



Analysis of NATSEM Research on low income families

October 2004

This information paper prepared by ACOSS summarises the results of research by NATSEM, commissioned by ACOSS, Brotherhood of St Laurence, Anglicare NSW, Australian Education Union, Family Services Australia and Sydney Welfare Rights Centre. The research examines the income and family circumstances of the bottom 20% of families, and how their incomes changed over the past seven years compared with that of middle income families. ¹

The study divided all families with dependent children under 21 years into five equal groups – from the bottom 20% to the top 20% - based on their disposable income, adjusted to take account of family size. It then compared disposable incomes for the bottom 20% and middle income families over the period from 1997 to 2004, taking into account the changes to family payments and tax cuts announced in the 2004 federal budget

Profile of the bottom 20% of families

1. The average after tax income of the 424,000 families in the bottom 20% is \$554 per week. Typically, that income is supporting a couple or sole parent with about two children. The bottom 20% receive 57% of the after tax income of a middle income family (\$972 per week). That's a gap between bottom and middle of \$418 per week.
2. The table below profiles the 424,000 families in the bottom 20%: 72% of these families are jobless, and sole parent families (48% of low income families) and families with an older teenage child (27% of low income families) are over-represented in the bottom 20% compared to all families.

Table 1: Comparison of bottom 20% and all families (2004)

	Bottom 20%	All families
Jobless families	72%	22%
Sole parent families	48%	27%
Families with a child 16-20	27%	23%
All families	424,000	2,237,000

Data source: NATSEM calculations based on STINMOD/98A and STINMOD/04A

¹ The study is published by NATSEM as *Prosperity for All: How low income families have fared in the boom times*, NATSEM, October 2004. It is available on their website at <www.natsem.canberra.edu.au>. This summary does not necessarily represent the views of NATSEM or the other organisations that commissioned the research.



3. Over the last seven years, the proportion of the bottom 20% of families that were jobless fell from 74% to 72%, a very slight reduction despite the economic boom. Reducing joblessness among families is a big social policy challenge for Australia. But the research suggests we can expect only gradual progress on this front. It underscores the vital role of the family payment system in preventing and relieving child poverty in Australia.

Trends in family incomes from 1997 to 2004

4. The average income of the bottom 20% rose by \$87 per week in real terms from 1997 to 2004 – a rise of 18.5%. The income of middle income families (median family income) rose by \$145 per week over the same period, the same in percentage terms (18%) as for the bottom 20%. So, *on average* the bottom 20% kept up with growth in middle incomes.

Table 2: Real disposable incomes for bottom 20% and middle income families (1997-2004)

Year	Bottom 20% (\$ per week)	Middle income family (\$ per week)	Gap (\$ per week)	Bottom 20% incomes as a % of middle incomes
1997-98	\$467	\$827	\$360	57%
2000-01	\$496	\$858	\$362	58%
2004-05 pre budget	\$529	\$928	\$399	57%
2004-05 post budget	\$554	\$972	\$418	57%

Data source: NATSEM calculations based on STINMOD/98A and STINMOD/04A

5. Real increases in family payments were the main reason for the 18.5% increase in the incomes of the bottom 20% over this period. Many low income families received significant increases in family payments in the 2000 tax package and in the 2004 budget, though much of the increase in 2000 was compensation for the GST (which increased prices by an average of about 3%, higher for low income families than for middle income families).²

6. Thus, the Coalition Government's increases in family payments helped most low income families to keep pace with the growth in incomes enjoyed by middle income families during the current economic boom. This is a credit to the Government's family incomes policies and to family payment reforms introduced by Labor when in Government. The last Labor Government linked payments for low income families to movements in average earnings and the Coalition Government increased these payments substantially in 2000 and 2004. The Coalition has promised to increase family payments for single income and sole parent families by a further \$6 per week during the election campaign.

² By family payments, we mean Family Tax Benefit, previously called Family Allowance.



7. Increases in family payments in 2000 and 2004 had an uneven impact on the living standards of low income families. The largest increases in 2000 were for single income and sole parent families with a child under 5. The \$600 per child annual payment announced in 2004 especially benefited larger families. But families with older dependent children (over 16 years) missed out on these increases in family payments and many of these families experienced falls in their living standards. Income support for a low income family with two older children is up to \$73 less than for a similar family with two preschoolers.

Table 3: Increases in disposable incomes for jobless families of different ages (1997-2004)

Hypothetical jobless families	Income in 1997-98 (\$ per week)	Income in 2004-05 (post budget) (\$ per week)	Increase (\$ per week)	Increase (per cent)
Couple families:				
2 children under 5	\$545	\$607	\$62	11%
2 children 5-12	\$533	\$589	\$56	11%
2 children 16-17	\$583	\$577	-\$6	-1%
2 children 18-20	\$609	\$613	\$4	1%
Sole parent families:				
2 children under 5	\$429	\$511	\$82	19%
2 children 5-12	\$417	\$493	\$76	18%
2 children 16-17	\$444	\$438	-\$6	-1%
2 children 18-20	\$455	\$457	\$2	1%

Data source: NATSEM calculations based on STINMOD/98A and STINMOD/04A

On the other hand, low paid working families enjoyed similar increases in family payments to those received by jobless families. This is because a working family on a low full time wage usually receives the same rate of family payments as a similar jobless family. That is, family payments are not a financial barrier for jobless families to move to low paid employment.

8. The uneven effect of changes in family payments is reflected in the overall results for different kinds of low income families over this period. Those whose incomes rose the most included those who found jobs, those with a child under 5 (especially sole parent families), large families (due to the \$600 payment in 2004), and to a small extent, families in Tasmania, the ACT, Western Australia and New South Wales compared with families living in other states. Those with the worst outcomes included jobless families with older children (over 16) only.³

9. The benefits of the 2004 budget changes to family payments were spread widely across families. This reflects the \$600 per child annual supplement being paid to most families (or used to offset family payment debts). The 2004 budget changes raised the average income of the bottom 20% of families by about 5%, but it also benefited middle income families so it did not close the 'gap' significantly. Large families benefited more than small families, and families with older children again missed out. Families in the lowest income states – South Australia and Tasmania – gained more than families in other states.

³ The reason outcomes vary among states is that the profile of low income families (for example, the proportion of sole parent families, or larger families) is different in each state, and employment outcomes for jobless families also vary between states.



Policy implications

10. The policy implications of this research are as follows:

(1) Many children would be raised out of income poverty if their parents get full time jobs. The fact that the vast majority of families in the bottom 20% are jobless poses a major challenge for social policy in Australia. However, the research also suggests that joblessness among families with children is unlikely to be reduced rapidly and on a large scale. Also, many parents are not in a position to seek employment at this time - for example, because they are raising young children alone.

(2) So improvements in family payments that extend to all low income families (whether jobless or employed) are a very important anti poverty tool. Australia is well served by a family payment system that extends in equal measure to both jobless and working families with low incomes. This means that any improvement in payments for middle income families flows down to the poorest families. Conversely, it means that improvements in payments for the poorest families will ease child poverty without undermining work incentives.⁴

(3) It was the substantial real increases in family payments in 2000 and 2004 that allowed the bottom 20% of families to just keep pace with middle income families over the last seven years.

(4) But if family payments are not properly linked to movements in average incomes, low income families will start to fall behind. It is therefore vital that the Government fulfil its commitment to rectify a flaw in the indexation of family payments that will otherwise see their value fall in coming years. The promised \$6 per week increase in payments for single income and sole parent families should also be legislated as soon as possible.

(5) It is also vital that those families that have missed out on the substantial increases in child payments – especially families with older teenage children – are helped to catch up. Children are dependent on their families for much longer these days, a fact that governments have taken advantage of by income testing youth allowances against their parent's incomes. Family payments and youth allowances for low income families with older children should be substantially higher than payments for families with younger children since older children are more costly.

(6) Since family and youth payments are to help families care for their children, it's about time they were based on a realistic assessment of the minimum cost of raising a child. This would ensure that poor families are no longer be at the mercy of ad hoc government decisions to increase, or not increase, family payments.

⁴ This is because the income test for Family Tax Benefit (Part A) does not apply until a family is earning at least \$32,000 – well above a minimum full time wage. Family payment income tests do, however, discourage many low paid working families from undertaking a *second* part time job.