Poverty, policy and the cost of raising teenagers

This study reveals a serious imbalance in the debate over Australia's family payments system. It shows that family assistance payments fail to rise in keeping with the higher cost of caring for older children and consequently many low-income families with teenage children are at risk of deeper poverty than young families. Indeed, payments for low-income sole parent families fall *as their children grow older. New measures are proposed to reduce child poverty by benchmarking family and youth payments to the minimum costs of raising children and by improving assistance for families with older children.*

Background

There is a national debate over how to improve Australia's family assistance system to better meet the changing needs of families. At this early stage, this debate is mainly focussed on helping middle-income parents reconcile the care of preschool age children with their careers. ACOSS acknowledges that this is usually a time of great financial and social stress, and that reform is needed to improve the responsiveness of the family assistance system to the changing needs of young families. We are working on policies to that end.

However, it is of great concern to us that the persistence of child poverty in Australia has so far been neglected in these discussions. The latest available estimates suggest that 750,000 children, or 15% of all Australian children, live in poverty. Most come from jobless families.[1]

Australia has made considerable progress in reducing poverty among children since the previous Prime Minister Mr Hawke committed his Government to that goal in 1988. Improvements in family assistance payments have played a central and critical role:

- The introduction of the Family Allowance Supplement for low-income families in 1988 was estimated to reduce income poverty among children at that time by one third. Income poverty among children was not eliminated, but it was greatly reduced.[2]
- Importantly, attempts were made in the 1988 package to link family assistance payments to the actual costs of children. Although the benchmarks used for this purpose fall short, they are at least indexed to movements in average earnings, so that child payments will not fall behind community living standards as they did in the past. [3]

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[1] Harding, Lloyd & Greenwell 2001.

[2] Brownlee & King 1994.

[3] The maximum rate of Family Tax Benefit Part A (FTBA) cannot be less than 16.2% of the married couple pension rate for each child under 13 years, or 21.2% for each child aged 13-15. Since pensions are now indexed to average

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- The present Government has since substantially increased family assistance payments for families at high risk of poverty, especially sole parents and married couples with preschool-age children who are living on a single income.

These policies have greatly boosted income support for low-income families with children up to 15 years old. The beneficiaries include low income working families as well as jobless families.

From 1982 to 2002, the real value of family assistance (in 2002 dollars, including Rent Assistance):

- Rose from about $30 per week to $100 per week (in increase of 230%) for a couple with two young children on a single low full-time wage,
- Rose from about $80 per week to $230 per week (an increase of 190%) for a jobless sole parent with two young children.[4]

However, the needs of families with older dependent children have been neglected. For example, over the past 20 years, despite a series of reforms designed to equalise payments for students and unemployed young people, the overall value of payments for dependent young people rose much more slowly than those for younger children.

Between 1982 and 2002, the real value of payments for a 16-17 year old living at home:

- Rose from about $70pw to $85pw for an unemployed young person (a 14% increase),
- Rose from about $60pw to $85pw for a full-time student (a 33% increase).[5]

In most cases Rent Assistance is still not paid for children over 15 years old in low income families. It is only paid with Family Tax Benefit to low income families with a younger child.

The emphasis on families with young children was even stronger in the family assistance reforms contained in the Government's tax package in 2000. There were substantial increases in payments for single income families (including sole parents) with a child under 5 years, but few gains for low-income families with older children.

Yet, as shown below, low-income families with teenage children face the highest direct costs of raising children. *Although middle income families come under the greatest financial pressure when their children are young, jobless families are at greatest risk of poverty when their children are older.*

Family assistance fails to grow with children

An analysis of recent research into the costs of caring for children shows, as we would expect, that the direct costs of caring for children in low-income families rise as children grow older. These costs include:

- accommodation and housing (including the extra rent for additional bedrooms);
- food;

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earnings, this means that FTBA is at least 6.8% of average weekly earnings for a child under 13, or 8.8% of average earnings for a child aged 13-15.

[4] Harding & Szulkalska 2000.ACOSS calculations, using Centrelink information and DSS 1991. It should be noted that these increases are larger than they would otherwise be if an earlier or later start date was chosen. In 1982, family assistance payments were at historically low levels, due their non-indexation over the late 1970s, when inflation was very high.

[5] ACOSS calculations, using Centrelink information, DSS 1991 and Dunlop 1984.

- clothing;
- schooling and study;
- recreation.

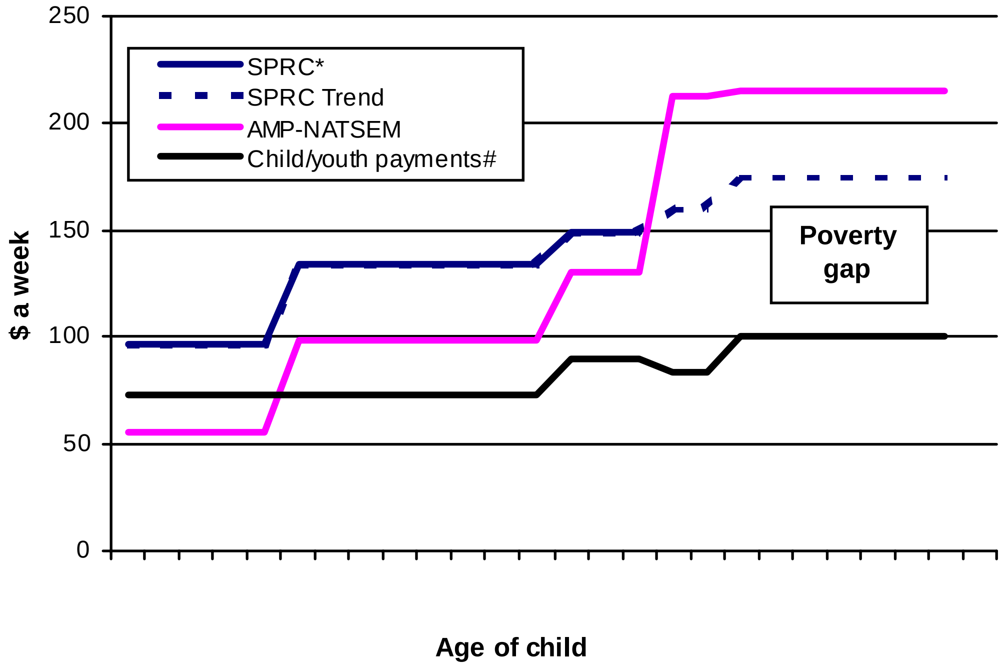
Research by the Social Policy Research Centre to develop a set of minimum budgets (Budget Standards) for low-income families found that the cost of caring for a child of 14 years was 1.6 times that of a child of 3 years.

Research by NATSEM for AMP, based on actual expenditures by low-income families, found that the cost of a 14 year old was 2.4 times that of a 3 year old and the cost of an 18 year old was 3.9 times that of a 3 year old.

If social security payments are to prevent poverty, then family assistance payments for low-income families should cover 100% of the basic costs of a child. Yet the family assistance payments — *Family Tax Benefit (Part A) and Youth Allowance* — that should cover these costs only rise marginally with age. The amount paid for a 14 year old is just 1.2 times that for 3 year old and the amount paid for a 17 year old is just 1.1 times that for 3 year old. [6]

The figure and table below show that in 2002, low-income families were expected to support a 16 year old on $83 per week, including the extra cost of rent for the teenager's bedroom while the actual direct cost was between $160 and $213 a week. This amounts to a 'poverty gap' of $77 to $130 a week for low-income parents who are raising teenage children.

Fig 1. The costs of a child in a low income family vs child & youth payments



Notes: *the SPRC Budget Standards only extend to age 14. A trend line has been added to extend them hypothetically to older children.
Family Tax Benefit (Part A), plus child share of Rent Assistance; and Youth Allowance.

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[6] This does not include Family Tax Benefit (Part B), which is designed to assist parents to stay at home while caring for children, or the component of Rent Assistance relating to the housing costs of the adults in a household.

Table 1: The costs of a child in a low income family, compared with Family Tax Benefit (Part A) and Youth Allowance (dollars per week in 2002)

Age of child:	**Under 5 years**	**5-12 years**	**13-15 years**	**16-17 years**	**18-24 years**
Low income Budget Standards*	$96	$134	$149	$160*	$175*
AMP-NATSEM study (low income families)	$55	$98	$130	$213	$215
Child/youth payments (FTBA, YA, child share of RA)	$73	$73	$90	$83	$100

Sources: DSS 1998, AMP-NATSEM 2002, Centrelink data
Notes: Child/Youth payments includes: (FTB(A), Youth Allowance, and child share of Rent Assistance.
* the SPRC Budget Standards only extend to age 14. A trend line has been added to extend them hypothetically to older children

The shortfall between the costs of caring for children and young people and family assistance payments — of between $40 and $130 a week depending which "costs of children" estimate is used and the age of the child. This shortfall puts many low-income families under enormous financial strain and places them at risk of deep poverty.

It also puts pressure on the children to leave home or leave school early to obtain work and this can be detrimental to their chances of gaining skilled work and escaping poverty in the long-term.

To make matters worse, the table below shows when all of the payments made to a **low-income sole parent family** (a group particularly vulnerable to poverty) are calculated, overall family income actually *falls* when youngest child reaches 5, 16, and 18 years.[7] These payments include Family Tax Benefit (Part B), Youth Allowance, all of the Rent Assistance paid to the family, and the Parenting Payment paid to support the parent. At the same time, the family's basic cost of living is steadily rising.

Table 2:
Change in total income for a sole parent family with one child: dollars per week in 2002

Age of child:	**Under 5 years**	**5-12 years**	**13-15 years**	**16-17 years**	**18-24 years**
Overall family income	$388	$372	$389	$365	$344
Change as child grows older		-$16	+$17	-$24	-$21
Reason for change		lower rate of FTB(B)	higher rate of FTB(A)	loss of PP and RA	loss of FTB(B)

Notes: Overall family income includes: Parenting Payment (PP) or Newstart Allowance for the parent, Family Tax Benefit (A) and (B) or Youth Allowance for the children, and Rent Assistance (RA).

7 In the case of a jobless married couple family with children, social security income rises with age (though not in line with child costs) except when the youngest child reaches 16 years. This is because these families are less likely to receive Family Tax Benefit (Part B) in the first place, and they receive a lower rate of Parenting Payment. Family Tax Benefit (Part B) is paid to all sole parents whether they care for a child at home or not, because it replaced a former payment and tax rebate that were designed to take account of the higher costs of raising a child alone.

Financial stress, family income and age

Middle income families come under the greatest financial stress when their children are young. Indeed, financial stress is a rite of passage for young middle income families and this is the main reason that public policy has focussed so strongly on the work and family pressures facing parents of preschool-age children.

However, jobless families come under the greatest financial stress when their children are older.

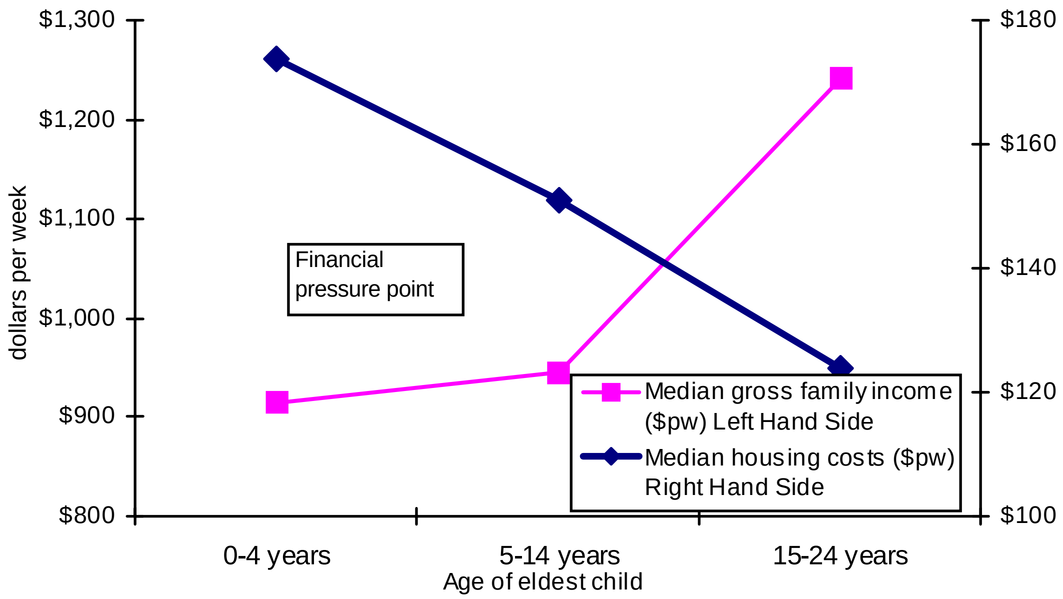
Why is this? The reason is that there are two different kinds of costs associated with children:

- *Direct costs* are the costs of such items and food and clothing. These rise with age.
- *Indirect costs* are the costs associated with caring for a child at home — i.e. the cost of supporting a parent who has left the paid workforce to care for a child.[8] These costs are generally highest for families with young children.

For middle income families, the higher *indirect* costs of young children dominate. It is hardest for parents to undertake full-time employment when the children are young and in need of the greatest care. These costs are often exacerbated by high housing costs (mortgages) at this stage of a family's life cycle.

Although the *direct* costs of caring for a child (such as food) rise with age, the incomes of middle income families rise too, as the main carer of the children re-enters the workforce and parents progress in their careers. Most middle income families are financially better off by the time their children reach their teens.

Fig 2. Family income and housing costs for a typical middle income family with 2 children (2000)



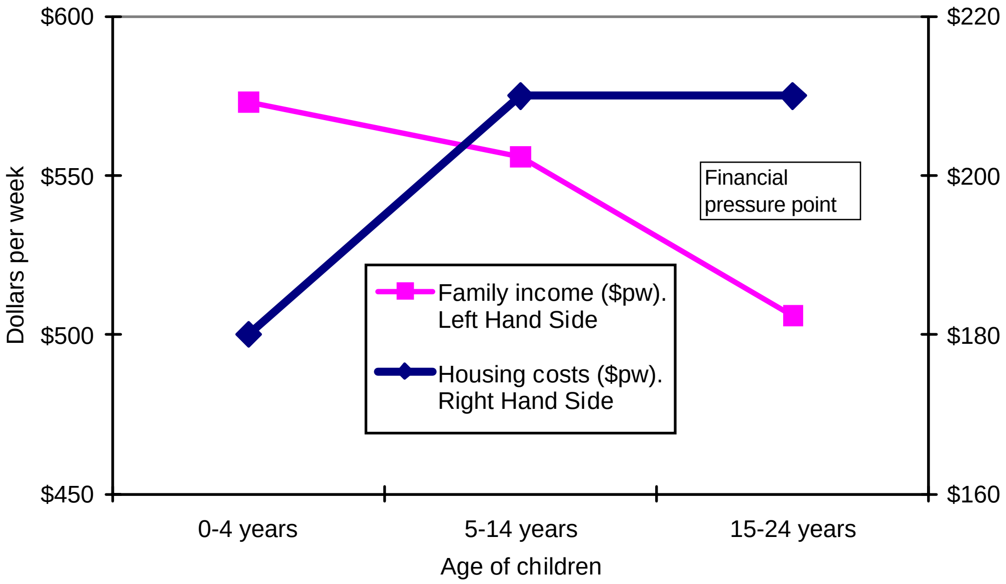
Source: ABS Housing survey. Note: Includes couple and sole parent families. Based on median gross incomes and housing costs for all families with children. Note the different income scales on the left and right hand sides of the graph.

[8] Or the parent's loss of income from employment.

On the other hand, for **jobless families** it is the *direct* costs of children that dominate, since for them the *indirect* costs (the cost of the supporting the parent) do not change much. Further, their housing costs are likely to rise as children grow older, since they are more likely to be renting than paying a mortgage and will need more bedrooms if they have more than one child.

This means that **jobless** families come under greatest financial pressure when their children are older — the time when family assistance payments actually fall.

Fig 3. Family income and housing costs for a jobless sole parent family with 2 children (2002)

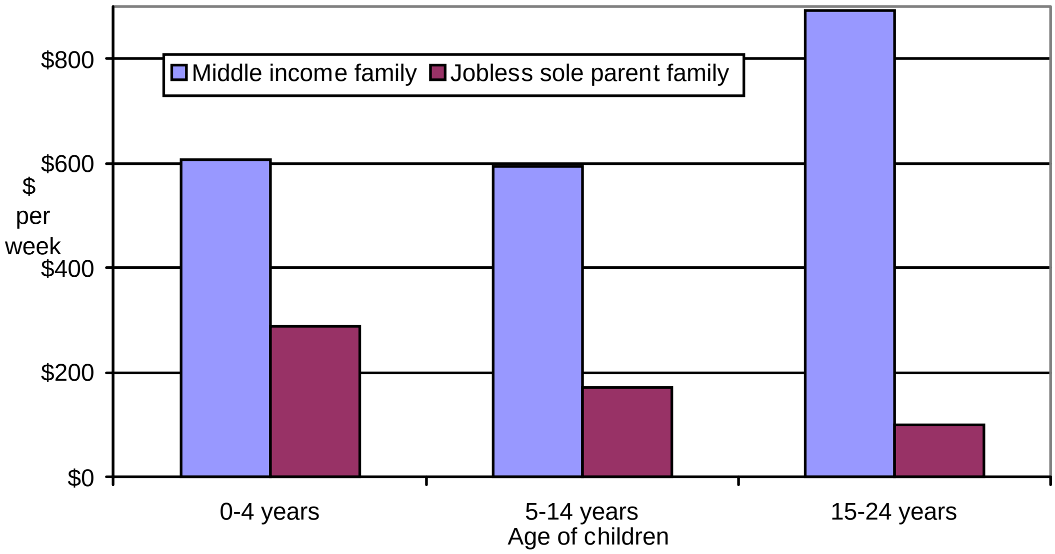


Source: ACOSS calculations, Centrelink data and Sydney rental survey.
Note: Since we were unable to obtain this information from the ABS Housing Survey, we have used the example of a hypothetical sole parent family whose only income is social security payments, and which pays rent at the level of the bottom quartile of Sydney private rents. This is a realistic example because most low income sole parent families rent privately and receive the maximum rate of social security payments. Note also the different income scales on the left and right hand sides.

The graph below brings the above information together, by calculating the incomes of typical middle income and jobless sole parent families after housing costs and the direct costs of children are deducted. It clearly shows that:

- The financial circumstances of typical middle income families improve as children grow older;
- The opposite is the case for a typical jobless sole parent family whose financial circumstances worsen as children grow older.

Fig 4. Family income net of housing and child costs: typical middle income and jobless sole parent families with two children



Sources: As above, and SPRC *Low Income* and *Modest But Adequate* Budget Standards adjusted to include children over 14.

Another reason that reform of family assistance has concentrated on younger families is that most low-income families have younger children, due to their parent's lower earnings at that stage of the life cycle and the greater preponderance of single-income families with young children (as discussed above).[9]

This does not contradict our argument that *those low-income families who have older children are under the greatest financial stress*. Although more young children are likely to be living in poverty, low-income families with older children are likely to be living in the *deepest* poverty. Better income support for this group should therefore be a high policy priority.

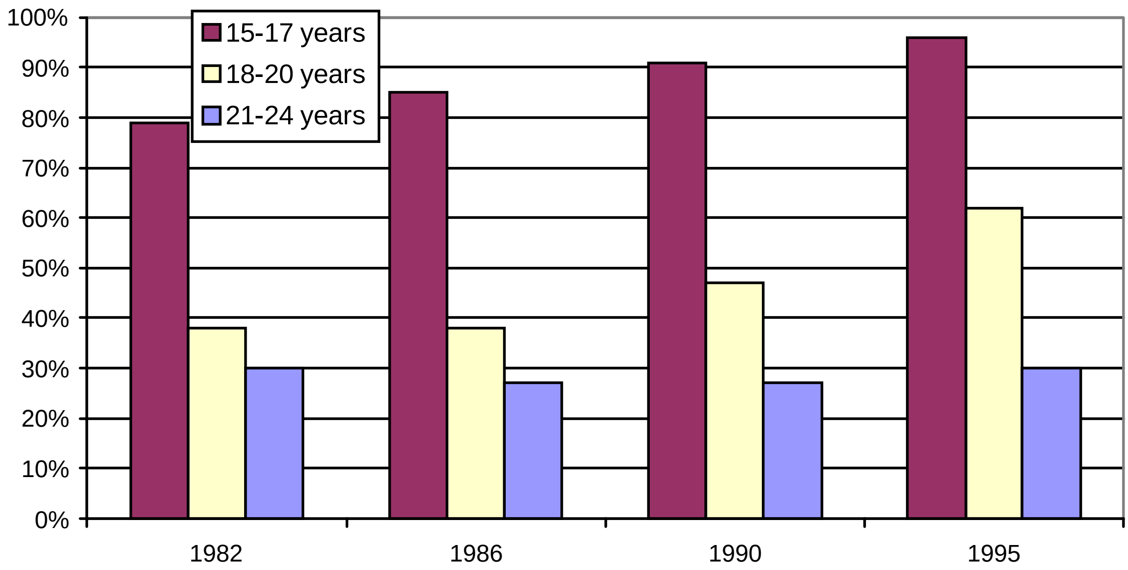
Low-income families with dependent young people are a sizeable group. Approximately 250,000 young people aged 16-24 living at home receive Youth Allowance and the vast majority come from families with total incomes below $40,000 per year.

[9] In 2000, about 45% of children under 16 years attracted the higher rate of Family Allowance for low-income families. It is likely that a high proportion has a child under 5 years. On the other hand, just 20% of young people living with their parents attracted Youth Allowance under the parental means test in 1999.

Children are relying on their parents for longer

The neglect of the needs of low-income families with older children is also of concern for another reason: children are relying financially on their parents for longer than in the past, as the graph below shows.

Fig 5. Financial dependence among young people



Source: Schneider J, 2000.
Note: Based on the proportion of young people who have independent income lesss than the relevant Henderson Poverty Line.

Recent social security policies have reinforced this greater financial reliance on parents by imposing income tests on the parents of young unemployed people aged 18 to 21 years. Governments have not been pulling their weight in income support for jobless young people.

The folly of a single payment for children

Recently, proposals have been advanced to replace all family payments (including FTB (A) and (B), Child Care Benefit, and possibly Parenting Payment) with a single flat-rate payment for children.[10] These proposals are advanced on the grounds of simplicity and giving parents a choice to decide whether to spend the money on caring for children at home or formal child care.

These proposals are deeply flawed because they cannot meet the diverse needs of families:

[10] For example, the Centre for Independent Studies proposes a flat universal $4,000 per year per child payment, regardless of the income of the family, the ages of the children, and the labour force status and their child care costs of the parents.

- High-income families would receive the same level of support as poor families.
- The higher *direct* costs of children as they grow older would be ignored.
- The higher *indirect* costs for families with young children that choose to care for them at home would not be properly taken into account.
- The costs of childcare services for those parents who choose to place their children in child care would not be properly considered.

The proposal assumes that on average, the indirect, direct and childcare costs are all roughly equal — an extraordinary assumption given their very different nature. A moment's thought would reveal major differences in the costs facing different families. To begin with, as we point out in this paper the direct costs of children rise as they grow older.

Offering all families the same level of assistance is false equity. It does not improve choice, because the needs and constraints of different families vary. Further, it will not resolve the problems identified in this paper. In fact, if the overall amount of family assistance was spread more thinly across all families with children, most low income families would be worse off and child poverty would worsen.

Reforming family assistance payments

This study reveals a major problem with the current design of the Government's system of family assistance. It shows that the system is failing jobless families with older children, leaving a large "poverty gap" between family assistance payments and the high costs of raising teenagers. The problem is growing bigger as more young people depend on their parents for longer.

The Government should reject proposals to replace family assistance payments with a single flat payment, although it should still simplify the system and address the serious flaws in the income test for Family Tax Benefits that lead to large over- and under-payments.

ACOSS advocates the following changes to family assistance payments to reduce child poverty and redress the bias against families with older children.

1. Set new age-based benchmarks for family assistance payments that are based on the actual costs of raising a child in a low-income family.
2. Take the following immediate steps towards removing the bias against low-income families with older children, so that at the very least, family payments do not fall as children grow older:
   - Increase Youth Allowance for dependent young people at home by $13 per week for each child aged 16-17 and $7.50 for each child aged 18-24 years, and extend Rent Assistance to these families. (Annual cost: approximately $200 million)
   - Increase Family Tax Benefit Part B by $16 per week for sole parents whose youngest child is older than 4 years. (Annual cost: approximately $250 million)
3. Improve family assistance payments for young families (including middle-income families) so that parents can exercise effective choices about their careers and the care of their children.[11]

These proposals carry a significant price tag, but the families in the deepest poverty should have first call on any funds devoted to reform of family assistance.

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[11] ACOSS is still developing policy to this end and will release details at a later date.

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