Section 4

4. Providing a safety net for the low paid

The Commission maintains its view that the income safety net is provided by the combination of minimum wages and the tax/transfer system, with the Australian Government responsible for the latter. This is consistent with Article 3 of the International Labour Organisation (ILO) C131 *Minimum Wage Fixing Convention, 1970* (ratified by Australia in 1973), which lists social security benefits in the range of factors to be considered in determining minimum wage levels.[117]

Many submissions to the 2009 Minimum Wage Review concur with the view that the minimum wage is only one component of the safety net for the low paid. For example:

> '…the FMW represents only one component of the income safety net for Australians. Other government interventions including tax cuts, industrial regulation and economic stimulus packages are relevant to the overall well being of Australians.'[118]

> 'Real disposable incomes are a function of nominal incomes and their interaction with the tax and transfer payments system.'[119]

Several employer groups point to the tension between the objective to provide a safety net and other objectives, especially in the current economic climate:

> 'The greater the emphasis that is placed on the role of the minimum wage as an income safety net, the less likely it is that the AFPC will meet the objective of improving the capacity of the unemployed and low paid to get and keep jobs.'[120]

> 'It is important a safety net for low paid workers does not come at the expense of jobs. Raising the minimum wage at a time when many businesses' bottom lines have been affected by deteriorating economic conditions has the potential to lead to greater unemployment.'[121]

Other submissions suggest that, even in the present economic conditions, maintenance of the safety net remains a key objective. The Australian Government submits that economic conditions are "extremely volatile and uncertain", but maintains that its priorities are to both "support jobs so as to minimise job losses during the economic downturn and to maintain a fair minimum safety net", and urges the Commission to "align its decision with these aims".[122]

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117 ILO, *C131 Minimum Wage Fixing Convention, 1970*, 2006a, <http://www.ilo.org/ilolex/cgi-lex/convde.pl?C131> at 24 April 2009; and ILO, *C131 Minimum Wage Fixing Convention, 1970*, 2006b, <http://www.ilo.org/ilolex/cgi-lex/ratifce.pl?C131> at 24 April 2009.

118 Government of South Australia, *Submission to the Australian Fair Pay Commission's Review of the Federal Minimum Wage 2009*, 20 March 2009, p. 19, para. 3.3.

119 ACCI, March 2009, p. 119, para. 306.

120 AFEI, March 2009, p. 6, para. 8.

121 CCIWA, *Australian Fair Pay Commission 2009 Minimum Wage Review*, 20 March 2009, p. 50.

122 Australian Government, March 2009, p. 2, paras. 1.11 and 1.13.

Section 4

4.1. The complementary roles of wages and the tax/transfer system

Submissions express different views about whether the Commission should consider changes in the tax/transfer system, of either a one-off or enduring nature, in making its 2009 general Wage-Setting Decision. Some suggest that the upcoming changes to personal income tax, as well as the economic stimulus payments, are important in determining disposable incomes and overall living standards:

> 'These [stimulus] packages, along with the Government's personal income tax cuts announced in the 2008–09 Budget, have delivered, and will continue to deliver, a fiscal boost to groups most likely to be negatively affected by the flow-on effects of the global economic changes. These measures will help support the living standards and preserve the purchasing power of those reliant on minimum wages.'[123]

> 'When determining the issue of providing a safety net for the low paid it is important the Commission have regard to factors beyond nominal incomes and take into consideration the impact of tax changes and increases in tax offsets, welfare payments, in-kind benefits and subsidies and any other measures that lift the after-tax incomes or living standards of the low paid.'[124]

Other submissions suggest that to account for tax/transfer adjustments in wage-setting decisions would be inconsistent with the objectives of these measures:

> 'Consideration as part of this Wages Review of these scheduled tax cuts will compromise the achievement of the Commonwealth Government stated objectives for the tax cuts:
>
> - Increase take home pay / disposable income
> - Reward for effort
> - Long awaited tax relief
> - To really help take the financial pressure off working families.'[125]

> 'To offset or discount the Commission's 2009 wage increase for the impact of the Commonwealth Government's stimulus packages is to only undo or diminish the policy intent of those packages.'[126]

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[123] Australian Government, March 2009, p. 21, para. 4.4.
[124] ACCI, March 2009, p. 119, para. 306.
[125] ACTU, March 2009, p. 111, para. 9.16.
[126] NSW Government, March 2009, p. 31, para. 91.

Some argue that taking tax/transfer changes into consideration will have an adverse effect on the long-term level of the Federal Minimum Wage (FMW):

> '…tax cuts, income transfers in the social security system, and stimulus packages, which operate to supplement the incomes of the low-paid, are shaped by social and economic policy considerations…These policy considerations also change from time to time and therefore may not be capable of continued reflection into minimum wage levels.'[127]

> 'Tax bonuses are one-off payments. To take them into account when determining wages for minimum wages workers when they are not an ongoing payment would dampen minimum wages workers wage rates into the future when those payments will have no effect on disposable income.'[128]

The Australian Catholic Council for Employment Relations (ACCER) further argues that taking into account tax/transfer changes effectively discriminates against workers who rely on minimum wages relative to workers covered by collective or individual agreements, who have their wages set without reference to the tax/transfer system.[129]

In its submission, the Australian Government anticipates that the Commission would take into account ongoing changes to taxes and transfers, but asks that the Commission "note the temporary nature of the support provided through the stimulus measures".[130]

As stated in its 2008 general Wage-Setting Decision,[131] the Commission does not favour a formulaic approach to balancing the respective contributions of tax/transfer changes and wage increases to disposable income. Nevertheless it considers that information on recent trends in the disposable incomes of households reliant on minimum wages, either solely or in combination with income transfers, is relevant to its deliberations. This is especially so at a time when wage increases are more likely to have an adverse impact on employment.

4.2. Recent changes in the tax/transfer system

Legislated changes to the income tax system, effective from July 2009, will affect the disposable income of lower-income workers. These changes include:

- an increase in the income threshold for the 30 per cent tax rate from $34 001 to $35 001 per annum; and
- an increase in the Low Income Tax Offset (LITO) from $1200 to $1350 per annum, (this increases the effective tax-free threshold to $15 000 per annum).

These changes will increase the disposable income of a full-time FMW earner by around $3 per week and that of a worker earning the equivalent of the Metal Industry C4 Pay Scale by almost $6 per week.

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127 Government of South Australia, March 2009, pp. 19–20, para. 3.3.
128 ACTU, March 2009, p. 113, paras. 9.24–9.25.
129 ACCER, March 2009, p. 15, para. 36.
130 Australian Government, March 2009, p. 24, para. 4.20.
131 AFPC, *Wage-Setting Decision and Reasons for Decision*, Commonwealth of Australia, July 2008, p. 57.

Compared with those of recent years, these changes to income tax are relatively modest:

- effective marginal tax rates (EMTRs) will fall by 15 percentage points for people in two narrow income bands (between $14 001 and $15 000 and between $34 001 and $35 000 per annum); and
- EMTRs will rise by four percentage points for people earning between $60 001 and $63 750 per annum.

Changed indexation arrangements for Family Tax Benefit Part A (FTB-A) will also affect the disposable incomes of low-income families with children. From 1 July 2009, FTB-A will be indexed only to movements in the CPI.[132] The 2009–10 rates are estimated to be lower than under the old indexation formula by some 35 cents per week for each child under 12 and 49 cents per week for each child aged 13–15.

Over the past year, households that rely on a combination of wages and income transfers have also benefited from the regular indexation of those transfers, and measures such as the dependent spouse tax offset (DSTO).[133]

The Commonwealth Government has also implemented two economic stimulus packages, the Economic Security Package, effective 3 December 2008, and the Household Stimulus Package, announced 3 February 2009. These packages provided additional transfers and/or tax bonuses to many low- and middle-income households. More detail on the economic stimulus packages can be found in Section 4.3.

132 Until 2008–09, rates of FTB-A were benchmarked to the combined couple rate of (age) pension. This meant that they tended to increase according to movements in male total average weekly earnings (MTAWE), rather than the CPI.

133 Some payments are indexed by reference to the CPI, others to MTAWE or a combination of the two.

Section 4

4.3. The effects of recent wage increases and tax/transfer changes on disposable income

Table 4 details the combined effects of the Commission's general Wage-Setting Decisions from 2006 to 2009 and relevant tax/transfer changes on the weekly disposable income of a range of households earning various proportions of the standard FMW. While the primary focus remains on households with one earner on the standard FMW, the modelling continues to include cases where a single parent or secondary earner works part-time and earns 50 per cent of the standard FMW.

Table 4: Disposable incomes of illustrative low-paid households, July 2006 to July 2009

Household type	Disposable income				Increase		
	July 06 ($pw)	July 07 ($pw)	July 08 ($pw)	July 09 ($pw)	08–09 ($pw)	08–09 (%)	06–09 (%)
Single person earning 100% FMW	432.69	459.13	476.35	497.33	20.98	4.4	14.9
Couple without children, one partner earning 100% FMW	592.02	617.60	641.53	679.37	37.84	5.9	14.8
Couple without children, one partner earning 100% FMW, other earning 50% FMW	708.45	735.83	768.51	797.21	28.70	3.7	12.5
Couple, two children, one partner earning 100% FMW	815.47	848.74	880.89	914.73	33.84	3.8	12.2
Couple, two children, one partner earning 100% FMW (not receiving Newstart Allowance)	712.89	748.77	776.09	808.16	32.07	4.1	13.4
Couple, two children, one partner earning 100% FMW, other earning 50% FMW	910.83	956.12	994.61	1035.59	40.98	4.1	13.7
Pensioner single parent, one child, earning 50% FMW	614.15	641.98	668.53	694.91	26.38	3.9	13.1
Pensioner single parent, one child, earning 100% FMW	702.37	748.18	784.47	815.17	30.70	3.9	16.1
Non-pensioner single parent, one child, earning 50% FMW	516.82	536.90	559.86	581.49	21.63	3.9	12.5
Non-pensioner single parent, one child, earning 100% FMW	630.08	663.23	687.26	716.04	28.78	4.2	13.6

Note: FMW = $484.50 per week in July 2006, $511.86 per week in July 2007, $522.12 in July 2008 and $543.78 in July 2009. Tax/transfer parameters as at July in each year. Children aged 6–12. Households pay sufficient private rent to receive maximum rent assistance, where applicable. Disposable income includes all available income transfers, unless otherwise specified.

Source: AFPCS modelling.

Section 4

Over the period July 2008 to July 2009, all the household types modelled received an increase in their disposable income, ranging from 3.7 per cent for a dual-earner couple without children to 5.9 per cent for a single-earner couple without children.[134] These increases compare favourably with the current rate of CPI inflation (1.0 per cent between the June quarter 2008 and the March quarter 2009).[135]

Taking a longer-term view, since July 2006 the Commission's first three general Wage-Setting Decisions, in conjunction with tax/transfer changes, have substantially increased the real disposable incomes of all the household types modelled. A pensioner single parent working full-time has benefited the most, with an increase in disposable income of 16 per cent (over $110 per week), while other household types have received increases of between 12 and 15 per cent. These are well above the increase in the CPI from the June quarter 2006 to the March quarter 2009, which was 7.7 per cent.

It is also worth noting that disposable incomes of all these households are well above the income they would have if unemployed. As of July 2009, the maximum disposable income of an unemployed single person receiving Newstart Allowance is $282.25 per week – less than 57 per cent of that of a single person earning the FMW.

Comparisons with community income benchmarks

In addition to assessing changes in the real value of disposable incomes, the Commission compares those incomes with two main income benchmarks – a set of relative poverty lines representing 60 per cent of median equivalised household disposable income[136] and the Henderson poverty lines (HPLs). These comparisons are shown in Table 5 (for the relative poverty lines) and Table 6 (for the HPLs).

As at December 2008, disposable incomes for all the household types with one earner on the standard FMW were above both sets of income benchmarks, when available income support entitlements (that is, Newstart allowance) are included.

Over the year to December 2008, disposable incomes relative to both sets of income benchmarks declined for most households with a full-time FMW earner, continuing the downward trend of the past few years.[137] This indicates that disposable incomes for these illustrative households have increased by less than the inflation factor used to update the income benchmarks (household disposable income per head).

However, recent figures for household disposable income per head are likely to reflect the impact of payments made under the Australian Government's economic stimulus packages.[138] By contrast, the Commission's modelling does not include the effect of these payments in its estimates of disposable income. Including the effect of these payments would increase the ratios shown in Tables 5 and 6.

134 The household comprising a single-earner couple without children experiences a greater increase than other households largely due to the abolition of the separate net income test for the dependent spouse tax offset (DSTO), effective from 1 July 2009. It has been replaced with an adjusted taxable income test that links to that used for Family Tax Benefit.

135 ABS, *Consumer Price Index*, March 2009, Catalogue No. 6401.0, Canberra, ABS, 2009. Data for the June quarter 2009 is available on 22 July 2009.

136 This type of poverty line is the most commonly used by researchers and in international comparisons. The OECD typically uses a poverty line representing 60 per cent of median equivalised household income when analysing the incomes of employed households and comparing these across countries.

137 For a further discussion of these trends, see AFPC, *Economic and Social Indicators – Monitoring Report*, Issue 03, Commonwealth of Australia, July to December 2008, pp. 34–35.

138 Household disposable income per head, as calculated by the Melbourne Institute, increased by 5.8 per cent in the December 2008 quarter, compared with an average increase over the previous three quarters of 1.9 per cent and a CPI decrease in the December 2008 quarter of 0.3 per cent.

Section 4

Table 5: Comparison of 60 per cent median income poverty lines (PLs) with disposable income (DI) of households earning varying proportions of the FMW, December 2008

Household type	60% median income poverty line (PL) ($pw)	Disposable Income (DI) ($pw)			DI as a proportion of PL		
		50% FMW	100% FMW	150% FMW	50% FMW	100% FMW	150% FMW
Single adult, no children	421.40	399.83	494.44	687.65	0.95	1.17	1.63
Single parent, one child	547.81	570.90	707.42	892.47	1.04	1.29	1.63
Single parent, two children	674.23	659.73	796.25	981.30	0.98	1.18	1.46
Single-earner couple, no children	632.09	583.52	657.43	729.16	0.92	1.04	1.15
Single-earner couple, one child	758.51	713.37	808.38	892.47	0.94	1.07	1.18
Single-earner couple, two children	884.93	802.20	899.37	981.30	0.91	1.02	1.11
Single-earner couple, two children (no NSA)	884.93	622.57	796.25	981.30	0.70	0.90	1.11
Dual-earner couple, no children	632.09	nm	706.44	789.83	nm	1.12	1.25
Dual-earner couple, one child	758.51	nm	819.87	933.88	nm	1.08	1.23
Dual-earner couple, two children	884.93	nm	909.36	1022.71	nm	1.03	1.16

Note: nm = not modelled

Source: AFPCS modelling; ABS, *Household Income and Income Distribution, Australia*, 2005–06, Catalogue No. 6523.0, Canberra, ABS, 2007; and Melbourne Institute of Applied Economic and Social Research, *Poverty Lines: Australia*, December Quarter 2008, University of Melbourne, 8 April 2009.

Assumptions: PLs are based on estimates of median equivalised household disposable income for 2005–06, updated for movements in household disposable income per head as calculated by Melbourne Institute, and adjusted for household composition using modified OECD equivalence scale. FMW = $543.78 per week. Tax/transfer parameters as at 31 December 2008. Children aged 8–12. Households paying sufficient rent to receive maximum rent assistance, where applicable. Singles on 50 per cent FMW and couples on 50 per cent and 100 per cent FMW eligible to receive Newstart Allowance, unless otherwise specified. Dual-earner examples assume income is split 2:1.

Table 6: Comparison of Henderson poverty lines (HPLs) with disposable income (DI) of households earning varying proportions of the FMW, December 2008

Household type	Henderson poverty line (HPL) ($pw)	DI as a proportion of HPL		
		50% FMW	100% FMW	150% FMW
Single adult, no children	415.06	0.96	1.19	1.66
Single parent, one child	532.86	1.07	1.33	1.67
Single parent, two children	644.97	1.02	1.23	1.52
Single-earner couple, no children	555.24	1.05	1.18	1.31
Single-earner couple, one child	667.42	1.07	1.21	1.34
Single-earner couple, two children	779.61	1.03	1.15	1.26
Single-earner couple, two children (no NSA)	779.61	0.80	1.02	1.26
Dual-earner couple, no children	633.75	nm	1.11	1.25
Dual-earner couple, one child	745.93	nm	1.10	1.25
Dual-earner couple, two children	858.12	nm	1.06	1.19

Note: nm = not modelled

Source: AFPCS modelling; and Melbourne Institute of Applied Economic and Social Research, *Poverty Lines: Australia*, December Quarter 2008, University of Melbourne, 8 April 2009.

Assumptions: HPLs include housing costs and dual-earner figures include additional 'cost of work' component of $78.51 per week. FMW = $543.78 per week. Tax/transfer parameters as at 31 December 2008. Children aged 8–12. Households paying sufficient rent to receive maximum rent assistance, where applicable. Singles on 50 per cent FMW and couples on 50 per cent and 100 per cent FMW eligible to receive Newstart Allowance, unless otherwise specified. Dual-earner examples assume income is split 2:1.

Section 4

Economic stimulus packages

The Australian Government recently announced two packages aimed (among other things) at stimulating consumer spending:

- the Economic Security Package, announced on 14 October 2008, with an effective date of 3 December 2008; and
- the Household Stimulus Package, announced on 3 February 2009, with most payments occurring in March and April 2009.

Although the measures contained in these stimulus packages have no impact on permanent household income, they have boosted disposable income for low-paid households, in some cases quite considerably. Key features of the packages include:

- $1400 for single people and $2100 for couples receiving pension payments (except Parenting Payment (single));
- $1000 for each eligible child of families who receive FTB-A;
- a Tax Bonus for Working Australians of up to $900 for eligible taxpayers, depending on income thresholds, with individuals earning up to $80 000 receiving the maximum amount;
- a Single-Income Family Bonus of $900 to provide additional assistance for families that have one main income earner and may otherwise receive less assistance from the package than dual-income families with similar household income; and
- a Back to School Bonus of $950 per child to assist low- and middle-income families eligible for FTB-A with school-age children (those aged between 4 and 18).

The combined effect of the stimulus packages for a particular family depends on a number of factors, including the family's structure, taxable income, number and age of children, and income support status at the time of the announcement of each of the packages. For example:

- a single taxpayer[139] without dependants would have received $900;
- a single- or dual-taxpayer household with two children of school age would have received $5700;
- a tax-paying household with one child under school age would have received $2800; and
- pensioners, full-time students and some other income support recipients received assistance under one or both of the packages, but unemployed people without dependants and receiving Newstart Allowance were not eligible for any payment.

These payments should have helped to mitigate financial pressures for many families. A key indicator of financial stress used by the ABS and other researchers is the ability to raise $2000 for something important within a week.[140] Many households received stimulus payments well in excess of this amount.

139 In these examples, taxpayers are assumed to have taxable income of no more than $80 000 – the level at which the highest tax bonus was paid.
140 ABS, 'Low income low wealth households' in *Australian Social Trends*, March 2002, Catalogue No. 4102.0, Canberra, ABS, 2002, p. 171.

Section 4

4.4. Living standards of low-wage households

Living standards and financial stress

During 2008, Hahn and Wilkins of the Melbourne Institute of Applied Economic and Social Research undertook research on behalf of the Commission into various dimensions of the living standards of low-paid workers.[141] In response to this research, both ACOSS[142] and the ACTU[143] raise concerns about the percentage of low-paid workers with low living standards and/or experiencing financial stress.

ACCI draws a different conclusion:

> The findings from this research demonstrated that employment is an effective mechanism to avoid poverty, provided sufficient hours of employment can be secured.[144]

The influence of employment on living standards was also raised in the Commission's public consultations:

> …by the stage two consultations, some participants were revising their expectations about improved living standards, at least in the shorter term. As an increasing number of casual employees had experienced a reduction in working hours or knew of others who had, the immediate focus for many was simply on 'getting by'.[145]

Hahn and Wilkins employ a range of multidimensional benchmarks of living standards, which draw on measures of household income, wealth, consumption expenditure and financial stress. Using data from the HILDA survey from 2001 to 2006, they find that relatively few low-paid workers have low living standards when a multidimensional approach is taken. For example, when low living standards are defined as less than 75 per cent of median household income and less than 75 per cent of median household wealth (a relatively generous definition), only around one in five low-paid workers can be considered to have low living standards.[146] In addition, the HILDA data show clearly that for many low-paid employees, low living standards did not persist over this period.[147]

Not surprisingly, Hahn and Wilkins find that low-paid employees are more likely to experience financial stress than other employees. However, the incidence of financial stress among both sets of employees declined considerably between 2001 and 2006.[148]

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141 M Hahn and R Wilkins, *A Multidimensional Approach to Investigation of Living Standards of the Low-Paid: Income, Wealth, Financial Stress and Consumption*, Research Report No. 4/09, Melbourne Institute of Applied Economic and Social Research, report commissioned by AFPC, 2008.

142 ACOSS, March 2009, p. 28.

143 ACTU, March 2009, pp. 114–115, paras. 9.27–9.31.

144 ACCI, March 2009, p. 148, para. 419.

145 Southwell et al, 2009, forthcoming.

146 Hahn and Wilkins, 2008, p. 66.

147 Hahn and Wilkins, 2008, pp. 57–8.

148 Hahn and Wilkins, 2008, p. 36.

In a paper presented to the Commission's Minimum Wage Research Forum, Dockery, Ong and Seymour of the Centre for Labour Market Research compared the circumstances of people paid near or below the FMW with those who were unemployed.[149] The authors, who also used HILDA data, found that unemployed people have lower levels of household income, life satisfaction, and (self-assessed) general health than minimum wage workers, while also experiencing higher levels of financial stress.[150] They concluded that the Commission:

> …should be extremely wary of the potential impact of higher minimum wages on employment. The evidence is that unemployment is associated with substantially worse outcomes – in terms of general wellbeing and financial prosperity – than those experienced by people working in minimum wage jobs.[151]

Consumer price inflation and living costs

Submissions continue to raise the issue of increased living costs for low-paid working households. ACOSS states that:

> Consideration should…be given to the effect of changes in the cost of essentials that comprise a large proportion of the expenditures of low income households…rents have continued to rise well above the inflation rate…[152]

The ACTU also expresses concern about above-inflation increases in the costs of housing and food.[153] Both submissions note that petrol prices fell in 2008, although the ACTU points to more recent increases.[154]

As in previous years, increases in living costs were frequently mentioned by participants in the Commission's consultation research. While some acknowledged reductions in petrol prices, these "were not considered to offset what were thought to be ever-increasing general living expenses".[155] Furthermore, they had only a limited effect for participants who did not have their own transport. Similarly, participants downplayed the effect of recent decreases in interest rates, as many stated they were not homeowners.

The rate of CPI inflation has slowed in recent months. The CPI, compiled by the ABS, "provides a general measure of changes in prices of consumer goods and services purchased by Australian households".[156] As such, it takes into account many of the price changes that were raised in submissions and by focus group participants. In the period from the September quarter 2008 (closest to the date when the most recent adjustment to Pay Scales came into effect) to the March quarter 2009, the CPI actually fell by 0.2 per cent.[157]

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149 M Dockery, R Ong and R Seymour, 'Life on the minimum wage: an empirical investigation' in Australian Fair Pay Commission, *2008 Minimum Wage Research Forum Proceedings*, Volume 2, Research Report No. 4b/08, report commissioned by AFPC, 2008, pp. 185–208.
150 Dockery et al, 2008, p. 191.
151 Dockery et al, 2008, p. 203.
152 ACOSS, March 2009, p. 3.
153 ACTU, March 2009, p. 118, paras. 9.36–9.38.
154 ACOSS, March 2009, p. 3; and ACTU, March 2009, pp. 119–120, paras. 9.39–9.42.
155 Southwell et al, 2009, forthcoming.
156 ABS, *A Guide to the Consumer Price Index: 15th Series*, 2005, Catalogue No. 6440.0, Canberra, ABS, 2005, p. 1.
157 ABS, *Consumer Price Index,* March 2009, Catalogue No. 6401.0, Canberra, ABS, 2009.

Over that period, food prices increased by 4.3 per cent and rents by 3.6 per cent. However changes in other prices, especially the 25 per cent fall in automotive fuel prices, meant that the overall change in the price index was negative.[158] The RBA and the Australian Government predict that consumer price inflation will be higher over the subsequent six months, but expect it to remain low over the twelve-month period as a whole.

The CPI does not take into account changes in mortgage interest charges. With the easing in monetary policy, interest rates have fallen markedly since September 2008, which in turn would have helped to further ease living cost pressures. Changes in interest charges are reflected in the ABS' analytical cost-of-living indexes, which are made available in August of each year. In 2007–08, during which the RBA's target for the cash rate increased by just one percentage point, the increase in the cost-of-living index for employees was over one percentage point greater than the increase in the CPI. Therefore, given that the RBA's target for the cash rate has decreased by 4.25 percentage points since September 2008, changes in the cost-of-living index for employees are likely to be well below those of the CPI in the current period.

Submissions and consultation focus groups recognise that changes in living costs vary for different groups of households according to the proportion of their overall expenditure they spend on particular items. However, ABS data indicate that there are only minor differences in the average expenditure patterns of low-income employee households and those of all employee households. (Further details were given in the *Economic and Social Indicators – Monitoring Report*, January to June 2008.)[159] Therefore, it is likely that, on average, changes to living costs of low-income employee households in recent months have also been well below changes in the CPI.

Housing situation of low-paid employees

Submissions from ACCER and ACOSS reiterate concerns about the level of housing costs facing low-paid households, particularly in relation to rents.[160] ACCER also repeats its contention that the Commission underestimates the level of housing costs faced by low-paid households.[161]

On the other hand, the Australian Government submission notes that recent decreases in interest rates have eased costs for households with home mortgages:

> This expected decline in inflation will ease cost of living pressures, adding to the already significant easing for borrowers resulting from the recent cuts totalling 4 percentage points in official interest rates.[162]

[158] ABS, *Consumer Price Index*, March 2009, Catalogue No. 6401.0, Canberra, ABS, 2009.
[159] AFPC, *Economic and Social Indicators – Monitoring Report*, Issue 02, Commonwealth of Australia, January to June 2008, pp. 28–29.
[160] ACCER, March 2009, p. 22, para. 58; and ACOSS, March 2009, pp. 28–29.
[161] ACCER, March 2009, p. 23, para. 64.
[162] Australian Government, March 2009, p. 11, para. 2.36.

The extent to which lower interest rates or rising rents affect households containing low-paid employees depends upon the housing tenure of such households, as well as the actual housing costs they face. Table 7 shows that there are only minor differences in housing tenure between households containing low-paid employees and all employed households. While households that contain low-paid employees and are also low-income are somewhat more likely than other employed households to be paying rent, they also have high levels of home ownership.

Table 7: Housing tenure of low-paid employee households, employed households and all households, 2005–06

Household tenure type	Low-paid employee households (%)	Low-paid, low-income households (%)	Employed households (%)	All households (%)
Owner without a mortgage	26.7	27.2	24.6	34.0
Owner with a mortgage	45.2	35.3	45.8	35.3
Renter	25.8	34.3	27.8	28.6
Other	2.3	3.2	1.8	2.1
Total	100.0	100.0	100.0	100.0

Note: Low-paid is defined as earning less than 110 per cent of the FMW; low-income household is defined as having total household employee income of less than 70 per cent of the median.

Source: ABS, *Survey of Income and Housing: Confidentialised Unit Record File on CD-ROM/RADL*, 2005–06 (second edition), Catalogue No. 6541.0.30.001, Canberra, ABS, unpublished data.

These data indicate that it is not possible to generalise about the effects on low-paid employees of changes in either interest rates or rents. While around one-third of low-paid employees with low household income may currently be vulnerable to rising rents, a similar proportion has recently benefited from the substantial lowering of mortgage interest rates.

While the housing tenure of low-paid employees is not markedly different from that of employees in general, it is much more favourable than for unemployed people, of whom nearly three-quarters pay rent, 11 per cent are home-owners and 13 per cent are home-purchasers.[163]

163 ABS, *Survey of Income and Housing: Confidentialised Unit Record File on CD-ROM/RADL*, 2005–06 (second edition), Catalogue No. 6541.0.30.001, Canberra, ABS, unpublished data.

Table 8 presents data on the rents paid by employed; low-paid; and low-paid, low-income households, as well as the mortgage amounts owing by these household groups. Unsurprisingly, households that are both low-paid and low-income have lower median and average rents than employed households in general. They also have lower median and average mortgage amounts owing than all employed households.

Table 8: Median and average rents of low-paid employee households, low-paid and low-income and all employed households, 2005–06

	Low-paid employee households	Low-paid, low-income households	Employed households
Median rent ($pw)	190	175	200
Average rent ($pw)	203	182	217
Median mortgage owing ($)	115 400	95 000	124 600
Average mortgage owing ($)	139 800	120 200	145 800

Note: Low-paid is defined as earning less than 110 per cent of the FMW; low-income household is defined as having total household employee income of less than 70 per cent of the median.

Source: ABS, *Survey of Income and Housing*: *Confidentialised Unit Record File on CD-ROM/RADL,* 2005–06 (second edition), Catalogue No. 6541.0.30.001, Canberra, ABS, unpublished data.

Section 4

4.5. Summary

In fulfilling its wage-setting function, the Commission must have regard to providing a safety net for the low paid. In the current economic climate, the tensions between this objective and the Commission's other objectives are particularly acute.

Recent changes to the tax/transfer system have delivered substantial increases in disposable income to a range of low-paid households. Over the life of the Commission, these increases, combined with increases from the Commission's general Wage-Setting Decisions, have been well in excess of consumer price inflation. Disposable incomes for the households that are most heavily reliant on the wages and tax/transfer safety net are also well above the income that can be received when unemployed.

In addition, the Australian Government's economic stimulus packages have boosted the disposable income of low-paid households in the short term. These payments, which in some cases are quite substantial, should have helped to mitigate financial pressures for many families.

Recent evidence suggests that about one in five low-paid workers experience low living standards overall. The evidence also indicates that unemployed people have considerably lower levels of household income than people in low-paid jobs and are more likely to experience financial stress.

The Commission expects that, while increases in living costs will vary widely across individual households, for many households containing low-wage earners, recent increases in disposable income have outpaced increases in living costs. This is not true for many households whose members are unemployed. By emphasising the protection of jobs when household disposable incomes have kept pace with inflation, the Commission regards its decision as reaching an appropriate balance between helping to maintain the safety net for low-paid workers and safeguarding employment during the economic downturn.