Living Standard Trends in Australia: Report for Anglicare Australia

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Contents

1 Executive Summary

This research for Anglicare Australia focusses on the changes in living standards for a broad range of family types in Australia between 2004 and 2014. The report also projects where these living standards will be by 2024 taking into account the current trajectory of Budget policy, expected demographic and socioeconomic change.

We find that living standards have increased in Australia over the past 10 years however, that growth was not shared evenly by all. The gap in the living standards between the richest and poorest grew by around 13 percentage points during this period and we project a further widening by 10.4 per cent over the coming decade. Growth in living standards of the top 20 per cent grew by around 22.1 per cent while the bottom 20 per cent grew by just 13.8 per cent.

Over the past 10 years, couple families with children experienced the strongest gains in their living standards while single parents had the lowest gains. The gains for the next ten years are expected to be significantly lower than the previous ten years with gains of 5.6 per cent for couples with children and negligible growth for all other family types.

For low income families the projections suggest families with children and without children are expected to have lower living standards than today by around 3 per cent. The main factor in reduced living standards relates to recent Federal budget cuts. For families with children these cuts are mainly in the form of cuts to family payments and for other families the largest cuts will be to some pensioner families – who lose some, or all of their part-pension.

While it is difficult to judge the labour force participation impacts of consecutive government's shifting single parents onto the less generous Newstart Allowance once their youngest child turns 8, we do not find any strong evidence of an increase in their labour force participation. We do find that participation rates increased strongly from 2002 to 2008 but that trend was present well before policy change in 2006. Since the larger shift to Newstart allowance in 2013, relative to total participation we don't find evidence of gains for single parents in terms of participation.

The report finds mixed results for older families. We find that older households enjoyed stronger living standard gains compared to younger households over the past 10 years. This result does not hold true for low income older families who have not fared as well as other households. Over the next 10 years we find that lower income, older households and those who own their house outright are projected to have the lowest growth in living standards. This trend is driven heavily by the loss of the aged pension for low income but moderate to high wealth households in future years.

We also considered families headed by someone whose main source of income was a government payment. Of great concern is that families headed by persons on allowances, such as Newstart and Youth Allowance have only increased their living standards by 4.3 per cent compared to pension recipients and non-beneficiaries who have all gained by around 20 per cent over the past 10 years.

Projections over the next 10 years suggest that allowee and single parent pension families will experience a serious reduction in living standards. This lowering in living standards is caused by a range of factors but the main drivers are relatively lower payments due to changes in the most recent two Federal Budgets and policies in place that see payments such as family payments and allowances only increase with the CPI.

2 Introduction

This research paper provides an overview of the recent trends and potential future trends for living standards in Australia for different socioeconomic groups. We use NATSEM's STINMOD model of the Australian Tax and Transfer system to estimate the disposable incomes for each group in 2004-05, 2014-15 and project future standard of living using assumed growth rates for wages, other incomes and the expected trajectory for the tax and welfare system.

The Australian economy has enjoyed a sustained period of economic growth over the past 23 years with continual growth in Gross Domestic Product (GDP). In per capita terms Australia's GDP increased in all years since 1990-91 with the exception of 2008-09 (ABS 2015). Household incomes in Australia have increased by 61 per cent in real terms, or 2.1 per cent per year. This growth was particularly strong during the last decade with average growth over 3 per cent between December 2004 and December 2009 (NATSEM 2015).

Did the rising tide of economic growth lift all boats? While the aggregate economy results are impressive this report seeks to investigate how well that growth was shared between different socioeconomic groups within Australia. Was that growth distributed evenly or have certain groups in society enjoyed most of the gains?

In this report we consider both the income growth and the cost of living changes for specific socioeconomic groups. Our preferred measure of income growth is disposable income (after-tax and government benefits) that are adjusted for the size and composition of a family. The cost of living measure is very similar to the ABS *Consumer Price Index* (CPI) except we use the approach the ABS takes to construct a living cost index[1] (LCI). The LCI directly accounts for changes in mortgage rates and their impact on housing costs while the CPI does not.
Living standards in our report is just our disposable income measure adjusted by changes in living costs. So, in the case where a family type's income had increased over a 10 year period by 50 per cent but their costs had also increased by 50 per cent we could say their living

[1] The major difference between the CPI and the LCI is that the CPI uses an 'acquisitions' approach while the LCI uses an 'outlays' approach. In practice, there is little difference between the two approaches. The main difference being for dwellings, durable goods and financial services. As an example, for home purchase the CPI measures price change for the full purchase price of the construction of a new house, whereas the LCI measures price change in mortgage repayments for the house and land or new or existing property.

standard was unchanged. While it is standard practice to simply use the 'All Groups' Australia CPI we adjust incomes using an LCI that varies by household type and therefore accounts for differences in cost of living between different household types. As an example, in recent years interest rates have declined significantly and this has meant that the cost of living for families purchasing a house will have declined relative to a family that is renting – since rents have continued to increase in price. An aggregate CPI approach does not account for such differences between household types.

We calculate standard of living changes for each group which considers both disposable (after-tax) income growth and subtracts cost of living changes – both of which can vary substantially for different groups in society. As an example, low income households tend to spend a much larger share of income on rent and utilities whereas high income households devote a greater share to mortgage repayments and discretionary items. This new report is the first detailed analysis of living standard changes for Australian households in the past and projecting into the future.

3 Methodology

The research relies upon two major sources: the STINMOD model to estimate changes in disposable income; and NATSEM's cost of living index series.

STINMOD is based on the ABS Survey of Income and Housing. The model contains both the 2009-10 and 2011-12 surveys and additional census data on non-private dwellings. These data sets are updated to 2014-15 to ensure all prices, wages and populations closely match the population of today. A difference between STINMOD and the standard ABS survey data is that estimated taxation and welfare payments are based on the policy parameters and rules for the most recent financial year. Future financial year's disposable incomes are based upon the current legislation. As an example, those on an unemployment benefit will have their payment increased in line with a projection for the Consumer Price Index (CPI). For all such assumptions we use similar assumptions to those used in the most recent Federal Budget.

The analysis compares three periods: 2004-05; 2014-15 and 2024-25. For 2004-05 we use a version of STINMOD from 2005 which uses ABS survey data from 2003-04 and applies the rules of the tax and transfer system that applied in 2004-05. For the most recent financial year (2014-15) we use the 2014 version of STINMOD. For 2024-25 we use this same version of STINMOD which projects policy for taxes and transfers according to the legislation from the 2015-16 Budget.

Living standards are calculated at the 2004-05 dollar value of disposable incomes (gross incomes minus taxes but including government benefits). To do this we discount the 2014-15 incomes values by the change in living costs for each household type.

The NATSEM cost of living index series is calculated separately for different household types, such as low income, high income, different tenure types, family types, states and age groups. Over the past 10 years very low interest rates have meant that household mortgage repayments have not grown as quickly as rents. This means that a purchaser household has enjoyed a smaller cost of living increase and therefore a higher standard of living gain for a given increase in disposable income. NATSEM's cost of living index accounts for cost of living differences between different household types whereas the ABS CPI only provides an average across all household types.

For the projection year (2024-25) we assume that all groups' cost of living increases are in line with current Federal Budget CPI inflation forecasts. For the recent Budget this forecast was 2.5 per cent per annum for each of the forward estimates. We also assume that private wages and all other private income sources grow at 3 per cent. This is closely aligned with wages forecasts in the Federal Budget. This growth represents slower growth than that enjoyed through the years between 2004-05 and 2014-15 where growth of wages was closer to 4.5 per cent. For the purpose of assessing pensions entitlements and superannuation, household wealth is projected to grow by 5 per cent per annum, which is a little lower than average growth over the past decade[2].

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[2] The STINMOD model projects superannuation income growth of an average of 5 per cent per annum for the years beyond 2014-15. Growth rates do vary by age cohort with older persons receiving higher growth rates on account of higher assumed super balances. This is the one area where STINMOD departs from 'static ageing' and this is on the basis that the super system is still maturing so older cohorts of the future will have relatively larger balances.

These projections should not be viewed as forecasts. They represent assumptions that have been used to project into the future. These assumptions are generally at growth rates that are lower than those observed through the past 20 years in Australia but ones that we believe are credible given an economic outlook that is weaker than the 1990s and 2000s and more in line with the economic experience in the post-GFC years in Australia. Moderately higher or lower growth assumptions are unlikely to greatly alter the distribution of results, as this analysis is focussed on relativities between groups of households rather than predicting overall living standards into the future.

In projecting the tax and transfer system into the future we do make some assumptions that deviate from the pure path of the current legislation. For personal income taxation we assume that the income tax brackets will increase with wages (3 per cent) from 2020 onwards. Without such an assumption there would be bracket creep and average tax rates would increase quite substantially through time as people move into higher tax brackets. However, we assume that some welfare payments will continue to grow at only 2.5 per cent, or CPI, beyond the current forward estimates (2019-20 to 2024-25). These payments include allowances such as Youth Allowance and Newstart Allowance and family payments. Such growth is in line with the current legislation.

A likely driver of difference between the 2014-15 and 2024-25 standard of living will be the budget changes announced in the 2014-15 and 2015-16 Federal Budgets. These policy changes include the removal of some welfare payments, reductions in other payments, and changes to indexation arrangements that reduce some payment increases over time.

The STINMOD model accounts for expected demographic change over time. These changes can also influence results. Between 2004 and 2014 the Australian population has aged. This trend is expected to continue through to 2024-25 and beyond. A greater share of older persons lowers the growth rate of living standard since older households, particularly pensioner households, tend to have lower incomes than other households over all.

4 Results

Between 2004-05 and 2014-15 Australian households enjoyed an increase in their standard of living of 21.2 per cent, or 1.9 per cent per year. Over the next ten years standard of living only grows by 1.7 per cent or just under 0.2 per cent per year. This result is predominantly an enforced result through a projection of weak income growth over the next decade. However, the research of interest in this paper is not the aggregate growth rate of the standard of living, rather the relative growth of different household types.

4.1 Income Groups

Table 1 shows the median incomes and median equivalised incomes for the income quintile households. Income is measured in after-tax and benefits or disposable terms to take into account the impacts of the tax and government benefits systems. Median incomes for the lowest income quintile (Quintile 1 – bottom 20 per cent of the income distribution) is $443 per week ($23,000 per year), the middle income group (Quintile 3 – middle 20 per cent) takes home $1,337 per week or $69,500 per year, while the top income group (top 20 per cent) takes home $2,699 per week, or $140,300 per year[3].

Table 1 Income Levels by Income Quintiles, 2014, STINMOD14

	Median Disposable Income $pw	*Median Equivalised Disposable Income $pw*	*Median Equivalised Disposable Income $pw (After-Housing)*
Quintile 1	443	429	352
Quintile 2	782	669	564
Quintile 3	1,337	923	770
Quintile 4	1,886	1,291	1,094
Quintile 5	2,699	1,979	1,723

Since higher income households tend to be larger households (even after equivalising) we do find that there is less income inequality after equivalising. The top income category has approximately 4.6 times the income of the bottom income category. The middle category has roughly double the bottom group’s income and just under half the top income group.

[3] Note the average income for the top income group is $163,600 per year which is significantly higher than the median for this same group.

The equivalised 'after-housing' figures show a higher degree of inequality with the top income quintile having around five times the disposable income compared to the bottom income quintile. This result is a direct result of low income households having higher relative housing costs compared to higher income households.

The following discussion considers the growth of living standards. It is worth keeping in mind the income levels in Table 1 as a guide to their relative living standards as of 2014-15.

Over the past decade there has been a considerable difference in the growth rate of living standards between the lowest and highest income households[4] as shown in Figure 1a. Households in the bottom 20 per cent of incomes experienced a 15.1 per cent increase in their living standards while the top 20 per cent enjoyed growth of 28.4 per cent. The middle income group gained 21.6 per cent. Clearly, higher income groups have experienced significantly stronger gains in living standards compared to lower income groups.

[4] Disposable income is split into five equal groups or 'quintiles'. The lowest quintile refers to the bottom 20 per cent, the second bottom the 20th percentile to the 40th percentile and so on. To account for household size we use 'equivalised' income where income figures are on a per adult equivalent form.

Figure 1a Living Standard Growth by Income Quintile

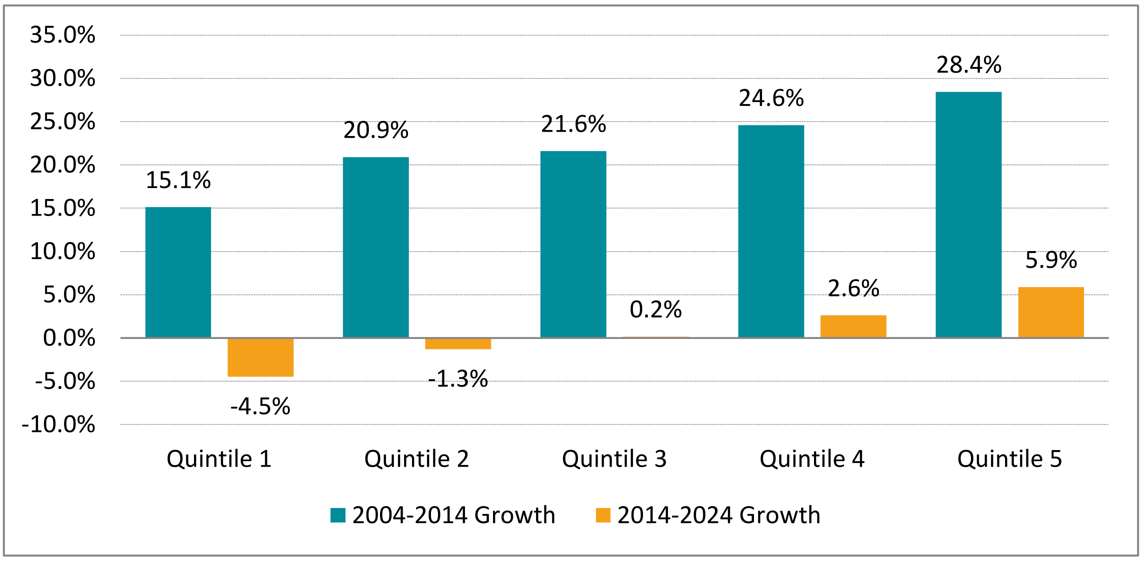
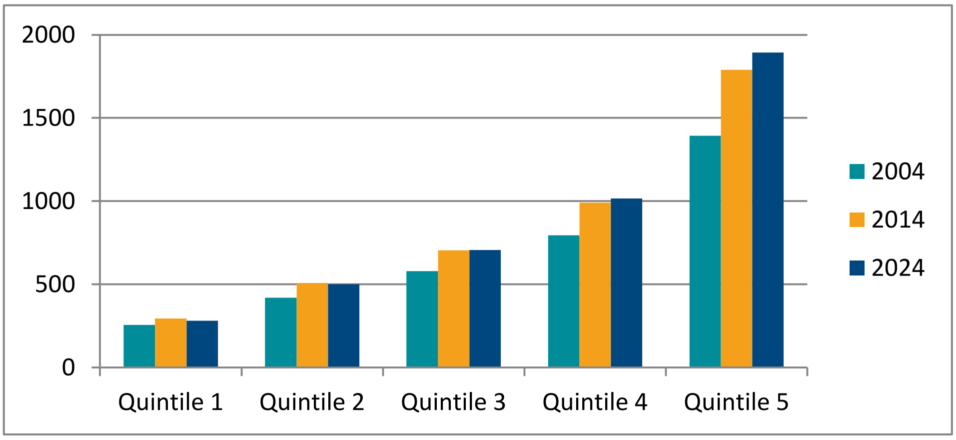


Figure 1b shows, in real terms, both the level of and the growth of incomes between 2004 and 2014 and the projection to 2024. The gap between the income of the lowest income households is substantial and growing through time. Of great concern is that the incomes of the lowest two quintiles are actually projected to fall over the next 10 years.

Figure 1b Equivalised Disposable Income by Income Quintile (in 2004 dollars)



The gains of the highest income group between 2004 and 2014 relative to lower income households is related principally to stronger private income growth, such as wages and dividends, a reduction in average tax rates and the lowest relative cost of living increase.

The projections suggest that over the next 10 years the living standard gap will continue to grow with the highest income group projected to improve living standards by 5.9 per cent compared to the lowest income group declining 4.5 per cent. We would expect the majority of this change relates to budget changes in the most recent Federal Budgets. Previous analysis suggests that by 2018-19 the full impact of the Federal Budget in 2015-16 would lower incomes of the bottom 20 per cent of income units by 4.8 per cent whereas the highest income groups decline by only 0.1 per cent (NATSEM 2015).

The projections also suggest that the lower middle and middle income households living standards will decline by 1.3 and increase by 0.2 per cent by 2024-25 respectively. The upper middle income households will gain 2.6 per cent.

In other words, while income growth will be slower for those on relatively high incomes, it will continue to grow while those on the lowest incomes a projected to go backwards.

4.2 Family Types

Living standards as of 2014 are highest for couple families with children with equivalised incomes of $1,191 per week. This is similar to couple only families and around twice that of single parents and singles. Couples with children overall have easily the highest median disposable income, however, they usually have the largest numbers of persons in the household so the unequivalised measure is not as useful for living standard comparison purposes.

Table 2 Income Levels by Family Type, 2014, STINMOD14

Family Type	*Median Disposable Income $pw*	*Median Equivalised Disposable Income $pw*	*Median Equivalised Disposable Income $pw (After-Housing)*
Couple with children	2,068	1,191	950
Couple Only	1,396	1,192	1,001
Single parent	1,080	600	444
Lone Person[5]	733	648	523

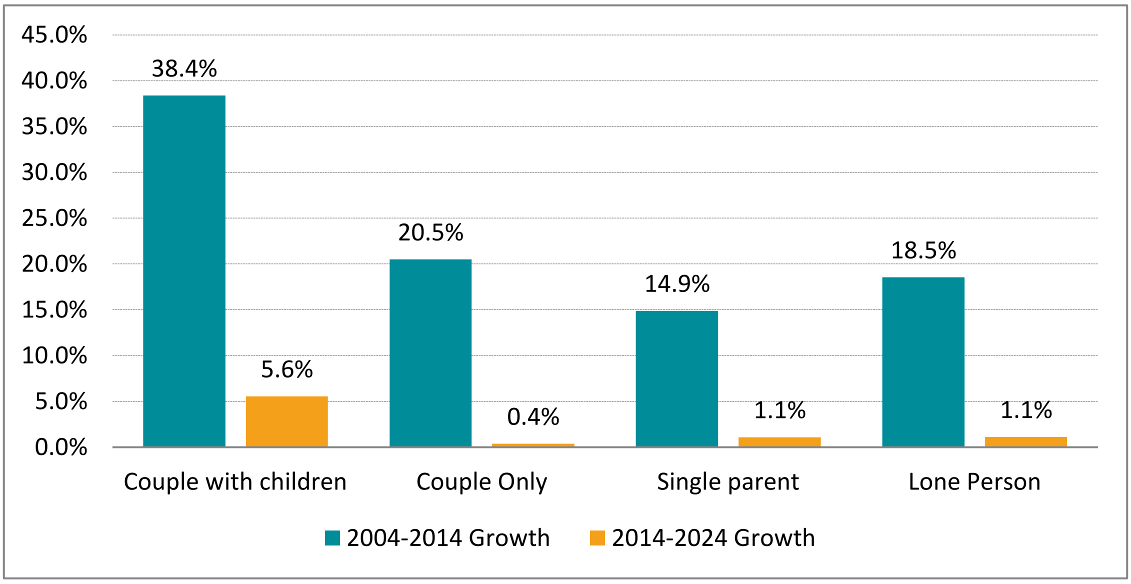
The family group that has increased their living standard the most is couple families with children. These families gained an average of 38.4 per cent. The superior gains for couples with

[5] Lone persons in this report can include 'income units' that are lone persons but who live in group households. This can mean that equivalised income need not equal unadjusted disposable income for lone persons.

children relates to very strong private incomes. The key drivers of this growth is strong wages growth and the rise of dual income families. Single parents had the weakest gains in living standards with growth of just 14.9 per cent.

However, strong gains in employment of single parents is a key driver in this result not being even lower. The participation rate of single parents increased from an average of around 52 per cent in 2001to nearly 62 per cent in 2015[6] (Figure 2b). This compares favourably with the overall participation rate for all females which increased from around 55 to 59 per cent over the same period.

Figure 2a Living Standard Growth by Family Type



The major welfare change for single parents was been the removal of single parents from the parenting payment once the oldest child turns 8 years of age. This change started in 2006 as part of the *Welfare to Work* reforms. This reform applied to new customers while existing customers were initially grandfathered. In 2013 the grandfathering of existing customers was removed. Customers were moved off the parenting payment onto the less generous Newstart allowance.

The change in 2013 was more substantial in terms of shifting single parents onto Newstart. Approximately 80,000 single parents (one in eight) were shifted to Newstart. Helping to offset these changes, with respect to government benefits, has been an increase in family payments,

6 ABS detailed labour force tables, April 2015.

which were increased for older children, and a new supplementary payment, the *school kids bonus* offering a more generous payment than the previous education tax refund

Regardless of the rule changes to parenting payment for single (PPS) parents, there has been a long-term downward trend in the number on PPS. This decline has been principally driven by increased workforce participation, which occurred, principally, prior to the shift of any significant number of parents onto the lower Newstart income, as figure 2b indicates.

Figure 2b Participation Rate (%), ABS Labour Force, June 2015[7]

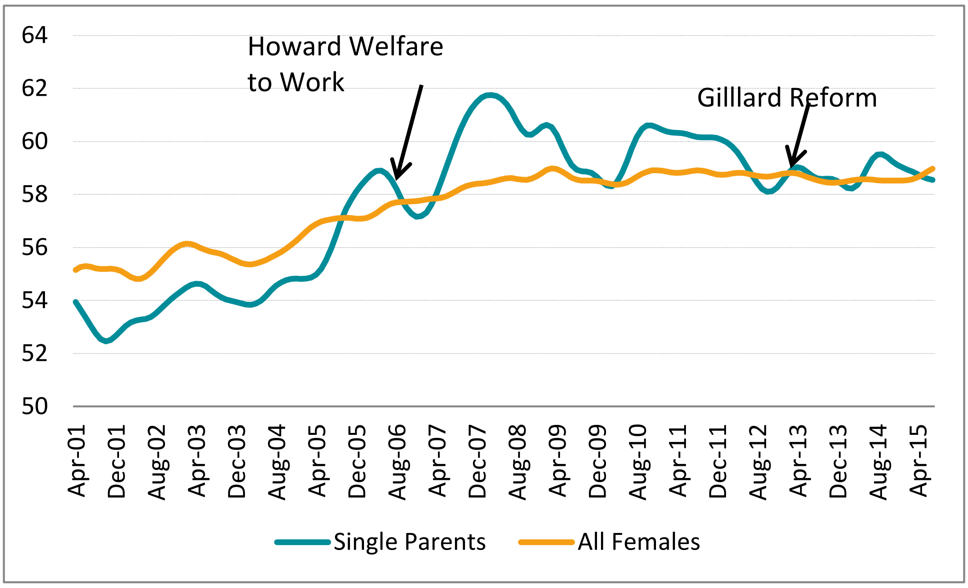


Figure 2b does show that since the welfare to work changes in July 2006 overall participation rates of single parents has not greatly changed either in the absolute rate or relative to female participation in aggregate. Most of the observed gains to both single parents and females as a whole happened prior to the GFC in 2008 – most of which was prior to welfare to work policy changes for single parents.

The projection for 2024-25 suggests that couples with children will again benefit the most with growth in living standards of 5.6 per cent. Single parents and lone persons are projected to gain 1.1 per cent and couple only family living standards are projected to gain by 0.4 per cent.

7. All numbers are in trend terms. The trend estimate was developed by NATSEM for single parents based on ABS original data. The female rate is based on the ABS series.

It is worth noting that while many single parents are adversely impacted by recent budget cuts many other single parents are not on welfare payments and would be expected to make small gains in their living standards over the next decade.

A likely driver of the very weak result for couple only families is that these families are more impacted by ageing than other family groups, particularly families with children.

Figure 2c demonstrates the large gap in living standard differences between different family types and also the rapid growth in living standard gains enjoyed particularly by couples with and without children over the past 10 years. Living standards, as measures by equivalised disposable income (in 2004 dollars) are 2.3 times higher for couples only than for single parents. All family types have enjoyed growth in their living standards, however couples have clearly gained more than single persons with and without children.

Figure 2c Equivalised Disposable Income by family type $2004 pw

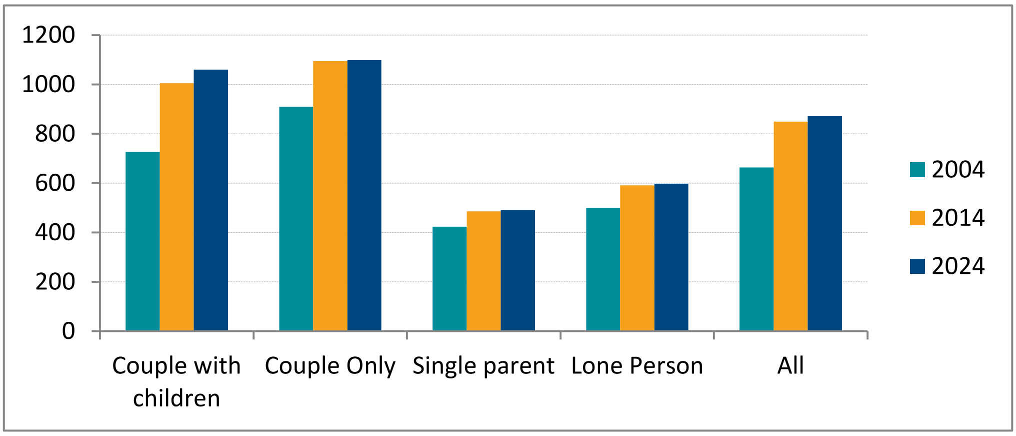
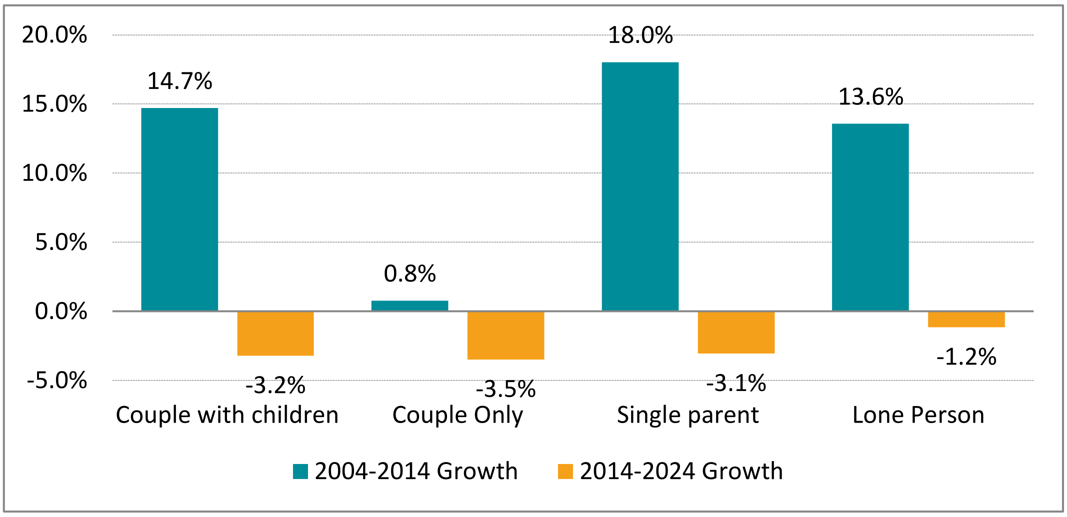


Table 2d shows the family type results but only for families in the bottom two income quintiles (bottom 40 per cent). For these families we find that couples with children had a smaller increase in living standards compared to the 'All' households sample. Their increase in living standards between 2004 and 2014 was a more modest 14.7 per cent. Couple only households only increased their living standards by 0.8 percent, which reflects again the preponderance of retirees in this type.

Figure 2d Living Standard Growth by Family Type, low-income households only



The projection for 2014 to 2024 estimates living standards going backwards for all family types in the lowest income categories. This result is driven by the Federal Budget reductions in real welfare payments. The major cuts being those to family payments and the cuts to typically low income but higher wealth pensioner family incomes.

4.3 Tenure Types

Living standards do differ significantly between tenure types. Households who are purchasing have easily the highest disposable and equivalised disposable income. To account for differences in housing costs we deduct all housing costs from disposable income. We still find that households who are purchasing have the highest income. The after-housing disposable income measure shows that purchasing households have a living standard that is around 59 per cent higher than renter households. In spite of low housing costs, outright owners are well behind purchaser households. Outright owners are typically significantly older than purchaser households and therefore much more likely to be on an aged pension.

Table 3 Income Levels by Tenure Type, 2014, STINMOD14

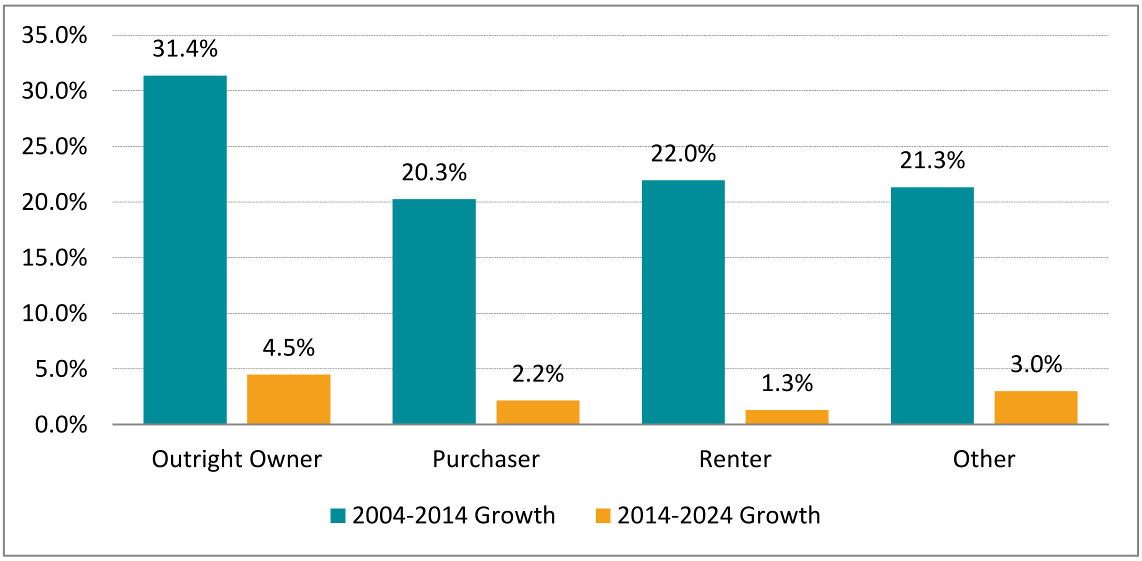
Tenure Type	*Median Disposable Income $pw*	*Median Equivalised Disposable Income $pw*	*Median Equivalised Disposable Income $pw (After-Housing)*
Outright Owner	918	793	755
Purchaser	1,852	1,207	915
Renter	1,153	786	575
Other	975	687	671

Renters, purchasers and 'other' tenure types have all enjoyed improvements in living standards over the past decade. Figure 3a show that outright owners have enjoyed the greatest living standard increases with a 31.4 per cent increase in living standards. These households tend to be older, more likely to be on a pension and therefore have received significant pension increases and gains in superannuation income. The gains for outright owners is driven by higher income households. Lower income households have not fared so well, as discussed in the low income section below.

The projection for the future is a continuation of past trends albeit at lower growth rates than that experienced during the previous 10 years.

Living standard increases by tenure type are more strongly influenced than other household types by cost of living differences. Renter household cost of living pressures are stronger than other tenure types. Through the last 10 years their cost of living has increased about by 3 per cent more than outright owners and 1.4 per cent more than home purchaser households.

Figure 3a Living Standard Growth by Tenure Type



Regardless of the strong growth of incomes for outright owners it is purchaser households who easily have the highest living standards. Table 3b shows that purchaser families enjoy a standard of living around 26 per cent higher than families who own their home outright. It should be remembers that these estimates are averages only, considerable variation exists within these family types. There remains many families who are purchasing a house who are also relatively low income families, just as there can be families who rent who have a relatively high living standard.

Figure 3b Equivalised Disposable Income by tenure type (in 2004 dollars)

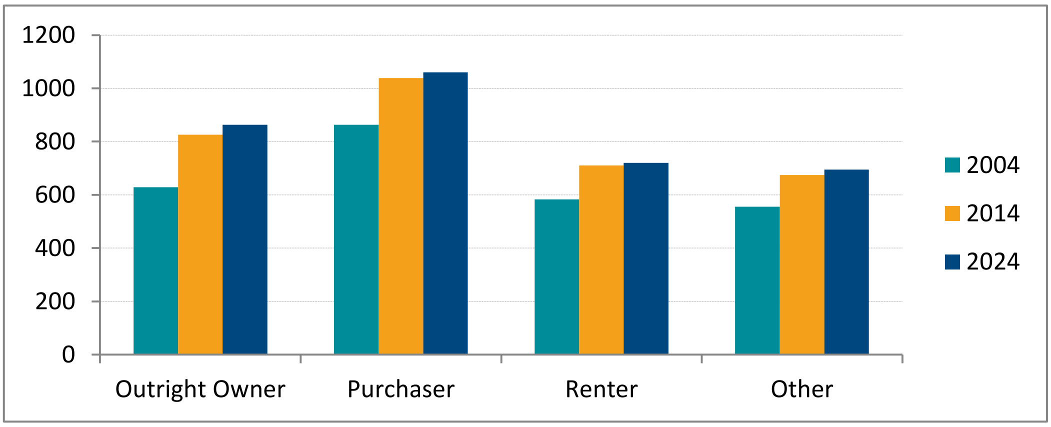


Figure 3c Living Standard Growth by Tenure Type, Low-income households

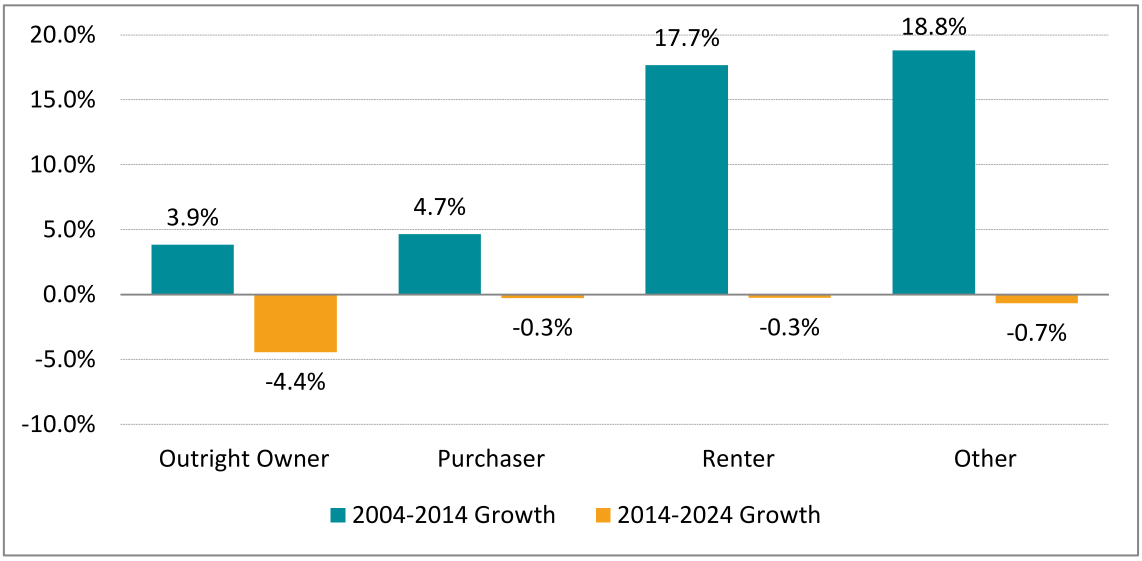
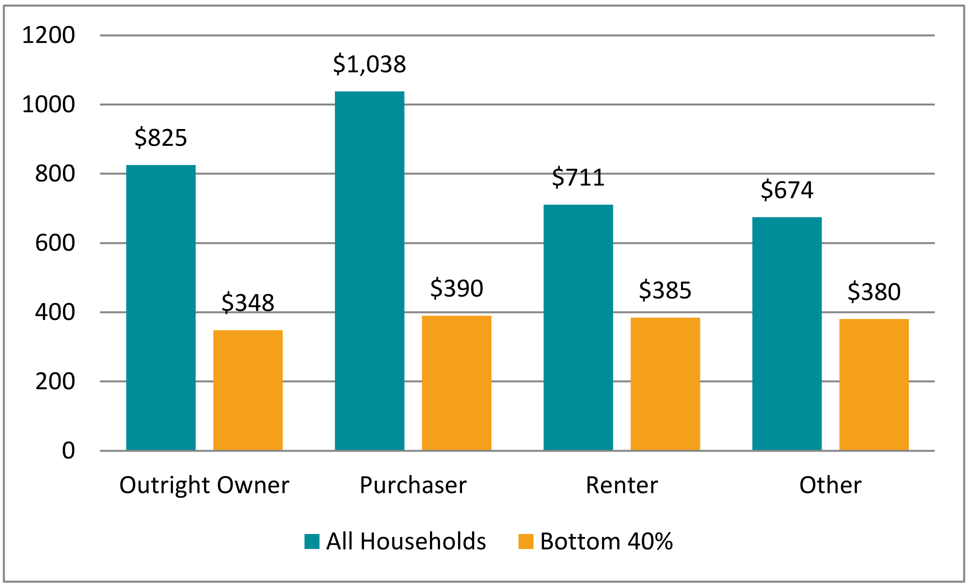


Figure 3c shows more subdued growth for low income families by tenure type. Growth for those purchasing a house is reduced from 20.3 per cent to just 4.7 per cent and outright owners living standards increased by only 3.9 per cent compared to 31.4 per cent for home owners of all incomes through the last decade. Regardless of recent improvements to low income renter living standards Figure 3d shows their relative position remains significantly below that of the all household averages for renters and considerably below that of for purchasing households.

Figure 3d Living Standards by Tenure Type, 2014



In the projection years to 2024 living standard growth is also expected to be more subdued with flat results for all groups except for outright owners whose living standards drop by 4.4 per cent.

4.4 Age of Head of Household

Incomes vary little by the age of the head of the household other than families headed by persons who are not of working age. Those headed by persons under 30 have modestly lower after-housing disposable income than older households aged under 65, but households headed by persons over 65 have significantly lower income levels across all measures[8]. The after-housing measure indicated that households aged 50-64 have a small living standard premium over other households also aged under 65

Table 4 Income Levels by Age of household head, 2014, STINMOD14

Tenure Type	*Median Disposable Income $pw*	*Median Equivalised Disposable Income $pw*	*Median Equivalised Disposable Income $pw (After-Housing)*
< **30**	1,412	987	747
< **50**	1,688	1,067	815
< **64**	1,444	1,039	886
65 +	682	658	618

During the last 10 years living standard increases were strongest, despite their overall lower living standards, for households headed by persons aged over 65. These households enjoyed growth of 42.3 per cent. Households headed by persons aged under 30 had the weakest growth at just 19.1 per cent.

The modelling projects that households headed by persons aged over 65 will enjoy the strongest growth in living standards (+7.4 per cent) over the coming 10 years while those aged under 30 the least. The strength of income growth for older households is driven by the age pension remaining linked to wages and our assumed strong growth in superannuation returns. In terms of the aggregate, 'average household' these sources of growth are expected to outweigh the recent pension cuts for higher wealth aged pension households. A higher wealth

[8] It should be noted that older households may also draw down on a superannuation pension or other assets. Drawing upon such assets is not included as income but does improve living standards. To a less extent such behaviour may not be exclusive to older households.

pension household who loses some or all of their pension due to budget changes however will, in some situations, be significantly worse off nonetheless.

Figure 4a Living Standard Growth by Age of Head of Household

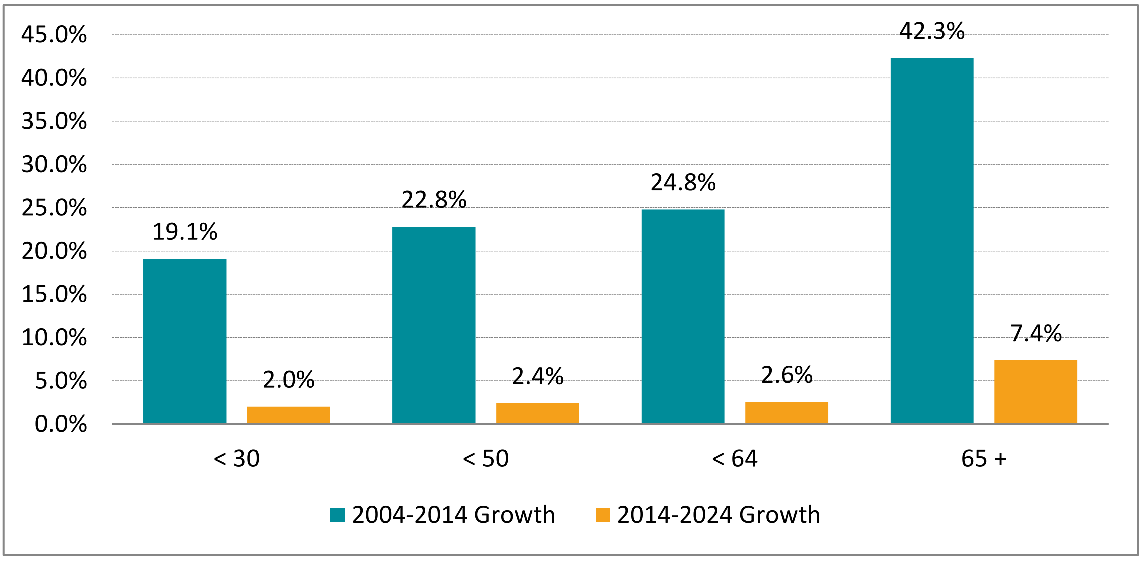


Figure 4b shows there is not a great deal of difference in living standards between households of working age (less than 65). Despite the growth figures, above, living standards are dramatically lower for households headed by persons aged over 65 (with living standards 29 per cent lower than households headed by persons between 50 and 64, immediately before retirement). Furthermore, such a comparison does not take into account the greater ability/likelihood of older households to draw down their assets.

Figure 4b Equivalised Disposable Income by age $2004 pw

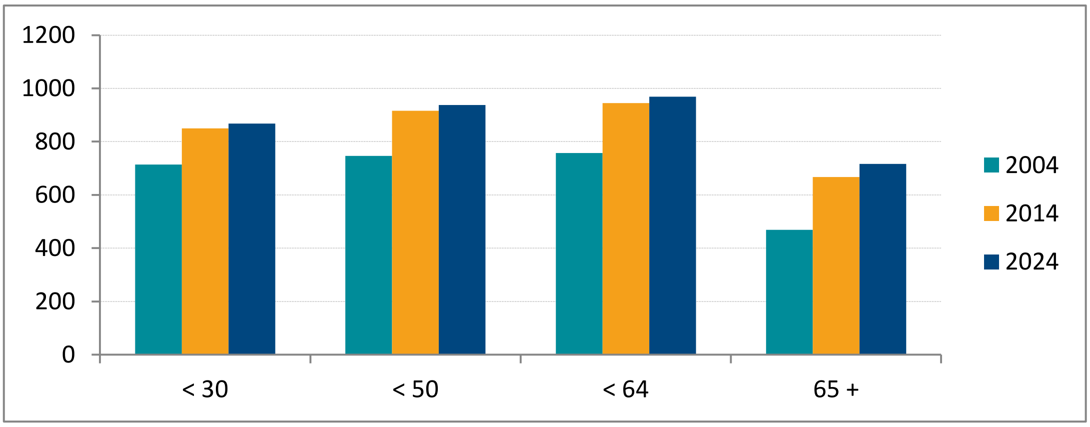


Figure 4c Living Standard Growth by Age of Head of Household, Low-income households

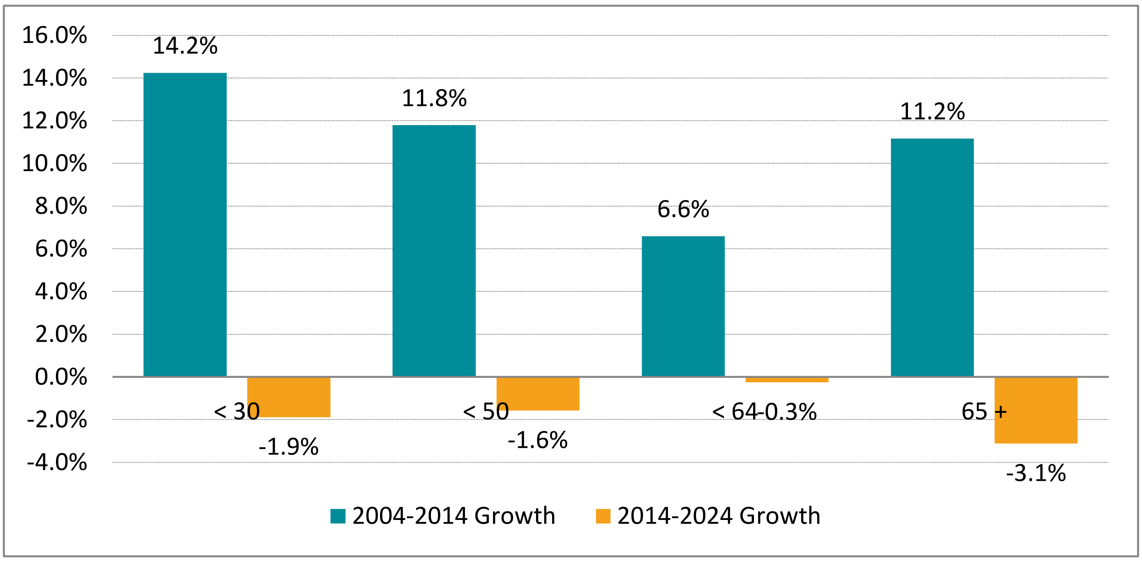


Figure 4c shows that for low income households (bottom 40 per cent) we expect lower living standard growth through the projection years with all groups heading backwards.

Living standard growth between 2004 and 2014 was also weaker for all age groups of lower incomes compared to the all households sample. The reductions in living standard growth are expected to be strongest for low-income households headed by persons aged over 65. Low income (but relatively high wealth aged pensioners) are impacted by the tighter means test in the 2015-16 Federal Budget (Phillips 2015).

4.5 Benefit Type

There are significant differences between beneficiary types in regards to living standards[9]. An aged pensioner household, in terms of equivalised disposable income has an average income of $529 per week compared to just $413 per week for an allowance household. After accounting for housing costs these differences are more dramatic, with aged pensioners around 73 per cent better off compared to allowee households.

Table 5 Income Levels by Beneficiary type, 2014, STINMOD14

Tenure Type	*Median Disposable Income $pw*	*Median Equivalised Disposable Income $pw*	*Median Equivalised Disposable Income $pw (After-Housing)*
Non-Beneficiary	1,617	1,106	890
AGED	547	529	473
CARE	995	663	525
DISA	522	490	397
SOLE	885	514	377
Allowance	636	413	273

During the previous 10 years the benefit types that gained the strongest living standard increases were parenting payment and aged pensions. All these payment are indexed in line with wages rather than allowances that are indexed by only the CPI. The allowance families had lower living standard increases at just 4.3 per cent, well behind the age pension at 22 per cent[10].

Over the coming ten years the projections show that, on average, allowances and parenting payment single (SOLE) incomes will decline in real terms by 8.3 and 10.4 per cent. These drops are expected to be caused by changes in recent Budgets that reduce family payments, and shift some allowees onto lower payments such as Youth Allowance.

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[9] In this analysis we define a household to a certain payment type if that payment is the main source of income for the household. Carer payment results are not shown in 2004 due to a very small sample that matched this criteria.

[10] Caution should be taken in interpreting these growth rates for individual payments since significant changes have occurred to the underlying population bases for some payments. For example, a significant number of sole parent pensioners were shifted to the lower new start payment and many youth allowees were switched to FTB payments received by their parents. Such policy changes can distort these results or make interpretation more difficult.

Figure 5a Living Standard Growth by Benefit Type

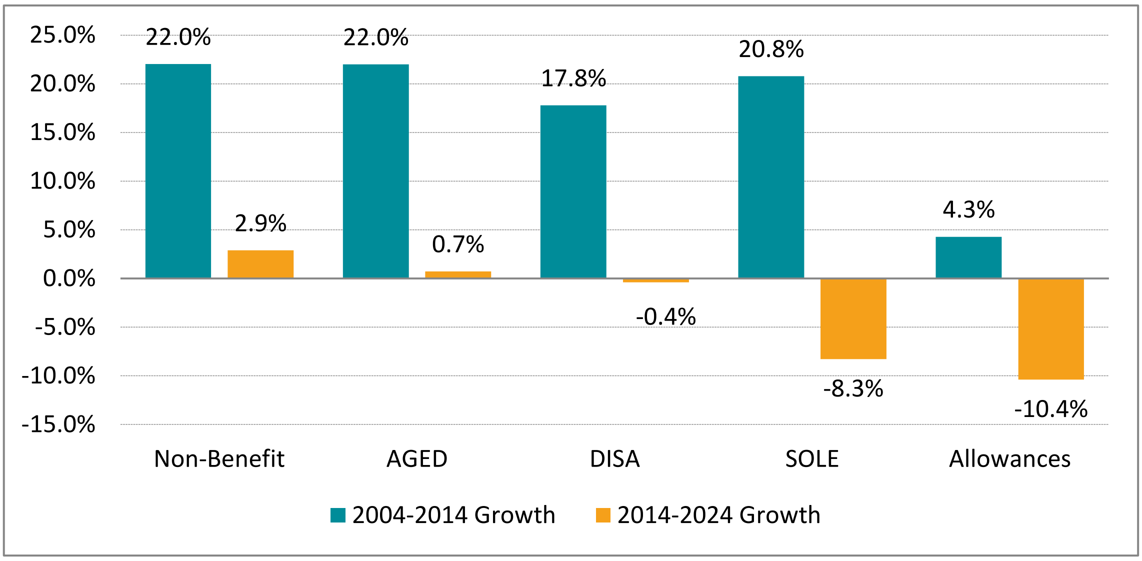
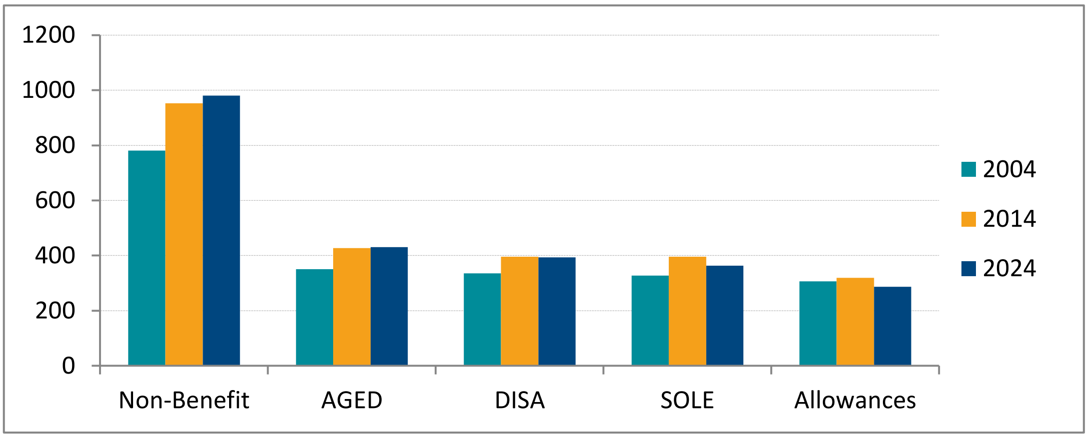


Figure 5b shows that beneficiary households have a much lower living standard than non-beneficiary households. In 2014, on average, a non-benefit household's living standard as measured by equivalised income is around 3 times that of a household where an allowance is the main source of income. Allowance households have a living standard around 25 per cent lower than an aged pensioner household.

Figure 5b Equivalised Disposable Income by benefit type $2004 pw



4.6 State

Once we account for housing costs there is remarkably little difference in living standards between most states. WA and the combined ACT/NT lead the other states but the major states – NSW, Victoria and QLD – are not significantly different from each other. Tasmania has the lowest living standards but is only 5 per cent lower than NSW. Before housing costs, Tasmania is 11.4 per cent lower than NSW[11].

Table 6 Income Levels by State, 2014, STINMOD14

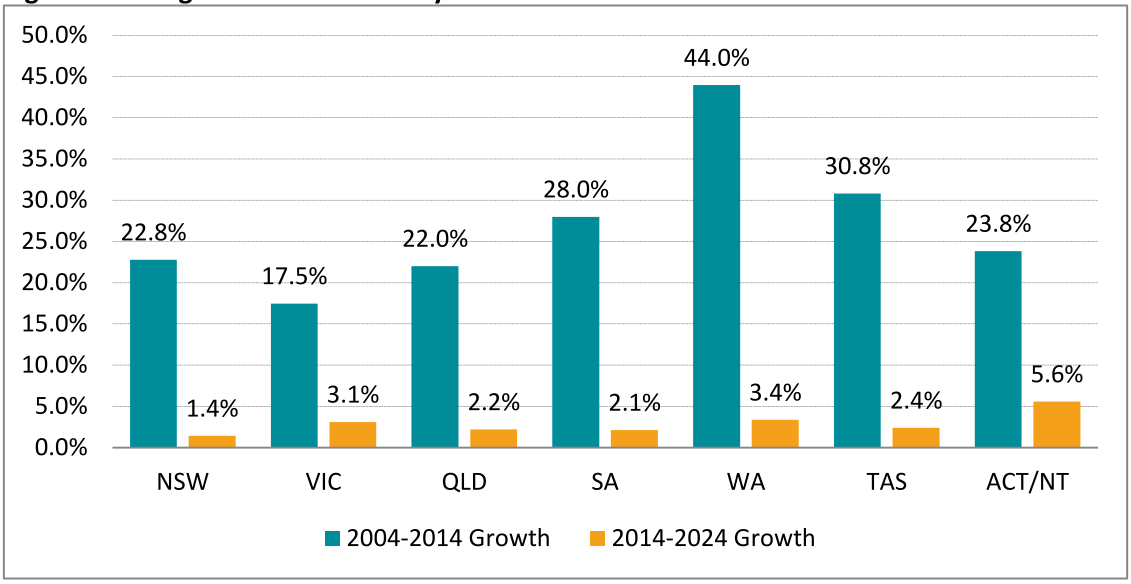
Tenure Type	*Median Disposable Income $pw*	*Median Equivalised Disposable Income $pw*	*Median Equivalised Disposable Income $pw (After-Housing)*
NSW	1,296	916	729
VIC	1,308	891	732
QLD	1,289	889	722
SA	1,148	856	719
WA	1,603	1,123	892
TAS	1,064	812	692
ACT/NT	1,878	1,252	1,023

During the previous 10 years Western Australian households enjoyed easily the strongest growth with average living standards increasing by 44 per cent, around double many other states. Victoria had the weakest increase at just 17.5 per cent.

The projections suggest that again Western Australia will beat the other states with an increase of 3.4 per cent over the coming 10 years while South Australia and Queensland will have the weakest living standard growth at 2.1 and 3.4 per cent, respectively. The combined territories are projected to gain the largest in terms of living standards with a projected 5.6 per cent. It is worth noting these are merely projections based on expected demographic change and budget changes into the future. There are many other factors that cannot be predicted into the future that will alter these results.

[11] While not shown, the 'mean' statistics show a greater divergence between NSW and Tasmania.

Figure 6a Living Standard Growth by State



5 Conclusion

This report has considered trends in living standards over the past 10 years and projects living standards over the next 10 years. Living standards here are measured by disposable incomes where we deduct changes in living costs for different family types.

Quite clearly the boom economic conditions in Australia have not fallen evenly amongst all groups within Australian society. Those who benefited the most include high-income families, couples with children, older households and households in Western Australia.

While all groups have enjoyed an increase in their living standards there are some groups who, from a relative perspective, are falling behind. These groups include low income households, single parents, younger households, and those on allowances such as new start, parenting payment partnered and youth allowance.

Over the next 10 years we would expect, as a result of demographic change, budget change and social security rule changes from the most recent budgets, that some families will fall behind. Groups that are most at risk here would appear to be low income families, allowee households, older households and single parents. The older households who are most at risk of reduced living standards are pensioner households impacted by the asset test changes in the

2015-16 Federal Budget. A small number of pensioner households received a very small pension increase as a result of widening the 'free area' for assets, however, their numbers are fewer and their gains are much smaller than the losses for those with a reduced pension from the tighter asset test.

When the family type, age, state and tenure type are considered for only low income households we find that for all groups, living standard growth is lower between 2004 and 2014. We also find that the projection for living standard growth to 2024 is also lower (falling) for all categories.

Overall, living standards in Australia have grown very strongly over the past 10 years. The gains have not been shared equally between all Australian households with those households already in the most advantaged position generally advancing more quickly than other households. Over the next 10 years will be particularly challenging for the Australian economy and it would seem unlikely that living standards will grow at the same rate as was observed last decade. Given an ageing society and fiscal policy set to reduce payments to low income families our projections suggest that a further widening of living standards could be expected in the years to come.

6 References

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