



REPORT TO OFFICE OF EMPLOYEE OMBUDSMAN

Minimum Pay Rates: State Wage case
- Low Income in South Australia

Background

This report is a response from UnitingCare Wesley Adelaide to the State Wage case and mainly focuses on the State wage case from the perspective of low income earners and their capacity to live decently on wages at or near the State minimum wage.

UnitingCare Wesley Adelaide is an agency of the Uniting Church and is a South Australian community service organisation with over 100 years experience in providing services to assist low income and disadvantaged people. We work with individuals, families and communities to break the cycle of disadvantage, in a range of settings across South Australia.

Our vision is for a compassionate, respectful and just community in which all people participate and flourish.

Based on Christian ethics our values are:

- Respect and compassion for all people
- Belief in the innate worth of all people
- Justice, particularly for those disadvantaged in our society
- Being a service to others
- Restlessness for what could be
- Non-violence and peace

SUBMISSION OVERVIEW

The first section takes the population wide view of low modest income households and provides some data about their financial position compared to other groups and community from which we subsequently draw implications about appropriate levels of wage income for households that can be regarded as “working poor”.

The first section considers the South Australian household financial position from four perspectives:

- Income
- Wealth
- Financial Stress
- Well Being / Health

Signed.....

Sue Park

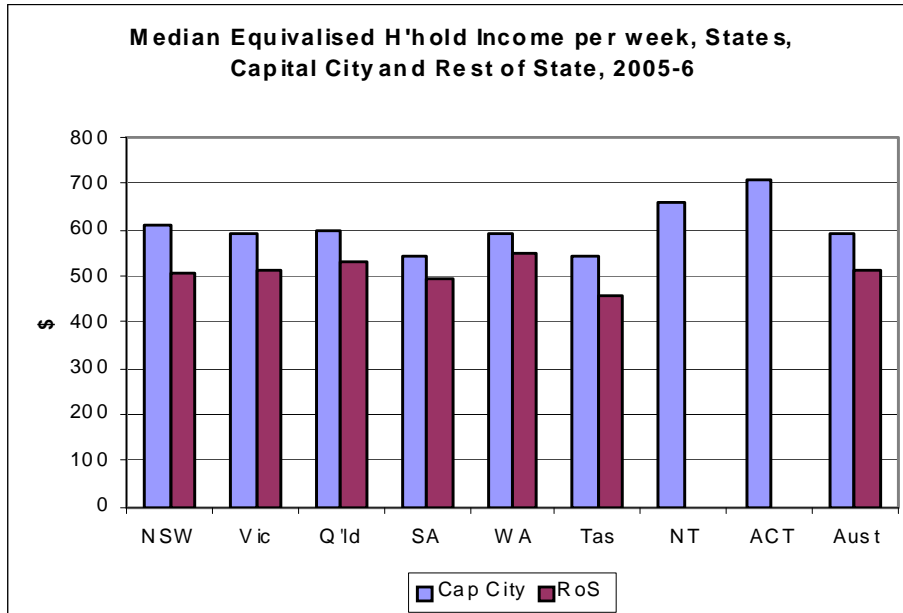
Chief Executive Officer

UnitingCare Wesley Adelaide

SA Household Financial Position

1 Income

Median Household Equivalised Income



Graph 1

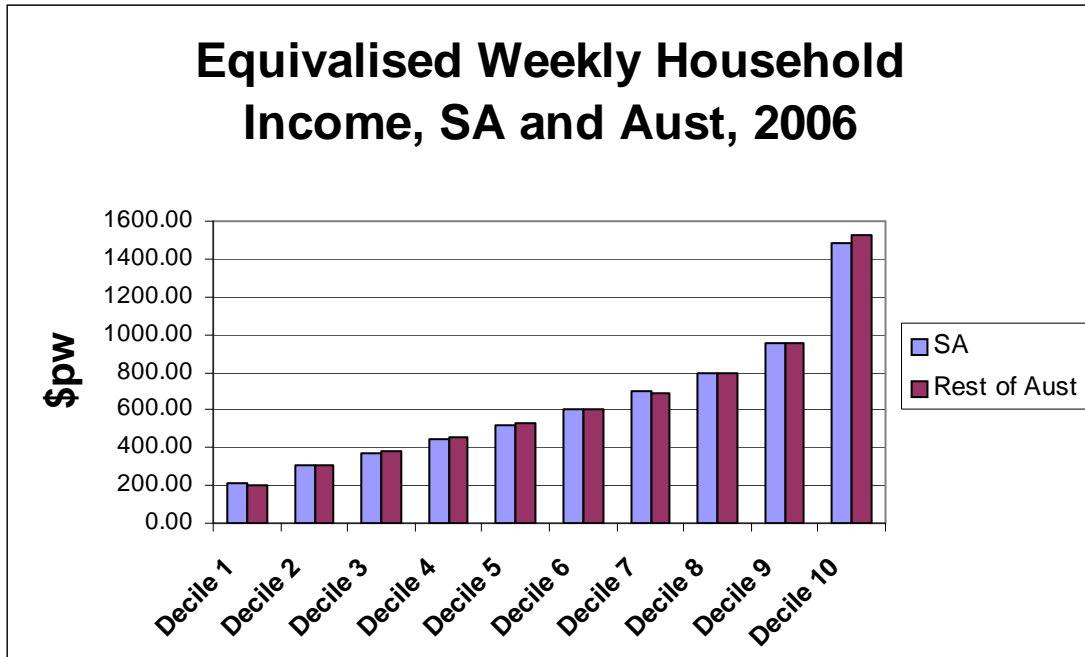
Graph 1 shows that median household incomes in South Australia are the lowest of any mainland state.

This second graph shows equivalised weekly household income by decile, for South Australia and Australia, in 2006, and shows that South Australian incomes are similar or a little lower for each decile, except the seventh decile.

More significantly, median household equivalised income for South Australia was \$27,203.80,

This means that **a half of all South Australians has a total disposable income of less than \$27,200 for a year.**

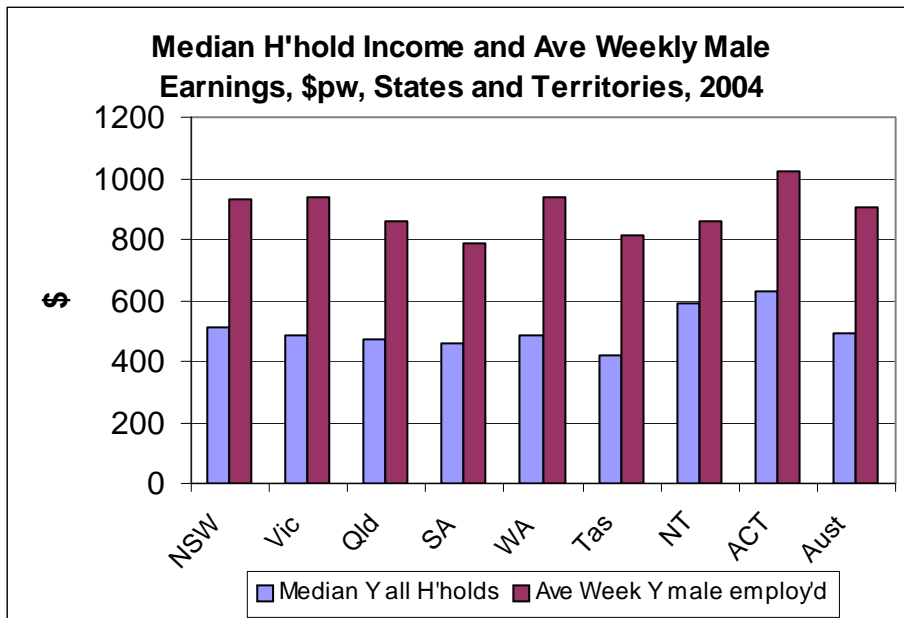
It is not uncommon for average, (or mean) household income to be regarded as the level of income that 'most households' receive. In 2006, mean, gross, household income was \$53,300 per year, nearly double the actual disposable income of the poorest half of all South Australian households. This measure is shown in graph 2.



Graph 2

Graph 2a demonstrates graphically, the difference between median and average (or mean) incomes, the two most common measures used for comparison of incomes.

Due to the highly skewed nature of income distribution, median household income is significantly lower than mean or average income levels. Since median is the mid point of the income distribution, it is considered to be a better measure.



Graph 2a

Part of the explanation for the high numbers of households with low incomes is a comparatively higher level, than interstate, of SA households relying on government pensions and benefits as their primary source of income.

However, experience of welfare agencies, including UnitingCare Wesley indicates that significant numbers of people who live in households with government pensions and benefits as their primary source of income, are also wage and salary earners in low paid part-time and casual jobs.

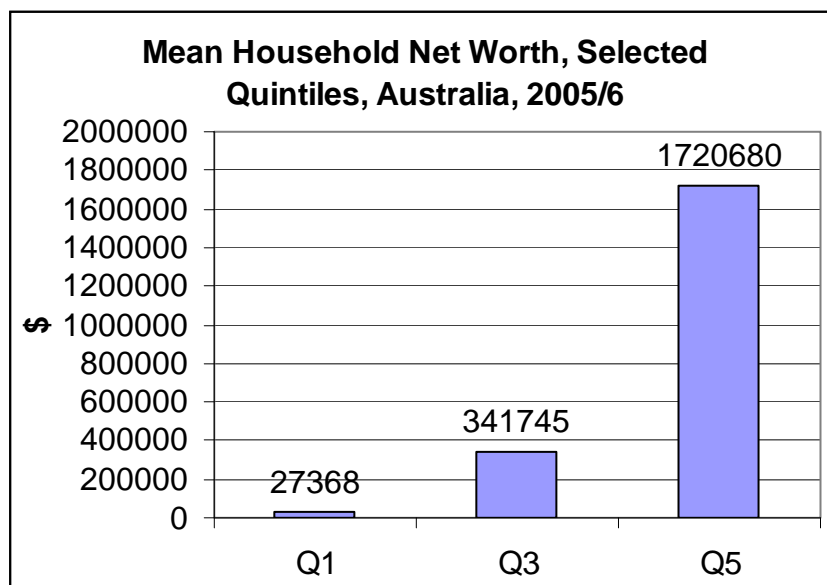
Minimum wage rates are very important in the ability of a number of benefit recipient and working poor households to be able to meet the basic living costs.

2. Wealth

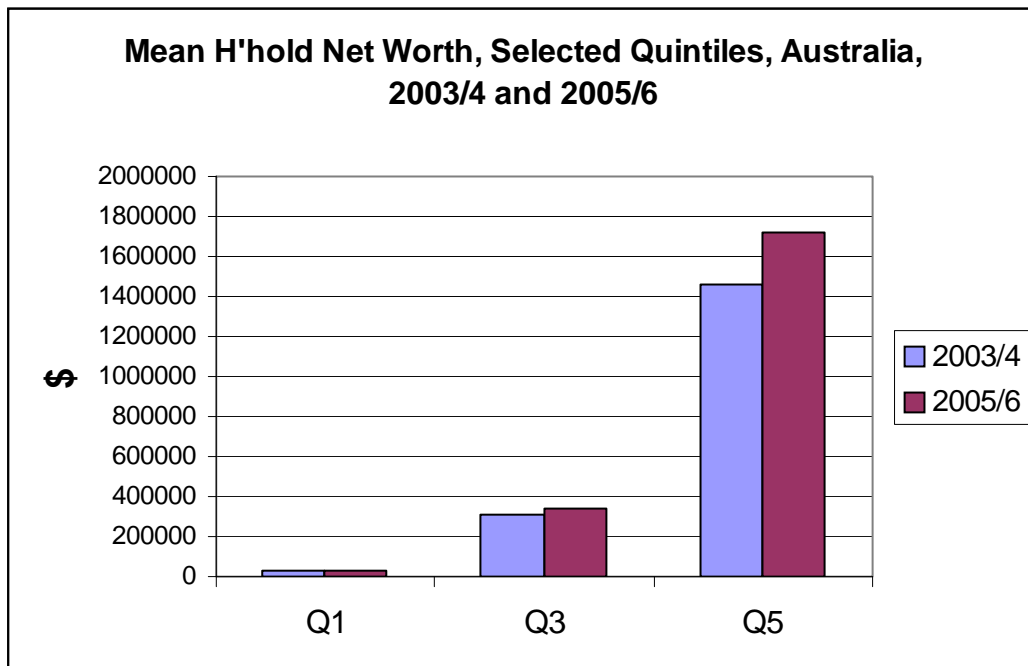
Wealth is another useful indicator of capacity to cope, particularly for households confronting uncertainty or significant cost shocks. While most wealth holdings cannot be converted to cash or income in the short-term, higher wealth households facing financial difficulty, generally have the capacity to move wealth holdings into cash or even income. Higher wealth households also have greater certainty in the future. The most common wealth holdings for Australian households are housing and superannuation, both of which provide a degree of certainty for households approaching retirement or confronting a disability or disabling illness.

Graph 4 shows that wealth is highly skewed in Australia with the richest 20% of the population having average wealth holdings over 63 times higher than the average wealth holding of the lowest 20% of the population.

Since the average wealth holding for the poorest 20% of households was a total of \$24,300 in 2004, it is apparent that these households are renters not housing purchasers, and have minimal financial reserves.



Graph 4



Graph 5

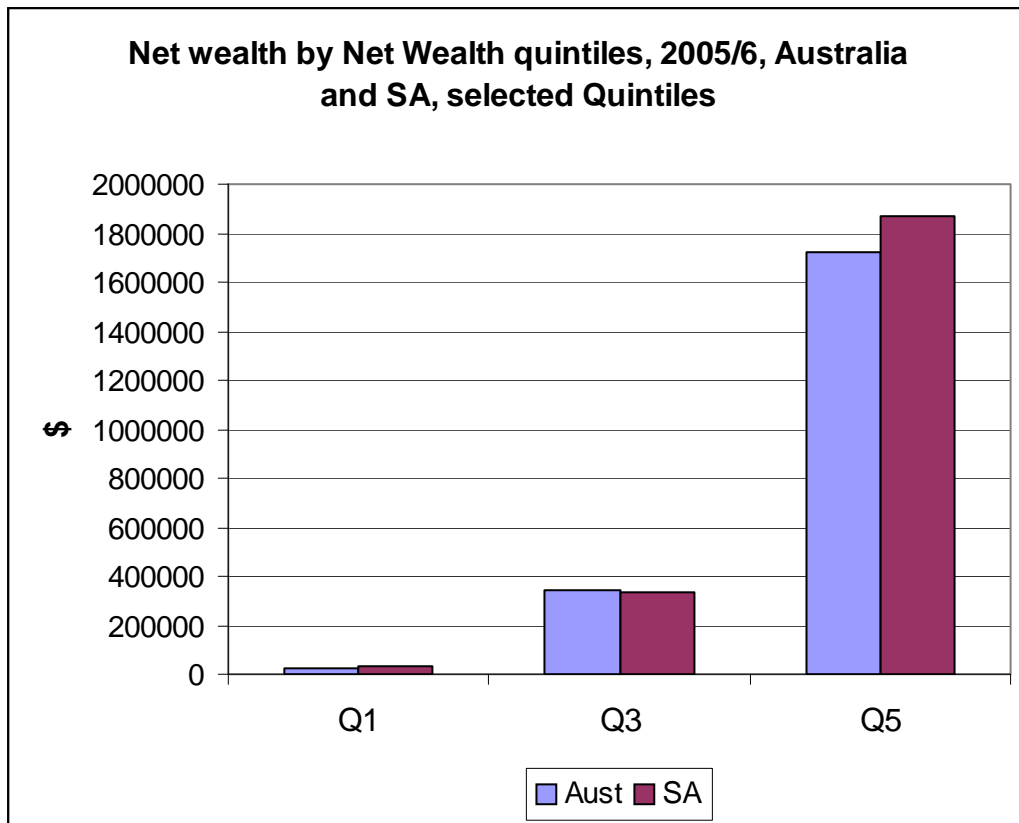
Graph 5 shows that in the two years between 2003/6 and 2005/6, net wealth grew for all quintile's. However, for the poorest quintile the change in net wealth was 6%, less than the CPI for that period of time. While for the highest quintile, net wealth per household increased by 18% on average, an increase of \$262,000 in dollar value compared to a dollar value increase of \$1,657 for the poorest 20% of the population. This information is presented in table 1 below

Mean household net worth, Australia, 2003/4 and 2005/6

| | 2003-04 | 2005-06 | % Change |
|---------------------|-----------|-----------|----------|
| Low Net Worth Q1 | 25,711 | 27,368 | 6 |
| Middle Net Worth Q3 | 312,717 | 341,745 | 9 |
| High Net Worth Q5 | 1,458,002 | 1,720,680 | 18 |
| All Households | 494,346 | 562,859 | 14 |

Table 1

Graph 6, below, and table 1 both compare net wealth for the first (poorest), third and 5th net wealth distribution quintiles for Australia and South Australia. The graph shows that wealth distribution is very similar for South Australia and Australia, with the poorest 20% being very similar, the middle quintile wealth for Australia is slightly higher than for South Australia, while average wealth for the richest quintile is higher in South Australia than for Australia.



Graph 6

Real net wealth for low income households in South Australia is reducing in real terms while higher income households are doing very well.

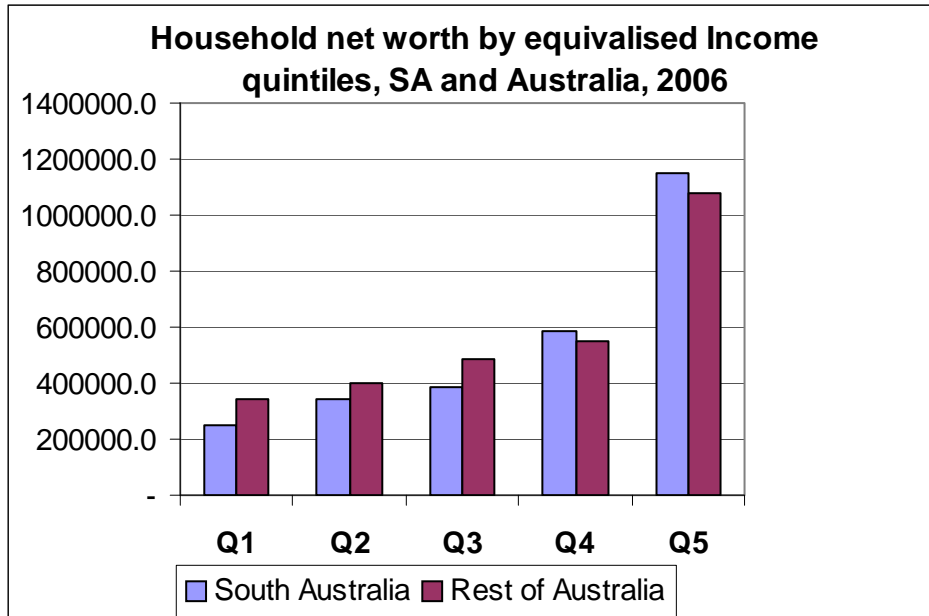
Average total wealth for the poorest 20% of South Australian households in 2005/6 was \$29,482

A different measure of wealth, real net wealth by equalised income quintiles, is given below, in graph 7. (The main difference between the wealth measures is that using equalised income quintile's, asset rich and income poor households are included in lower quintile's giving a significantly greater average net worth value.) The following is an extract from the Explanatory Notes of publication 6554.0, help to explain this (see points 34 and 35):

".....would be misleading to assume that household net worth and household income necessarily have a positive relationship"

"..older households may have accumulated relatively high net worth over their lifetimes, but have relatively low income in their retirement")

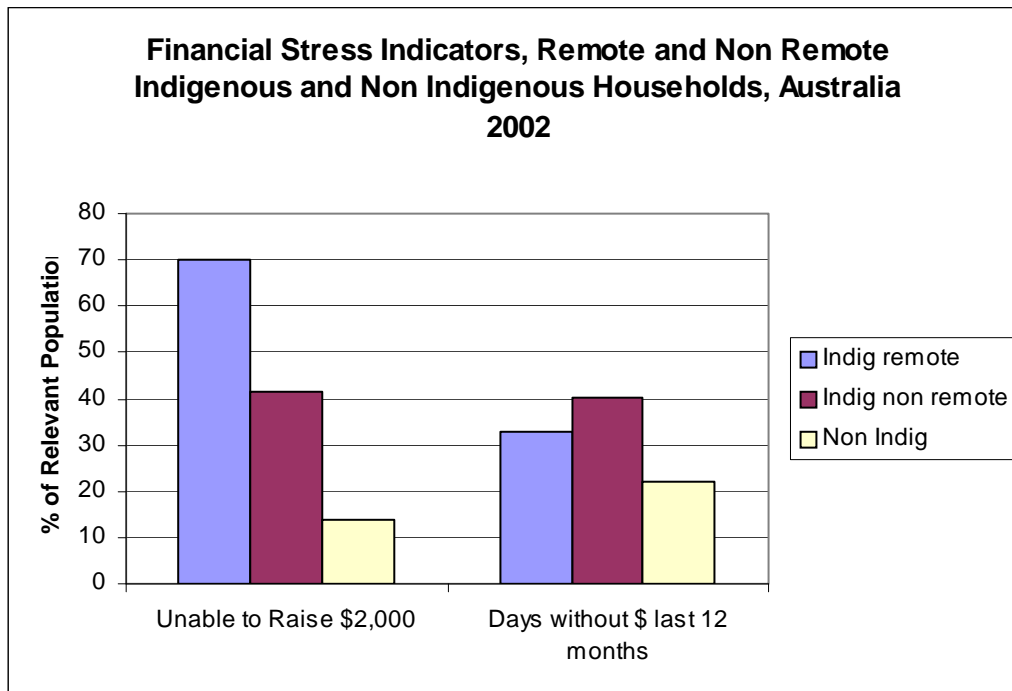
The main point we wish to highlight from this indicator is that, using this measure, household net worth for the poorest 60% of South Australian households is lower than for Australia, while for the richest 40% of the population, the average net worth is greater than for the rest of Australia. This is further evidence of the growing gap between low and higher income households, with the gap growing faster in South Australia.



Graph 7

3. Financial Stress

The following graph give an indication of financial pressure on low income households using two measures of 'deprivation'; the ability to raise \$2000 in a crisis and days without any access to cash over the previous 12 months.



Graph 8

Graph 8 provides selected deprivation measures by income groupings. From graph 8 it is evident that indigenous people, particularly in remote communities, are the people most likely to experience deprivation in South Australia. However, the graph indicates that about 40% of indigenous people

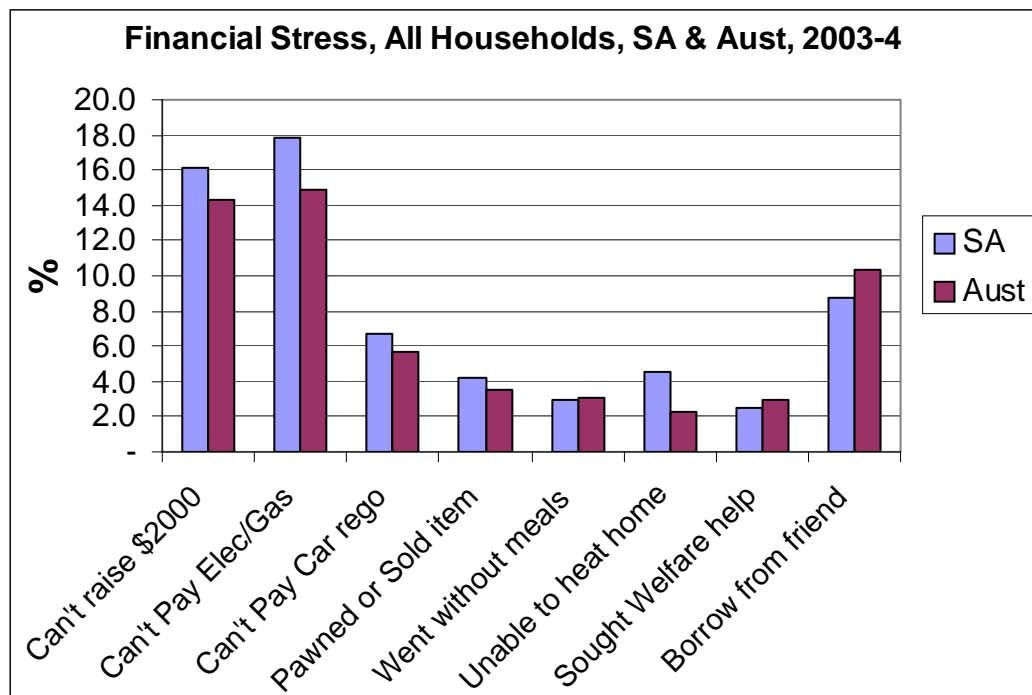
in non remote communities, experience deprivation. This suggests to us that particular consideration needs to be given to capacity to pay for indigenous households.

A very useful way to measure whether households are coping with the ability to pay for the basics of life is to consider a range of measures of financial stress.

This section considers a range of measures of financial stress:

- *Unable to raise \$2000 for something important in a week*
- *Could not pay electricity, gas or telephone bills on time*
- *Could not pay for car registration or insurance on time*
- *Pawned or sold something*
- *Unable to heat home*
- *Sought assistance from welfare/community organisations*
- *Sought financial assistance from friends or family*

These various indicators are shown for both the poorest 30% of households, (the lowest three deciles of the income distribution), and the remaining 70% of households. The poorest 30% of households are those households most likely to include wage and salary earners whose income is derived from government benefits, minimum wage jobs and a combination of the two. The financial stress experience of the poorest 30% of households relates directly to those households dependent on minimum pay rates.



Graph 9

Graph 9 shows that for most measures of financial stress, the only two indicators of financial stress where South Australian rates are lower than for the rest of Australia, are “sought help from welfare agency” and “borrowed

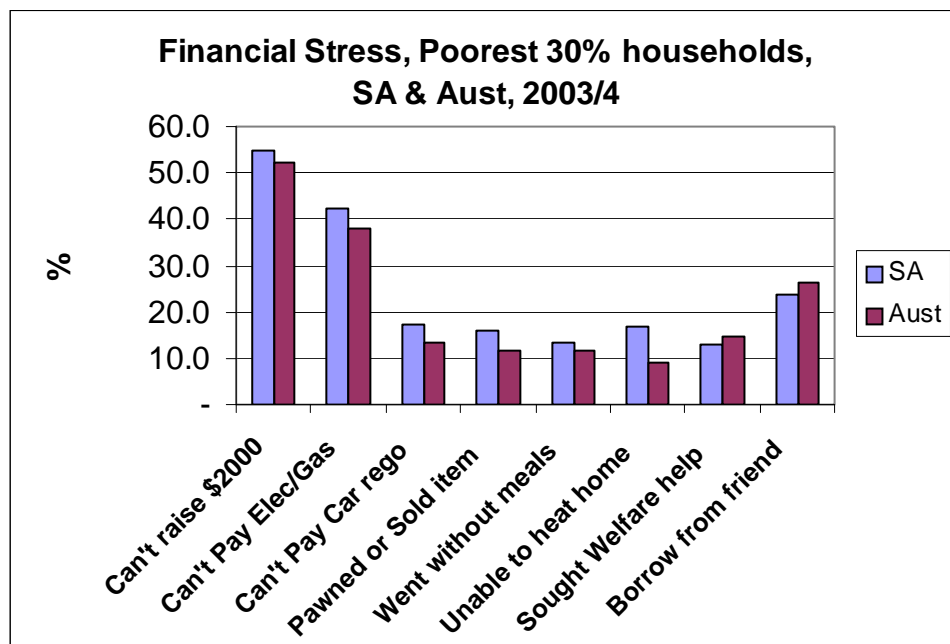
from friend”, perhaps suggesting that South Australian households are more likely than their interstate counterparts to seek help, even though their financial stress levels are higher.

We note that energy-related financial stress rates are very high for South Australia with 18% of all households struggling to pay electricity and gas bills on time. The measure of unable to heat home is also much higher in South Australia than for the national average, no doubt reflection of cold winters in the southern parts of Australia.

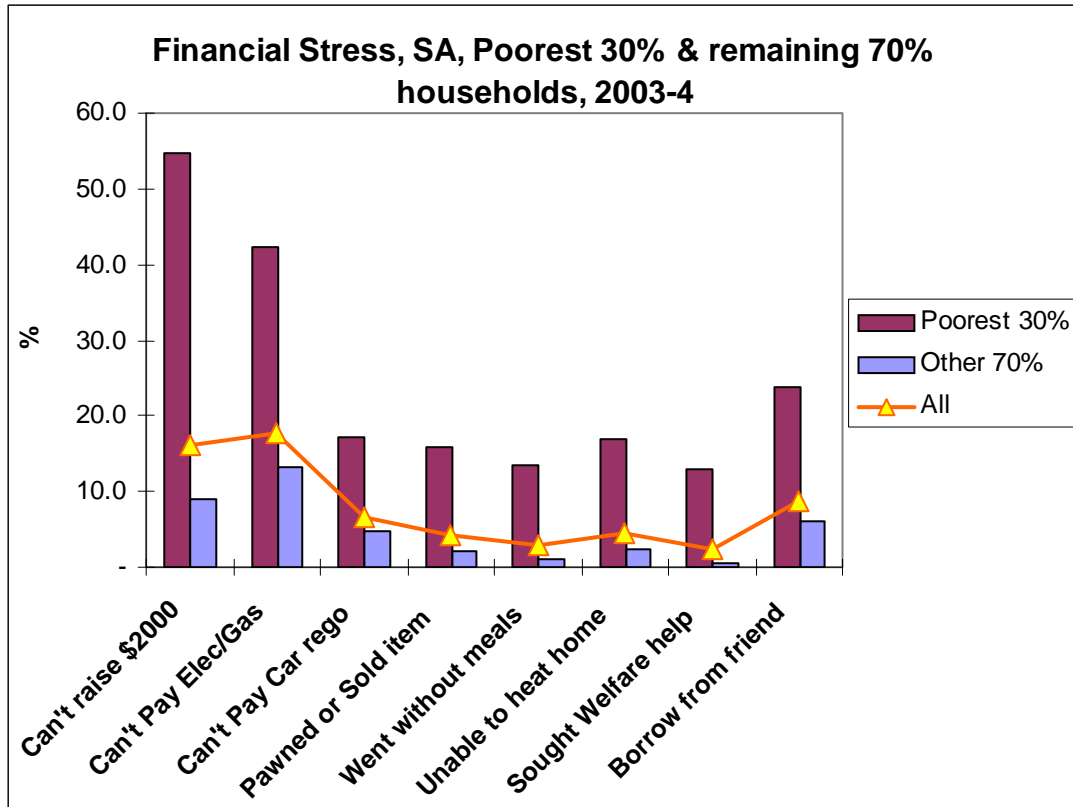
The next graph, Graph 10, repeats the theme in the previous graph of South Australian households experiencing financial stress and a higher rate than the rest of Australia. This graph concentrates on the poorest 30% of the population, a significant part of the group most impacted by minimum State wage rates.

Of significant concern is that over half of all households in the poorest 30% of income distribution could not raise \$2000 in an emergency, and 40% have difficulty paying for essential services, specifically gas and electricity.

Also off significant concern from this data is that 13.5% of the poorest 30% of households went without meals, due to financial hardship.



Graph 10



Graph 11

Graph 11 compares financial stress measures for South Australia, comparing financial stress for the various measures, between the poorest 30% of the population and the balance of households.

These figures mean that, for the entire SA adult population of 1.29 million people (15 years and over):

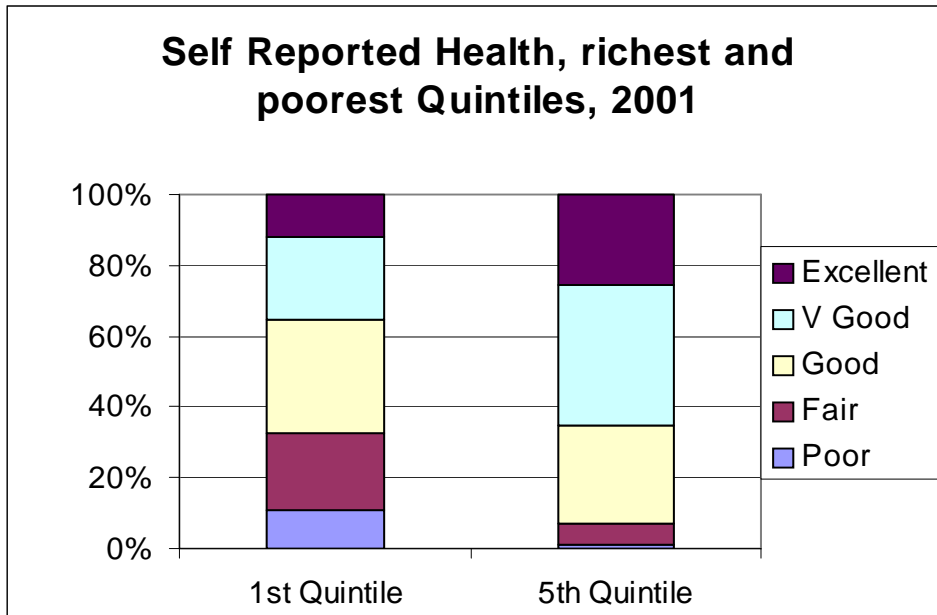
- 230,918 SA citizens could not pay energy bills on time
- 208,864 SA citizens could not raise \$2000 in an emergency
- 38,919 SA citizens went without meals because they could not afford to buy food

4. Wellbeing (Health)

Graph 12 shows a significant relationship between income and health; poorer people are much more likely to be unhealthy. About a third of all people in the lowest quintile of the income distribution report 'poor' or 'fair' health. For the highest income quintile, the proportion of people reporting 'poor' or 'fair' health is about 5 times lower than for poor people.

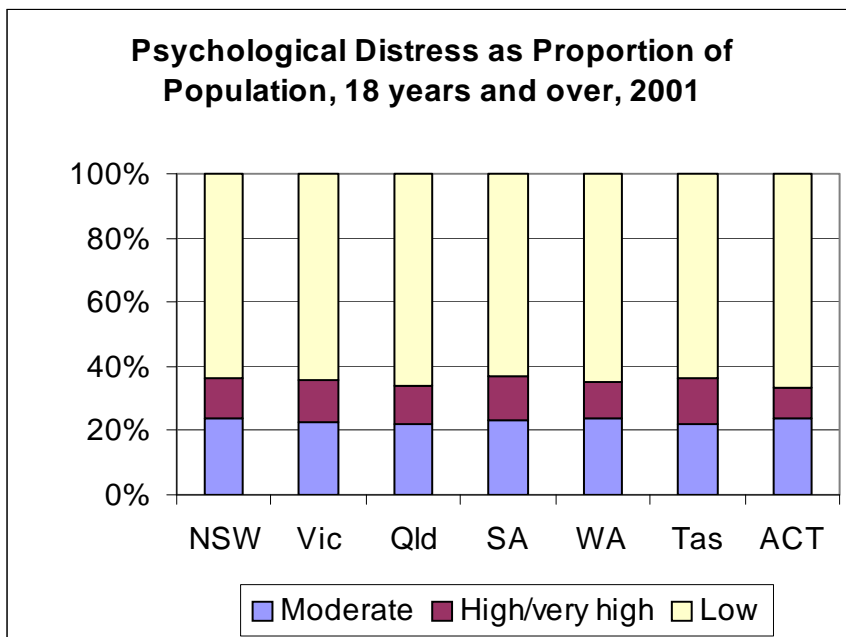
Graph 13 shows that nearly 40% of South Australians report 'Moderate,' 'High' or 'Very High' levels of psychological distress, an indicator of mental health problems. While we are not aware of any clear research relating to the relationship between energy use and mental health, our own anecdotal evidence suggests that, as for physical illness, the relationship is highly likely to be one where higher levels of mental health correlate with higher levels of energy use.

Health and Income



Graph 12

Mental Health

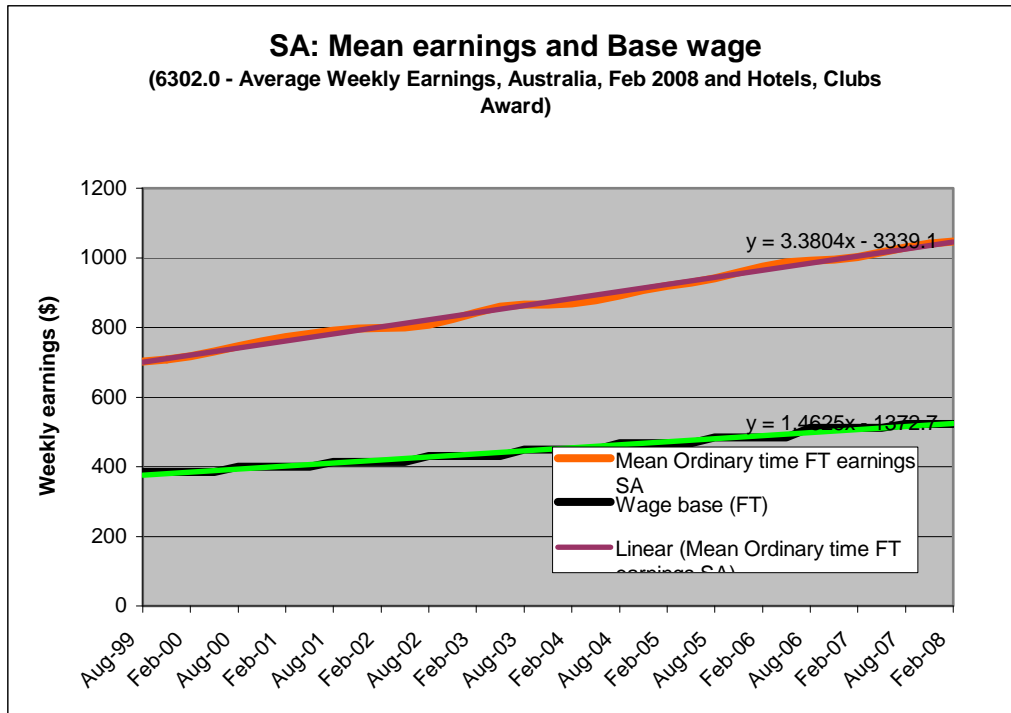


Graph 13

Note: All data reported is from ABS, unless otherwise stated.

2. Wages in SA

While other presenters will no doubt consider wage differentials in greater detail than this submission, graph 14 plots mean (average) full time ordinary earnings and minimum state pay rates for SA.



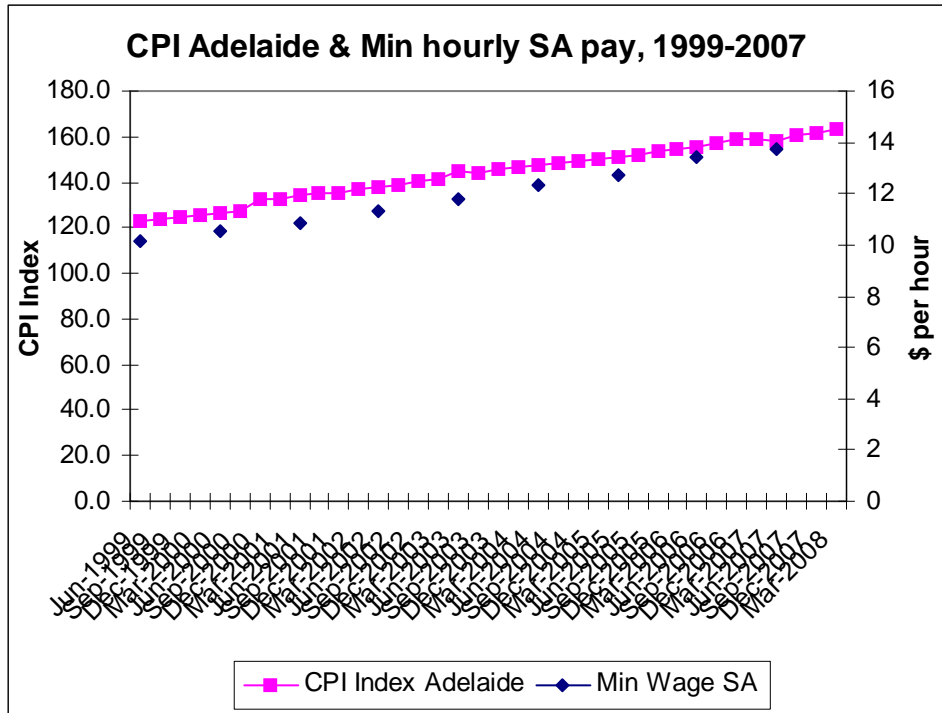
Graph 14

Graph 14 also includes trend lines for both series. The trend lines are very clearly linear with an R squared (goodness of fit of trendline to actual data) of 0.994 for the mean earnings series and 0.982 for the minimum wage series. The gradients of the two trend lines demonstrate that mean earnings are growing faster than minimum earnings, the gradient for the mean earnings trendline is 3.38 compared to 1.46 for the minimum pay rate.

Average pay rates are growing at a significantly faster rate than minimum pay rates in South Australia

3. Affordability of Essential items

The consumer price index, CPI, is widely used to represent changing costs for households. Graph 15 plots CPI for Adelaide against minimum wage.

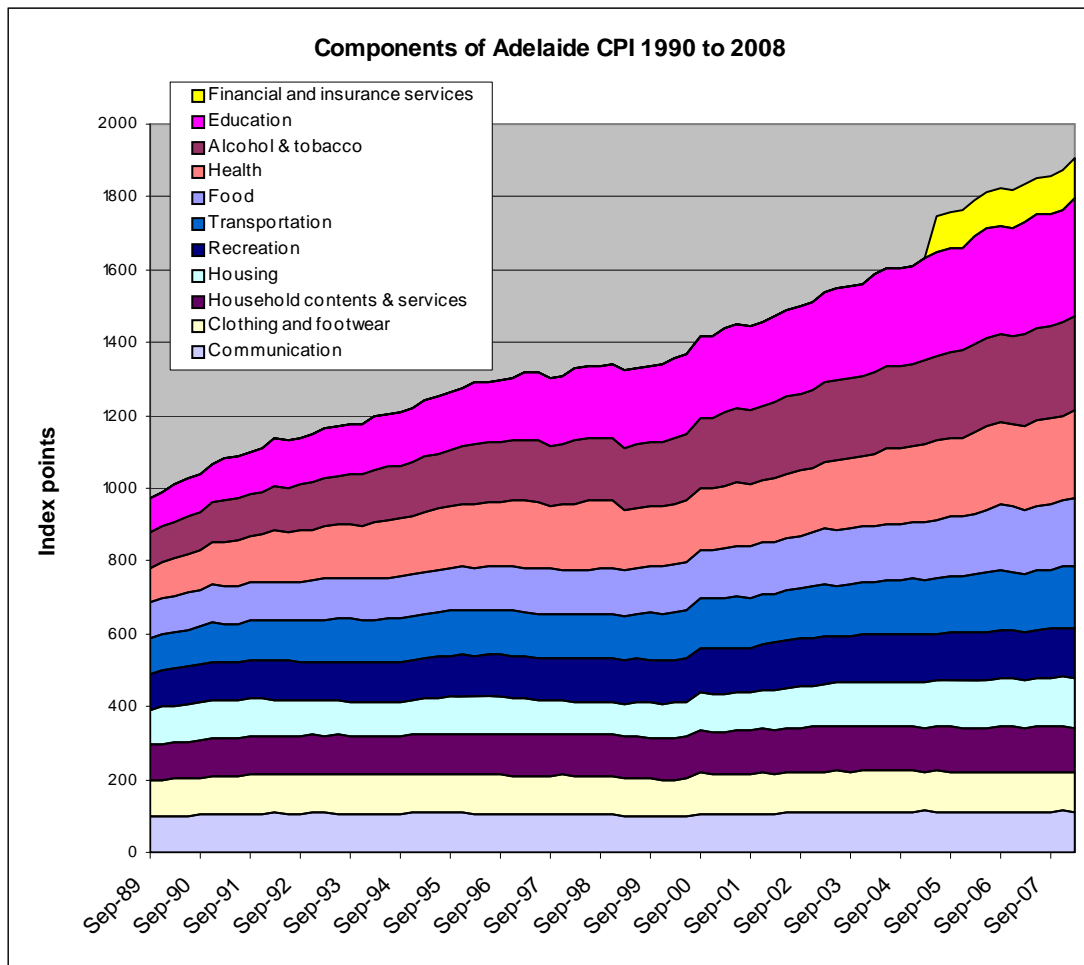


Graph 15

This graph shows that CPI for Adelaide and the minimum wage for South Australia are highly correlated.

However, the CPI is an index instructed by measuring aggregate changes in prices for a substantial basket of goods.

Graph 16 shows components of the CPI, for Adelaide, and also gives an indication of the relative changes in cost of these components over the nearly two decades to the current year.



Graph 16

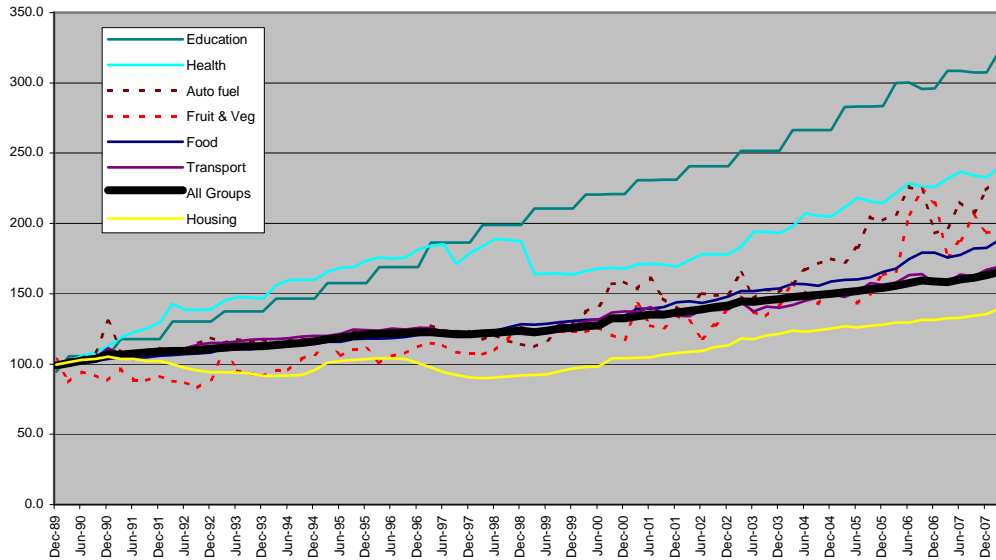
The following pulls out some key elements of CPI, and demonstrates that significant costs for low income households have increased at a greater rate than aggregate CPI, leaving no income households worse off.

The significant increase in the following costs, are offset in the CPI by reductions in prices for items, including audiovisual and computing equipment, i.e. larger capital costs, which are discretionary and not part of the recurrent living costs for low income households.

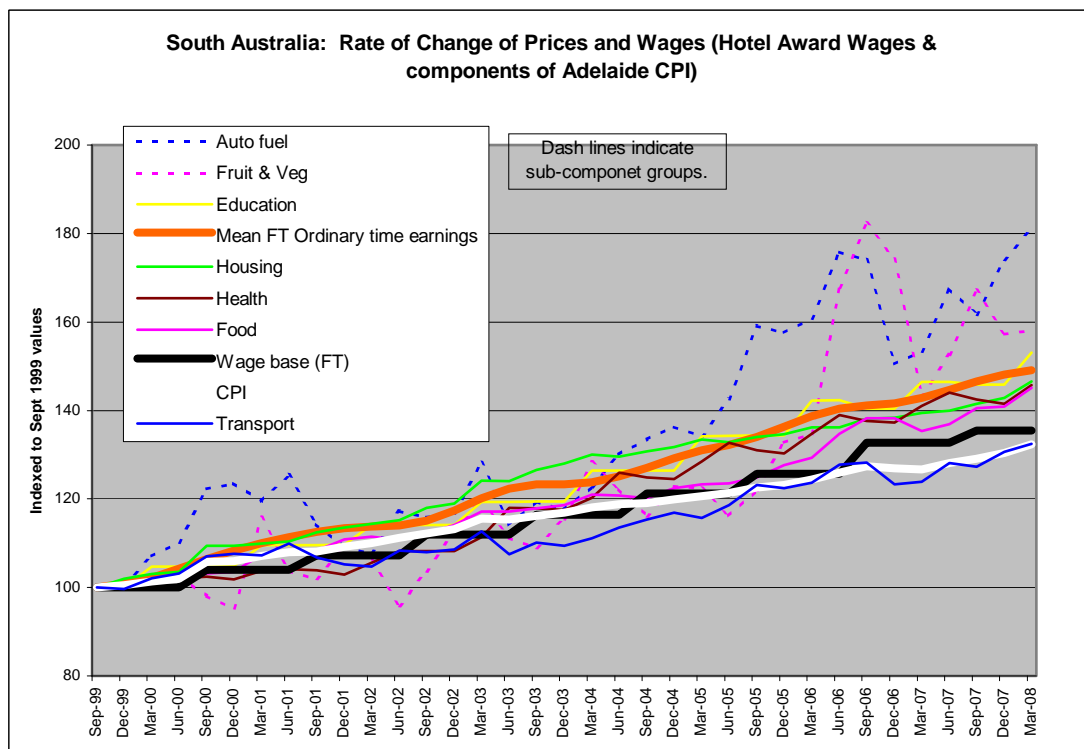
Graph 17 shows price rises for a range of essential household living costs, from 1999. The graph shows that the costs of education, health, petrol and fruit and vegetables have grown at a much faster rate than CPI, (shown on the graph as “all groups”) and hence a much faster rate than minimum wage rates. The data presented on graph E3 is shown as indexes, with 1989 being set at 100 for each data series presented.

Graph 18 shows elements of the consumer price index, from 1999. Note that the rise of education costs is less obvious for the shorter time period than for the longer time series. The higher education contribution scheme (HECS) was introduced in 1989 explaining why education costs rose dramatically, compared to other elements of CPI, from this year.

Graph 18 also shows mean average ordinary earnings and SA minimum wage rates. Some can be seen from the graph that food, housing and health costs have grown at faster rates than minimum wage rates, but at or below the rate of increase for average earnings. This further demonstrates the financial pressure on low income wage earners compare to middle and higher income wage earners.

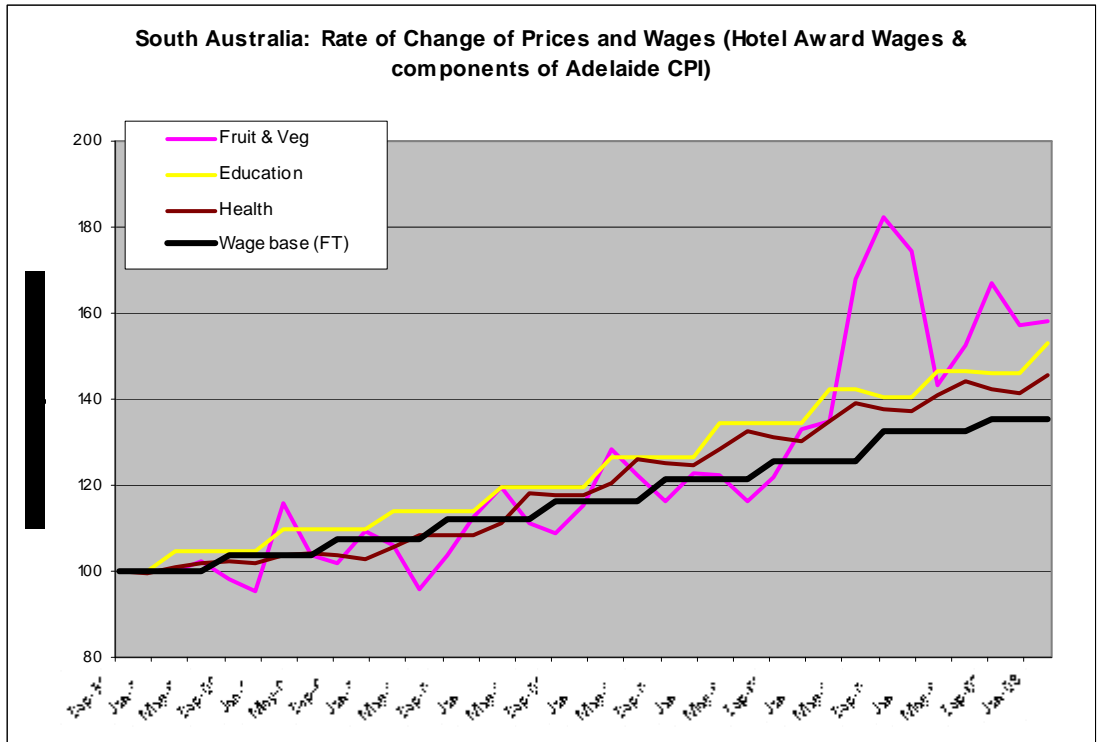


Graph 17



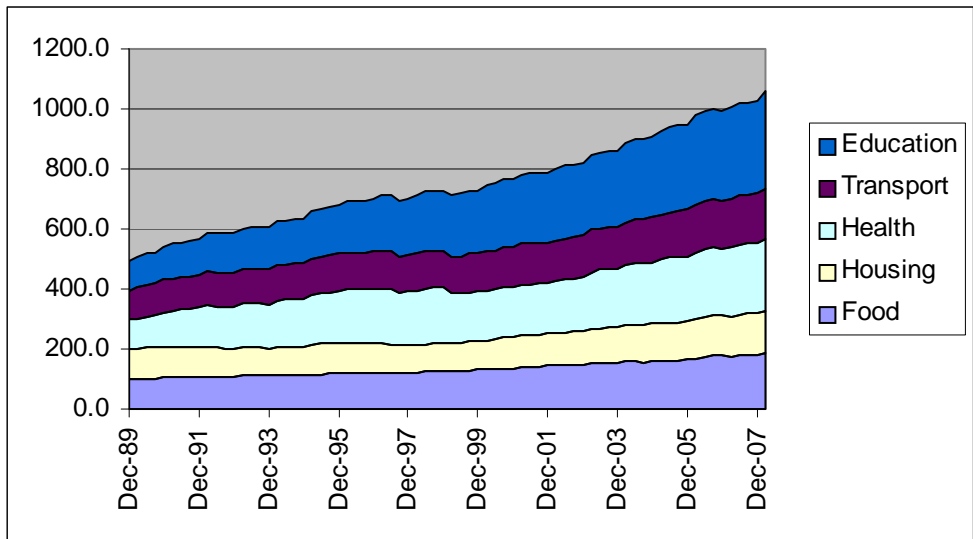
Graph 18

The increase of health, education, and fruit and vegetables costs being greater than increases in the minimum wage rate is shown in the next graph 19



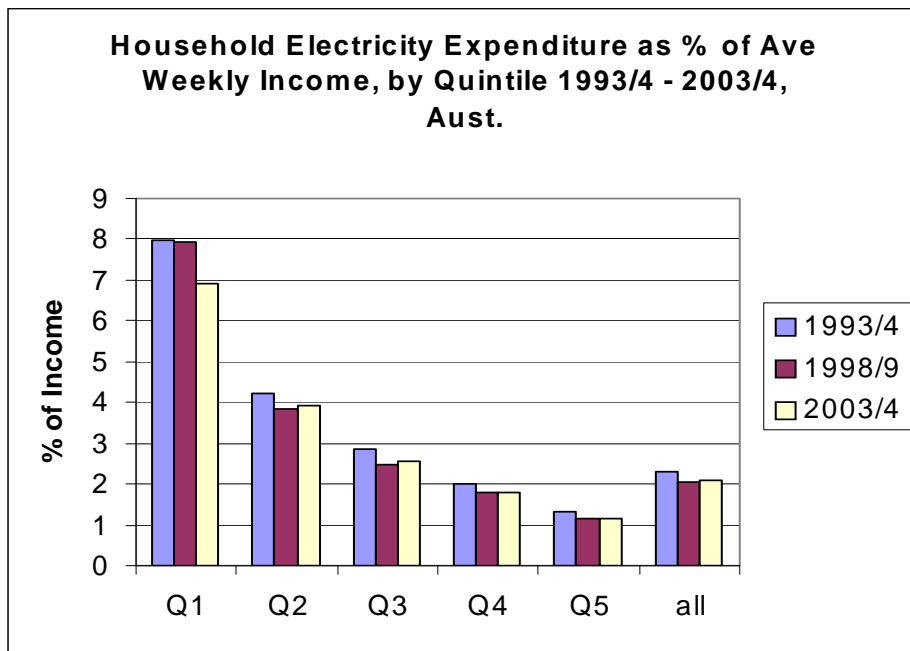
Graph 19

Graph 20 demonstrates graphically the cumulative effects on households of the combined impact of the essential household costs, which are growing at a rate faster than CPI



Graph 20

The following discussion focuses on electricity, to demonstrate the particular impacts on my income households of price rises in one essential service.



Graph 21

A further key observation from this graph is that for the poorest 20% of the weekly income distribution, electricity counted for about 7% of expenditure in 2003/4, whereas electricity expenditure was not much more than 1% of weekly income for the richest 20% of households. Indeed, for about half the population, electricity accounts for less than 2½ % of expenditure with useage evidence that energy use is higher by higher income groups.

We deduce from this data that **at least 20% of South Australian households will struggle to pay utility bills because they are on very low incomes.**

We have not yet been able to obtain more up-to-date data or state specific data to ascertain impacts of FRC (Full Retail Contestability, generally referred to as 'privatisation') electricity price increases on South Australian households.

Graph 21 shows that low income households pay significantly more for electricity, as a percentage of income, than higher income households, despite using less electricity. The graph shows a reduction in percentage of income spent by the lowest quintile in 2003/4, compared to 1998/9.

We suggest that the proportion paid on electricity for South Australian households is now likely to be higher since

- 2003/4 data is unlikely to have captured the full effects of the substantial increase in SA electricity bills due to FRC for electricity markets.

SA household incomes tend to be lower than national averages, see graph 1, while electricity costs tend to be higher.

Australian governments are currently considering various approaches to including the 'cost of carbon' into the costs of household goods and energy. This development, along with the increasing demand for energy internationally, is likely to double the cost of electricity for households over the next few years. Professor Ross Garnaut raises this issue in his recent interim report to the Commonwealth Government, he wrote:

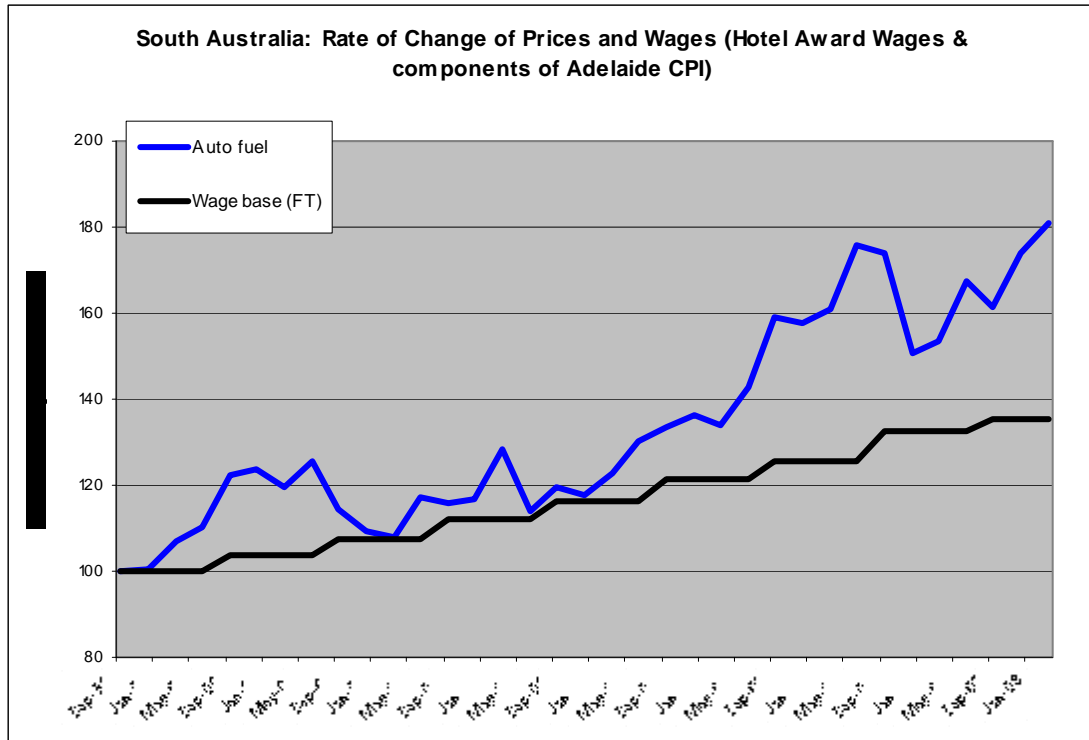
emissions...the cost of [emissions] permits... will mostly be passed through to consumers in the form of higher electricity and other energy prices... These price rises will disproportionately affect low income households, for whom the affected products make up a larger portion of expenditure and who are less able to afford investment in product with lower energy (and emissions) profiles. (Garnaut 2008a, p. 48)

... Policy instruments for returning rents collected from households could include adjustments to the social security and income tax systems, and, assistance through information or capital subsidies to support efficient household adjustment to higher energy prices. (Garnaut 2008a, p. 48)

...If governments were to decide to assist households for the impact of this on their disposable income, assistance could be provided through the tax and welfare system or by assistance to household's adjustment to greater efficiency in energy use, or through support for new technologies to reduce dependence on emissions-intensive goods and services. (Garnaut 2008b, p. 18)

GARNAUT, Ross (2008a) GARNAUT CLIMATE CHANGE REVIEW : INTERIM REPORT TO THE COMMONWEALTH, STATE AND TERRITORY GOVERNMENTS OF AUSTRALIA, February 2008

The other main energy component of household budgets is petrol, the change in price of petrol, compared to minimum pay rates is shown in graph 22.



Graph 22

4. Case Studies

The following short stories illustrate the impacts of financial pressure on a small sample of low income workers seeking help from financial counsellors from just one welfare agency, UnitingCare Wesley Adelaide.

1. David W. is employed full-time in the hospitality industry. He came to UnitingCare Wesley in a distressed state, not able to meet credit card and vehicle loan payments with a debt of approximately \$15,000. His previous income was approximately \$1,300 per fortnight and that has recently been reduced (because of a 'down-turn' in business) to approx. \$600 per fortnight. He earns just over the Centrelink threshold and is, therefore, not eligible for any Centrelink benefit. David's rent is \$350 per fortnight, food is \$130 and basic medical expenses total \$50. He is left with \$70 to cover all remaining household expenses and debts.

This is an example of someone who is fully employed, however, his income is barely adequate to cover his basic needs. Also, \$50 is a very conservative amount for his medical expenses. A more realistic sum is \$75. David is often unable to meet extra medical expenses (necessary due to a motor vehicle accident) and goes without urgent medication. He is also in need of physiotherapy but is unable to afford this service.

2. Katherine is employed in two part-time jobs as a cleaner. She presented to UnitingCare Wesley Adelaide's Financial Counselling office in an exhausted and distressed state, not able to meet payments to her credit card and personal loan debts (approximately \$24,000). Her fortnightly income from two jobs is \$850.

Increasing interest charges on cards has meant that a portion of her income is regularly going to pay interest only and nothing towards paying off the loan.

Katherine is in urgent need of dental work, however, she is on the State Dental Service list and has been advised that she will be waiting for two years before this work can be done. She is in constant pain with her teeth.

Katherine pays approximately \$150 per fortnight for petrol and the price continues to soar, \$450 per fortnight for rent and \$150 for food. She is left with approximately \$100 to cover all household expenses and debts. What is left for clothes, medical expenses, entertainment, holidays or birthday presents, etc?

3. Josie B is a full time child care worker (earning \$18.41 per hour) and her husband works full time as a contract painter. They have two children aged 12 and 14. Scott has a bad back due to a work injury and sometimes is unable to work and, therefore, does not get paid. Although they are not in arrears with any debt, the couple has store and credit card debt and the financial pressure is causing stress and starting to affect their health. Most of their debts are paid by direct debit. Mr. and Mrs. B have no assets apart from a car worth \$2,000. They recently contacted their creditors to ask for the interest rate to be lowered, but this was refused. They then tried to seek help from a financial planner, Anglicare and then Cornerstone (Baptist Church welfare) who referred them to UnitingCare Wesley for financial counselling. They are now considering bankruptcy as a means of survival.

4. Helen works as a carer in a nursing home and earns approx \$800 per fortnight net. She had been unable to work for 3 months due to illness and during this time used her credit card (as she had no other income) to live on (plus Centrelink benefits). Fortunately, she lives rent free in a home owned by her parents and has no dependants. Her debts amount to \$24,000 and when she came to UnitingCare Wesley for assistance she was very distressed and concerned that she is not making an impact on her debt, but getting further behind.

5. Sally is on unpaid maternity leave from her job and her baby is 9 months old. Her husband works full time. Their net fortnightly income is \$1200, and in March they had a mortgage of \$760 per fortnight (there have been several increases since then). They are living on credit cards and Sally recognises that they have misused credit in the past and that has added to their financial difficulties. She feels that she is being forced prematurely to leave her baby and return to work to make ends meet. She is also worried about the cost of child care as they do not have extended family to help with the care of their child.

6. Anne D is married with 5 children. Her husband works as a casual labourer, earning between \$300 and \$700 per week net. Mrs D receives Family Tax A and B. They have a mortgage with a fringe lender of \$580 per fortnight as at 14.2.08, (again, this figure will have increased) and are \$1200

in arrears. They are also trying to refinance their loan. Because her brother lost his job and family is very important, Mrs D's brother, sister-in-law and 4 children are also living with them as they have nowhere to live and do not contribute other than some food. (Mrs D says that they are family and have nowhere else to go and asks, "what should I do, turn them out onto the street?") The pressure on this family is enormous and their health is beginning to suffer. They were referred to UCW from the Salvation Army.

7. Sharon was referred to UCW from Aussie Home Loans as she and her husband are in arrears with their mortgage due to too many direct debits being taken out. Their mortgage is \$730 per fortnight (as at 15.4.08) and they earn approx \$1380 net per fortnight. They have an overdraft of \$3000, plus a fridge and washing machine loan with Radio Rentals and Flexi Rent and a car loan. A car is essential for this family as the husband works shift work and they are a distance from public transport. They have offered to pay \$220 extra off the mortgage per fortnight, which is unaffordable. This family seem to use the overdraft as a means of managing financially.

8. Mark is a full time contract postal worker who separated from his wife approx 18 months ago. He earns about \$980 net per fortnight. He has one dependant child who lives with his former wife. He pays child support through the child support agency and pays \$400 per fortnight rent. After paying living expenses (utilities, food, etc.) and travel to work and child support he has about \$100 left per fortnight. He is very stressed and anxious as he feels he is unable to do anything with his son on access visits.

Final Observations

From the information presented above, we draw the following conclusions:

- Minimum wage rates in South Australia are growing at a significantly slower rate than incomes for middle and higher income South Australians
- The cost of essential services and basic household living costs, requisite for an adequate standard of living in South Australia, are growing at a faster rate than the rate of increase of minimum wages.
- Low and modest income households, specifically those relying on minimum State wage rates of pay or similar, are experiencing considerable financial stress. This applies both to households reliant on full time or near full time wage income at or near minimum wage rates, as well as households relying on a combination of low-wage and benefit income.

Rates of pay for low and modest income earners need to increase at a greater rate than the increase for middle and higher income earners, in order for these households to meet basic living costs.

Opponents to decent increases in minimum wage rates often cite two reasons for denying wage increases for low pay workers:

- Increasing wages increases inflation
- Increasing Minimum wage reduces employment

These two notions are rejected out of hand.

The major contributions to Australia's inflation at the moment are coming from very large volumes of resources, in particular coal, that are being exported and generating revenue to the value of billions of dollars. Increasing housing values have also contributed to upward pressure on prices, although the housing market does seem to be cooling at the moment.

The additional spending to be generated by, even a large increase in minimum pay rates for South Australians, is inconsequential compared to the major drivers of inflation.

Increasing minimum wage rates will have no change will impact on inflationary pressure.

Similarly the argument that increasing the minimum wage will reduce employment has no validity in the current economic environment where employers are complaining about labour shortages.

A shortage of supply will invariably force up prices in any market, the labour market is not different. There is some evidence of this in current labour markets with average incomes and pay rates for a growing number of professions increasing at a higher rate than CPI.

The only economic impact of increasing minimum wage rates will be that workers receiving minimum pay will be able to cope a little better with rising costs.

For further information about any aspect of this submission contact:

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Appendix 1

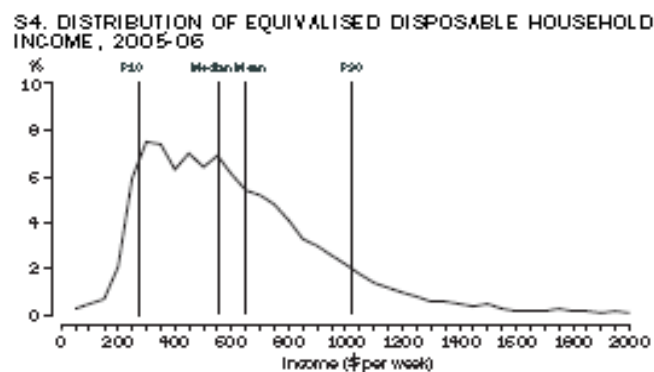
Definition of Statistical terms used

Distribution: A set of numeric observations, ordered by value, starting With the lowest and finishing with the highest

Decile: A grouping of 10 percent of a statistical distribution, the lowest values will be in the first decile, highest values in the 10th decile

Quintile: A grouping of 20 percent of a statistical distribution, the lowest values will be in the first quintile, Q1, highest values in the 5th decile, Q5.

Income distribution: A count of number of individuals or households receiving specific incomes, per week, ordered from lowest to highest income. Note that the Income distribution for Australia is highly skewed, with larger numbers of people on lower incomes and smaller numbers on higher incomes. This is represented on the ABS graph below



Mean or Average: Calculated by adding together the numeric value of all elements of a group or sample and dividing by the number of elements / observations

Median: The middle, ie the middle value in a statistical distribution. So 50% of the elements of a distribution are below this value and 50% above.

Equivalised Income: ABS describes this measure as follows:

“Equivalence scales have been devised to make adjustments to the actual incomes of households in a way that enables analysis of the relative wellbeing of households of different size and composition.

Alternatively, equivalised household income can be viewed as an indicator of the economic resources available to each individual in a household. The latter view underpins the calculation of income” distribution measures based on numbers of people, rather than numbers of households.

Taken from, ABS 6537.0 - Government Benefits, Taxes and Household Income, Australia, 2003-04

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