

Melbourne Institute
of Applied Economic and Social Research



THE UNIVERSITY OF
MELBOURNE

POVERTY LINES: AUSTRALIA
ISSN 1448-0530
JUNE QUARTER 2005

What are the Poverty Lines?

Poverty lines are income levels designated for various types of income units. If the income of an income unit is less than the poverty line applicable to it, then the unit is considered to be in poverty. An income unit is the family group normally supported by the income of the unit.

How the Poverty Lines are Calculated

The poverty lines are based on a benchmark income of \$62.70 for the September quarter 1973 established by the Henderson poverty inquiry. The benchmark income was the disposable income required to support the basic needs of a family of two adults and two dependant children. Poverty lines for other types of family are derived from the benchmark using a set of equivalence scales. The poverty lines are updated to periods subsequent to the benchmark date using an index of per capita household disposable income. A detailed description of the calculation and use of poverty lines is published in the *Australian Economic Review*, 4th Quarter 1987 and a discussion of their limitations is published in the *Australian Economic Review*, 1st Quarter 1996.

The Poverty Lines for the June Quarter 2005

The Melbourne Institute of Applied Economic and Social Research has updated the poverty line for Australia to the June quarter 2005. Inclusive of housing costs, the poverty line is \$605.89 per week for a family comprising two adults, one of whom is working, and two dependent children. This is an increase of \$6.54 over the poverty line for the previous quarter (March 2005). Poverty lines for the benchmark household and other household types are shown in Table 1.

The Poverty Lines are Estimates

As has been stated in paragraph 2, the poverty lines are based on an index of per capita household disposable income. The index is calculated from estimates of household disposable income and population provided by the Australian Bureau of Statistics (ABS). Because the index is based on estimates, the poverty lines themselves will be

estimates. As more information becomes available, the ABS may update population and household disposable income estimates for previous quarters. Whenever these estimates are changed, it is necessary to re-estimate the poverty lines. Accordingly, in addition to providing estimates of current poverty lines, we provide sufficient information for readers to calculate poverty lines for all quarters dating back to September 1973.

**Table 1: Poverty Lines: Australia,
June Quarter, 2005^{a, b}**

<i>Income Unit</i>	<i>Including Housing \$ per week</i>	<i>Other than Housing \$ per week</i>
Head in workforce		
Couple	431.52	315.61
Couple plus 1	518.70	392.32
Couple plus 2	605.89	469.02
Couple plus 3	693.08	545.73
Couple plus 4	780.27	621.59
Single person	322.58	217.09
Single parent plus 1	414.13	298.16
Single parent plus 2	501.25	374.87
Single parent plus 3	588.44	451.57
Single parent plus 4	675.63	528.28
Head not in workforce		
Couple	370.50	254.54
Couple plus 1	457.69	331.30
Couple plus 2	544.88	408.01
Couple plus 3	632.07	484.71
Couple plus 4	719.26	560.57
Single person	261.56	156.08
Single parent plus 1	353.05	237.15
Single parent plus 2	440.24	313.85
Single parent plus 3	527.43	390.56
Single parent plus 4	614.62	467.26

Notes: (a) Based on seasonally adjusted household disposable income per head per week for the June quarter 2005 of \$477.73.

(b) All figures refer to income after tax.

How to calculate poverty lines for other quarters

Table 2 shows the estimated per capita household disposable income for all quarters between September 1973 and June 2005. This table may be used to calculate poverty lines for any quarter within this period. For instance, to find the poverty line for the June quarter 1996 for any household type, multiply the current value of its poverty line by the ratio of per capita household disposable income in the June quarter 1996 to that in the current quarter; that is, the poverty line for a benchmark household in June 1996 would be $605.89 \times 337.08/477.73 = \427.51 .

Table 2: Seasonally adjusted household disposable income (HDI) (\$ per week per head)

	September	December	March	June
1973/74	49.44	51.74	54.59	57.46
1974/75	59.14	63.20	66.64	68.26
1975/76	70.02	73.50	72.96	75.87
1976/77	81.97	83.58	84.54	86.06
1977/78	88.84	90.27	92.87	95.31
1978/79	97.60	99.49	108.02	106.36
1979/80	107.57	111.15	113.31	117.87
1980/81	120.69	124.84	125.37	132.70
1981/82	135.59	141.31	141.82	148.68
1982/83	151.45	154.70	156.07	157.13
1983/84	166.66	169.31	174.40	175.44
1984/85	175.56	178.20	184.11	184.82
1985/86	190.80	195.64	199.26	198.37
1986/87	207.22	208.85	207.47	212.21
1987/88	223.82	218.20	224.09	233.08
1988/89	234.38	243.28	250.23	259.53
1989/90	265.22	271.86	281.11	281.21
1990/91	284.53	284.27	284.40	278.29
1991/92	285.24	287.95	294.26	291.75
1992/93	293.72	293.66	298.83	299.68
1993/94	293.59	300.19	305.69	312.25
1994/95	312.24	318.59	319.28	321.10
1995/96	329.08	332.35	335.89	337.08
1996/97	342.70	345.78	347.01	349.05
1997/98	351.88	352.07	351.59	353.27
1998/99	367.17	363.36	365.33	374.27
1999/00	377.96	375.59	380.45	391.43
2000/01	411.20	405.15	404.73	423.87
2001/02	411.63	420.40	424.50	426.67
2002/03	423.07	426.75	426.93	433.12
2003/04	437.13	444.28	449.16	468.81
2004/05	469.44	469.68	472.57	477.73

Sources: ABS, National Accounts (Cat. No. 5206.0), June Quarter 2005; ABS, Australian Demographic Statistics (Cat. No. 3101.0), March Quarter 2005.

Relative poverty and the cost of living

Updating poverty lines according to changes in per capita household disposable income means that the

poverty lines are *relative* measures of poverty. As real incomes in the community rise, so too will the poverty lines. The value of the poverty lines will therefore be reasonably stable relative to general standards of living, but may change relative to the cost of living.

An alternative method for updating poverty lines is to use a cost-of-living index, such as the ABS Consumer Price Index (CPI). Poverty lines generated in this way are *absolute* measures of poverty. The real purchasing power of the income at the poverty line is maintained, but it may change in comparison to general standards of living.

Table 3: Comparison of poverty line updated using HDI per head and poverty line updated using the CPI

Year	Poverty line (\$/week) for benchmark family updated by		Difference (%)
	HDI per head	CPI	
1973/74	67.6	67.6	0.0
1974/75	81.6	78.7	3.6
1975/76	92.7	89.0	4.2
1976/77	106.6	101.3	5.2
1977/78	116.5	110.9	5.0
1978/79	130.5	120.0	8.7
1979/80	142.7	132.3	7.8
1980/81	159.7	144.6	10.4
1981/82	179.9	159.8	12.6
1982/83	196.4	178.2	10.2
1983/84	217.5	190.2	14.3
1984/85	229.1	198.4	15.5
1985/86	248.6	215.1	15.6
1986/87	265.0	235.3	12.6
1987/88	285.1	252.6	12.9
1988/89	313.1	271.0	15.5
1989/90	348.6	292.7	19.1
1990/91	358.8	308.2	16.4
1991/92	367.5	314.0	17.0
1992/93	376.0	317.3	18.5
1993/94	384.2	323.1	18.9
1994/95	403.1	333.4	20.9
1995/96	423.1	347.4	21.8
1996/97	439.0	352.1	24.7
1997/98	446.7	352.1	26.9
1998/99	466.1	356.5	30.8
1999/00	483.7	365.0	32.5
2000/01	521.6	386.9	34.8
2001/02	533.7	398.0	34.1
2002/03	542.1	410.3	32.1
2003/04	570.5	420.0	35.8
2004/05	599.1	430.2	39.2

Sources: Melbourne Institute, *Poverty Lines: Australia*; ABS, Consumer Price Index (Cat. No. 6401.0), various issues.

Table 3 compares annual movements in the poverty line for the benchmark income unit between 1973/74 and 2004/05 updated in these two ways. The table shows that, by 2004/05, an income unit whose income was adjusted to match movements in consumer prices would have 39.2 per cent *less* income than one whose income was adjusted to match movements in average

household disposable income. Put another way, the real purchasing power of the income at the poverty line rose by 39.2 per cent between 1973/74 and 2004/05.

Comparison of the poverty lines with income support payments

In Table 4 we compare the poverty lines with maximum welfare payments in the June quarter for

various family types. The reported payment levels are for 'standard' situations (excluding, for example, supplementary benefits for remote areas) and take no account of non-cash benefits to which many recipients are entitled. Non-cash benefits include concessions for health and welfare services, housing, transport, education and other goods and services.

Table 4: Comparison of Henderson Poverty Lines with the income of adults who receive maximum welfare payments and have no other income, June Quarter 2005
(Per capita household disposable income = \$ 477.73 per week)

	<i>Basic Payment of Person 1^a</i>	<i>Basic Payment of Person 2 (Partner)^b</i>	<i>Family Tax Benefit Part A^c</i>	<i>Family Tax Benefit Part B^d</i>	<i>Rent Assistance^e</i>	<i>Total Income^f</i>	<i>Poverty Line^g</i>
Couple							
Allowee	180.15	180.15	0.00	0.00	46.20	406.50	431.52
Pensioner	198.85	198.85	0.00	0.00	46.20	443.90	370.50
Couple with 1 child	180.15	180.15	66.78	19.29	57.54	503.91	518.70
2 children	180.15	180.15	133.56	19.29	57.54	570.69	605.89
3 children	180.15	180.15	200.34	36.65	65.03	662.32	693.08
4 children	180.15	180.15	289.66	36.65	65.03	751.64	780.27
Single adult							
Allowee	199.65	-	0.00	0.00	49.00	248.65	322.58
Pensioner	238.15	-	0.00	0.00	49.00	287.15	261.56
Single with 1 child	238.15	-	66.78	39.97	57.54	402.44	353.05
2 children	238.15	-	133.56	39.97	57.54	469.22	440.24
3 children	238.15	-	200.34	57.33	65.03	560.85	527.43
4 children	238.15	-	289.66	57.33	65.03	650.17	614.62

Source: Information booklets on benefits and allowances are published quarterly by Centrelink. The booklets provide details of eligibility criteria and rates of payment for all income support and non-income support payments made by Centrelink on behalf of the Australian Government Departments of Family and Community Services, Employment and Workplace Relations and Education, Science and Training.

Notes: (a) Applicable payments are income support payments, which comprise Allowances, Pensions and Parenting Payments. Allowances include Newstart Allowance, Sickness Allowance, Newstart Mature Age Allowance, Widow Allowance and Special Benefit. Pensions include the Age Pension, Disability Support Pension and Carer Payment. For couples with children, basic payments quoted for Person 1 are Allowance payment rates. Note that the amounts shown do *not* include the pharmaceutical allowance now paid directly to most pensioners, which is currently \$2.90 per week if single and \$1.45 per week per member of a couple.

(b) Applicable payments for Person 2 include those available to Person 1, as well as Parenting Payment (only one member of a couple with children is eligible for Parenting Payment, which is paid at the Allowance rate), Partner Allowance and Wife Pension. As for Person 1, basic payments quoted for couples with children are Allowance payment rates.

(c) Family Benefit Part A applies to families with low to moderate incomes. The maximum rates payable are shown in Table 4 (applicable when annual family income does not exceed \$32,485), but exclude the Family Tax Benefit Part A supplement of \$613.20 per child for the 2004-5 year, paid at the end of the financial year. The benefit per week is \$66.78 for each child under 13 years of age, \$84.70 for each child between 13 and 15 and \$21.49 for each child aged 16 to 17 years. Eligible families also receive \$28.91 for each dependent child aged 18-24 years who is in full-time education. In Table 4, we assume the first three children are under 13 and the fourth is between 13 and 15. In addition, there is a supplement of \$4.62 per week for the fourth child.

(d) Family Tax Benefit Part B targets assistance at single income families. The payment depends on the age of the youngest child and, in a partnered relationship, the income of the secondary earner. We assume the youngest child is under the age of five for families with 3 or 4 children and over five for families with 1 or 2 children. The maximum rate of payment is \$57.33 per week for families with children under 5 years of age and \$39.97 per week for families whose youngest child is aged between 5 and 18 years (with a requirement that the youngest child be in full-time education if aged 16-18).

(e) Rent assistance is an extra payment for families who pay more than a minimum amount per week for rent or lodgings. It is not paid for rental of government houses or flats and is subject to a means test. The maximum rate is \$49.00 per week for single persons, \$46.20 for couples with no children, \$57.54 for families with one or two children and \$65.03 for families with three or more children.

(f) Total income is the sum of allowances, pensions and benefits for persons who have no other income. The total for unemployed beneficiaries refers to those aged 21-59 years (not living with a parent if aged less than 25 years). To be comparable with the poverty lines, total income reported should be net of personal income tax. However, allowing for rebates, little income tax would be payable for most welfare recipients who received no other income. Hence, direct comparisons of total income with the poverty lines are generally likely to be valid.

(g) Poverty lines for single persons and married couples with up to four children are shown here, inclusive of housing costs. For recipients of allowances, the income unit head is assumed to be in the workforce, since this is a requirement of the most commonly received allowance, Newstart Allowance. For pensioners and sole parent families, costs are based on poverty lines for income units where the head is not in the workforce.