



# INEQUALITY IN AUSTRALIA 2024: WHO IS AFFECTED AND HOW

A POVERTY AND INEQUALITY PARTNERSHIP REPORT

APRIL 2024





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# Key Terms

**ACOSS:** Australian Council of Social Service

**After tax income:** Income from all sources after income tax, the Medicare Levy and the Medicare Levy surcharge are deducted. Also known as net or disposable income. See definition of income below.

**ABS:** Australian Bureau of Statistics

**Before tax income:** Income from all sources, before income tax, the Medicare Levy and the Medicare Levy surcharge are deducted. Also known as gross income.

**FTB:** Family Tax Benefit

**GDP:** Gross Domestic Product

**GFC:** Global Financial Crisis

**Gini coefficient:** A summary measure of inequality. A Gini coefficient of 0 represents perfect equality (every person has the same income or wealth), while a coefficient of 1 implies perfect inequality (one person has all income or wealth). The closer the Gini coefficient is to zero, the more equal the distribution; the closer to 1, the more unequal.

**Income:** Income includes receipts from:

- Wages and salaries and other receipts from employment (whether from an employer or own incorporated enterprise), including income provided as part of salary sacrificed and/or salary package arrangements.
- Profit/loss from own unincorporated business (including partnerships).
- Net investment income (interest, rent, dividends, royalties), but not capital gains.
- Government pensions and allowances.
- Private transfers (e.g. superannuation, workers' compensation, income from annuities).
- Child support, and financial support received from family members not living in the same household).

**Net wealth:** The value of a household's total assets less its liabilities. Also known as 'net worth'. Wealth includes:

- Own home (less mortgage)
- Other real estate (less liabilities)
- Other financial assets (less liabilities), e.g. home contents, vehicle, loans to others, bonds, etc.
- Superannuation account
- Shares, trusts, partnerships
- Bank accounts
- Business assets (less liabilities)

Less, credit card debt and student loans

**Quintile/Income/Wealth Groups:** Groupings that result from ranking households by the level of economic resources (income or wealth) and then dividing the population into five equal groups. Smaller groups can be similarly defined to cover the highest (or lowest) 10 per cent or 5 per cent, based on their levels of income or wealth.

**Reference person:** The reference person for each household in the Survey of Income and Housing which provides the data for much of this report is chosen by the Australian Bureau of Statistics, by applying its selection criteria to all household members aged 15 years and over. The selection criteria are applied in the order listed, below, until a single appropriate reference person is identified:

- the person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure;
- one of the partners in a registered or de facto marriage, with dependent children;
- one of the partners in a registered or de facto marriage, without dependent children;
- a lone parent with dependent children;
- the person with the highest income;
- the eldest person.

**UNSW:** University of New South Wales, Sydney



# Foreword

*Inequality in Australia 2024: Who is affected and how* is the latest in the Inequality in Australia series from the Poverty and Inequality Partnership led by ACOSS and UNSW Sydney. It is the 23rd report published by the Partnership.

This new report analyses the changes in inequality over time, with a special focus on wealth inequality by gender and age and on those groups of people most likely to feel the impacts of income inequality.

This report is a companion piece to [\*Inequality in Australia 2023: Overview\*](#), which provided an overview of income and wealth inequality in Australia, and the effects of pandemic policy changes on inequality.

We express our great appreciation to the organisations that have generously supported this collaboration. The backing from 54 reasons (part of Save the Children Australia Group), ARACY, cohealth (a Victorian community health service), Foodbank Australia, Jesuit Social Services, Life Without Barriers, Mission Australia, SSI, and The Smith Family has played a pivotal role in advancing the work of the Poverty and Inequality Partnership. Additionally, we are profoundly grateful for the support extended by philanthropic partners the Social Justice Fund, part of the Australian Communities Foundation, and John Mitchell.

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# Key findings

## Income inequality

According to the latest available data (in 2019), the **highest 10% of households** ranked by income had an average after-tax income of \$5,200 per week, over **two-and-a-half times the income** of the middle 20% (\$2,000) and **seven times that of the lowest 20%** (\$800).

	Lowest 10%	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Highest 20%	Highest 10%	All persons
<i>Unequivocalised income:</i>								
Average income (\$pw)	\$631	\$794	\$1,467	\$1,989	\$2,627	\$4,306	\$5,248	\$2,236
Lowest income (\$pw)	\$0.80	\$0.80	\$593.60	\$839.00	1,124.10	1,523.20	1,912.50	\$0.80
Real average change p.a. from 1999 (% p.a.)	2.5%	2.3%	2.4%	2.1%	1.8%	2.3%	2.6%	2.2%

Certain groups are **more likely** to be found in the **lowest income group** (lowest 20%), including:

- People receiving unemployment payments, older people (aged 65+) and dependent children (aged under 15);
- Sole parents and families with a female reference person (generally the household member with the highest income); and
- Adult migrants born in non-English speaking countries.

**Unequal access to employment and wages** accounts for **89% of income inequality** (before tax and transfers). **Inequality of investment income** is the other main cause.

### Recent trends:

- Unequal distribution of earnings is caused by inequality of paid working hours and hourly wages.
- Recent years saw a reduction in individual earnings inequality due to solid jobs growth, although overall growth in earnings was below inflation. This points to the benefits of full employment as a means of reducing inequality.
- Between 2021 and 2023, average weekly earnings for the lowest 10% of all employees grew by 4.9% per year, 1.5 times faster than the highest 10% (3.3%).
- Social security payments and income tax together reduce income inequality by one third.

### Policy solutions:

- Increase the lowest income support payments including JobSeeker Payment and Youth Allowance;
- Restore full employment and reform employment services for those unemployed long-term;
- Reduce tax concessions for investment income (such as the reduced tax rate for capital gains) that primarily benefit those with high income.

## Wealth inequality

The **highest 10%** of households ranked by wealth **possess 44% of all wealth in Australia**, averaging \$5.2m per household. Of the average \$1.2 million in household wealth in 2022-23, **41% was in owner-occupied housing**, 13% in

investment housing, 20% in superannuation and 19% in shares, financial and business investments.

	Lowest 20%	Second 20%	Third 20%	Fourth 20%	Highest 20%	Low wealth (lowest 60%)	Upper middle (next 30%)	High wealth (highest 10%)	All
<b>Average wealth, net of debt (\$)</b>	\$41,000	\$298,000	\$690,000	\$1,226,000	\$3,627,000	\$343,000	\$1,496,000	\$5,220,000	\$1,176,000
<b>Lower bound (\$)</b>	-\$1,620,000*	\$130,000	\$492,000	\$919,000	\$1,650,000	-\$1,620,000*	\$919,000	\$2,566,000	
<b>Average owner-occupied housing wealth (\$)</b>	-\$1,000	\$101,000	\$370,000	\$625,000	\$1,307,000	\$156,900	\$733,400	\$1,663,900	\$480,400
<b>Change since 2003 (%)</b>	17%	47%	61%	70%	82%	55%	73%	84%	74%
<b>Share of overall increase in wealth since 2003 (%)</b>						16%	36%	45%	100%

### Wealth distribution is heavily skewed towards older households

- The average older household (65+) holds 25% more wealth (with \$1.6 million) than the average middle aged household (35-64) with \$1.3 million, and almost four times as much as the average younger household (<35) with \$410,000.
- Within older households, over half the wealth (53%) is held by one-sixth (16%) of older people. This group of wealthy older households (in the highest 10% of all households by wealth) comprises 4% of all households but holds 18% of all wealth.
- These older wealth households have average wealth of \$5.6 million yet over a third (38%) do not pay income tax.

### From 2003 - 2022

- Wealth inequality has escalated over the past two decades, with the highest 10% - who hold an average of \$5.2m in wealth capturing almost half (45%) of the overall increase in wealth between 2003 - 2022.
- Of this 45%, almost half (22%) went to wealthy older households (older households in the highest 10%)
- The share of overall wealth held by younger households remained very low (declining from 8% to 7%) while that of older households (65+) rose from 27% to 34%, mainly at the expense of middle aged households (aged 35-64) (whose share declined from 65% to 59%)
- Wealth inequality increased especially sharply among younger households. The wealth of the lowest 60% of young households - a group largely excluded from home ownership - rose by just 39% while that of the highest 10% rose by a brisk 126%.

### Policy solutions

- Reform the tax treatment of housing to discourage speculative investment that inflates home prices (such as curbing negative gearing, reducing CGT concessions and extending state land taxes to owner-occupied dwellings)
- Remove inequities in the tax treatment of superannuation contributions; and
- Extend the 15% tax on superannuation investment income tax to post-retirement accounts, which are currently tax-free.

# Executive summary

Our overview report on *Inequality in Australia* revealed large and persistent gaps in incomes and wealth between the lowest and highest rungs of the distribution:

- in 2019-20, the highest 10% of households ranked by income had an average \$5,248 per week after tax, over two and a half times that of the middle 20% (\$1,989) and six times that of the lowest 20% (\$794).
- Wealth is divided much more unequally than income. In 2022-23 the highest 10% of households ranked by wealth (those with over \$2.5 million) held 44% of all wealth, an average of \$5.2 million each. This is three times the wealth of the next 30% with \$1.5 million, 15 times that of the lowest 60% with \$343,000 and 126 times that of the lowest 20% (with \$41,000).<sup>1</sup>

In 2023, there were 159 billionaires in Australia with average wealth of \$3.2 billion each. Their total wealth was \$503 billion – so that 3.2% of all household wealth was held by 0.0007% of all adults.<sup>2</sup>

In this report, we dig deeper into the latest available data from the Australian Bureau of Statistics (for 2019-20, adjusting forward to 2022-23 for wealth) to identify who stands where on the income and wealth ladders and the main causes of income and wealth inequality.

This report has a special focus on individual earnings inequality and on inequalities of wealth by age.

<sup>1</sup> Unless otherwise indicated, data for this report comes from ABS 2019-20 Survey of Income and Housing, adjusted forward to 2022-23 for wealth statistics using ABS Australian National Accounts household distributional data. See the Measuring inequality chapter below.

<sup>2</sup> Stensholt J (2024), 'The List - Australia's Richest 250 of 2024', The Australian, 14 March 2024; ABS (2024), 5232.0 *Australian National Accounts: Finance and Wealth*; ABS (2024), *National State and Territory population*. In some cases, this wealth was shared among two or more family members.

# 1. Income inequality

## 1.1 Where did people fit in the household income scale in 2019-20?

Older people, dependent children, single people and sole parents, families with a female reference person, and adult migrants born outside major English-speaking countries were more likely to be found at the lower end of the household income scale; while people of working age, families with a male reference person, couple households and migrants born in major English-speaking countries were more likely to be found at the upper end of the scale:

- Two-thirds (66%) of people aged 65 years and over and 44% of children under 15 years were in the lowest 40% of households ranked by equivalised disposable income.
- Families with a female reference person with children were twice as likely (27%) to be in the lowest 20% by income compared with families with children whose reference person was male (13%).<sup>3</sup>
- Working-age households without children with a male reference person were more likely to be in the highest 20% (32%) than their female reference person equivalents (22%).
- Among single people without children, 41% were in the lowest 20% compared with 21% of all couples without children.
- Among sole parent families, 38% were in the lowest 20% compared with 15% of couples with children.
- Of adults born in a major English-speaking country, 27% were in the highest 20% and 18% were in the lowest 20%.
- In contrast, of those born in non-English-speaking countries, 16% were in the highest 20% and 26% were in the lowest 20%.

## 1.2 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.

**Unequal distribution of earnings (especially access to fulltime employment) was the main driver of inequality of private incomes.**

In 2019-20, the Gini coefficient for inequality of household income before income tax (including social security) was 0.45, of which unequally distributed earnings accounted for 89%, mainly due to their large share (77%) of overall incomes before tax. The Gini coefficient is a measure of inequality where complete equality has a value of zero and complete inequality – all income received by one household – has a value of one.

**Earnings inequality was caused by a combination of unequal distribution of paid working hours and hourly wages.**

<sup>3</sup> The reference person is generally the person with the highest income in the household.

Earnings inequality was due in large part to unequal access to fulltime employment. The proportion of households with at least one fulltime wage-earner rose from 26% in the lowest 20% of households by income to 80% in the middle 20%, while the proportion with two or more fulltime earners rose from 26% in the middle 20% to 57% in the highest 20%.

A major contributing factor was variation in paid working hours among women. Among all couples with children, female primary carers were more likely to be employed part-time due to unequal sharing of care. However, they were more likely to be employed fulltime in high-income families, who made greater use of childcare services.

The second major cause of earnings inequality was inequality of hourly pay. In 2023, employees in the highest 10% of employees ranked by hourly pay earned at least \$84 an hour, twice the median (middle) hourly rate of \$40 and three and a half times the highest rate for the lowest 10% (\$23).

The pay gap between men and women intersects with and contributes to broader earnings inequality. Due to differences in their paid working hours and hourly pay rates, in 2023 average weekly cash earnings for men were 28% higher than for women.<sup>4</sup>

**Though investment income was much smaller overall than wages, it was heavily concentrated at the top of the income scale.**

In 2019-20 investment income comprised 10% of all income before tax yet this accounted statistically for 16% of all before-tax income inequality:

- 59% of investment income went to the highest 20% (despite much of it going to retirees with low incomes) compared to 43% of wages.

**Income tax and social security cut income inequality by more than a third.**

In 2019-20 the Gini coefficient for household private income (excluding social security) was 0.49. Inequality of overall household disposable (after-tax) income was 34% less (0.32). The difference between these two figures was the impact of government policy (income tax and social security).

**One-quarter of the reduction in inequality due to government action came from social security payments, which mainly went to the lowest 40%.**

Social security payments were responsible for one-quarter (24%) of the above reduction in the Gini coefficient when we compare inequality of private and disposable income. Our social security payments are low by OECD standards but are tightly 'targeted' to households with low incomes:

- More than two-thirds of social security payments (69%) went to the lowest 40% of households by income;
- They comprised half (50%) the incomes of the lowest 20% and just over one-fifth (22%) of those of the second 20%;
- Over the past decade, Family Tax Benefits (FTB) have become more strictly targeted to families with the lowest incomes. Only 56% of children under 16 years attracted Family Tax Benefit in 2019-20. The

<sup>4</sup> ABS, 6337.0 [Employee Earnings, August 2022](#); ABS, [Gender pay gap guide](#).

percentage of children under 16 attracting FTB in families in the middle 20% of households by income fell from 83% in 2009 to less than half (47%) in 2019-20.

### **Three-quarters of the reduction in inequality due to government action came from personal income tax, which was mainly paid by the highest 20%.**

Income tax was responsible for three-quarters (76%) of the reduction in inequality as we move from private to disposable income. The majority (57%) of income tax was paid by the highest 20% of households by income:

- Most households in the lowest 40% had too little income to pay income tax, though they still paid other taxes such as the Goods and Services Tax (GST).<sup>5</sup>
- Income tax reduced the incomes of the highest 20% by 26% 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.

### **1.3 Trends in individual earnings inequality over the last decade: did lower unemployment make a difference?**

Last year the government released its Employment White Paper in which it committed to return the labour market to full employment, that is, a labour market in which people searching for employment can find a job without taking too long and the available labour resources (workers and paid working hours) are fully utilised.<sup>6</sup>

Full employment can reduce income inequality in two ways:

- by lifting people out of unemployment, increasing the lowest household incomes; and
- by reducing earnings inequality among workers already employed (since full employment disproportionately benefits low-skilled workers and puts upward pressure on the lowest wages).<sup>7</sup>

Over the two-year period between June 2021 and June 2023, the unemployment rate averaged less than 4%, bringing Australia closer to full employment than at any time over the last 50 years.

In this section of the report, we compare trends in *individual* earnings and earnings inequality over two periods:

- A period of low inflation, higher unemployment and wage stagnation before COVID (2012-19), and
- The more recent period of lower unemployment, higher wage growth and inflation as the economy recovered from COVID lockdowns (2021-2023).

<sup>5</sup> 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?](#)

<sup>6</sup> Australian government (2023) [Working Future](#), Canberra.

<sup>7</sup> There is evidence that earnings inequality is declining in the United States, where unemployment is lower than in Australia and the labour market is close to full employment. See Autor D, Dube A & McGrew A (2023), [The Unexpected Compression: Competition at Work in the Low Wage Labor Market](#). MIT Working Paper, March 2023.

## **Over the seven years before the pandemic (2012-2019) average earnings stagnated and consumer price inflation was minimal.**

From 2012 (at the end of the mining boom) to 2019 (just before the pandemic), average weekly earnings stagnated, *rising by zero after inflation*:

- Hourly earnings rose by an average of 2.2% a year, just above inflation (1.9%) but in a weak labour market average paid hours per worker fell by 0.3% a year so weekly earnings were stagnant.<sup>8</sup>

## **In the first two years of recovery from the COVID recession (2021-2023), average earnings grew strongly but inflation grew faster, so the 'real value' of wages declined.**

From June 2021 to June 2023, the economy recovered strongly from the COVID recession and unemployment reached its lowest level in 50 years.<sup>9</sup>

Under the influence of low unemployment and high job vacancies, hourly earnings rose strongly (by 3% a year) as did average paid hours per worker (by 1.7% a year), but consumer prices rose faster (by 6.3% per year) so average weekly earnings declined cumulatively by 4.3% after inflation over the two-year period.<sup>10</sup>

- People were working longer hours and their pay was finally rising, but it was still falling behind increases in the cost of living.

## **A silver lining in this recent period of low unemployment and high inflation was a decline in earnings inequality.**

From 2021 to 2023, weekly earnings for the lowest-paid workers grew one-and-a-half times as fast as those of the highest-paid:

- Weekly earnings for the upper bound of the lowest 10% of wage-earners rose by an average of 4.9% per year compared to 4.2% for the median wage and 3.3% for the lower bound of the highest 10%.<sup>11</sup>

Strong growth in nominal (before-inflation) wages for low-paid workers came from a combination of higher weekly paid hours (as underemployment fell) and higher hourly pay, (reflecting market conditions and Fair Work Commission minimum wage decisions).

## **The gender pay gap also declined over the last two years.**

The gender wage gap for average weekly cash earnings for all full and part-time employees fell from 30% in May 2021 to 27.5% in May 2023, the fastest rate of decline in a two-year period over the last decade.<sup>12</sup>

<sup>8</sup> ABS *Labour account*. During this period unemployment averaged 5.5% and underemployment averaged 8.2%.

<sup>9</sup> Unemployment averaged 3.8% over the two-year period while underemployment (the proportion of the labour force employed but unable to secure the extra paid working hours they seek) was also historically low at an average of 6.5% of the labour force.

<sup>10</sup> ABS *Labour Account* and ABS *Consumer Price Index*

<sup>11</sup> ABS *6337 Employee Earnings* - earnings in main job for all employees including those working part-time.

<sup>12</sup> Difference between average weekly female and male cash earnings for all employees (ABS 2023, [Gender pay](#)).

## **The recent decline in earnings inequality signals the benefits of full employment in reducing income inequality.**

The evidence presented here supports the view that lower unemployment and underemployment has helped reduce earnings inequality in Australia.<sup>13</sup>

Regrettably, the income gains from the tight labour market of the past two years were more than offset by inflation, for which the main ‘cure’ in present monetary policy settings is to slow the pace of economic growth and increase unemployment, despite the lack of evidence for a ‘wage-price spiral’.<sup>14</sup>

## **2. Wealth inequality**

### **2.1 The main causes of wealth inequality**

**The main sources of wealth inequality were owner-occupied housing and financial assets (such as shares and bank accounts).**

In 2022-23, the Gini coefficient of wealth inequality was 0.6 (almost twice the 0.32 we estimated for after-tax income), of which:

- 38% was due to the unequal distribution of owner-occupied housing wealth,
- 23% was due to shares, business and other financial wealth,
- 18% was due to superannuation,
- 17% was due to investment property, and
- 5% to other non-financial wealth.

**Most wealth was in owner-occupied housing and superannuation, but shares and investment property were much more unequally distributed.**

Of the average \$1,176,000 in household wealth, the majority (61%) was either owner-occupied housing (41%) or superannuation (20%):

- Another 19% was in shares, business assets and other financial investments, 13% was in investment property and 9% was in other non-financial assets.
- But 64% of the value of shares and other financial investments and 66% of the value of investment property were held by the highest 10%, compared with 35% for owner-occupied housing and 41% for superannuation.

**High wealth is associated with high income and saving through working life.**

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[gap guide](#)). This accounts for both women’s lower hourly pay and fewer paid working hours per week. At this rate of change it would take 22 years to eliminate the gap entirely, but progress is likely to be slower now that unemployment and under-employment are rising and demand for workers in lower-paid jobs has abated.

<sup>13</sup> See for example Borland J (2023), ‘What happens in a strong labour market.’ *Labour market snapshot #95*, Department of Economics, University of Melbourne.

<sup>14</sup> In the past, the main justification for higher interest rates in economic booms was to prevent wage and consumer prices from leapfrogging each other as wage-earners secure pay rises to compensate for higher prices. There is no sign of such ‘leapfrogging’ in the present inflationary episode.

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

- Among middle aged households (35-64 years), the highest 10% ranked by income had 23% of wealth, compared with 36% for the middle 30% and 41% for the lowest 60%.

In 2016, after covering 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 many drew down savings to cover expenses).<sup>15</sup>

## 2.2 Wealth inequality by age

The fairness of the distribution of wealth by age is much debated, as a growing share of wealth accrues to older households while young people are locked out of that fundamental marker of wealth in Australia: home ownership.<sup>16</sup> Careful analysis of the wealth divide reveals that wealth inequality is not all about differences between age groups – there are also sharp divides within each age group.

We examine how wealth is distributed across three age groups based on the age of the household reference person ('young' under 35 years, 'middle aged' 35-64 years and 'older' 65 years and over) and the three wealth groups discussed above (lowest 60%, next 30% and highest 10%).<sup>17</sup>

### Average wealth grows with age

In 2022-23, the average older household was 25% wealthier (with \$1,584,000) than the average middle aged household (\$1,265,000) and almost four times as wealthy as the average young household (with \$410,000):

- 34% of all wealth was held by the 25% of older households, compared with 59% held by the 55% of middle aged households and just 7% by the 20% of younger households.
- In part, this is simply due to the accumulation of wealth as people grow older, but that is not the whole story.

### In 2022-23, most of the wealth of older households was owned by a minority belonging to the highest 10% of all households.

Comparisons of average wealth by age conceal inequalities within age groups. In 2022-23:

- Of the 34% of all wealth held by older households, more than half

<sup>15</sup> ABS (2018) [Household Expenditure Survey Australia: Summary of Results](#), 2015-16. Many low-income households were older people drawing down their savings in retirement. Regrettably, the last Household Expenditure Survey which enables us to examine the saving patterns of households on different incomes was seven years ago. Nevertheless, this pattern of high saving by high-income households and dis-saving by those on the lowest income is historically consistent.

<sup>16</sup> Think Forward (2023), [Bridging the Generational Gap: Perspectives on Tax Reform from Gen Z and Millennials](#).

<sup>17</sup> The reference person is usually the highest income-earner in the household, See the 'How we measure inequality' section. Since the reference person in 'young' households is under 35 years, they do not include young people living with their parents.

(53%) was owned by the one-sixth (16%) of older households belonging to the highest 10% of all households by wealth (those with over \$2.5 million after deducting debt).

- These 370,000 households had average wealth of \$5.6 million compared to \$1.6 million for all older households.
- They comprised just 4% of all households yet held 18% of all household wealth.
- At the lowest rung of the wealth ladder, 12% of older people rented their homes and half of them lived in poverty.<sup>18</sup>

By taxing the flow of income from investment assets, income tax can reduce wealth inequality, but the *wealthiest older households* paid much lower rates of income tax than other age groups.

Only 28% of older households paid any income tax compared with 88% of young households and 85% of middle aged households.<sup>19</sup> One reason for this, of course, is the lower average incomes of older people, as discussed earlier.

However, less expected was the low average tax rate for wealthy older households (those in the highest 10%, whose average wealth was \$5.6 million):

- Their average income tax rate was 16%, compared with 28% for both young and middle aged households in the highest 10% by wealth.
- Only 62% of wealthy older households paid income tax, compared with 91% of wealthy young households and 93% of wealthy middle aged households.

### **Wealthy older households benefit from concessional tax treatment of their main investments.**

The low level of tax paid by older wealthy households (and their superannuation funds) is due in part to the higher tax-free threshold applying to older people (currently \$33,000 compared to \$22,000 for a person under 65 years), and to the concessional tax treatment of much of their investment income including:

- The exemption from income tax of investment income from superannuation accounts paying pensions to individuals who have retired;
- The low rate of tax on capital gains (from growth in the value of assets such as shares and investment property).

### **While younger households had much less wealth on average, it was divided more unequally than within other age groups.**

18 Davidson P, Bradbury B, & Wong M (2023), [Poverty in Australia, who is affected?](#) ACOSS and UNSW Sydney.

19 The average tax rate is the percentage of all income paid in tax, not the marginal tax rate (the rate of tax for the next dollar of income, which is generally much higher). For comparison, only 17% of individuals 65 years and over paid income tax (estimate provided by the Grattan Institute).

In 2022-23 the average wealth of younger households was just over a third (35%) that of the overall population (\$410,000 compared with \$1,176,000). Yet wealth inequality was especially pronounced among younger households:

- The lowest 60% of younger households by wealth (with average wealth of \$80,000) held just 12% of all wealth of younger households while the highest 10% (with average wealth of \$2,014,000) held almost half (49%).<sup>20</sup>
- Since few of the lowest 60% of younger households owned or purchased their homes, the average value of owner-occupied housing for this group was just \$12,000.
- Almost half the wealth of the highest 10% (48%) of younger households was in investment property (22%) or shares and other financial investments (26%).

It is likely that transfers from parents (the so-called ‘bank of Mum and Dad’) contributed significantly to this concentration of the wealth of young households in the hands of the highest 10%.<sup>21</sup>

### 2.3 Trends in wealth inequality (2002 to 2022)

**Over the last 20 years, wealth has become more concentrated in wealthier and older households.**

From 2003 to 2022:

- The share of wealth accruing to the highest 10% grew from 42% to 44% while that of the lowest 60% declined from 20% to 18%.
- The share of wealth held by older households rose from 27% to 34% (twice as fast as growth in their share of the population from 22% to 25%) while that of young households declined from 8% to 7% and that of middle aged households fell from 65% to 59%.

To understand these trends, we examine how wealth is distributed both across and within wealth and age groups.

**Over the last 20 years, the share of wealth held by the highest 10% increased, disproportionately benefiting wealthy older households.**

From 2003 to 2022 average wealth grew by almost three-quarters (74%). Of the overall increase in wealth, 45% went to the highest 10% of households and almost half of that (22%) went to wealthy older households:

- Of all wealth of the highest 10%, the percentage owned by older households rose from 31% to 41%, compared to just 2% for those aged under 35 years, while the share accruing to middle aged households aged 35-64 years fell from 67% to 57%.

<sup>20</sup> In contrast, the lowest 60% of all households by wealth had 18% of all wealth and the highest 10% had 44%.

<sup>21</sup> When we examined how wealth is distributed among young households ranked by income, the highest 10% had 24% of all wealth compared to 49% held by the highest 10% ranked by wealth. This suggests the wealth of the highest 10% did not mainly come from saving out of their own income.

- Older households did not prosper equally during this period. The average wealth of the highest 10% of older households ranked by wealth grew by 93% compared with 76% for the middle 30% and 65% for the lowest 60%.

### **The average wealth of young households grew more slowly yet inequality of wealth among young households rose sharply.**

From 2003-04 to 2022-23, the average wealth of young households rose by 70% from \$241,000 to \$410,000 compared with growth in average overall wealth of 74% from \$676,000 to \$1,176,000:

- Among young households, the average wealth of the highest 10% rose by 126% (from \$928,000 to \$2,014,000) while that of the lowest 60% rose by just 39% (from \$68,000 to \$80,000).
- This included a rise in the average value of owner-occupied housing held by the highest 10% from \$391,000 to \$734,000, while the average for the lowest 60% rose from just \$10,000 to \$12,000 (since very few were purchasing their home).

## **3. Policies to reduce income and wealth inequality**

The following policies would reduce *income inequality* as measured in this report:

- Increase the lowest income support payments such as JobSeeker Payment and Youth Allowance and index to movements in wages as well as prices;
- Restore full employment, by tackling inflation directly through policies such as price curbs (e.g. for rents and energy prices), reduced user charges for essential government-funded services such as health and aged care, and strengthening competition in private markets dominated by a few large businesses, reducing reliance on the blunt instrument of high interest rates;
- Increase minimum hourly wages above inflation;
- Reduce tax concessions for investment income that mainly accrues to people with high incomes, such as the 50% personal income tax 'discount' for capital gains.

The following policies would reduce *wealth inequality* as measured in this report:

- Reform the tax treatment of housing to discourage speculative investment that inflates home prices (including by curbing negative gearing, reducing Capital Gains Tax concessions and extending State Land Taxes to owner-occupied dwellings);
- Remove inequities in the tax treatment of superannuation so that a dollar contributed to an account held by an individual with a low income attracts the same or higher tax concession as a dollar contributed on behalf of a person with high income;
- Extend the 15% tax on superannuation investment income to post-retirement accounts which are currently tax-free.<sup>22</sup>

<sup>22</sup> For more information see ACOSS (2024), [Budget Priorities Statement](#). Sydney.

## Infographic 1: A profile of low, middle and high-income households

The infographic below portrays people in six cameo households at different points in the income distribution in 2019-20.

### People relying on JobSeeker Payment or Parenting Payment were over-represented in the lowest 10%

The average after-tax income of the lowest 10% of households by income was \$631 per week (pw):

- 10% of households in this income group had a reference person on JobSeeker Payment compared with just 3% of households overall.<sup>23</sup> A typical single person on JobSeeker Payment in this income group received \$354pw in social security payments and had no earnings. They rented their home, had total wealth (including superannuation) of \$79,000 and few financial reserves, and faced a high risk of poverty.
- 7% of households in this income group had a reference person on Parenting Payment compared with just 2% of households overall. A typical single parent on Parenting Payment with one preschool-age child received \$652pw in social security payments and had no earnings. They also rented their home, had total wealth (including superannuation) of \$53,000 and few financial reserves, and faced a high risk of poverty.<sup>24</sup>

### People on the Age Pension were over-represented in the lowest 20%

The average after-tax income of the lowest 20% was \$794pw.

- 27% of households in this income group had a reference person on Age Pension compared with 10% of households overall. A typical single person on Age Pension in this income group received \$469pw in social security payments, had \$116pw in investment income (mainly superannuation) but no earnings. They owned their home outright and had total wealth of \$522,000 which offered a degree of protection from poverty (but not for those renting their homes).<sup>25</sup>

### A common middle-income household was a couple with children, earning one fulltime and one part-time wage

The average after-tax income of the middle 20% was \$1,989pw.

- 32% of households in this group had one fulltime and one or more part-time wage-earners compared to 23% of all households. A typical

<sup>23</sup> The reference person is usually the highest income-earner in the household, See the 'How we measure inequality' section.

<sup>24</sup> In 2019, 60% of people in households whose main income was Newstart Allowance (now JobSeeker Payment) and 72% of those whose main income was Parenting Payment were in poverty (Davidson P et al 2023, *ibid*).

<sup>25</sup> In 2019, 17% of people in households whose main income was Age Pension were in poverty but 50% of the 12% of people 65 years and over who rented their homes were poor. (Davidson P et al 2020, *ibid*).

household of this type was a young couple with two dependent children where the primary income earner was employed fulltime on the median fulltime wage (\$1,475pw) and the secondary income earner part-time on much less (\$738pw) while the average investment income of this group was around \$192pw. They were likely to have significant wealth (averaging \$842,000 for this income group) but since most of it was tied up in their home and superannuation and they were raising children they were likely to be 'just getting by' (if we project forward to 2023 many would be struggling under pressure from high mortgage payments).

### **A common household in the highest 20% was a couple with two fulltime wages and substantial investment income**

The average after-tax income of the *highest 20%* was \$4,306pw.

- 58% of households in this group had two fulltime wage-earners compared with 29% of all households. A typical household of this type was an older couple with two dependent children, where each partner received a relatively high fulltime wage from a managerial or professional job (\$2,796pw and \$1,864pw). Their investment income was also much higher than our middle-income family (\$855pw). This household was also purchasing their home but bought it when prices were lower and were closer to paying it off. At \$2,316,000, this income group had more than twice the average wealth of the middle-income group, which was more likely to include an investment property as well as substantial shares and superannuation. This household was 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 \$6,495pw.

- 54% of households in this group had two fulltime wage-earners compared with 29% of all households. A typical household of this type was an older couple, not yet retired but without dependent children. This couple's wages were \$3,977pw and \$2,652pw and their investment income was also higher than that of the rest of the highest 20%, at \$1,326pw mainly from shares and investment property. At \$4,192,000 the wealth of this income group was five times that of our middle-income family. Both their income and their wealth set them apart from the rest of the community.

## Infographic 1: Who fits where on the income scale? Six cameo households in 2019-20

	Income Group	Income	Wealth
<b>HOUSEHOLD 1: Single, JobSeeker Payment</b>			
	Lowest 10%	Earnings: \$0	Own home: \$0
	Income: \$631pw after tax	Social security: \$354	Financial assets (incl super): <sup>1</sup> \$43,000
		Investments (incl super): <sup>1</sup> \$6	Investment property: \$0
		Income tax: \$0	Other non-financial assets: <sup>3</sup> \$36,000
		After-tax income: \$360	Wealth: \$79,000 <sup>4</sup>
		Income Percentile: 4 <sup>2</sup>	
<b>HOUSEHOLD 2: Single parent, one preschool-age child, Parenting Payment</b>			
	Lowest 10%	Earnings: \$0	Own home: \$0
	Income: \$631pw after tax	Social security: \$652	Financial assets (incl super): <sup>1</sup> \$30,000
		Investments (incl super): <sup>1</sup> \$5	Investment property: \$0
		Income tax: \$657	Other non-financial assets: <sup>3</sup> \$23,000
		After-tax income: \$0	Wealth: \$53,000 <sup>4</sup>
		Income Percentile: 9 <sup>2</sup>	
<b>HOUSEHOLD 3: Single, Age Pension</b>			
	Lowest 20%	Earnings: \$0	Own home: \$365,000
	Income: \$794pw after tax	Social security: \$469	Financial assets (incl super): <sup>1</sup> \$102,000
		Investments (incl super): <sup>1</sup> \$116	Investment property: \$0
		Income tax: \$0	Other non-financial assets: <sup>3</sup> \$55,000
		After-tax income: \$585	Wealth: \$522,000 <sup>4</sup>
		Income Percentile: 16 <sup>2</sup>	
<b>HOUSEHOLD 4: Middle income couple, two school-age children, waged</b>			
	Middle 20%	Earnings: \$1,475 & \$738 <sup>5</sup>	Own home: \$412,000
	Income: \$1,989pw after tax	Social security: \$0	Financial assets (incl super): <sup>7</sup> \$330,000
		Investments (incl super): <sup>6</sup> \$192	Investment property: \$0
		Income tax: \$458	Other non-financial assets: <sup>3</sup> \$100,000
		After-tax income: \$1,947	Wealth: \$842,000 <sup>4</sup>
		Income Percentile: 47 <sup>2</sup>	
<b>HOUSEHOLD 5: High-income couple, two school-age children, waged</b>			
	Highest 20%	Earnings: \$2,796 & \$1,864 <sup>5</sup>	Own home: \$729,000
	Income: \$4,306pw after tax	Social security: \$0	Financial assets (incl super): <sup>7</sup> \$1,116,000
		Investments: \$855 <sup>6</sup>	Investment property: \$314,000
		Income tax: \$1,561	Other non-financial assets: <sup>3</sup> \$157,000
		After-tax income: \$3,954	Net wealth: \$2,316,000 <sup>4</sup>
		Income Percentile: 89 <sup>2</sup>	

### HOUSEHOLD 6: Very high-income couple, waged



<b>Highest 5%</b>	<b>Earnings:</b> \$3,977 & \$2,652 <sup>5</sup>	<b>Own home:</b> \$1,177,000
<b>Income:</b> \$6,495pw after tax	<b>Social security:</b> \$0	<b>Financial assets (incl super):</b> <sup>7</sup> \$2,221,000
	<b>Investments:</b> \$1,326 <sup>8</sup>	<b>Investment property:</b> \$581,000
	<b>Income tax:</b> \$2,590	<b>Other non-financial assets:</b> <sup>3</sup> \$214,000
	<b>After-tax income:</b> \$5,385	<b>Net wealth:</b> \$4,192,000 <sup>4</sup>
	<b>Income Percentile:</b> 98 <sup>2</sup>	

Sources: Australian Bureau of Statistics (ABS), Survey of Income and Housing 2019-20; Centrelink, Guide to Government Payments Dec 2019; ABS, Characteristics of Employment Australia (Aug 2019); ATO Simple tax calculator for 2019-20 [https://www.ato.gov.au/calculators-and-tools/tax-return-simple-tax-calculator].

Note: Income groups are ranked by income adjusted for household size (so smaller households are shifted up the income scale).

The cameos are illustrative, based on household characteristics that are over-represented in each income group compared to their share of the overall population.

None of the cameo households is assumed to have income from self-employment (so their disposable incomes are often somewhat lower than the average values for each income group).

No Medicare Levy Surcharge is paid; tax on investment income is paid at each individual's marginal rate (which is likely to be an over-estimate due to concessional tax treatment of investments).

1. Average values for single people receiving Newstart Allowance (now Jobseeker Payment), Parenting Payment and Age Pension respectively. Note that average values for couples receiving full or part Age Pension would be higher than for singles, who tend to be older women with less superannuation, but would be lower for people on Age Pension who rent their home. Source: ABS Survey of Income and Housing (2019-20).

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

3. For example, furniture and cars.

4. All asset values are net of related debt.

5. Households in the lowest 20% are assumed to receive no wages and wages for other households (apart from the middle-income couple) are based on average values for the income group. For the middle-income couple, we assume the primary income earner received the median fulltime male wage and earnings were split 2:1 (since the lower income earner was employed part-time). For the high-income couples, we assume a 6:4 split (as both were employed fulltime).

6. Average investment income for income group. This is likely to be skewed upwards by a minority in each income group with larger investments.

7. Average value of financial assets (including superannuation) for income group. This is likely to be skewed upwards by a minority in each income group with larger investments.

8. Assuming investment income is equivalent to 20% of earnings from employment (since average values within the highest 5% are heavily skewed towards a small minority with very high incomes).

### 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.<sup>26</sup>

<sup>26</sup> 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 in 2021 rather than the 2019-20 distribution shown in this report.

## Infographic 2: A profile of low, middle and high-wealth households

The infographic below compares the wealth holdings of the highest 10% of households (ranked by wealth rather than income) with the next 30% (which we call the 'upper middle') and the lowest 60%.

### Half of all wealth was owned by the highest 10%

The highest 10% had 44% of all household wealth and the 'upper middle' (the next 30%) has 38%, leaving the remaining 60% with just 18%:

- The average wealth of the *highest 10%* was \$5,220,000 comprising \$1,664,000 in their homes (after mortgage debt), and \$3,556,000 in other assets.
- The 'upper middle' had 29% of the wealth of the highest 10% (\$1,496,000) split between \$733,000 in their homes and \$763,000 in other assets.
- The lowest 60% had just 7% of the wealth of the highest 10% (\$343,000). This was split between an average of \$157,000 in their homes (noting that many were not home-owners) and \$186,000 in other assets.

### Young people were over-represented in the low-wealth group and older people in the high-wealth group

- **People under 35 years were 20%** of the population but 29% of the low-wealth group;
- **People 65 years or more were 25%** of the population but 38% of the high-wealth group.

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It also includes the 1% of households with zero or negative incomes (who are excluded from the data used for this report).

## Infographic 2: Low, middle and high-wealth groups

Wealth group	Overall wealth	Average value of components
<b>Group 1: Lowest 60%</b>		
 <p><b>Lowest 60%</b> Assets (net of debt) worth up to \$919,000 29% aged under 35 50% aged between 35-64 21% aged 65+</p>	<p><b>Average wealth:</b> \$343,000<sup>1</sup> <b>Share of all wealth:</b> 18%</p>	<p><b>Own home (less mortgage):</b> \$157,000 <b>Other non-financial net assets:</b> \$61,000 <b>Superannuation:</b> \$80,000 <b>Other real estate (less expenses):</b> \$13,000 <b>Shares, business &amp; financial:</b> \$41,000</p>
<b>Group 2: Upper middle</b>		
 <p><b>60th to 90th percentile</b> Assets (net of debt) worth \$919,000 to \$2,564,000 6% aged under 35 64% aged between 35-64 30% aged 65+</p>	<p><b>Average wealth:</b> \$1,496,000<sup>1</sup> <b>Share of all wealth:</b> 38%</p>	<p><b>Own home (less mortgage):</b> \$733,000 <b>Other non-financial net assets:</b> \$152,000 <b>Superannuation:</b> \$303,000 <b>Other real estate (less expenses):</b> \$139,000 <b>Shares, business &amp; financial:</b> \$178,000</p>
<b>Group 3: Highest 10%</b>		
 <p><b>Highest 10%</b> Assets (net of debt) worth \$2,566,000 or more 3% aged under 35 59% aged 35-64 38% aged 65+</p>	<p><b>Average wealth:</b> \$5,220,000<sup>1</sup> <b>Share of all wealth:</b> 44%</p>	<p><b>Own home (less mortgage):</b> \$1,664,000 <b>Other non-financial net assets:</b> \$238,000 <b>Superannuation:</b> \$946,000 <b>Other real estate (less expenses):</b> \$975,000 <b>Shares, business &amp; financial:</b> \$1,407,000</p>

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

### **Find where you are in the household wealth distribution**

To help people see where they lie in the Australian wealth distribution, we have developed an [interactive calculator](#). After entering your household's total wealth (minus related debt) into this calculator it will show your position in the overall wealth distribution.

## Measuring Inequality

To measure income and wealth inequality, we rely on the biennial Survey of Income and Housing produced by the ABS, the latest of which covers financial year 2019-20. For wealth inequality, we extend the analysis to 2022-23 by updating the value of each asset type (such as owner-occupied housing) from 2019 to 2022 using more recent ABS National Accounts data, as detailed below. Unless otherwise specified, these are the sources for the graphs in this report.

We rank people included in the ABS survey into groups according to either the (equivalised) disposable income or (unequalised) 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. Together these comprise 'gross income'. When ranking households by weekly income, two adjustments are made: income tax (and Medicare Levy) is subtracted to calculate 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.<sup>27</sup>

We divide the population into groups by counting the number of people (including children) 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 home-owner and/or the person with the highest income.<sup>28</sup>

<sup>27</sup> We use the OECD equivalence scale, which assigns a value of 1.0 to the first adult in the household, 0.5 to each subsequent adult in the household and 0.3 to each dependent child (where dependent children are defined as being under 15 years of age). Disposable income is divided by this scale to derive equivalised disposable income.

<sup>28</sup> 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

Finally, we examine the direct causes of income inequality in 2019-20 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).

The cameo households illustrate the diversity of households across the income scale. The cameos are selected on the basis that each household type (e.g. a single person on JobSeeker Payment) was more likely to be found in that income group than others. They do not necessarily represent a majority of households within each income group. Their incomes and income sources reflect average values for the income group where possible (e.g. for wages and investment income) and social security and income tax policy settings in 2019-20.

## 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) because it is not clear what the household composition will be when wealth (e.g. superannuation) is consumed. We also report on the distribution of wealth among the income groups described above.

Wealth from different sources (e.g. owner-occupied housing) in 2019-20 is updated to 2022-23 values, based on increases in the average value of household wealth by source derived from Australian National Accounts data.<sup>29</sup> The main limitation of this updating method is that we assume each source of wealth is distributed among households across the wealth and income scale in the same proportions that applied in 2019-20. This is a reasonable assumption given the short time period involved.

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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.

<sup>29</sup> ABS *Australian National Accounts, Household income and wealth*. We were unable to replicate this approach to update the income distribution data due to major differences in income definitions between the Survey of Income and Housing and Australian National Accounts, and the impact of changing household characteristics (such as employment) on income.



In our detailed analysis of wealth distribution, we focus on three wealth groups: the highest 10% of households by wealth, the next 30% and lowest 60% respectively, since wealth is much more concentrated (than income) in the hands of a minority with the most resources. All values are averages for each group.

### Further information

For more information on the technical aspects of the analysis underlying this publication see our methodology report at <https://povertyandinequality.acoss.org.au/wp-content/uploads/2022/05/inequality-methods-paper.pdf>



# Part 1: Income inequality

## 1.1 Where did people fit in the household income scale in 2019-20?

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

**Table 1: Average incomes before and after tax (2019-20)**

	Lowest 10%	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Highest 20%	Highest 10%	All persons
<i>Unequalised income:</i>								
<b>Average income (\$pw)</b>	\$631	\$794	\$1,467	\$1,989	\$2,627	\$4,306	\$5,248	\$2,236
<b>Lowest income (\$pw)</b>	\$0.80	\$0.80	\$593.60	\$839.00	1,124.10	1,523.20	1,912.50	\$0.80
<b>Real average change p.a. from 1999 (% p.a.)</b>	2.5%	2.3%	2.4%	2.1%	1.8%	2.3%	2.6%	2.2%

Note: These average incomes are not equalised (adjusted for household size), though household incomes are equalised to rank households across the income distribution.

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

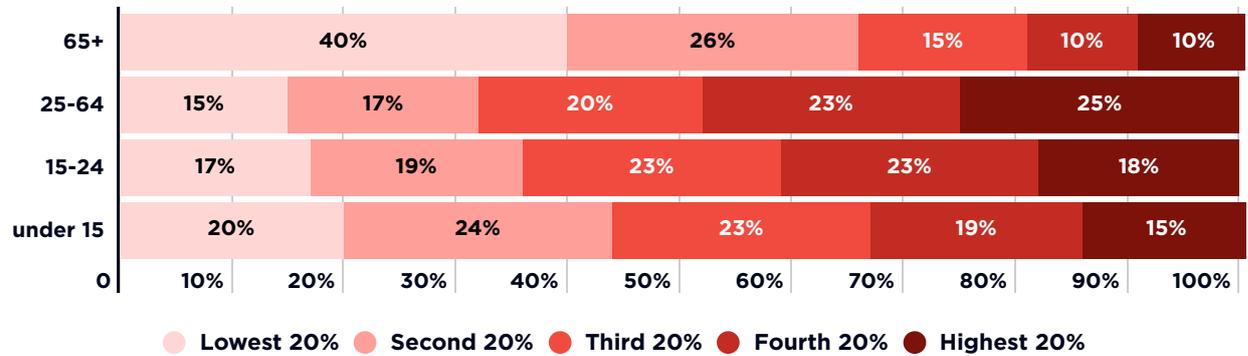
- The *distribution* of income across people with different characteristics (such as age);
- The *profile* of each income group (such as the lowest 20%) according to those characteristics.

**Older people were more likely to be in the lowest 40% while people of working age were more likely to be in the highest 20%.**

Older people were more likely to be found in low-income households (Figure 1):

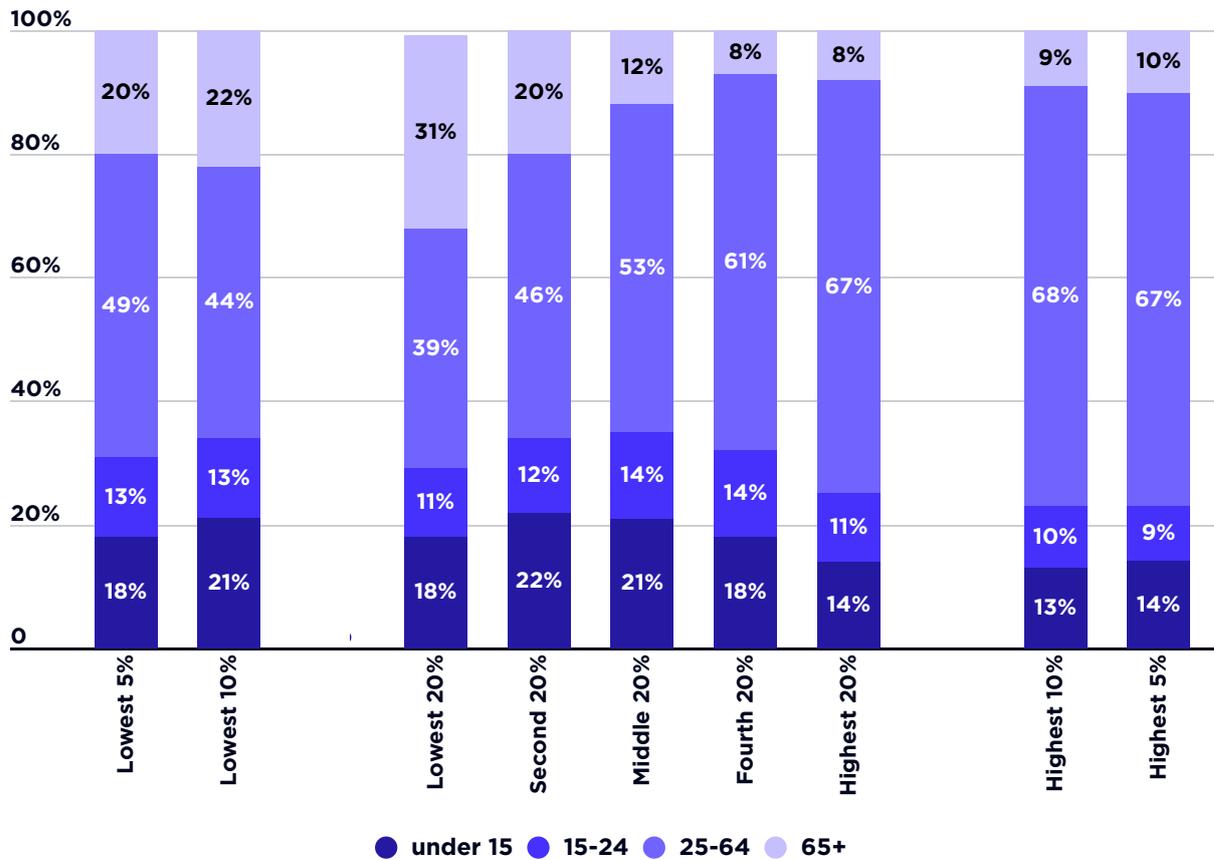
- Two-thirds (66%) of people aged 65 years and over, and 44% of children under 15 years, were in the lowest 40% by equalised household income;
- Similarly, Figure 2 shows that older people comprised almost one-third (31%) of those in the lowest 20% but just 8% of the highest 20%.

Figure 1: Distribution of income by age (% of people in 2019)



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

Figure 2: Profile of each income group by age (% of people in 2019)



Note: Percentage of people in household income groups who are of different ages. The profile of each income group depends on the overall share of the population in each age group as well as their distribution across income groups (shown in the previous graph).

## Families with a female reference person, especially those with dependent children, had much lower incomes than families with a male reference person

Figure 3 shows that families with children with a female reference person (generally the main income earner) were twice as likely (27%) to be in the lowest 20% by income compared with families with children with a male reference person (13%):

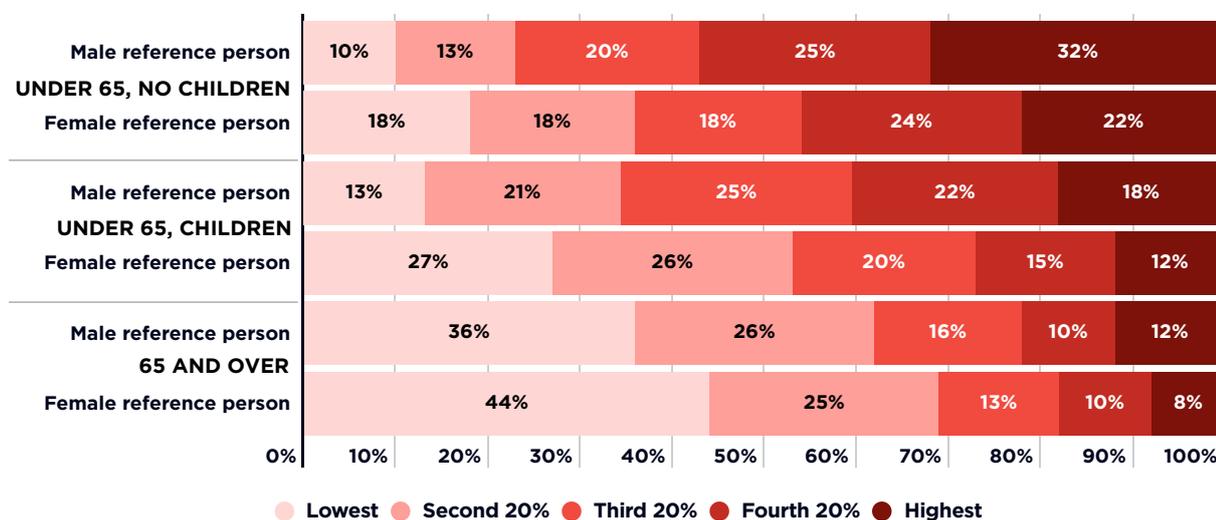
- Among sole parent families (in which most reference people are women), 38% were in the lowest 20%.
- In contrast, 18% of families with children with a male reference person, compared with 12% of families with children with a female, were in the highest 20%.

Among households without children:

- Those with a female reference person aged 65 or more (mainly living alone) were more likely to be in the lowest 20% (44%) than households with an older male reference person (36%).
- Working-age households without children with a male reference person were more likely to be in the highest 20% (32%) than those with a female reference person (22%).

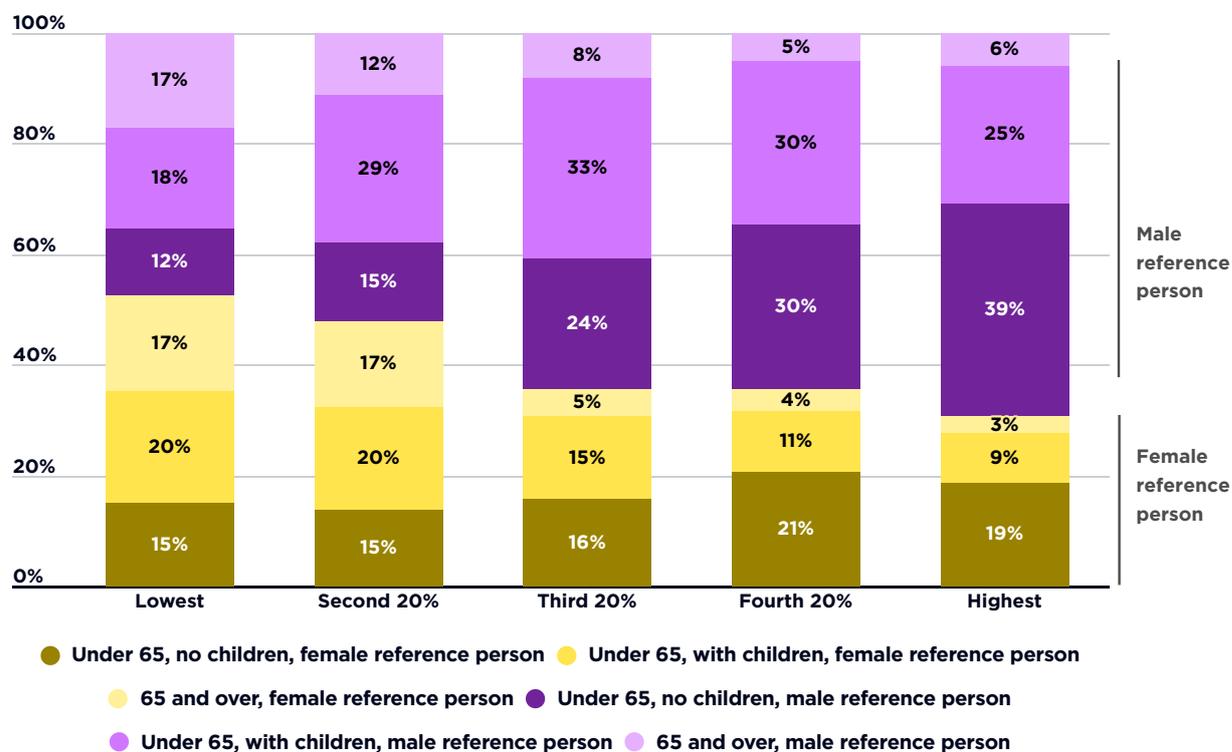
Figure 4 shows that a clear majority (70%) of households in the highest 20% had a reference person who was a man.

**Figure 3: Distribution of income by gender of household reference people (% of people in 2019)**



Note: Percentage of people across different income groups by gender, family type and age. '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. 'Reference persons' were the highest income-earners in the household in most cases.

**Figure 4: Profile of each income group by gender of household reference person (% of people in 2019)**



Note: Percentage of people in different income groups, by gender, family type and age.

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

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

The profile of each income group depends on the overall share of the population in households headed by women and men as well as their distribution across income groups (shown in the previous graph).

### **Couples (with and without children) were generally better off financially than single people, including sole parent families.**

Among single people without children, 41% were in the lowest 20% compared with 21% of all couples without children (Figure 5):

- Only 14% of single people without children were in the highest 20% compared with 28% of couples.

Among sole parent families, 38% were in the lowest 20% compared with 15% of couples with children.

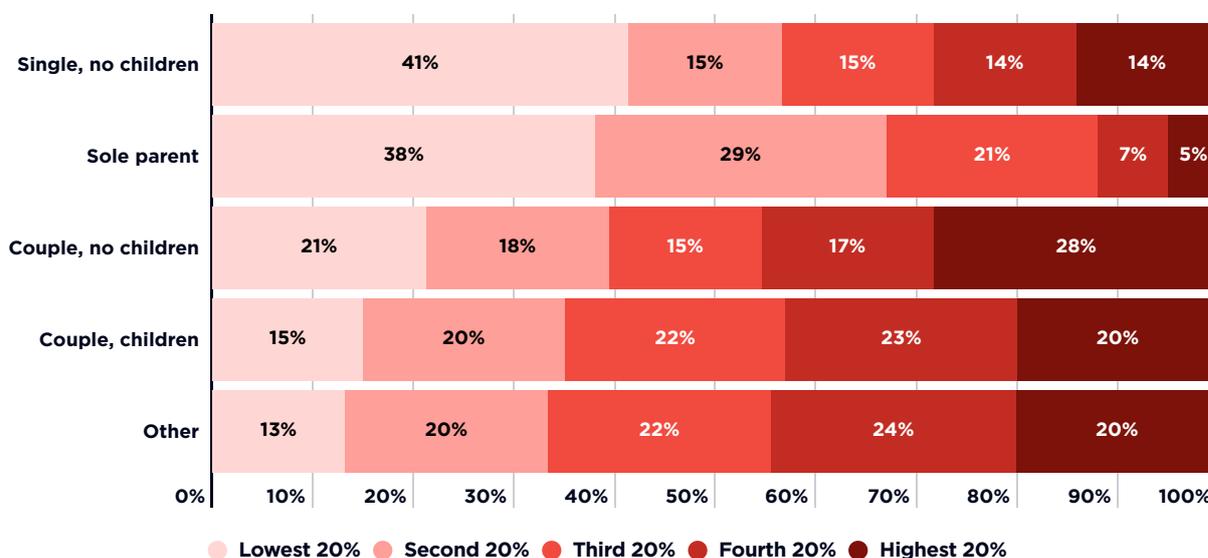
- Only 5% of sole parents were in the highest 20% compared with 20% of couples with children.<sup>30</sup>

Similarly, Figure 6 shows that almost a third (31%) of people in the lowest 20% were in single person or sole parent families, compared with only one in ten (10%) in the highest 20%.

<sup>30</sup> Note that we rank households across the income groups using equivalised income, which takes account of the greater financial needs of larger households.

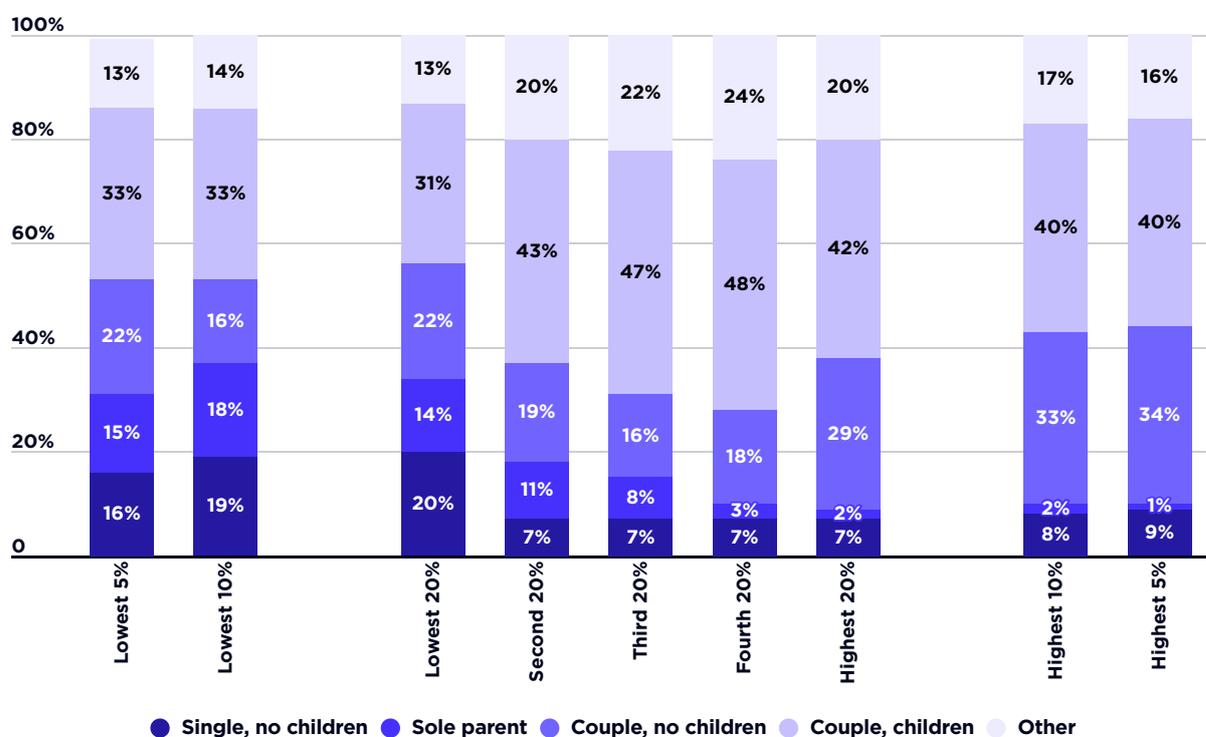


Figure 5: Distribution of income by family type (% of people in 2019)



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 2019)



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). The profile of each income group depends on the overall share of the population in each family type as well as their distribution across income groups (shown in the previous graph).

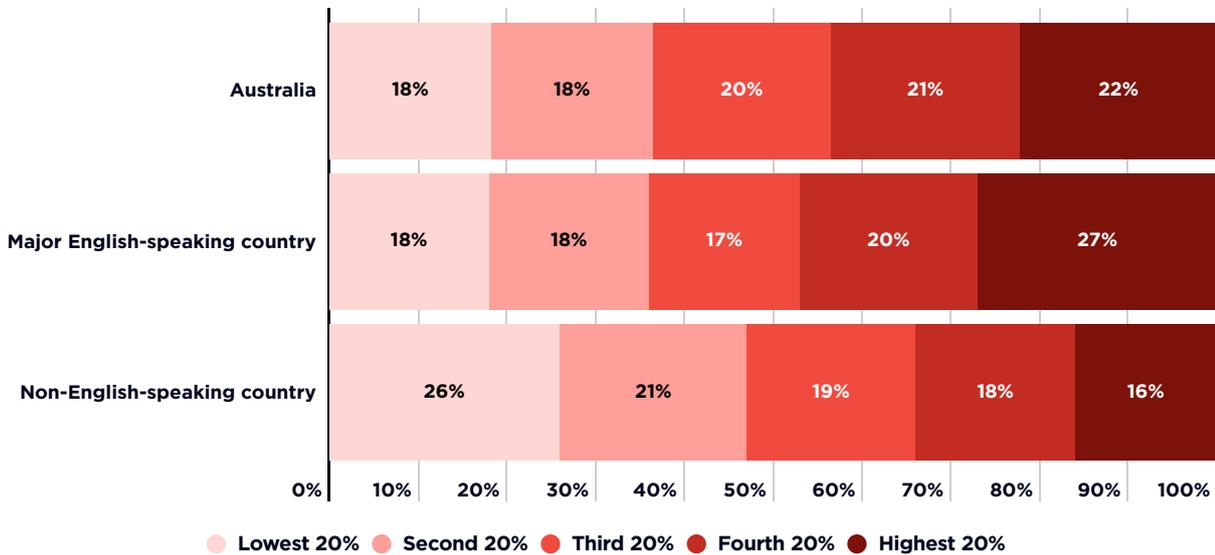
### Place of birth made a big difference to incomes.

Where migrants stood on the income ladder depended very much on where they were born. Figure 7 shows that:

- Of adults born in a major English-speaking country, 27% were in the highest 20%;
- Of those born in other countries, 26% were in the lowest 20% (Figure 7).

Similarly, Figure 8 shows that almost a third (31%) of adults in the lowest 20% of incomes were born outside Australia in a country other than a major English-speaking country.

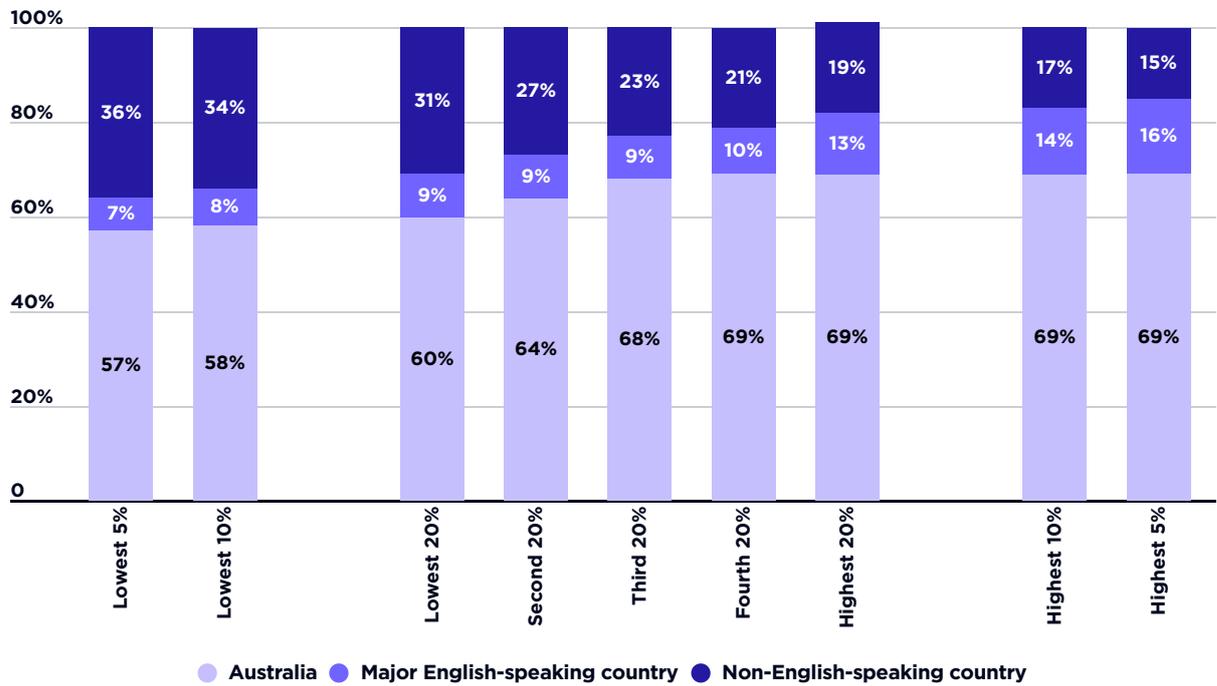
**Figure 7: Distribution of income among adults by country of birth (% of adults in 2019)**



Note: Percentage of adults (not including children) born in different countries, across five household income groups.

Major English-speaking countries are those from whom most migrants are of Anglo-Celtic background (e.g. the UK, USA, Canada, Australia, Ireland, South Africa and New Zealand).

**Figure 8: Profile of each income group by country of birth of adults (% of adults in 2019)**



Note: Percentage of adults (not including children) in household income groups, who were born in different countries.

Major English-speaking countries are those from whom most migrants are of Anglo-Celtic background (e.g. the UK, USA, Canada, Australia, Ireland, South Africa and New Zealand).

The profile of each income group depends on the overall share of the population born in different countries as well as their distribution across income groups (shown in the previous graph).

## 1.2 The main causes of income inequality in 2019

In this part of the report, we break income down into its main components to assess the causes of household income inequality. It is divided into three sections:

1. The contribution of different income sources to income inequality;
2. Earnings inequality; and
3. The impact of government income support payments and income tax.

### 1) The contribution of different income sources to 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.<sup>31</sup>

The summary measure of inequality used below is the ‘Gini coefficient’. The Gini varies across a range from zero (equal incomes) to one (where all income is held by a single household). A similar ‘concentration coefficient’ (in which higher values signal more inequality) is used to compare inequality in the distribution of each income source (e.g. wages) across households with different levels of after-tax income.

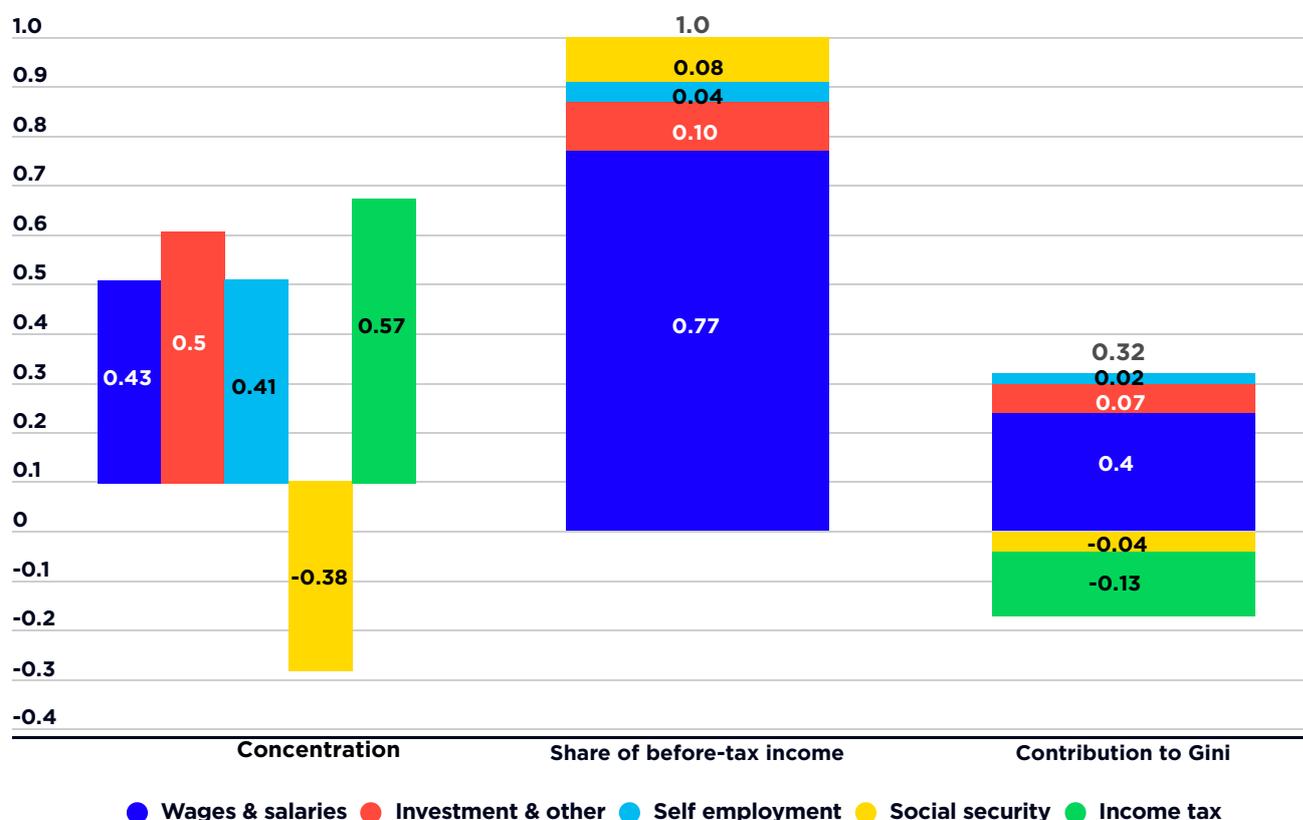
Figure 9 shows for each income component its share of overall before-tax income, its concentration, and its contribution to overall inequality of after-tax income. The sum of the contributions is the Gini coefficient for after-tax household income, which was 0.32.

Our analysis in this part follows two steps: first, we examine the contribution of different income sources to income inequality before-tax, then we assess the impact of government policy (social security payments and income tax) on inequality of after-tax incomes.

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<sup>31</sup> See for example 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.

**Figure 9: Contribution of income components to inequality of after-tax household incomes (2019-20)**



Note: This graph shows the share of all before-tax income (middle column) from different sources, the level of inequality (concentration coefficient for households ranked by after-tax income) within each income component (left columns), and their contributions to after-tax income inequality as measured by the Gini coefficient for after-tax income (0.32, see right column). Shares and contributions add to 100% but concentration measures do not.

If expressed as shares of after-tax income the values for the columns on the left are 0.93 for wages, 0.14 for investment and other, 0.05 for self-employment, 0.11 for social security and -0.24 for income tax (adding up to 100%). When those values are multiplied by the concentration index for each income source, the product is its contribution to the Gini coefficient for after-tax income. 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).

### Unequal distribution of earnings was the main driver of income inequality before tax.

In 2019-20 the Gini coefficient of disposable income inequality was 0.32, comprising a contribution of 0.45 from before-tax income, offset by an equalising contribution of 0.13 from income tax (see right side of Figure 9).

The majority of household income was wages (77% of before-tax income), which were more equally distributed than investment income:

- The unequal distribution of employment and wages among households accounted for 89% of the contribution of before-tax incomes to inequality although wages had a relatively low concentration coefficient of 0.43.<sup>32</sup>

<sup>32</sup> That is,  $0.40 / (0.40 + 0.07 + 0.02 - 0.04)$  from the right-hand side of Figure 9. Note that all of these contributions are based on concentration coefficients calculated using households ranked by after-tax income.

*Investment income* was only 10% of all before-tax income but was more unequally distributed:

- Investment income had a concentration coefficient of 0.5 and accounted for 16% of the contribution of before-tax incomes to inequality.

Income from *self-employment* was only 4% of all before-tax income and it was slightly more equally distributed than wages (that is, concentrated in both lower and upper ends of the after-tax income scale):

- It had a concentration coefficient of 0.41 and accounted for 4% of the contribution of before-tax incomes to inequality.<sup>33</sup>

### **Government action through social security and income tax reduced income inequality by more than a third (35%).**

Figure 9 (above) showed the impact of government (specifically social security payments and income tax) on after-tax income inequality:

- Social security payments comprised 8% of all before-tax income and their concentration coefficient was negative (-0.038) since they were concentrated in the lower end of the income scale. They reduced inequality of before-tax incomes by 9%.
- Personal income tax averaged 19% of all before-tax income. It was concentrated towards the upper end of the distribution, with a (positive) concentration coefficient of 0.57. It reduced inequality of before-tax incomes by 29%.

### **Investment income was concentrated at the top of the income distribution while social security was concentrated at the bottom.**

Figure 10 shows how the components of income were distributed among income groups:

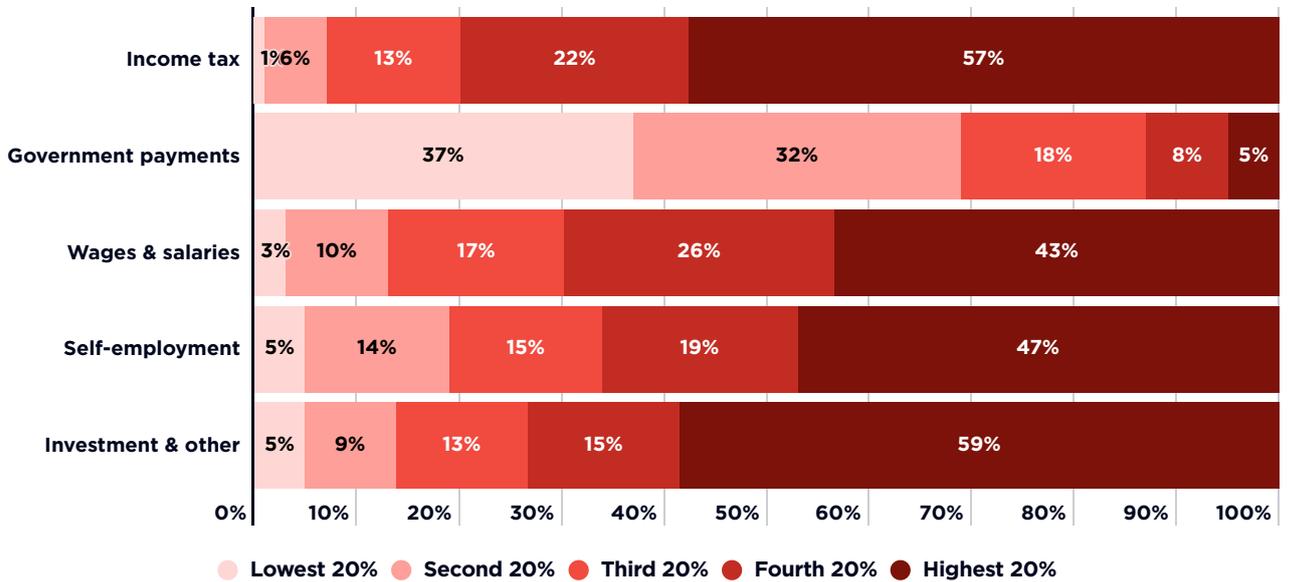
- 43% of all wages were received by the highest 20% of households by income.
- A much higher share of investment income (59%) accrued to the highest 20%.
- Over two-thirds of social security income (69%) went to the lowest 40%.
- Most income tax (57%) was paid by the highest 20%.

Figure 11 shows that, as we move up the income scale, the percentage of household income coming from social security diminishes, while investment income and income tax play a more prominent role:

- Social security payments comprised half (50%) of the before-tax income of the lowest 20% and just 1% of that of the highest 20%.
- Investment income comprised just 8% of the before-tax income of the lowest 20% but 15% of that of the highest 20%.

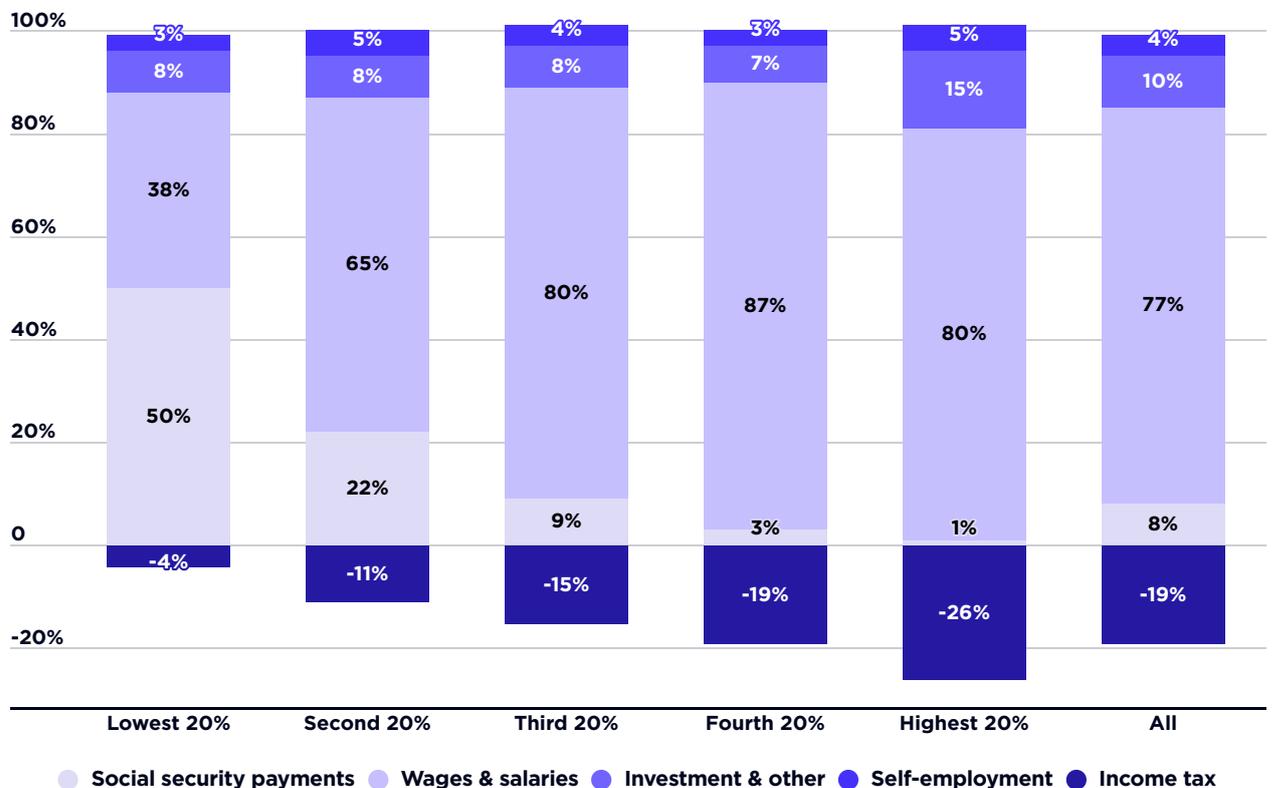
<sup>33</sup> The contributions of the above private income sources to the overall contribution of before-tax income to inequality add up to 109%, because as discussed below the other component of before-tax incomes – social security payments – reduced inequality of before-tax incomes by 9%.

Figure 10: Distribution of income by source (% of all income in 2019)



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

Figure 11: Composition of the incomes of income groups (% of before-tax income in 2019)



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

## 2) Earnings inequality

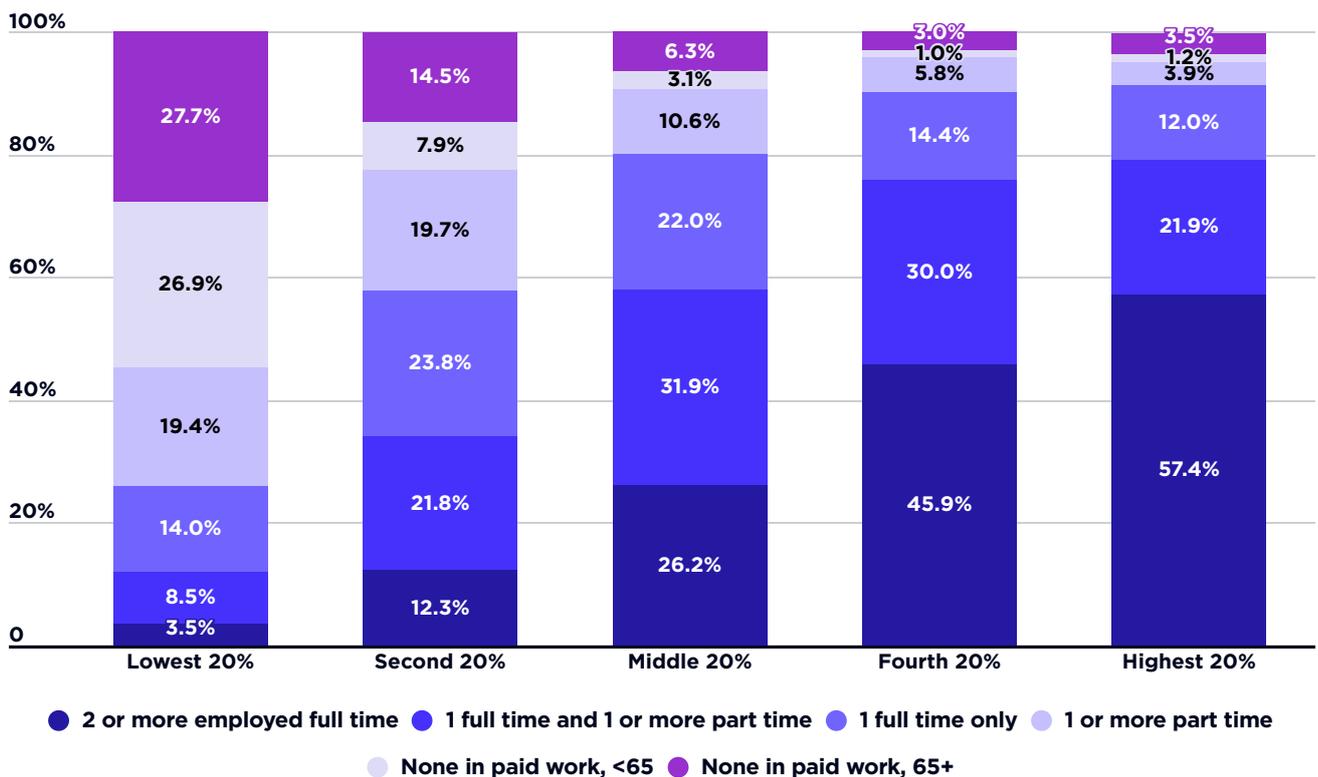
In this section we focus on the distribution of the largest component of income - employee earnings - among individuals and households. Later we explore recent trends in earnings inequality.

### Inequality of paid working hours contributed substantially to wage inequality.

Figure 12 shows that the proportion of households with at least *one fulltime wage-earner* rose from 26% in the lowest 20% to 80% in the middle 20% of household ranked by income:

- The proportion with *two or more fulltime earners* rose from 26% in the middle 20% to 57% in the highest 20%.

**Figure 12: Profile of paid employment within each income group (% within each group in 2019)**



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

### Unequal distribution of paid working hours between women and men was a major contributor to inequality of paid working hours.

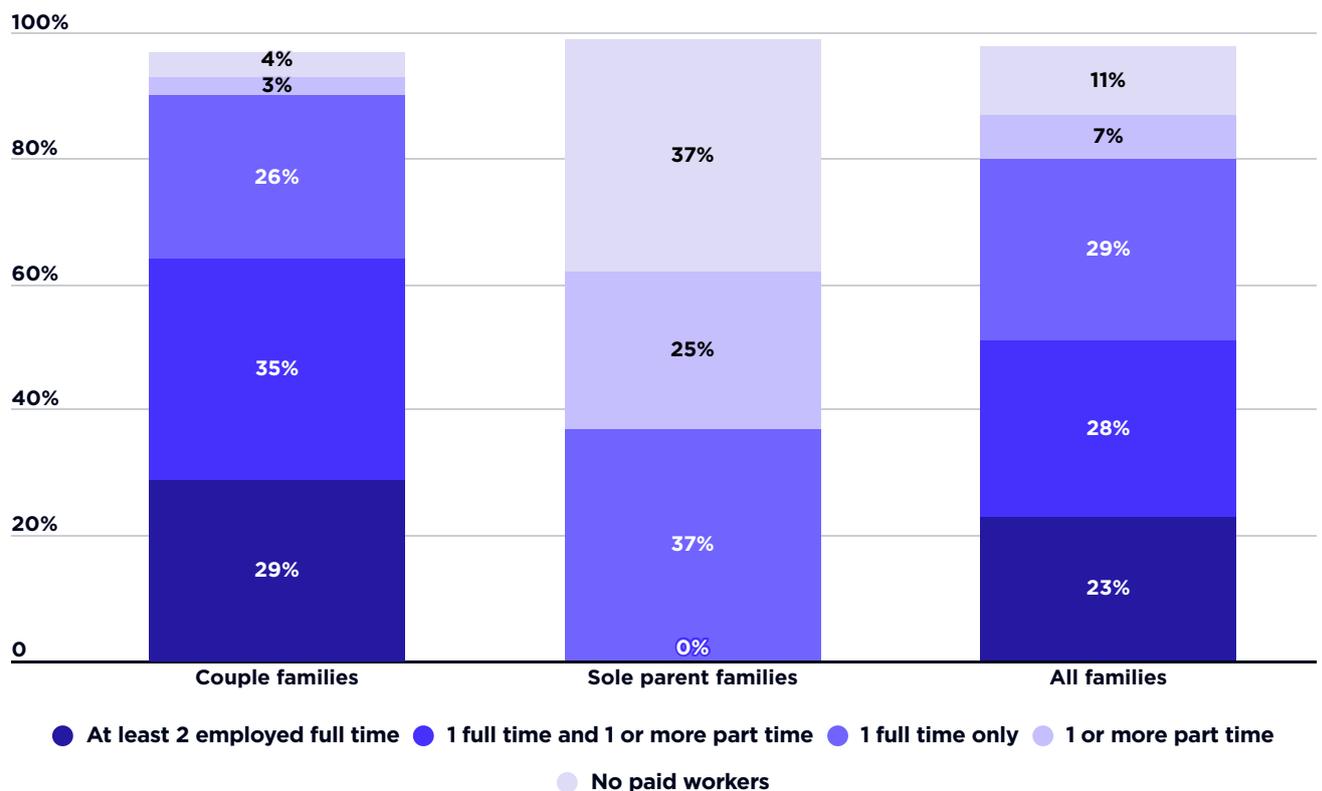
In June 2022, almost as many women with dependent children (36%)

were employed part-time as fulltime (39%), while 25% were not in paid employment.<sup>34</sup> This pattern of labour force participation was influenced by the unequal sharing of care within families and limited availability of affordable childcare services.

Figure 13 shows that in 2019 (the reference year for the household income data in this report):

- 29% of couples with children had two or more people employed fulltime, 35% had one employed fulltime and one or more (usually the woman in opposite sex couples) employed part-time, 26% had a sole income earner employed fulltime (usually the man in opposite sex couples), and 4% had no paid workers.
- Among sole parent families (85% of which were had a female reference person), 37% had a fulltime paid worker, 25% had one or more people employed part-time, and 37% had no paid workers.

**Figure 13: Profile of paid employment among families with dependent children (% within each family type in 2019)**



Sources: ABS, Labour force status of families (June 2019).

Note: Percentage of each type of family (with youngest child <15 years) with different combinations of paid employment.

34 ABS 2022, Labour Force status and other characteristics of families, June 2022. See also Wood D, Griffiths K & Crowley T (2021), Women’s work: The impact of the COVID crisis on Australian women. Grattan Institute. Melbourne.

## **In couple families, the more the primary income earner received, the more their partner was likely to earn.**

Fulltime employment among women was more common in *higher-income households*, reflecting an association between female fulltime employment, higher education attainment, and higher earnings among their partners:

- High-income households generally had better access to formal childcare.<sup>35</sup>
- In addition, higher *hourly* pay for partnered women was associated with higher weekly pay for their partners.<sup>36</sup>

In low and middle-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 mother was in low-paid employment.<sup>37</sup>
- Limited fulltime employment opportunities for people with lower educational qualifications since over four in ten entry-level jobs were part-time.<sup>38</sup>

Poor financial returns from fulltime employment in entry-level jobs, due to high effective tax rates and childcare 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 each week of paid work at \$23 per hour (the hourly equivalent of a fulltime wage of \$863pw).<sup>39</sup>

## **Inequality of hourly wages among individuals was compounded by the relatively low working hours of low-paid workers**

Having shown how the distribution of *paid working hours* across households impacts household income inequality, we now turn to inequality of individual earnings.

Figure 14 shows how individual hourly and weekly earnings were distributed in August 2023:

35 The ratio of formal childcare places to the number of children in eligible age groups is much higher in high-income locations than low-income locations. For example, on average there is approximately one centre-based day care place for every four children under school age in the lowest 20% of areas ranked by SEIFA scores (generally low-income areas) compared with one place per two children in the highest 20% (Productivity Commission 2023, A path to universal early childhood education and care Draft Report. Canberra.

36 In 2012 average paid working hours were seven hours a week lower for low-paid than higher-paid 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. Further, the partners of higher-paid married women earned an average of \$1,099pw compared with \$928pw for low-paid married 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).

37 'Female low-paid employees are much more likely than any of the other employee groups to be the sole carer (of children), while male low-paid employees are much more likely than other employees to be the sole earner.' Broadway B & Wilkins R (2015), *ibid*, p17.

38 The proportion of entry-level jobs (ASCO Skill Levels 4 and 5) that are part-time rose from 39% in 2007 to 43% in 2021, compared with 30% of all jobs (ACOSS and Jobs Australia (2020), [Faces of unemployment](#), Sydney).

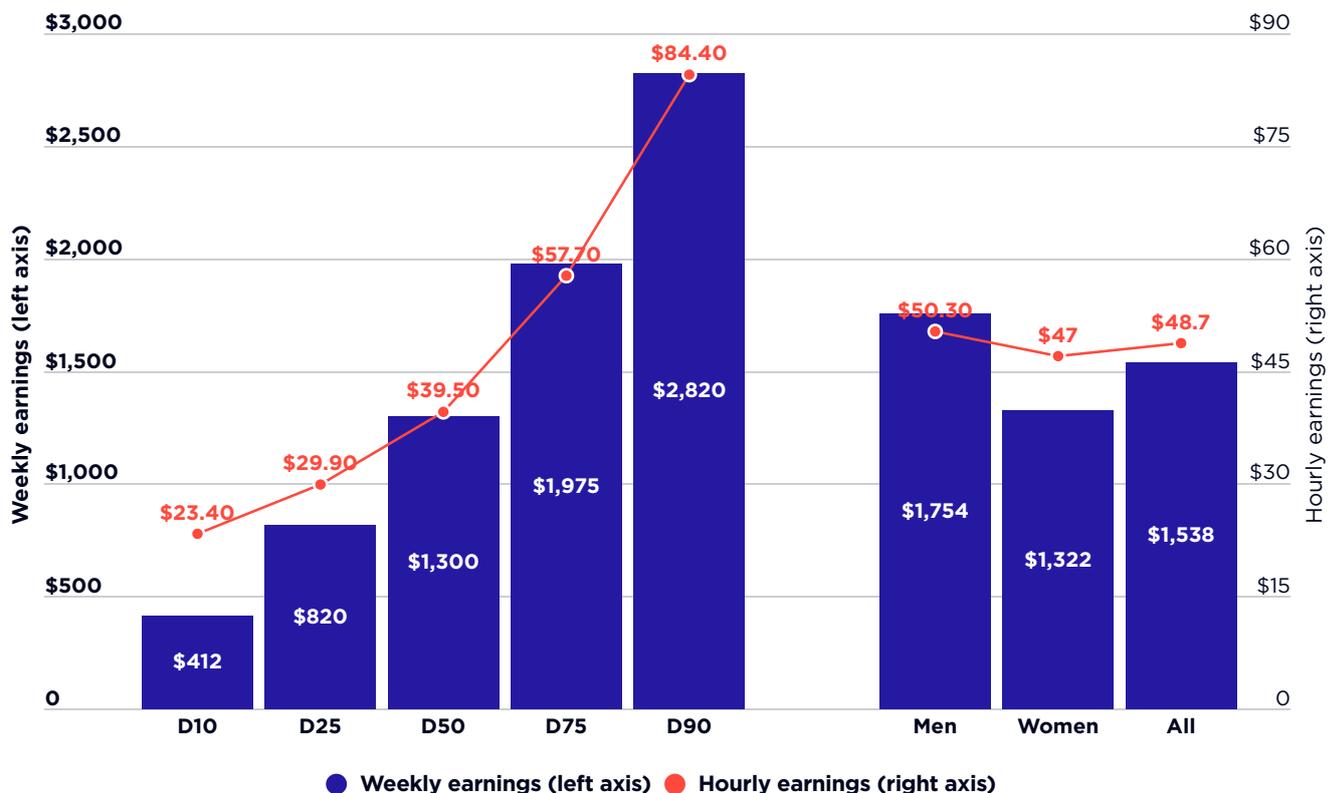
39 Stewart M (2018), [Personal income tax cuts and the new Child Care Subsidy](#): Do they address high effective marginal tax rates on women's work? Tax and Transfer Policy Institute Policy Brief 1/201.

- The hourly wage for the highest 10% of all employees (fulltime and part-time) was at least \$84, just over twice the median worker's wage (\$40).
- The highest hourly wage for the lowest 10% of all employees was \$23, just under 60% of that of the median worker (D50 in the graph).

Compared with hourly rates of pay, weekly wages were distributed more unequally at the lower end of the scale, due to the lower paid working hours of low-paid workers (more of whom were employed part-time):

- The weekly wage for the highest 10% of all employees (fulltime and part-time) was at least \$2,820, again just over twice (220%) that of the median worker (\$1,300).
- The highest weekly wage for the lowest 10% of all employees was \$412, just over 30% of the median worker's wage (D50 in the graph).

**Figure 14: Distribution of weekly and hourly earnings (\$ per week or hour in August 2023)**



Source: ABS 6337.0 Employee Earnings, August 2022.

Note: Distribution of weekly (left side) and hourly (right side) earnings respectively, for all employees in main job (including those employed part-time), before income tax.

Earnings shown are wages paid to employees at different points in the distribution of individual earnings. For example, D10 is the upper bound of the lowest 10% (decile) and D50 is the median wage.

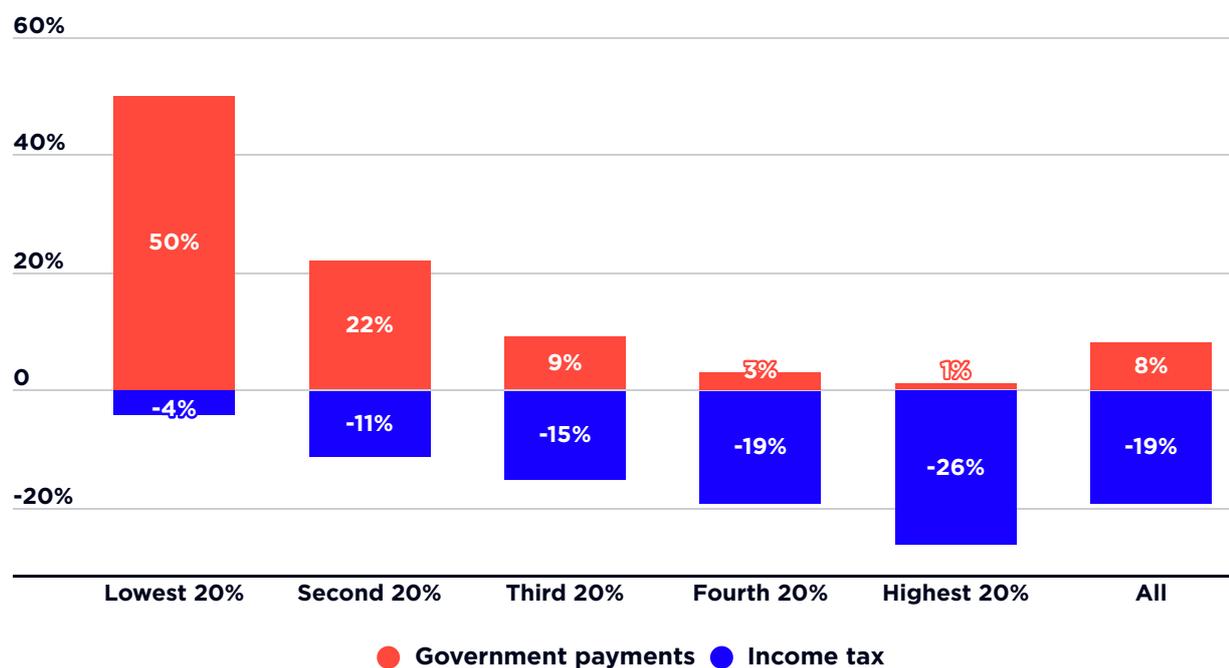
### 3) The impact of government income support payments and income tax

In this section we examine in more depth the impact of income tax and different social security payments on income inequality.

#### Government income support payments and income tax mainly reduced income inequality at the higher and lower ends of the income scale

Compared with most wealthy nations, Australia's social security payments are tightly 'targeted' towards households with low incomes.<sup>40</sup> Figure 15 shows that social security payments (including Family Tax Benefit) comprised half (50%) the incomes of the lowest 20% of households ranked by income, while personal income tax reduced the incomes of the highest 20% by an average of 26%.

**Figure 15: Impact of government payments & income tax on household incomes (% of gross income in 2019)**



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

<sup>40</sup> Causa O & Hermansen M (2017), 'Income redistribution through taxes and transfers.' *OECD Economics Department Working Paper No 1453*. Paris.

**People on JobSeeker (Newstart Payment) were more likely to be in the lowest 10% while those on Age Pension were more likely to be in the next 10%**

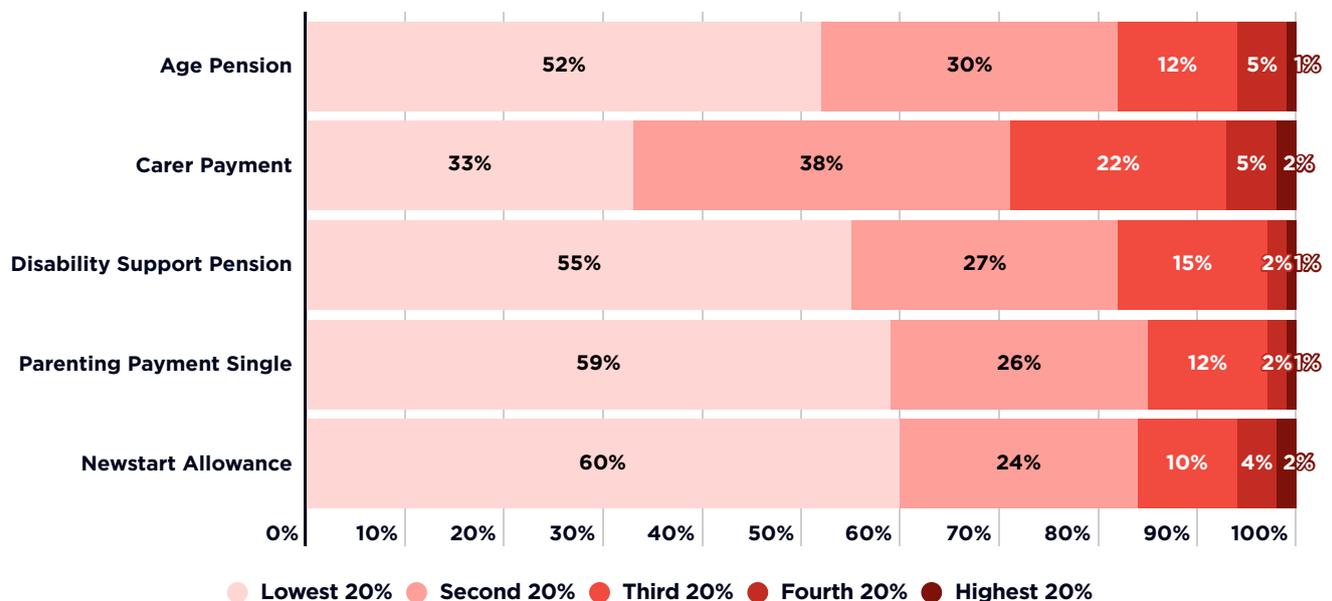
A more fine-grained view of social security payments (Figure 16) reveals that 60% of people in households whose reference person received Newstart Allowance (now JobSeeker Payment) were in the lowest 20%, along with 59% in the case of Parenting Payment, 55% for Disability Support Pension, 52% for Age Pension and 33% for Carer Payment.

Figure 17 shows that reliance on Newstart Allowance (now 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(JobSeeker) and Parenting payments account for these differences:<sup>41</sup>

- In the cameo households in the Summary, weekly after-tax incomes were \$360 for the single person on Newstart Allowance (JobSeeker Payment) compared with \$657 for the single parent with one child receiving Parenting Payment (which had to support a family of two).<sup>42</sup>
- The single person on Age Pension had a weekly income of \$585.

**Figure 16: Distribution of people by income support payment of household reference person (% of people in 2019-20)**



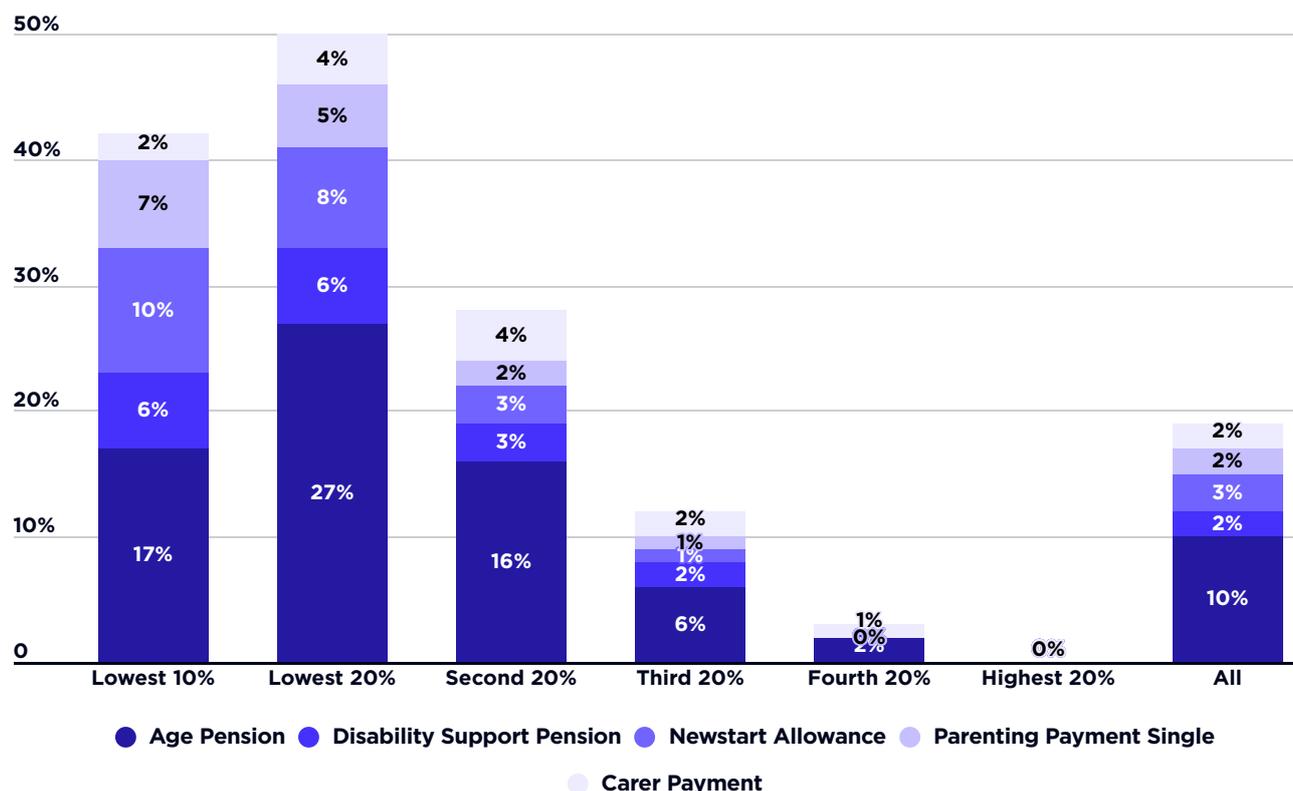
Note: Distribution across the income groups of people in households whose reference person received specified income support payments.

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

41 Davidson P et al (2022), *Poverty in Australia, who is affected?* ACOSS and UNSW Sydney.

42 The single parent was located in the lowest 10% despite having a higher income than the person on Age Pension. This is due to the downward adjustment to her income (equivalisation) to take account of the extra cost of the child.

**Figure 17: Receipt of income support by household reference person in each income group (% of people in 2019-20)**



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

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

### **After a decade of reductions in so-called 'middle-class welfare', only 56% of all children attracted FTB in 2019-20**

Figure 18 shows that 56% of children under 16 years attracted FTB Part A or Part B) in 2019-20:

- While all children under 16 in households in the lowest 20% of households ranked by income attracted FTB, this declined to 47% in the middle 20% and 9% in the highest 20%.

*In all sole parent families, 92% of children under 16 attracted FTB (since those families were concentrated in the lowest 40%) compared with 47% of all children in couple-with-children families.*

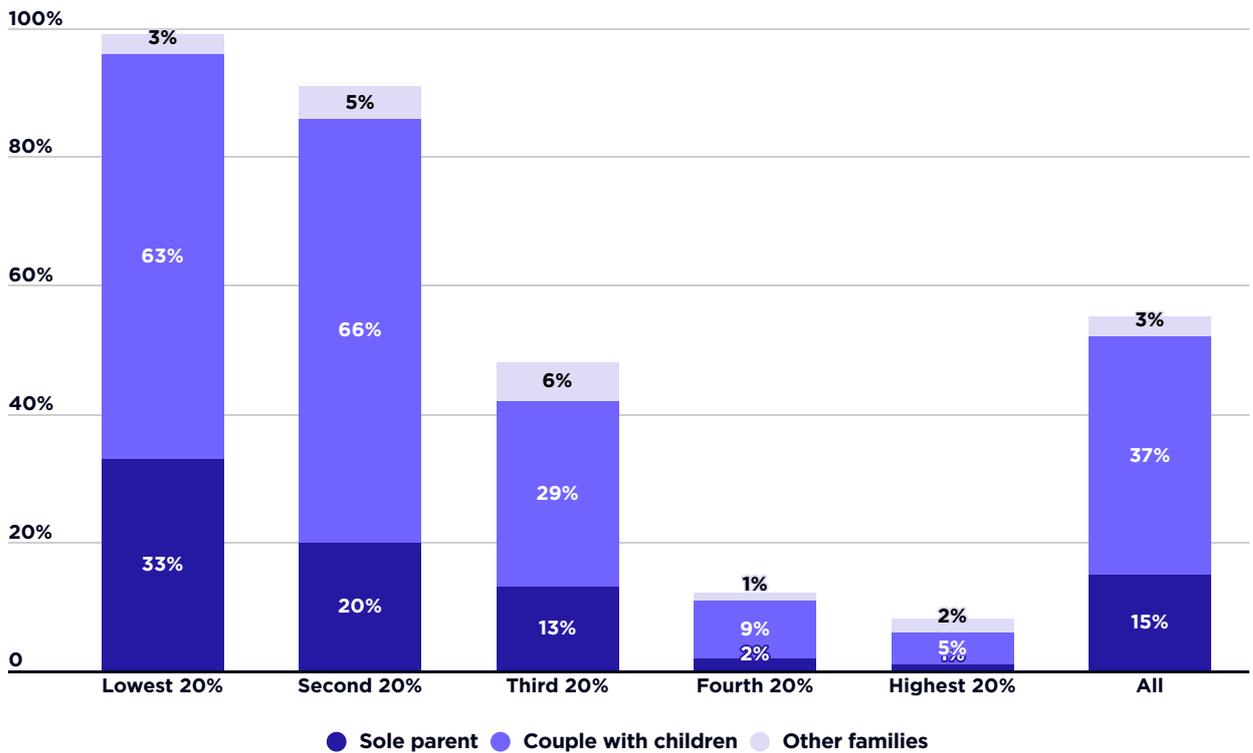
Figure 19 shows the sharp decline between 2009 and 2019 in receipt of FTB among middle-income families:

- The percentage of children under 16 in families in the middle 20% of

households ranked by income (light blue line) fell from 83% in 2009 to 56% in 2013 and stood at less than half (47%) in 2019.

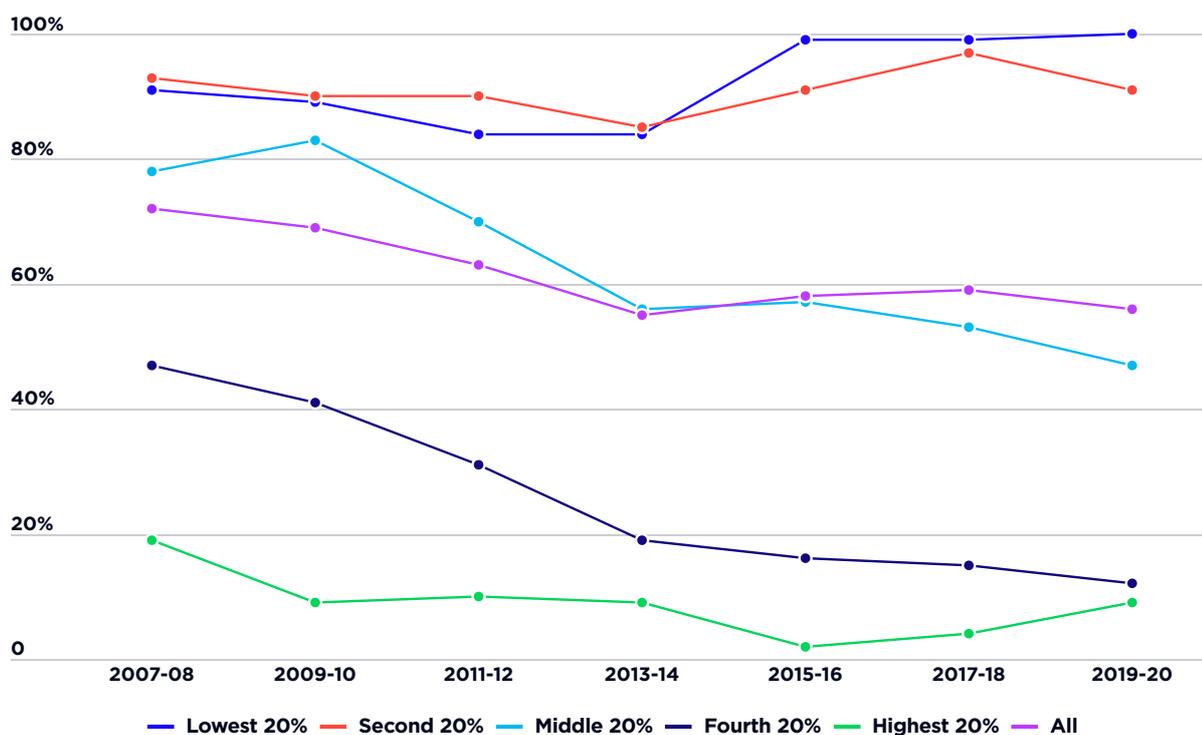
- Among households in the second highest 20% (dark blue line), the percentage of children attracting FTB declined from 41% in 2009 to 19% in 2013 and stood at just 12% in 2019.

**Figure 18: Percentage of children in each income group attracting Family Tax Benefit (% of all children in 2019-20)**



Note: Proportion of children under 16 in households receiving FTB, ranked by household equivalent disposable income.

**Figure 19: Percentage of all children in each income group attracting Family Tax Benefit, 2007 - 2019 (%)**



Note: Proportion of children under 16 in households receiving FTB, ranked by household equivalent disposable income.

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.<sup>43</sup>

In the mid 2000s, FTB (the current iteration of family payments) came under political attack as poorly-targeted ‘middle class welfare’:

- This 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.<sup>44</sup>

43 Daniels D (2009), [Social security payments for people caring for children, 1912 to 2008: a chronology](#). Parliamentary Library Background Note.

44 Whiteford P (2017), [‘Social security and welfare spending in Australia: Assessing long-term trends’](#). Tax Transfer Policy Institute Policy Brief 1/2017. Klapdor M (2021), *Social security and family assistance*. Parliamentary Library, Canberra.

### 1.3 Changes in individual earnings inequality over the past decade: did low unemployment make a difference?

As discussed previously, inequality of *individual earnings* has a major impact on *household income inequality*.

Recent evidence from the United States suggests that historically low unemployment in that country has substantially reduced earnings inequality.<sup>45</sup>

Last year the Australian government released its Employment White Paper in which it committed to return the labour market to full employment, that is, a labour market in which people searching for employment can find a job without taking too long and the available labour resources (workers and paid working hours) are fully utilised.<sup>46</sup>

Over the two-year period between June 2021 and June 2023, the unemployment rate averaged less than 4%, bringing Australia closer to full employment than at any time over the last 50 years.<sup>47</sup>

To shed light on the impact of a shift towards full employment in Australia on individual earnings inequality, in this part of the report we compare trends in individual earnings and earnings inequality over two periods:

- A period of low inflation, higher unemployment and wage stagnation before COVID (2012-19), and
- The more recent period of much lower unemployment, higher wage growth and inflation as the economy recovered from COVID lockdowns (2021-2023).<sup>48</sup>

Individual earnings inequality is the product of two factors, which we separate in this analysis:

- inequality of hourly wages, and
- variation in hours of paid work.<sup>49</sup>

45 At less than 4% of the labour force, unemployment was historically low in the United States during 2022 and 2023 (and somewhat lower than in Australia). Wages growth has been especially strong at the lower end of the earnings distribution. This has triggered research into the impact of a shift towards full employment on earnings inequality. Autor et al find that 'Disproportionate wage growth at the bottom of the distribution... reversed the rise in aggregate wage inequality since 1980 by approximately one quarter, as measured by the 90-10 ratio' (Autor D, Dube A & McGrew A 2023, '[The Unexpected Compression: Competition at Work in the Low Wage Labor Market](#)'. MIT Working Paper, March 2023, p34. See also Bernstein J & Bentele (2019), '[The increasing benefits and diminishing costs of running high-pressure labour market](#)'. Centre on Budget and Policy Priorities. Washington.

46 Australian government (2023) [Working Future](#), Canberra.

47 ABS, *Labour Force*, Australia.

48 A previous report in this series examined income inequality during and immediately after the COVID recession (2019 to 2021) - see Davidson, P, (2022) [A tale of two pandemics: COVID, inequality and poverty in 2020 and 2021](#) ACOSS/UNSW Sydney.

49 We measure changes in earnings inequality by comparing the distribution of hourly and weekly earnings at different points in time, noting that the location of employees and jobs within those earnings distributions changes over time (since these data do not track earnings growth for individuals).

A complex range of factors influence changes in the earnings distribution, including changes in average hourly

## **The backdrop: earnings inequality increased from the 1970s to the 2000s**

Researchers have generally found that individual earnings inequality in Australia and other wealthy nations increased between the 1970s and 2000s. They attribute this to a range of factors including:

- Skill-biased technological change favouring workers with higher qualifications and skills;
- A shift in the balance of power in the workplace favouring employers over unions, attributed to changes in workplace relations institutions and laws;
- Changes in the industry and occupational composition of employment, such as growth in low-paid service industry employment at the expense of jobs in manufacturing.<sup>50</sup>

Less attention has been paid to the impact of the rise in unemployment and underemployment in most wealthy nations since the 1970s on earnings inequality.

## **Earnings growth was generally weaker over the past decade (since 2012) than the previous one (before 2012)**

Figure 20 shows annual growth in average hourly earnings, paid hours per worker and inflation since 2000. It identifies the abovementioned ‘period of stagnation’ (2012-2019) and the recent ‘period of higher wage growth and inflation’ (2021-2023):

- The peak in hourly earnings growth and sharp fall in average hours per worker in 2020 are due to the COVID recession and the introduction of the JobKeeper wage subsidy to buoy earnings at that time.<sup>51</sup>

## **During the period of stagnation from 2012 to 2019, average earnings were**

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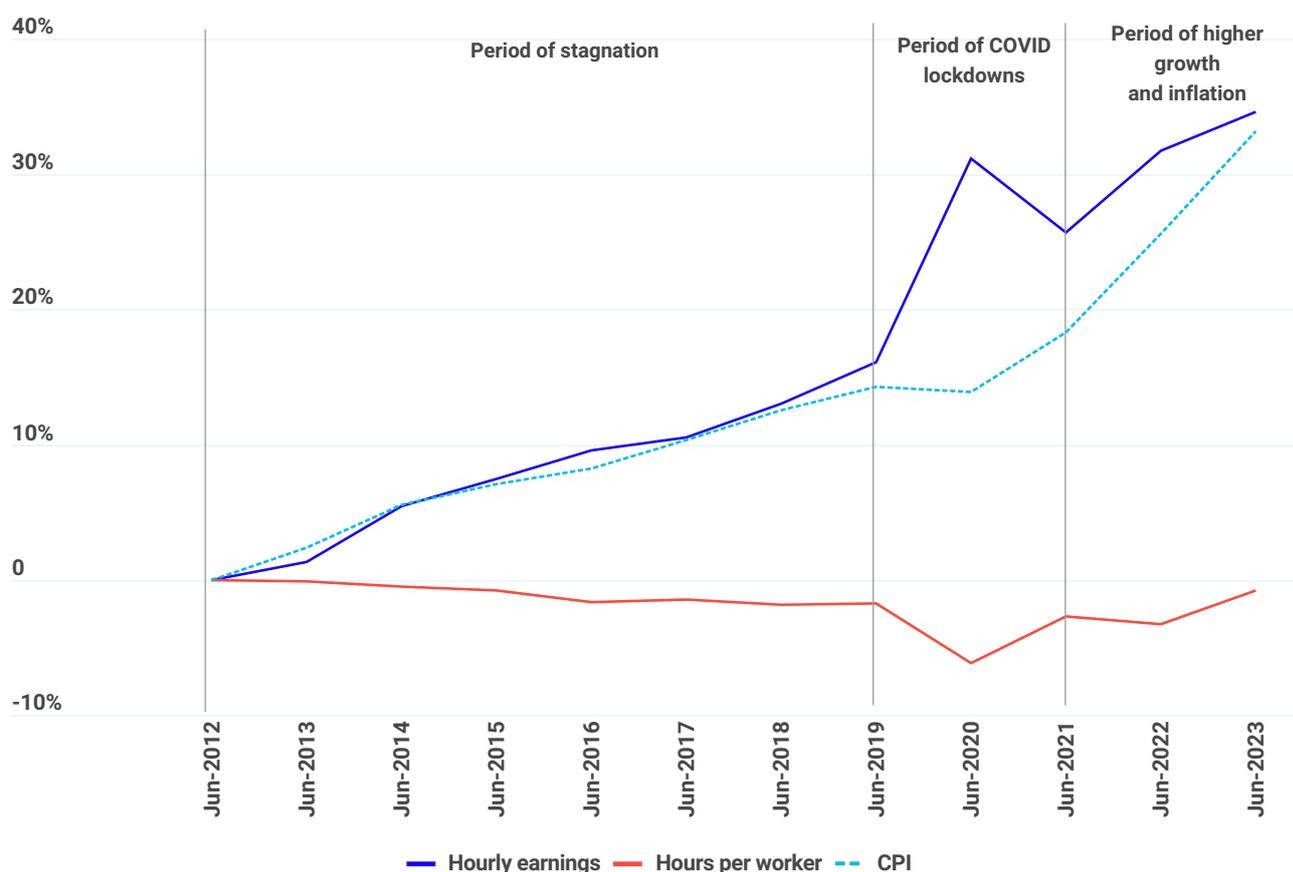
earnings and paid working hours for different occupations, changes in the composition of employment (for example the relative growth in higher and lower-skilled jobs) and labour mobility (including transitions between unemployment, outside the labour force and employment, job switching and promotions).

As discussed previously, earnings inequality among households (not examined in this part of the report) is also influenced by the distribution of individual earnings across households. For example, a young person in low paid part-time employment might belong to a household with higher-paid parents.

50 For analyses of factors contributing to earnings inequality, see for example Autor D et al (2006). ‘The Polarization of the U.S. Labor Market.’ *American Economic Review*, Vol 96 No2 pp189-194; Coelli M & Borland J (2016), ‘Job Polarisation and Earnings Inequality in Australia,’ *Economic Record* Vol 92 No 296; Giupponi G & Machin S (2022), *Labour market inequality*, Institute of Fiscal Studies. London.

51 Davidson P (2022), *ibid*.

**Figure 20: Hourly earnings, working hours per worker and inflation**



Sources: ABS Labour account; ABS Australian National Accounts, Distribution of income, consumption and wealth.

**frozen (just keeping up with inflation).**

Professor Ross Garnaut referred to this period as the ‘dog days’ and there was much debate at this time around the causes of pay stagnation.<sup>52</sup>

During the period of stagnation, average hourly earnings for all employees rose by an average of 2.2% a year, just above inflation (1.9%) but average paid hours per worker fell by 0.3% a year:<sup>53</sup>

- Consequently, average weekly earnings for all employees (including those employed part-time) rose by 1.9% a year, just equal to inflation.

**Through most of the period of stagnation, earnings inequality lessened as wages grew very slowly across the pay scale.**

52 Garnaut R 2021, *Reset - Restoring Australia after the Pandemic Recession*. Black Ink Books. Melbourne; Stewart A Sandford J & Hardy T (2018), *The wages crisis in Australia*. University of Adelaide Press; Weir G (2018), *Wage growth puzzles and technology*. RBA Research Discussion Paper 2018-10.

53 ABS Labour account

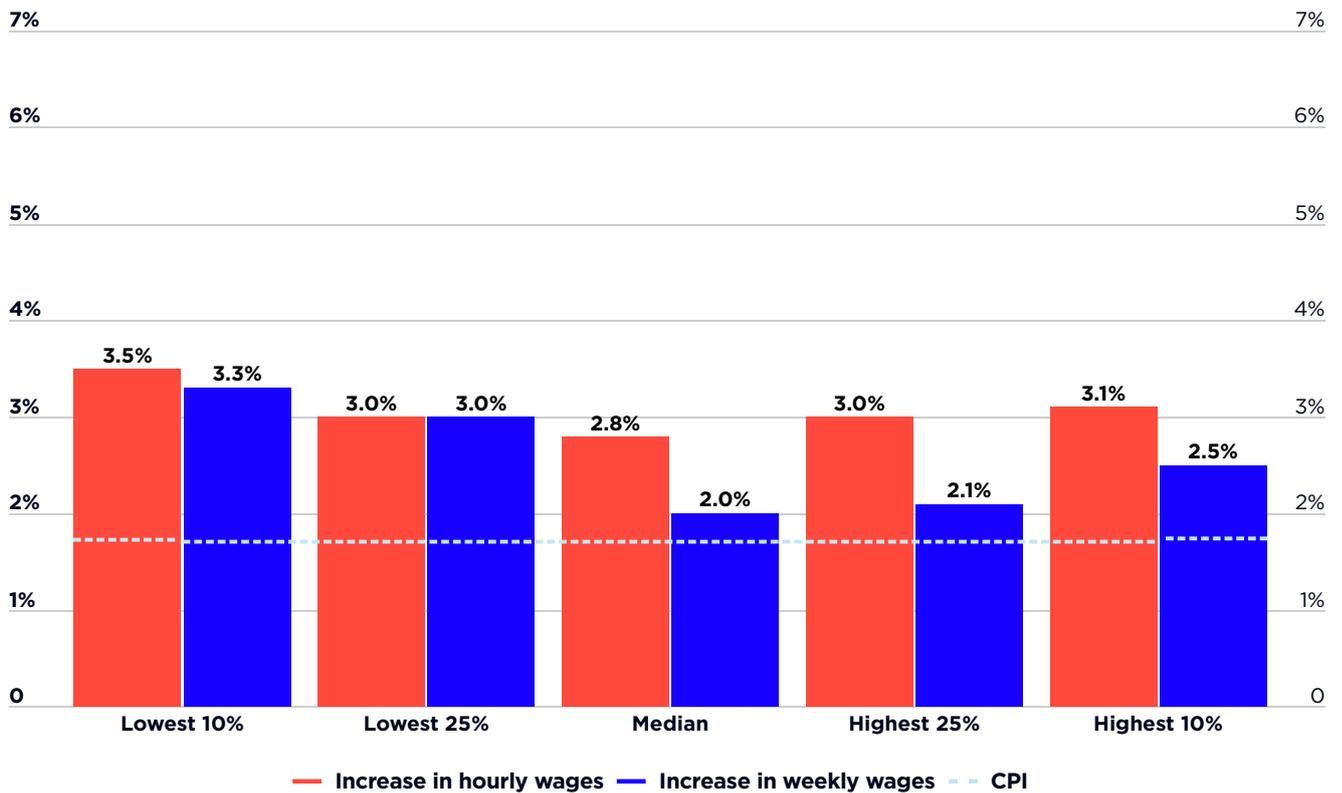
Figure 21 shows the average annual increases in hourly (red bars) and weekly earnings (dark blue bars) for all employees *from 2014 to 2019* and average annual inflation over that period (light blue line).<sup>54</sup>

- Growth in hourly earnings favoured low-paid and high-paid workers over those in the middle of the earnings distribution.
- Hourly earnings at the upper bound of the lowest 10% of the distribution (D10) and the lower bound of the highest 10% (D90) grew by 3.5% and 3.1% respectively, slightly faster than those of the median worker (D50) at 2.8%, though in all cases growth was not much above inflation (which averaged 1.7% per year over this period).
- Growth in weekly earnings was slower than hourly earnings, as overall paid hours per worker declined in a weak labour market. This impacted the upper end of the weekly earnings scale more than the lower end, so growth in weekly earnings at the upper bound of the lowest 10% was higher (3.3%) than the median worker (2%) and the lower bound of the highest 10% (2.5%).<sup>55</sup>

54 Comparable data on earnings inequality for the whole period from 2012-2019 were not available. Note that inflation was slightly less between 2014-2019 (1.7% per year on average compared with 1.9%) so real wages grew slightly over the latter period.

55 From 2014 to 2019, there was a growing 'shortage' of paid working hours as underemployment (employees seeking but not securing more paid hours) rose from 7.5% to 8.3% of the labour force. The reason for relatively weak growth in wages at the upper end of the earnings scale is not clear. One possible explanation is compositional changes in employment (e.g. stronger growth in part-time rather than fulltime employment shifting the earnings distribution downwards).

**Figure 21: Average annual increase in earnings and inflation from 2014-2019 (%)**



Source: ABS, 6337 *Employee Earnings*. Total cash earnings in main job (including part-time workers and overtime); August to August each year.

Note: Average annual increases in pay at different points in the earnings distribution between 2014 and 2019 (e.g. Lowest 10% = the upper bound of the lowest 10% of the earnings scale; median = the median worker). Since the same people were not in the same places in the earnings distributions in 2014 and 2019, increases do not represent changes in individual earnings. Instead, they show whether growth was skewed towards the lower, middle or upper ends of the earnings scale.

**During the recent period of lower unemployment from 2021 to 2023, average earnings grew more strongly but inflation grew faster.**

Supported by the economic stimulus from COVID income supports and very low interest rates, employment grew strongly over the two years from 2021 to 2023. Unemployment reached its lowest level for 50 years and averaged 3.8% over the two-year period from June 2021 and June 2023, while underemployment (the proportion of the labour force employed but unable to secure the extra paid working hours they seek) was also historically low at an average of 6.5% of the labour force.<sup>56</sup>

<sup>56</sup> ABS, *Labour Force*, Australia. During the period of stagnation from 2012-2019, unemployment averaged 5.5%

From 2021-2023 hourly earnings rose relatively strongly (by 3% per year) as did average paid hours per worker (by 1.7% per year) but consumer prices rose much faster (by 6.3% per year, on average).<sup>57</sup>

- Consequently, average weekly total earnings for all employees *declined substantially after inflation* over this two-year period despite an increase in average paid working hours per employee. People were working longer hours but their earnings were still falling behind growth in consumer prices.<sup>58</sup>

### **During this period of lower unemployment, earnings inequality declined as weekly wages for low-paid workers grew at one-and-a-half times the rate of high-paid workers**

Figure 22 shows increases in earnings and inflation (on a similar basis to the previous graph) for the period from June 2021 to June 2023.

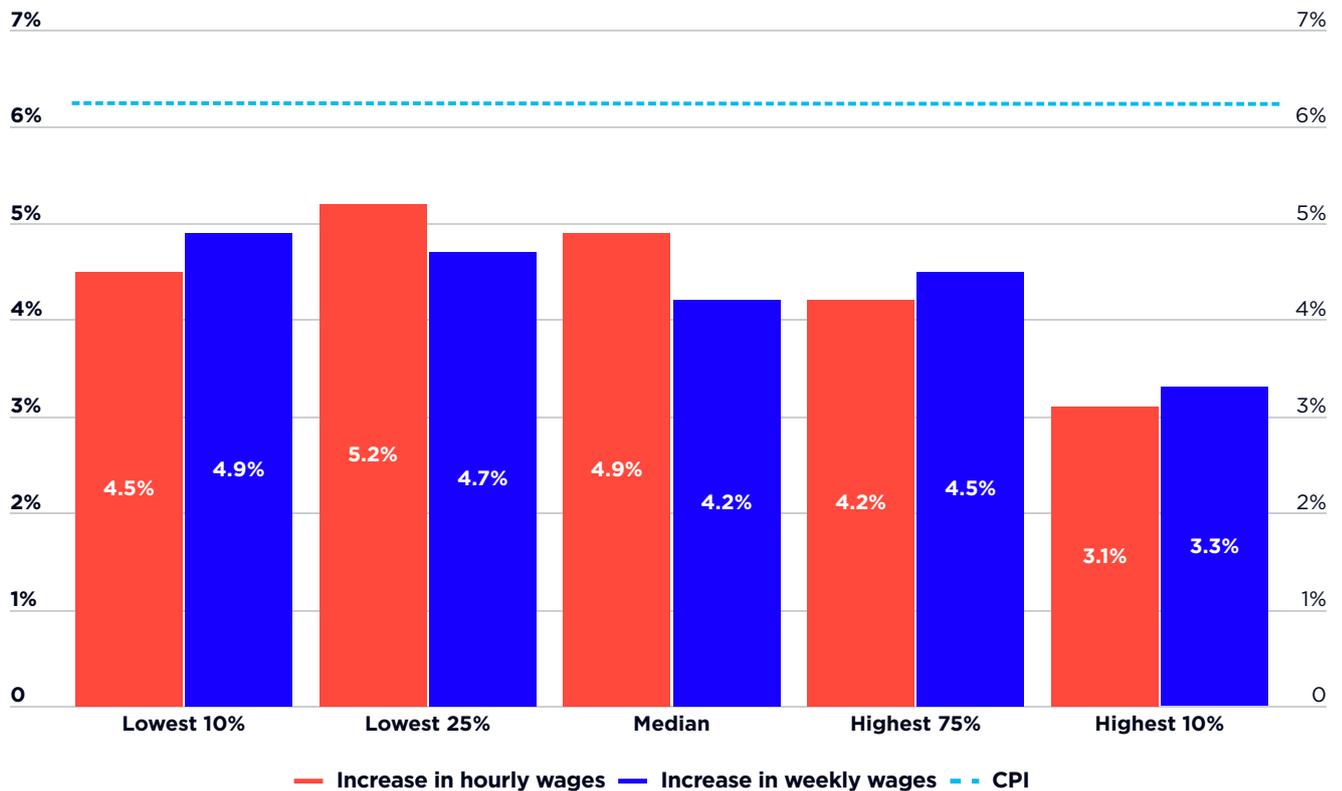
- *Hourly* earnings grew fastest around the middle of the distribution (by 4.9% for the median worker) and also grew strongly for low-paid workers (by 4.5% for the upper bound of the lowest 10%). They grew more slowly for high-paid workers (by 3.1% at the lower bound of the highest 10%).
- Growth in *weekly* earnings was skewed towards lower paid workers, significantly reducing weekly earnings inequality. For low-paid workers weekly wages grew faster than *hourly* earnings (4.9% compared with 4.5%) indicating that they particularly benefited from additional paid working hours in a tight labour market. Growth in weekly earnings was slower for the median worker (4.2%) and high-paid workers (3.3%).
- However, pay for workers across the earnings distribution generally fell behind inflation as indicated above.

and underemployment averaged 8.2%.

<sup>57</sup> Overall wage growth failed to keep up with inflation despite a tight labour market, due in part to lags in re-negotiating enterprise agreements and caps on public sector wage rises (Borland J 2023, [Why is wage growth so low when unemployment is 3.5%?](#) ABS-RBA conference, Sydney March 2023).

<sup>58</sup> The cumulative reduction in average earnings for all workers was 4.3% over this two-year period, despite the increase in average hours worked per employee. On another measure - average weekly ordinary time earnings - the reduction in average earnings after inflation over this period was 6% (Beggs M 2024, 'Monetary policy,' *Journal of Australian Political Economy*, Vol 92 pp166-188).

**Figure 22: Average annual increase in earnings and inflation from 2021-2023 (%)**



Source: ABS 6337.0 *Employee Earnings*. Total cash earnings in main job (including part-time workers); August to August each year.

Note: Average annual increases in pay at different points in the earnings distribution (e.g. Lowest 10% = the upper bound of the lowest 10% of the earnings scale; median = the median worker).

Since the same people were not in the same places in the earnings distributions in 2014 and 2019, increases do not represent increases in individual earnings. Instead, they show whether growth was skewed towards the lower, middle or upper ends of the earnings scale.

### **One reason for the recent decline in earnings inequality is that employment opportunities improved the most for lower-skilled workers**

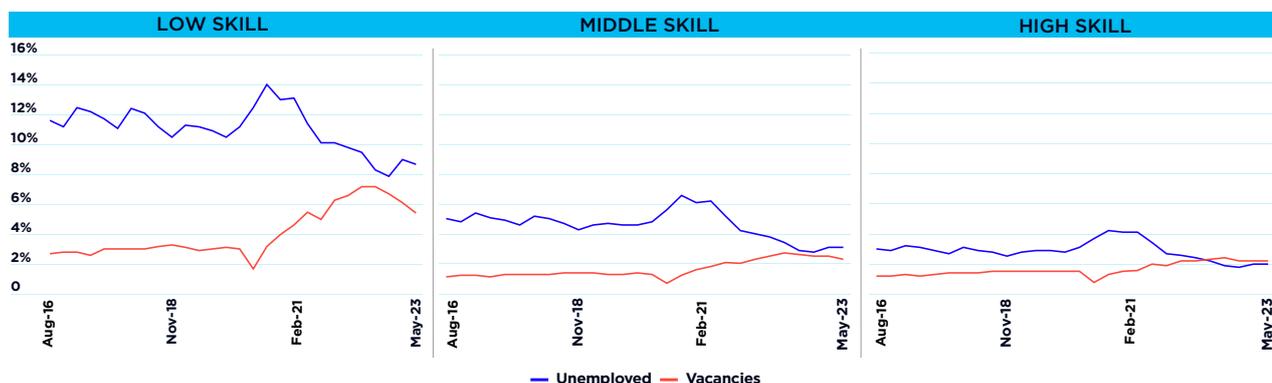
Figure 23 shows that from the COVID recession in 2020 through to 2023, the greatest reduction in unemployment and the greatest increase in job vacancies were in low-skilled employment, for which:

- unemployment fell from 14% to 9%, and
- job vacancies rose from 2% of all employment to 5.5%.

Together with minimum wage decisions, this helps explain the reduction in earnings inequality over the recent period.<sup>59</sup>

59 The Fair Work Commission increased the national minimum wage by 5.2% in 2022 and 5.75% in 2023. (Fair Work Commission, [Annual wage review, summary of decision](#)).

**Figure 23: Average annual increase in earnings and inflation from 2021-2023 (%)**



Source: Australian government (2023), *Working Future, Employment White Paper*. Canberra.  
 Note: Unemployment and job vacancies as a percentage of the labour force.

### The gender pay gap also declined over the last two years

Female employees are concentrated towards the lower end of the weekly earnings scale, due to a combination of lower hourly earnings and fewer paid hours. In May 2023, average weekly earnings for women (including those employed part-time) were \$1,262 compared with \$1,731 among men.<sup>60</sup>

The difference between these amounts – the gender wage gap – fell from 30% in May 2021 to 27.5% in May 2023, the fastest rate of decline in a two-year period over the last decade.<sup>61</sup> This was likely due to a combination of reduced inequality of hourly pay and increased paid working hours among women who were employed part-time.

### The recent decline in earnings inequality points to the benefits of full employment in reducing income inequality.

A shift towards full employment could reduce income inequality in two ways:

1. by lifting people out of unemployment, increasing the lowest household incomes; and
2. by reducing earnings inequality among workers already employed.

The evidence outlined here is consistent with the findings of Professor Jeff Borland that the recent episode of low unemployment and underemployment disproportionately benefited low-paid and unemployed workers.<sup>62</sup>

60ABS 2023, [Gender pay gap guide](#)

61 Difference between average weekly female and male cash earnings for all employees, including those employed part-time (ABS 2023, *ibid*).

62 Borland J (2023), 'What happens in a strong labour market.' *Labour market snapshot #95*, Department of Economics, University of Melbourne. Borland argues that the recent episode of low unemployment and

Regrettably, the income gains from the tight labour market of the past two years were more than offset by the surge in inflation, for which the main 'cure' in present monetary policy settings is to slow the pace of economic growth and increase unemployment.<sup>63</sup>

underemployment disproportionately benefited low-paid and unemployed workers.

63 This is despite the absence of a 'wage-price spiral' in the current inflationary episode, the main justification in the past for policies that increased unemployment to curb inflation. For a discussion of tensions between price stability and full employment and the preeminence of inflation targeting in monetary policy settings since the 1990s, see Beggs M (2024), 'Monetary policy,' *Journal of Australian Political Economy*, Vol 92 pp166-188.



# Part 2: Wealth inequality

In Infographic 2 in the Summary, we ranked households into three groups based on their level of wealth:

- the 'highest 10%', with assets worth \$2,566,000 or more;
- the 'upper middle', with assets of \$919,000 to \$2,566,000;
- the 'lowest 60%', with assets below \$919,000.

We use the same breakdown in the analysis below. 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 concentrated towards the top of the distribution.

## The highest 10% had 15 times the wealth of the lowest 60%

Table 2 shows that the average wealth of the highest 10% was \$5,220,000, which was:

- more than three times that of the upper middle (\$1,496,000);
- 15 times that of the lowest 60% (\$343,000).

Around half of all household wealth is in owner-occupied housing (with a lower proportion for wealthy households).

**Table 2: Minimum and average wealth across the wealth distribution in 2022-23**

	Lowest 20%	Second 20%	Third 20%	Fourth 20%	Highest 20%	Low wealth (lowest 60%)	Upper middle (next 30%)	High wealth (highest 10%)	All
<b>Average wealth, net of debt (\$)</b>	\$41,000	\$298,000	\$690,000	\$1,226,000	\$3,627,000	\$343,000	\$1,496,000	\$5,220,000	\$1,176,000
<b>Lower bound (\$)</b>	-\$1,620,000*	\$130,000	\$492,000	\$919,000	\$1,650,000	-\$1,620,000*	\$919,000	\$2,566,000	
<b>Average owner-occupied housing wealth (\$)</b>	-\$1,000	\$101,000	\$370,000	\$625,000	\$1,307,000	\$156,900	\$733,400	\$1,663,900	\$480,400
<b>Change since 2003 (%)</b>	17%	47%	61%	70%	82%	55%	73%	84%	74%
<b>Share of overall increase in wealth since 2003 (%)</b>						16%	36%	45%	100%

Note: Average and minimum wealth levels (net of debt) for households ranked by net wealth. Rankings are not equalised (adjusted for household size).

\* Unusually, the lowest-ranked household had over a million dollars more debt than wealth.

## 2.1 Wealth inequality by source

### **The main sources of wealth inequality are owner-occupied housing and financial assets (such as shares)**

In 2022-23, the Gini coefficient of wealth inequality was 0.6 (almost twice the 0.32 we estimated for after-tax income).

Figure 24 shows the contribution of different asset types to overall wealth inequality (right columns), of which:

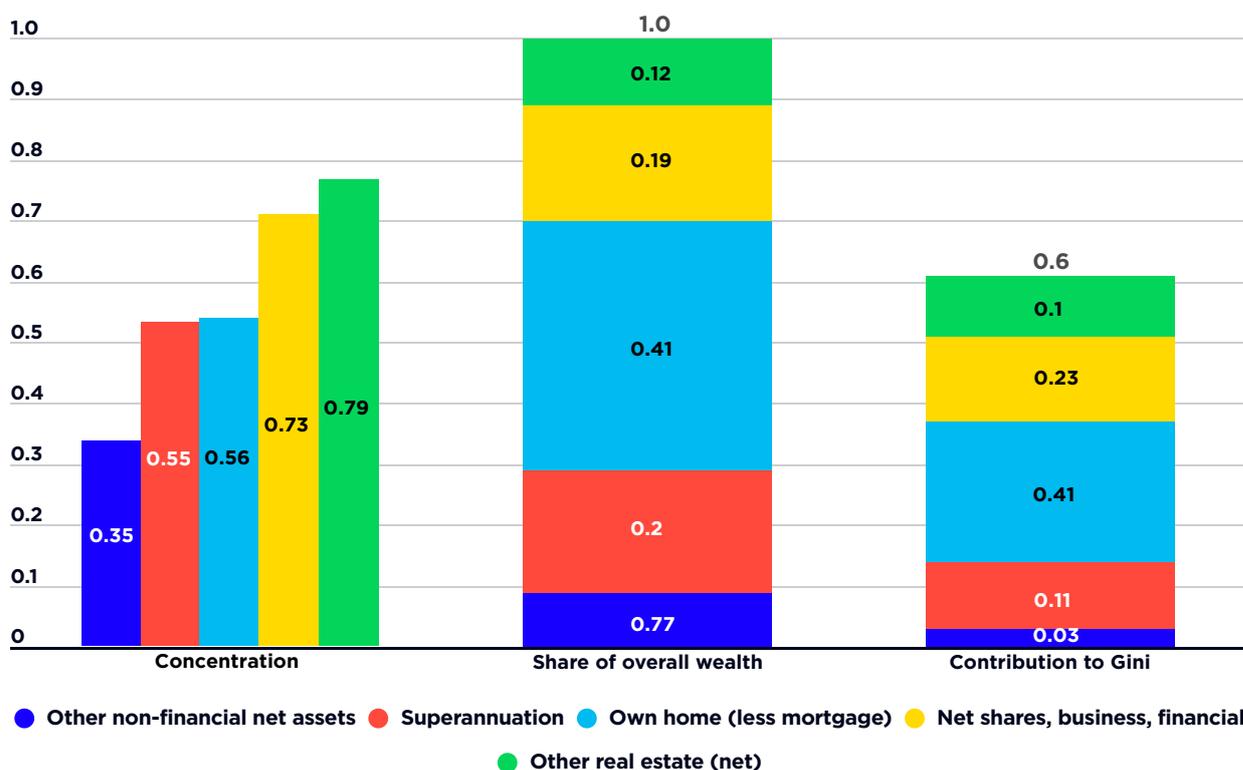
- 38% was due to the unequal distribution of owner-occupied housing wealth;
- 23% was due to shares, business and other financial wealth;
- 18% was due to superannuation;
- 17% was due to investment property and 5% to other non-financial wealth.

An asset type's contribution to wealth inequality is the product of its relative size (its share of overall wealth, shown in the middle columns) and how unequally the asset is distributed among households of different total wealth levels (its 'concentration', shown in the left columns).

When we compare the size of each asset type and its concentration, we find that:

- The main reason for owner-occupied housing's outsized contribution to wealth inequality is the size of wealth holdings in that form (0.41 or 41% of all wealth) rather than its concentration (0.56).
- The main reason that shares and other financial wealth make a large contribution to overall wealth inequality is that they are concentrated in the hands of wealthy households (a concentration index of 0.73) rather than its size (0.19 or 19% of all wealth).

**Figure 24: Contribution of each asset type to overall wealth inequality in 2022-23**



Note: This graph shows the level of inequality (concentration) within each wealth component (left columns), each component's share of overall wealth (middle column) and their contributions to overall wealth inequality (right column) as measured by the Gini coefficient (which was 0.60). Numbers in the right column do not add up exactly to 0.60 since we haven't taken account of the distribution of debt not linked to any of these components.

The Gini coefficient is a measure of inequality which varies from zero (where wealth is equally distributed) to one (where all wealth is held by a single household).

### Almost half of all wealth is owned by the highest 10%

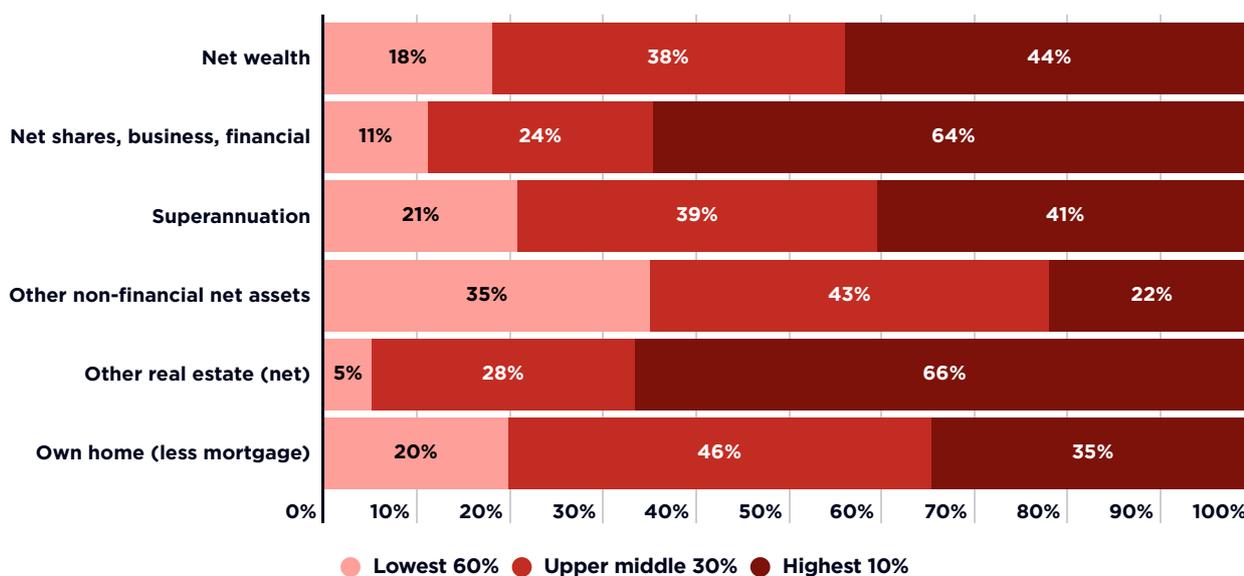
The highest 10% had 44% of all household wealth and the upper middle (the next 30%) had 38%, leaving the remaining 60% with just 18% (Figure 25):<sup>64</sup>

- Ownership of shares and other financial assets and investment property were particularly skewed towards the top. The highest 10% held 64% and 66% of these assets respectively.

Ownership of superannuation and owner-occupied homes was somewhat less concentrated, with 41% and 35% respectively held by the highest 10%.

<sup>64</sup> These data come from the ABS Income and Housing household survey, which is likely to underestimate the wealth of the very wealthy. See Katic P & Leigh A (2016), '[Top wealth shares in Australia: 1915-2012](#).' Review of Income and Wealth Series 62, No 2.

**Figure 25: Distribution of wealth by source across wealth groups in 2022-23**



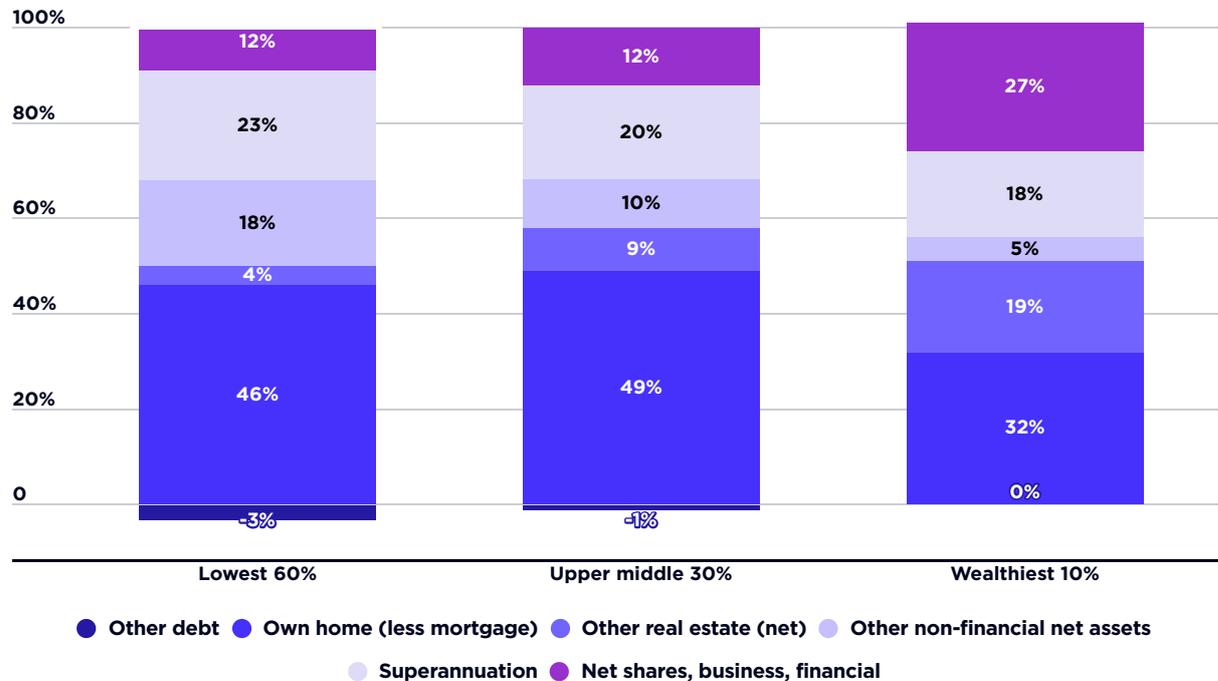
Note: Percentage of all wealth by source, across three household wealth groups. Wealth is adjusted for associated debt.

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

Figure 26 profiles the wealth of the three wealth groups:

- Of the assets of the highest 10%, 27% was shares and other financial assets and 19% was in investment property compared with 32% in their homes and 18% in superannuation.
- Among the upper middle group, a lower percentage of wealth was held as shares and other financial assets (12%) and investment property (9%). Owner-occupied housing (49%) and superannuation (20%) were more prominent.
- Owner-occupied housing was less prominent in the wealth of the lowest 60% (comprising 46% of all assets), compared with superannuation (23% of their wealth) and other non-financial assets such as cars (18%).

Figure 26: Profile of wealth of each wealth group in 2022-23



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

## 2.2 Wealth inequality by age

The fairness of the intergenerational distribution of wealth is much debated, as a growing share of wealth accrues to older households while young people are locked out of that fundamental marker of wealth in Australia, home ownership.<sup>65</sup> Careful analysis of the wealth divide reveals that wealth inequality is not all about differences between age groups – there are also sharp divides *within* each age group.

In the following analysis, we compare average wealth among three age groups based on the age of the household reference person ('younger' under 35 years, 'middle aged' 35-64 years and 'older' 65 years and over) in conjunction with the distribution of wealth across three wealth groups (the lowest 60%, the 'middle' 30% and 'wealthy' households in the highest 10%).<sup>66</sup>

65 Think Forward (2023), [Bridging the Generational Gap: Perspectives on Tax Reform from Gen Z and Millennials](#). Grattan Institute (2019), [Generation gap: ensuring a fair go for younger Australians](#). Melbourne.

66 The reference person is usually the highest income-earner in the household, See the 'How we measure inequality' section. Since the reference person in 'young' households is under 35 years, they do not generally include young people living with their parents.

## Average wealth grows markedly with age

In 2022-23, the average older household (with reference person 65 years or more) was 25% wealthier (with \$1,584,000) than the average middle-aged household (35-64 years with \$1,265,000) and almost four times as wealthy as the average younger household under 35 years with \$410,000.

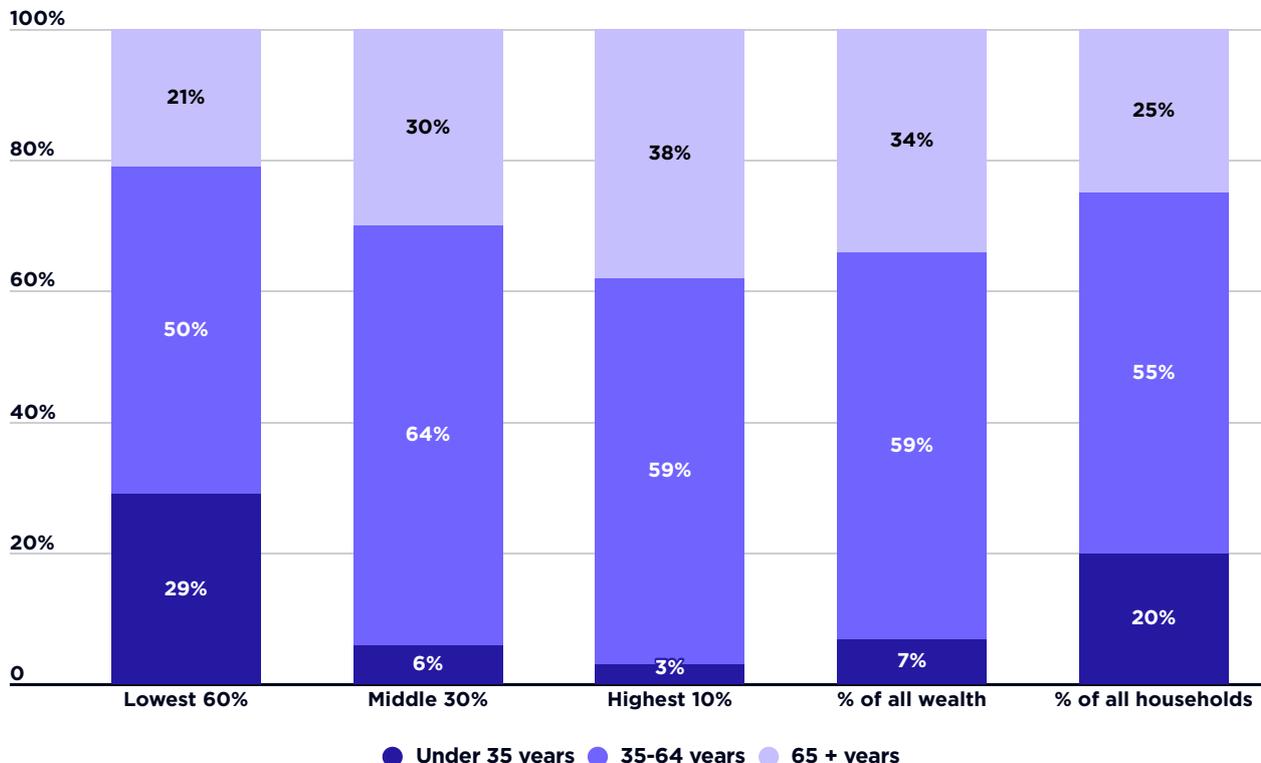
Figure 27 shows how all household wealth is divided according to age, and by age within each of the three wealth groups described above:

- 34% of all wealth is held by the 25% of older households, compared with 59% held by the 55% of middle-aged households and just 7% by the 20% of younger households (see last two columns).

Broadly speaking, we would expect people to accumulate more wealth as they grow older, but the concentration of wealth in the hands of older households within the highest 10% (those with assets worth at least \$2.5 million) is noteworthy. Figure 23 shows that in 2022-23:

- Older households had almost four-tenths (38%) of the wealth of wealthy households though they were only 25% of the overall population.

**Figure 27: Share of wealth in each wealth group, by age in 2022-23**



Note: Share of all wealth in each wealth group (and of overall wealth), by age of household reference person.

Wealth is adjusted for associated debt.

For a definition of the household reference person see 'Measuring inequality' above. Since the reference person in 'young' households is under 35 years, they do not include young people living with their parents.

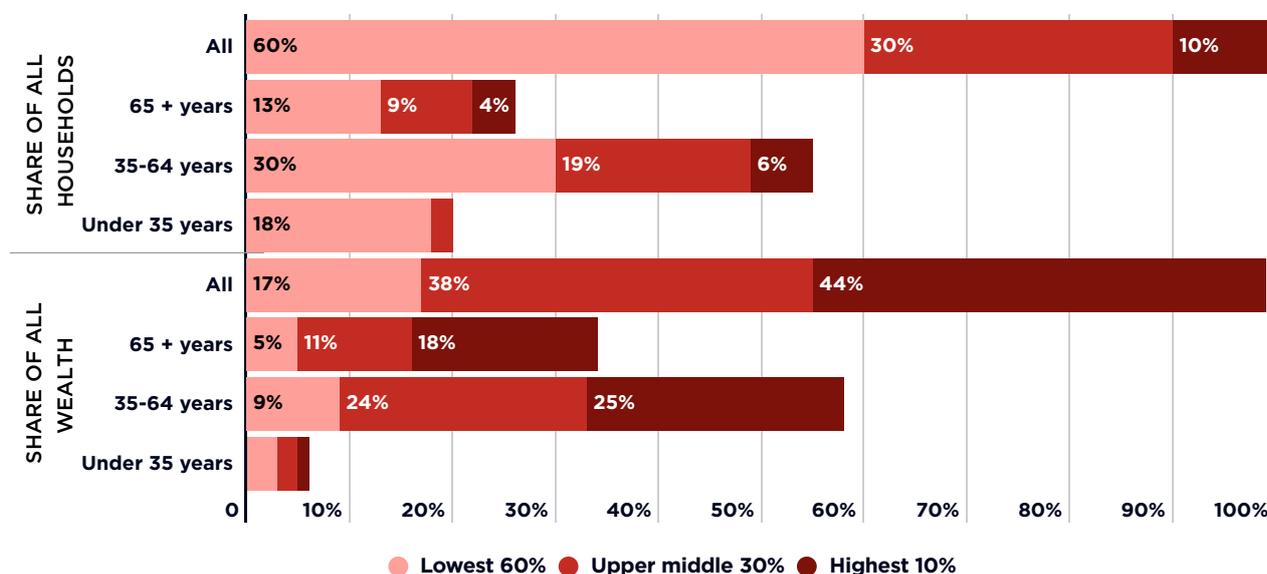
The highest 4% of wealthy older households, with average wealth of \$5.7 million, hold 18% of all wealth

Figure 28 shows in more detail how household wealth is divided by wealth and age group. In the top half of the graph, we divide the total population into the three age groups and three wealth groups. In the lower half we show the percentage of overall wealth held by each of the resulting nine age-based wealth groups.<sup>67</sup>

The highest 10% of all households had 44% of all wealth, broken down by age as follows:

- 367,000 ‘wealthy older’ households (comprising 4% of all households, with average wealth of \$5.7 million) held 18% of all household wealth.
- 572,000 ‘wealthy middle aged’ households (comprising 6% of all households, with average wealth of \$5 million) held 25% of all wealth.
- 34,000 ‘wealthy young’ households (comprising just 1% of all households, with average wealth of \$4.6 million) held 1% of all wealth.

**Figure 28: Share of all households and all wealth, by wealth group and age in 2022-23**



Note: These are shares of overall wealth, rather than shares of wealth within each age group.

Top three bars = Share of households in different age and wealth groups, with households sorted into three overall wealth groups, so all numbers add to 100%.

Lower three bars = Share of all wealth held by households in different age and wealth groups, with households sorted into three overall wealth groups, so all numbers add to 100%.

Wealth is adjusted for associated debt.

Households are sorted into age groups according to age of household reference person (for definition of reference person, see ‘Measuring inequality’ above. Since the reference person in ‘young’ households is under 35 years, they do not include young people living with their parents.)

<sup>67</sup> We discuss the distribution of wealth *within each age group* later.

**Income tax is a key tool to reduce wealth inequalities since it taxes the flow of income from investment assets, but *wealthy older households* paid tax at lower rates than other wealthy households.**

Income tax is a key policy tool to reduce inequalities of wealth as well as income, since it applies to income derived from investments, thereby slowing wealth accumulation.<sup>68</sup> Figure 29 shows the average rates of income tax paid by households (not individuals) of different ages in 2019-20, and the percentage of those households that paid any income tax.<sup>69</sup>

As expected, average tax rates were lower for older households since only a minority paid income tax due to their lower average incomes:

- The average tax rate for older households was 9% compared with 19% for younger households and 21% for middle aged households.
- Only 28% of older households paid any income tax compared with 88% of younger households and 85% of middle aged households.
- For comparison, only 17% of individuals aged 65 years and over paid income tax. Households are more likely than individuals to pay some income tax where they have more than one member (e.g. an older couple).<sup>70</sup>

Less expected is the low average tax rate for *wealthy older households* (those in the highest 10% with over \$2.5 million in wealth, whose average wealth was \$5.7 million):

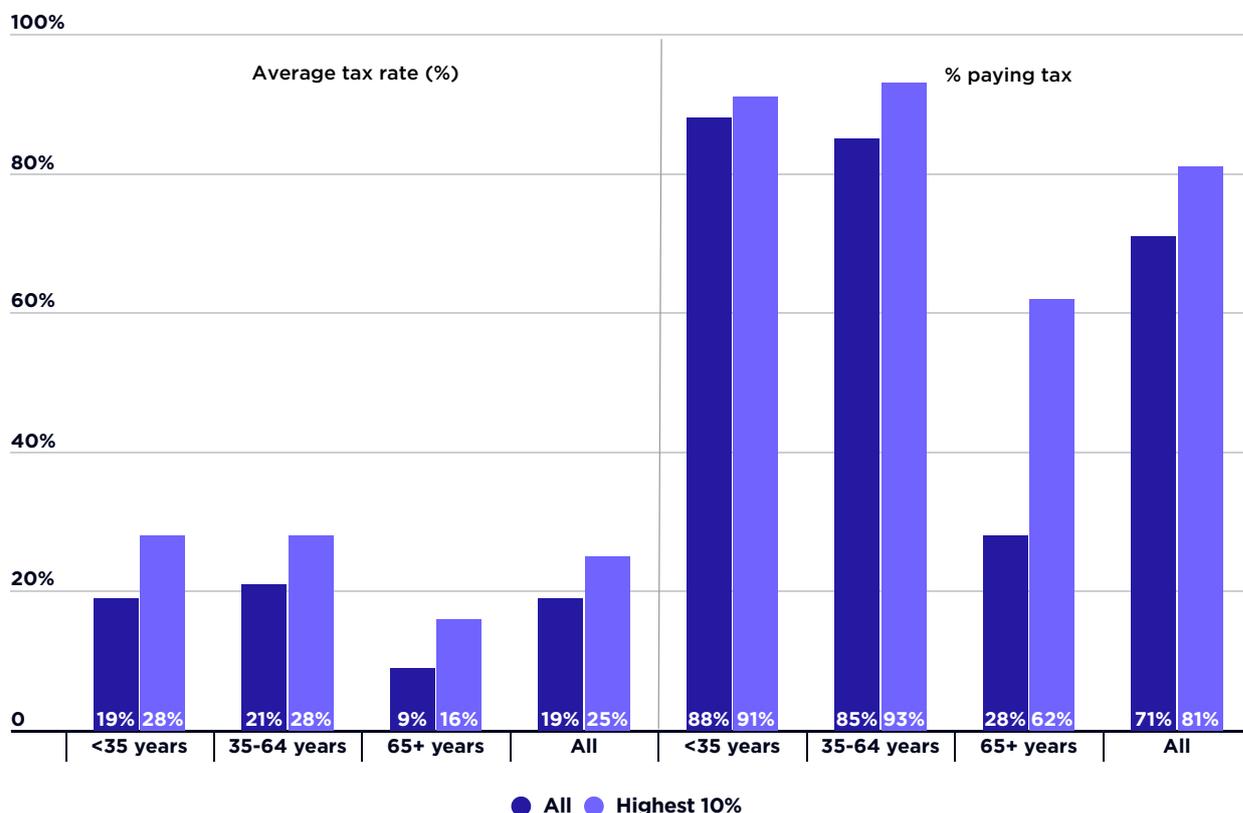
- Their average tax rate was 16% (compared with 28% for both younger and middle aged households in the highest 10% by wealth).
- Only 62% of wealthy older households paid any income tax (compared with 91% of wealthy young households and 93% of wealthy middle aged households).

68 Saez E, Piketty T & Zucman G (2023), *Rethinking capital and wealth taxation*. Oxford Review of Economic Policy, Vol 39, pp575-591.

69 The average tax rate is the percentage of all income paid in tax, not the marginal tax rate (the rate of tax for the next dollar of income, which is generally much higher). These data are for 2019-20, not 2022-23 as for our other wealth data. Given changes in tax rates and thresholds since 2019, we have not projected these tax calculations forwards to 2022-23

70 Estimate provided by Grattan Institute.

**Figure 29: Income tax paid by wealth group and age in 2019-20 (%)**



Note: Average tax paid in 2019-20 as a percentage of before-tax income (left side) and percentage paying any income tax (right side) for all households by age of reference person (dark blue columns), and for the highest 10% of households ranked by wealth (with net wealth over \$2.5 million – lighter blue columns), divided into age groups.

Average tax rates are lower than marginal tax rates as they are the average rate of tax on all income, not the marginal tax rate on the highest slice of income, which may be as high as 49% including Medicare Levy.

These are tax rates paid by households rather than individuals, so they are affected by the division of income within households.

With the exception of older households, most tax would be paid on earnings rather than investment income derived from wealth (e.g. superannuation pensions, dividends, or rent from investment properties).

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 the lower tax rates of wealthy older households is that they benefit from the higher tax-free threshold applying to older people generally**

The current effective tax-free threshold for a person of pension age or above is \$33,000 compared to \$22,000 for a younger person, mainly due to an age-based tax rebate, the Seniors and Pensioners Tax Offset (SAPTO).<sup>71</sup>

## **In addition, wealthy older households benefit from concessional tax treatment of the investment income derived from their assets**

The low effective rates of tax applying to many of the assets held by wealthy individuals enables them to accumulate wealth faster and reinforces wealth inequality.<sup>72</sup> This applies especially to wealthy older people, given the profile of the assets they typically hold (Table 3):

- Over one-fifth (22%) of the wealth of wealthy older households is in *superannuation*.
- Consistent with the income tax treatment of income from other investments such as bank accounts, superannuation benefits are generally tax-free. However, unlike most other investments, the investment income of superannuation accounts (such as interest and capital gains) is also tax-free once they pay benefits to a fund member who has retired.<sup>73</sup>
- Around one-sixth (17%) of their wealth is in *investment properties*.
- Capital gains from these assets are only taxed at half the normal marginal tax rate. Landlords can deduct any losses from their investment properties annually from their current income for tax purposes (negative gearing), although the capital gains they accrue are only taxed once they are sold.
- Over one-quarter (27%) of their wealth is in *shares and other financial or business investments*.
- As with investment properties, capital gains from these investments are taxed at half the normal marginal tax rates.
- Their own homes represent a relatively low share of their wealth (31%).
- Gains from the sale of those assets are exempt from Capital Gains Tax.<sup>74</sup>

71 The SAPTO is a complex tax rebate paid to people on age pensions, and other seniors subject to a generous income test. See [https://www.ato.gov.au/individuals-and-families/income-deductions-offsets-and-records/tax-offsets/seniors-and-pensioners-tax-offset?=redirected\\_URL](https://www.ato.gov.au/individuals-and-families/income-deductions-offsets-and-records/tax-offsets/seniors-and-pensioners-tax-offset?=redirected_URL). For a discussion of age-specific tax concessions, see Daley J et al (2016), Entitlement of age. Grattan Institute, Melbourne.

72 For a distributional analysis of major tax concessions, see Grudnoff M & Littleton E (2021), [Rich men and tax concessions: How certain tax concessions are widening the gender and wealth divide](#). Australia Institute. Canberra.

73 Taxes paid on superannuation fund income (as distinct from superannuation benefits) are not captured in the data used in this report.

74 For more detailed discussion of the tax treatment of different investments and options for reform see ACOSS (2023), *Budget Priorities Statement*, Sydney; Coates B & Maloney J (2023), *Super savings – practical policies for fairer superannuation and a stronger Budget*. Grattan Institute Melbourne; and Australia's future tax system review 2009, *Final report*, Australian government Canberra.

**Table 3: Profile of assets held by wealthy older households and their tax treatment**

Asset type	Profile of assets held (% of total wealth in 2022-23)		Concessional tax treatment
	All households	Wealthy older households	
<b>Superannuation</b>	20%	22%	Investment income of superannuation accounts (such as interest and capital gains) is tax free once they pay a pension to a fund member who has retired*
<b>Investment property</b>	13%	17%	Capital gains are taxed at half the normal marginal tax rate. Landlords can deduct any losses from their investment properties annually from their current income for tax purposes ('negative gearing') though the capital gains they accrue are only taxed when the asset is sold, often many years later.
<b>Shares and other financial or business investments</b>	19%	27%	Capital gains are only taxed at half the normal marginal tax rate.
<b>Owner-occupied housing</b>	41%	31%	Capital gains are exempt from Capital Gains Tax, though investment costs (e.g. bank interest) are not tax deductible
<b>Other non-financial assets (e.g. cars)</b>	9%	4%	The value of employer-provided cars is not fully captured by Fringe Benefits Tax

Note: Numbers add up to more than 100% due to offsets for debt not linked to one of these assets.

\* This concession is generally not available to younger households. The investment income of their superannuation accounts is generally taxed at 15% (with a lower rate for capital gains).

### It's not just about age – there are sharp wealth divides within each age group

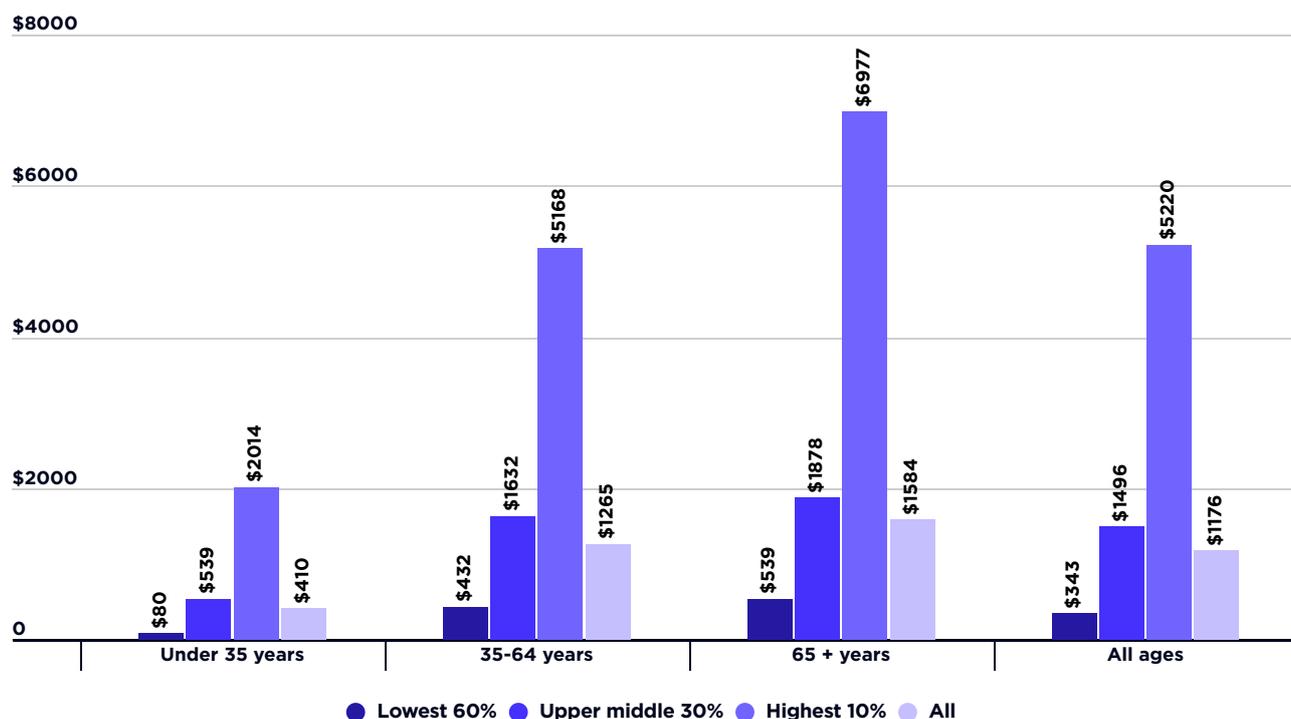
The following two graphs show how wealth is divided *within* each of the three age groups (as distinct from the distribution of *overall* wealth shown in the previous two graphs).

Figure 30 shows the average wealth of the highest 10%, next 30% and lowest 60% of households *within each age group ranked by wealth*: Among older households, the average wealth of the highest 10% is \$7 million – 13 times that of the lowest 60% with \$539,000 (mainly the value of their homes).

- At the lowest end of the wealth scale among older households, one in eight rent their homes and 50% of them live in poverty.<sup>75</sup>
- Among *middle aged* households, the average wealth of the highest 10% is \$5.2 million – 12 times that of the lowest 60% with \$432,000.
- Among *younger* households, the average wealth of the highest 10% is \$2 million, over 25 times that of the lowest 60% with just \$80,000.

<sup>75</sup> Davidson P, Bradbury B & Wong M (2023), *Poverty in Australia: who is affected?* ACOSS & UNSW Sydney, Sydney.

Figure 30: Average wealth *within each age-based wealth group* (\$000s in 2022-23)



Note: Average wealth within each age-based wealth group (e.g. highest 10% of older households by wealth, not the highest 10% of all households).

Wealth is adjusted for associated debt.

Households are sorted into age groups according to age of household reference person and by wealth within each age group (for definition of reference person, see ‘Measuring inequality’ above). Since the reference person in ‘young’ households is under 35 years, they do not include young people living with their parents.

### Wealth inequality is most pronounced among younger households

Figure 31 shows how wealth is divided *within* each of the three age groups ranked by wealth (in the top half of the graph) and by income (in the lower half).

This confirms that wealth is distributed more unequally among younger households:

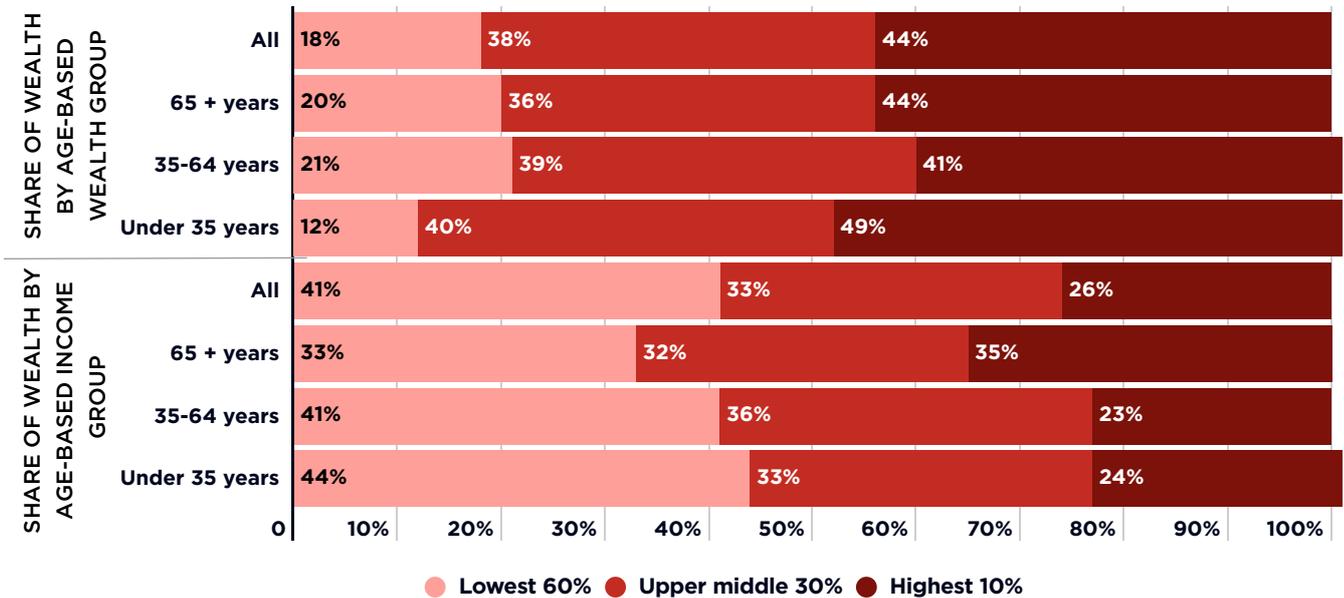
- Almost half (49%) of the wealth of young households is held by the highest 10% of young households ranked by wealth.
- However, when we rank younger households by *income* the highest 10% has a much smaller share of wealth (24%). This suggests that wealthy younger households have not accumulated more wealth than the rest of their age group because they have much higher incomes – many are likely to have received support to invest from their parents,

the so-called 'bank of Mum and Dad'.<sup>76</sup>

High wealth inequality among younger households is due in part to very low levels of home ownership among the lowest 60% and in part to high levels of investment in rental property, shares and other financial investments (apart from superannuation) by the highest 10%:

- In 2022-23 the average value of owner-occupied housing held by the lowest 60% of younger households ranked by wealth was just \$12,000 since most were not purchasing their homes.
- At the other end of the wealth scale, the highest 10% held an average of \$445,000 in investment property and \$527,000 in shares and other financial investments (other than superannuation). The average value of owner-occupied housing held by wealthy young households was \$734,000.

**Figure 31: Distribution of wealth within age groups ranked by wealth and disposable income (% of wealth within each age-based group in 2022-23)**



Note: Top four bars: Share of overall wealth within each age group ranked by wealth (as distinct from the share of overall wealth of the whole population).

Bottom four bars: Share of overall wealth within each age group ranked by equivalent disposable income (as distinct from the share of overall wealth).

Age groups are based on the age of household reference person. 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.

<sup>76</sup> Cigdem M & Whelan S (2017), 'Intergenerational transfers and housing tenure - Australian evidence' *International Journal of Housing Policy*, Vol 17 No 2.

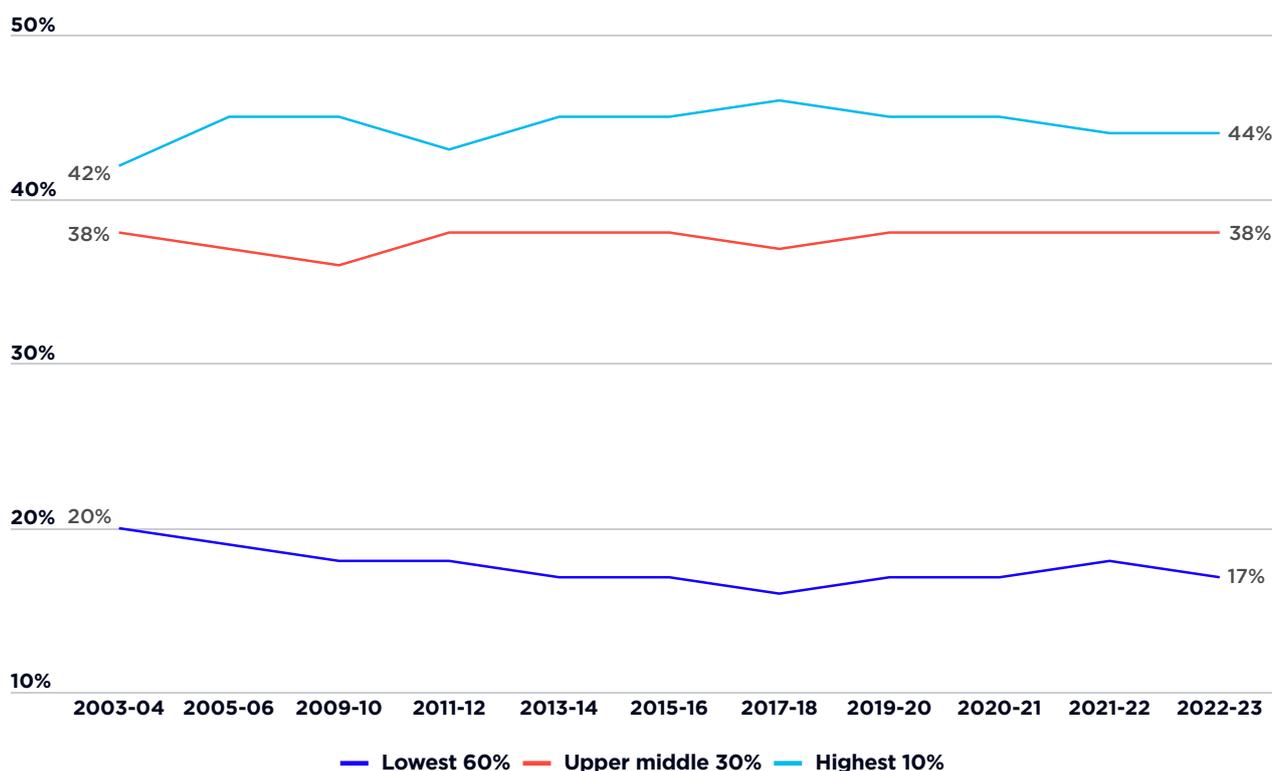
## 2.3 Trends in wealth inequality

**Over the last 20 years, the share of wealth held by the wealthiest households has increased**

Figure 32 shows that the share of wealth held by the highest 10% has grown from 42% to 44% from 2003 to 2023, while that of the middle 30% was stable at 38% and that of the lowest 60% declined from 20% to 17%:

- The average wealth of the highest 10% rose by 84% from \$2.8 million to \$5.2 million, compared with 73% (from \$865,000 to \$1.5 million) for the middle 30% and 55% (from \$222,000 to \$343,000) for the lowest 60%.

**Figure 32: Share of all wealth held by wealth groups (%)**



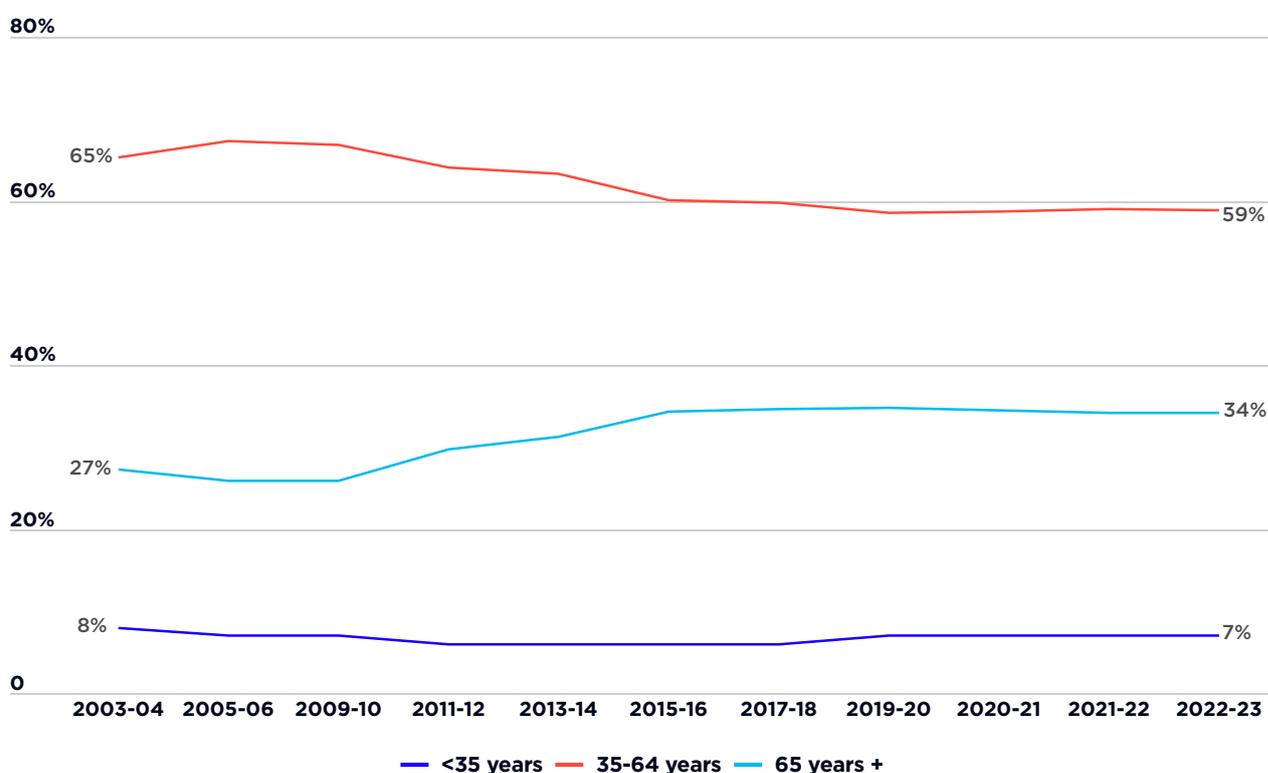
Note: Households are divided into three groups ranked by wealth.

**Over the last 20 years, the share of wealth held by older households has also increased**

Figure 33 shows that from 2003 to 2023, the proportion of all wealth held by older households (with reference person 65 years or older) rose from 27% to 34%, while that of middle aged households (35-64 years) declined from 65% to 59% and that of young households (under 35 years) was consistently low at less than 9%:

- Growth in the share of wealth held by older households is only partly explained by their growing share of the population. Over this period the share of households with a reference person 65 years and over grew much less dramatically, from 22% to 25%, while that of middle aged households declined from 57% to 55% and that of young households declined from 21% to 20%.
- Average wealth for older households rose by 85% (from \$854,000 to \$1.6 million) compared to 64% (from \$769,000 to \$1.3 million) for middle aged households and 70% (from \$241,000 to \$410,000) for young households.

**Figure 33: Share of all wealth held by age groups (%)**



Note: Share of all wealth held by households in different age groups. Age groups are based on the age of household reference person. 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.

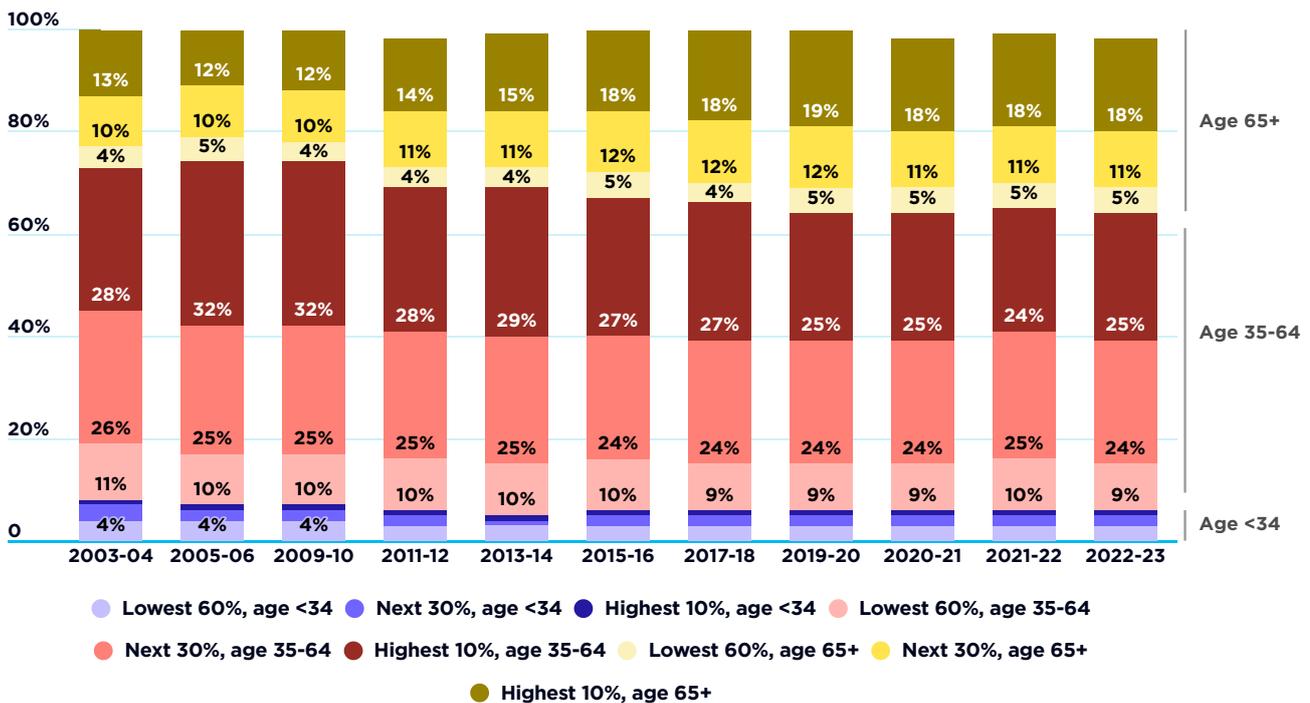
### Over the last 20 years, the share of all wealth held by wealthy older households has grown fastest

Figure 34 shows how wealth has been distributed over the last 20 years among households broken down by wealth groups (lowest 60%, middle 30% and highest 10%) and age (young, middle aged and older).

The increase in wealth inequality over this period was spurred by rapid growth in the share of overall wealth held by a minority of wealthy older households:

- The share of overall wealth held by the 370,000 older households (4-5% of all households) within the highest 10% grew from 13% to 18% while that of middle aged wealthy households fell from 28% to 25%.
- Almost half (48%) of all growth in the assets of the highest 10% accrued to older households, though they comprise only a quarter (25%) of the overall population (up from 22% in 2003).
- Of all wealth held by the highest 10%, the proportion owned by older households rose from 31% to 41%, while the share held by middle aged households fell from 67% to 57%. Only 2% of the wealth of the highest 10% was held by young households.

**Figure 34: Share of overall wealth by age and wealth group (% of all wealth)**



Note: Share of all wealth (not wealth within each age group) held in each year broken down by age and wealth group. All numbers add to up to 100% in each year.

Age groups are defined according to age of household reference person. 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.

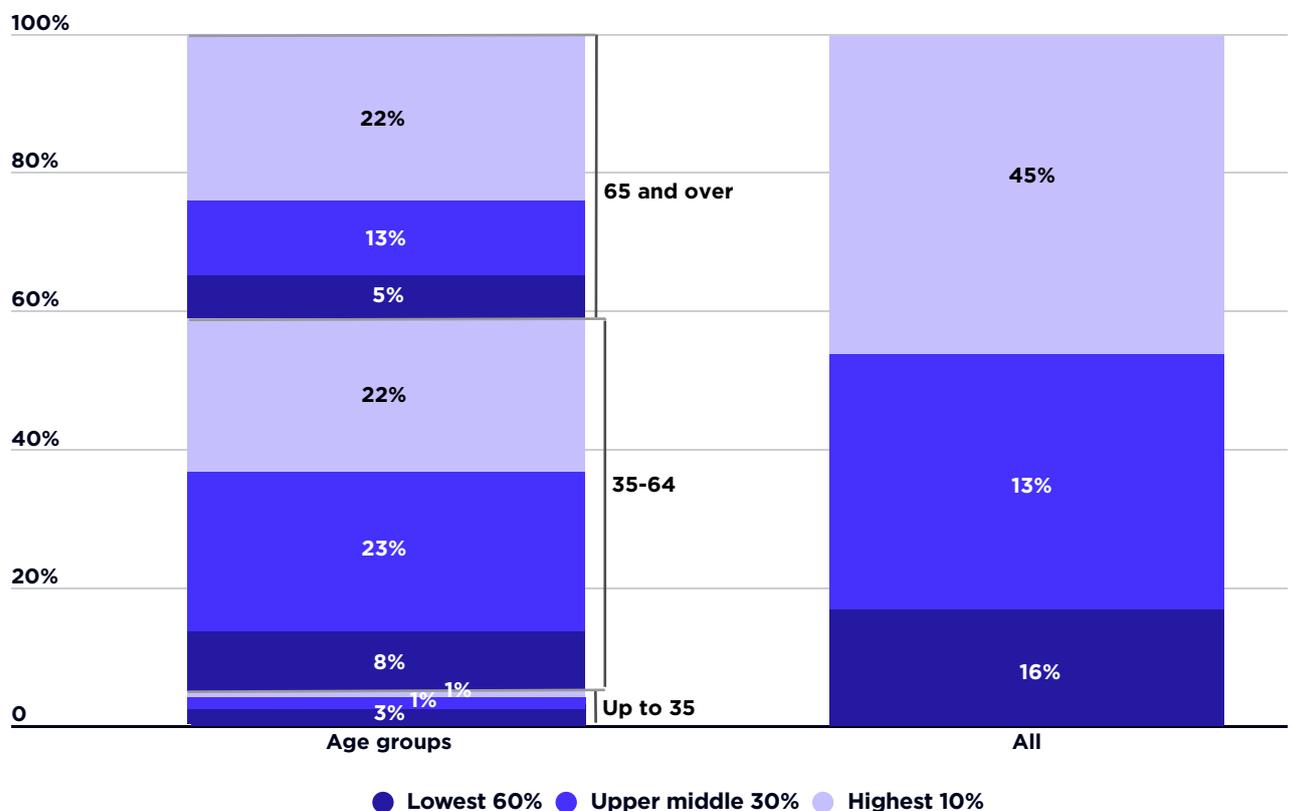
**Of the total increase in wealth from 2003 to 2022, almost half went to the highest 10% and almost half of that went to wealthy older households**

Figure 35 shows how the overall increase in wealth from 2003 to 2022 was divided among households:

- 45% went to the highest 10% of households (noting they held 42% of wealth in 2003);

- 22% (almost half the increased wealth flowing to the highest 10%) went to wealthy older households (comprising just 4-5% of all households across the period, who held 13% of all wealth in 2003).

**Figure 35: Share of the increase in overall wealth from 2003-2022 going to age & wealth groups (%)**



Note: Percentage of the overall increase in wealth that went to all households ranked by wealth (right column), split into age-based wealth groups (left column).

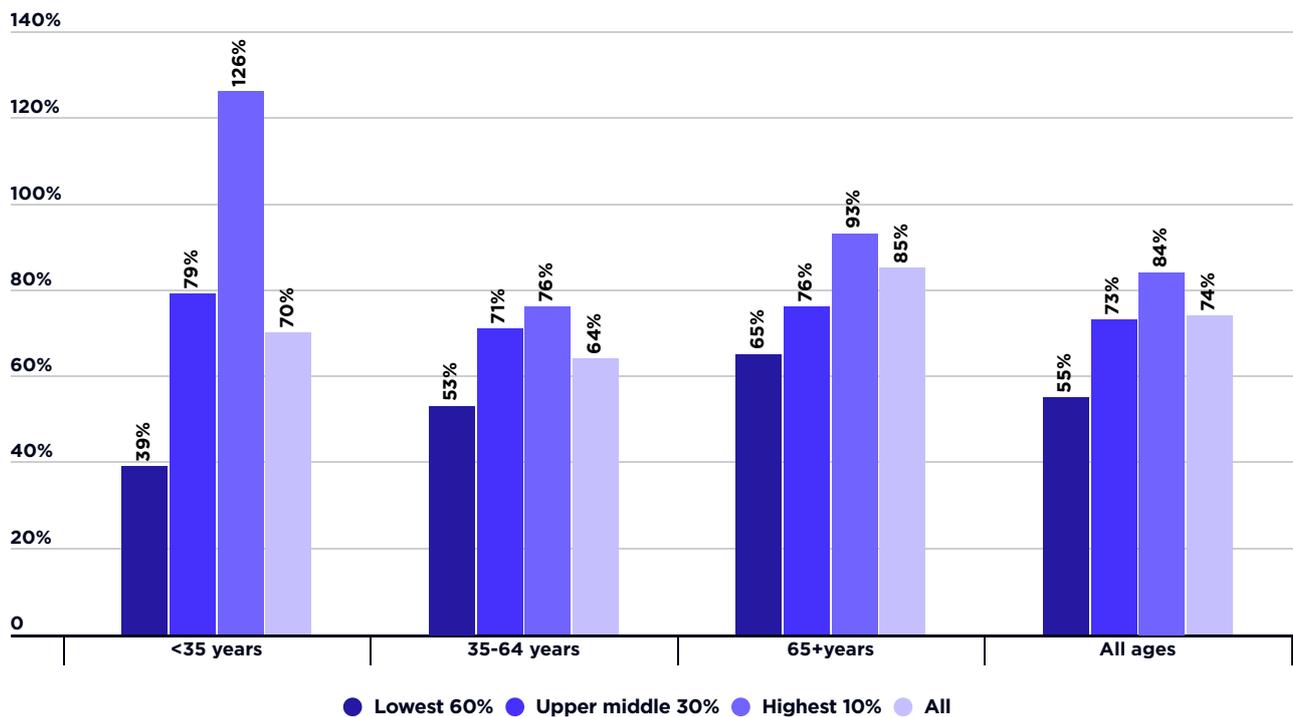
Age groups are defined according to age of household reference person. For a definition of the household reference person see 'Measuring inequality' above. Note that the vast majority of reference persons are the highest income-earners in the household.

### **The average wealth of young households grew relatively slowly largely due to their exclusion from home ownership**

Figure 36 shows that from 2003-04 to 2022-23, the average wealth of young households rose by 70% (from \$241,000 to \$410,000) compared with growth in average overall wealth of 74% (from \$676,000 to \$1,176,000):

- The average value of owner-occupied homes owned by young households (after subtracting related debt) rose by 53% (from \$95,000 to \$145,000) compared with 59% for all households (from \$302,000 to \$480,000).

**Figure 36: Cumulative increase in average wealth within each age group (% from 2003-2022)**



Note: Cumulative increase in average wealth from 2003 to 2022 (%) accruing to wealth groups (e.g. lowest 60%) within each age group (not ranked across the whole population), compared to increases in wealth across the overall wealth distribution (right hand columns).

Age groups are defined according to age of household reference person. 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.

### Inequality *among* younger households grew sharply

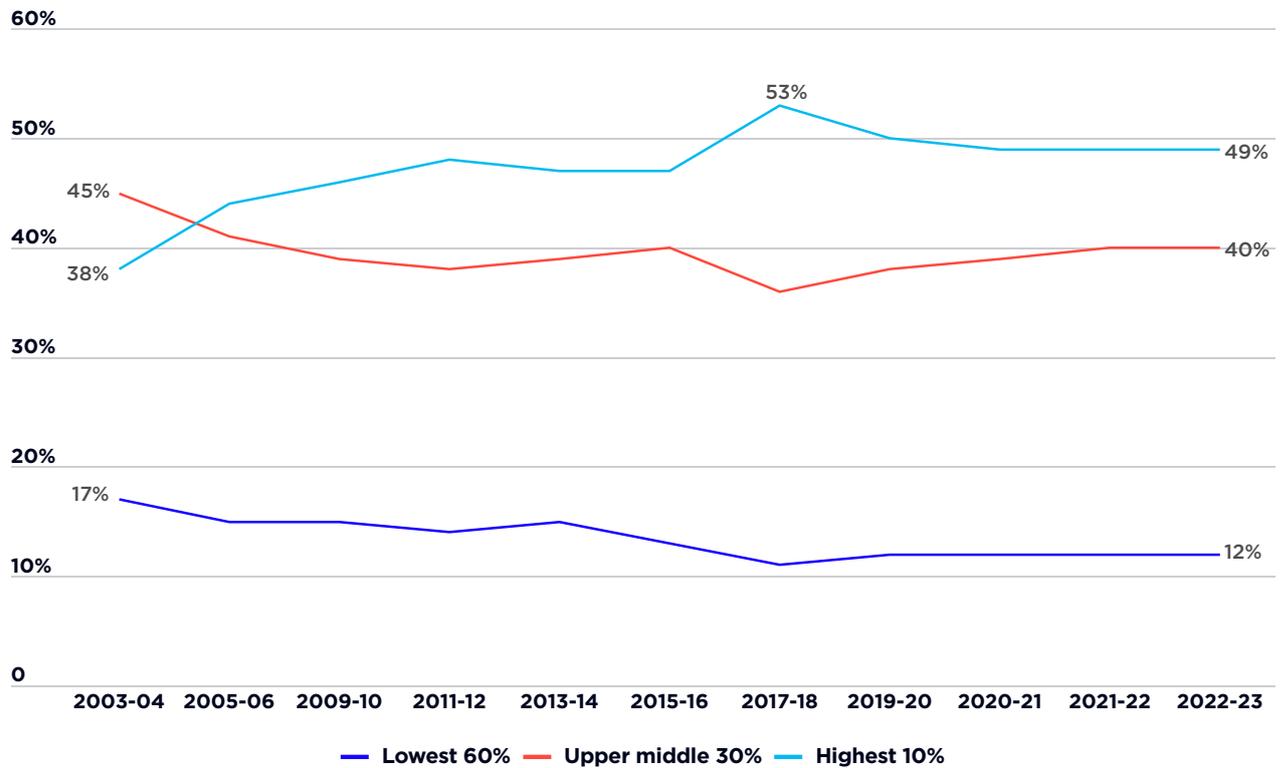
Figure 36 (above) also showed that, among younger households:

- The average wealth of the highest 10% rose by 126% (from \$928,000 to \$2 million) while that of the lowest 60% rose by just 39% (from \$68,000 to \$80,000).
- This included a rise in the average value of owner-occupied housing held by the highest 10% from \$391,000 to \$734,000, while the average value of owner-occupied housing for the lowest 60% rose from just \$10,000 to \$12,000 – that is, very few were purchasing their home.

Figure 37 (below) shows how the distribution of wealth within young households changed from 2003 to 2022.

- Growth in the share of the highest 10% of young households by wealth was fastest from 2003 to 2017 (from 38% to 53%), after which it declined somewhat to 49%.

**Figure 37: Share of wealth within younger households (% of all wealth of young households)**



Note: Share of all wealth of younger households held by each wealth group within young households (those with a household reference person under 35 years).

Age groups are defined according to age of household reference person. 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, and that 'younger households' as defined here generally excludes young people living with their parents.





