THE POVERTY PREMIUM

The High Cost of Poverty in Australia

AUSTRALIA FAIR SERIES

SEPTEMBER 2023

Anglicare Australia
in every Community

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This is Anglicare Australia's fourth release in the Australia Fair series, first published in August 2020. This year's release is an explores the higher living costs faced by Australians in poverty.

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About this report

This report is the fourth edition of Anglicare Australia's Australia Fair series. Projects released as part of the Australia Fair series are evidence-based, reflect the voices of Anglicare Australia clients, and are designed to set the policy agenda.

The Poverty Premium: The High Cost of Poverty in Australia explores the higher living costs faced by Australians who are least equipped to bear them, those on the lowest incomes. It presents the findings of a study comparing living costs in six areas for people who can afford to pre-pay, buy in bulk, or find value in key living expenses compared with those who can't. The differences in these costs can be called the *poverty premium*.

Part I identifies six areas for examination where the poverty premium arises for people on low incomes. It shows people in poverty are disadvantaged by pricing structures, with higher costs in each key areas. Part II makes recommendations for action in each of these areas to alleviate the poverty premium, and to raise incomes.

The methodology for the study featured in this report is outlined in greater detail on page 13.

Any study is confined by its methodology. The method used in this study is a comparison of living costs in selected areas. This method cannot answer every question, and in some cases this research has generated important questions that this project cannot directly answer. We are contributing this study to a growing body of research in the hope of working with others to more fully answer these questions.

We hope we can use these findings to change the conversation about income security and improve people's lives.

The poverty premium

It costs more to be poor. People living on low-incomes often pay more for the same basic goods and essential services than people on higher incomes. There are so many examples. People pay more because they can't afford to buy in bulk or to shop around. There are price penalties for living in low-socio economic areas or remote communities. The best credit deals are for those with high credit scores and healthy bank balances.

The additional cost of poverty can be called the *poverty premium*. This report shows that across six areas, the poverty premium can be as high as 127 percent. For example, someone who is topping up their phone plan with small amounts of data each week could pay 25 percent more than someone on a monthly plan. A person driving an older car is paying 11 percent more in fuel, because their car is less efficient, than someone who owns a car less than ten years old. Needing $2000 in an emergency can be 45 percent more expensive through a payday lender, compared to a low-rate credit card.

People are forced to find ways to manage these costs. They prioritise housing first, then electricity, telephone and debt repayments.[1] They make compromises on the expenses that are left, such as transport and food, or by purchasing lower quality or fewer products with whatever money remains. They ration electricity by turning off the heating and cooling. They opt out of insurance which can increase their vulnerability to risk, and lead to catastrophic consequences in the event of a car accident or natural disaster. They may not have an internet connection at home, which can make it harder to find a job, complete homework or study, or connect with friends and family.

The reliance on market forces works against people on low incomes. The market assumes people have the time and capability to shop around, but that is not always true. People balancing caring responsibilities with casual low-waged jobs rarely have the time to drive to multiple supermarkets to get the best price or call multiple providers to get the best deal. The energy market is complicated for everyone, let alone those who are digitally excluded. The market repeatedly fails to deliver for people on low incomes, and the poverty premium is the result.

The poverty premium is not the reason people live in poverty. Low rates of income support, the high costs of housing, and low-waged, insecure jobs continue to be the key drivers. However the poverty premium stretches already impossible budgets to breaking point. Addressing the poverty premium will mean making sure there are affordable and fair products available to people on lower incomes alongside tackling the structural causes of poverty.

Who lives in poverty in Australia?

Across Australia, over three million people are living below the poverty line. One in six children are living in poverty, with long-term detrimental impacts on their education, health, wellbeing and future.

The depth of poverty experienced by people has been growing. For example, average weekly incomes of people in poverty are $304 below the poverty line. This is known as the poverty gap. The poverty gap increased steadily from $168 a week in 1999 to $323 in March 2020, before the Coronavirus supplement provided a temporary reprieve for many families.[2]

Social security payments were designed to provide a safety net Australians to maintain their capacity to contribute to their families and communities. Yet the weekly rate of Jobseeker is barely more than half of the Henderson poverty line. For more than twenty years governments have failed to ensure that social security payments have kept up with the cost of living, such as rent, childcare, and food.

Receiving the JobSeeker payment is now the biggest risk factor for living in poverty.[3] JobSeeker was designed to provide a safety net for Australians to maintain their capacity to contribute to their families and communities. Yet it is now so low it fails to perform that core function, and people are unable to afford basics of housing, utilities, food and medical care.

Related payments such as Youth Allowance and the Disability Support Pension are also inadequate. A 2017 survey by Anglicare Australia and the National Union of Students found that students from the lowest income backgrounds without family resources to draw on and solely reliant on Youth Allowance were most likely to report severe financial stress.[4] For those students engaged in employment, having to work many hours to survive has a significant impact on both their study and their overall wellbeing.

It is not just people living on income support payments who experience poverty. 37 percent of people in poverty lived in households where wages are the main source of income. Although the full-time minimum wage is above the poverty line for a single adult, for families reliant on a single wage earner or people who are underemployed the risk of poverty remains. Precarious and insecure work is rising in Australia. The OECD found that the Australian rate of temporary, part-time, gig employment, casual or agency work was 40 percent, the third highest among OECD countries.[5]

The cost of essentials is rising

Australians are experiencing a cost-of-living crisis. More and more people are struggling to afford essentials such as food, utilities, and rent. Inflation, extreme weather events that have affected food supply and distribution, the destabilisation of the world energy market, and the COVID-19 pandemic have all impacted the availability and cost of basic goods.

Housing costs are rising rapidly. Average rents have risen by 11 percent in the last year.[6] For mortgage holders, interest costs are set to more than double between 2021-22 and 2023-24. Mortgage stress is already at its highest rate since 2018. Data from Canstar suggests that 68 percent of Australian mortgage holders are already feeling financially stressed, and it is likely to get worse, with many households approaching steep increases they will struggle to pay. For renters, an ACOSS survey found that nearly 50 percent of JobSeeker recipients are paying 50 percent or more of their payment on rent alone.[7] Anglicare Australia's Rental Affordability Snapshot this year showed rents have never been less affordable.[8]

Food prices soared by a record nearly ten percent in 2022, outpacing inflation.[9] While prices have now stabilised they are still much higher than they were pre-COVID. Electricity and gas costs for households are also set to grow rapidly this year. Wholesale energy prices rose during 2022, and retail prices are set to reach record highs as these costs are passed through to consumers. Energy spending by lower income households is set to grow from five per cent of their disposable income to seven per cent. This greatly outstrips the increase of 1.3 per cent to 1.7 per cent for high income households.[10]

Low-income households are most exposed to these rapid increases in the price of essential services, because they spend a greater portion of their income on them. On average, households on low incomes will need to cut their discretionary spending by over 10 per cent in order to absorb increases in the cost of essential items without their overall spending increasing more than income.[11]

Australians report they will manage rising costs by cutting back on discretionary items like going to the movies, eating out or holidays.[12] But for the lowest-income households, there has never been room in the budget for these kinds of luxuries. Back in 2021, we asked people receiving Centrelink payments how they managed to live on income support payments. Almost two in three respondents reported having less than $100 in weekly income left over after housing costs. At most this comes to $14 per day, leaving little room for nutritious meals. 41 percent of respondents were left with left with $50 per week, or $7 per day.[13] Our survey showed nine percent of respondents have experienced homelessness or couch-surfing while living on income support. A staggering 72 percent of respondents regularly skipped meals. In fact, just nine percent had never skipped a meal to save money.[14]

To ease inflationary pressures, in recent months the Reserve Bank of Australia has repeatedly raised interest rates. Having spent years at historic lows of 0.1 percent, the cash rate has now risen to 4.1 percent. The Bank's stated goal is to take money out of the economy by increasing the amount of money that households will have to spend on their mortgage repayments. They have stated that households will be able to weather the additional financial strains by either cutting their consumption or dipping into household savings. Yet we know that many households' budgets are already strained and will be unable to absorb the extra repayments. Most lower income households have very limited savings. A Curtin University study found that the lowest quintile of households by income have an average savings and home equity of just $5,900,[15] compared to the highest quintile who had nearly $1.3 million in average savings and equity.

The increased financial strain that has been placed on lower income households is being observed by community services across the Anglicare Australia Network. In late 2022, all Anglicare Australia emergency relief providers surveyed reported an increase in demand for services, ranging from 10 percent to 50 percent compared to the beginning of the year. Many reported that they were seeing new clients who had never used their service before, including home-owners and people in paid employment.[16]

What is the poverty premium?

With many Australians already facing a cost-of-living crisis, the poverty premium exacerbates hardship. The idea of the poverty premium is not new. The term first coined in the 1960s to explain how people living in poverty pay more for essential goods and services than people not in poverty.[17] The same concept is sometimes identified as the 'poverty penalty' or 'the cost of being poor.'

The poverty premium presents in many different ways. It can prevent people accessing a product or service, because it is not available in their lower socio-economic geographic area. People can opt out of using a product or service because of its high price. Instalment or pre-payments can be more expensive in the long-run. Products can be unavailable because the market has failed to meet the needs of people on low incomes and has not developed a product for them, for example, insurance products for households on low incomes.[18]

In 2010 Save the Children in the United Kingdom estimated the nominal cost of the poverty premium at £1,300 per year and showed how those on low incomes paid more for fuel, telecommunications, insurance, accessing cash and accessing credit.[19] In 2016, the University of Bristol attempted to quantify the Poverty Premium, finding it affects almost every person on a low income in the United Kingdom. It costs the average low-income household £490 per year.[20] For more than one in ten low-income households it costs at least £780. They found that 99 percent of low-income households pay at least one poverty premium.[21] These amounts are not insignificant. £780 is equivalent to nearly $1,500 AUD, which could cover the cost of school supplies for three children, a short family holiday or insuring the family car.

In terms of Australian research, the South Australian Council of Social Service in 2017 identified ten examples of poverty premiums in Australia, with the premium percentage ranging from 28 percent to nearly 500 percent for telecommunications and data.[22] Anglicare Australia has drawn from this work in calculating our premiums.

Anglicare Tasmania went further in identifying how Tasmanians on low incomes are subject to a poverty penalty, considering not just additional costs in terms of money, but also people's time and health in their attempts to purchase basic goods and services. They looked at indirect costs, including increased exposure to risk, or time spent travelling.[23] Anglicare Tasmania also showed that a lack of information contributes to the poverty premium. The market assumes people can shop around for a better price or a more appropriate service, however consumers on low incomes often lack the ability to undertake this kind of analysis. Confusing service systems, low levels of literacy or numeracy, digital exclusion or simply exhaustion from managing complex life circumstances and decision fatigue can be a barrier to engaging in the market.

Many of the Anglicare Tasmania research participants relied heavily on word of mouth and the help of others to make consumer choices and budgeting decisions, leaving them vulnerable to incorrect or out-of-date information. They did not benefit from price competition due to their inability to meet the cost of actively searching for price comparisons or take advantage of these discounts.[24]

Building on this research, Anglicare Australia considered it timely to look again at the cumulative nature of the poverty premium. With the cost-of-living rising and many people facing increasing hardship, it is the number of different fronts upon which people on low incomes are being disadvantaged that bears further examination.

Methodology

Based on our initial research, we identified six areas for examination where the poverty premium arises for people on low incomes:

- Food and groceries
- Credit and finance
- Transport
- Data and communications
- Energy
- Home and car insurance

We note these are not the only areas where the poverty premium can arise. Yet in all these areas can be considered essential services, because they are services that people will continue to consume even if the prices rise; they are things people need. They are areas where people can exhibit very little flexibility or choice in whether or not to access or purchase the services.

We then used various methods of online and practical research to compare products available to or commonly used by low-income households. We calculated the additional costs that people on low-incomes might experience because of their inability to pay more upfront, preference for small payments they can control, geographic location or reliance on older vehicles or appliances.

For each comparison we produced an indicative poverty premium, or the percentage difference for a person on a low-income compared to a person on a higher income might pay. We note the poverty premiums calculated are indicative examples, and will vary according to the circumstances and location of individuals, the provider they purchase the service from and the choices they make about their consumption of the essential services indicated.

The cost of the poverty premium

Food and groceries

Food insecurity is the experience of not having enough food, limited food options or of relying on emergency relief. The capacity of people to acquire appropriate and nutritious food and groceries is determined by a number of factors, including local food supply, prices and financial capacity, access to foot outlets, transport, ability to store and refrigerate food, and levels of literacy.

Research indicates that food can be given a lower priority by people on low incomes making budgetary decisions, because it is not fixed like rent, or directly deducted and subject to penalties for late payment like energy or phone bills. Anglicare Tasmania asked research participants where food was placed in the household priorities budget, and for nearly half the participants, it was lower than three or more other priorities such as housing, electricity, phones, bills or debt.[25] This means it is an area where people make more compromises. As a result, more than two million households in Australia have run out of food in the last year due to limited finances, sometimes skipping meals or going whole days without eating.[26] In our own research among Centrelink payment recipients, a staggering 72 percent of respondents regularly skipped meals. In fact, just nine percent had never skipped a meal to save money.[27]

In 2011 the Anglicare Australia Network conducted a research study on food security, surveying nearly 600 people accessing emergency relief services across 63 sites.[28] The overwhelming majority (96 percent) of respondents reported they were experiencing food insecurity. Respondents reported feeling stressed, anxious and angry because of food insecurity. Some equated this stress with low energy and lethargy, others with family conflict, the capacity to think and function, and feelings of inadequacy. Several mentioned a sense of isolation and disconnection and others that the constant worry about accessing more food and how to access it was causing mental health issues. Many respondents talked about the anxiety, pain and shame of not being able to feed their children, despite trying to provide for their families. Many of these respondents felt that they were "bad parents" or felt a sense of shame connected to not being able to support their family. There was an overwhelming sense of despair in the responses which gave indications of people feeling degraded and disempowered.[29]

The premium in rural and remote areas

Freight costs, limited shelf life of fresh foods and supermarket monopolies mean rural Australians can pay up to three times more than city dwellers for some items. Surveys of the cost of a basket of foods have consistently shown that prices in remote Aboriginal and Torres Strait Islander communities are up to 50 percent more expensive than in the nearest capital cities.

The cost of a healthy diet is a larger proportion of average disposable income for lower income households in rural and remote areas than it is in metropolitan areas (39 percent in remote Aboriginal communities and 32 percent in rural Victoria, compared to 28 percent in Canberra or Sydney).[30] There are also fewer opportunities to purchase foods at discounted prices in remote areas.

The premium for buying in bulk

Buying in bulk is often much cheaper per unit price. There are a range of reasons for why retailers give offer lower prices or discounts for bulk purchases: lower production and distribution costs, less packaging, and an incentive to buy more. However buying in bulk requires people to have the funds available to spend more up-front, and the refrigerator or cupboard space to store goods they won't use immediately. For people in insecure housing situations, overcrowded properties or share houses, space is at a premium. Bulk buying might also require access to a car to transport large items home.

For people unable to buy in bulk, and who purchase smaller amounts more regularly, a poverty premium applies on every purchase. We have compared the prices of a number of common household items available at Coles Supermarkets that many households would regularly purchase.[31] The poverty premium for a family unable to buy in bulk ranges from about 20 percent to nearly 95 percent.

Tables 1 and 2. Food and groceries

Toilet paper	
Quilton white toilet paper, 20 pack	Quilton white toilet paper, 6 pack
$11.00	$6.50
$0.31 per 100 pieces	$0.60 per 100 pieces
93 percent poverty premium	

Beef mince	
Beef mince big value pack, 1.9kg	Beef Mince 3-Star Regular 500gm
$21.85	$7.00
$11.50 per kg	$14.00 per kg
22 percent poverty premium	

Payday credit and finance

There are times when people need access to credit. For example, furnishing a house, an unexpected health emergency, a car breakdown that needs to be repaired to get everyone to school or work. Yet borrowers on lower incomes, who may be most in need of temporary assistance and need the money more urgently in an emergency, often experience higher credit card fees, interest rates and overdraft and penalties.

To get the best financial offers, you need a good credit history. Credit history can be impacted by low financial literacy, late bill payments, overdrawn accounts or actions of partners or family members. Banks can also be reluctant to lend to people who have moved around a lot or have a history of temporary or insecure employment. All of which are common among people on low incomes. People on low incomes or those with poor credit history are likely to have fewer choices about where to access credit, leaving them vulnerable to predatory lenders or those with higher interest rates or late payment penalties.

No Interest Loans Schemes can be useful, but are not available to everyone. Government action to regulate buy now pay later products and implement the recommendations of the Small Amount Credit Contracts Review will help protect people from predatory or unaffordable lending, that can trap them in debt spirals and contribute to financial hardship. In spite of their benefits, these reforms won't provide people with more affordable credit in an emergency situation.

Payday loans cost more

To understand the poverty premium that people on low incomes experience accessing credit, we compared a $2,000 payday loan borrowed over twelve months, to a similar amount borrowed on a Commonwealth Bank Low-Rate credit card. People reliant on the payday loan product pay about 45 percent more than those people who can access a cheaper credit product.

Table 3. Payday and credit finance

Payday loans [32]	Credit card [33]
$2,000	$2,000
Establishment fee, $400	Annual fee, $59
Interest charge, 4% per month	Interest charge, 13.34% annually
Monthly fees, $80 per month	Nil
$3360	$2319
45 percent poverty premium	

Transport

Transport costs are a significant portion of an Australian's budget. Recent figures show the typical Australian household spent 15.8 percent of its income on transport in the March quarter of 2023.[34] These costs are also rising fast, above the rate of inflation.

Many people on lower incomes are priced out of inner-city areas and instead live in the outer suburbs of major cities, where they often have to travel further to get to jobs and services, and where public transport can be limited or inaccessible. Public transport costs are rising faster than private vehicle costs, hurting people relying on trains and buses to get to school or work, or because they cannot afford to run a car.

Transport, or the lack of it, can contribute to other poverty premiums. For example, if people are able to travel to larger food outlets, they can shop around for better prices and not rely on more expensive convenience stores. If they have a private vehicle, it may be easier to buy in bulk, making savings on food and groceries. It may be easier to get to health appointments, like the dentist, that can save people money in the long run by preventing other health conditions.

Savings on paying ahead for public transport

Just like there are savings when buying in bulk, there are also savings to be found when paying for public transport services ahead of time. Of course, it is people on higher incomes who are more likely to have the money available upfront to take advantage of these discounts, generating another poverty premium.

As an example of this poverty premium, we compared the cost of a daily train ticket in Melbourne to the value obtained when a yearly Myki pass is purchased up-front at the beginning of the year. If the person travels five days per week for 48 weeks of the year, allowing for four weeks annual leave, the premium is a hefty 23 percent.

Table 4. Public transport

Public transport [35]	
Melbourne Myki, daily	Melbourne Myki, annual pass
\$9.20 per day	\$1794 annually
\$9.20 per day	\$7.47 per day
23 percent poverty premium	

The premium on an older car

A car is a necessity for many Australians. Even among lower income households, car ownership is the default. 65 percent of households in the lowest income decile own a car.[36] These households may be more car dependent, as living costs may force them to live further away from employment and amenities. People on low incomes are more likely to buy a used car, or to not upgrade to a newer car because of cost. That means they tend to drive older cars, which are on average less fuel efficient.

One area the poverty premium is clear is the cost of driving the same distance in an older vs a newer car. Cars made in 2000 or earlier average 11.4 litres of petrol per 100km, compared to 10.2 litres per 100km for vehicles made in 2011 or later.[37]

To calculate the poverty premium for people driving older cars, we took an example trip from the outer suburb of Broadmeadows, north of Melbourne into the central business district and calculated the cost of the petrol that would be used in that trip. The cost of the trip in an older car is 10 percent higher than a newer, more fuel-efficient vehicle.

Table 5. Petrol use

Petrol use	
Pre-2000 model vehicle	2011 or later model vehicle
11.4L per 100km	10.3L per 100km
35.2km round trip, 4L	35.2km round trip, 3.6L
Average petrol price \$1.80/L = \$7.20 [38]	Average petrol price \$1.80/L = \$6.48
10 percent poverty premium	

To their credit, most state governments do not charge extra for instalment payment of car registration, helping lower income households manage their expenses. This is an example of where there is no poverty premium.

Data and telecommunications

Accessing the internet is no longer a luxury. Australians now rely on internet access for work, education, paying bills and managing their money, healthcare, information in an emergency, social and community connection. The Government has increasingly moved service provision online. Under the Workforce Australia employment services program, many people are required to engage exclusively online. Without reliable internet, they will struggle to meet their obligations and find job opportunities or supports.

Yet 28 percent of Australians are digitally excluded, lacking either the skills, money or equipment to regularly access the internet.[39] People in low income households, older people, public housing tenants and single people are more likely to be excluded. Affordability of internet and devices is a major barrier to internet access. In a South Australian Council of Social Service and Australian Communications Consumer Action Network report, 62 percent of Centrelink and low income healthcare card holders reported experiencing either difficulty paying, having to cut back, or having to stop using one or more telecommunications services for financial reasons in the last 12 months.[40]

Pre-paid premium

Pre-paid mobile phone plans are the preferred option for many people on low incomes because those plans provide them with the greatest control over how much and when they pay for their telecommunications. Yet pre-paid plans often come with the catch that they include less call, text or data value per dollar spent than post-paid plans. As shown in the poverty premium calculations, customers receive much less data for similar costs made monthly. If they are topping up weekly to manage costs, the premium is even higher as $10 will only purchase 2GB of data, at $5 per GB.

Pre-paid data generally expires within 28 days, so regular top-ups are required to maintain consistent service. So many pre-paid customers pay just as regularly as a post-paid customer with a monthly plan, but get less benefit. However when surveyed, many people on low incomes were reluctant to commit to post-paid plans, fearing, and in some cases experiencing, money being direct debited from their bank account before they have funds available to pay their bill and then incurring extra fees and charges from their service provider or banks.

Table 6. Phone data

Phone data [41]	
$68 per-month post-paid plan	$60 pre-paid SIM - month expiry
180GB	65GB
$0.38 per GB	$0.92 per GB
142 percent poverty premium	

Paying a premium for mobile data

Data is much cheaper through a home broadband service, with many people receiving unlimited data for a similar or only slightly higher cost to the monthly plans outlined below. However, many households on low incomes are not purchasing broadband. Australian Communications Consumer Action Network estimates indicate that the cost of broadband services means that approximately a million households on low incomes are at risk of not switching over to the National Broadband Network.[42] For renters, people in share houses or in insecure housing, a home internet connection may not even be an option, leaving them paying more for less data.

Energy

Energy prices continue to climb, straining household budgets to fraying points. There is no end in sight, with the energy regulator for most of the Eastern States recently announcing that they could increase by nearly a quarter again this year.[43]

These rises are hurting people on lower incomes the most. A report by the Anglicare Australia member Brotherhood of St Laurence found that the rate of energy stress among the lowest income quintile households increased by up to eight percent between 2008 to 2017.[44] In 2020, 41 percent of people in the lowest income quintile were experiencing energy stress.

The impacts of energy prices are not just on household budgets. Households on low incomes report managing by restricting their energy usage to the detriment of their health or well-being, for example living in a very cold home in winter or hot home in a summer heat wave.

Despite the impacts on lower income households, the market still applies a premium that means on average they pay more for energy than higher income households. Evidence from the UK showed the annual average additional poverty premium costs for people on low incomes were:

- Not being on the best energy tariff: £308 premium.
- Using a pre-payment meter: £80.
- Paying to receive paper bills: £10.
- Not paying by direct debit: £76
- Being on a tariff that is unsuited to the consumer’s consumption patterns (Unknown)
- Not having access to cheaper forms of energy (Unknown).[45]

This analysis is not directly applicable to Australia. Thankfully pay on time discounts, effectively late payment penalties, are now capped in many states, and much less common than they were five years ago. In the past, some consumers found themselves facing bills 30 percent higher or more, because they were a few days late with payment.

Pre-payment meters are also uncommon in Australia, but do still exist in some states and territories, particularly in remote communities. People reliant on pre-payment meters in Australia pay more for electricity than post-paid customers. They also encourage people to ration electricity at the expense of their health and wellbeing, and result in a higher rate of disconnections, with 72 percent of prepayment meters in Darwin, Katherine, Alice Springs and Tennant Creek reportedly self-disconnected during 2019-20.[46]

Premiums for not being on the best energy tariff

Premiums for not being on the best energy tariff remain common. Shopping around can save households money on their energy bills. St Vincent De Paul's annual tariff tracker showed the best value deal in 2022 was a market offer, saving consumers up to $200 per year.[47] Yet these competitive market deals are hard to find. They can often be with a smaller retailer, requiring a degree of financial, online and bill literacy to find and choose. For many people, the market deal they are on is actually more expensive than the default safety-net standing offer, that guarantees a basic service at a reasonable price. Many households are paying more than they need to, but the confusing language around tariffs, rates and usage make changing retailers and choosing between offers a risky and complicated endeavour.

Vulnerable households are particularly at risk. Research conducted for the Australian Energy Market Commission showed vulnerable households were concerned about prices but felt there was not much they could do. Many people wanted to save money but found the array of offers confusing and lacked the time and energy to engage with the market and find a better offer.[48]

Research from St Vincent de Paul found that gas customers in Victoria on the worst standing offer would be paying $2,310-$2,405 more per annum, depending on the gas zone, than they could be on the best market offer.[49] Default Offers now guarantee a fair price for customers who choose them in the electricity market, but no similar intervention exists for gas.

Premiums for languishing on the old energy grid

People on low incomes have the least ability to adapt their homes to be more energy efficient or to invest in renewable energy that cost more upfront but reduce bill costs over time. Renters in particular, are more likely to live in low quality housing, with limited power to make changes to their homes. In the ACT for example, 43 percent of rental properties are 0 energy star rated.

The *Energy Stressed in Australia* report found that around 17 percent of Australian households now have solar panels, reducing their energy bills by an average of $400 per annum.[50] Governments are offering incentives, like low-interest loans or rebates, to encourage people to install solar panels. In spite of these incentives renters and people living in social housing are missing out. For example, approximately 40 percent of owner-occupiers have solar power, while only four percent of renters do.

Even factoring in the capital costs of solar panels, people without access to solar are paying a 20 percent poverty premium.

Table 7. Payday and credit finance

Solar electricity	
Average electricity bill for a 2-3 person household in NSW	Average electricity bill for a household with a 5kwh solar system
$1203,[51] 28.72c per kwh	$700
Capital cost, nil	Capital cost, $6029 [52] per year over 20 years
$1203	$1001
20 percent poverty premium	

Electrification is also a priority. All-electric homes reduce bill costs, as the price of gas rises, and reduce emissions. The Brotherhood of St Laurence warns that a poorly managed transition away from gas risks exacerbating disadvantage, but on the other hand there is scope to reduce energy hardship through effective policy, regulatory and market actions.[53] They found that not owning a home was one of the most reported barriers to electrification, alongside upfront costs such as new appliances and, in some cases, wiring upgrades and other building modifications.

There are long-term economic benefits to electrification. Government analysis estimates a typical Victorian household could reduce its annual energy costs by $1,020 by replacing gas heating, cooking and hot water systems with electric ones, and by $1,250 for those with solar power.[54] These savings will be amplified if the price of gas continues to rise relative to electricity.

Home and car insurance

Insurance protects people from unexpected financial shocks, like the theft of a car or the loss of a home or its contents in a fire or flood. However, lower income households are underinsured.

The Brotherhood of St Laurence found that 32 percent of Australians on low incomes did not have home and contents insurance and large numbers of drivers did not have third party property insurance, leaving them at severe risk of financial shock and loss of their vehicle in the event of an accident.[55] The same research found that affordability was the greatest barrier to holding insurance at all or holding more adequate cover. Similarly, affordability was reported as the main reason for becoming uninsured. Many respondents expressed a desire to hold more insurance cover, but explained that they would then be unable to afford other essentials.[56]

In many cases lower income households pay more for insurance. In the case of home insurance, the price is based on a variety of factors, including the sum insured, the age of the home and construction materials it is made of, and importantly, it's geographic location. A recent paper for the Actuaries Institute showed that climate change is widening the gap in home insurance affordability. Houses in locations prone to climate-change related disasters and hazards are often more affordable for people on low incomes but are more expensive to insure.[57]

The insurance poverty premium may act as a deterrent to lower income people purchasing insurance, because they are unable to afford it, or frustrated at penalties applied to them for reasons outside their control, like geographic location.

Premium for living in a poor suburb

In relation to car insurance, UK research estimated that the poverty premium for car insurance could be as high as £300, or $571 AUD, per year. This rises to nearly £500 when paid by monthly instalments. In the UK it is more expensive to insure a car in areas of low-socioeconomic status or with high ethnic populations.

To test if this poverty premium applies in Australia, we sought two quotes for the same model car, parked in the driveway of homes in two different NSW suburbs with vastly different levels of socio-economic disadvantage. The poverty rate in Mt Druitt is 21 percent, compared to five percent in Mosman.[58] To insure the same car in the poorer suburb costs 61 percent more, a significant poverty premium.

Table 8. Car insurance, by location

Car insurance with NRMA	
2010 Toyota Camry, parked in Mosman	2010 Toyota Camry, Parked in Mt Druitt
$1146 per year	$1853 per year
61 percent poverty premium	

Premium for instalment payments

Some households will choose to pay for their car and home contents insurance monthly to control their spending or because they cannot afford to pay annually upfront. Another eight percent poverty premium applies when a person pays in instalments.

Table 9. Car insurance, by payment type

Car insurance with NRMA	
2010 Toyota Camry, paid annually	2010 Toyota Camry, paid in instalments
$1853 per year	$1994.64 per year ($166.22 monthly)
8 percent poverty premium	

Recommended actions

Income support above the poverty line

By far, the most important change that could be made for people struggling to make ends meet, and experiencing the poverty premium is to raise the rate of Centrelink payments above the poverty line. This is the only effective way to help hundreds of thousands of Australians families and children on Centrelink payments escape poverty and thrive.

JobSeeker and related payments are now so low that they trap people in poverty. The weekly rate of JobSeeker is barely above half of the Henderson poverty line.[59] During the pandemic, it was proven that raising government support payments can effectively eliminate poverty. Research, including by Anglicare Australia, documented the profound impact this had on poverty levels and on people's lives. People were able to afford fresh food, fill their prescriptions, pay their bills on time, and secure decent homes. If every Australian had a liveable income above the poverty line, the poverty premium would be a far less significant issue.

A guaranteed living wage

Anglicare Australia's recent Living Costs Index measured the average expenses on essentials for a minimum wage worker. The Index found that a full-time minimum wage employee would have just $57 each week after covering basic living costs. For a single parent with one child receiving Family Tax Benefit and Commonwealth Rent Assistance, they would find themselves with a $29 deficit each week. The Living Costs Index found that the average rent cost just under 60 percent of the average post-tax full time weekly minimum wage. The international benchmark for rental affordability is 30 percent. Expecting the lowest income earners to survive paying double the affordable rate simply to keep a roof over their heads shows the system is broken.

It is clear that wages are not keeping up with living costs. A living wage could guarantee wages that would keep people out of poverty and provide an acceptable standard of living, including being able to afford a secure home, food on the table, pay the bills and afford healthcare. Right now, the Fair Work Commission considers factors including employment growth, business competition and the needs of low-paid workers when it sets the minimum wage. It is not required to consider poverty, and it is not linked to other measures of living standards, like the cost of housing. A living wage would rectify this, especially if it was required to hold its relative value over time.

A dignified conversation about poverty

People living in poverty are, on the whole, resilient and prudent with their money. They have to be. It is not poor decisions that drive people on income support or very low incomes into financial hardship, but the stark lack of funds that puts them one unexpected expense away from debt or financial crisis.

Anglicare Australia believes most Australians are empathetic to this situation. They understand that poverty can happen to anyone and that helping each other is a fundamental part of society. Yet this is not always clear in the narrative told by government and media. It would be easy to assume that people experiencing poverty are poorly regarded by the community, that the welfare state is unpopular, and that people in poverty are there because of their own choices. Reading some media reports or government proposals we could be forgiven for seeing people who want only the easiest way out – benefits at a rate that allow for luxuries and a whole group of people content to defraud the hard-working public.

In 2019 research, we tested the real perceptions and attitudes of Australians towards people living in poverty.[60] We found that our optimism about what people think and their level of empathy for those living in poverty was well founded. All demographic groups showed high levels of compassion towards people experiencing poverty, and a belief that people should not experience poverty in Australia. Respondents across all demographic groups overwhelmingly agreed that people who are working should not experience poverty, that nobody deserves to live in poverty, and that Australia should be a country that looks after those in need.[61]

All of this disproves one of the long-standing justifications for keeping income support payments low. Australians want an end to poverty, and they support an increase to Government payments to make it happen.

In her preface to the Robodebt Royal Commission Final Report, Commissioner Holmes says "politicians need to lead a change in social attitudes to people receiving welfare payments... Largely, those attitudes are set by politicians, who need to abandon for good (in every sense) the narrative of taxpayer versus welfare recipient."[62] Anglicare Australia urges politicians, media and public figures to take this call for leadership seriously.

Tax fairness for Australians

As the cost-of-living crisis makes life harder for people on low incomes trying to afford essentials, the Government is persisting with a policy of flattening the rates of tax and putting money back in the pockets of the highest income earners.

The Stage Three Tax Cuts will create a flat tax rate of 30 cents in the dollar for those earning between $40,000 and $200,000. This will erode much of Australia's progressive taxation system. The changes will dramatically flatten the tax scales by abolishing the 37 percent tax rate, creating a single 30 percent tax rate for individuals earning between $45,001 and $200,000.[63]

High income earners, who are not subject to poverty premiums, will be the main winners from these changes, with gains of $1,125 each year for an individual on $90,000. This rises to $9,075 per annum for a person on an income $200,000 or more. An analysis from Anglicare Australia released earlier this year, *A Costly Choice*, shows that the bottom 20 percent of income earners will get no benefit at all. The effect of the tax cuts is that the percentage of benefits of these concessions and tax cuts which flow to the top 20 percent rises from 56 percent to 59 percent.[64]

Allowing these tax cuts to come into force will also bake in a $254 billion spending vacuum in the budget for at least a decade, as well as making it politically impossible to undo when in force.[65] The Government should act urgently to ensure these tax cuts do not come into effect.

Better access to solar

Renters are losing out on the benefits of renewable energy. In 2018, 29 percent of owner-occupied dwellings had rooftop solar installations, compared to four percent of rental dwellings.[66]

The Victorian Government has introduced a solar for renters program, but uptake remains low. With renters generally responsible for paying energy and water bills themselves, there is little incentive for landlords to invest in solar panels when they won't benefit from the bill savings. While incentives for landlords are welcome, stronger requirements in mandatory energy efficiency standards for landlords to install solar panels wherever possible would provide better access for renters.

The Federal Government should also work with State and Territory governments to create an investment vehicle to invest in solar and energy efficiency equity programs for public and community housing. Research from the University of NSW and the Australian Photovoltaic Institute revealed adding solar panels to social housing stock would save households on average $750 a year. State Governments are already acting. For example, the Queensland Government is piloting the installation of solar energy on public housing in three locations.

Energy justice

Navigating the energy market and getting an affordable product is difficult. It requires people to shop around and understand complex languages of tariffs and peaks. Energy assistance programs can provide personalised advice to consumers to help them save money and make their homes more energy efficient. They can alert people of programs that provide financial assistance to pay bills, upgrade appliances or to switch to electricity or renewable power sources.

The Brotherhood of St Laurence's pilot energy brokerage program found households that switched to a cheaper electricity offer saved on average $270 per annum. Households that switched both electricity and gas saved on average $503. Yet funding for these programs is spotty and inconsistent across the country. Widespread funding of energy assistance programs in the community sector would help households on low incomes navigate the energy poverty premiums.

Better regulated telecommunications

More than 80 percent of people now view a home internet connection as essential. At the same time, more than a quarter say their phone and internet costs are unaffordable.[67] Currently, only Telstra is required to offer products and arrangements to customers on low incomes under its Carrier Licence Conditions. If this obligation were extended to all telcos, consumers would have greater choice of affordable entry-level home broadband services. We support the call of the Australian Communications Consumer Action Network for the Federal government to introduce a comprehensive review of the rules governing telecommunications affordability, and for the National Broadband Network to offer a concessional broadband product for households receiving income support payments.

The current telecommunications regulatory framework is based largely on industry self-regulation with weak enforcement tools, based on the premise that competition within the market will sufficiently incentivise industry to meet community expectations. Yet telco providers are far less likely than other essential services to provide hardship assistance to Australians when they find themselves in need. In 2022, 406,428 customers had their services disconnected while more than 2.4

million people struggled to pay their bills.[68] A voluntary framework is not enough. We welcome the Minister for Communications July announcement that she will direct the Australian Communications and Media Authority to introduce an enforceable industry standard, requiring telecommunications providers to ensure appropriate support is provided to people in financial hardship. This is a welcome step to improved regulation of telecommunications providers.

A national food security strategy

Food prices have been rising since 2020 due to multiple shocks to the global food system related to climate change and the COVID-19 pandemic. While data about the full extent of food insecurity in Australia is patchy, we know it is rising.

While emergency relief is an important crisis response, it is not a solution. Providers of emergency food relief are unable to keep up with increasing demand, and are limited in how often they can provide assistance to people.[69] Over a third of people experiencing food insecurity do not even seek help, because they feel ashamed or embarrassed.[70] The food provided can also be highly processed so it keeps longer, or be unable to meet people's personal or cultural food preferences.

We need a whole-of-government plan to increase the resilience of Australia's food system to shocks and stresses, with a focus on promoting a food system that's healthy, sustainable, equitable and resilient. Within this strategy we could provide tax incentives to farms and businesses who donate surplus or imperfect food.

More affordable insurance

Adequate insurance helps people manage risk, and prevents extreme financial hardship after an unexpected event like a natural disaster, car accident or illness. It helps people recover and rebuild. However many people on low incomes struggle to afford insurance, reducing their cover or opting out altogether. Even where people can afford insurance, inconsistent and confusing policy terms often mean that when they go to make a claim, they find they aren't covered. In the case of home insurance, climate change is causing premiums to rise and rising costs of rebuilding mean that many people are not adequately insured.

The Federal Government should conduct an independent review of the current and future affordability of insurance, particularly home insurance for households on low incomes in extreme weather prone areas. They could also trial subsidies for home insurance for people on low incomes who can't afford to insure their properties and possessions.[71] Support should also be provided to people in low-socio economic and disaster-prone areas to mitigate the risks to their properties and improve climate resilience.

Better support for people in hardship

Financial counsellors provide advice and support to people experiencing financial stress, including those who are vulnerable to poverty premiums. A survey commissioned by the Department of Social Services (DSS) in late 2022 found that one in five people in Australia that seek financial counselling cannot access a service within a reasonable timeframe. They are either turned away or need to wait too long to access a service. Actuaries commissioned by DSS estimate that an additional $18.1 million per year is needed to meet unmet demand.[72] Secure, long-term funding is needed to help ensure financial counsellors.

The high cost of poverty

This report shows that the poverty premium is very real. Across many areas of essential expenditure, those with less pay more. The amount of the premium varies, but there is a clear pattern of the market punishing people with less money.

For decades, media and political commentary has told us that if people on low incomes just made better choices, or stopped wasting their money, poverty would not be such an issue. Yet we see in this report that people on low incomes have to be more savvy, more prudent, more resilient than other people. They have to not only pay for essentials with less money coming in, but also with penalties that higher income households just don't experience.

They have fewer options to balance the budget. As the costs of essential services rise, higher income Australians make compromises like skipping fancy meals out or a trip to the movies. These compromises are not available to those living in poverty. The compromises they make are skipping dinner or a trip to the doctor.

We can reduce the burden of the poverty premium. We can regulate products and industries, like telecommunications, that punish people in financial hardship or who can't pay up front. We can make it easier for people to shop around and take action to shore up food supply chains so shocks like the pandemic don't mean huge price increases automatically passed on to consumers. We can better resource services that help people manage their finances, like energy assistance brokers and financial counsellors. We can make sure everyone benefits from technology like renewable energy, that not only save consumers money but also help save our planet.

But the number one action we can take to lessen the impact of the poverty premium is lifting every Australian out of poverty. That means lifting income support payments above the poverty line, and making sure every person, including those in part-time or insecure work, have a liveable income.

If no-one lives in poverty, we can lessen the impact of the poverty premium.

Further information

This report was prepared by Anglicare Australia as part of our Australia Fair series. It is the fourth report in the series.

Anglicare Australia has been producing a flagship annual research project since 2000. This was previously called the State of the Family report, and was renamed the Australia Fair series in 2020.

Projects released as part of the Australia Fair series are evidence-based, reflect the voices of Anglicare Australia clients, and are designed to set the policy agenda.

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