

# Household Economic Wellbeing

## Low economic resource households

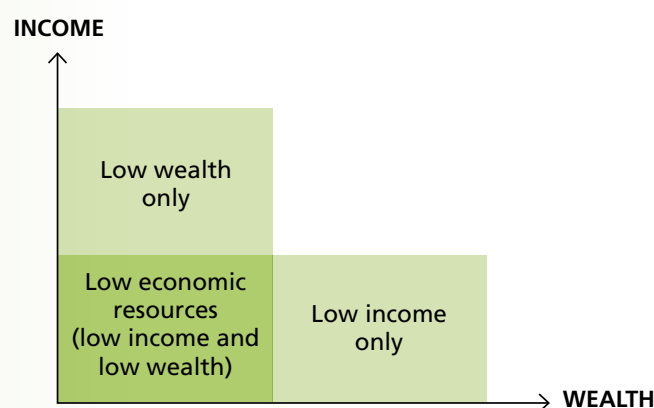
People living in low economic resource households are of particular policy and research interest because of their greater risk of experiencing economic hardship. This fact sheet summarises different methods available to identify these households and provides guidance on methods of analysing them.

There are many factors influencing whether people are experiencing economic hardship. The analysis of household economic wellbeing is enhanced significantly when the income, consumption and wealth dimensions are studied jointly, recognising they vary over the lifecycle:

- income is affected by workforce participation
- wealth tends to be accumulated during people's working life and then consumed in retirement
- younger people may have higher expenditure needs e.g. to buy a home or start a family.

In recognition of the importance of this, the ABS has collected both income and wealth in every Survey of Income and Housing (SIH) from 2003–04 (apart from 2007–08). The ABS Household Expenditure Survey (HES) has been conducted six yearly since 2003–04 on a subsample of SIH households. Expenditure, financial stress, income and wealth data are available for HES households.

Diagram1. Low economic resource households



### Socio-Economic Indexes for Areas (SEIFA)

Census data (including education, employment, occupation, income and housing) has been used by the ABS to identify the relative socio-economic advantage and disadvantage of geographic areas in Australia compared with other areas.

The 2011 SEIFA includes an Index of Relative Socio-Economic Disadvantage (IRSD) and an Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD).

As well as being used to analyse Census data, the IRSD and IRSAD by decile and/or quintile have also been added to survey files (including CURFs) for household surveys such as the SIH, HES and GSS from 2002 onwards.

For more information: *Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA), Australia, 2011* (2033.0.55.001).

### Key Terms

**Deciles/Quintiles** – groupings that result from ranking households by economic resource and then dividing the population into ten equal groups (deciles) or five equal groups (quintiles)

**Disposable income** – total income, monetary and in kind, less income tax, the Medicare levy and the Medicare levy surcharge

**Equalisation** – a method of standardising the income, expenditure or wealth of households to take account of household size and composition differences

**Imputed rent** – allows more meaningful comparisons of the economic wellbeing of people living in different housing tenures by imputing income based on the difference between market rent and actual housing costs for owner occupiers and subsidised private renters

**Social transfers in kind** – goods and services provided to households free or at subsidised prices by governments e.g. for education, health, housing and child care

# Low economic resource households

## Composite measures of low economic resource households

**Table 1. Persons in low economic resource households, 2011–12**

Household characteristics		Low income (a)	Low wealth (b)	Low economic resource (LER40) (c)	All persons
<b>Mean weekly household income</b>					
Equivalised disposable household income	\$	374	644	496	918
Equivalised disposable household income incl. imputed rent	\$	398	655	501	970
<b>Mean equivalised net worth</b>	\$'000	193	33	54	413
<b>Tenure type</b>					
Owner without a mortgage	%	18.6	0.5 *	3.5	25.5
Owner with a mortgage	%	30.5	5.6	26.5	43.3
Private renter	%	34.7	73.8	52.1	25.2
<b>Selected household groups</b>					
Couple family with dependent children	%	42.2	33.4	45.8	42.1
One parent family with dependent children	%	14.9	19.3	17.9	6.9
Couple or lone person, 65 and over	%	28.2	0.5	6.4	7.8

\* estimate has a relative standard error of 25% to 50% and should be used with caution

(a) Persons in the lowest two deciles of EDHI (incl. imputed rent)

(b) Persons in the lowest two deciles of equivalised household net worth

(c) Persons in the lowest four deciles of both EDHI (incl. imputed rent) and equivalised household net worth

Source: ABS Survey of Income and Housing (6523.0)  
Feature Article: *Low Economic Resource Households*

### Low economic resource measure

The ABS has developed a low economic resource measure (LER) that includes people who are simultaneously in the lowest four deciles of both equivalised disposable household income (EDHI) (including imputed rent) and equivalised household net worth (LER40). This measure therefore excludes people with either relatively high incomes or relatively high wealth. As a result it is more likely to correctly classify people at risk of experiencing economic hardship compared to measures using income or wealth alone.

The LER is a relative measure that classifies around 20% of people in low income, low wealth households. It does not identify whether these people are actually experiencing economic hardship. The actual proportion will vary over time as the joint distribution of income and wealth changes. One of the strengths of this measure is its ability to contrast the characteristics of the LER population with those in the low income and low wealth quintiles. Table 1 compares selected characteristics of LER households to households with low income or low wealth only. The proportion of couple or lone person households where the reference person is 65 and over, reduces from 28% of low income households to 6% of LER households, reflecting their ability to draw on accumulated wealth.

In contrast, whilst 35% of low income households are private renters, this group accounts for 52% of LER households.

### Other composite measures of economic hardship

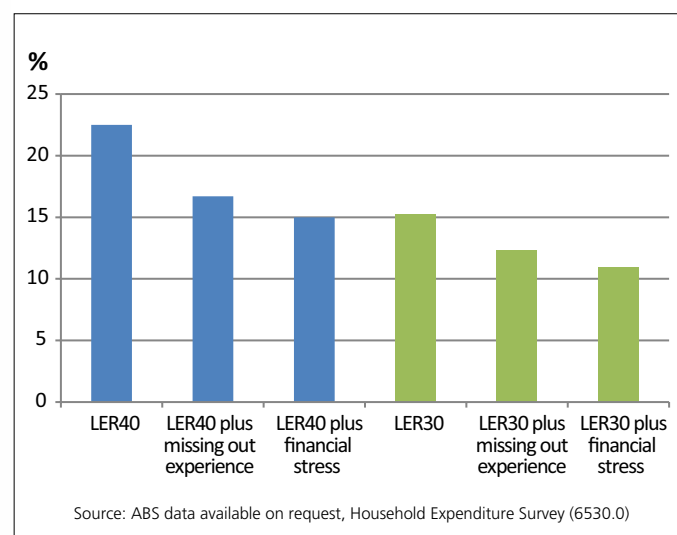
The LER measure can be broadened by considering experiences of 'financial stress' or 'missing out'. The indicators used to define these measures are listed in Table 3 of this fact sheet.

Graph 1 shows examples of LER measures by:

- varying the cut-off for low income and low wealth (40th percentile (LER40) or 30th percentile (LER30), then
- adding whether the household experienced 'financial stress' or 'missing out'.

In 2009–10, 23% of people lived in LER40 households and 15% in LER30 households. When experiences of 'financial stress' were also considered this reduced to 15% of LER40 and 11% of LER30 households.

**Graph 1. Measures of low economic resource households, proportion of persons, 2009–10**



## Single dimension measurement of household economic wellbeing

When measuring economic wellbeing it is preferable to consider multiple dimensions, particularly income and wealth, however both measures are not always available. This section describes several commonly used single dimension measures of economic wellbeing.

### Income

Income is the most frequently available measure of economic wellbeing. For most households, it is the main resource used to meet daily expenses. However, analysis using income alone has significant limitations. Income can be volatile for people who are making transitions between study, jobs, into retirement or changing their hours of work e.g. to care for children. At these times, households may draw on other resources, such as using savings or increasing their debt.

Being able to identify households with accumulated wealth to supplement low incomes is desirable as these people are less likely to experience economic hardship than households without alternative resources to fall back on.

#### a) Relative poverty measures based on income

Many developed countries use relative poverty to measure the economic wellbeing of households. These measures identify the proportion of people with an income below a certain fraction of median EDHI. The OECD publishes various analyses based on poverty lines below 40%, 50% or 60% of median incomes (50% used most often), while Eurostat commonly uses 60% as the cut-off.

Limitations of relative poverty measures include:

- the number of people in poverty is determined by an arbitrary fraction of income (which may not reflect actual hardship).
- the proportion of people identified can change dramatically e.g. in Australia, real median incomes have risen significantly in recent years and the thresholds identified at 40% and 50% of the median are very sensitive to changes in single and couple pension payment points relative to the median.
- the definition and measurement of income can have a significant impact e.g. imputed rent (IR) and social transfers in kind (STIK) are often excluded from income definitions. However, the benefits received from either owning a home or receiving subsidised rent (valued by imputing an equivalent rental income), or from receiving services from the government, impact significantly on the economic wellbeing of particular groups e.g. a person able to access free or subsidised health care can be better off than a person with similar income but not able to access these social provisions.

Table 2 shows that the proportion of the Australian population below a relative poverty line varies between 20% (using 60% of median EDHI) and 2% (using 40% of median EDHI including IR and STIK).

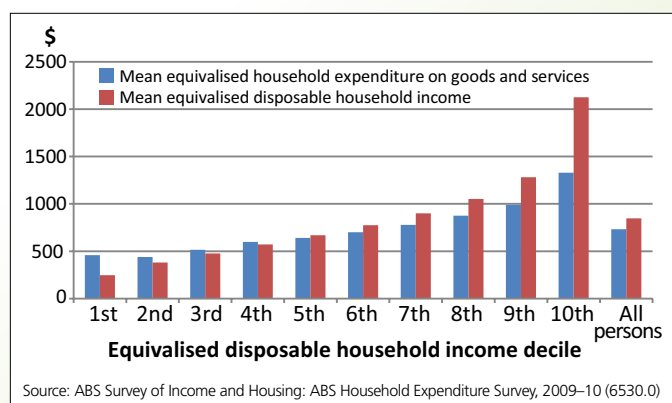
**Table 2. Relative poverty measures based on proportion below a percentage of median income, 2011–12**

	Equivalised disposable household income	Equivalised disposable household income plus IR and STIK	Equivalised disposable household income plus IR and STIK
<b>PROPORTION OF PERSONS IN HOUSEHOLDS</b>			
40% of median income	5.5	4.7	2.0
50% of median income	12.0	9.3	3.9
60% of median income	20.1	15.4	7.3

#### b) Using the second and third deciles to describe low income households

While it is tempting to label all households in the lowest income decile as 'low income', ABS analysis suggests there are variable economic circumstances for households in this group. Households with nil or negative income, or income below government pension rates, make up almost one half of the lowest income decile. However, more than 40% of households in the lowest income decile have net worth in the top five wealth deciles, suggesting a temporary setback to their economic wellbeing, such as a temporary loss in their business operations or a temporary job loss.

**Graph 2. Equivalised weekly income and expenditure, by equivalised income decile, 2009–10**



Furthermore, people in the lowest decile of EDHI had average equivalised expenditure higher than those in the second income decile in 2009–10. (Graph 2) The ABS therefore uses the second and third income deciles to describe 'low income' households rather than the lowest income quintile.

However, as the lowest decile includes many households whose only source of income is a government pension or allowance, some people in the lowest income decile experience high levels of economic hardship. Therefore, for many analytical purposes a lower cut-off should be applied to only remove extreme low value households that may distort the results. In 2011–12, Age Pension rates (excluding supplementary payments) for singles and couples were around the 7th percentile of EDHI.



# Low economic resource households

## Financial stress indicators

While income and wealth statistics describe the economic resources available to people and expenditure statistics describe their consumption patterns, there are other issues relevant to understanding living standards e.g. a person with poor health and high health care costs may have reduced income for other purchases. In attempting to identify which households have the lowest economic wellbeing, other indicators of poor economic outcomes can be considered. Data relating to experiences of financial stress and missing out are collected in the HES. (Table 3)

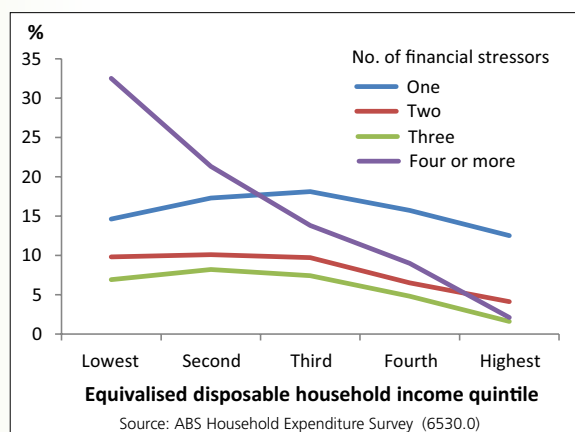
**Table 3. Indicators of financial stress in the last 12 months**

<b>Financial stress experiences</b>
Unable to raise \$2000 in a week for something important
Spend more money than received
Could not pay gas, electricity or telephone bill on time
Could not pay registrar or insurance on time
Pawned or sold something
Went without meals
Unable to heat home
Sought assistance from welfare/community organisations
Sought financial help from friends or family
<b>Missing out experience</b>
Could not afford holiday for at least one week a year
Could not afford a night out once a fortnight
Could not afford friends or family over for a meal once a month
Could not afford special meal once a week
Could only afford second hand clothes most of the time
Could not afford leisure or hobby activities

Source: ABS Household Expenditure Survey, 2009–10 (6530.0)

Financial stress information can provide insight into people's economic wellbeing although analysis needs to consider overall circumstances. Some individuals may have consumption priorities which differ from socially accepted norms of the 'basics of life'. In 2009–10, 20% of households in the highest EDHI quintile reported at least one financial stress indicator. (Graph 3)

**Graph 3. Proportion of households experiencing financial stress in last 12 months, by income quintile, 2009–10**



## Measuring persistent economic hardship

Another key policy interest is people experiencing long-term and persistent economic hardship as distinct from those experiencing short-term hardship.

Longitudinal datasets, such as the Household Income and Labour Dynamics Australia Survey (HILDA) and the ABS Statistical Longitudinal Census Dataset (SLCD), are important sources for identifying people experiencing long-term economic hardship. The HILDA has been tracking the economic circumstances of many respondents since 2001. The SLCD will provide a five-yearly snapshot of the income and housing circumstances of people from 2006.

The SIH measures the short-term persistence of economic hardship by comparing income from the previous financial year with current year income. The circumstances of people with low incomes in both periods can be identified. Combined with wealth data which is more stable over time, this provides a more accurate picture of whether hardship is persistent.

As well as financial stress experiences, the HES also collects data on people's perception of their current financial circumstances compared to two years ago and their ability to save money.

## For more information:

- Australian Bureau of Statistics (ABS) 2011, *Household Wealth and Wealth Distribution, Australia, 2009–10*, (cat. no. 6554.0), Feature article: Low economic resource households, ABS, Canberra <[www.abs.gov.au](http://www.abs.gov.au)>
- ABS 2012, *Household Expenditure Survey and Survey of Income and Housing, User Guide, 2009–10*, (cat no. 6503.0), ABS, Canberra <[www.abs.gov.au](http://www.abs.gov.au)>
- McLachlan, R., Gilfillan, G. and Gordon, J. 2013, *Deep and Persistent Disadvantage in Australia*, Productivity Commission Staff Working Paper, Canberra <[www.pc.gov.au](http://www.pc.gov.au)>