ACOSS AND UNSW SYDNEY

INEQUALITY IN AUSTRALIA 2020

PART 2: WHO IS AFFECTED AND WHY

UNSW SYDNEY

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Glossary

ABS	Australian Bureau of Statistics
ACOSS	Australian Council of Social Service
CPI	Consumer Price Index
ES	Energy Supplement
FTB	Family Tax Benefits
GFC	Global Financial Crisis
OECD	Organisation for Economic Co-operation and Development
PP	Parenting Payment
RA	Rent Assistance
UNSW	University of New South Wales

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Foreword

This report is the latest in a series by the Poverty and Inequality Partnership between the Australian Council of Social Service (ACOSS) and UNSW Sydney. Written as the COVID-19 pandemic continues to overwhelm the wider world, this report expands the information in Inequality in Australia 2020: Overview to look deeply at the groups of people most affected by income and wealth inequality and to provide a base-line of data against which to assess the impacts wrought by the changes of late 2019 and throughout 2020.

These impacts include those policies introduced in the form of the Coronavirus Supplement and JobKeeper, which prevented or reduced a forecast increase in income inequality caused by wage differences. However, the forthcoming removal of these supports are likely to result in increased inequality unless they can be replaced by strong employment growth and an adequate, permanent increase in unemployment payments.

Our initial report on ***Inequality in Australia 2020: Part 1, Overview*** found that, pre-COVID, inequality in Australia in terms of both income and wealth was extensive, with those in the highest 20% income group having 6 times the income of those in the lowest 20% income group; and those in the highest 20% wealth group having 90 times the wealth of those in the lowest 20% wealth group. This new report finds that, before the introduction of the Coronavirus Supplement to income support payments, those relying on JobSeeker Payment were most likely to be in the lowest 10% income group. Recipients of other payments such as age pensions were also likely to be in the lowest 20% of incomes around the country, and those older people who rent their homes were likely to be in the lowest 10% income group. This report also takes a dive into the world of gender inequality, finding that women were more likely to be earning less than men and have more caring responsibilities.

The report is the sixth report from the Poverty and Inequality Partnership for 2020. The other reports are earlier reports from the Partnership for 2020 are: ***Poverty in Australia 2020: Part 1, Overview***; ***Poverty in Australia 2020: Part 2, Who is affected?***; ***Inequality in Australia 2020: Part 1, Overview***; ***Inequality in Australia 2020: Part 1, Overview. Supplementary Report - The impact of COVID-19 on income inequality*** and ***Poverty, Property and Place: A geographic analysis of poverty after housing costs in Australia***.

It is the latest report from the five-year Poverty and Inequality Partnership, a research and impact partnership between ACOSS and UNSW Sydney to reduce poverty and inequality in Australia. It was authored by Dr Peter Davidson, based on data analysis and guidance from Associate Professor Bruce Bradbury, Senior Research Fellow Trish Hill, and Research Fellow Melissa Wong from the Social Policy Research Centre, UNSW Sydney, with coordination by Penny Dorsch from ACOSS.

The Poverty and Inequality Partnership includes researchers from the City Futures Research Centre; the Centre for Primary Health Care and Equity; and the Faculty of Law at UNSW Sydney. With this cross-discipline approach, the Partnership explores the ways in which poverty and inequality intersect with other aspects of disadvantage in Australia such as health, housing and justice.

The Partnership also relies on the support of a range of non-government organisations from within ACOSS' membership, along with a group of philanthropists - Anglicare Australia; Australian Red Cross; the Australian Communities Foundation Impact Fund (and two sub-funds – Hart Line and Raettvisa); the BB and A Miller Foundation; the Brotherhood of St Laurence; cohealth; the David Morawetz Social Justice Fund; Good Shepherd Australia New Zealand; Mission Australia; the St Vincent de Paul Society; the Salvation Army; and The Smith Family.

We would like to thank all partners in this project for their assistance both throughout the partnership and especially during this extremely confronting year, along with UNSW Vice Chancellor Ian Jacobs, UNSW Deputy Vice-Chancellor Equity, Diversity and Inclusion Professor Eileen Baldry and the ACOSS Board.

Dr Cassandra Goldie

Professor Carla Treloar

Executive Summary

This Report is the second part of the research by the ACOSS and UNSW Poverty and Inequality in Australia Partnership about Inequality in Australia 2020. The research uses the latest available data from the Australian Bureau of Statistics (for 2017-18).

The first part of the research was published in May 2020 as ***Inequality in Australia 2020: Overview***. That report revealed large and persistent gaps in incomes and wealth between the lowest and highest rungs of the distribution:

- The highest 20% of households, with average after-tax incomes of $4,166 per week (pw) have almost 6 times the income of the lowest 20%, with $753pw;
- The highest 20% (with average wealth of $3.3 million) have 90 times the wealth of the lowest 20%, with just $36,000 on average.

In this second report, Inequality in Australia 2020: Who is affected and why, we dig deeper into understanding who stands where on the income and wealth ladders and the main causes of income and wealth inequality.

Inequality and COVID19

This Report presents the picture of income and wealth inequality in 2018. It provides insight into the reality of inequality prior to the dramatic events of 2019 and 2020 with both national disasters and then the pandemic. It provides a base-line of data against which to assess the impacts that both these major events, and government policies introduced in response to these events, have had on the living standards of different groups in the community.

At the time of writing, around three-quarters of the number of jobs lost at the start of the COVID recession have been restored, but 85% of the new jobs are part time.[1] Around 1.5 million people rely on Jobseeker and Youth Allowance payments and 3.5 million are supported by JobKeeper wage subsidies.[2] Both are being wound back. The Coronavirus Supplement for people on unemployment payments declined from $275pw to $125pw in September, and is scheduled to fall to $75pw in January 2021. Alongside these policies, large scale personal income tax cuts have also been brought forward.

Preliminary analysis of the impact of the recession and these government policies on income inequality indicates that while inequality of private incomes (especially wages and self-employment) rose dramatically, this was more than offset by the additional income supports.[3] However, if those supports

1 ABS Labour Force Australia October 2020.
2 Department of Social Services, ***Jobseeker and Youth Allowance monthly profile***. Taylor Fry (2020), ***Where do people receiving JobKeeper live?***
3 Li J et al (2020), The impact of COVID19 and policy responses on Australian income distribution and poverty. National Centre for Social and Economic Modelling; Phillips B (2020), COVID-19 JobKeeper and JobSeeker impacts on poverty and housing stress under current and alternative economic and policy scenarios. ANU Centre for Social Research and Methods.

are not replaced by strong employment growth and an adequate, permanent increase in unemployment payments, with extension to people who are on visa arrangements, we are likely to emerge from the recession with elevated levels of income inequality. If financial and property markets continue to move ahead of growth in the 'real economy' wealth inequality will also rise.

Who stands at the bottom, middle and upper rungs of the income ladder?

The infographic below portrays people in six illustrative households at different points in the income distribution.

	Income Group	Income	Wealth
Household 1			
Single **Jobseeker Payment** 	**Lowest 10%** **Average income:** $592pw after tax	**Earnings:** $0 **Social security:** $341pw **Investments:** $16pw **After-tax income:** $357pw **Income Percentile:** 6	**Own home:** $0 **Financial assets:** $10,000
Household 2			
Single parent **Two school-age children** **Jobseeker Payment** 	**Lowest 10%** **Average income:** $592pw after tax	**Earnings:** $0 **Social security:** $610pw **Investments:** $16pw **After-tax income:** $626pw **Income Percentile:** 7	**Own home:** $0 **Financial assets:** $10,000
Household 3			
Single **Age Pension** 	**Lowest 20%** **Average income:** $753pw after tax	**Earnings:** $0 **Social security:** $452pw **Investments:** $55pw **After-tax income:** $502pw **Income Percentile:** 16	**Own home:** $518,000 **Financial assets:** $75,000
Household 4			
Middle-income couple **Two school-age children** **Waged** 	**Middle 20%** **Average income:** $1,884pw after tax	**Earnings:** $85,000pa + $30,000pa **Social security:** $0pw **Investments:** $100pw **After-tax income:** $1,873pw **Income Percentile:** 49	**Own home:** $296,000 **Financial assets:** $271,000

Household 5			
High-income couple **Two school-age children** **Waged** 	**Highest 20%** **Average income:** $4,166pw after tax	**Earnings:** $85,000pa + $85,000pa **Social security:** $0pw **Investments:** $1,000pw **After-tax income:** $3,930pw **Income Percentile:** 92	**Own home:** $551,000 **Financial assets:** $963,000
Household 6			
High-income couple **Waged** 	**Highest 5%** **Average income:** $6,796pw after tax	**Earnings:** $270,000pa **Social security:** $0pw **Investments:** $3,000pw **After-tax income:** $5,592pw **Income Percentile:** 99	**Own home:** $941,000 **Financial assets:** $2,174,000

Sources for wages, social security and taxes: ABS Average Weekly Earnings, Australia, Nov 2017; Centrelink, Guide to Government Payments January 2018; ATO 2017-18 tax rates and thresholds.

Note:The six examples are for illustrative purposes, noting there is a diversity of households in each income group, and that the income groups are ranked by income adjusted for household size (so smaller households are shifted up the income scale). For method used see 'Measuring inequality' below.

1. Average values for Newstart Allowees. Source: Senate Community Affairs Committee (2017), Supplementary Estimates Hearings 2016-17, Answer to Social Services Question No: SQ16-000465.

2. Location in household income distribution, between lowest (1st percentile) & highest (100th percentile).

3. Average investment income for income group. Note that this is likely to be skewed upwards by a minority in each income group with larger investments.

4. Average value of financial assets of households with reference person 65+ in lowest 20% and for reference person <65 in the other income groups, adjusted for debt. Includes superannuation. Does not include other assets such as investment property and other non-financial assets, or other debt.

5. Average assets (other than the home) for single people on maximum rate of Age Pension. Source: Treasury (2020), Retirement Income Review Final Report.

6. The 2017-18 personal income tax scale, Medicare Levy, and tax offsets typically received were applied. To simplify the calculation of taxes on investment income, these were taxed at half the relevant marginal rate (the tax treatment of personal capital gains). No Medicare Levy surcharge is paid.

7. Average wage for CEO of a tier five company with capitalisation of $7.7m, paid as $230,000 fixed + $40,000 variable. Source: BDO Remuneration (2019), Board and executive remuneration report.

People relying on Jobseeker Payment are most likely to be in the lowest 10%

The average after-tax income of the lowest 10% of households by income was $592pw ($30784 pa). Half (50%) of households whose reference person received Jobseeker Payment were in this group.

- A typical household on Jobseeker Payment in this income group received $341pw in social security payments if single or $610pw if a sole parent with two children, and had no earnings. They rented their homes, had few financial reserves, and faced a high risk of poverty.[4]

The average income of the lowest 20% was $753pw ($39,164 pa). Half (52%) of people on age pensions were in this group.

- A typical single person on an age pension in this income group received $452pw in social security and had no earnings. A single adult moving from Jobseeker to a pension typically moved a full ten percentage points up the income scale, even though the pension was close to the poverty line. Home ownership and modest superannuation offered a degree of protection from

4 In 2017, 57% of people in households whose reference person received Newstart Allowance (now Jobseeker Payment) were in poverty (Davidson et al 2020, Poverty in Australia, Who is affected? ACOSS and UNSW Sydney.) For a definition of 'reference person' see 'Measuring inequality' below.

poverty for many people on maximum age pensions (but not those renting their homes). [5]

A typical middle-income household is a couple with children, with one fulltime and one part-time wage

The average after-tax income of the middle 20% was $1,884pw ($97,986 pa).

- A typical household in this group was a couple with dependent children where a male partner was employed fulltime on an average wage ($85,000pa) and the female partner part time on much less ($30,000pa), and the average investment income of this group was around $100pw. They were likely to have modest assets including the home they were purchasing but given their mortgage and the cost of children, were likely to be 'just getting by'.

People in couples with two full-time wages are more likely to be in the highest 20%

The average after-tax income of the highest 20% was $4,166pw ($216,627 pa). Households in this income group were twice as likely as the middle 20% to have two full-time wages and had almost 10 times the average investment income.

- A typical household in this income group was a couple with dependent children, where each partner received an average full-time wage ($85,000pa). The average investment income for this income group was around $1,000pw. This household was also purchasing their home and had more than twice the overall wealth of our middle-income family. They were likely to live comfortably with robust financial buffers to sustain living standards in case of mishap.

Once we reach the highest 5%, average after-tax income climbed to $6,796pw ($353,371pa).

- Compared with the rest of the highest 20%, a typical household in this group was more likely to be a couple without dependent children with one high wage-earner. This couple's income from wages was $270,000pa and average investment income for the income group was around $3,000pw. Their overall wealth was over five times that of our middle-income family. Both their income and wealth set them apart from the rest of the community.

Find where you are in the household income distribution

To help people see where they lie in the Australian income distribution, we have developed an ***interactive calculator***. After entering income and family size information into this calculator it will show your position in the overall income distribution.[6]

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5 In 2017, 15% of people in households whose reference person received Age Pension were in poverty, and 41% of people 65 years and over who rented their homes were poor. (Davidson et al 2020, ibid).

6 Note that the results from the calculator will be slightly different from those shown in this report as it has been designed to show an estimate of the income distribution at the start of 2020, rather than the 2017-18 distribution shown in this report. It also includes the 1% of households with zero or negative incomes (who are excluded from the data used for this report).

What are the main causes of income inequality?

The main components of private income (earnings from wages or self-employment, and investments) and government policies (social security and income tax) all contribute to the overall level of income inequality.[7]

Unequal distribution of earnings (especially access to full-time employment) is the main driver of income inequality

Unequal distribution of wages accounted statistically for 78% of overall inequality of private incomes (defined above), mainly due to the large share of wages (82%) in private incomes.[8]

This was due in large part to unequal access to full-time employment. The proportion of households with at least one full-time wage-earner rose from 27% in the lowest 20% of households by income to 82% in the middle 20%, while the proportion with two or more full-time earners rose from 27% in the middle 20% to 55% in the highest 20%.

- A key contributor to these employment patterns within families was variation in paid working hours among women. Among female/male coupleswith children, female partners were more likely overall to be employed part time, due to the unequal distribution of care for children. However, they were more likely to be employed fulltime in high-income families.

The second major cause of unequal distribution of wages was inequality of hourly pay, especially among full-time employees. This was greatest between high and middle-income men. Men in the highest 10% of the full-time wage distribution earned 1.8 times the median (middle) hourly full-time pay rate, which in turn was 1.7 times the average wage of the 10th percentile (the lowest 10%). Among women employed fulltime, the gaps between hourly pay at the top, middle and bottom were smaller, at 1.7 times and 1.5 times respectively.[9]

- Another significant contributor to wage inequality is the pay gap between men and women. Due to a combination of differences in their paid working hours and hourly pay rates, average male wages were 1.4 times those of women.

Though investment income is much smaller overall than wages, it is heavily concentrated towards the top of the income scale

Unequal investment incomes accounted statistically for 18% of private income inequality despite comprising just 13% of all private income.

- Almost two-thirds (65%) of investment income went to the highest 20%, compared to 44% of wages.

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7 We measure income inequality using the Gini coefficient (where compete equality has a value of zero and complete inequality – all income received by one household -has a value of one. See 'Measuring inequality', below.
8 That is, wages accounted for 78% of inequality of private incomes (earnings plus investment and other income, excluding social security), measured using the Gini coefficient. This is consistent with experience in other wealthy nations (Hoffman F et al 2020, Growing Income Inequality in the United States and Other Advanced Economies. Journal of Economic Perspectives, Vol.34, No.4, pp52–78).
9 ABS Employee earnings and hours (May 2018).

Income tax and social security together reduce private income inequality by more than a third

The Gini coefficient for private income was 0.51 (where one represents complete inequality and zero represents complete equality).

- This was reduced by 37% (to 0.32) by the income tax and social security systems.

Social security payments reduce income inequality by 10%, since they mainly go to the lowest 40%

Social security payments comprised 54% of the income of the lowest 20% of households.

- Fiscal austerity policies have more tightly targeted social security to those on the lowest incomes. The lowest 40% by income received 88% of all social security payments including Family Tax Benefit (FTB).

- Due to the removal of indexation of FTB for low-income families to wage movements in 2009, a family with no earnings and two school-age children lost the equivalent of around $35pw by 2018.

- Income tests for FTB were also tightened. A family earning $115,000 with two school- age children (in the middle 20% of the household income distribution in 2017) did not receive any FTB in 2018, yet the equivalent family in 2008 received $89pw.

Income tax reduces income inequality by 27%, since it is mainly paid by the highest 60%

The vast majority (93%) of income tax was paid by the highest 60% of households.

- Most of the lowest 40% had too little income to pay income tax, though they still paid other taxes such as the Goods and Services Tax.[10]

- Income tax reduced the incomes of the highest 20% by 27% on average, well below the top marginal tax rate of 45%, as they benefited from lower tax rates on the first $180,000 of personal income, and investment income was often taxed at lower rates.

10 In 2009 the lowest 20% of households by income paid 21% of their income in various taxes on consumption. ACOSS (2015), ***Tax, are we paying our fair share?***

Who stands at the bottom, middle and upper rungs of the wealth ladder?

The infographic below compares the wealth holdings of the highest 10% ('highest wealth') of households ranked by wealth with the next 30% (the 'middle wealth') and lowest 60%.

	Wealth group	Overall wealth	Average value of components
Group 1			
Low wealth 	**Lowest 60%** Assets (net of debt) worth up to $760,000	**Average wealth:** $277,000 **Share of all wealth:** 16%	**Own home (less mortgage):** $120,000 **Other non-financial net assets:** $56,000 **Superannuation:** $69,000 **Other real estate (less expenses):** $13,000 **Shares, business & financial:** $28,000 **Other debt:** -$56,000
Group 2			
Middle wealth 	**60th to 90th percentile** Assets (net of debt) worth $760,000 to $2,227,000	**Average wealth:** $1,282,000 **Share of all wealth:** 38%	**Own home (less mortgage):** $615,000 **Other non-financial net assets:** $126,000 **Superannuation:** $279,000 **Other real estate (less expenses):** $104,000 **Shares, business & financial:** $164,000 **Other debt:** -$8,000
Group 3			
Highest wealth 	**Highest 10%** Assets (net of debt) worth $2,227,000 or more	**Average wealth:** $4,754,000 **Share of all wealth:** 46%	**Own home (less mortgage):** $1,413,000 **Other non-financial net assets**: $211,000 **Superannuation:** $897,000 Other real estate (less expenses): $802,000 **Shares, business & financial:** $1,441,000 **Other debt:** -$10,000

Note: Households are ranked by wealth. For method used see 'Measuring inequality' below.

Middle wealth corresponds broadly to the 'medium' definition of 'middle class' in Wilkins et al (2020); that is, those with between 50% and 150% of the median wealth level. In 2018, that group comprised 32% of households ranked by wealth (Wilkins R et al 2020, The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 18. Melbourne Institute).

1. Average wealth net of debt

Half of all wealth is owned by the richest 10%

The highest wealth group (highest 10%) had 46% of all household wealth and the middle wealth group (the next 30%) had 38%, leaving the remaining 60% with just 16%:

- The average wealth of the highest wealth group was $4,754,000 comprising $1,413,000 in their homes (after mortgage debt), and $3,341,000 in other assets.
- The 'middle wealth' group (next 30%) had 27% of the average wealth of the richest 10% ($1,282,000) comprising $615,000 in their homes, and $667,000 in other assets.
- The lowest 60% by wealth had just 6% of the wealth of the richest 10% ($277,000). This comprised an average of $120,000 in their homes (noting that many were not home-owners), and $157,000 in other assets.

Older people have 50% more wealth than those aged under 65, mainly due to the value of their homes

The average wealth of people in households with a reference person 65 years and over was $1,376,000 - 1.5 times that of younger age groups (with $904,000).

- Over half (57%) the overall difference in wealth between the two age groups was due to owner-occupied housing. The average value of the homes of older people was $597,000 compared with $328,000 for those under 65.
- While housing wealth generally accumulates as we grow older, this stark age-wealth divide reflects rapid growth in home prices that have benefited people who were able to buy their home decades ago at the expense of younger people who have had to delay or forego home purchase.[11]

What are the main causes of wealth inequality?

Most wealth is in owner-occupied housing and superannuation, but shares and investment property are more concentrated at the top

Of the average $1,026,000 in household wealth, the majority (59%) was either owner-occupied housing (39%) or superannuation (21%). One-third (33%) was either shares, business assets and other financial investments (21%) or investment property (12%).

- But 69% of the value of shares and other financial investments and 68% of the value of investment property were held by the richest 10% (compared with 36% for owner-occupied housing and 42% for superannuation).

11 Burke T et al (2015), ***Generational change in home purchase opportunity in Australia***. Final Report No 232, Australian Housing and Urban Research Institute.

High wealth levels are associated with high income and saving levels through working life

Aside from inheritances, wealth comes from people's lifetime income (including earnings and the compounding value of investment assets):

- Among households whose reference person was under 65 years, the highest 20% by income had 2.6 times as much wealth ($1,880,000) as the middle 20% ($712,000) and 3.9 times as much ($477,000) as the lowest 20%.

After covering their essential expenses, the highest 20% of households were able to save 32% of their income, compared with 10% saved by the middle 20% and minus 31% by the lowest 20% (since they drew down savings to cover expenses):[12]

- The highest 20% invested more of their savings in shares, business or financial investments or investment property ($797,000 on average or 42% of their wealth) than the middle 20% ($161,000 or 23%) or lowest 20% ($135,000 or 28%).

Inheritances go disproportionately to those with more wealth already

From 2001 to 2017, the average inheritance received by people in the top 20% by wealth was around $180,000 - twice that of the middle 20% and four times the lowest 20%:[13]

- It is not clear whether inheritances are more unequally distributed than overall wealth already is, as these figures cannot be directly compared with the data in our research.

Under current policy settings and trends - with growth in asset values and limited compulsion for people to draw down their superannuation savings through retirement - inheritances are likely to assume growing importance:

- Overall superannuation death benefits are projected to rise from $17 billion in 2019 to $130 billion in 2059.[14]

- The government's Retirement Income Review pointed to lax draw down requirements for superannuation after retirement, and the exemption of superannuation investment earnings from tax once the fund pays a pension, as contributing to this trend.

12 ABS (2018) ***Household Expenditure Survey Australia: Summary of Results***, 2015-16.
13 Treasury 2020, Retirement Income review final report, data from HILDA surveys, in 2019 dollars.
14 Treasury (2020) ibid. Values are adjusted for inflation to 2019 dollars.

Measuring inequality

To measure income and wealth inequality, we rely on the biennial Survey of Income and Housing produced by the Australian Bureau of Statistics (ABS), the latest of which covers financial year 2017-18 (shortened to '2017').

We rank people included in the ABS survey into groups according to the income or wealth of their household.

Measuring income inequality

Incomes include wages and salaries (including fringe benefits), earnings from self-employment, investment and other income and social security payments of every person over 15 years in the household. These together form 'gross income'. When ranking households by weekly income, two adjustments are made: income tax is subtracted to rank households by after-tax (disposable) income, and this is adjusted downwards ('equivalised') according to the size of the household (with no downward adjustment for single person households). This last adjustment takes account of the expenditures required by households of varying sizes to reach the same living standard.

We divide the population into groups by counting the number of people in each group. For example, the bottom 20% includes the one-fifth of people living in the households with the lowest equivalised income.

We report the average weekly after-tax incomes for each household income group, and the share of all household income received by that group. So that they are more easily understood, these average incomes are not adjusted downwards for household size (equivalised).

We profile different income groups according to characteristics of individuals (such as age) and of households (such as age of household reference person). The ABS uses a number of criteria to select the reference person, but in practice they are usually the owner of the property and/or the person with the highest income.[15]

Finally, we examine the direct causes of income inequality in 2017, by breaking incomes down into their components (such as wages and income from various investments).

We use a summary measure of inequality, the 'Gini coefficient' in addition to the other measures described above. The Gini varies across a range from zero (equal incomes) to one (where all income is held by a single household).

To work out the contribution made by different components of income (such as wages and social security payments) to overall income inequality, we 'decompose' the Gini coefficient for after-tax income inequality into these components. For each component, the contribution to the Gini coefficient is the product of its share of overall income and its concentration coefficient (a measure of inequality within that component).

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15 The household reference person is selected by the ABS in the following order from among people aged 15+ in the household: The first unique person; the person with the highest tenure (ranked: owner, owner with mortgage, renter, other); a member of a couple with dependent children; a member of a couple without children; a lone parent; the person with the highest income; the oldest person.

We use reference person here as a proxy for 'highest income-earner'. Where the reference person is a member of a couple, in 95% of cases the reference person has a higher income than their partner, in 4% of cases they have equal income, and in 1% the reference person has a lower income.

The illustrative households were selected on the basis that each household type (e.g. single on Newstart Allowance) was more likely to be found in that income group than others. They do not necessarily represent the majority of households within each income group. Their incomes were set in order to place them within the income group, and some values (e.g. investment income) were averages for the group. Beyond this, the incomes shown are for illustration only.

Measuring wealth inequality

Household wealth consists of a range of assets including owner-occupied or investment housing, superannuation, financial assets such as shares and bank balances, and other non-financial assets such as cars. To report on household wealth, the current values of various assets held by a household are tallied, minus any debts owing (for example, home mortgages). In contrast to our treatment of household income, the value of wealth holdings is not adjusted for household size (equivalised) in order to rank households by wealth. We also report on the distribution of wealth among the income groups described above.

The three illustrative wealth groups are the highest 10% of households by wealth, the next 30% and lowest 60% respectively. All values are averages for each group.

Further information

For more information on the technical aspects of the analysis underlying this publication see the methodology page at ***http://povertyandinequality.acoss.org.au/methodology***

Part 1: Income inequality

Who stands at the bottom, middle and upper rungs of the income ladder?

The average incomes before and after tax for each 20% of people in households ranked by equivalent disposable income are shown in Table 1.[16]

Table 1: Average incomes by income group

	Lowest 5%	Lowest 10%	Lowest 20%	Second 20%	Third 20%	Fourth 20%	Highest 20%	All	Highest 10%	Highest 5%
Average after-tax income ($pw)	444	592	753	1,357	1,884	2,469	4,166	2,126	5,230	6,796
Average before-tax income ($pa)	23, 771	31, 738	41, 024	79, 042	116, 491	159, 353	298, 374	138, 852	388, 609	524, 768

In the following analysis, we show the distribution of household income from two perspectives:

- The distribution of income across people with different characteristics (such as age);
- The profile of each income group (such as the lowest 20%) according to those characteristics.

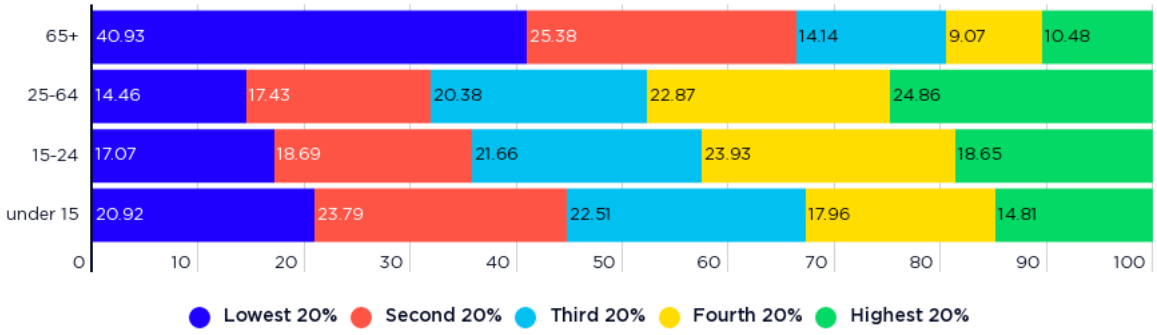
Older people and children are more likely to be in the lowest 40% while people of working age are more likely to be in the highest 20%

Older people and children were more likely to be found in low-income households:

- Two-thirds (66%) of people aged 65 years and over, and 45% of children under 15 years, were in the lowest 40% by income.
- Almost half (48%) of people of working age (16-64 years) were in the highest 40%.

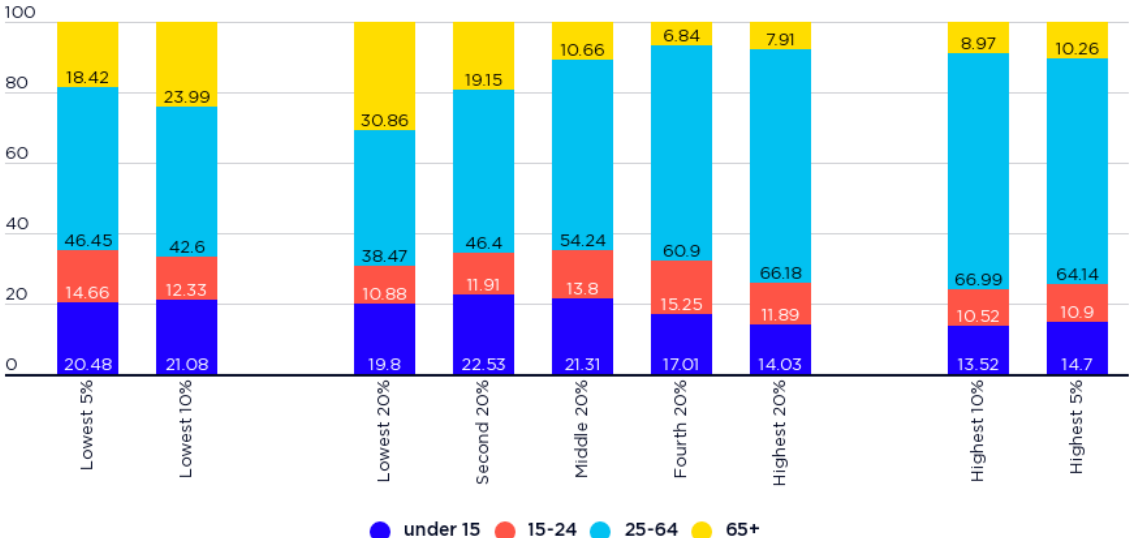
16 These average incomes are not equivalised (adjusted for household size), although household incomes are equivalised to rank each household within the income distribution.

Figure 1: Distribution of income by age (% of people in 2017)



Note: Percentage of people of different ages across household income groups

Figure 2: Profile of each income group by age (% of people in 2017)



Note: Percentage of people in household income groups who are of different ages

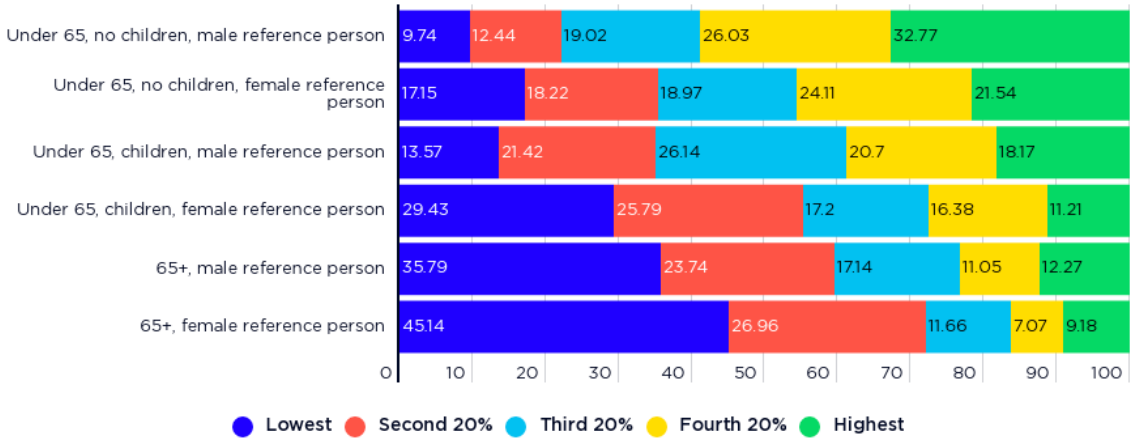
Households with female main earners, especially those with dependent children, have much lower incomes than those with male main earners

Households with female main earners and children were twice as likely (29%) to be in the lowest 20% by income compared with households with male main earners and children (14%):[17]

- Among sole parent families (most of which are have female main earners), 39% were in the lowest 20%.
- In contrast, 18% of households with male main earners and children, coared with 11% of households with female main earners and children were in the highest 20%.

17 By households with a female main earner, we refer to families with a female reference person (see methodology section).

Figure 3: Distribution of income by gender of household reference person (% of people in 2017)

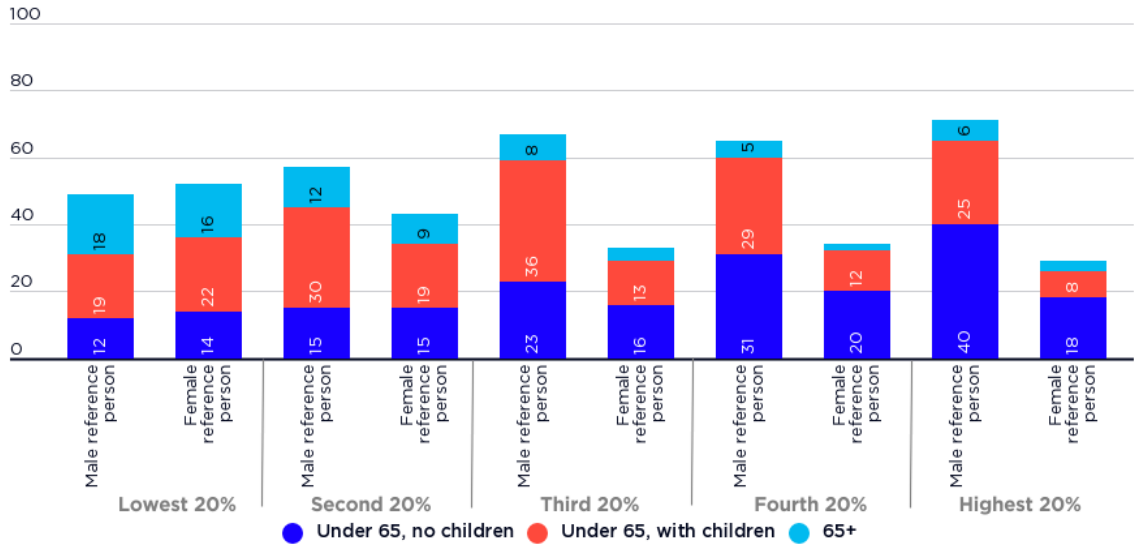


Note: Percentage of people across different income groups whose household reference person is male or female and of different ages.

'Children' refers to dependent children (under 15 years or a dependent student aged 15-24 years).

For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

Figure 4: Profile of each income group by gender of household reference person (% of people in 2017)

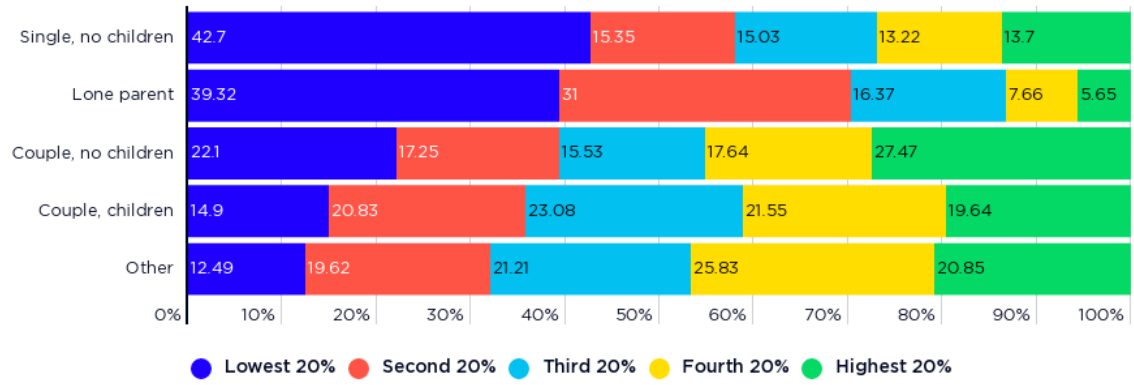


Note: Percentage of people in different income groups, whose household reference person is male or female and of different ages.

For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

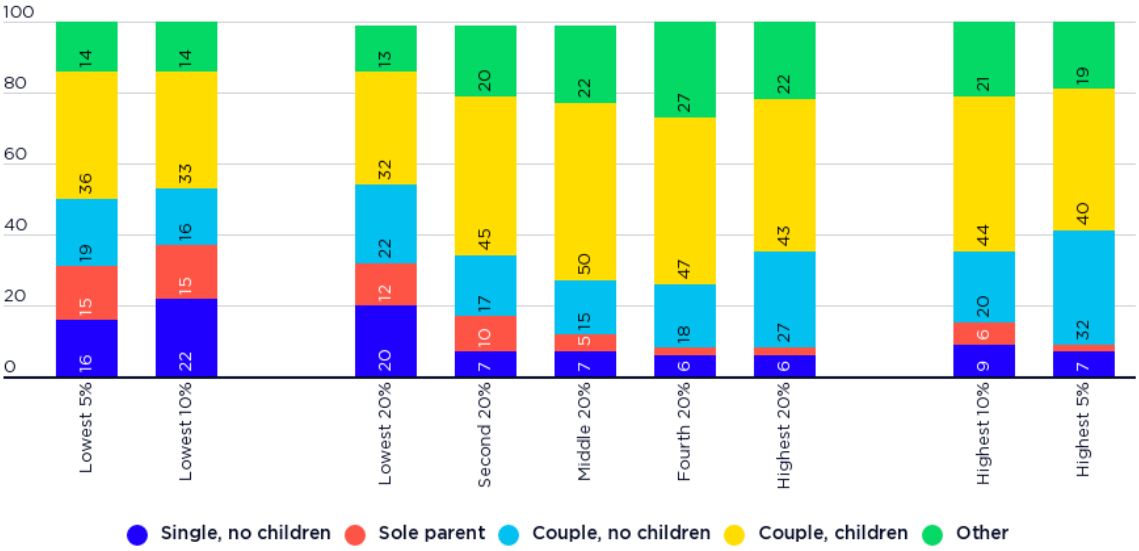
'Children' refers to dependent children (under 15 years or a dependent student aged 15-24 years).

Figure 5: Distribution of income by family type (% of people in 2017)



Note: Percentage of people in different types of family, across household income groups. 'Children' refers to dependent children (under 15 years or a dependent student aged 15-24 years).

Figure 6: Profile of each income group by family type (% of people in 2017)



Note: Percentage of people in household income groups, who are in different types of families

'Children' refers to dependent children (under 15 years or a dependent student aged 15-24 years).

Couples (with and without children) are better off financially than singles and sole parent families

Among single people without children, 43% were in the lowest 20% compared with 22% of all couples without children:

- Only 14% of singles were in the highest 20% compared with 27% of couples.

Among sole parent families, 39% were in the lowest 20% compared with 15% of couples with children.

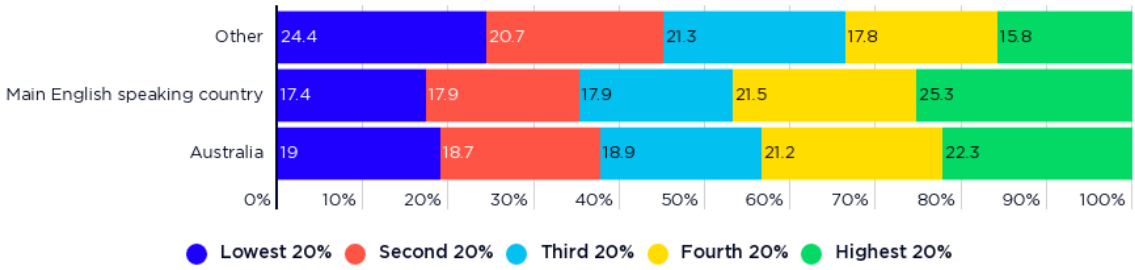
- Only 6% of sole parents were in the highest 20% compared with 20% of couples with children.

Place of birth makes a big difference to incomes

Where people stood on the income ladder depended greatly on where they were born:

- Of adults born in a major English-speaking country, 28% were in the highest 20%;
- Of those born in other countries, 24% were in the lowest 20% (Figure 7).

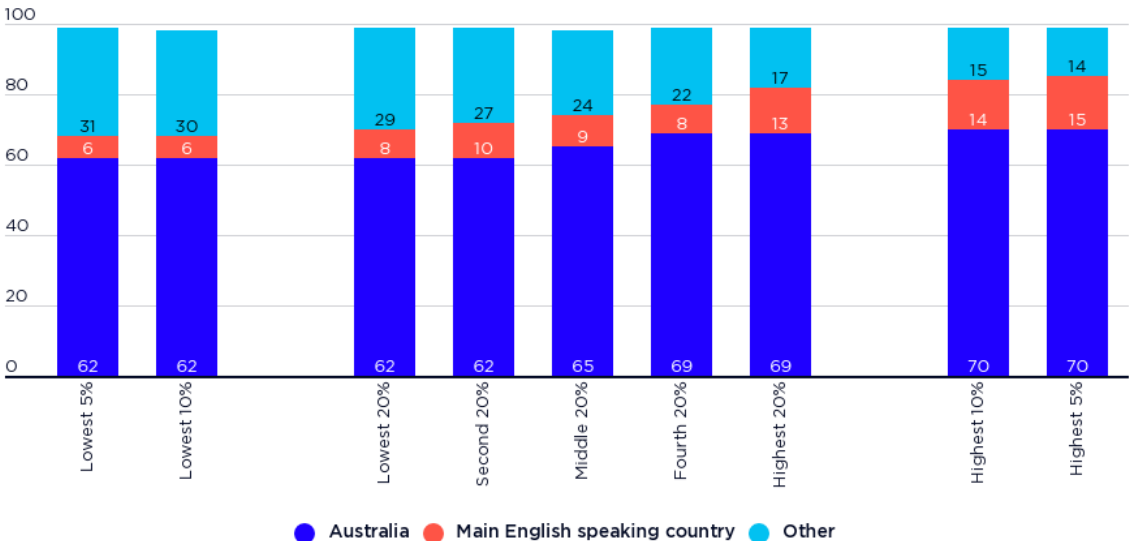
Figure 7: Distribution of income among adults by country of birth (% of people in 2017)



Note: Percentage of adults born in different countries, across five household income groups

Major English-speaking countries are those where most people are from an Anglo-Celtic background (e.g. the UK, USA, Canada, Australia and New Zealand)

Figure 8: Profile of each income group by country of birth of adults (% of people in 2017)



Note: Percentage of adults in household income groups, who were born in different countries

Major English-speaking countries are those where most people are from an Anglo-Celtic background (e.g. the UK, USA, Canada, Australia and New Zealand)

What are the main causes of income inequality?

The main components of private income (earnings and investments) and government policies (social security and income tax) all contribute to the overall level of income inequality. One way to measure the impact of each of these factors is decomposition analysis, which is increasingly used in international comparisons of income inequality.[18]

Unequal distribution of earnings is the main driver of income inequality

Figure 9 shows the concentration of different income components (the degree of inequality within each when ranked by overall income) and their contribution to overall inequality (measured using the Gini coefficient which was 0.32). The contribution is equal to the concentration coefficient multiplied by is each component's share of overall income.

Wages comprised 75% of all before-tax income but were more equally distributed than investment income:

- Wages had a concentration coefficient of 0.44 and unequal distribution of employment and wages accounted for 78% of overall private income inequality.[19]

Investment income was only 12% of all before-tax income but was more unequally distributed:

- Investment income had a concentration coefficient of 0.56 and accounted for 18% of overall private income inequality.

Income from self-employment was only 5% of all before-tax income and it was relatively equally distributed:

- It had a concentration coefficient of 0.39 and accounted for 4% of overall private income inequality.

Social security payments comprised only 8% of all before-tax income but they significantly reduced income inequality because they were concentrated towards the lower end of the distribution:

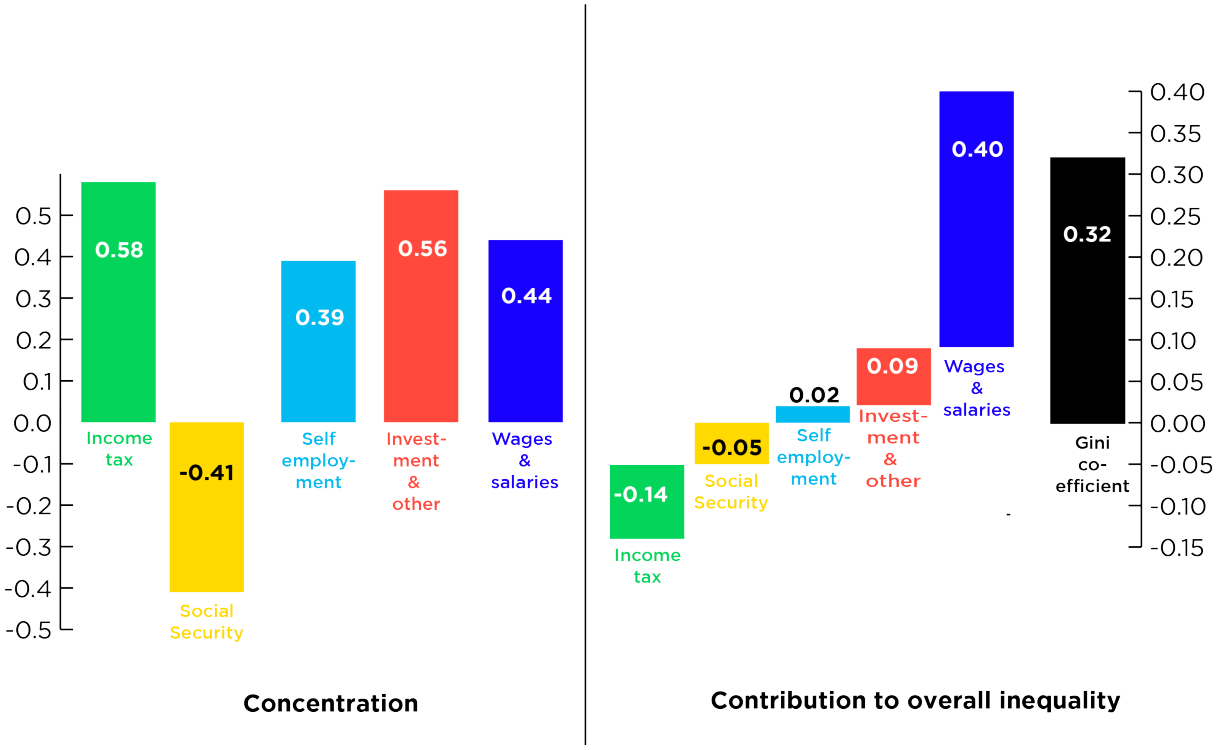
- Its concentration coefficient was -0.041.[20]

Personal income tax averaged -20% of overall before-tax income. It significantly reduced overall income inequality as it was concentrated towards the top end of the distribution:

- Its concentration coefficient was 0.58.[21]

18 Hoffman et al (2020) find that the role of investment income in increasing income inequality varies among wealthy countries, playing a greater role in the US than in European countries surveyed.
Hoffmann F et al (2020), Growing Income Inequality in the United States and Other Advanced Economies. Journal of Economic Perspectives Vol 34, No 4—pp52–78.
19 This is expressed here as a percentage of the Gini coefficient for private income (0.51).
20 The negative value indicates it was skewed towards low-income households.
21 The negative share of income and positive concentration coefficient (that is, it is concentrated towards the top of the distribution) together indicate that income tax reduced income inequality.

Figure 9: Contributions of income components to inequality of after-tax household incomes (2017)



Note: This graph shows the level of inequality (concentration coefficient) within each income component (Left Hand Side) and their contributions to overall income inequality as measured by the Gini coefficient (which was 0.32). The Gini coefficient is a measure of inequality which varies from zero (where income is equally distributed) to one (where all income is held by a single household).

Investment income is concentrated at the top of the income distribution while social security is concentrated at the bottom

Figures 10 and 11 show how the components of income are distributed within and among the different income groups:

- Almost half (44%) of all wages were received by the highest 20% of households by income.
- In contrast, two-thirds (65%) of investment income went to the highest 20%.
- The majority of social security payments (72%) went to the lowest 40% of households by income.
- Most income tax (58%) was paid by the highest 20%.

Figure 10: Composition of the incomes of income groups (% of all income in 2017)

Note: Percentage of incomes of each income group that comes from different sources

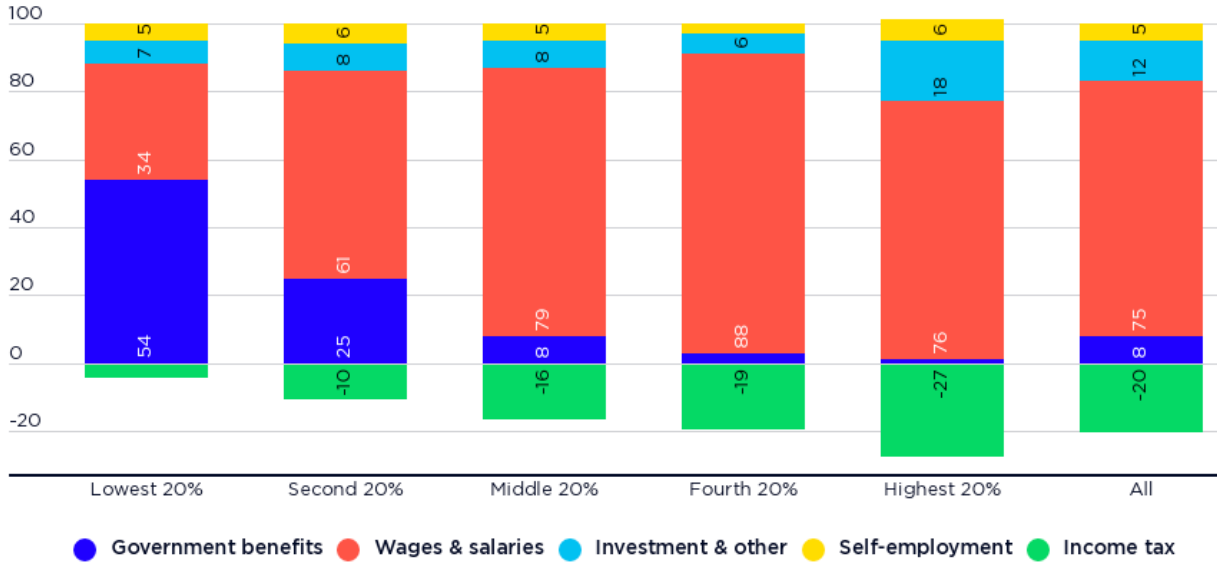
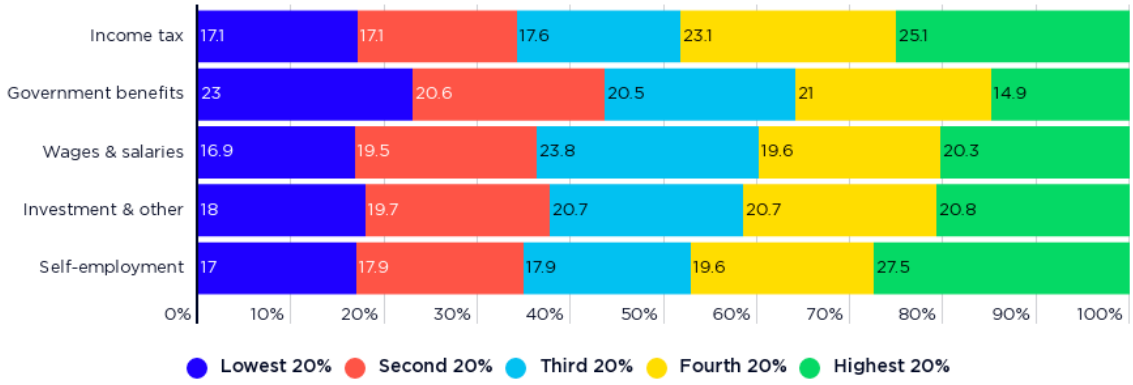


Figure 11: Distribution of all income by source (% of all income in 2017)



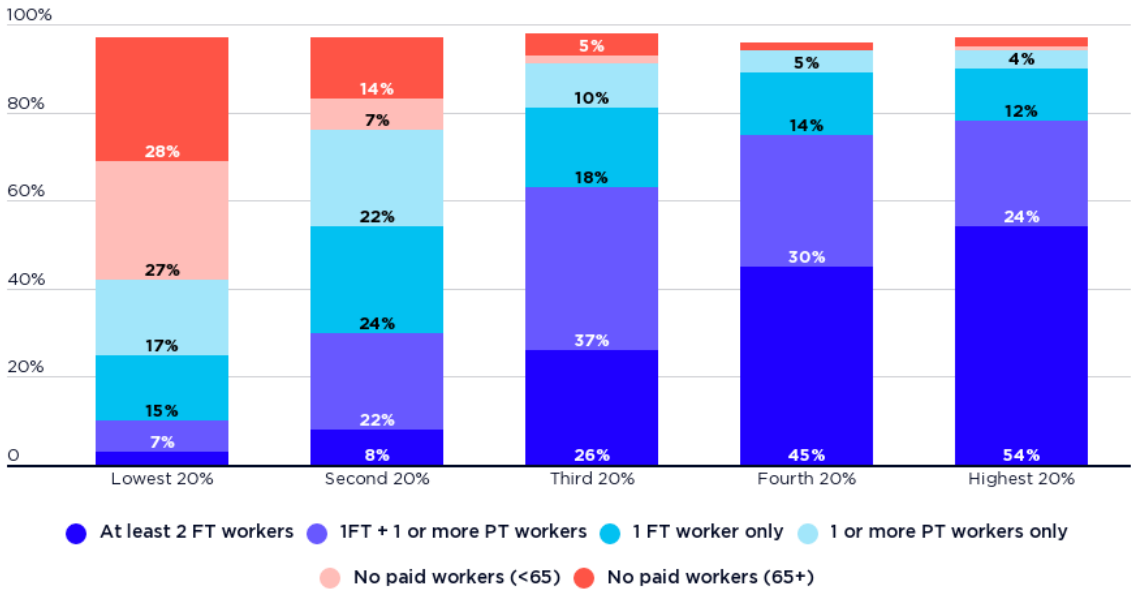
Note: Percentage of different income sources received across household income groups

Inequality of paid working hours (especially among women) contributed to wage inequality

The proportion of households with at least one full-time wage-earner rose from 27% in the lowest 20% to 82% in the middle 20%:

- The proportion with two or more full-time earners rose from 27% in the middle 20% to 55% in the highest 20% (Figure 12).

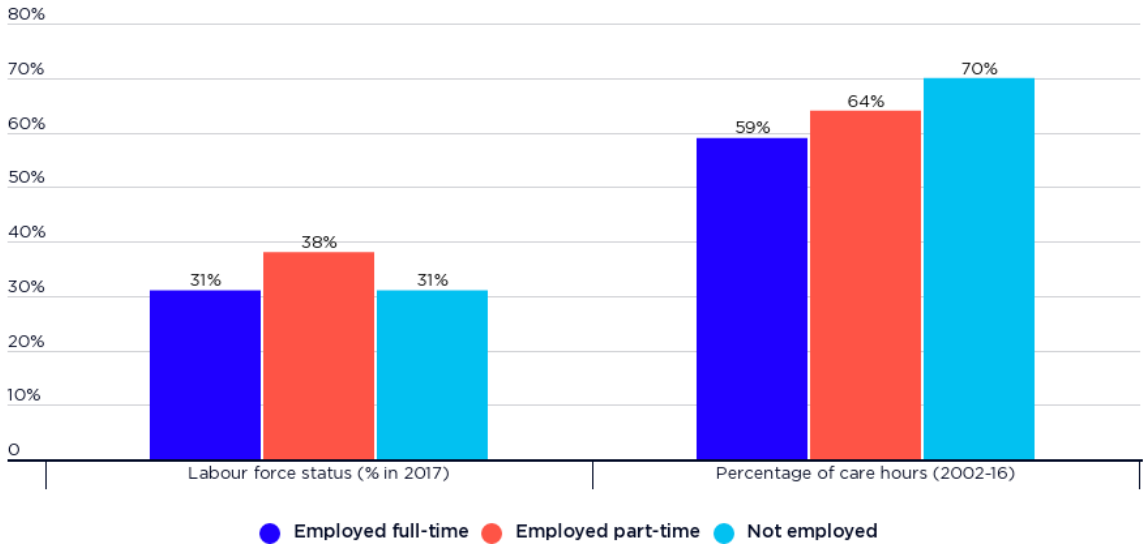
Figure 12: Profile of paid employment within each income group (% within each group in 2017)



Note: Percentage of people in each income group, whose household has different combinations of earnings from employment

A key contributor to these employment patterns within families was variation in paid working hours among women. In female/male partnered families with dependent children, female partners were more likely overall to be employed part time than fulltime, due to the unequal distribution of care for children (Figure 13).[22]

Figure 13: Employment status and share of care hours of female partners in female/male partnered families with children (%)



Sources: Melbourne Institute (2018), Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 16 (youngest child aged <15 or studying full time up to 25)

22 Among sole parents, 25% were employed fulltime, 28% employed part time and 46% were not employed. In May 2018, 38% of all women aged 16-64 years were employed fulltime and 31% were employed part-time (ABS Labour Force detailed, February 2018). Women without children were more likely to be employed fulltime than those with children.

ABS (2018) Labour Force status and other characteristics of families (June 2017); youngest child <15.

Note: The two data sets (labour force status and care hours) are not directly comparable, though the relationships between the two are likely to be consistent. The labour force status figures are for all mothers, regardless of the labour force status of the father. The 'share of care hours' figures are for couples where the father is employed fulltime. As indicated, the two data sets cover different time periods and ages of youngest child.

'Children' refers to dependent children (under 15 years or a dependent student aged 15-24 years).

Full-time employment among women was more common in the higher income groups, reflecting an association between female full-time employment, higher education attainment, and higher earnings among their partners:[23]

- In addition, higher hourly pay for partnered women is associated with higher weekly pay for their partners.[24]

In middle and low-income households, women were more likely to be employed part time or not employed. Possible contributing factors include:

- A more traditional division of labour (the 'male breadwinner model') in families where the female partner is in low paid employment.[25]

- Limited full-time employment opportunities for people with lower educational qualifications, since most entry-level jobs were part time.[26]

- Poor financial returns from full-time employment in entry-level positions, due to high effective tax rates and child care costs. For example, in 2017 the second earner in a couple with a primary wage-earner on $1,014pw with two preschool-age children faced an effective marginal tax rate of between 85% and 95% on days three to five of paid work at $23 per hour (the hourly equivalent of a full-time wage of $863pw).[27]

Apart from disparities in employment rates between men and women, education levels and disability status also contribute to unequal access to employment. In May 2018:

- The employment rate for people aged 16-64 years whose highest qualification was Year 10 or equivalent was 45%, compared with 77% for those with a bachelor degree.[28]

- Among people aged 16 to 64 years with an 'activity restriction', 43% were employed compared with 80% of people without disability.[29]

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23 Herault N & Kalb (2018), ***Understanding the rising trend in female labour force participation***. Tax and Transfer Policy Institute Working Paper No 5/220; Richardson S et al (2014), ***From gentle invaders to breadwinners – women's increasing employment and earnings share***. National Institute of Labour Studies Working Paper No 210; Average paid working hours are seven hours a week lower on average for low paid than higher-paid women (Broadway B & Wilkins R (2015), Low-paid women's workforce participation decisions and pay equity. Report for the Pay Equity Unit of the Fair Work Commission.

24 In 2012, the partners of higher-paid married women earned an average of $1099pw compared with $928pw for low-paid married women. 'Low paid' women were those with no more than two-thirds of the median hourly wage of all employees while higher paid refers to all others. Broadway B & Wilkins R (2015), op cit.

25 'Women are much more likely to be the sole or primary carer of children and men are much more likely to be the sole or main income earner. This gender divide is even more pronounced among low-paid employees.' Broadway B & Wilkins R (2015), op cit, Summary pii.

26 ACOSS and Jobs Australia (2018), ***Faces of unemployment***. In 2012, women with low hourly wages (who tended to have lower educational qualifications) were employed for an average of 25 hours a week, compared with 32 hours for those with higher hourly pay (Broadway B & Wilkins R (2015), ibid)

27 Stewart M (2018), ***Personal income tax cuts and the new Child Care Subsidy***: Do they address high effective marginal tax rates on women's work? Tax and Transfer Policy Institute Policy Brief 1/201.

28 ABS Labour Force Australia (detailed).

29 ABS Survey of disability and carers (2020).

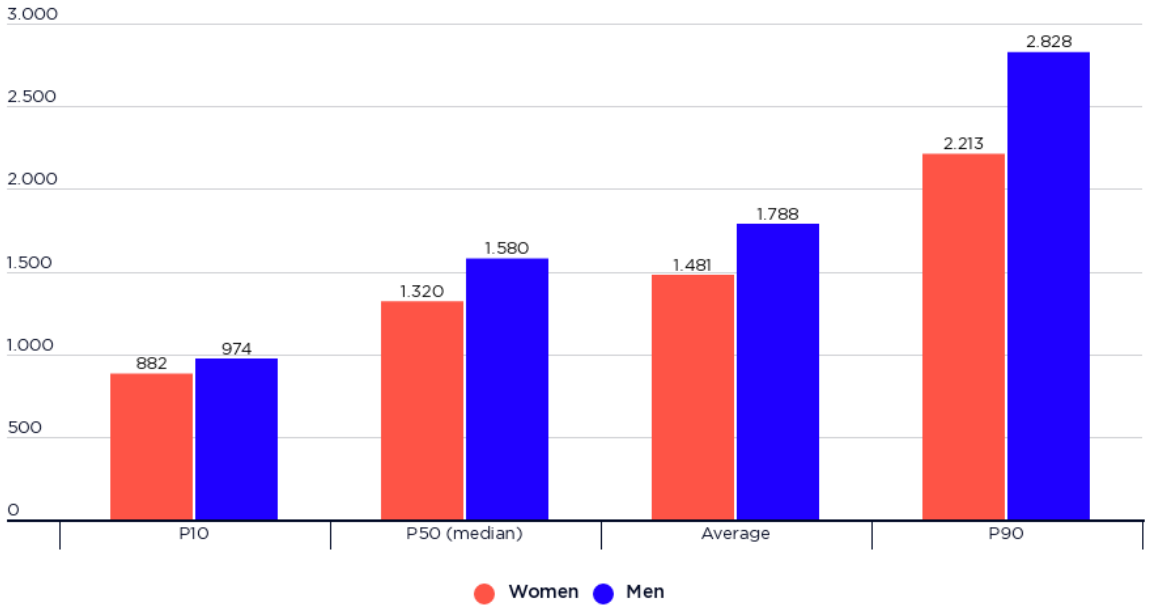
Inequality of weekly wages among full-time employees (especially among men) also contributed to wage inequality

Another key contributor to wage disparities was inequality of wages among full-time employees. This was greatest among men towards the top of the full-time wage distribution:

- Men in the highest 10% of weekly full-time wage-earners earned 1.8 times the median (middle) pay rate, which in turn was 1.6 times that of the lowest 10%.
- Among women employed fulltime, the gaps between pay at the top, middle and bottom were smaller, at 1.7 times and 1.5 times respectively (Figure 14).[30]

Due to differences in their paid working hours and hourly pay rates, average male weekly wages for all employees (fulltime and part time) were 1.4 times those of women.

Figure 14: Distribution of average weekly wages of full-time non-managerial adult employees ($pw in 2018)



Source: ABS, Employee earnings and hours (May 2018)

Note: P10 is the average wage for the lowest 10% and P90 is the average wage for the highest 10%. 'Average' is the overall average. Values are weekly, before tax.

Income tax and social security together reduce private income inequality by more than a third

If we separate out inequality of private income (wages, investments and self-employment) from the impact of government (social security payments and income tax) then:

30 ABS Employee earnings and hours (May 2018).

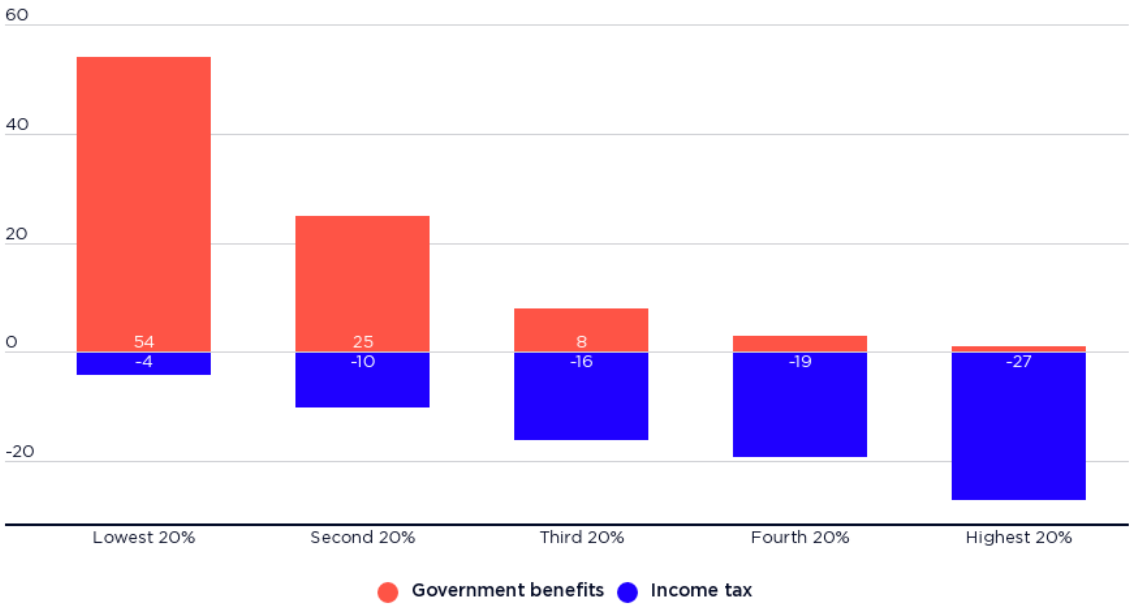
- The Gini coefficient for private income was 0.51.
- Social security and income tax together reduced this by 37% to 0.32.
- Social security contributed 10 percentage points to this reduction while income tax contributed 27 percentage points.

Figure 15 shows the percentage of income for each income group that came from social security payments (including FTB) and the percentage of income each group paid in personal income tax:

- Social security payments represented 54% of income for the lowest 20%.
- Personal income tax represented 27% of income for the highest 20%.[31]

Most personal income taxes (93%) were paid by the highest 60% of households (see Figure 11 above). This is not unusual by wealthy-nation standards.[32] On the other hand, most of the lowest 40% had too little income to pay income tax, though they still paid other taxes such as the Goods and Services Tax (not included here).[33]

Figure 15: Impact of Government benefits and income tax on household incomes (% of income in 2017)



Note: Percentage of incomes of each income group comprising social security payments (including family payments), and percentage of incomes paid in income tax

31 Income tax reduced the incomes of the highest 20% by 27% on average, well below the top marginal tax rate of 45% as they benefited from lower tax rates on the first $180,000 of personal income, and investment income was often taxed at lower rates (Varela P et al (2020), ***The taxation of savings in Australia***. Tax Transfer Policy Institute Policy Report No 01-2020).

32 Whiteford P (2018), Relax. ***The divide between the taxed and the 'taxed-nots' isn't new and doesn't buy elections.*** The Conversation, October 2, 2018.

33 In 2009 the lowest 20% paid 21% of their income in various taxes on consumption. ACOSS (2015), ***Tax, are we paying our fair share?***

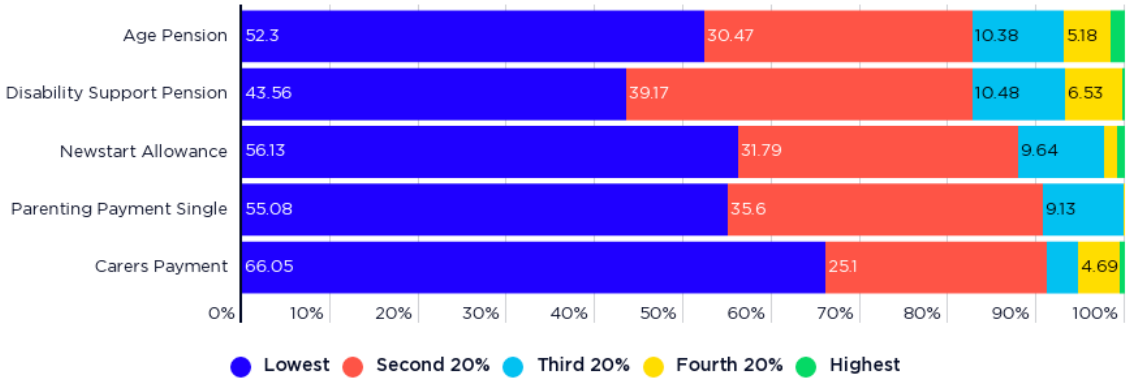
People on Jobseeker Payment are more likely to be in the lowest 10% while those on Age Pension are more likely to be in the next 10%

A more fine-grained view of social security payments (Figures 16 and 17) reveals that reliance on Newstart Allowance (now called 'Jobseeker Payment') and Parenting Payment peaked among the lowest 10% by income, and that reliance on Age and Disability Pensions peaked at a slightly higher level (the second 10%).

The relatively low rates of payment and private incomes of people receiving Newstart and Parenting payments account for this difference.[34]

- In the illustrative household in the Summary, weekly after-tax incomes were $357 for a single person on Newstart Allowance compared with $502 for a single person on Age Pension.

Figure 16: Distribution of people by income support payment of household reference person (% of people in 2017)

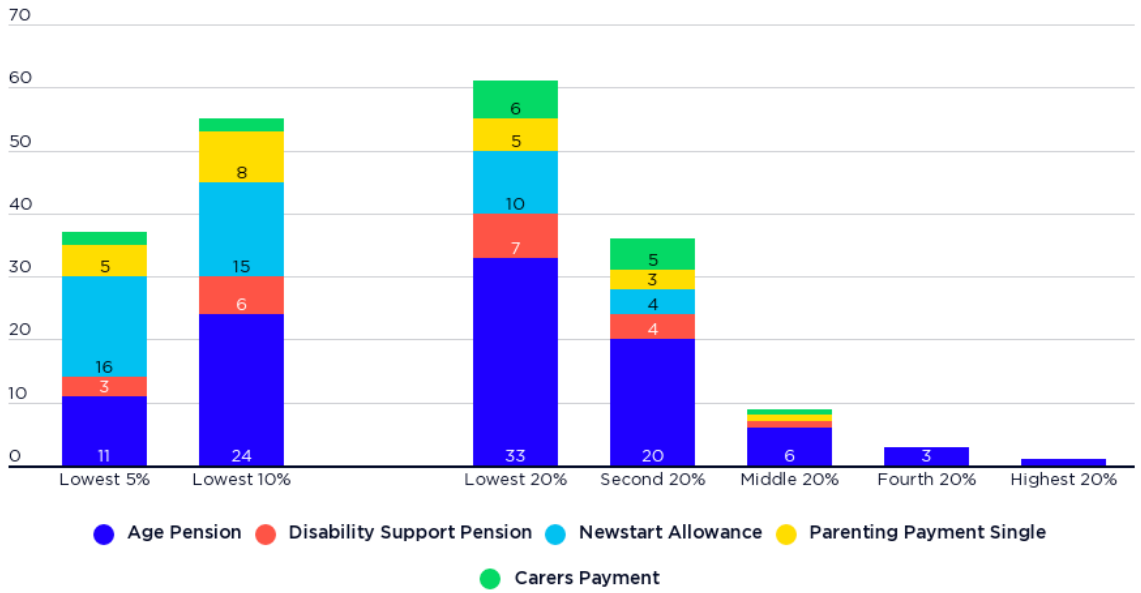


Note: Percentage of people in households whose reference person receives income support, across five household income groups

For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

34 Davidson P et al (2020), ***Poverty in Australia, who is affected?*** ACOSS and UNSW Sydney.

Figure 17: Profile of income groups by income support payments of household reference person (% of people in 2017)



Note: Percentage of people in household income groups, in households whose reference person receives income support.

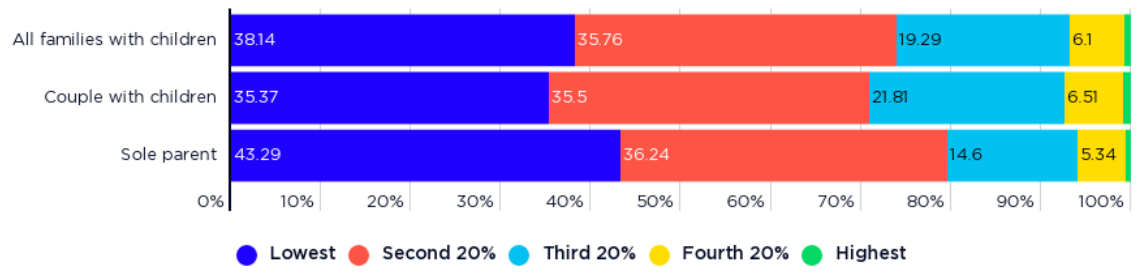
For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

After a decade of reductions in so-called 'middle-class welfare', three-quarters of FTB now go to the lowest 40%

Three-quarters (74%) of FTB payments went to the lowest 40% of households by income:

- Only 23% of families with children in the middle 20% received FTB compared with 58% of those in the lowest 20% (Figures 18 and 19).

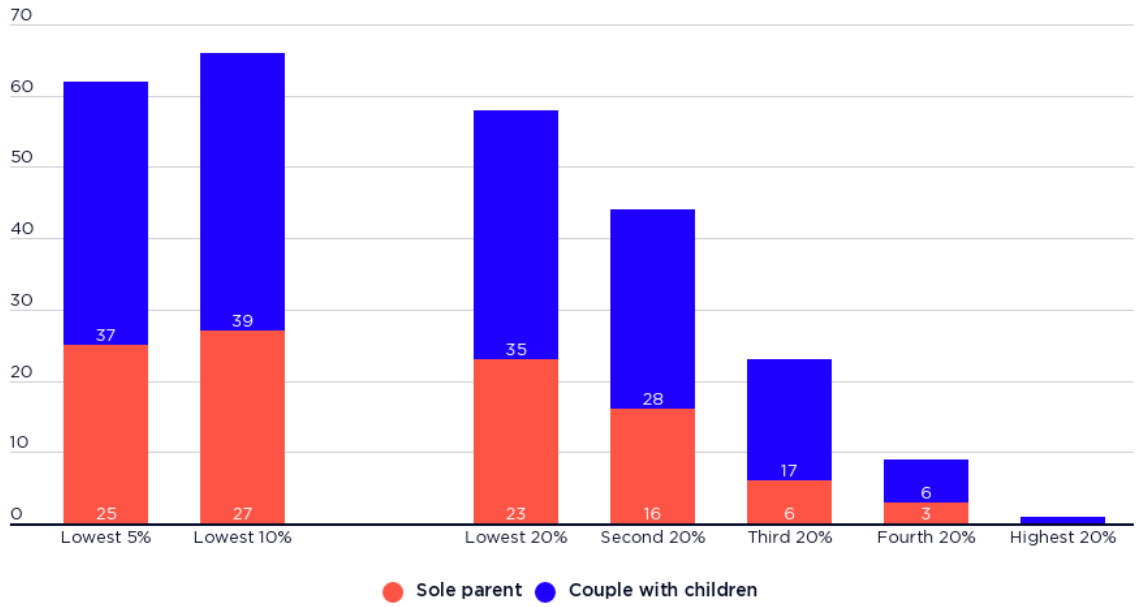
Figure 18: Distribution of FTB across household income groups (% of people in 2017)



Note: Percentage of people in households receiving FTB, across five household income groups (including households without children).

'Children' refers to dependent children (under 15 years or a dependent student aged 15-24 years).

Figure 19: Receipt of FTB among families with children in each income group (% of people in 2017)



Note: Percentage of families with children in each household income group who receive FTB. 'Children' refers to dependent children (under 15 years or a dependent student aged 15-24 years).

Family payments were not always as strictly targeted to low-income families. When child endowment was introduced shortly after World War 2, it was regarded as a wage supplement as well as a bulwark against poverty among children:

- Family payments were not income-tested until the 1980s, when a larger supplement for families with low incomes was added to reduce child poverty.
- In 2000, they were renamed Family Tax Benefit (FTB) in recognition of their role in adjusting the tax-transfer system for the costs of children, and the family income test that applied to the maximum rate of payment was then progressively eased.[35]

By the mid-2000s, FTB was regarded by many on both sides of politics as a form of (undesirable) 'middle-class welfare':

- From 2006 to 2016, the proportion of children up to 15 years of age for whom FTB Part A was paid fell from 83% to 61%. This change was associated with a decade of budget stringency in which indexation of family payments was cut (removing the link to wages in 2008 and freezing payments in nominal terms in 2014) and income tests were tightened.[36]

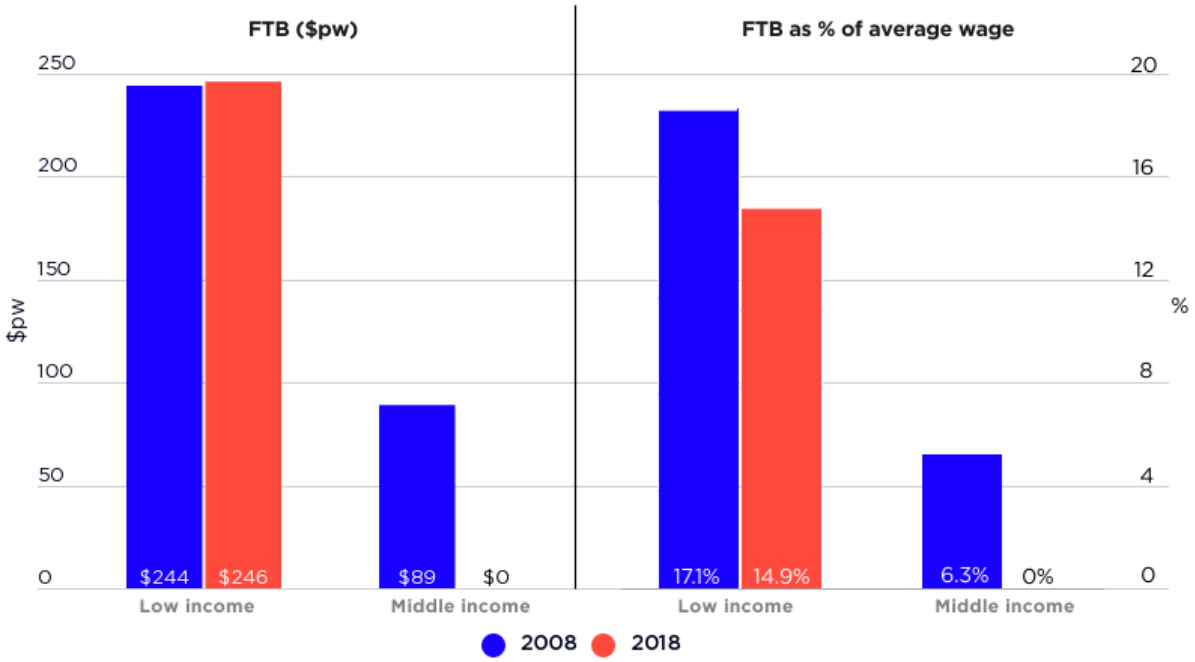
35 Daniels D (2009), ***Social security payments for people caring for children***, 1912 to 2008: a chronology. Parliamentary Library Background Note.
36 Whiteford P (2017), ***Social security and welfare spending in Australia: Assessing long-term trends***, Tax Transfer Policy Institute Policy Brief 1/2017. 'Part A' is the former 'Family Allowance' paid in respect of each child under 16 years, at a higher rate for families with low incomes.

Figure 20 compares the value of FTB for low and middle-income couples with two school-age children in 2008 and 2018:

- FTB for the family with no earnings was stable in real terms (around $145pw) but declined from 17% to 15% of the average full-time wage (around $35pw).[37]

- FTB for the family with one full-time wage plus 35% of this for their partner (around $115,000 altogether - similar to our illustrative middle-income family in the Summary) fell from $89pw (6% of the average full-time wage) to zero.

Figure 20: FTB for low and middle-income families in 2008 and 2018 ($pw an % of average wage)



Source: OECD Tax-benefit tax base.

Note: Adjusted to 2018 values using the Consumer Price Index (CPI). The 'low-income family' is unemployed. The 'middle-income family' has one partner on average full-time wage and one on 35% of that.

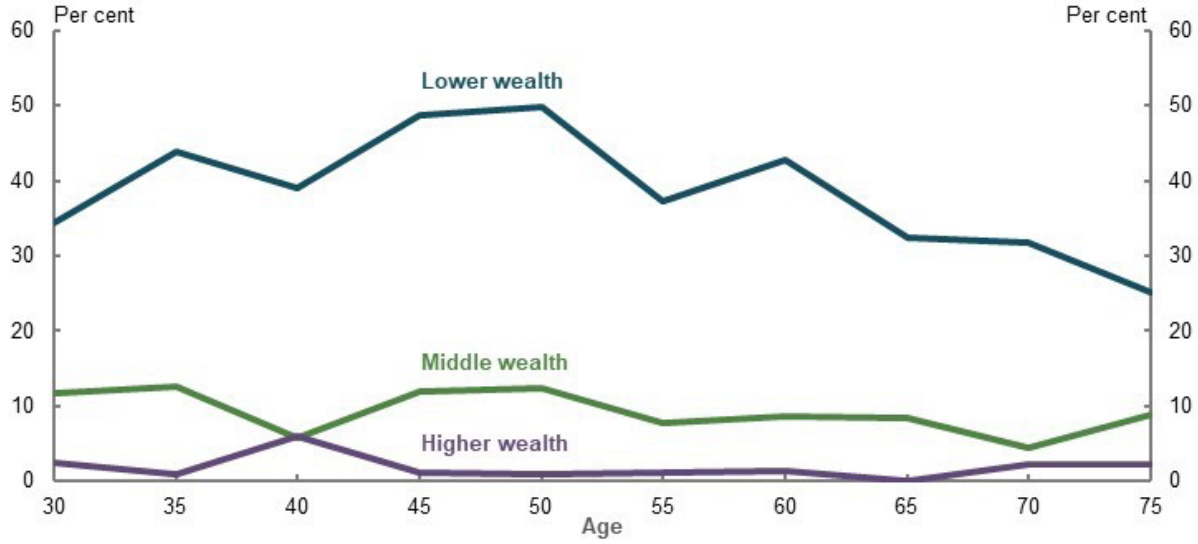
37 The average fulltime wage was $60,300 in 2008 and $85,800 in 2018 (OECD Tax benefit data base).

Part 2: Wealth inequality

How does wealth impact living standards?

For high income-earners, wealth is a means to boost current and future income from investments. For those on lower incomes (for example, our illustrative maximum rate age pension household in the Summary), its more vital function is as a buffer for income shocks (such as illness or loss of employment). Low wealth is associated with financial stress (Figure 21).

Figure 21: Percentage of households in financial stress, by age and wealth (2015)



Source: Treasury (2020), Retirement Income Review final report, from ABS Household Expenditure Survey 2015-16.

Note: 'Lower wealth' is the lowest 20 per cent of households by wealth (with wealth levels equivalised to take account of household size), 'middle wealth' is the 40th to 59th percentiles, and higher wealth is the top 20 per cent.

Financial stress is defined by the ABS as reporting four or more financial stress or deprivation indicators. The indicators used are listed here:

https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6503.0~2015-16~Main%20Features~Deprivation%20and%20financial%20stress%20indicators~12

Who stands at the bottom, middle and upper rungs of the wealth ladder?

In infographic two in the Summary, we ranked households into three groups based on their level of wealth:

- the 'highest wealth' – the highest 10% - with assets worth $2,227,000 or more;
- the 'middle wealth' – those in the 60% - 90% wealth group, with assets of $760,000 to $2,227,000;
- the 'low wealth' – those in the lowest 60% wealth group, with assets below $760,000.

The reason for using this breakdown (rather than, for example, the highest 20%, middle 60% and lowest 20%), is that - as shown below - wealth is heavily concentrated towards the top of the distribution.

Half of all wealth is owned by the richest 10%

The highest wealth group had 46% of all household wealth and the comfortable middle (the next 30%) had 38%, leaving the remaining 60% with just 16% (Figure 22):[38]

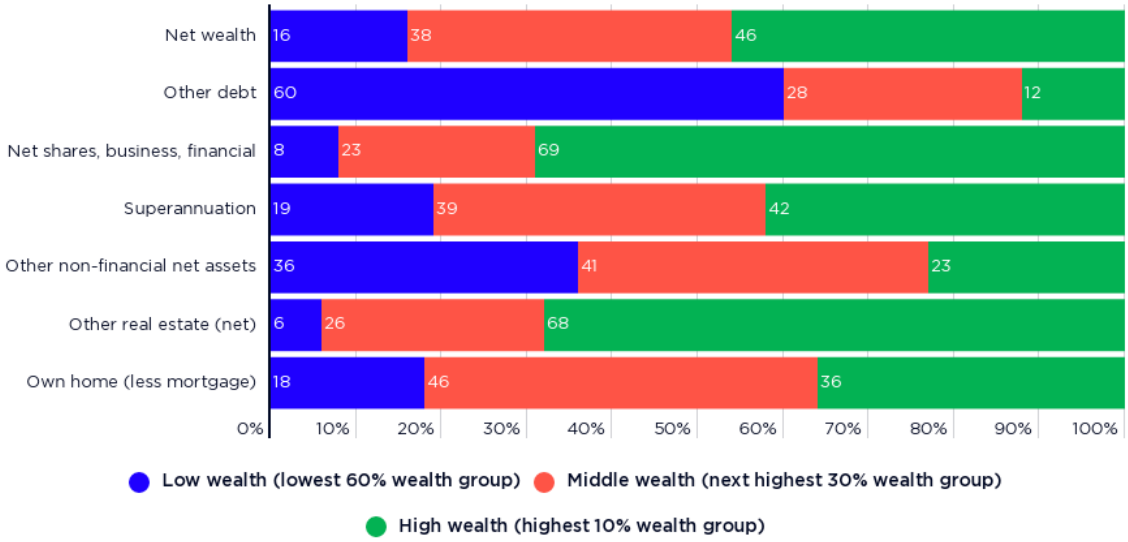
- Ownership of shares and other financial assets, and investment property were particularly concentrated towards the top. The highest wealth group held 69% and 68% of these assets respectively.
- Ownership of superannuation and owner-occupied homes was somewhat less concentrated, with 42% and 36% respectively held by the highest wealth group.
- At the other end of the wealth divide, the low wealth group (with 16% of all wealth) held 60% of 'other debt' (such as debt associated with credit cards and personal loans, as distinct from home loans).

The average wealth of the highest wealth group was $4,754,000 which was:

- four times that of the middle wealth group ($1,282,000);
- 17 times that of the lowest wealth group ($277,000).

38 These data come from the ABS Income and Housing household survey, which is known to underestimate the wealth of the very wealthy.

Figure 22: Distribution of wealth by source across wealth groups (% of all wealth in 2017)



Note: Percentage of all wealth by source, across three household wealth groups. Wealth is adjusted for associated debt.

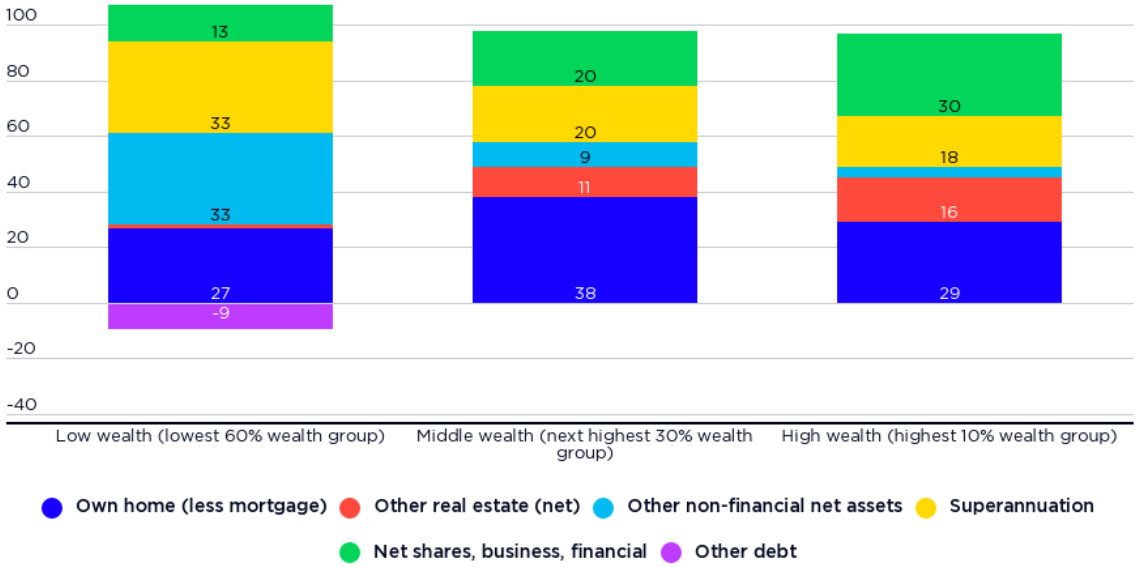
Wealth levels are not equivalised (adjusted for household size) in this and subsequent figures.

The more wealth people have, the more likely it will be in shares and other financial assets or investment property

This is consistent with their disproportionate share of income from those sources, discussed previously:

- Of the wealth of the high wealth group, 30% was shares and other financial assets and 17% was in investment property compared with 30% in their homes and 19% in superannuation (Figure 23).
- Among the middle wealth group, a lower percentage of wealth was held as shares and other financial assets (21%) and investment property (12%). Owner-occupied housing (39%) and superannuation (21%) were more prominent.
- Home ownership was less prevalent among the low wealth group, and superannuation (34% of their wealth) and other non-financial assets such as cars (34%) were more prominent than owner-occupied housing (27%).

Figure 23: Profile of wealth by wealth group (% of wealth in 2017)



Note: Percentage of wealth by source in each household wealth group. Wealth is adjusted for associated debt.

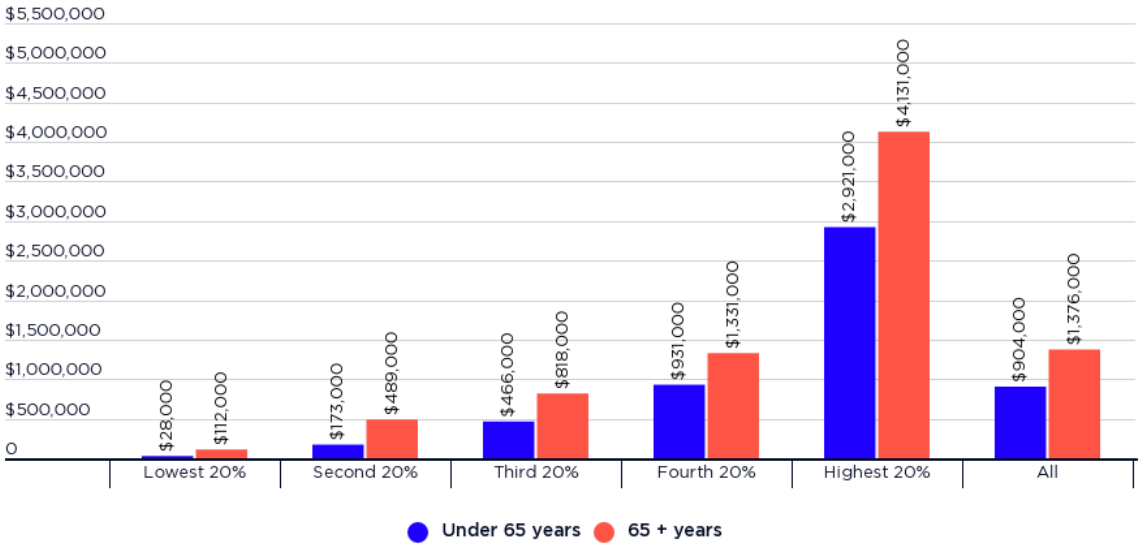
Older people are much wealthier on average, though their wealth is distributed more equally

The average wealth of households whose reference person was 65 years and over ($1,376,000) was one and a half times that of that of younger households ($904,000).

Wealth inequality was less pronounced among older households than for those whose reference person was of working age (Figure 24):

- The highest 20% of older households had average wealth of $4,131,000, five times that of the middle 20% and seven times that of the lowest 20%.
- In contrast, the highest 20% of working-age households had average wealth of $2,921,000, six times that of the middle 20% and 17 times that of the lowest 20%.

Figure 24: Average wealth by age and wealth group (2017)



Note: Average wealth in each wealth group, by age of household reference person.

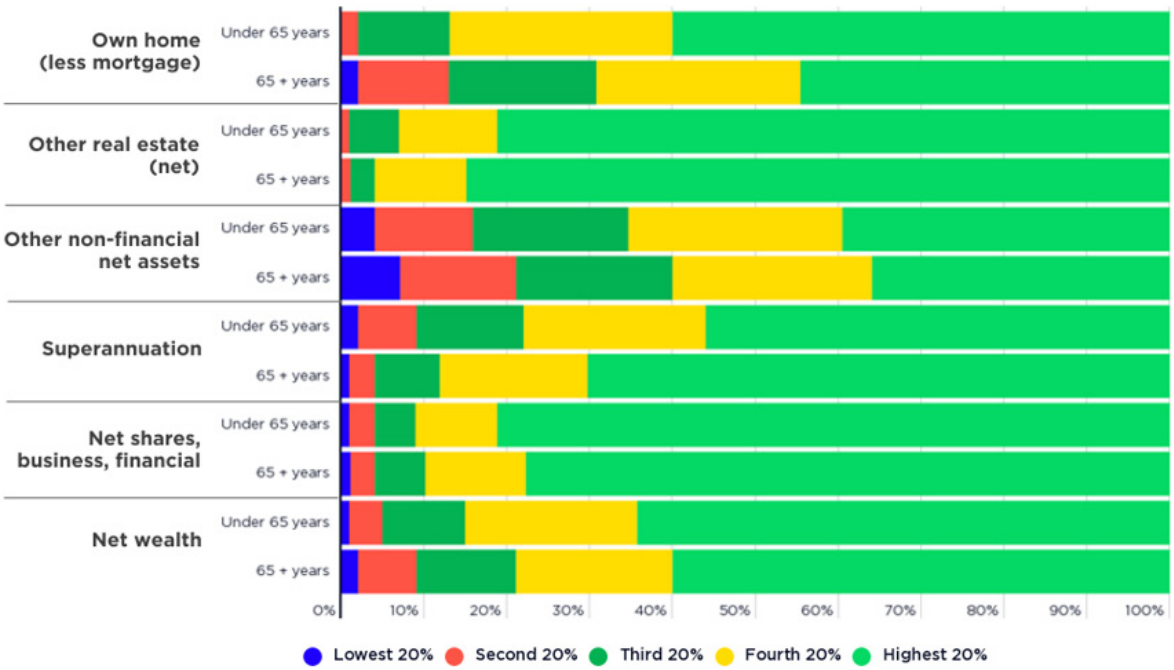
Households are ranked according to the distribution of wealth within two age groups (16-64 years and 65 years +). Wealth is adjusted for associated debt.

For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

One reason for lower inequality of wealth among older households is their widespread home ownership (discussed previously):

- Among older households, the highest 20% ranked by wealth held 45% of the overall value of owner-occupied housing, compared with 60% for working-age households (Figure 25).

Figure 25: Distribution of wealth by source across wealth groups (% of all wealth in each age group in 2017)

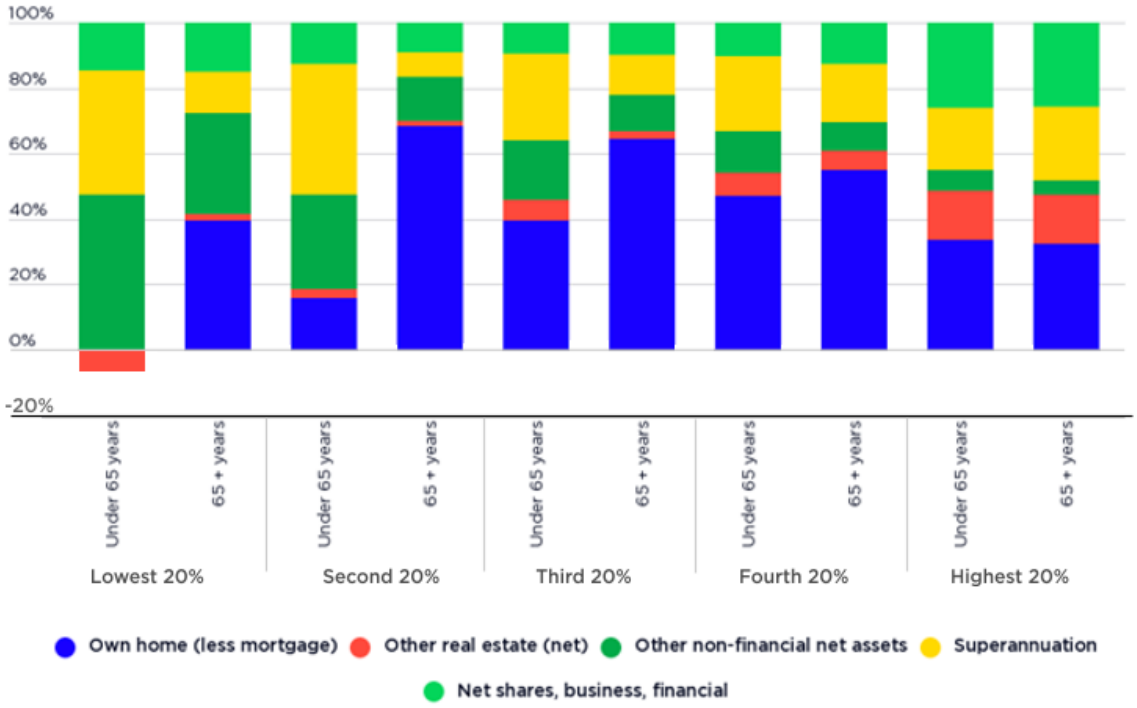


Note: Percentage of all wealth by source across household wealth groups, by age of household reference person. Households are ranked according to the distribution of wealth within two age groups (16-64 years and 65 years +). Wealth is adjusted for associated debt.

For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

Figure 26 shows the profile of wealth holdings of households in different age and wealth groups.

Figure 26: Profile of wealth by age and wealth group (% of all wealth in each group in 2017)



Note: Percentage of wealth by source in each household wealth group, by age of household reference person. Households are ranked according to the distribution of wealth within two age groups (16-64 years and 65 years +). Wealth is adjusted for associated debt.

For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

What are the main causes of wealth inequality?

Aside from inheritances (which play an increasingly important role), wealth comes from people's lifetime income (including earnings and the compounding value of investment assets).

- After covering their essential expenses, the highest 20% of households by income were able to save 32% of their income, compared with 10% saved by the middle 20% and minus 31% by the lowest 20% (since they drew down savings to cover expenses):[39]

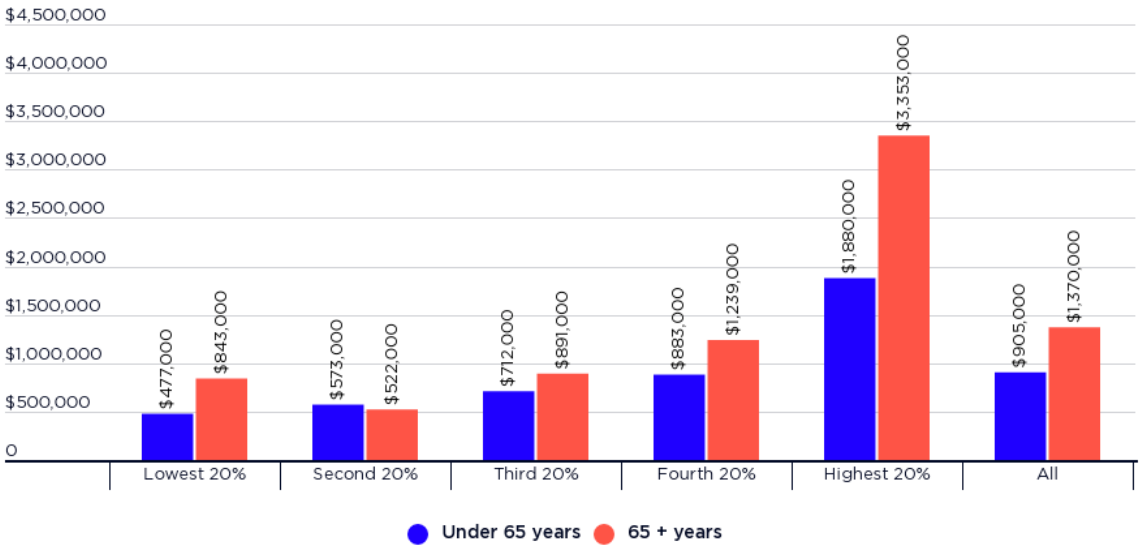
High wealth levels are associated with high income in working life

Among households whose reference person was under 65 years, the highest 20% by income had 2.6 times as much wealth ($1,880,000) as the middle 20% ($712,000) and 3.9 times as much ($477,000) as the lowest 20% (Figure 27):

- This is partly due to their higher incomes and saving levels, and partly due to reverse causation (higher wealth yields higher investment income).

39 ABS (2018) ***Household Expenditure Survey Australia: Summary of Results***, 2015-16.

Figure 27: Average wealth by age and income group (2017)



Note: Average wealth in each income group, by age of household reference person

Wealth is adjusted for associated debt. Households are ranked according to the distribution of income within two age groups (16-64 years and 65 years +).

For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

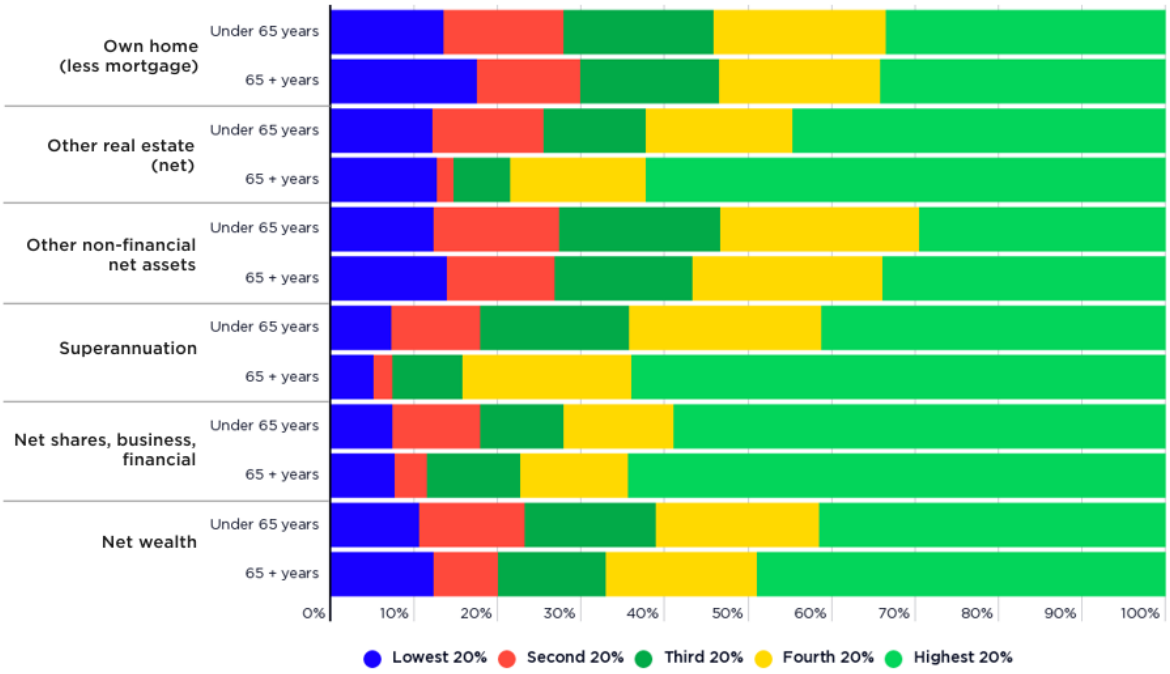
Home ownership among older people with low incomes has a dampening effect on wealth inequality across different income groups

Figures 28 and 29 show how wealth is distributed across household income groups, and the profile of wealth within each group:

- The lowest 20% of households whose reference person was 65 years and over held 17% of the overall value of owner-occupied housing for that age group, and 12% of its overall wealth.
- Among the lowest 20% of older households by income, 61% of wealth was owner-occupied housing.
- However, the rate of home ownership is likely to diminish among future generations of older people.[40]

40 Treasury (2020) op cit; Burke T et al (2015), op cit.

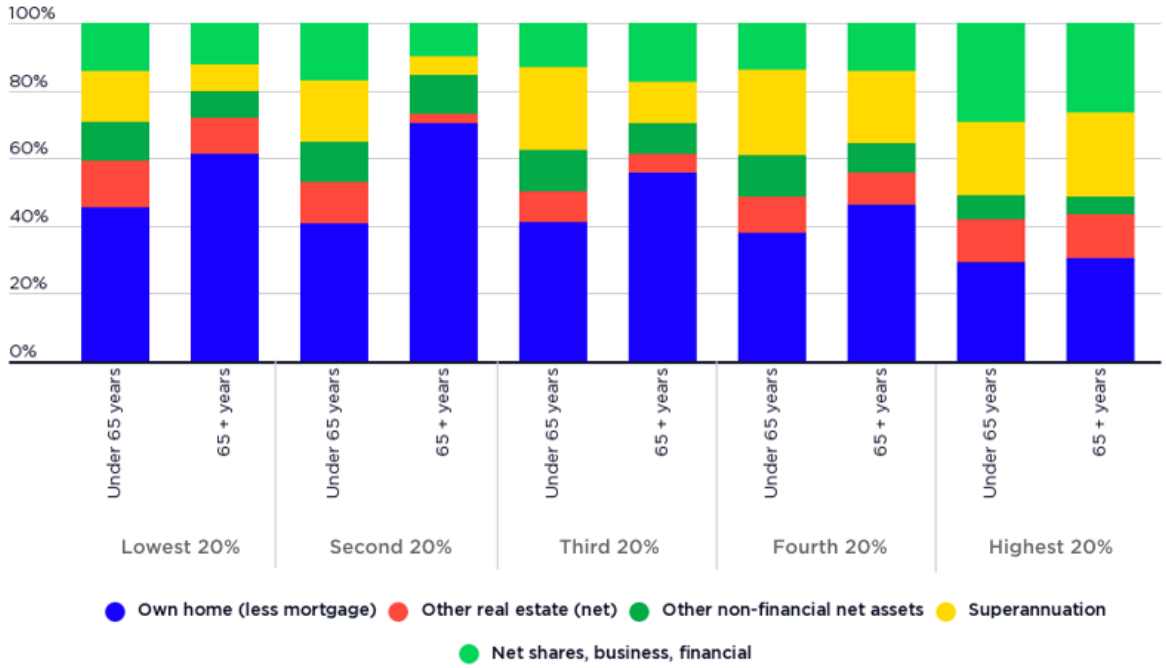
Figure 28: Distribution of wealth by source across age & income groups (% of all wealth in each age group in 2017)



Note: Percentage of all wealth by source across household income groups, by age of household reference person. Households are ranked according to the distribution of income within two age groups (16-64 years and 65 years +). Wealth is adjusted for associated debt.

For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

Figure 29: Profile of wealth by age and income group (% of all wealth in each group in 2017)



Note: Percentage of average wealth by source in each income group, by age of household reference person. Households are ranked according to the distribution of income within two age groups (16-64 years and 65 years +). Wealth is adjusted for associated debt.

For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

Inheritances go disproportionately to those with more wealth already

From 2001 to 2017, the average inheritance received by people in the top 20% by wealth was around $180,000 - twice that of the middle 20% and four times the lowest 20% (Figure 30).[41]

The average age of beneficiaries of inheritances is around 50 years. Therefore, whether they increase the (already high) level of overall wealth inequality depends whether inheritances are more skewed towards the top of the wealth distribution than the existing wealth distribution among people of that age:

- These estimates for the average value of inheritances cannot be directly compared with the distribution of wealth among older people reported in our research.[42]

Under current policy settings and trends - with growth in asset values and limited compulsion for people to draw down their superannuation savings

41 Treasury 2020, Retirement Income review final report, data from HILDA surveys, in 2019 dollars.

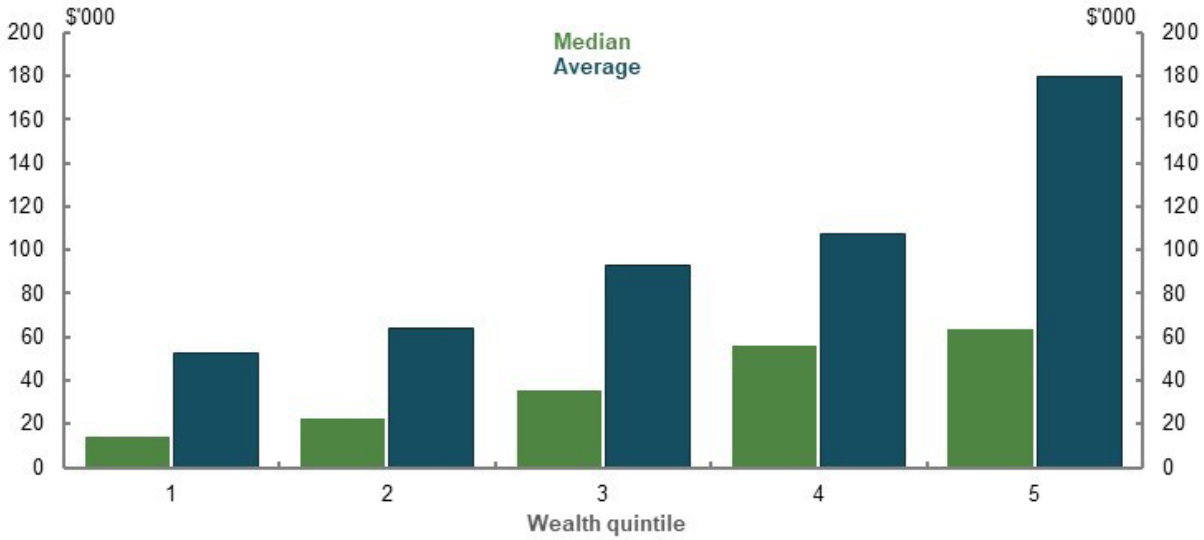
42 Our data refers to older households (whose reference person was 65 years and over), the time periods are different (2017 in our research compared with 2001 to 2017), and we have not adjusted (equivalised) the value of wealth according to household size, as was done in the above research used by the Retirement Income Review.

As discussed in the methodology paper for this research (see 'Measuring inequality' for link), we have not equivalised wealth to rank households across the wealth distribution. The reason for this is that it is not clear who will use the existing stock of a household's wealth (for example, much of the wealth of a family with children is likely to be drawn down only after they have left home). Our unequivalised wealth distribution is likely to be more unequal than one that is adjusted for household size (as in the study used by the Retirement Income Review)

through retirement - inheritances are likely to assume growing importance:

- The average superannuation death benefit is projected to rise from $17 billion in 2019 to $130 billion in 2059.[43]

Figure 30: Value of inheritances by wealth level (2001-2017)



Source: Treasury (2020), Retirement Income Review final report; data from Melbourne Institute HILDA surveys from 2001 to 2017.

Note: Values in 2017-18 dollars. Median and average values according to size of inheritance where one was received. To rank households by wealth, wealth levels were equivalised (adjusted for household size) in this research, unlike our own. For this and other reasons, these figures cannot be compared directly with wealth levels reported in our research.

43 Treasury (2020) ibid. values in 2019 dollars.

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