Actuaries Institute

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GOVERNMENT POLICY REFORM NEEDED TO TACKLE ECONOMIC EQUALITY GAP

The deep economic divide between Australia's rich and poor is in danger of worsening unless wide-ranging government policy reform is undertaken, a new Green Paper released by the Actuaries Institute today warns.

The Actuaries Institute paper, Not A Level Playing Field, for the first time brings together a raft of Australian survey data with new analysis to paint a snapshot of income inequality in Australia. Importantly, it builds on the established work of the Australian Actuaries Intergenerational Equity Index and the investment valuation work actuaries pioneered for Federal and State governments.

Eighty per cent of people in the Organisation for Economic Co-operation and Development (OECD), and 70% within Australia, feel income disparities are too large in their country. Australia's income inequalities are midrange by international standards - many developed countries have greater inequalities, but others significantly lower.

Actuaries Dr Hugh Miller, a Principal at consulting firm Taylor Fry, and Dr Laura Dixie, a Director at Taylor Fry, carried out an in-depth analysis to determine the role demographic factors, such as age, gender, disability, location, education and employment backgrounds play in determining inequality, as well as the resulting flow-on effects across society.

The paper highlights that inequality is significantly higher than in the 1980s, with the wealthiest 20% of households currently having six times the disposable income of the lowest 20%. Wealth inequality is even larger with the wealthiest quintile having 230 times more net assets.

These big gaps in income and wealth have translated into poorer social outcomes for low-income households. Most notably, comparing the poorest 20% of households to the richest 20%, those living in the lowest income households were:

- 9x more likely to be an unpaid carer.
- 7x more likely to have experienced homelessness and unemployment.
- 5x more likely to have a child at risk of harm.
- 4x more likely to have recently been unable to meet rent or mortgage costs.
- 3x more likely to be a recent victim of crime.
- 2x as likely to suffer psychological distress or die by suicide.

There were also significant gaps in home ownership, access to childcare, and Year 12 completion rates. Reliance on welfare payments was also higher for low-income households.

Dr Miller said: "Our analysis has found that where you live, your gender, age, first nations status, ethnicity, disability, education and employment backgrounds are all drivers of income inequality in Australia. But the big disconnect between robust economic growth and tepid wages growth in our two-speed economy is what has really exacerbated the inequality gap.

"This gap has a variety of impacts on everything from poverty levels to housing affordability and life expectancy as well as your chances of being a victim of crime, being able to pay your insurance bills, and enjoy a comfortable retirement.

"The fear is that the income gap could widen even further because of the increasing casualisation of the workforce and more people being employed by the 'gig' economy.

“We believe Inequality needs to be a prominent consideration in setting policy direction. Providing targeted assistance (financial or otherwise) to lower income households will deliver significantly more benefits than generic ‘one-size-fits-all’ assistance programs for all households.”

Actuaries Institute Chief Executive Officer Elayne Grace said: “Given the difficult economic conditions we are faced with Australia should brace itself for the gap to increase even further.

“Wealth protects people in bad economic times. But for people on low incomes, they’re going to suffer a lot more as the list of things they’re no longer able to afford will continue to grow.

“A more holistic review of inequality will not only result in better outcomes for society but can also reduce long term budget pressure by ensuring taxpayer money is spent in the most appropriately targeted places.”

The Green Paper builds on the work of Australian Actuaries Intergenerational Equity Index from 2020 which found the gap between young and old had never been wider.

The paper described as “striking” the higher rates of informal care provided by people in low-income households – 16% compared to 2% in wealthy households. “This, in combination with other factors, may explain lower (employment) participation and in turn lower incomes,” it said.

Net assets for the poorest households were less than one-quarter of the wealthiest households, with the authors noting that this would impact retirement planning and intergenerational assistance.

There is also a 34-percentage point gap in home ownership rates between the richest and poorest households. “Not owning a home has large implications – particularly as a driver of income poverty in older age and on stability of housing and associated social outcomes,” the paper said.

When it comes to where people live, there were substantial income gaps between cities and regional areas. Cities had high degrees of income inequality, with “clusters” of wealthy households in some areas and low-income households in others. “Geographic stratification of this type has significant implications for social mobility and equitable service delivery,” the paper said.

The paper outlines several areas for policy reform based on suggestions by the Actuaries Institute, Productivity Commission, the Australian Council for Social Service and other expert bodies and reviews. Areas for reform span continued investment in improved data collection, linkage and modelling to support effective targeted government assistance, to specific policy changes in the tax and transfer system such as increasing rental assistance, changes to the Age Pension means test and to superannuation to address equity issues in retirement.

To further encourage debate around inequality, the Actuaries Institute commissioned an independent research paper written by Professor Robert Breunig and Kristen Sobeck from the Tax and Transfer Policy Institute at ANU. The paper looks at the current design of taxation and how it can contribute to inequality, and includes three cameos highlighting the effect of alternative savings choices.

Dr Hugh Miller and Elayne Grace are available for interview.

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About the Actuaries Institute and the Profession
As the peak professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community.

Actuaries use data for good by harnessing the evidence to navigate into the future and make a positive impact. They think deeply about the issue at hand, whether it's advising on commercial strategy, influencing policy, or designing new products. Actuaries are adept at balancing interests of stakeholders, clients, and communities. They're called upon to give insight on complex problems, they'll look at the full picture. Actuaries analyse the data and model scenarios to form robust and outcome-centred advice.

Appendix

Existing economic inequalities translate into large differences in wealth and wellbeing in a broad range of areas.

Economic

Comparing top and bottom income quintiles, the lowest 20%

7x	Are more likely to be unemployed, or be underemployed
9x	Are more likely to be caring for someone ages, or with a long-term health condition or disability
-77%	Have significantly less net wealth
48%	Have a high fraction of their income from welfare (compared to 1%)
31%	Have a very high poverty rate (compared to 0%)

Housing

Comparing top and bottom income quintiles, the lowest 20%

34pp	Are less likely to own their home
4x	Are more likely to have recently been unable to pay their rent or mortgage costs

Education

Comparing top and bottom income quintiles, the lowest 20%

10pp	Are less likely to finish Year 12
20pp	Are less likely to use childcare
-20%	Have less access to child care places

Health

Comparing top and bottom income quintiles, the lowest 20%

1.3x	Are more likely to be obese
2x	Are more likely to die by suicide, after age-standardisation
2x	Are more likely to suffer psychological distress.
+50%	Have a higher rate of mortality, after age-standardisation

Environment

Comparing top and bottom income quintiles, the lowest 20%

=	Pay similar insurance loadings for natural disasters, **despite** lower sums insured
9x	Require many more weeks of income to afford a home insurance policy for a given sum insured

Social

Comparing top and bottom income quintiles, the lowest 20%

3x	Are more likely to be a recent victim of violent crime
7x	Are more likely to experience homelessness
5x	Are more likely to have a child found at risk of harm by child protection services
13x	Are more likely to give birth while a teenager

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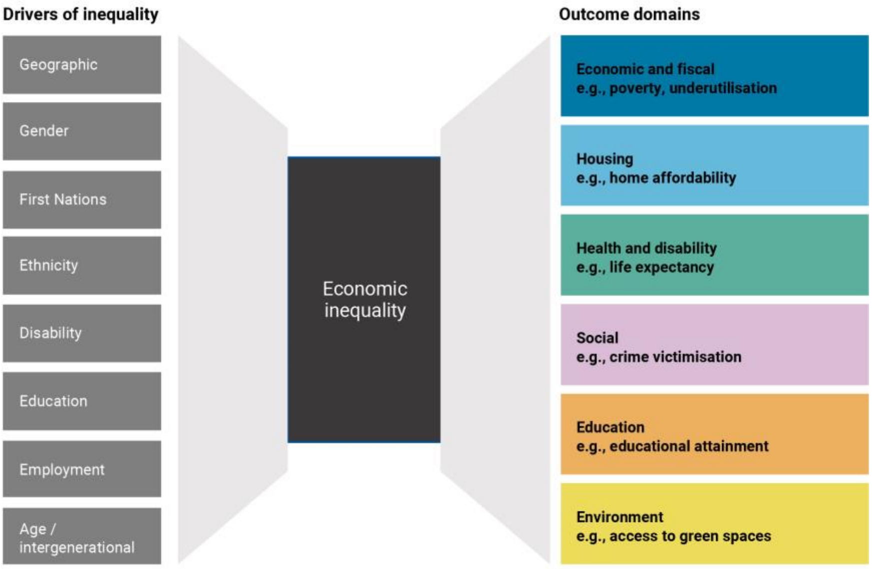
Illustration of outcome domains and drivers of inequality explored in this Green Paper

Figure 4 – Illustration of outcome domains and drivers of inequality explored in this Green Paper



[7] See Murray, (2020).

Indicators across wellbeing domains for highest and lowest equivalised household income quintile. Reported for primary householders aged 35-54.

Domain	Outcome	All	Lowest quintile	Highest quintile	Ratio (higher value ÷ lower value)
	Average equivalised income p.a.	**$73k**	**$30k**	**$144k**	**4.9x**
Economic	Poverty rate	6%	31%	0%	n/a
	Household net wealth, $000	499	231	1,004	4.3x
	Weighted underutilisation rate	5%	13%	2%	6.5x
	Welfare, fraction of total income	13%	48%	0.5%	101.3x
	Unpaid carer rate	7%	16%	2%	9.4x
Housing	Home ownership rate	66%	45%	79%	1.8x
	Struggled to pay housing costs on time	9%	15%	4%	3.9x
Health & disability	Obesity rate	29%	32%	24%	1.3x
	Rate of psychological distress	31%	49%	24%	2.0x
	Suicide deaths per 100,000(a)(b)	12	18	9	2.1x
	Total deaths per 100,000(a)(b)	485	589	390	1.5x
Social	Violent crime victim, past 12 months	1%	3%	1%	3.2x
	Homelessness rate(a)	0.9%	2.1%	0.3%	7.3x
	Child protection substantiations, per 1000(a)	9.5	16.5	3.4	4.9x
	Teenage births, per 1000(a) (c)	7.7	17.8	1.4	12.7x
Education	Year 12 attainment rate(a) (c)	76%	72%	82%	1.1x
	Early childcare use	52%	41%	61%	1.5x
	Access to childcare - places per child(a)	0.39	0.36	0.45	1.2x
Environment	Natural hazard insurance risk relativity(d)	1.0	1.0	1.1	1.1x
	Home insurance affordability(d) (premium ÷ weekly income)	1.4	3.5	0.4	9.3x

(a) Based on small-area SEIFA quintiles rather than household-level incomes

(b) Standardised rates across all ages, rather than 35-54 age band only

(c) For children in the household, based on indicator-appropriate age range, rather than 35-54 age band

(d) No age restriction

(e) Sources: HILDA, ABS, AIHW, Australian Curriculum, Assessment and Reporting Authority (ACARA), Mitchell Institute, Finity Defin'd.

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