

# REPORT OVERVIEW



## INEQUALITIES IN STANDARDS OF LIVING: EVIDENCE FOR IMPROVED INCOME SUPPORT FOR PEOPLE WITH DISABILITY

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### REPORT FOR THE AUSTRALIAN FEDERATION OF DISABILITY ORGANISATIONS

#### INTRODUCTION

In Australia, people who have a disability and are aged between 16 years and the age pension age are eligible for the social security benefit “the Disability Support Pension” (DSP). This is a means-tested payment subject to the assessment of an individual’s capacity to work. Since 1 July 2006 people with disability who apply for income support and who can work 15-29 hours a week are placed on the Newstart Allowance (NSA) (or Youth Allowance) rather than the DSP. These individuals are known as the ‘partial capacity to work’ group of beneficiaries. However, the NSA provides a significantly lower benefit and has a more stringent income test. Since 2006, eligibility for the DSP was further tightened in 2012 and 2014-15. NATSEM modelling of the 2006 budget measure suggested that the living standards of people with disability could be cut by up to 31% compared with the tax and transfer system in 2005. A significant number of Australians with disability and their families are now living in poverty.

The United Nations Convention on the Rights of Persons with Disabilities (CRPD) and Australia’s National Disability Strategy (NDS) call for income support to be provided to people with disability through policy instruments such as the DSP. The purpose of the CRPD and NDS are to promote an enhanced quality of life for people with disability and their carers including opportunities for people with disability to fully and effectively participate in all aspects of economic, social and political life, opportunities to live independently and actively engage in their

communities, as well as families and carers being well supported. It is now 13 years since the welfare-to-work change to the DSP was first introduced in 2006. While the DSP remains the main social security payment for working-aged individuals with disability, the evidence base on the impact of policy changes to the DSP since 2006 on the financial well-being of many Australian families is lacking. Are households with family members with disability on the DSP (or NSA) at increased risk of financial insecurity, poverty and lower living standards compared with households where no family member has disability? To what extent do current levels of income support protect households reliant on the DSP as their main source of income from financial insecurity and poverty? If there are major gaps in the living standards of households with and without members with disability, then what level of income support is required through the DSP to substantially reduce these inequities? What impact would broadening the eligibility criteria for the DSP e.g. allowing people with disability now on the lower NSA to be included back on the DSP, have on the financial wellbeing of people with disability and their families? This Report addresses these key policy issues.

The Report is set within the social model of disability in which society’s attitudes, choices, practices and structures hinder people with disability from enjoying full and effective economic participation, social inclusion and equality. Barriers are not the inevitable result of an individual’s impairment i.e. their long-term limitation in their physical, sensory, mental or intellectual functioning (the medical model of disability). Rather the social model of disability draws attention to the interaction between an individual’s perceived or actual impairment and the disabling barriers that hinder people from participating in society (Davis, 2013; Oliver, 2013; Soldatic and Sykes, 2017; Retief and Letsosa, 2018). In this Report, the ‘cost of disability’ is defined as the inequality in the standard of living (SoL) experienced by persons with disability and their families rather than the direct and indirect costs incurred through the ‘disability’ itself. Lower standards of living typically arise because of the interaction between the person’s impairment and the barriers they and their family face in participating in society.

**AUSTRALIA'S DISABILITY SUPPORT PENSION** To qualify for the DSP, an adult with disability must meet the age eligibility criteria; have a permanent physical, intellectual or psychiatric impairment that meets the DSP medical rules; and meet income and assets tests. To meet the medical rules, the applicant must prove that his/her health condition is equivalent to at least 20 points on pre-determined Impairment Tables. These tables are designed to assess people's impairments in relation to their capacity to work. For those who are eligible given their impairment rating, the amount of the DSP payment they can receive depends on their age, marital status, income and assets. At 20 March 2019, for eligible people aged 21 years or over, the maximum fortnightly DSP payment rate (including the maximum basic rate, pension supplement and energy supplement) was \$926.20 for a single person and \$698.10 for a member of a couple.

With an estimated budget of \$16.7 billion in 2018-19, the DSP is the second largest welfare program of the Australian Government, only the Age Pension being larger. In December 2018 there were 750,045 persons receiving the DSP - 53.3% of whom were men and 46.7% were female (Department of Social Services payment demographics data). Most DSP recipients are single (578,399 persons or 77.1%) with 171,646 (22.9%) being partnered. There were 49,035 DSP recipients who self-identified as Aboriginal, Torres Strait Islander or South Sea Islander, indicating that Indigenous Australians are two and a half times more likely to be on the DSP than non-Indigenous Australians. The number of DSP recipients has decreased significantly over time, with a 9% reduction over the last 4 years (from 824,470 DSP recipients in Dec. 2014). The rate of successful DSP claims has also declined markedly from 69% in 2010-11, to 40.6% in 2013-14 and to only 29.8% in 2017-18. The tightening of the eligibility criteria for DSP has led to a significant transition of people with disability from receiving the DSP to the NSA. At December 2014 there were 153,582 individuals in the partial capacity to work group receiving the NSA, representing 21% of all NSA recipients. By December 2018 this number had grown by 30% reaching almost 200,000 Australians. Those classified as having a 'partial capacity to work' now account for 28% of all NSA recipients.

**DATA AND METHODS** Data from the ABS 2015-16 Household Expenditure Survey (HES) is used to carry out the Report analyses. The ABS defines disability as any limitation, restriction or impairment which restricts everyday activities and has lasted, or is likely to last, for at least six months. In the Report a household having a member with disability is defined as one that has at least one adult member (individual aged > 16 years) self-reporting as having any long-term limitation in a core activity. In 2015-16 some 2.75 million Australian households (28.7%) had at least one adult with disability -

989,000 households had a family member with severe or profound disability and 2 million had a family member with mild or moderate disability (nearly 20% of households had 2 or more family members with disability). One in five households with an adult member with mild or moderate disability had a member receiving the DSP and fewer than half (46%) of those with a family member with severe or profound disability. Household weekly disposable income is used as the income measure and a composite Index of Standard of Living was constructed using 16 variables reflecting households' risk of financial insecurity and hardship. The cost of disability is estimated by calculating the difference between the 'actual' income of households having an adult member with disability and an 'expected' income. The expected income is the income of 'counterfactual' matched households that have the same characteristics of the families with an adult member with disability but none of their adults have disability. Thus, the cost of disability is how much extra income households with an adult with disability need to be compensated to achieve the same standard of living.

**MODELLING POLICY OPTIONS** NATSEM's microsimulation model STINMOD+ was used to simulate the distributional impact in 2019 of two policy options:

1. DSP payments are increased to offset some but not all of the cost of disability. Because of budgetary implications, the gap in standard of living of households of recipients of the DSP compared with households without an adult member with disability is on average halved. To achieve this the DSP is increased by \$100 per fortnight for a single person and \$310 per fortnight for a couple in a household. There is no change to the DSP eligibility criteria, so the number of DSP recipients remains largely unchanged; and
2. The disability income support scheme is expanded whereby some people who have a disability but who are not currently DSP recipients become eligible. The number of additional beneficiaries is constrained to ensure the total budgetary impact is the same as for option 1. The number of recipients could be increased by relaxing the DSP eligibility criteria, including allowing individuals with a partial capacity to work to shift back from the NSA to the DSP. For simplicity in the modelling, individuals in the HES with similar characteristics to existing DSP beneficiaries were selected to become recipients until cost of the DSP matched option 1.

**KEY FINDINGS** Households with a member with disability and receiving either the DSP or NSA are much more likely to experience financial hardship and insecurity compared with all Australian households (all HHS) or households with a member with disability receiving the age pension (AP) (Table 1). The proportion of families with a DSP recipient answering 'yes' to the 16 questions was at least double that of all Australian

households on 12 of the 16 indicators, and 3 or more times higher on 3 indicators. Households with an adult with disability and on Newstart (NSA) or Aboriginal and Torres Strait Islander households with a member receiving the DSP (Indigenous DSP) are at even higher risk. The proportion of NSA households was more than twice all Australian households on 15 of the 16 indicators and 3 or more times higher on 12 indicators, and Indigenous DSP households more than double on 3 of the 7 indicators for which data were available and 3 fold or higher on the remaining 4 indicators. An estimated 40.8% of Indigenous households with a family member on the DSP reported they had run out of money for basic living expenses in the last 12 months. While nearly one in four Australian households thought their standard of living was worse than 2 years previously, over a third of households with a DSP recipient thought their standard of living had dropped and a staggering 55% of those receiving Newstart.

To obtain the same standards of living of like households but without an adult member with disability, households with an adult with profound or severe disability needed \$173 a week on average over and above their 2015-16 net (disposable) income and households with adults with mild or moderate disability needed an extra \$87 per week on average (Table 2). However, the gap in standard of living was as high as \$277 a week for couple households on the DSP and \$489 for couple households with an adult with disability but with a partial capacity to work and therefore on NSA.



## Marie's Story

Marie is 49 years old and has worked as a cleaner since she was 18 years old. In the last 10 years she has developed lower back pain significantly impairing her mobility and causing her severe constant pain. She is no longer able to work. Marie applied for the DSP but waited almost 18 months to be told she did not qualify even though her doctor had written several reports and had been interviewed over the phone. Marie is on Newstart but finds the fortnightly management of her Newstart payment confusing and the reporting requirements expensive. She lives in a small regional town and is unable to get work, of any kind, as there are few jobs available and those that are she is unable to do because of her impairment. Marie is in severe financial stress. She often only has one meal a day, consisting of bread and jam with a cup of tea. This situation of distress is increasingly affecting Marie's mental health and she is becoming severely depressed.

## Frank's Story

Frank is a 55 year old Aboriginal man, who worked as a self-employed plasterer for 30 years. Since 2015 Frank's physical and mental health began to severely impact his ability to work. Despite diagnosis and treatment, his conditions did not improve. In 2015 Frank applied for the DSP but a year later his claim was rejected. In 2017 he re-applied for the DSP but was again rejected. In 2019 Frank and his lawyer from an independent community legal centre which specialises in social security (Centrelink) issues appealed to the Administrative Appeals Tribunal. The Government settled Frank's claim before it went to hearing and he was found to be eligible for the DSP as of 2017. Frank says that 5 years of frustration and being treated like a second-class citizen had finally come to an end. He feels relieved but is still confused about why he had to go through this ordeal.



**The cost of disability for the 2.75 million Australian households with an adult member with disability was estimated to total \$15.33 billion in 2015-16. An additional \$6.80 billion per year is needed to close the gap in standards of living due to the costs of disability faced by the 715,000 households on the DSP, and \$2.87 billion per year for the 161,000 households with an adult with disability on Newstart.**

Under Policy Option 1 to halve the income gap in 2019 in the standard of living of households already receiving the DSP would require an additional payment of around \$100 per fortnight for single persons on the DSP and \$310 per fortnight for a couple in a household. This would cost the Australian Government \$3.1bn a year, this extra expenditure increasing the overall annual cost of the DSP by 18.6%. Alternatively, under policy option 2, with an additional available expenditure of \$3.1bn per year but maintaining current payment rates, the number of DSP recipients could be increased by around 280,000 persons. This is a 37.3% increase in current beneficiaries, meaning the DSP would provide income support for over 1 million Australian adults with disability. This could include all the NSA 'partial capacity to work' recipients plus an additional 80,000 working age adults with disability who are not currently receiving income support through either the DSP or NSA. Option 1 has a significant impact on poverty reduction among DSP recipients with the proportion of DSP recipients living below the poverty line dropping from 17.8% to 9.7%. Among all Australian adults who have mild to profound disability, the poverty rate reduces from 17.5% to 15.8-15.4% under option 1 and 2, and Australia's national poverty rate of 13.7% would decline by 0.5 and 0.6 percentage points under option 1 and 2 respectively.

**Table 1. Financial Hardship and Insecurity for Different Household Types (% of households)**

	All HHs	DSP	Indigenous DSP	NSA	AP
Can't afford to buy new clothes most of the time	11.0	28.5	-	48.0	10.7
Can't afford to spend time on leisure or hobby activities	10.4	27.0	-	44.5	10.2
Can't afford a holiday away from home for at least 1 week a year	22.6	46.3	-	66.2	25.4
Can't afford to have a night out once a fortnight	16.6	39.0	-	54.8	18.1
Can't afford to have friends or family over for a meal once a month	7.3	23.6	-	27.7	9.0
Can't afford to have a special meal once a week	11.9	29.6	-	46.8	12.1
Couldn't pay fuel/telephone bill on time due to money shortage	9.7	18.9	26.8	31.4	4.8
Couldn't pay car registration/insurance on time due to shortage of money	3.9	7.7	10.2	13.0	0.6
Went without meals due to shortage of money	2.7	11.5	13.1	14.4	0.9
Couldn't heat or cool home due to shortage of money	2.3	5.9	5.5	14.8	1.8
Couldn't raise \$2000 within a week	13.2	37.5	71.0	43.4	13.6
Sought assistance from welfare/comm. organisations due to money shortage	2.6	10.7	23.0	16.6	2.1
Sought financial help from friends/family	7.0	14.3	34.7	29.1	2.4
Saving is not a main emergency money source for the HH	33.3	59.3	-	73.0	28.5
Unable to save money most weeks	55.3	72.3	-	88.2	60.6
HH standard of living worse than 2 years ago	23.7	34.7	-	54.7	26.2

Source: Authors' calculations from the 2015-16 HES. For Indigenous households data were sourced from the 2014-15 National Aboriginal and Torres Strait Islander Social Survey.

■ 2 x higher than All HH ■ 3 x higher than All HHs

**Table 2. Cost of disability among households with at least one adult member with disability (2015-16)**

All Households	
<b>Number of Households</b>	
No. of HHs with at least one member with disability	2,754,918
- have profound/severe disability	988,914
- have mild/moderate disability	2,000,200
HHs with members with disability receiving DSP	714,626
HHs with members with disability receiving NSA	161,011
HHs with members with disability receiving AP	988,433
<b>Inequality in Standard of Living – average gap in income (\$ per week per household)</b>	
HHs with at least one member with disability	107
- have profound/severe disability	173
- have mild/moderate disability	87
HHs with members with disability receiving DSP	183
HHs with members with disability receiving NSA	343
HHs with members with disability receiving AP	122
<b>Cost of Disability in Australia (\$ million per year)</b>	
HHs with at least one member with disability	<b>15,328.4</b>
- have profound/severe disability	8,896.3
- have mild/moderate disability	9,048.9
HHs with members with disability receiving DSP	<b>6,800.4</b>
HHs with members with disability receiving NSA	<b>2,871.8</b>
HHs with members with disability receiving AP	6,270.6

# CONCLUSION

A Government investment of **\$3.1BN** per annum would close the gap in income and standard of living of the **715,000 HOUSEHOLDS** with a member receiving the DSP by nearly **50%**. Both policy options would improve inequalities in Australia's household income distribution and reduce household poverty rates.

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