will always be a prominent factor in the setting of DSS income support rates because of budgetary considerations and public perceptions about the role of income support payments. Concerns about incentives to stay in education or training which underlie the Common Allowance Structure provide a strong argument against substantial across-the-board increases in current JSA rates.

### *Living arrangements of young unemployed people*

The level of income received by a person is not the only determinant of his/her standard of living. Obviously the costs incurred in providing for one's needs and the receipt of benefits such as low cost or free accommodation, shared food costs, and the like are other major factors in determining the level at which a person is able to live.

The nature of young people's living arrangements can do much to alleviate or exacerbate the effects of their income level. If parents can

provide low cost or free accommodation and provide other assistance, the standard of living of young people might well be raised significantly (Maas, 1988). However, the extent to which young people receive parental support obviously varies and is largely dependent upon the income levels of their parents and their relationship with their parents.

DSS administrative data on JSA recipients aged 16 to 17 indicates that 6,500 (24 per cent) were being paid at the independent/homeless rate at August 1991, and 20,500 (75 per cent) were receiving JSA at the non-independent rate. Of this latter group, 12,500 were receiving the maximum rate of JSA, 3,400 were receiving the minimum rate of JSA and the remainder were receiving an amount in between.

According to the data, some 72 per cent of JSA recipients aged 16-17 were living with their parents, with 8 per cent of recipients not living at home and not receiving the independent rate of JSA. However, data from DSS records concerning a client's living arrangements must be interpreted with caution, as the 'living with parents' indicator is subject to coding errors.

More reliable data on living arrangements are available from a survey of long-term (duration of 6 months or more) JSA recipients conducted by DSS in 1990. The survey found that the majority (66 per cent) of long-term JSA recipients aged 16 to 17 were living at home with their parent/s. A further 22 per cent were living away from home, yet not receiving the higher homeless rate (independent JSA had not been available at the time of the survey). Most of these JSA recipients were either living with family other than their parents (52 per cent) or sharing their accommodation with friends (46 per cent). Only 2 per cent were living in refuges (see Table 3).

Of those who lived away from home and received the homeless rate (12 per cent), nearly half (49 per cent) lived with friends, while most of the remainder lived in boarding houses (12 per cent), refuges (9 per cent), with other family (10 per cent) or alone (11 per cent).

Of 18-20 year olds receiving JSA/NSA, some 69,400 (64 per cent) were receiving the living away from home rate at August 1991 and 39,300 (36 per cent) were receiving the at home rate.

**Table 3: Long-term JSA recipients by living arrangements, September 1990 (per cent)**

| Living arrangements | Living away from home | Living at home | YHA recipients | Total |
|---------------------|-----------------------|----------------|----------------|-------|
| Refuge              | 2                     | -              | 9              | *     |
| Boarding house      | *                     | -              | 12             | *     |
| Alone               | *                     | -              | 11             | *     |
| With parents        | -                     | 100            | 9              | 69    |
| Other family        | 52                    | -              | 10             | 11    |
| With friends        | 46                    | -              | 49             | 15    |
| Total               | 100                   | 100            | 100            | 100   |

\* Relative standard error too high for most practical purposes.

- Not applicable

Source: DSS Survey of Long-term Job Search Allowance Recipients, September 1990 (unpublished data)

### *Living costs of unemployed youth*

It has been widely argued that the living costs of young people are not less than the living costs of adults, and therefore there is no justification for paying 'junior' rates of JSA/NSA on the basis of the lower living costs of youth (Moore, 1988; Tretheway and Burston, 1988; Hartley, 1989a).

This argument, as summarised by the Social Security Review (1988), is that young people receive junior and intermediate levels of payment but do not pay junior or intermediate levels of rent or reduced prices for food and clothing. In addition, the costs of their job search can be equivalent to the costs experienced by adult job seekers.

The Department of Social Security's own submission to the Human Rights and Equal Employment Opportunity inquiry on youth homelessness noted that the expenses of living, especially away from home, do not necessarily vary with age. In fact there is no evidence that the rates of JSA, now or at any time in the past, were based on calculations of the basic living costs of young people or adults. Instead issues of incentive, relativities, familial support and budgetary constraints have influenced the determination of benefit rates.

It is obvious that many costs, such as rent, food, transport and other general living expenses are related to individual circumstances rather than specifically to people's age. However empirical evidence on the living costs of youth is sparse. The major source of data on expenditure patterns is the ABS Household Expenditure Survey

(HES) which was most recently conducted in 1988-89. The sample size for the HES is, however, too small for analysis of the circumstances of the population sub-group of young unemployed people. The volatility of the living circumstances of youth and the extent of unrecorded financial and non-monetary assistance from parents also raises reservations about the quality of the data from HES for the purpose of examining the living costs of youth.

Recent studies on the living costs of young people conducted by the Australian Institute of Family Studies and the Youth Access Centre of Victoria (AIFS/YACV) (Hartley, 1989b) and the Developmental Youth Services Association (DYSA, 1988) are also of limited use as they are based on very small sample sizes and nonrepresentative sampling techniques. Nevertheless, these studies cannot be dismissed, as they do provide qualitative information regarding the adequacy of youth payments in certain individual circumstances and attempt to fill an obvious gap in information in this area.

The AIFS/YACV study of the income and expenditure patterns of 120 16-19 year olds found that the largest expenditure items of those young unemployed people living away from home were housing (23 per cent of expenditure), food (20 per cent) and loan repayments (16 per cent). While living in supported youth accommodation was a significant help for some young people, on average 29 per cent of their income was still spent on housing costs.

There is information in Australia on the accommodation costs of young people. Data from the Department's Survey of Rent Assistance Recipi-

ents conducted in 1989 found that the average weekly rent paid by single Unemployment Beneficiaries (without dependent children) aged 21 and over was \$59. In contrast, the survey of long-term JSA recipients aged 16-17 (also conducted in 1989) found that single JSA recipients paid a weekly average of \$28 in accommodation costs.

However, results from these two surveys are not directly comparable. Eligibility for rent assistance precludes people paying low levels of rent (less than \$20 a week at the time of the survey) so that the average rent obtained from the survey of recipients of this payment is likely to be a high estimate. In comparison, respondents in the JSA survey were not eligible for rent assistance and were a group of long-term unemployed people.

Nevertheless, the accommodation costs of young unemployed people do seem to be lower than those of unemployed adults. There is considerable variation in accommodation costs among unemployed people according to living arrangements. The JSA survey found that average accommodation costs varied according to living arrangements, with those living at home paying an average of \$16 a week for their accommodation compared to \$30 a week paid by JSA recipients receiving the homeless rate and \$24 a week paid by other JSA recipients living away from home. Those who live at home are able to reduce their accommodation costs to some extent because of the economies of scale in sharing household costs, even where their parents are on a low income.

Data from the Department's rent assistance survey, while not directly providing information on the accommodation circumstances of young unemployed people, did find that people who lived with their parents generally benefited through paying low amounts of rent (primarily for board and lodging) and sharing household expenses and goods (Wilson, 1989). In fact, low income people living with their parents were in a much more advantageous position in relation to accommodation costs compared to other low income people in the private rental market.

While the data on the accommodation and living costs of young people living at home suggest that these young people do contribute financially to the household, the extent of such

contributions is not clear. It is also not clear how many are net contributors in the sense of making payments over and above their marginal additional cost to the household.

The small study of youth incomes and living costs conducted by the Developmental Youth Services Association of NSW (1988) found that between 40 and 60 per cent of the 100 unemployed youth they sampled paid all their living costs themselves. Many respondents contributed a portion of their income to the family in the form of board (82 per cent of those receiving income support payments) or contributed to bills (27 per cent). Analysis of information collected in the Australian Longitudinal Study also found that, depending on age and gender, a large proportion (up to 70 per cent) of unemployed young people contributed to the cost of living within the family by paying board (Maas, 1988).

Data from the JSA survey also found that the majority (70 per cent) of JSA recipients living at home did pay for their accommodation, with the majority paying \$20 or less a week.

It is interesting to note that both the AIFS study and the DYSA study found that young people from low income families were more likely than those from medium or high income families to pay board or contribute financially in some other way which was not directly called 'board'. Parents from low income families saw some kind of financial contribution as a necessary contribution to household expenses (Hartley, 1989b). Unemployment benefit was considered by many parents as a 'quasi-wage' and they expected and needed their unemployed children to contribute to the household expenses as if they were employed (Moore, 1988). Such information makes it clear that young people living at home are rarely fully supported financially by their parents.

The circumstances of young unemployed people who live away from home are varied, and consequently it is difficult to estimate reliably their accommodation costs. It has been argued that young people not living with their families have access to subsidised community accommodation, thereby aligning their accommodation costs with their income. However apart from short-term refuge or crisis accommodation, there is a lack of medium to long-term accommodation for homeless young people (Human Rights and

Equal Opportunity Commission, 1989). In most States single young people aged 16-17 are generally ineligible to apply for direct public housing unless via a community supported or managed program. For those who fail to get access to subsidised medium to long-term accommodation, choices are limited. Access to the private rental market is limited by financial constraints, not only finding affordable rent but also high establishment costs and a general lack of cheap accommodation.

Clearly those in receipt of JSA at the homeless or independent rate are those most likely to face high accommodation and living costs. According to the long-term JSA survey, recipients receiving the homeless rate were paying large proportions of their income in accommodation costs (on average 44 per cent of their income). The majority (98 per cent) of long-term JSA recipients who lived away from home were living with either friends or other family (not their parents). They generally had lower average accommodation costs than the homeless rate recipients because many of those living with relatives were receiving some subsidy to their living costs from their relatives or parents. While the circumstances of those living with friends are not known, it is possible that they are able to share accommodation costs and other expenses.

With the introduction of independent JSA, the financial circumstances of those not eligible for the homeless rate yet not living at home has improved. Yet there is still an unknown number of young people not living at home and not receiving either homeless or independent rate of JSA. While presumably eligible for the nonindependent rate of JSA, little is known about their living arrangements or the extent to which they may receive financial or other support from their parents. There is also a group of young unemployed people who do not live at home and do not receive any income support payments. A small study by the Salvation Army (Hirst, 1989) found that 37 per cent of their unemployed respondents aged under 21 were not in receipt of any income support payments. The reasons are not clear. The Department of Social Security is currently taking several steps to increase awareness of the availability of income support for young people living away from home. Many are at considerable risk.

### *Parental support*

One of the rationales for the introduction of the parental income test for JSA was to ensure that, wherever possible, parents would support their unemployed offspring while they were aged under 18. Where young people live with their parents they often benefit from low cost or free accommodation and from the provision of unpaid services such as laundry, cooking, shopping, use of a car, etc. Even when living away from parents, young people may still benefit from gifts of cash or provision of goods and services from their families or from the economies of sharing if living with other relatives or friends.

However, the data available on the extent of parental support provided to young unemployed people living at home and away from home are inconsistent and fail to present an adequate picture. According to the AIFS study (Hartley, 1989b), young unemployed people living at home were subsidised by their parents to varying degrees, although the financial arrangements between parents and children were complex. In comparison, the majority of unemployed young people living away from home had little or no support from their parents. It is highly likely that parental support available to young people who live away from home is dependent on the level of parental income and the their relationship with their parents.

Evidence from the JSA survey also confirms that those living at home were more likely to receive support from their parents than were those living away from home. Nevertheless only 35 per cent of JSA recipients living at home had received direct financial support (as opposed to indirect support in the form of lower than market rent/board) from their parents in the month before the survey. JSA recipients were more likely to receive support from their parents during the waiting period for JSA (80 per cent), which suggests that many parents believe that once young people are actually in receipt of income support payments they no longer need extra support.

Not surprisingly, given the eligibility criteria for payment at the homeless rate of JSA, very few recipients said that they had received any financial assistance from their parents in the last month. Similarly, only a small proportion of JSA

recipients who were living away from home (13 per cent) were receiving some financial assistance in the last month.

The evidence from recent studies also suggests that the presumption of parental support is dubious in some cases, particularly where the family income is low. While many families would be prepared, and able, to financially support their unemployed children, there would always be parents who were unwilling to encourage their children's dependence once those children were seen to be receiving their own income (even if that income was JSA) and parents who have a limited capacity to support their children financially.

There is evidence that the young unemployed come disproportionately from low income families and are more likely to have parents or other family members who are themselves reliant on pensions or benefits compared with young people who are not unemployed (Bradbury, Garde and Vipond, 1985; Frey, 1986; Trethewey and Burston, 1988). DSS data indicate that a significant number of families have only a limited capacity to support their unemployed children. Of the 26,000 recipients of JSA at August 1991, 9,100 (35.0 per cent) were pensioner and beneficiary families. Where JSA recipients come from pensioner or beneficiary families, they are not subject to the parental income test and receive the maximum rate of JSA.

There is also some evidence that placing the burden of responsibility for young people back on the family may have a detrimental affect on family relationships, often resulting in greater family conflict and the young person leaving home (Maas and Hartley, 1988; Trethewey and Burston, 1988).

It is obvious that the extent of parental support and patterns of intra-family cash transactions are complicated and subject to considerable variation depending on individual and family circumstances. Too little is known about the exact nature of these interactions, particularly from the parental viewpoint.

#### *Future directions*

The issue of adequacy is more complex than just simply arguing that the government does

not provide enough income support in comparison to some given criteria. Nor is it simply a matter of arguing that living costs do not vary according to age and therefore young people should be paid at the same rate as adults. A number of inter-related factors impinge on the determination of the rate structure and level of income support provided to unemployed people, not the least of which are budgetary constraints and economic policy, but also include issues of incentives, relativities and parental responsibility.

The adequacy of the level of income support is one critical element which is considered in any reform of the system of income support for young people. Broader youth policy objectives to increase participation in employment, education and training, to avoid incentives for young people to leave home prematurely or remain away from home unnecessarily, and to ensure that there is sufficient incentive to accept paid work opportunities are also important.

Maintaining parity between DSS income support payments and AUSTUDY is arguably necessary to minimise financial disincentives for young people to undertake further education. This is particularly important for young people from low income families, where educational aspirations and expectations may be lower and the family's financial ability to support their children through further education may be limited. There is a need to improve both the immediate and longer term prospects of young people from low income families through increased education retention rates and financial assistance in the form of AUSTUDY. Nevertheless, there are many other factors impinging on the equivalent level of DSS income support payments for unemployed young people other than maintain parity with AUSTUDY rates. Social security policy must balance the needs of clients with the effects of benefit levels on education participation. Little is known about incentive/disincentive effects of benefit levels on young people, although much is assumed.

As already pointed out, the current age-related structure of payments to young people does not rest on simplistic assumptions about differences in levels of living costs at certain ages. The structure does assume that most young people receive at least indirect help from their parents. It also assumes that a young person's living

costs are generally lower if they live with their parents than if they live away from home. However, this paper has acknowledged that very little quantitative data exist on the living costs of unemployed young people and the extent and type of parental support. What information is available suggests that accommodation costs can vary quite significantly according to living arrangements, with those living with their parents paying less for their accommodation than those living away from home.

The current information on parental support is also not conclusive, although the data indicate that parental support varies considerably according to the financial capacity of the parents, their individual expectations of their children, and the relationship between parent and child. One of the main problems with the assumption of parental support underlying the structure of payments to young people is that those whose

parents have higher incomes may be more likely to receive greater financial support and generally have better opportunities. Furthermore, parents give financial (and other) support privately, and thus do so in ways that are not accountable to standards of fairness and equity.

Because of the importance of the assumptions of lower living costs and the existence of parental support to the structure of payments to young people, it is necessary to get a better understanding of how living costs vary and the extent of parental support.

The Department of Social Security and the Social Policy Research Centre (University of NSW) are currently undertaking research into the relative living costs and extent of parental and other support of young unemployed people of different ages and in different living arrangements. A report on the survey should be available towards the middle of the year.

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**SOCIAL POLICY AND CARING BEHAVIOUR:  
AN ANALYSIS OF ECONOMIC SUPPORT FOR  
CARING**

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The projected growth in the aged population and concern about the increasing cost to government of providing health and long term care for larger numbers of frail older Australians has led to the development of "community care" policies. These policies generally concentrate on meeting the health, home care and supervision needs of a disabled or frail older person, policies which it is assumed will prevent premature or inappropriate residential placement.

As these policies have been implemented over the past six years, there has been an increasing recognition that community care services generally only supplement support from families. Family carers are typically women, and they often bear the major costs in terms of forgone work force participation, income and other lifestyle opportunities. Whether and how such service should be recognised, supported and recompensed is an emergent issue for government social welfare and income security systems.

Habib and Cohen (1990), in a review of the international issues in addressing the care needs of the very old, point out that the issues in long term care are much more complex than those usually dealt with in income security programs. This is because ". . . informal sources, primarily the family, are a major alternative to public services. Public policy with respect to long term care must therefore address this additional dimension which goes beyond the usual questions of universal vs. selective approaches, or legal entitlements vs. budget restricted programs."

This paper explores the direct and indirect costs borne by carers of people with dementia, and the difficulties they report with the current income security and community services systems. In light of this we then examine critically some of the issues and conflicts inherent in assuring adequacy and equity in terms of income, service and labour market support for caring.

Dementia is a major public health and social care issue in terms of both the proportion of the population at risk and the extensive and long term nature of the care required. It offers a particular challenge to community care policy and to family carers since it involves the impairment of intellectual, memory and social functioning; decreasing physical mobility; and changes in behaviour. Family carers of relatives with dementia take on a long term commitment



involving multiple and changing tasks and constant supervision. The care issues and the related policy implications in relationship to dementia are a particular problem in terms of caring for the frail aged for several reasons. Firstly, dementia involves cognitive (but not necessarily physical) impairment. Secondly, it is a long term deteriorating disease, often lasting 10-15 years and requiring ever increasing levels of care and supervision. Thirdly, it is typically a disease of advanced old age. Therefore, the carers are also often correspondingly older. The results of this research are not necessarily typical of all carers but raise particular issues in the care of the frail aged.

This paper uses the results gained through this research to highlight some of the issues in caring. It begins with a description of the carers in the sample before exploring the current system of income support for such carers. Issues emerging from the intersection of the social security, labour market, community care and taxation systems will be identified. The paper concludes with a reconceptualisation of some of the issues in terms of support for caring and suggestions of possible directions for change.

## **RESEARCH DESIGN:**

The paper is based upon the results of research which documented the economic, social and personal costs of caring over time. 243 carers of dementia sufferers were recruited and interviewed three times over a two year period (1988-90).

### **The Sample:**

Carers in South-East Queensland were located by contact with community agencies (such as Day Respite Centres, Home Nurses, Community Health Centres, and Caret Support Groups), residential care facilities, hospitals, local doctors and articles in the Alzheimer's Association

Newsletters. The criteria for inclusion in the sample were that the person had a diagnosed dementia and an identified carer who was willing to participate in the study. The project was designed in part to provide data on the care of dementia to the Department of Veterans' Affairs. Slightly less than half of the sample (111/243) were sampled through Veterans' Affairs' hospi-

tals, services providers and hostels and nursing homes and had some form of eligibility for Veterans' benefits,

The recruitment method identified people who were service users, and by and large already knowledgeable about their entitlements. As a reflection of this it also identified relatively few mild dementia cases. The results, therefore, cannot be seen to be representative of those who were not service users, some of whom may have been from higher income families. The fact that the respondents all lived in SE Queensland means that analysis of service gaps is difficult to generalise since Home and Community Care (HACC) funded services can be highly variable on a local and state basis. For this reason the focus of this paper will be predominantly on policies that are national in scope.

Each carer was interviewed three times over an eighteen month period to chart the changes in costs and experiences over that time. Recruitment and interviewing commenced in August 1989. Interviews were completed in November 1991. The initial interview and the final interview were face to face interviews. The second contact was a telephone interview if there had been no major changes. A personal interview was arranged if there had been a death or a move to institutional care since the previous contact. The discussion in this paper will be based upon data from the Stage 1 or initial interviews.

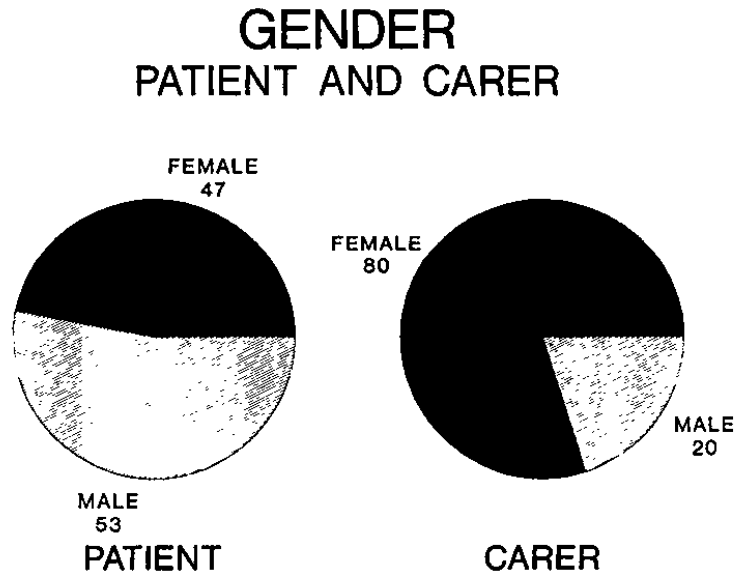
At the initial interview 127 carers were caring at home for their relative with dementia and 116 had admitted the relative to permanent institutional care in a nursing home or hostel. Although the demands of caring and the pattern of decline usually ultimately require institutionalisation, it is in the earlier stage of caring at home that the interface with work and the attendant income dislocation and benefit entitlements issues usually arise. Institutionalisation, however, changes but does not terminate the caring relationship, and may create additional income difficulties.

Men and women were almost equally represented among those with dementia who were being cared for at home. Carers, however, were predominately women (80%) (Figure 1). Spouses were the most common carers with wives clearly outnumbering husbands. Daughters were also

much more likely to care than either husbands or sons. Other women-sisters, daughters-in-

law, and nieces-also outnumbered sons. Nonfamily carers were almost non-existent (Figure 2).

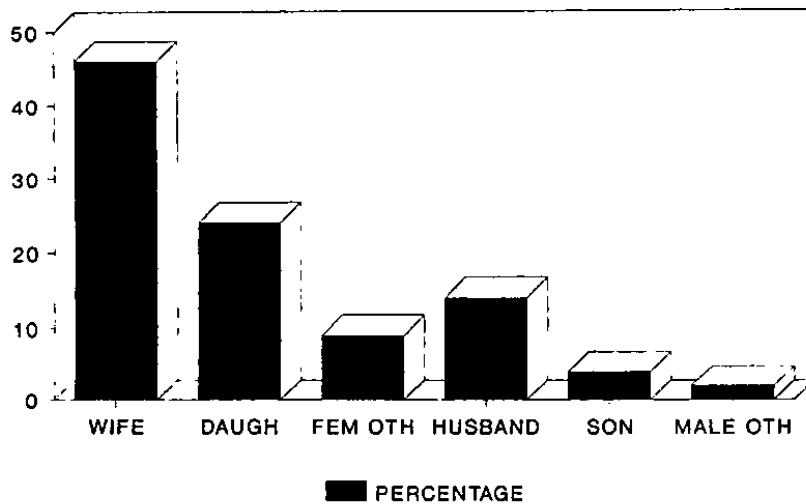
Figure 1



n=127

Figure 2

### RELATIONSHIP TO PATIENT



n=127

**TABLE 1**  
**Income Sources: Career and Patient**

|                                     | Patient<br>(percentages) | Carer |
|-------------------------------------|--------------------------|-------|
| <i>DSS Pension</i>                  |                          |       |
| Age                                 | 52                       | 36    |
| Disability                          | 4                        | 1     |
| Widow                               |                          | 1     |
| Carer                               |                          | 5     |
| <i>Veterans Benefit</i>             |                          |       |
| Veterans' Service and<br>Disability | 27                       | 20    |
| War widows                          | 11                       | 1     |
| <i>Other Income Sources</i>         |                          |       |
| Own earnings                        |                          | 15    |
| Spouse earnings                     |                          | 17    |
| Investments                         | 34                       | 31    |
| Superannuation pension              | 9                        | 11    |
| Other income                        | 9                        | 15    |
| <i>Allowances</i>                   |                          |       |
| Attendants (DVA)                    |                          | 2     |
| DVCB                                |                          | 21    |
|                                     | N=243                    | 243   |

Note: percentages do not add to 100 dues to multiple sources.

Income:

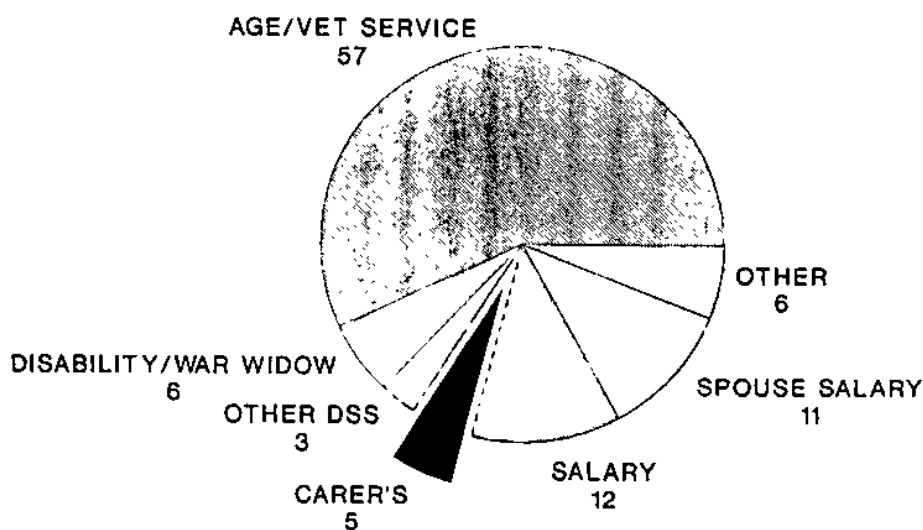
Income sources of both patient and carer (Table 1) were varied. Few carers received income support that was directly linked to their caring responsibilities. Reflecting the age of the sample, most spouse carers who still cared at home received some pension or benefit from the Department of Social Security or the Department of Veterans' Affairs as their major source of income (Figure 3). Dementia is a disease associated with old age, the victims are usually age pension eligible, and spouse carers are consequently eligible for a married rate age or service pension. Those who were not age pension eligible were either spouse carers who were excluded on the basis of the income test or adult children.

**TABLE 2**  
**Patients: Age Distribution**  
Age Distribution by Patient and Carer

|                | (percentages) |            |
|----------------|---------------|------------|
|                | Carer         | Patient    |
| Under 50       | 21            |            |
| 51-60          | 15            | 2          |
| 61-70          | 33            | 18         |
| 71-79          | 24            | 40         |
| 80 +           | 7             | 40         |
| <b>Total %</b> | <b>100</b>    | <b>100</b> |
|                | N=243         | 243        |

Figure 3

## CARERS PRIMARY INCOME SOURCE



n=127

## INCOME SECURITY SYSTEM FOR CARING

The need for income support for people with non child related caring responsibilities was only recognised in 1983 with the introduction of Spouse Carer's Pension (this entitlement was extended to carers other than spouses in 1985, and is now termed Carer Pension). This extended income support to those who were unable to maintain paid employment due to the nature of their caring responsibilities for a person with a long term disability. It requires long term, substantial personal care, and co- or adjacent residence to the person being cared for. It is income and asset tested on the same basis as other pensions but does not attract the pensioner earnings credit that can be used to offset earnings and so encourage return to employment.

The other forms of income security payment that may in some way reflect caring responsibilities are "age" wife pension paid to below age pension age spouses of age pensioners and the wife pension paid to spouses of Invalid (now Disability Support) Pensioners. This is paid solely on the basis of marital status and family income and asset. There is no "care test" for this benefit although there may be some "burden" of care in these groups.

In 1991 there were 94,000 wife pensioners married to DSPs plus 26,500 wife pensioners (age) and 5,542 recipients of Carer Pension (DSS Annual Report, 1991).

Carer Pension recipients do not reflect the numbers of people with caring responsibilities for the following reasons.

- Many carers are the spouse of the person with a disability. In the case of carers of frail older people they are usually also older themselves. As is shown in the research, many already receive some form of government income support, usually linked to their age.
- The second major source of carers of the frail elderly is adult children, predominantly married daughters. Since the income test for Carer Pension includes the spouse's income, married carers caring for a person other than their spouse are often excluded from eligibility. Amongst all non spouse carers surveyed, 31% had an income earning partner.

- Eligibility for the Carer Pension requires co- or adjacent residence with the person being cared for, thereby excluding carers who maintain two non-adjacent households, their own and that of their relative. In the study, 27% had at some point during the course of the illness maintained two households-their own and that of the dementia victim-and 9% of the victims were living alone but with regular supervision usually by a family member.

The authors believe that the availability of Carer Pension was not widely known. Although it was not established how many could have been eligible, only six of the 127 community based carers in this study received a Carer Pension. One carer spent much of his life savings before learning of the availability of Carer Pension. There is no backdating provision to cover this situation.

The Carer Pension is income and asset tested on the same basis as other Social Security pensions. People can be eligible for some pension with private income of up to some \$18,000 a year in the case of a single person, and combined income of up to some \$30,000 a year in the case of a married couple. Based on reported family income, nine of the 43 carers in community based sample who were not receiving any other pension might well have been eligible for part Carer Pension but were not aware of its availability. It was clear from situations of carers in the survey that the eligibility criteria for the pension do not immediately cover the situation of carers of frail older people who have deteriorating conditions such as Alzheimers disease. These carers, who had given up work and moved place of residence to assume caring responsibilities, had had to wait considerable periods before establishing eligibility pending a definite diagnosis of Alzheimers disease. Therefore, it was not immediately evident that the caring situation was likely to be long term.

Most caring relationships change with the death or, more commonly in the case of dementia, with permanent institutional placement. Carers are entitled to a bereavement payment of seven payments after their relative has died but not if the person is placed in residential care. Carers in the study generally experienced placement as a very stressful time with caregiving responsibilities changing but continuing. Over two thirds

(68%) of carers who had placed their relative indicated that they had been very stressed at that time, not only by the emotional strain of placement but also by the time demands of choosing, deciding upon, moving and settling a person into residential care. This often continued for weeks after the placement and precluded job search on any serious basis. Apart from losing the pension at this time, there is no provision to retain Health Care Cards for a period to ease the adjustment back into employment.

Carers who were Carer Pension recipients expressed anxiety about their own future in terms of the unavailability of income support and the difficulties of workforce re-entry in the usually inevitable event of the death or institutional placement of their relative. The receipt of Carer Pension effectively precludes paid employment since the carer must be providing "constant supervision" at home and pensions earnings credit does not apply, so part time work is discouraged. Other Social Security pensioners below age pension age are provided with encouragement to help them prepare for workforce participation.

There are no specific labour market re-entry programs, retraining or placement programs for "displaced carers", including Carer Pensioners. Carers who leave the workforce suffer many of the disadvantages of sole parents whose workforce participation is also limited by caring responsibilities but who are now targeted by the JET program. They lose personal and job skills, confidence and social networks but have no reviews of their employment and educational prospects and skills to facilitate entry into training programs or re-entry into the labour force when, as is inevitable, the Carer Pension ceases as a result of the death or institutional placement of their relative.

Carers can apply for all mainstream Commonwealth Employment Service and DEET programs. However involvement in job training or re-entry programs would presumably violate the Carer Pension requirement for the carer to be providing substantial care and attention or constant supervision. There is a need for bridging and labour force re-entry programs for carers along the lines of the JET program which operates to facilitate the return of sole parents to the workforce.

## **EMPLOYMENT AND CARING**

Caring responsibilities do not necessarily preclude paid work. However the difficulty of combining care at home with paid employment is shown by the fact that, of the carers who were in paid employment, almost two-thirds had less intensive caring demands because their family member had already been institutionalised. Caring for a frail older person, particularly one with dementia, can be demanding, unpredictable and so extremely intrusive upon paid employment. The fact that most carers are women, and many have phased from caring for children into caring for a frail older person meant that they had only limited labour force experience. However twenty-four percent of carers of working age in the survey said they would work outside the home if it were not for their caring responsibilities.

The service support system assumes that an available carer is not in full time paid employment. Few community care services such as Adult Day Centres operate full regular working hours. Out of hours care requires private arrangements. Furthermore, ongoing assistance and supervision is often required at night when frequent sleeplessness leads to exhaustion and obvious difficulty in continuing paid employment.

Child related caring is recognised as a major issue for workers, particularly female workers. However other family related caring responsibilities are relatively unrecognised in Australia. Most of those who continued in paid employment complained of other effects on employment: reduced ability to take on overtime work, repeated interruptions, reduced workload, a move to part time work, having to refuse moves and promotions, and to take periods of unpaid leave. Within employment contracts there is rarely either paid leave or unpaid leave to accommodate or support caring responsibilities. A recent study of carers in the workforce (Dey, Prendergast, et al, 1991) describes them as "an invisible reality" and found that employers were ambivalent about assisting them to meet their caring responsibilities while remaining employed.

In times of high unemployment, accommodating to the caring obligations of employees is unlikely to be a priority of employers. It is important to recognise that, particularly in rela-

relationship to care of the aged, employed carers are likely to be adult children who are themselves aged in their late forties to fifties. Such older workers, particularly women, are already disadvantaged in the Australian labour force, even without caring responsibilities.

Non pension eligible carers, mostly married women, also need assistance with labour market re-entry when caring tasks have ceased. There are no linking or labour market programs for this group yet their experience as care providers could well be utilised in community care programs.

The entire area of work and caring is in need of review, reconceptualisation and policy coordination. Although "caring" is not well defined in terms of benefit receipt, it is assumed to preclude paid employment. Carers who manage to work full time and undertake caring of an aged or disabled relative are ineligible for Domiciliary Nursing Care Benefit or Carer Pension.

## **DIRECT COSTS OF CARING**

In addition to opportunity costs, carers of disabled adults may also incur significant additional direct costs for caring. These included such expenditures as substantial costs for housing renovations to accommodate a frail older person, costs of legal consultation and paying for private services, e.g. housekeepers, gardeners or private sitters/nurses. There are two ways that such expenditures can be acknowledged by the government, either through a direct subsidy, or through taxation expenditures or allowances. Both of these are available within the Australian income support and taxation systems, but are both subject to major limitations.

Direct subsidy for caring costs:

Domiciliary Nursing Care Benefit is an income support payment paid by the Department of Health, Housing and Community Services to carers who are co-resident with and caring for a person who would otherwise be eligible for Nursing Home placement. It is paid at a rate of \$42 per fortnight to the carer and is neither income nor asset tested. There are many inconsistencies in relationship to the benefit.

- It is not well known, being paid by the Department of Health, Housing and Community Services rather than the Department of Social Security. 52% of our sample were not receiving the Benefit. Of these, almost two-thirds (63%) had not heard of it. Nine people had been told they would not be eligible. The sample used in this research represents service users. It is even less likely that the benefit is widely known among those not using mainstream services. Carers who did receive the benefit often did not know it by name and generally called it the "carer's allowance" or "carer's pension".
- The requirement that the person be eligible for nursing home placement excludes some carers who are caring for a cognitively impaired but not physically disabled person. In general people with dementia are not appropriate for nursing home admission.
- There appear to be significant inequities in terms of who receives the benefit. Within the research sample, there were some people caring for a mildly demented who were receiving the benefit and some caring for severely demented who were not (Figure 4). These inequities reflect variations in publicising the benefit, timing of application, assessment policy and a focus on nursing care and nursing home eligibility as the main criterion for its receipt. Most respondents had heard of the benefit through their G.P. or domiciliary nurse who may have made their own decisions about whether or not a carer was likely to be eligible.
- The co-residency requirement: This excludes neighbours who may take on substantial primary care, and family members who retain their own home but provide daily care, essentially running two households and unable to work because of caring responsibilities.
- The value of the benefit: Unlike pensions and other benefits, the payment is not indexed. It has been paid at a rate of \$42 per fortnight, or \$3 a day, since 1980. The real value of this benefit has been eroded away. However, despite its low rate, for most spouse carers and married women DNCB is the only additional income they receive which acknowledges the costs of caring.

- Consistency with other Allowances: There is no consistent policy in terms of recognizing the economic costs or value of caring. Within federal policy Commonwealth Departments pay varying amounts for care. The Department of Veterans' Affairs pays an Attendant's Allowance of between \$6 and \$12 per day for eligible Veterans requiring full time personal care. The Department of Social Security pays Child Disability Allowance at the rate of \$66.20 per fortnight.
- Domiciliary Nursing Care Benefit ceases when the cared for person is hospitalized or placed in residential respite care. Some carers argue that the costs for them are highest at this time because of daily visiting and/or meeting the direct costs of respite care.

The recent Commonwealth Government Review on the Aged Care Reform Strategy (1991) recommended that "DNCB be replaced with an indexed, means tested Carer Support Payment" (Recommendation 7.2, p.29). Indexation and a broadening of the eligibility requirements for the benefit to allow for the equivalent of hostel eligible people would be an important reform, but the issue of means testing the benefit creates major questions about the purpose and role of the payment.

The original purpose of the payment was to compensate carers of the aged and disabled at home. However what it is compensating for is not clear. Is it meant to be a subsidy for the direct costs of care a payment to carers for their attendant care services, or compensation for income or earnings forgone? If it were to be means tested, should it be means tested on the carer's income, family income, or the income and assets of the person being cared for?

## **TAXATION SYSTEM**

The taxation system has not been used as an explicit instrument of care policy in Australia. Taxation rebates and deductions may provide an opportunity to recognise the costs incurred by families who provide care but who are not pension eligible, that is working carers or those with assets and taxable incomes. Within the taxation system an invalid relative or dependant parent(s)/parent(s)-in-law rebate does exist. However it is income tested on the dependent

relative's income. The relative must have an income of less than \$286 per annum for the full rebate and less than \$4170 for a partial rebate. If the relative being cared for receives a social security pension, the carer is generally not eligible for the rebate. This form of support for carers is, therefore, available to only a very small minority. None of the working carers in our sample was able to claim the rebate. Few people can. In 1988-89, fewer than 12,000 taxpayers claimed either of these rebates (Taxation Expenditures, 1990).

## **SERVICE SUPPORT SYSTEM**

The preferred way of encouraging community carers has been the direct provision of services to support, supplement or substitute for carers' roles. The role of community services has not been developed within an explicit goal of assisting "carers" nor has there been consistency or coordination between policies developed and administered by different government departments. Consequently there are inconsistencies and conflicts between programs and policies.

An example is the conditions governing residential respite care. Policy on respite allows up to 63 days per year of subsidized respite care in a nursing home or hostel to provide crisis or holiday relief to carers. Spouse carers on married rate pensions can be paid a single rate pension during respite of more than two weeks. However, some carers may lose income as a result of using respite care. Carer Pensioners may lose their pension if their relative is out of their care for more than 28 days. DNCB is also suspended while the patient is in residential respite care. At the same time, total household income is generally reduced as the patient pays the bulk of his/her income to the Nursing Home. For some, this is a disincentive to the use of respite care.

Respite care may offer a break from the daily stress of caring. Some carers complained that holidays are not financially possible with the income reduction experienced, the limited capacity to save on a fixed income, and the additional costs of holidays.

Although respite care is the most obvious example of inconsistencies between the service system and other aspects of community care

policy, there is a case for other services to be reviewed in terms of the support for carers. These could include home help and delivered meals. In some places these services are not available when there is a carer present. The nature of the service delivery system in which each agency has considerable control over eligibility and assessment makes it much more difficult to standardise in a consistent way.

## SUMMARY AND CONCLUSIONS

Community attitudes, perceived preference of older people to not enter nursing homes, and the expenditure restraints of the federal government are all contributing to a strong encouragement of community care and a recognition of the need to provide assistance and recognition to carers. To date this has been mainly interpreted in terms of the provision of support services predominantly through the HACC program. If caring for family members is to be recognised and supported, analysis and reform of the income security, labour market and taxation systems are needed, as is a better integration of the service programs, benefit and income security policies administered by different government departments. Within the existing structure of the Australian income security and community care policies, some of the following reforms should be considered.

### Carer Pension:

- The full-time care provision should be revised to allow some workforce participation. Day respite, labour market and income security provisions need to be coordinated to support carers in retaining work skills and income while providing care. Pension earnings credit should be extended to Carer Pension.
- The disadvantages suffered by younger carers in terms of workforce participation could be recognised by providing access to planned labour force re-entry programs modelled on the JET programs for sole parents, retention of health care cards for a period after pension ceases, and the development of a plan and a support program for "beyond caring" for Carer Pensioners.
- Carer Pensions could be continued for a short period after permanent institutional place

ment to facilitate the carer's and the patient's adjustment to their changed circumstances.

- Information about Carer Pension could be disseminated within the health care and medical systems which are the major points of contact when caring tasks are being assumed.

### Domiciliary Nursing Care Benefit:

- Clarification of the purpose of the DNCB is clearly overdue. However, even within the current structure a broadening of the eligibility requirements is needed.
- On the assumption that it is an allowance for "caring" rather than "nursing care" costs, the definition of care should be expanded. Eligibility could either be related to a scale of daily living activities and caring tasks performed, or broadened to include hostel eligible persons and persons requiring constant supervision.
- Payments should be indexed to reflect the costs of caring. The benefit initially was set at 57% of average nursing home benefit.
- The co-residency -requirement should be changed to allow a broader definition of "community care". The co-residency requirement limits DNCB to family carers rather than recognizing the potential for neighbours and friends to be involved in the community support of the frail aged and disabled.

### Service Co-ordination:

Because policies such as Carer Pension, DNCB and Home and Community Care are administered by different government departments and in response to different goals and priorities, it is not surprising that a coordinated and coherent set of policies aimed at common goals has not been achieved. This should be reviewed to ensure that the guidelines covering different benefits are not in conflict. Furthermore, the need is also evident for common guidelines for assessment of service eligibility, and dissemination of information about associated benefits and services, e.g. DNCB.

The basis and nature of governmental support for long term care in Australia is in need of a fundamental reconceptualisation, particularly in relationship to encouragement and support for



caring. The appropriate method of recognising the income needs of carers and the direct costs of care is in need of a re-analysis that establishes the rationale for economic support for carers, the appropriate form of benefits, the appropriate beneficiary of any payments and the interaction between the welfare and taxation systems in terms of appropriate recognition of caring related expenditures.

Some of the issues that need to be resolved are:

- • Whether or not benefits to meet the cost of care should be in cash, i.e. a "Care Allowance" or "in kind", that is through direct service provision, or through some mingling of the two, for example a direct cash grant which the beneficiary can then use to purchase the services preferred which may or may not be from those community care services which currently receive government subsidy. A related issue is whether the direct costs of care are properly a responsibility of the carer or the person receiving care.
- • If there is to be a form of care subsidy, who should receive and administer it—the carer, the disabled older person, or some form of care management agency as is now being trialled in Israel (Morginstin, 1990).
- • If the care subsidy is to be means tested, should the means testing be on the basis of carer income, family income or the income of the person in need of care? Should the expenses borne by caregivers or care recipients who are not eligible for direct benefits be recognised through the taxation system in the form of a rebate or deduction?
- • How to define "care" and identify a level of care needed for benefit eligibility is a complex issue. Unlike care of dependent children which generally follows a societally and time defined path from birth through to social independence, care obligations to parents and spouses are highly variable and follow neither a norm nor a typical pattern of dependency. Most adults are never called upon to

provide care to a frail spouse or older family member and, if they are, the nature and extent as well as the timing of the care is difficult to assess and predict. During the course of the research we heard many criticisms of the current requirements for DNCB and Carer Pension of co- or adjacent residence and physical caring criteria which tend to ignore the often more time consuming and stressful demands of caring for a cognitively impaired person. Definition of the caring relationship for benefit receipt might be better done by evaluating tasks performed by the carer or support needed by the disabled person. The challenge is in developing an equitable assessment of caring which is nonintrusive and cost efficient.

- Finally, there are issues about the opportunity costs of caring that are closely related to issues of women's work, labour force roles and economic dependency. The limited economic recompense to carers reflects a more general lack of recognition of the economic value of women's work. Furthermore, as has been pointed out elsewhere (Baldock and Cass, 1988), the family, the welfare system, and the labour market rarely intersect to acknowledge and support caring work. The social policy strategies that are used in Australia, namely income tested support payments, unrestricted grants that are subject only to eligibility criteria and in kind services, do not well reflect the income, service, and compensation needs of carers.

Carers tend to be hidden from public view at home and many are ineligible for, or unaware of, social security and other benefits. The "economic" contribution of carers is only now being recognised as an important reason for the cost advantage of community care relative to institutional care. If the government is to continue to encourage community care, it is important that carers be supported by a coherent and integrated set of income security, labour market, taxation and community service policies.

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# STATISTICS

## Comparison of job Search Allowance and New Start Allowance Recipients

Source: JSA/NSA quarterly survey

| November 1991                           | JSA     |         | NSA     |         |
|---|---------|---------|---------|---------|
|   | Number  | Percent | Number  | Percent |
| <b>TOTAL NUMBER</b>                     | 518030  | 100.00% | 204246  | 100.0%  |
| <b>SEX</b>                              |         |         |         |         |
| Male                                    | 378612  | 73.1%   | 161375  | 79.0%   |
| Female                                  | 139418  | 26.9%   | 42871   | 21.0%   |
| <b>AGE GROUP</b>                        |         |         |         |         |
| 16-17                                   | 26999   | 5.2%    | -       | -       |
| 18-20                                   | 92778   | 17.9%   | 22003   | 10.8%   |
| 21-24                                   | 97921   | 18.9%   | 34730   | 17.0%   |
| 25-34                                   | 141005  | 27.2%   | 58553   | 28.7%   |
| <b>Total under 35</b>                   | 358.703 | 69.2%   | 115.286 | 56.4%   |
| 35-44                                   | 83.218  | 16.1%   | 36.350  | 17.8%   |
| 45-54                                   | 48.933  | 9.4%    | 25.005  | 12.2%   |
| 55-59                                   | 15.136  | 2.9%    | 12.156  | 6.0%    |
| 60-64                                   | 12.040  | 2.3%    | 15.449  | 7.6%    |
| <b>Total 35+</b>                        | 159.327 | 30.8%   | 88.960  | 43.6%   |
| <b>RATE AND CHILDREN</b>                |         |         |         |         |
| Single, no kids                         | 366.069 | 70.7%   | 129.008 | 63.2%   |
| Single, with kids                       | 3.340   | 0.6%    | 1.376   | 0.7%    |
| Married, no kids                        | 54.744  | 10.6%   | 30.286  | 14.8%   |
| Married, with kids                      | 93.877  | 18.1%   | 43.576  | 21.3%   |
| Total with kids                         | 97.217  | 18.8%   | 44.952  | 22.0%   |
| Total no. of kids                       | 199.399 |         | 100.078 |         |
| Ave. no. of kids                        | 2.05    |         | 2.23    |         |
| <b>BIRTHPLACE</b>                       |         |         |         |         |
| Not stated                              | 199     | 0.0%    | 140     | 0.1%    |
| Australia                               | 386.302 | 74.6%   | 146.497 | 71.7%   |
| Other Oceania                           | 17.482  | 3.4%    | 4.526   | 2.2%    |
| UK/Ireland                              | 31.784  | 6.1%    | 13.518  | 6.6%    |
| US and Canada                           | 1.614   | 0.3%    | 501     | 0.2%    |
| <b>"English speaking" sub-total</b>     | 437.381 | 84.4%   | 165.182 | 80.9%   |
| Other Europe                            | 32.190  | 6.2%    | 14.709  | 7.2%    |
| Middle East                             | 11.317  | 2.2%    | 5.719   | 2.8%    |
| Asia                                    | 27.474  | 5.3%    | 15.429  | 7.6%    |
| S & Cntr America                        | 5.139   | 1.0%    | 1.730   | 0.8%    |
| Africa                                  | 4.529   | 0.9%    | 1.477   | 0.7%    |
| <b>"Non-English speaking" sub-total</b> | 80.649  | 15.6%   | 39.064  | 19.1%   |
| <b>OTHER INCOME</b>                     |         |         |         |         |
| Nil                                     | 384.114 | 74.1%   | 154.916 | 75.8%   |
| Up to \$30 pw                           | 58.067  | 11.2%   | 22.148  | 10.8%   |
| Over \$30 pw                            | 75.849  | 14.6%   | 27.182  | 13.3%   |
| <b>ADDITIONAL ALLOWANCES</b>            |         |         |         |         |
| Rent Assistance                         | 104.921 | 20.3%   | 73.983  | 36.2%   |
| MGA                                     | 4.323   | 0.8%    | 1.596   | 0.8%    |
| Remote Area                             | 11.729  | 2.3%    | 5.473   | 2.7%    |
| Homeless Rate                           | 4.879   | 0.9%    | -       | -       |