Making a difference to children and families in financial stress and poverty

Adequate income support is an investment in our children's future

Financial stress and poverty in families undermines children's long-term health and wellbeing. It increases their likelihood of experiencing disadvantage later in life and creates significant costs to society through the justice and welfare systems. Financial stress is also the leading cause of relationship breakdown in families. Reducing these factors can have a profound impact on children's life trajectories.

As part of the response to the Covid-19 pandemic, the Australian Government implemented the temporary Coronavirus Supplement, effectively doubling the income of people receiving JobSeeker and Parenting payments. This has provided a real-world example of the benefits to families and children when you significantly lift their income support.

To better understand the effect of these changes, Social Ventures Australia and the Brotherhood of St. Laurence commissioned econometric modelling from the Centre for Social Research and Methods at the Australian National University to:

- Better understand the Australian trends in poverty, child poverty and financial stress for families relying on income support.
- Model the impact of the Covid-19 pandemic and resulting income support changes on poverty and child poverty rates.
- Undertake policy modelling to determine the optimal level of income support required to reduce poverty and financial stress for families and children in the most cost-effective way.

This research shows that despite sharp increases in unemployment during the Covid-19 pandemic, child poverty rates for children of single parents more than halved during the crisis, falling from 39% to just 17% with the increased income from the $550 per fortnight Coronavirus Supplement.

The impact on children was profound. Parents told us that:

The extra money means that I can pay my rent, without skipping meals and stressing. We have kept warm this winter and made a veggie garden. One of my boys has food allergies, his health, his skin has been awesome.

– Mum Janice, writing about her kids Markus and Nathan.

This allowed me to get my little boy's bike back on the park. Now he meets his friends and rides his bike.

– Mum Amanda, writing about her son Joseph.

However, with the removal of the Coronavirus Supplement at the end of March and without further increases to the rate of JobSeeker beyond the $25 per week increase announced by the Government, child poverty rates for single parents on JobSeeker will soar to 41%. This is more than double the rate during the peak of the crisis and higher than pre-Covid-19 levels. For children under five in single parent families, the situation is even more stark, with poverty expected to increase from 12% to 46% under the new policy settings.

The research also shows that rates of financial stress are much higher for people relying on income support. It is possible to reduce the very high rates of poverty and financial stress experienced by those relying on social security payments through relatively modest increases in the overall social security spending[1]. This can be achieved by targeting additional investment towards those who need it most: people receiving JobSeeker, Parenting Payments, Disability Support Pensions and Carer Payment.

Modelling shows that:

A substantial investment, incorporating an increase of up to 20% of overall social security spending will deliver strong benefits, increasing most working age payments and reducing poverty rates for those recipients by up to 75%. Based on the Optimal Policy modelling this would allow for an increase in JobSeeker Payment by $233 per week[2], which is still less than the initial rate of the Coronavirus Supplement.

A more modest 10% increase (approx. $12 billion) would provide JobSeeker recipients with an additional $190 per week and cut their poverty rates from 88% to just 34%, while also allowing increases for Disability Support Pensioners and those on parenting and carer payments.

An increase of just 5% (approx. $6 billion) would allow JobSeeker recipients an additional $120 per week, halving their rate of poverty and reducing their financial stress by 12%.

Tackling child poverty requires investment. An immediate increase to working age income support payments in line with the modest 10% increase to social security spending modelled is needed, which would allow an increase in JobSeeker by $190 per week, followed by an independent review of the structure and rates of social security payments.

1. Social security spending is defined as the approx. $120 billion spent annually on Age Pension, Disability Support Pension, Carer Payment, Parenting Payment (Single), JobSeeker, Family Payments, Childcare Subsidy and Rent Assistance (as at Dec 2020).
2. Based on 1 April 2021 rate

Stepping up for our children by supporting families to live with dignity

All children should be able to fulfil their potential and have safe and fulfilling lives. Yet too many children in Australia are missing out.

Childhood poverty comes at great cost to individuals, our economy and society, and inadequate income support is a key driver of child poverty in Australia.

Families receiving working age allowances including JobSeeker Payment struggle on incomes that have not increased in real terms for over 25 years. This modelling demonstrates that the recently announced $50 a fortnight will do very little to reduce poverty or financial stress.

Childhood poverty causes significant individual lifelong harm, including childhood developmental delay and an increased likelihood of experiencing disadvantage later in life.[3]

It causes significant social and economic harm, including increased costs in justice, health and welfare.[4] These costs will continue to increase and undermine the prosperity of Australia, if the impacts of disadvantage are not addressed.

Financial stress is also the biggest cause of relationship breakdown in Australia[5], with major flow-on effects for children and their parents.

Understanding trends in poverty and financial stress

Given these challenges, the research by ANU investigated Australian trends in poverty, child poverty and financial stress for families on income support. The research provides estimates of trends in financial stress, poverty and child poverty for different types of households with different sources of income, levels of income and different family types. Differences in poverty and financial stress rates by regions and types of housing tenure are also explored.

Estimates are based on the ABS Household Expenditure Survey from 1993 to 2015, with additional data from the ABS Survey of Income and Housing 2017–18 used to estimate poverty rates for 2017. Financial stress estimates are developed using the financial stress measures included in the survey since 1998. A household is defined as experiencing severe financial stress where they report skipping meals, going without heating in winter or relying on a charity due to a lack of money. Poverty rates are estimated using 50% of the median equivalised income after housing as the poverty line.

Inadequate income support plays a major role in financial stress and child poverty

- By 2015, the social security system was failing many people, with 37% of those on allowances (such as Newstart Allowance and Youth Allowance) experiencing severe financial stress, up from 25% in 1998. This compared to only 3% of those earning wages and salaries.
- Child poverty for children in families whose main source of income was Newstart increased from 25% to 66% between 1993 and 2017.

Single parents and families with younger children have struggled most

- In 2015, severe financial stress rates for single parents were much higher than for other family types, with 23% or almost 1 in 4 reporting skipping meals, limiting heater use or relying on charities to get by.
- Severe financial stress among single parents was substantially more common regardless of income, with single parents with relatively high incomes having a higher stress rate than a couple family with children in the lowest income quintile.

3. Dr Esperanza Vera-Toscano and Professor Roger Wilkins, *Does poverty in childhood beget poverty in adulthood in Australia?*, the University of Melbourne, October 2020.
4. William Teager, Stacey Fox and Neil Stafford, *How Australia can invest early and return more: A new look at the $15b cost and opportunity.* Early Intervention Foundation, The Front Project and CoLab, Australia, 2019. https://www.thefrontproject.org.au/images/downloads/THE_COST_OF_LATE_INTERVENTION/Technical_Report-How_Australia_can_invest_in_children_and_return_more.pdf?vers=1.1
5. *Issues and concerns for Australian relationships today: Relationships Indicators Survey 2011*, Relationships Australia and Credit Union Australia (CUA), 2011.

- Poverty rates for children in single parent families increased from 24.8% in 1993 to almost 40% in 2017.
- These effects were stronger for families with younger children, with around 1 in 3 single parent families (30%) with children under 5 years in severe financial stress in 2015.
- Poverty rates for single parent families with children under 5 were also higher, with 51% of children in poverty in 2017.

Modelling the impact of the Covid-19 pandemic

ANU modelling estimated the rate of poverty and child poverty across several scenarios to understand the impact of social policy changes over the coronavirus period. December 2019 was set as the pre-Covid base case. This was compared against a June 2020 scenario taking into account the high unemployment at the height of the crisis and the $550 per fortnight Coronavirus Supplement paid to those on JobSeeker and parenting payments; and against two scenarios for April 2021 after the removal of the Coronavirus Supplement, one taking into account the planned $50 per fortnight permanent increase and the second assuming a return to pre-Covid payment rates.

The research was conducted using PolicyMod, developed by the ANU Centre for Social Research and Methods. This model based on data from the Australian Bureau of Statistics Survey of Income and Housing (2017–18) projected to the 2020–21 financial year. This was supplemented by data from the ANU's Life in AustraliaTM (LiNA) panel to understand the changing profile of JobSeeker recipients as a result of the crisis.

Adequate income support makes a big difference

The modelling shows that adequate income support is key to reducing poverty, particularly for single parents and their children:

- Prior to Covid-19, 39% of children in single parent families were living in poverty. With the $550 per fortnight Coronavirus Supplement this reduced to 17%.
- In April 2021 as the Coronavirus Supplement is replaced with a $50 per fortnight permanent increase and unemployment remains high, child poverty rates for single parent families are expected to increase to 41%, compared to 13% for children in couple families.

These effects are expected to be strongest for children under 5:

- The replacement of the Coronavirus Supplement by an additional $50 per fortnight, will increase poverty rates for children under five from a low in June 2020 of just 12% to 46% in April 2021, according to this research.

Optimal policy modelling: we can’t afford to neglect child poverty

Using the PolicyMod approach described above, ANU estimated the impact on poverty and financial stress rates from increasing income support payment to levels that better reflect current needs.

The modelling of optimal policy shows that strong reductions in poverty and financial stress are possible when the additional investment is targeted towards working age social security recipients. These include people receiving Disability Support Pension, Carer Payment, Parenting Payment and JobSeeker Payment.

A substantial investment with an increase of up to 20% of overall social security spending will deliver strong benefits, increasing most working age payments and reducing poverty rates for those recipients by up to 75%. Based on the Optimal Policy modelling this would allow JobSeeker Payment to increase by $233 per week, which is still less than the initial rate of the Coronavirus Supplement.

A more modest 10% increase would provide JobSeeker recipients with an additional $190 per week and cut their poverty rates from 88% to just 34%, while also allowing increases to Disability Support Pensioners and those on parenting and carer payments. An increase of just 5% would allow JobSeeker recipients an additional $120 per week, halving their rate of poverty and reducing their financial stress by 12%.

Investment in adequate income support pays off

We know that when parents have adequate income, their child’s health and wellbeing benefits, along with their cognitive, social and behavioural development. Children are more likely to be safe from neglect and abuse and more likely to become happy, contributing members of the community.[6] This research shows that providing adequate income support will reduce poverty and financial stress in families.

We therefore recommend:

An immediate increase to the working age income support payments in line with the relatively modest 10% increase to social security spending modelled in the research, which would allow an increase in JobSeeker by $190 per week.

An independent review of the structure and rates of social security payments to ensure that, families and children are not exposed to the long-term harmful impacts of living in poverty and financial stress.

All children in Australia should be able to be able to fulfil their potential. The increased income provided via the Coronavirus Supplement provided a glimpse of how child poverty can be tackled. Now, sustained investment in the future of our children and their families is needed. Our children’s best interests should be at the heart of our policy responses.

SVA Social Ventures Australia

Brotherhood of St Laurence

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6. Kerris Cooper and Kitty Stewart, *Does money affect children’s outcomes? An update*, London School of Economics and the Centre for Analysis of Social Exclusion, London School of Economics, 2017.