



**Deprivation and Other Indicators of the
Living Standards of Older Australians**

Draft Report

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Executive Summary

Overview

- This paper presents a range of evidence that is relevant to assessing the adequacy of the payments to different groups, including age pensioners. The analysis extends the results generated by a recent study of deprivation in Australia.
- The focus is primarily on the relative position of older Australians who rely on the Age Pension as their principal source of income. Comparisons are drawn with the circumstances of other groups, including those reliant on other forms of income support, self-funded retirees and low-wage workers.
- The estimates have been derived from data collected in a national survey conducted in 2006 by the Social Policy Research Centre (SPRC). The survey data allow the living standards of different groups to be assessed and compared using a variety of indicators.
- Much of the evidence presented draws on the concept of deprivation, which measures the extent to which people are unable to afford goods and services that are widely regarded as necessary.

The Standard of Living and Income

- The standard of living is subject to formidable conceptual and measurement challenges. Like many other economic concepts, its familiarity and use in public debate and discussion conceals many layers of conceptual and technical complexity.
- The Ministry of Social Development in New Zealand has defined the economic standard of living as concerning ‘the physical circumstances in which people live, the goods and services they are able to consume and the economic resources they have access to’
- Although cash (disposable) income is an important determinant of the standard of living, the benefits associated with free or subsidised government services are also important – particularly for older people. So too are the needs that have to be met out of income.
- Adjusting disposable income to allow for imputed noncash incomes and to reflect differences in needs can make a large difference to how the circumstances of specific groups compare with each other.
- The OECD has argued that income measures do not provide a full picture of “command over resources”: they neglect individuals’ ability to borrow, to draw from accumulated savings, and to benefit from help provided by family or friends, as well as consumption of public services such as education, health and housing

- The role and importance of these neglected factors will only emerge if the focus is shifted away from income onto a broader framework that also incorporates these other contributors to the standard of living.

Alternative Indicators

- Three broad sets of indicators are used to assess the living standards of different groups:
 - A **deprivation approach** – defined as an enforced lack of socially perceived necessities
 - A **series of objective indicators** that cover four domains: access to economic resources; hardship (or missing out); restricted social participation; and financial stress
 - A **series of subjective indicators** that capture satisfaction with the standard of living, accommodation and location, perceptions of health status, income managing, degree of choice and control, and the incidence of adverse health-related experiences
- The interpretation of the estimates for any single indicator may be subject to debate and different indicators may point in different directions. Emphasis should thus be given to what the suite of indicators taken together implies about the living standards of different groups and the adequacy of their incomes.

Deprivation

- The deprivation approach was developed to provide an alternative way of identifying poverty that relates more directly to the living standards actually experienced.
- Deprivation is now widely used by researchers used to identify who is experiencing poverty. It also forms part of the official poverty measures adopted by the British and Irish Governments.
- The growing popularity of deprivation indicators has been described as having ‘swept the social policy world as a complement, or even as an alternative, to household income as the primary measure of living standards’
- The approach involves three stages:
 - Identifying which of a list of items are necessities, defined as things that no-one should have to go without.
 - Identifying whether or not people have each necessary item (or participate in each necessary activity).
 - Establishing that those who do not have the item (or activity) are missing out because they cannot afford it.

- Differentiating between not being able to afford an item and not wanting it (as much as another item) has been seen as a weakness of the deprivation approach, because it means that the estimates reflect subjective views (or preferences) and is thus not a purely objective measure of the standard of living.
- Although imperfect, the use of an affordability criterion to filter out those who choose to forego particular items, focuses on the constraining influence of a lack of resources (relative to needs) that is the defining feature of poverty and an important indicator of the standard of living generally.
- Although deprivation studies are in their infancy in Australia, a considerable amount of work has been done in measuring and analysing hardship and financial stress that are close cousins of deprivation. A solid foundation of data and research exists and the current study builds on this evidence-based platform.

Data and Methods

- The data used in the study were collected in 2006 in the SPRC's *Community Understanding of Poverty and Social Exclusion* (CUPSE) survey. The CUPSE survey was sent to a random sample of 6,000 adults and 2,704 responses were received, representing a response rate of 47 per cent.
- The sample is a reasonable representation of the population, although it contains an over-representation of people aged 50 and over relative to those aged under 30.
- Seven sub-samples of respondents were identified according to their main source of income in the previous week:
 - Low-wage workers
 - Self-funded retirees
 - Age pensioners
 - Veteran's affairs pensioners
 - Disability support pensioners
 - Parenting Payment recipients
 - Newstart Allowance recipients
- The extent of deprivation among these groups was based on 19 items identified as essential from the list of 61 items included in the CUPSE survey. These items were all regarded as essential by at least a majority of survey respondents.
- The identified essentials include medical treatment if needed, a substantial meal at least once a day, regular social contact with other people, a telephone,

a washing machine, presents for family and friends each year, compute skills and a week's holiday away from home each year.

Results: Deprivation

- Deprivation scores were calculated for each sub-group by averaging the number of essential items that respondents did not have and could not afford, and the incidence of multiple deprivation was also estimated.
- On both indicators, the age pensioner group ranked third highest overall in terms of their standard of living based on the extent of deprivation experienced.
- Their implied standard of living was 'well below that of the self-funded retirees and just veterans affairs pensioner groups, but above that of low-wage workers and those mainly dependent on the other three income support payments.
- The three essential items that age pensioners are most likely to be deprived of are (in order) a week's holiday away from home each year, dental treatment when needed and computer skills.
- The next three items where age pensioner deprivation is most prevalent all relate to efforts to protect against unforeseen risks: up to \$500 in emergency savings, comprehensive motor vehicle and home contents insurance.

Results: Other Indicators

- The relative living standards ranking of the age pensioner group derived from the 16 objective indicators is similar to that produced by the deprivation measure. The ranking of the age pensioner group varies between 2nd and 3rd highest, with a median rank of 3rd.
- The ranking of the age pensioner group using the subjective indicators is slightly higher, placing it equal second behind self-funded retirees and similar to the veteran's affairs pensioners.
- The fact that the implied standard of living ranking of the age pensioner group is somewhat higher using the satisfaction indicators than the objective indicators is consistent with a number of alternative explanations.
- There may be some degree of preference adaption taking place, so that older people adjust to their reduced objective circumstances more readily than other groups. Older people's aspirations decline as they age, allowing them to maintain their level of satisfaction despite a lower living standards. The needs of older people may decline in ways that are not adequately captured in the indicators, so that a given level of resources is capable of supporting a higher standard of living.
- There is probably an element of truth in all three explanations, although more work would be required to establish the relative importance of each of them.

Results for Age Pensioner Categories

- The analysis was repeated on a breakdown of the age pensioner group into sub-groups differentiated by:
 - Gender
 - Age (under 75/75 and over)
 - Living arrangements (lives alone/lives as a couple)
 - Housing tenure (Owner or purchaser/renter)
- Although the sample sizes are small in some cases, the estimates reveal that females face higher deprivation than males, that the younger-aged group is more deprived than those aged over-75, that pensioners living alone are more deprived than couples, and that renters are more deprived than owner/purchasers.
- Many of the differences between those living alone and couples, and between owner/purchasers and renters are statistically significant.
- This pattern is broadly confirmed when the objective and subjective indicators are compared across different groups of age pensioners. However, small sample size means that few of the observed differences are statistically significant. Those that are significant are heavily concentrated among the breakdowns by living arrangement and housing status.
- A further breakdown of the living standards indicators between age pensioners who are renting in the private and public sectors reveals a somewhat mixed pattern, although the general tendency was for those renting in the private sector to be worse off.
- However, very few of the observed differences were statistically significant, making it problematic to draw any firm conclusions about the relative living standards of the two groups. This is another area that would benefit from further research.

Overall Conclusions

- This report is based on the view that income-based measures of living standards cannot logically be used to inform assessments of income adequacy. This requires the use of an independent benchmark of adequacy.
- The deprivation approach provides such a benchmark, and has been supplemented by a range of other living standards indicators.
- In overall terms, the results show that those reliant on an age pension experience higher average living standards than several of the other groups of social security payment recipients. This suggests that the *adequacy* case for increasing the Age Pension applies with even greater force to these other payments.

- The differences in the living standards of different groups of age pensioners suggest that a realigned payment structure would improve the adequacy of the system as a whole and treat different groups of pensioners more equitably.
- There is a particularly compelling case for improving the adequacy of payments to those age pensioners who are living alone, and to those living in rented accommodation.

1 Introduction

In May this year, the Minister for Families, Housing, Community Services and Indigenous Affairs announced that the Secretary of the Department would lead a review into measures that might be adopted to strengthen the financial security of seniors, carers and people with a disability. The establishment of the Pension Review follows concern that recent rises in cost of living pressures have made it harder for those dependent on the maximum rate of pension and with few assets to make ends meet.

This paper presents a range of evidence that is relevant to assessing the adequacy of the payments to different groups, including age pensioners. The analysis draws on the methods and data generated by a recent study of deprivation in Australia (Saunders, Naidoo and Griffiths, 2007). The focus is primarily on the relative position of older Australians who rely on the Age Pension as their principal source of income. Comparisons are drawn with the circumstances of other groups, including those reliant on other forms of income support such as the Disability Support Pension – another payment that is under consideration as part of the Review.

The importance of ensuring that older Australians have access to adequate income support, as well as to appropriate and affordable health care and aged care services has been acknowledged in several recent government reports. It was emphasised by the Senate Community Affairs References Committee (CARC) in its *Report on Poverty and Financial Hardship* (CARC, 2004: 351), and more recently by the Senate Standing Committee on Community Affairs. The latter Committee found that people on low incomes are disproportionately affected by rises in the cost of petrol, food, medical care and rental housing, and concluded that ‘the maximum rate of pension may be insufficient to maintain a basic, decent standard of living’, and that ‘those most at risk of financial stress are single pensioners receiving the maximum rate of pension and living in private rental accommodation’ (cited in Harmer, 2008: v). These and related concerns over the adequacy of the pension have provided the impetus for the establishment of the Pension Review.

This report contributes to the assessment of the adequacy of the Age Pension (and other income support payments) by presenting a range of evidence on the material circumstances and living standards of older Australians, other income support recipients and low-wage workers. The estimates have been derived from data collected in a national survey conducted in 2006 by the Social Policy Research Centre (SPRC) at the University of New South Wales. The survey data allow the living standards of different groups to be assessed and compared using a variety of indicators. The indicators can be grouped into two broad categories: the first category captures the standard of living in *objective* terms by analysing the material circumstances reported by respondents in relation to different dimensions of their standard of living; the second category relies on a range of expressed *subjective indicators* that embody people’s own perceptions of their circumstances, as revealed in responses to questions that ask directly about them.

Much of the objective evidence presented draws on recent studies of deprivation, which measure the extent to which people are unable to afford goods and services that are widely regarded as necessary (or essential – the two terms are used interchangeably). Although there is some disagreement about whether or not the

indicators of deprivation can genuinely be regarded as objective given how they are derived, the approach is now commonly used to validate income-based poverty measures (Boarini and d'Ercole, 2006; Whelan, Nolan and Maître, 2008) and compare the living standards of different groups (Brewer, Muriel, Phillips and Sibieta, 2008).

The value of using deprivation to inform decisions about the adequacy of social security payments was acknowledged in Australia over a decade ago by the then Department of Social Security (DSS), which noted that the approach:

‘... provides a direct measurement of living standards and has a very high information content. In focusing on outcomes rather than inputs, it is able to capture subtle variations in circumstances which may significantly affect living standards. Through describing the circumstances of low income families in terms of their ownership of goods, participation in activities and access to resources, it is possible to present a whole view of their circumstances’ (DSS, 1995: 24)

Reflecting these perceived strengths of the approach, the Department recommended that work on deprivation should form a central component of its proposed composite framework for adequacy assessment (DSS, 1995: 31).

That recommendation was not acted upon and little official interest has been shown in using the deprivation approach to inform issues of payment adequacy since that time. This report redresses this omission by using the approach to examine the relative adequacy of different payment types (including the Age Pension), and of payments made to different sub-groups of age pensioners. The report is organised as follows: Section 2 describes the most common approach used to measure the standard of living, which is based on income (adjusted in various ways), and lists some of the limitations of the income approach. Section 3 discusses the deprivation approach, focusing on its use as a living standards indicator. Section 4 then describes the survey from which the data have been derived and explains how it has been used to produce the indicators. Section 5 presents results comparing indicators across different groups, differentiated by their principal source of income. Section 6 focuses on what the indicators reveal about the living standards of different groups of older Australians whose main source of income is the Age Pension. Section 7 summarises the main implications of the findings.

2 Measuring the Standard of Living: The Income Approach

The standard of living is one of the most important, but elusive concepts in economics. As Nobel Prize winning economist Amartya Sen (1987: 1) has put it:

‘It is hard to think of an idea more immediate than that of the standard of living. It figures a good deal in everyday thought. It is, in fact, one of the few economic concepts that is not commonly greeted with the uncommon skepticism reserved for other concepts of economics ... we do not believe we are indulging in technicalities when we talk about the living standard of the pensioners, or of the nurses, or of the miners, or – for that matter - of the chairman of the coal board. The standard of living communicates, and does so with apparent ease’

Sen is undoubtedly correct in his assessment of the importance of the standard of living, but he goes on to argue that it is subject to formidable conceptual and measurement challenges. Like many other economic concepts, its familiarity and use in public debate and discussion conceals many layers of conceptual and technical complexity. Although the conceptual issues are important, they are not the main focus of the following discussion, which concentrates on the challenges associated with measuring living standards using available data.

For this purpose, the definition of ‘economic living standard,’ recently proposed by the Ministry of Social Development in New Zealand (2008: 56) captures the dominant features of the concept of the standard of living:

‘Economic standard of living concerns the physical circumstances in which people live, the goods and services they are able to consume and the economic resources they have access to’

What is most notable about this definition is its emphasis not just on available economic resources, but also its reference to people’s physical circumstances and their ability to consume. These latter components will depend on factors other than current economic resources, including the needs that have to be met (e.g. those arising from ill-health or disability) the buffer provided by past accumulation of resources and/or access to credit, and the extent to which goods and services are provided free (or subsidised) by government.

These factors can exert an important influence on the living standards of older people in particular, because this group is most likely to have accumulated assets during the earlier phases of their life course and face declining health that results in increased reliance on health and community care services provided free or heavily subsidised by government. These factors explain why it is potentially misleading to rely on income alone to measure the living standard of older people (as well as other groups). Income is, however, the most common metric used to compare the living standards of different groups, and this approach has been used to examine the living standards of older Australians (Whiteford and Bond, 2000) and of Australian households more generally (Headey and Warren, 2008).

Although cash (disposable) income is an important determinant of the standard of living, factors such as non-cash income (or social wage benefits) provided in the form

of free or subsidised government services are also important – particularly for older people. So too are the needs that have to be met out of income, whether it is received as cash or as noncash benefits in-kind. Adjusting disposable income to allow for imputed noncash incomes and to reflect differences in needs can make a large difference to the estimated circumstances of specific groups, and to how they compare with each other.

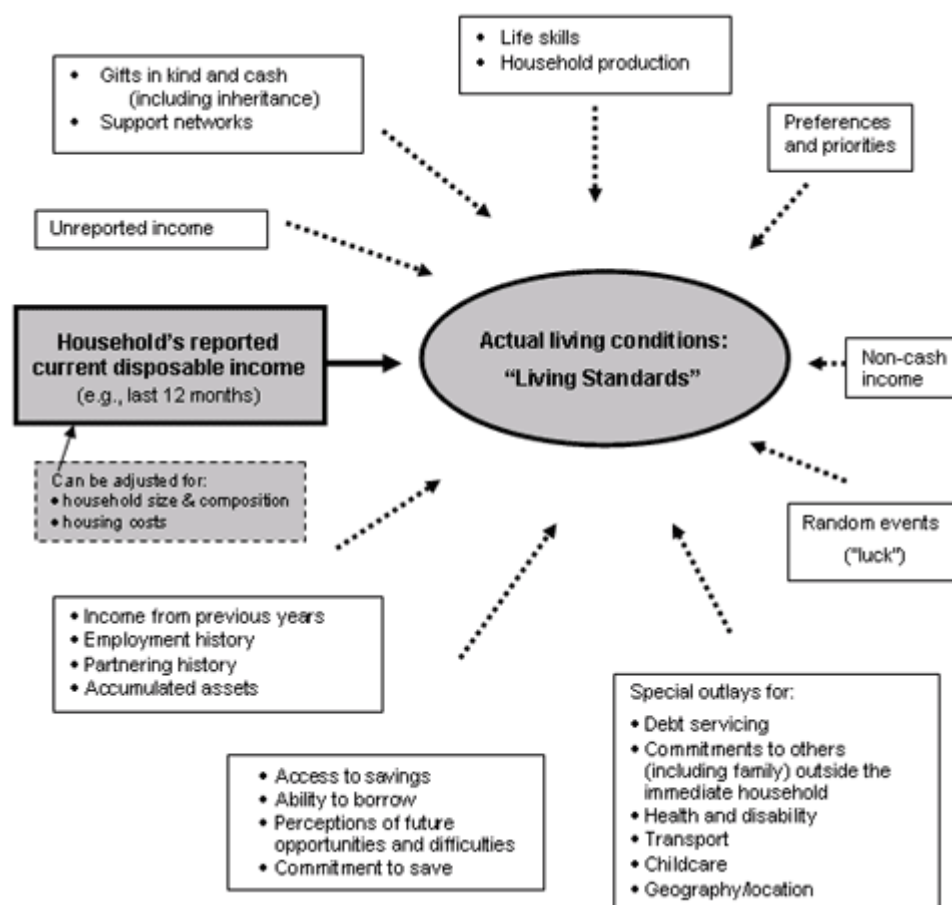
This is illustrated in Table 1, which draws on estimates produced by the Australian Bureau of Statistics (ABS) of the reported cash and imputed noncash incomes of households at different stages of the life cycle. The relative position of the older age groups (those aged 65 and over) is sensitive to how broadly income is defined, because both cash transfers and noncash benefits vary systematically over the life cycle. To give an example, whereas the average disposable income of those aged 65-74 is less than 69 per cent of that for those aged 15-24, this relativity increases to 79 per cent when expressed on the basis of final incomes. Although the estimates take no account of differences in household size and hence in the needs of different households (which also vary with age over the life cycle), Table 1 illustrates that different definitions of income have a marked impact on the relative standing of different life cycle groups.

Table 1: Household Incomes, Benefits and Taxes by Age

	Age of Reference person:						
	15-24	25-34	35-44	45-54	55-64	65-74	75+
Private income	829.9	1187.3	1207.6	1379.2	870.8	351.4	245.6
<i>Plus</i> cash transfers	108.3	95.1	116.2	94.9	135.0	237.1	256.7
<i>Equals</i> Gross income	938.2	1282.5	1323.8	1474.2	1005.9	588.4	502.3
<i>Minus</i> taxes on income	153.9	262.6	273.0	309.4	175.6	50.4	29.1
<i>Equals</i> disposable income	784.2	1019.8	1050.7	1164.7	830.3	538.0	473.2
<i>Plus</i> noncash benefits	170.4	194.1	305.2	235.5	178.6	218.9	281.4
<i>Equals</i> Full income	954.6	1214.0	1355.9	1418.2	1008.9	756.9	754.6
<i>Minus</i> indirect taxes	128.6	150.2	165.5	180.9	152.4	103.9	71.7
<i>Equals</i> Final income	826.0	1063.8	1190.4	1237.3	856.5	653.0	682.9

Source: ABS (2007: Table 23).

Extending the definition of cash income to include noncash components provides a more comprehensive measure of the standard of living (because it captures the contribution of both market activity and state benefits and taxes) but it only touches the surface of what is a complex and multi-layered relationship. This complexity is illustrated Figure 1, which shows that the current standard of living depends not only on recent levels of income (cash and noncash) but also on income received in the past, which in turn reflect and influence how much accumulation has taken place, as well as on a range of other factors. These not only include noncash incomes (see Table 1) but also such factors as life skills (the ability to translate economic resources into the items that affect living standards), luck (an unexpected problem with the car or a win on the horses), and preferences and priorities (extra resources will have differing effects on misers than on gluttons).

Figure 1: Same Current Income – Different Actual Living Conditions

Source: Perry, 2002: Figure 1.

The limitations of the income approach in capturing variations in the standard of living (between groups as well as over time) have become increasingly apparent. This is illustrated in a recent report from the Organisation for Economic Cooperation and Development (OECD), which has noted, in the context of poverty measurement studies, that:

‘Income measures do not provide a full picture of “command over resources”’: they neglect individuals’ ability to borrow, to draw from accumulated savings, and to benefit from help provided by family or friends, as well as consumption of public services such as education, health and housing’ (Boarini and d’Ercole, 2006, p. 10).

The role and importance of these neglected factors will only emerge if the focus is shifted away from income onto a broader framework that also incorporates the other contributors to the standard of living identified in Figure 1. The deprivation approach has provided a framework for achieving this and recent work conducted by the OECD Secretariat has approached the identification and measurement of poverty from a deprivation perspective. In a comparative study of material deprivation it has been argued that:

‘Poverty is a complex issue, and a variety of approaches are required for its measurement and analysis. While monetary measures of income

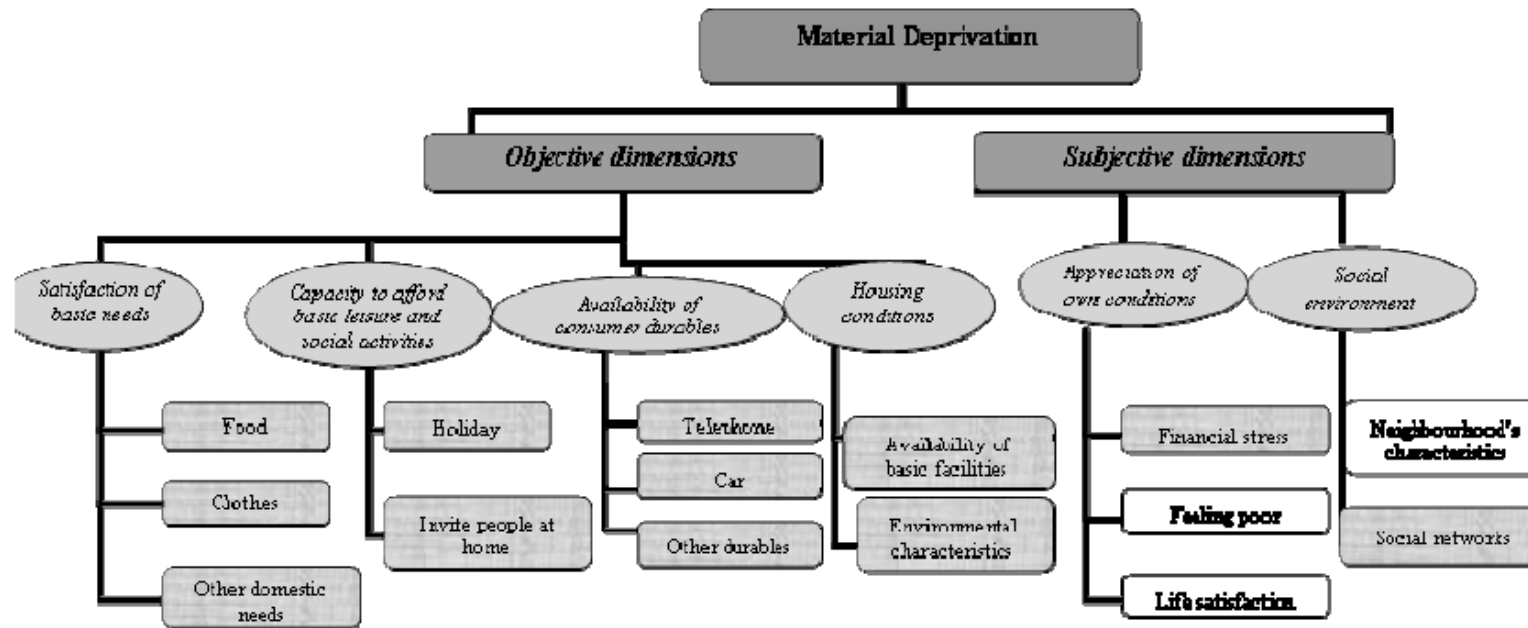
poverty are widespread, a long-standing tradition relies on non-monetary measures based on either the respondent's self-assessment of their own conditions or on measures of ownership of consumer goods and living standards. Measures of material deprivation fall into this latter category. These measures rest on shared judgements about which items are more important to provide a "decent" living standard, irrespective of people's preferences and of their capacity to afford these items' (Boarini and d'Ercole, 2006: 6)

The different dimensions of deprivation and the main components of each dimension are shown in Figure 2, which extends the framework presented in Figure 1 by including a role for subjective perceptions and being more precise about some of the factors and items that influence the degree of deprivation actually experienced.

The multi-dimensional nature of the deprivation approach (discussed more extensively in the following section) suggests that there is much to be gained by adopting a more comprehensive framework than one focused just on income when studying living standards. Two more practical considerations reinforce this superiority. The first relates to the notoriously difficult problems associated with producing accurate information on income in surveys: people are reluctant to reveal information about their income, and when they do, they often forget some income sources or mis-report amounts received infrequently (Australian Bureau of Statistics, 2002; 2003). These problems have led some researchers to supplement or replace income with other measures of economic resources when identifying different forms of poverty (Headey, 2006).

The second for favouring a measure other than income relates more specifically to the goal of assessing the living standards of different groups of income support recipients as a way of assessing the relative adequacy of different payments. Clearly, this exercise requires a living standards benchmark that is *independent* of income, since the use of income itself cannot be used to assess its adequacy. Income measures have their place, but they cannot logically be employed to assess income adequacy.

Figure 2: The OECD Deprivation Framework



Source: Boarini and d'Ercole, 2006: Figure 1.

Even if it were possible to develop a comprehensive income measure that incorporated all of the factors that influence the economic (or material) standard of living, it would still be necessary to adjust for the needs of different households before direct comparisons can be made. This is normally done using an equivalence scale, which measures the relative needs of different households as reflected in the number and characteristics (e.g. age and labour force status) of household members. However, there is no agreed method for estimating relative needs and hence of deriving the equivalence adjustment factor, yet this can have a large impact on the comparisons. These problems become even more acute when income includes noncash components, since it is not obvious that the same relative needs to apply to these as to cash income.

The importance and impact of choice of equivalence scale can be illustrated with an example. One of the most commonly used scales (internationally, and in Australia, where it is now used by the ABS in its income distribution reports) is the modified OECD scale, which assigns a score of 1.0 to the first adult in the household, 0.5 to each subsequent adult and 0.3 to each dependent child. A household consisting of two adults would thus have equivalence score of 1.50 times that of a single person living alone. The maximum fortnightly basic age pension payment rates are currently (November 2008) \$562.10 (single) and \$939.0 (couple, combined). This implies that the payment to the couple is 1.67 times higher than that for a single person – well above the estimated couple to single person needs relativity of 1.50 implied by the OECD equivalence scale.

This difference can become important when measuring poverty, because poverty status depends upon the level of income adjusted for need relative to a poverty line. Thus, a single person income poverty line of \$600 a week would mean that all those solely dependent on the single rate of age pension would be below the line (and hence poor) while all couple pensioners would be above the two-person poverty line (equal to $\$600 \times 1.5 = \900) and hence not poor. Although this hypothetical example is intended to illustrate the point, the issues becomes acute in practice because pensioner incomes tend to be bunched closely together around the region where poverty lines are conventionally set (i.e. at around half of the median). A recent SPRC study using the OECD scale and a poverty line equal to 50 per cent of median income estimated that the poverty rates in 2005-06 for single people aged 65 and over was 46.9 per cent, while that for older couples was much lower, at only 17.8 per cent (Saunders, Hill and Bradbury, 2007: Table B.4). If the poverty line is increased to 60 per cent of the median, both poverty rates increase (to 65.9 per cent and 43.8 per cent, respectively) but the relative poverty risk facing single older people is now much lower, compared to that facing older couples.

The large swings in poverty rates and in the relative risks facing the two groups is a reflection of the difference between the pension relativity of 1.67 and the assumed needs relativity of 1.50: older couples appear better off because their relative needs are assumed to be lower than the payment relativity implicit in the couple to single pension payment rates. This apparently perverse result could be largely removed if the single rate of pension were increased to match the same relativity as is implied by the OECD scale, i.e. from \$562.10 to \$626, or by 11.4 per cent. With the payment for couples unchanged at \$939, the pension relativity would then be the same as the needs

relativity and the poverty rates of single older people and older couples fully dependent on the pension would be the same.

It is also important to acknowledge that when the equivalence adjustment is applied to derive equivalised or adjusted income, this is taken to represent the standard of living attained by all individuals in the household because income is assumed to be shared equally among all household members. This latter assumption is at odds with evidence showing that equal-sharing is not always the norm (particularly among families with children, or single-income couples generally). Unequal sharing of income may be less of a problem among older households, although it may exist to some degree, casting further doubt on the conventional income-based approach.

All of the above limitations of the standard income approach suggest that there is value in using a measure that relates more directly to the standard of living actually achieved. Not only would such an approach avoid the problems surrounding the measurement of income, it would also obviate the need to make an equivalence adjustment (because living standards capture the impact of resources and needs). It also allows (at least in principle) the standard of living to vary among individuals within the same household. The challenge facing such an approach is to find an alternative that is capable of capturing the role that income and other economic resources undoubtedly play, whilst drawing more directly on the living standards that are derived from the goods and services that are actually achieved.

One possible approach is to use consumption expenditure rather than income as an indicator of the standard of living, on the grounds that spending is the process that acquires the goods and services that determine the standard of living. Some studies of trends in inequality have preferred to use expenditure rather than income, on the grounds that the possibility of engaging in consumption smoothing in the face of income volatility suggests that consumption provides a better measure of the standard of living actually achieved (Barrett, Crossley and Worswick, 2000). Others have used income and expenditure together to better identify households with low levels of economic well-being (Headey and Warren, 2008) or to provide more convincing evidence that poverty exists (Saunders, 1997; Saunders and Hill, 2008). However, measurement problems are still an issue for consumption spending, particularly with items purchased infrequently such as consumer durables, and it is still necessary to make an equivalence adjustment to allow for differences in the needs of different households.

3 The Deprivation Approach

The main alternative to using income or consumption as the basis for measuring the standard of living is derived from the concept of deprivation. The deprivation approach was originally developed in its modern form by the British sociologist Peter Townsend (1979), who used it as the basis for his pioneering study *Poverty in the United Kingdom* (Townsend, 1979). Since then, the approach has become increasingly popular as an alternative to poverty line (income) studies that seeks to locate the identification of poverty within a living standards framework (Saunders, 2005).

Townsend's analysis is based on a broader conception of poverty than just low-income, as the following quotation makes clear:

‘Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns and activities.’ (Townsend, 1979: 31)

Although many aspects of Townsend's original study have attracted criticism, much of this criticism has focused on the problems involved in using a threshold in the deprivation profile to identify an income poverty line (Piachaud, 1981). However, the approach is now widely used to identify disadvantage (Pantazis, Gordon and Townsend, 2006), or combined with income to identify consistent poverty – situations where low income and deprivation exist together (Maître, Nolan and Whelan, 2006; Whelan, Nolan and Maître, 2008).

The approach developed by Townsend has been incrementally refined in a series of studies (Gordon and Townsend, 1997; Gordon and Pantazis, 2000; Gordon, 2006) building on the important study by Mack and Lansley (1985). Deprivation indicators are now incorporated into the official poverty measures developed by governments in Britain (Department for Work and Pensions, 2003) and Ireland (Combat Poverty Agency, 2002) and has become increasingly influential in many other EU countries (Guio, 2005; Whelan, Nolan and Maître, 2008).

The increased prominence of deprivation in the poverty literature reflects its resonance with the definition of poverty adopted by the Irish Combat Poverty Agency, which states that ‘people are living in poverty if their incomes are so inadequate as to preclude them from having an acceptable standard of living’. This definition leads naturally to two approaches to studying poverty:

- *Poverty line studies*, which compare reported incomes with an external benchmark of adequacy (a poverty line); and
- *Living standards studies*, in which living standards indicators are compared with an external benchmark of acceptability.

Australian poverty research has, until recently, been dominated by the former approach, although the deprivation approach has been applied in a small-scale study of social security recipients (Travers and Robertson, 1996) and on a nation-wide basis in a recent study conducted by the SPRC (Saunders, Naidoo and Griffiths, 2007; 2008).

Although the deprivation approach has mainly been used to identify who is living in poverty, it can also be used to compare living standards more generally. Interest in applying the deprivation approach to measure living standards has been growing rapidly as the limitations of the traditional (income-based) approach have become increasingly apparent. As Berthoud and Bryan (2008: 14) have recently noted: 'Indicators of material deprivation have swept the social policy world as a complement, or even as an alternative, to household income as the primary measure of living standards'. However, they also warn (p.15) that 'they are just indicators, and it is unhelpful to treat them too literally as direct measures of people's experience'.

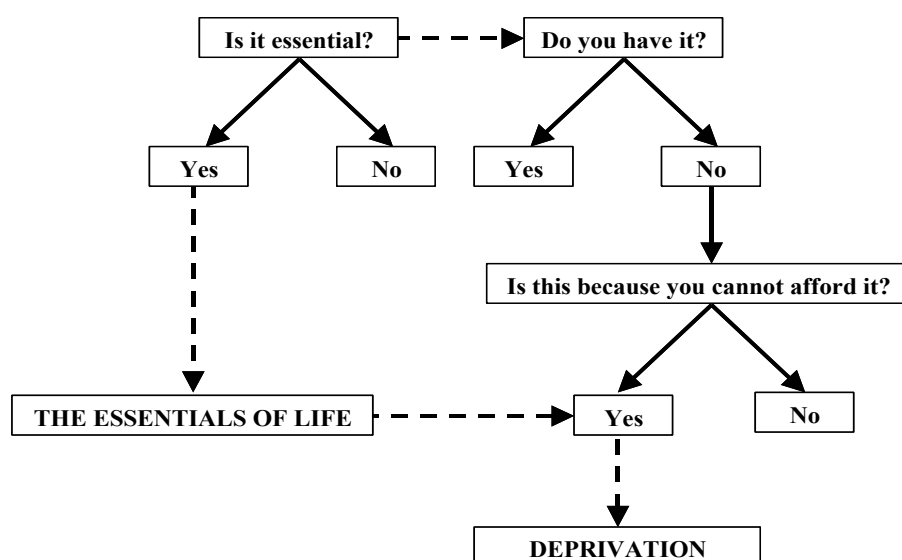
In his original study, Townsend asked people if they had each of a list of items he regarded as necessities, and derived a deprivation index by summing the number of items that each household was lacking. Subsequent studies have improved on the approach in three main ways: *first*, by asking separately whether each of the items included in the list are necessary; *second*, by differentiating between those who lack each item because they cannot afford it and those who choose not to have it; and *third*, by exploring alternative ways of deriving an aggregate index of deprivation.

The way in which the first two of these issues is now addressed is illustrated in Figure 2, which shows the sequencing of questions used to identify deprivation. Survey respondents are first asked whether or not they think that each item is essential – not for themselves but for people in general.¹ They are then asked whether or not they have each item and, if they do not, whether this is because they cannot afford it or because they do not want it.² The responses to the first question are used to identify those items that are regarded as essential by a majority of respondents (or, by applying an appropriate system of weights, an estimate of those items that would be regarded as essential by a majority of the community). A 50 per cent (majority support) benchmark is normally imposed to identify necessities, reflecting its use in other areas of social choice - although it is possible to examine how sensitive the results are to the use of different support thresholds (See Saunders and Naidoo, 2008).³

¹ The actual questions asked in the CUPSE survey defined essential items as 'things that no-one in Australia should have to go without today'.

² The CUPSE questionnaire simply asked of those who did not have each item, whether or not this was because they could not afford it.

³ It is common for budget standards studies to apply a 75 per cent ownership/participation rule when deciding if items are sufficiently widely owned (or undertaken) for them to be included in the low cost standards (see Bradshaw, 1993; Saunders et al., 1998).

Figure 3: Sequence of Questions Used to Identify Deprivation

It is important to acknowledge that one finding to emerge from previous deprivation studies is that the responses to the questions shown in Figure 3 can vary systematically between different groups. In general, the overseas evidence indicates that older people are more likely than others to say that items are essential, but less likely to say if they do not have the item, that this is because they cannot afford it (Van den Bosch, 2001; McKay, 2004). Evidence from the SPRC study also shows that there is greater support for items being necessary among older people (aged 65 and over) than among younger people (aged under 30) (Saunders, Naidoo and Griffiths, 2007: Figure 4.C). This in itself does not affect the results generated by the deprivation approach, because it is the average level of support for items being essential that drives the results not the level of support among specific groups. It can, however, make the results for some groups more sensitive to alternative weighting schemes than for others.

Of greater concern is the possibility that some groups may be less willing to acknowledge that they cannot afford necessary items than others, as this will have a direct impact on estimated deprivation among the two groups and create a bias when using deprivation to compare their living standards. If older people are less willing than other groups to acknowledge that affordability is a factor preventing them from acquiring identified necessities, this will cause them to show up as less deprived (and hence with a higher standard of living) than otherwise. These possibilities should not be lost sight of when interpreting the results presented later.

Once the necessary items have been identified, the other two questions shown in Figure 3 identify who does not have each item and, among these, those who do not have the item because they cannot afford it. It is only those who cannot afford the identified necessities who face an *enforced* lack and are thus deprived. Those who choose to go without a necessary item are expressing a preference and because they are not constrained by a lack of resources, are not deprived. This step in the process of identifying deprivation is somewhat problematic, because of the inter-connected nature of consumption decisions: what one person may perceive as an enforced lack

of item A may be seen by someone else as a choice to give priority to item B (McKay, 2004).

This problem has been highlighted in a recent study by the Institute of Fiscal Studies (IFS), which cites the following example to illustrate the point:

‘...imagine that two otherwise-identical, hypothetical families have exactly the same disposable income in a particular month and have spent all but the remaining £5 in exactly the same way. Assume that these two families are then faced with the following choice: ‘Should we spend the remaining £5 a week on household contents insurance (on the list of survey questions) or should we spend it on more nutritious food (not on the list of survey questions)?’ The family that, on balance, preferred the more nutritious food is likely to have said that it wanted, but could not afford, household contents insurance. Therefore ... the family that chose the more nutritious food will be classed as more deprived than the family that bought household contents insurance, simply because of its *preference* for nutritious food over household contents insurance. However, it is very difficult to argue that the two families have different standards of living – they just choose to spend some of their money in slightly different ways’ (Brewer, Muriel, Phillips and Sibieta, 2008: 64; italics in the original)

The basic point is that the method used to identify deprivation is partly a reflection of people’s preferences and their subjective assessment of their circumstances, as captured in their response to the ‘Can you afford it?’ question. This undermines claims that the method provides a purely objective measure of the standard of living (Berthoud and Bryan, 2008), and has led the IFS group to argue that the threshold used to identify deprivation (the numbers of items lacking that cannot be afforded) is ‘essentially arbitrary’. This point was initially made by Berthoud, Bryan and Bardasi (2004) who argued that the affordability question is not capable of distinguishing between the role of constraint and choice in influencing consumption decisions. From this it follows that:

‘Either the material deprivation score is a prescribed list of items families should not lack – in which case the policy response should be to provide the items – or the government intends it as an indicator of living standards (which we think more likely), in which case it will inevitably conflate preferences and living standards’ (Brewer et al., 2008: 65)

The fact that there may also be systematic differences in the identification of which items are essential simply compounds this problem and distorts comparisons between different groups.

Notwithstanding these conceptual limitations, a key feature of the deprivation approach is the use of an affordability criterion to filter out those who choose to forego particular items. Although imperfect, this aspect of the approach attempts to place the focus on the constraining influence of a lack of resources (relative to needs) that is the defining characteristic of poverty and an important indicator of the standard of living generally.

The above description explains how separate instances of deprivation are identified in the space of necessities. In order to obtain an overall measure of the extent of deprivation (and hence an indicator of the standard of living), it is necessary to combine the separate instances into an aggregate index of deprivation. The most common way of doing this is to simply sum the number of essential items that are lacking because they cannot be afforded. Studies have explored the impact of applying weights to each item when aggregating them, where the weights attached to each item vary with either the degree of support for the item being essential ('preference weighting'), or with the percentage of the population that actually has each item ('prevalence weighting') (Willitts, 2006).

One practical advantage of applying weights is that the use of such weights avoids the need to draw a dividing line between essentials and non-essentials, since every item appears in the index, weighted by the proportion that regard it as essential (or by the proportion that has it). The implication is that going without an item that receives near universal support for being necessary or is very widely owned in the community, carries a greater weighting than going without an item that has less support for being necessary, or is less widely owned. The advantage of the weighting approach has been emphasised by Van den Bosch (2001: 396) who argues:

‘...such a sharp distinction between necessities and non-necessities seems inappropriate. It is much more defensible to ... give each item a weight based on the proportion of the population that regards it as a necessity’.

In practical terms, those studies that have experimented with a range of alternative weighting schemes have found that they make relatively little difference to the overall extent of deprivation, or to the identification of those groups that are most affected by it (Halleröd, 1995; Halleröd, Bradshaw and Holmes, 1997). Evidence presented in Saunders, Naidoo and Griffiths (2007: Table 1) and confirmed by subsequent analysis (Saunders and Naidoo, 2008) shows that this is also the case for Australia. Both weighting schemes produce a more nuanced index of deprivation, but at a cost of increased complexity and less transparency (and possibly also reduced understanding). People can relate easily to the idea of using a majority rule to identify which items are essential and the distinction between essential and non-essential items is widely understood and accepted as legitimate. So too is the idea of adding up the number of separate instances of deprivation to derive an overall index and the related use of the summed index to measure the severity of deprivation. The use of a simple aggregated index score has also received support from the analysis of the financial hardship data in the *Household Income and Labour Dynamics in Australia* (HILDA) survey undertaken by Butterworth and Crosier, (2005). For these reasons, the grounds for using an unweighted index based on a threshold definition of essentials are strong and this approach is adopted in the remainder of this report.

Reference has already been made to the pilot deprivation study undertaken over a decade ago by Travers and Robertson (1996) as part of the DSS Adequacy Project. The approach adopted there was described as follows:

‘This study follows a tradition of research on standards of living where questions on income are supplemented by questions on how people are actually living in terms of their possessions, housing, transport, social activities, as well as how they themselves view their living standards. One

of the primary tasks of the study is to see if relative deprivation in terms of these direct measures follows a similar pattern to deprivation in terms of income. In other words, the study addresses the question: are those who are worst off in terms of income also worst off in terms of housing, transport, social activities, and morale?' (Travers and Robertson, 1996: 1)

Although restricted to examining patterns of relative deprivation among a relatively small sample of DSS clients, the study applied a deprivation methodology to identify which of a series of 'basics of life' items were regarded as necessities by participants in a series of focus groups, and then applied a weighting scale to each item, where the weight reflected the percentage that agreed that the item was necessary. The items were assigned a score ranging between zero ('not necessary') and 4 ('very necessary') and an index of deprivation was derived by summing the number of necessary items that people were lacking and could not afford.

The results were sufficiently interesting for the authors to recommend that:

'The questionnaire developed and tested in this pilot study be used in a national survey. Ideally, such a survey should not be confined to clients of the DSS. The reason for this is that a survey of DSS clients can tell us only about relative deprivation among clients, that is, whether one group is faring better or worse than another. It does not tell us how DSS clients are faring relative to the population at large.' (Travers and Robertson, 1996, p. vi)

These recommendations were never taken up, although variants of some of the questions developed in the study have been included in the *Household Expenditure Survey* (HES) conducted by the ABS since 1998-99. Similar questions have also appeared the *General Social Survey* (GSS) conducted by ABS (2003), and the longitudinal survey of *Household, Income and Labour Dynamics in Australia* (HILDA) Survey (Wooden and Watson, 2002). The data generated by these questions has been used to measure the incidence of financial stress or hardship in a series of studies (Bray, 2001; McColl, Pietsch and Gatenby, 2001; Department of Family and Community Services, 2003; Breunig and Cobb-Clark, 2006; Headey and Warren, 2007). They have also been used as an input into the development of indicators of poverty based on Sen's notion of capability (Headey, 2006).

These studies have generated valuable information, but they do not allow deprivation to be estimated because not attempt is made to establish the degree of support the items included being necessary. This is a crucial feature of the deprivation approach because it bases the identification of deprivation on community opinion about which items are necessary, and this provides the approach with greater legitimacy and the estimates themselves with increased credibility.

Although deprivation studies are in their infancy in Australia, a considerable amount of work has been done in measuring and analysing hardship and financial stress that are close cousins of deprivation. A solid foundation of data and research exists and the results presented below build on this platform to show how deprivation can shed important new light on issues associated with the standard of living and income adequacy.

4 Data and Methods

4.1 The CUPSE Survey

The *Community Understandings of Poverty and Social Exclusion* (CUPSE) survey forms part of a project that is developing new indicators of social disadvantage to complement the existing poverty instruments. The underlying premise of the project is that ‘social disadvantage takes many different forms, and the identification and measurement of poverty and other forms of disadvantage must be grounded in the actual living standards and experiences of people in poverty’ (Saunders, Naidoo and Griffiths 2007: 2). The project was funded under two Australian Research Council grants, one of which was conducted in collaboration with Mission Australia, the Brotherhood of St Laurence, Anglicare, Diocese of Sydney and the Australian Council of Social Service (ACOSS), who provided cash and in-kind support.⁴ Analysts from these agencies assisted with the development of the survey instrument and facilitated contact their front-line staff and clients whose views were reflected in the questionnaire.

Prior to the survey being conducted, a series of focus group discussions were held with welfare service users and staff designed to provide a better understanding of the experience of poverty and disadvantage and obtain their views on what are the essential ingredients of a decent standard of living (Saunders and Sutherland, 2006). These views influenced both the content of the CUPSE questionnaire – which items were included as potential necessities - and its structure – how the different items were grouped together in broad living standard domains.

The questionnaire included many of the questions asked in previous studies of deprivation, exclusion and living standards conducted in Britain (Pantazis, Gordon and Levitas, 2006), Ireland (Nolan and Whelan, 1996) and New Zealand (Krishnan, Jensen and Ballantyne, 2002). The aim of drawing on the information generated by the focus group discussions and questions used in previous deprivation studies was to ensure that the CUPSE questionnaire included items that were known to be associated with deprivation and hardship. By grounding the survey in the experience of poverty in this way, the aim was to generate responses that captured the realities of poverty rather than the views of researchers.

The survey was mailed to a random sample of 6,000 members of the adult population drawn from the Australian federal electoral roll in mid-April and by early-August 2,704 people responses were received, representing a response rate of 46.9 per cent.⁵ The sample is broadly representative of the general population as revealed in official (ABS) statistics, particularly in relation to such socio-economic variables as gender, country of birth, labour force status, main source of income, housing tenure,

⁴ The project ‘An Integrated Framework for Developing Credible Indicators of Deprivation and Other Distributional Markers’ was funded under ARC Discovery grant DP0452562, while the ‘Left Out and Missing Out’ project was funded under ARC Linkage grant LP0560797.

⁵ A shorter version of the survey was completed by 673 clients of selected welfare services provided by the collaborating agencies, at the point of accessing services. Comparisons of the findings of the two surveys are contained in Saunders, Naidoo and Griffiths (2007). Attention focuses here solely on the larger (community) survey.

educational attainment and disability status. There is a slight under-representation of those who have never been married; live alone; Indigenous Australians; and those with incomes between \$1,000 and \$2,000 a week. The main difference between the CUPSE sample and the general population is age-related; CUPSE over-represented older people (over age 50) and under-represented younger people (under age 30): further details are provided in Saunders, Naidoo and Griffiths: Chapter 3 and Appendix A).⁶

It is important to emphasise that these features of the CUPSE sample should not give rise to any biases when comparing the circumstances of different groups, which is the focus of the analysis reported below. Against this, it is also relevant to note that the CUPSE questionnaire was completed by individuals, who provided information about their own views and circumstances, as well as information about other members of their household. Some of this latter information was, however, somewhat rudimentary and assumptions had to be made in order to derive a household structure variable.⁷

4.2 Sample Selection

Some of the questions included in the CUPSE survey reflect its status as a mailed questionnaire – a feature that places restrictions on how complex the questions can be and thus on the degree of sophistication of the variables derived from them. The income question, for example, sought information on income in broad ranges and is thus not suitable for some forms of analysis (e.g. studies of income poverty) that require a greater degree of detail than was provided.⁸ One of the CUPSE variables that form the basis of much of the following analysis relates to the principal source of income. The precise question asked was:

What was the MAIN source of income of you/your family last week?

Table 2 lists the response categories provided in the questionnaire and presents a breakdown of the responses into each of them. A small number of adjustments to the samples shown in Table 2 were made after cross-checking the information provided for consistency with other information (on such variables as age, household type and labour force status).⁹

⁶ This is a common feature of mailed surveys. Adjusting the sample data for age differences by re-weighting has relatively little impact on the unweighted results and does not alter the conclusions described below.

⁷ For example, respondents were asked to indicate if they were living in a group household, but no information was collected about the characteristics (or even the number of) other household members, and assumptions had to be made about the structure of the household. These issues are of less importance for the analysis conducted here, which does not rely to any great extent of these constructed variables.

⁸ The weekly income ranges specified in the CUPSE questionnaire were: Less than \$100; \$100 to \$199; \$200 to \$299; \$300 to \$399; \$400 to \$499; \$500 to \$599; \$600 to \$699; \$700 to \$799; \$800 to \$899; \$900 to \$999; \$1,000 to \$1,499; \$1,500 to \$1,999; \$2,000 and over; and no or negative income.

⁹ Particular attention was paid to ensuring that the age pensioner group only contained individuals that were at or above age pension age.

Two more significant variations involved restricting those mainly dependent on interest, dividend or superannuation income to those aged 65 or over (hereafter referred to as the ‘self-funded retirees’ group) and restricting wage and salary earners to respondents aged between 18 and 64, with at least one full-time worker in the household and gross family incomes between \$500 and \$799 a week (referred to hereafter as the ‘low-wage workers’ group).¹⁰ The resulting categories and adjusted sample sizes are shown in Table 3, and these sub-samples are the source of the empirical results presented later.

Table 2: Breakdown of CUPSE Sample by Main Source of Income

Main Source of Income	Sample Breakdown	
	Numbers	Percentage
Wages or salaries	1568	65.0
Interest, dividends, superannuation, etc.	161	6.7
Age Pension	336	13.9
Veterans’ Affairs Pension	51	2.1
Disability Support Pension	80	3.3
Parenting Payment	54	2.2
Newstart Allowance	40	1.7
Other Centrelink payment	33	1.4
Other source of income	91	3.8
Missing values/multiple responses	290	-
Total sample	2704	100.0

Source: CUPSE survey.

Table 3: Adjusted Categories and Sample Sizes

Main Source of Income	Sample Breakdown	
	Numbers	Percentage
Low-wage workers	205	24.4
Self-funded retirees	98	11.7
Age Pensioners	320	38.1
Veterans’ Affairs Pensioners	48	5.7
Disability Support Pensioners	76	9.1
Parenting Payment Recipients	53	6.3
Newstart Allowance Recipients	39	4.7
Total sample	839	100.0

Source: CUPSE survey.

The main focus of interest here is on using the deprivation indicators to assess the living standards of the age pensioner group – both in comparison with the other groups identified in Table 3, and as between different sub-groups of age pensioners. The degree of detail that can be examined within the age pensioner group is limited by the overall sample size, but comparisons based on the sub-categories shown in Table 4 have been conducted. It is important to note that the sample sizes shown are upper limits because most of the analysis involves additional variables that may contain missing values, restricting the actual samples below those shown.

¹⁰ The standard federal minimum wage prevailing at the time that the survey was conducted (April to July 2006) was \$484.50; it was increased to \$511.86 in October 2006 (Source: Australian Fair Pay Commission, 2006)

Table 4: Sub-Categories Within the Age Pensioner Group

Sub-category ^(a)	Sample Breakdown	
	Numbers	Percentage
<i>Gender:</i>		
Male	145	45.3
Female	175	54.7
<i>Age:</i>		
Up to 74 years	200	62.5
75 and over	120	37.5
<i>Living arrangement:</i>		
Single, lives alone	102	37.8
Married, lives as couple	168	62.2
<i>Housing tenure:</i>		
Owner/purchaser	241	83.4
Renter (public or private)	48	16.6

Note: (a) There are also a small number of cases that lie outside the specified categories (e.g. pensioners living with other people, such as their children; boarders and those in other housing tenures), and these have been excluded, as are respondents who did not provide the relevant information.

Source: CUPSE survey.

4.3 Necessities and Deprivation

As indicated earlier, respondents to the CUPSE survey were presented with a list of items and asked to provide Yes/No answers to three questions about each item:

- Is it essential?
- Do you have it?
- If you do not, is this because you cannot afford it?

The last question was only asked of those items that individuals could buy for themselves, and was not asked of those items that are either provided free of charge at the point of consumption (e.g. access to many forms of medical care), or cannot be purchased (e.g. items such as English language proficiency and a minimum level of education). In addition, some of the items relate only to the needs of specific sub-groups in the community (e.g. access to mental health services, if needed). A study of general deprivation relates only to items that meet universal needs that people may go without because they cannot afford them, so those items that do not involve an immediate and direct cost to users or are not generally applicable were also excluded from further consideration (irrespective of whether or not they were regarded as essential).¹¹

A total of 61 items were included in the CUPSE questionnaire, of which 40 met the above criteria for being relevant to the general issue of deprivation. These items are

¹¹ Some of the other omitted items include the ability to read and speak English, supportive family relationships and a basic level of education, all of which were regarded as essential by more than 50 per cent of respondents. The dividing line between items that meet universal needs and those that meet specific needs is not clear-cut, although items were described in ways that emphasised their universal nature (e.g. access to dental treatment, when needed).

identified Table 5, which also shows the percentage of respondents that said each item is essential, the percentage that had each item, and the percentage that did not have and could not afford each item. Items included in the questionnaire for which it was not appropriate to ask the 'Can you afford it?' question have been omitted from Table 5, since these do not feature in the following discussion. This reduced the total number of items from the original 61 to 44, and a further 4 items were removed because they relate to specific needs, further reducing the number of relevant items from 44 to 40. When identifying those items regarded as essential by a majority (at least 50 per cent) the survey responses were re-weighted to reflect the age structure of the population in order to avoid any response bias in this key step in the analysis. In practice, this made very little difference to the results and the unweighted percentages are very close to those shown in Table 5.¹²

¹² Two items that received very close to majority support for being essential were a car and a separate bedroom for children aged over 10. In both cases, the degree of support for them being essential varied across age categories, with older people (aged 65 and over) far more likely than younger people (aged under 30) to regard both as essential. If population weights are used to weight the sample, support for the car being essential falls below the 50 per cent cut-off and it was therefore omitted from the list of essentials. The separate bedroom for older children was included in the list, on the grounds that well over a majority of those who are old enough to have children of this age themselves regarded it as being essential.

Table 5: Items Used to Identify Deprivation: Support for being Essential and Prevalence Rates (percentages)

Item	Is it essential? (weighted)	Has the item (prevalence rate, unweighted)	Does not have and cannot afford (unweighted)
Medical treatment, if needed	99.9	97.0	2.0
Warm clothes and bedding if it's cold	99.8	99.6	0.2
A substantial meal at least once a day	99.6	98.5	1.1
Able buy medicines prescribed by a doctor	99.3	95.7	3.9
Dental treatment, if needed	98.5	81.3	13.9
A decent and secure home	97.3	92.1	6.7
Children can participate in school activities & outings	94.7	68.9	3.5
A yearly dental check-up for children	94.3	71.4	9.1
A hobby or leisure activity for children	92.5	74.1	5.7
Regular social contact with other people	92.5	87.0	4.7
Secure locks on doors and windows	91.6	87.5	5.1
A roof and gutters that do not leak	91.5	90.0	4.6
Furniture in reasonable condition	89.3	96.4	2.6
Up to date schoolbooks/clothes for children	88.5	66.0	3.8
Heating in at least one room of the house	87.4	92.0	1.8
A separate bed for each child	84.0	85.5	1.6
A telephone	81.1	96.8	1.5
Up to \$500 in savings for an emergency	81.1	76.1	17.6
A washing machine	79.4	97.9	0.8
Home contents insurance	75.1	83.8	9.5
Presents for family or friends at least once a year	71.6	87.5	6.6
Computer skills	68.7	67.5	5.2
Comprehensive motor vehicle insurance	60.2	83.4	8.6
A weeks holiday away from home each year	52.9	56.3	22.4
A television	50.9	98.8	0.2
A separate bedroom for each child over 10	49.1	70.4	6.1
A car	47.8	92.3	3.7
Up to \$2,000 in savings for an emergency	44.4	57.9	28.1
A special meal once a week	35.9	44.8	15.3
A night out once a fortnight	35.6	38.7	20.5
A spare room for guests to stay over	31.5	70.4	12.9
A home computer	25.9	74.8	8.5
A mobile phone	23.0	81.8	3.7
Access to the internet at home	19.7	66.7	9.9
A clothes dryer	18.9	61.7	7.6
A printer	18.6	68.8	8.6
A DVD player	17.2	83.1	3.7
An answering machine	12.3	54.0	5.0
A dishwasher	7.6	48.6	11.3
A fax machine	5.3	27.8	8.5

Six of the items that appear above the majority support benchmark shown in Table 5 refer to the needs of children and these are also not generally applicable, particularly in a study that is focusing on the living standards of older people, very few of whom are living with dependent children (defined as those aged 17 and under).¹³ These 6 items were thus also excluded. Finally, in an extension of the original SPRC work Saunders and Naidoo (2008) have shown that standard validity and reliability tests used to refine the list of deprivation items (see Gordon, 2006) suggest the removal of a television set, further reducing the list of essential items on which the analysis reported here is based from 26 to 19. For convenience, the 7 omitted items are shown in shading in Table 5.

The 19 identified necessities can be grouped into the following five broad areas of need:¹⁴

- *Basic subsistence needs* – warm clothes and bedding; a substantial daily meal; washing machine; computer skills; furniture in reasonable condition; heating in at least one room.
- *Health needs* – medical treatment if needed; prescribed medications; dental treatment if needed.
- *Accommodation needs* – a decent and secure home; secure locks on doors and windows; roof and gutters that do not leak.
- *Social functioning needs* - regular social contact with others; a telephone; presents for family and friends; an annual holiday.
- *Risk protection needs* – Up to \$500 in emergency savings; home contents insurance; comprehensive motor vehicle insurance.¹⁵

Although the location of some items in one domain rather than another is a matter of judgement (e.g. should home contents insurance be included under accommodation needs or under risk protection?), the five domains encompass most basic needs as identified in other needs studies.

As indicated earlier, the extent of deprivation has been measured using a simple unweighted summed index of the number of essential items that each household is

¹³ The child-related items were kept in the original analysis reported in Saunders, Naidoo and Griffiths (2007) because of the interest in estimating the extent and nature of deprivation in families with children. However, this has the effect of making the maximum deprivation score for households with children higher than that for other households, and this can distort comparisons between them.

¹⁴ The identification of groupings of necessary items can be based on statistical analysis (e.g. principal components analysis) although this does not avoid the need to make judgments about the findings, and the heuristic approach of grouping items that meet similar needs together is preferred (although most of the analysis focuses on overall as opposed to item-specific deprivation).

¹⁵ It might be seen as anomalous that a car did not receive majority support for being necessary yet comprehensive motor vehicle insurance did. However, this implies that most people do not regard a car as essential but if there is one it should be adequately insured.

lacking because they cannot afford it. These scores are calculated for individual respondents and averaged across household types in order to compare and assess differences in living standards between the groups identified in Table 3 and, in the case of age pensioners, between the different sub-groups identified in Table 4. Although this is the most common indicator used in deprivation studies, problems arise in the treatment of missing values (i.e. those who did not answer the “Can you afford it?” question). Index scores generally treat these cases as not being deprived of the item, because the alternative would involve excluding all respondents who did not answer all of the questions, which would result in a large decline in sample size and a resulting loss in the efficiency of the estimates.

There is thus the potential for this to induce a bias in the findings if the propensity to not answer the affordability question varies systematically across respondent types. Although analysis of the CUPSE data suggests that this is not an issue in practice, an additional deprivation measure has been used which minimises (but does not avoid entirely) any bias arising from the treatment of missing values. This index is the percentage of respondents in each group who are deprived of a minimum number of the identified necessities. Although selection of the minimum number of items introduces a degree of arbitrariness into the approach, the size of the minimum can be varied and the sensitivity of the results examined. More generally, the use of an indicator of deprivation other than the mean index score allows the robustness of the results to be assessed.

4.4 Other Indicators of Living Standards

Objective Indicators

The information collected in the CUPSE survey allows a number of other objective indicators of living standards to be specified and measured. These indicators are objective in the sense that respondents were asked to provide factual information about their current and past circumstances, although no attempt has been made to use external sources to validate the accuracy of the information provided. The indicators have been grouped into the following four broad areas:

- Access to economic resources other than income;
- Hardship (or missing out);
- Restricted social participation; and
- Financial stress

The indicators used in each area are defined in Table 6, which also provides information on the survey questions on which the indicators are based. Two income measures have been included among the economic resource indicators: weekly gross income and weekly equivalised disposable income.¹⁶ The conceptual limitations of these income variables have already been discussed, as have the limitations of the

¹⁶ The income variables have been derived after setting each response to the mid-point of the indicated income range (set at \$2,500 for those with incomes of \$2,000 or above). Those reporting no or negative income have been excluded.

CUPSE income variable itself. These considerations imply that the income estimates should be treated with caution, although they have been included so that the contrast between these and the other indicators can be assessed.

Most of the remaining indicators have been derived from questions that asked for information about adverse events that were experienced over the last twelve months because of a shortage of money (or lack of affordability). Some of the indicators (particularly those in the hardship/missing out category) are similar to those included as essential items in Table 5. However, whereas the deprivation analysis is based on one's inability to afford essential items *currently*, the analysis of other living standards indicators reflects events that occurred *over the last twelve months*, locating the identification of economic adversity within a longer-term context.

The results presented later are shown as mean values (in relation to the two income measures), the percentage of respondents who reported being in each situation (in relation to access to the other economic resource indicators and lack of control) or the percentage that reported experiencing each adverse event (by indicating that they has experienced the event). The access to economic resources indicators have been defined so that a higher value is indicative of a higher standard of living, whereas the other indicators reflect the incidence of adverse events, so that a higher value implies a lower standard of living (because respondents were asked to tick a box if they had experienced the event).

Table 6: Other Objective Living Standards Indicators

Indicator/descriptor	Description and Definition
<i>Access to economic resources:</i>	
Gross weekly income	Derived from mid-points of income ranges
Equivalised weekly disposable income	As above, with taxes imputed and the OECD equivalence scale applied
Level of assets (Assets)	% with at least \$50,000 in assets (net of home and superannuation)
Level of savings (Savings)	% that has at least \$2,000 in savings for use in an emergency
<i>Hardship/missing out:</i>	
<u>Over the last 12 months</u> , because of a lack of affordability:	
Went without food when hungry (No food)	Response to multiple choice question
Got behind with rent or mortgage (Got behind)	Response to multiple choice question
Had to move house (Moved house)	Response to multiple choice question
Wore bad-fitting or worn-out clothes (Worn-out clothes)	Response to multiple choice question
Could not afford to see a doctor (Missed doctor)	Response to multiple choice question
Could not afford to see a dentist (Missed dentist)	Response to multiple choice question
Unable to buy prescribed medicines (Missed prescriptions)	Response to multiple choice question
Has not spent \$100 or more on a 'special treat' for self (No special treat)	Response to multiple choice question
<i>Restricted social participation:</i>	
<u>Over the last 12 months</u> , because of a shortage of money:	
Couldn't go out with friends because unable to pay one's way (Unable to pay way)	Response to multiple choice question
Unable to attend a wedding or funeral (Missed wedding or funeral)	Response to multiple choice question
Does not have a social life (No social life)	Response to multiple choice question
No participation in social or community activities (No community participation)	Did not participate in volunteering, educational, religious, cultural, sport or political activities
<i>Financial stress:</i>	
<u>Over the last 12 months:</u>	
Could not keep up with domestic utility bills (Unpaid bills)	Response to multiple choice question
Had to pawn or sell something or borrow money (Pawned, sold or borrowed)	Response to multiple choice question
Sought assistance from a welfare agency (Welfare assistance)	Response to multiple choice question
Unable to raise \$2,000 in a week in an emergency (Can't raise \$,2000)	Response to multiple choice question

Source: CUPSE survey.

Subjective Indicators

The subjective indicators are differentiated from the objective indicators described above by the fact that the questions from which they were derived make explicit reference to the perceptions of respondents, either by asking them to rate or assess different aspects of their lives, or to indicate how satisfied they are with different aspects of their circumstances, or to provide an assessment of their circumstances. The full list of subjective living standard indicators is presented and described in Table 7. The subjective indicators have all been defined so that a higher value is indicative of a higher (perceived) standard of living.

Table 7: Subjective Living Standards Indicators

Indicator/descriptor	Description and Definition
Self-rated standard of living (SOL rating)	% who rate SOL very high or high Mean score on a 5-point scale
Satisfaction with standard of living (Satisfaction with SOL)	% who are very satisfied or fairly satisfied Mean score on a 5-point scale
Satisfaction with financial situation (Satisfaction-financial)	% who rank 8-10 on a 10-point scale Mean score on a 10-point scale
Satisfaction with current accommodation (Satisfaction-accommodation)	% who are very satisfied or fairly satisfied Mean score on a 5-point scale
Satisfaction with location (Satisfaction-location)	% who are very satisfied or fairly satisfied Mean score on a 5-point scale
Satisfaction with care and support received from family and friends (Satisfaction-care & support)	% who are very satisfied or fairly satisfied Mean score on a 5-point scale
Happiness (Happiness)	% who are very happy or happy Mean score on a 4-point scale
Subjective health status (Health status)	% who say their health is excellent or good Mean score on a 4-point scale
Self-assessed as poor (Not poor)	% who identified themselves as not poor
Unable to manage on current income (Income managing)	% who indicated that they do have just or more than enough to get by on
Degree of choice and control over your own life and the things that happen to you (Has control)	% who report a score of 8-10 on a 10-point scale Mean score on a 10-point scale
<u>Over the last 12 months:</u>	
Often felt too sick to get out of bed in the morning (Too sick)	Response to multiple choice question
Felt depressed and lacking in self-esteem (Depressed)	Response to multiple choice question
Often felt anxious about one's problems (Anxious)	Response to multiple choice question
Felt isolated and lonely (Isolated & lonely)	Response to multiple choice question

Because of the nature of both the objective and subjective indicators, a degree of caution must be applied when drawing conclusions from the results presented. There are several reasons for this. First, the accuracy and reliability of the data provided and the meaning of some of the indicators may be open to interpretation: for example, how are 'bad-fitting or worn-out' clothes or a 'special treat' perceived by respondents in different situations, and to what extent does the absence of the latter reflect a lack of resources or the choice to live a modest or frugal lifestyle? These issues of meaning and interpretation become even more problematic in the case of the subjective indicators, where the information provided reflects (as it should) the perceptions, aspirations and disappointments of those surveyed.

Although questions can be raised about the quality of the information provided in response to questions seeking information about subjective perceptions (particularly in postal surveys like CUPSE, where there is no opportunity to query or follow-up the responses provided), there is a general consensus that such information is broadly consistent with more objective data. As one recent UK study of well-being among older people has noted:

'However imprecisely defined, Government studies have used measures of happiness and satisfaction, as reported by respondents themselves, to compare levels of wellbeing between various groups of people. There

does seem to be consistency between the findings and a general confidence in the measures of wellbeing.’ (Allen, 2008: 13)

Having said this, however, it would not be appropriate to place too much weight on the implications drawn from any single indicator. It is important to remember that they are indicators, not measures, and thus provide signposts that point in particularly directions or highlight likely trends. For this reason, the wisest approach is to base assessments on what a range of indicators, *taken together*, rather than relying exclusively on what is revealed by any one indicator, taken in isolation. If all indicators point in a similar direction, one can have greater confidence that they are capturing the underlying reality than if the different indicators point in different directions.

A more challenging problem relates to the use of indicators to compare the circumstances (e.g. living standards) of different groups. The problem that arises here relates to the possibility that the benchmarks used by different groups when they formulate their responses may differ. These possibilities reflect the existence of preference drift or preference adaption effects – the tendency for expectations to mirror actual experience, with the result (for example) that those that are less well-off lowering their expectations and thus expressing increased satisfaction relative to the reduced benchmark of comparison. These effects can distort the between-group comparisons, because the circumstances that are used differentiate between the groups – age, labour force status, disability and sole parenthood – may be associated with preference drift effects that will dilute the observed differences.

Related to this issue is the general problem that arises when comparing the circumstances of groups that differ systematically by age using point-in-time or cross-section data. It is not possible with such data to identify the impact of cohort effects that can systematically distort the comparisons and lead to inappropriate conclusions. People at different points in their life cycle will also differ in relation to factors such as income, accumulated assets and health status, all of which will affect the indicator comparisons, directly and indirectly.

Of relevance in this context is an important UK study that has produced evidence showing that, contrary to the findings of cross-section studies, longitudinal studies suggest that:

‘... as people move on in life and their activities become more restricted, they find it more difficult to ensure that their limited income meets the basics of material consumption listed in deprivation indicators’ (Berthoud, Blekesaune and Hancock, 2006: 94)

This finding is at odds with the findings to emerge from cross-section studies, which indicate that:

‘Pensioners have lower average incomes, and a higher risk of income-poverty, than adults below pensionable age. But structured measures of living standards, or of ‘deprivation’, have suggested that pensioners do not experience as much hardship as might be expected. And it has been shown that pensioners tend to spend less than their income. The contrast between these perspectives is potentially important, either for an assessment of the

living standards of older people, or for an assessment of the validity of measures of living standards' (Berthoud, Blekesaune and Hancock, 2006: 1)

This research suggests that the relationship between age and deprivation reflects a cohort effect and two offsetting ageing effects. The cohort effect captures the lower expectations of earlier generations, which allows them to exert tighter control over their spending and thus be more efficient at converting income into a standard of living. The beneficial ageing effect captures the impact of increased restriction on activities, which reduces expectations and results in greater acceptance of and contentment with the kinds of consumption items included in deprivation indicators. The detrimental ageing effect works in the opposite direction, with increased restriction on activities reducing the ability of income to meet the needs implied by deprivation indicators. It is the existence of this latter effect that casts doubt on the standard finding that deprivation tends to decline with age in a cross-section sample, since it suggests that deprivation increases as individuals age.

It is not possible to isolate these separate effects in Australia using the CUPSE data which provides only a cross-section (point in time) snapshot of deprivation and living standards. It might be possible to examine this issue using the longitudinal data collected in the HILDA survey, although this has not been attempted (and will, in any case, be limited by the restricted number of deprivation indicators available). It is, however, another important issue to be borne in mind when interpreting the results.

5 Comparisons by Main Source of Income Categories

5.1 Deprivation

The measurement of deprivation has been based on those who do not have and cannot afford the truncated list of 19 ‘essentials of life’ identified in Table 5 using two indicators: the mean score index, derived by summing the number of deprivations for each individual and then averaging across demographic groups; and the incidence of multiple deprivation, specified as the percentage in each group who are deprived of a minimum number of items.

Table 8 shows, for each of the main income source categories described earlier, the mean deprivation scores and the percentages who are deprived of up to 10 of the identified essentials of life. On average, the self-funded retiree group experiences very little deprivation (mean score = 0.09), whereas age and veteran’s affairs pensioners are both deprived of about one essential item on average, low-wage workers are deprived of around 2 items on average, disability pensioners are deprived of about 3 items on average, and Parenting Payment and Newstart Allowance recipients are both deprived of more than four items on average. It is important to remember that the approach used to identify deprivation depends on there being majority support *among the community at large* for items that are regarded as essential *for everyone*. It is thus not the views of members of these groups themselves that determine whether or not they are deprived and how much deprivation they face, but a benchmark that reflects community opinion.¹⁷

Using this benchmark, the results in Table 8 suggest that members of the age pensioner group (the column entries shown in bold) are, on average, worse off than self-funded retirees, have a similar living standard to those receiving a Veteran’s Affairs Pension, but considerably better-off than low-wage workers and those receiving either a Disability Support Pension, Parenting Payment or Newstart Allowance.

The ranking of groups by the incidence of multiple deprivation is similar to that based on the mean index scores. Since the patterns are similar across all the multiple deprivation categories, discussion will focus on the incidence of those in each group who are deprived of four or more essential items (the row estimates shown in bold in Table 8). When this measure is applied, the incidence of deprivation in the CUPSE community sample as a whole is 14.2 per cent – around one-in-seven (Saunders, Naidoo and Griffiths, 2007: Table 5). Given that this indicator reflects multiple deprivation, it is less convincing to claim that deprivation is the result of individual preference as opposed to a consequence of a lack of resources.

¹⁷ If the percentage of the total CUPSE sample that regards each item as essential shown in Table 5 was replaced by the percentage of age pensioner recipients as defined here, four additional items would be identified as essential. They are (with percentage support among the age pensioner group in brackets): a car (63.1 per cent); up to \$2,000 in savings for an emergency (61.7 per cent); a special meal once a week (51.0 per cent); and a spare room for guests to stay over (63.9 per cent). This difference reflects the fact that there is a general tendency for a higher percentage of older people to regard items as essential than other respondents, although the differences are not that large and will not exert a large impact on the results.

Table 8: Deprivation Mean Scores and Multiple Incidence Rates, by Main Income Category

Indicator	Income Category:						
	Low-wage Worker	Self-funded Retiree	Age Pensioner ^(b)	Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
<i>Mean deprivation index score:</i>	2.14	0.09	0.99 (3)	0.87	3.01	4.63	4.18
<i>Incidence of multiple deprivation (number of items lacking and unaffordable):</i>							
0	43.1	93.9	61.2 (3)	71.7	24.3	11.5	12.8
At least 1	56.9	6.1	38.8 (3)	28.3	75.7	88.5	87.2
At least 2	44.5	2.0	21.2 (2)	28.3	59.5	73.1	74.4
At least 3	31.7	1.0	14.7 (2)	15.2	48.6	69.2	66.7
At least 4	23.8	0.0	9.8 (3)	8.7	32.4	57.7	59.0
At least 5	19.3	0.0	7.2 (3)	4.3	24.3	48.1	51.3
At least 6	13.4	0.0	3.9 (3)	2.2	21.6	38.5	33.3
At least 7	10.4	0.0	2.3 (3)	0.0	13.5	28.8	20.5
At least 8	4.9	0.0	1.3 (3)	0.0	8.1	15.4	12.8
At least 9	3.5	0.0	0.3 (3)	0.0	5.4	13.5	7.7
At least 10	2.5	0.0	0.0 (1=)	0.0	4.0	9.6	2.6

Notes: (a) Percentages are expressed after omitting missing values; (b) Figures in brackets show ranking.

Source: CUPSE survey.

On this measure, none of the self-funded retiree group is deprived, whereas deprivation affects around 10 per cent of age and veteran's affairs pensioners, close to a quarter of low-wage workers, almost a third of disability pensioners and well over half of those receiving Parenting Payment and Newstart Allowance. These estimates thus suggest that while a significant proportion of those receiving an age pension are facing a moderately high level of multiple deprivation, there are several other groups dependent on government income support who face higher deprivation and thus a lower standard of living.

Having explored the overall level and severity of deprivation, Table 9 shows the separate deprivation incidence rates for all 19 essential items for each of the seven main income source categories. Although it would also have been of interest to examine the item-specific deprivation rates among those who are defined as deprived in overall terms, small sample size prevents this from being undertaken – here and when discussing the breakdown within the age pensioner group later. A greater degree of caution applies to these results, since differences in the individual item deprivation rates are more likely to reflect variations in individual preferences than the aggregate rates discussed above.

With this caveat in mind, the three essential items that age pensioners are most likely to be deprived of are (in order) a week's holiday away from home each year, dental treatment when needed and computer skills. While the latter item may reflect the recent rapid growth of computer-related IT technology that older people may not feel it is worth the effort to master, the other items are among the most common examples of deprivation among the community generally. The next three items where age pensioner deprivation is most prevalent all relate to efforts to protect against unforeseen risks: up to \$500 in emergency savings, comprehensive motor vehicle and home contents insurance. The fact that many age pensioners are unable to afford to protect themselves from risks in this way suggests that their standard of living does

not meet what the community regards as acceptable. The ranking of deprivation rates across the essential items for the other income groups is similar to that for age pensioners and is not discussed further.

Table 9: Essential Item Deprivation Rates Among Main Income Source Categories (percentages) ^(a)

Item	Low-wage Worker	Self-funded Retiree	Age Pensioner ^(b)	Income Category:			
				Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
Medical treatment, if needed	4.0	1.1	1.4 (3)	0.0	2.9	10.2	22.0
Warm clothes and bedding if it's cold	0.5	0.0	0.0 (1=)	0.0	0.0	2.0	2.6
A substantial meal at least once a day	2.6	0.0	0.7 (3)	0.0	11.3	3.9	10.3
Able to buy prescribed medicines	11.7	1.0	2.1 (3)	0.0	11.6	12.8	16.7
Dental treatment, if needed	27.5	2.1	13.1 (3)	2.4	31.9	54.0	44.7
A decent and secure home	10.4	1.0	6.5 (2)	7.3	20.3	44.0	23.1
Regular social contact with others	11.2	0.0	6.0 (3)	5.0	17.4	15.2	20.6
Secure locks on doors & windows	10.2	1.1	6.6 (3)	10.0	13.2	15.7	7.7
A roof and gutters that do not leak	8.7	0.0	4.1 (3)	2.5	7.3	20.8	10.3
Furniture in reasonable condition	4.7	0.0	1.4 (3)	0.0	13.1	21.6	5.3
Heating in at least one room	5.6	0.0	1.4 (2)	2.5	6.3	12.0	5.1
A telephone	2.5	0.0	0.4 (3)	0.0	3.2	15.7	13.2
Up to \$500 in emergency savings	32.1	0.0	10.2 (2)	17.5	42.6	56.9	53.8
A washing machine	2.1	0.0	0.4 (3)	0.0	1.6	3.9	10.5
Home contents insurance	19.2	0.0	8.3 (3)	2.6	29.8	52.9	55.6
Presents for family or friends	12.1	0.0	7.4 (3)	4.6	24.6	28.3	29.7
Computer skills	7.6	1.1	11.2 (3)	16.2	19.4	16.0	18.9
Comprehensive MV insurance	9.8	0.0	8.5 (3)	7.9	31.7	36.7	36.8
A week's holiday away from home	40.2	2.2	23.6 (3)	21.9	52.2	64.6	69.4

Notes: (a) Percentages are expressed after omitting missing values; (b) Figures in brackets show ranking.

Source: CUPSE survey.

5.2 Objective Indicators

The objective indicators shown in Table 10 have been separated into the four main areas described earlier. The first represents the *level of access* to economic resources other than income, the second reflects the *consequences* of trying to manage on an inadequate level of resources (income and other elements), and the third and fourth seek to capture more directly the *outcomes* associated with not having enough – in terms of hardship and reduced or restricted social participation. The results show the mean value of each indicator across each of the seven main income source categories and the ranking of the age pensioner category within the seven categories (where a

higher ranking is indicative of a higher standard of living for the first two indicators, and a lower ranking implies a higher standard of living for the remaining indicators).

Table 10: Objective Indicators of Standard of Living, by Income Category (percentages) ^(a)

Indicator	Income Category:						
	Low-wage Worker	Self-funded Retiree	Age Pensioner ^(b)	Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
<i>Access to economic resources:</i>							
Gross income	660.7	970.8	383.6 (6)	559.5	387.2	473.6	268.4
Equivalised disposable income	304.3	487.1	227.2 (4)	293.2	202.0	214.6	160.1
Assets	53.2	92.8	50.6 (4)	52.1	28.9	9.4	15.4
Savings	37.3	96.8	68.9 (3)	69.0	29.0	12.0	22.2
<i>Financial stress:</i>							
Unpaid bills	21.5	2.0	5.3 (6)	16.7	48.7	62.3	48.7
Pawned, sold or borrowed	13.2	0.0	1.9 (6)	4.2	17.1	30.2	23.1
Welfare assistance	3.9	0.0	0.6 (6)	2.1	13.2	26.4	25.6
Can't raise \$,2000	21.5	2.0	18.4 (5)	16.7	48.7	62.3	48.7
<i>Hardship/missing out:</i>							
No food	8.3	0.0	0.9 (6)	2.1	10.5	17.0	12.8
Got behind	15.6	0.0	0.9 (6)	2.1	13.2	35.8	15.4
Moved house	2.4	0.0	2.2 (6)	4.2	7.9	17.0	12.8
Worn-out clothes	18.5	2.0	4.7 (5)	2.1	22.4	43.4	30.8
Missed doctor	8.8	1.0	1.9 (5)	0.0	3.9	17.0	7.7
Missed dentist	27.8	2.0	10.0 (5)	4.2	31.6	45.3	33.3
Missed prescriptions	11.2	1.0	2.2 (5)	2.1	13.2	22.6	12.8
No special treat	36.6	14.6	51.6 (4)	32.6	64.8	64.2	56.4
<i>Restricted social participation:</i>							
Unable to pay way	38.1	3.1	14.7 (5)	12.5	43.4	64.1	56.4
Missed wedding or funeral	4.4	0.0	2.2 (4)	0.0	6.6	7.5	12.8
No social life	14.5	12.9	19.6 (5)	29.5	33.8	33.3	26.3
No community participation	30.7	15.3	39.4 (3)	39.6	57.9	30.2	33.3

Notes: (a) Percentages are expressed after omitting missing values; (b) Figures in brackets show ranking.

Source: CUPSE survey.

Given the large amount of evidence presented, it is necessary to focus on specific aspects of the findings. With this in mind, the discussion concentrates on what the results in general imply for the comparative ranking of the age pensioner group in terms of their standard of living. Looking first at the economic resource indicators, the two income measures differ in absolute value (reflecting the impact of the progressive income tax and differences in household size and structure between the groups), but the relative position of the groups is broadly unchanged. Age pensioners appear much better on the latter measures, primarily because they live in households with fewer people (i.e. no children) than all of the other groups. The equivalised disposable income relativities are well below those for gross income because of the nature of the tax system plus the fact that income and household size are positively related. The between-group equivalised disposable income relativities in Table 10 differ from the

deprivation score relativities shown in Table 8, with age and veteran's affairs pensioners appearing better on a deprivation basis and low-wage workers worse.

Turning to the other indicators (and acknowledging the limitations of the income measures), it is clear that in terms of having both at least a modest level of assets and short-run access to \$2,000 in savings, the age pensioner group fares well relative to the other groups. On both measures, the age pensioner group ranks behind self-funded retirees, similar to the veteran's affairs pensioner group (and, on the assets measure, similar to low-wage workers), but well ahead of the Disability Support Pension, Parenting Payment and Newstart Allowance groups.

In terms of financial stress, the living standards of the age pensioner group rank even higher – 5th or 6th out of 7, where a rank of 7 implies the highest living standard – achieved in all four cases by the self-funded retiree group. Across all of the outcome-focused indicators, the ranking of the age pensioner group varies between 4th and 6th, with a modal (and median) rank of 5th. These comparisons reinforce the fact that self-funded retirees enjoy a higher living standard than age pensioners in all dimensions, but they also highlight the dire circumstances of Parenting Payment recipients (mainly sole parents), who rank lowest on all but four of the indicators. The age pensioner group ranks closest to the veteran's affairs pensioners, followed by low-wage workers.¹⁸

Across all 16 indicators, the age pensioner group fares better than low-wage workers in all but three instances - no special treat, no social life and no community participation. It is possible that in relation to the latter two items, the reason has less to do with available resources than with factors such as ease of mobility and membership of social networks. Finally, the age pensioner group experiences lower rates of deprivation than the disability support pensioner group across all 18 indicators, often considerably so. Despite being eligible for a higher payment, the indicators imply that living standards of disability support pensioners are similar to those receiving Newstart Allowance – a finding that may reflect the adverse impact of the greater needs (and hence higher costs) among those with a disability (Saunders, 2007).

5.3 Subjective Indicators

The satisfaction-based subjective indicators in Table 11 reveal a consistent ranking of the different groups across all dimensions. Self-funded retirees rank highest on all 12 indicators, followed by age and veteran's affairs pensioners in most cases, these two groups having similar scores. Next comes low-wage workers, followed by the Disability Support Pension, Parenting Payment and Newstart Allowance groups – all of which have similar scores across all of the indicators. The gap between the indicator scores for the age and disability pensioner groups is large, but generally less so than the gap between the objective indicators for these two groups shown in Table 8.

¹⁸ The different main income source categories are likely to vary in terms of family size and structure, with some more likely to have children than others. However, the impact of these differences in need should be captured by the deprivation indicators, as explained earlier, negating the need to adjust the estimates using an equivalence scale.

The fact that the implied standard of living ranking of the age pensioner group is somewhat higher using the satisfaction indicators than the objective indicators is consistent with a number of alternative explanations. The first is that there is some degree of preference adaption taking place, so that older people adjust to their reduced objective circumstances more readily than other groups. Another explanation is that many older people's aspirations decline naturally as they age (irrespective of their actual circumstances at younger ages), allowing them to maintain their level of satisfaction despite lower living standards. The third is that the needs of older people are declining in ways that are not adequately captured in the indicators, so that a given level of resources is capable of supporting a higher standard of living. There is probably an element of truth in all three explanations, although more work is required to establish the role of each of them.

The patterns revealed by the second set of subjective indicators shown in Table 12 is very similar to that shown in Table 11, the main difference being the lower ranking of the age pensioner group on the questions relating to subjective health status and the incidence of feeling too sick to get out of bed in the morning. The ranking of the other groups is similar to that already described, although the health status indicators display somewhat different patterns, reflecting the cross-sectional relationship between health, disability and age.

As indicated earlier, because of the nature of the indicators used and the problems associated with interpreting their implications unambiguously, it is wise to base any conclusions on what the indicators suggest as a whole, rather than drawing inferences from specific indicators. In fact, however, the picture implied by most of the individual indicators and by the complete set is similar in this case.

Because the primary focus of this paper is on what the deprivation indicators reveal about the standard of living of different groups, attention is focused on this aspect of the findings. The results in Tables 8 and 9 show consistently that the age pensioner group faces a relatively low level of deprivation – in aggregate (Table 8) and across specific items (Table 9). Although the age pensioner group faces higher deprivation and thus a lower standard of living than the self-funded retirees group, it faces a similar level of deprivation as the veteran's affairs pensioner group, and in virtually all cases shows up as less deprived than the low-wage workers group. The results also show that recipients of the age pensioner for whom it is their principal source of income fare consistently better than those mainly reliant on the disability pension and better off again than those reliant on either Parenting Payment or Newstart Allowance.

Table 11: Satisfaction- Based Subjective Indicators of Standard of Living, by Income Category (percentages) ^(a)

Indicator	Income Category:						
	Low- wage Worker	Self- funded Retiree	Age Pensioner ^(b)	Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
SOL (%)	17.2	45.4	11.0 (3)	11.0	2.7	3.8	5.1
SOL (mean score)	3.0	3.5	2.9 (4)	3.2	2.4	2.4	2.2
Satisfaction with SOL (%)	48.0	84.5	62.8 (3)	73.5	24.6	25.0	25.6
Satisfaction with SOL (mean score)	3.3	4.3	3.6 (3)	3.9	2.7	2.7	2.8
Satisfaction- financial (%)	6.9	61.5	24.0 (3)	41.7	5.6	3.8	7.7
Satisfaction- financial (mean score)	4.9	7.6	5.7 (3)	6.8	3.8	3.7	3.7
Satisfaction- accommodation (%)	77.6	96.8	89.5 (2)	86.7	75.0	58.5	69.2
Satisfaction- accommodation (mean score)	4.0	4.7	4.4 (3)	4.4	3.9	3.5	3.8
Satisfaction- location (%)	81.9	96.8	88.3 (3)	91.3	74.7	66.0	82.1
Satisfaction- location (mean score)	4.1	4.71	4.4 (3)	4.5	4.0	3.7	4.1
Satisfaction-care & support (%)	76.5	92.3	86.2 (2)	80.4	72.6	49.0	68.4
Satisfaction-care & support (mean score)	4.1	4.5	4.3 (2)	4.1	3.8	3.3	3.7

Notes: (a) Percentages are expressed after omitting missing values; (b) Figures in brackets show ranking.

Source: CUPSE survey.

Table 12: Other Subjective Indicators of Standard of Living, by Income Category (percentages) ^(a)

Indicator	Low-wage Worker	Self-funded Retiree	Age Pensioner ^(b)	Income Category:			
				Veteran's Affairs Pensioner	Disability Support Pensioner	Parenting Payment Recipient	Newstart Allowance Recipient
Happiness (%)	79.9	95.9	88.5 (3)	91.4	58.1	67.3	71.8
Happiness (mean score)	2.8	3.2	3.0 (3)	3.1	2.50	2.6	2.8
Healthy (%)	74.0	73.4	51.5 (6)	60.0	19.2	73.1	56.4
Healthy (mean score)	2.9	2.9	2.5 (6)	2.6	1.90	2.8	2.6
Not poor	81.4	99.0	81.0 (4)	87.2	56.6	50.9	48.7
Income managing	89.2	99.0	94.5 (3)	100.0	74.0	80.8	74.4
Has control (%)	25.7	55.2	38.6 (3)	53.2	21.1	21.1	25.6
Has control (mean score)	6.30	7.4	6.6 (3)	7.1	5.3	5.7	5.79
Too sick	5.4	1.0	13.5 (5)	2.1	22.4	18.9	12.8
Depressed	36.6	7.1	13.4 (3)	6.2	52.6	60.4	51.3
Anxious	43.4	25.5	28.1 (2)	37.5	55.3	71.7	46.1
Isolated & lonely	22.9	4.1	10.9 (2)	16.7	34.2	47.2	35.9

Source: CUPSE survey.

In summary, although the results do not necessarily imply anything about whether or not the Age Pension is adequate at current levels, it does appear to be the case that the Age Pension is more adequate than the existing payments made to people with a disability, Parenting Payment recipients (mainly sole parents) and those whose eligibility for income support is a consequence of unemployment.

6 Comparisons within the Age Pensioner Group

The results in this section examine the various indicators among different sub-groups within the age pensioner group that was the focus of the previous section. The sub-categories on which this analysis is based are identified and defined in Table 4. The format of the analysis follows that used in the previous section, although it is important to bear in mind that the sample sizes are much smaller for this more detailed disaggregation and that this is likely to increase the probability that the observed differences may reflect sampling error. To allow for this possibility, the statistical significance of the estimated differences is assessed and results presented alongside the comparisons.¹⁹

6.1 Deprivation

The mean deprivation index scores and incidence of multiple deprivation across the age pensioner sub-categories are presented in Table 13. The differences in the mean deprivation scores are statistically significant when the groups are differentiated by age, living arrangement and housing tenure, but not when they are differentiated by gender. Although the difference is not statistically significant, females pensioners have a deprivation score that is more than one-quarter (26.4 per cent) higher than that of males.²⁰ Of greater interest is the fact that the mean deprivation score of those aged 75 and over is only half that of the younger age group, despite the older group containing more females (55 per cent) who experience higher deprivation on average than males.

Pensioners living alone face higher deprivation than those living with their partner, the difference in mean deprivation scores being large numerically and significant statistically. However, by far the largest differences are those relating to housing tenure: age pensioners who are renting their homes have a mean deprivation score that is 3.8 times higher than those who are either own their home outright or are paying off a mortgage - the vast majority of whom (almost 95 per cent) are outright owners.

Tests of significance have only been applied to one of the indicators of multiple deprivation – the incidence of four or more items – since the patterns are similar across each of the indicators. The between-group relativities for this measure are similar to those for the deprivation index. However, the differences are statistically significant between groups differentiated by age and housing tenure, but not for those differentiated by gender and living arrangement.

¹⁹ It would have been possible to test for the statistical significance of the differences presented in Section 5, although there is no obvious benchmark against which to assess the estimates for the group whose main source of income is the age pension, and for this reason tests of statistical significance were not conducted.

²⁰ The average age of male and female pensioners in the sample is virtually the same, at 73.4 years for males and 72.3 years for females.

Table 13: Deprivation Mean Scores and Multiple Incidence Rates by Age Pensioner Characteristic ^{(a) (b)}

	Gender:		Age:		Living arrangement:		Housing tenure:	
	Male	Female	Under 75	75 and over	Lives alone	Lives as a couple	Owner/purchaser	Renter
<i>Mean deprivation index score:</i>								
	0.87	1.10	1.21	0.61*	1.34	0.72**	0.68	2.56**
<i>Incidence of multiple deprivation (number of items lacking and unaffordable):</i>								
0	64.7	58.3	56.4	69.6	54.1	65.9	68.7	20.9
At least 1	35.2	41.7	43.6	30.4	45.9	34.1	31.3	79.1
At least 2	19.4	22.6	26.7	11.6	29.6	14.6	14.6	53.5
At least 3	12.9	16.1	17.9	8.9	21.4	9.8	9.9	39.5
At least 4	8.6	10.7	12.3	5.4*	14.3	6.7	5.6	27.9**
At least 5	5.8	8.3	9.2	3.6	12.2	3.7	4.3	20.9
At least 6	2.9	4.8	5.6	0.9	6.1	1.8	1.3	16.3
At least 7	1.4	3.0	3.1	0.9	3.1	0.6	0.9	9.3
At least 8	0.7	1.8	2.1	0.0	1.0	0.6	0.4	7.0
At least 9	0.0	0.6	0.5	0.0	0.0	0.0	0.0	2.3
At least 10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: (a) Percentages are expressed after omitting missing values. (b) An asterisk (**) indicates that the difference in mean deprivation score between the two categories is statistically significant ($p = 0.05/0.01$). Where there is no asterisk the difference is not statistically significant ($p = 0.05$).

Source: CUPSE survey.

Table 14 replicates the earlier Table 9 by showing the deprivation incidence rates of specific items disaggregated by the pensioner characteristics shown in Table 13. The caveat that applies to the earlier results about the impact of differences in individual preferences applies with at least as much force as those shown in Table 14 (possibly more, since the sub-groups may be more likely to bring together pensioners with similar preferences). As before, these results show the item deprivation rates for all of those within each age pensioner category since small sample size prevents a breakdown into only those who are deprived in overall terms. The large volume of material presented in Table 14 cannot be summarized easily and the following discussion describes some of the main features, focusing on the main differences within each characteristic, and on the items where the differences are most pronounced.

Table 14: Essential Item Deprivation Rates By Age Pensioner Characteristics (percentages) ^(a) ^(b)

	Gender		Age		Living arrangement		Housing tenure	
	Male	Female	Under 75	75 and over	Lives alone	Lives as a couple	Owner/purchaser	Renter
Medical treatment, if needed	1.6	1.3	1.1	2.0	2.4	0.6	1.4	2.6
Warm clothes and bedding if it's cold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A substantial meal at least once a day	0.8	0.7	1.1	0.0	0.0	0.0	0.5	2.5
Able to buy prescribed medicines	0.8	3.2	2.1	2.0	4.5	0.6	1.4	4.8
Dental treatment, if needed	11.7	14.3	15.5	8.5	23.2	9.1**	9.1	30.8**
A decent and secure home	5.6	7.4	8.8	2.1*	8.4	4.6	0.5	35.9**
Regular social contact with others	5.8	6.1	5.4	7.1	12.4	0.7**	3.9	15.8
Secure locks on doors & windows	3.1	9.6*	7.3	5.3	8.3	4.0	5.8	10.0
A roof and gutters that do not leak	3.3	4.9	4.5	3.4	5.0	3.5	2.9	5.9
Furniture in reasonable condition	2.4	0.7	1.1	2.1	2.4	0.6	0.9	2.4
Heating in at least one room	0.8	2.0	2.2	0.0	2.4	1.3	0.9	2.5
A telephone	0.8	0.0	0.5	0.0	0.0	0.6	0.0	2.4
Up to \$500 in emergency savings	9.7	10.6	14.0	3.2**	11.5	9.2	7.8	26.3*
A washing machine	0.0	0.7	0.6	0.0	0.0	0.0	0.5	0.0
Home contents insurance	6.2	10.1	12.0	1.1**	15.5	3.3**	2.4	37.5**
Presents for family or friends	6.4	8.3	7.7	6.8	10.4	5.3	3.9	21.6*
Computer skills	7.4	14.7	11.6	10.4	15.3	10.1	9.3	16.2
Comprehensive MV insurance	7.1	9.7	9.4	6.6	11.8	4.5	5.8	23.1*
A week's holiday away from home	23.6	23.6	26.4	17.6	30.8	20.6	20.4	45.9**

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (*/**) indicates that the difference in mean deprivation score between the two categories is statistically significant ($p = 0.05/0.01$). Where there is no asterisk the difference is not statistically significant ($p = 0.05$).

Source: CUPSE survey.

In relation to the differences between each pensioner characteristic grouping, the three items where deprivation among female pensioners exceeds that among males by the largest degree are ability to buy prescribed medications, secure locks on doors and windows and computer skills. The three items where the deprivation rates diverge most between the younger and older groups are a decent and secure home, up to \$500 in emergency savings, and home contents insurance. For the breakdown by living arrangements, the three areas of greatest difference are dental treatment if needed, regular social contact with other people, and home contents insurance. Finally, for the breakdown by housing tenure, the three items where deprivation rates differ most are a decent and secure home, home contents insurance, and presents for family and friends at least once a year.

Some of these differences may reflect, at least in part, differences in how the items have been interpreted by different groups when responding to the CUPSE survey.

Thus, for example, female pensioners may feel more vulnerable and thus be more acutely aware of security risks than males and may be more likely to say that they do not have 'secure' locks on doors and windows. Other differences such as not having up to \$500 in emergency savings may also reflect the fact that some groups (e.g. older pensioners) may feel that they are less likely to face such an emergency than those who are younger. For all of these reasons, the results in Table 14 need to be interpreted with care.

Despite these reservations, the most important implication of the results presented in Table 14 is that the deprivation rate differences based on the latter two characteristics – living arrangements and housing tenure – are far greater than those based on either gender or age. Living arrangements and housing tenure also account for most of the cases where the differences are significant. The five items that display the greatest difference between the sub-groups of age pensioners are dental treatment if needed, regular social contact with other people, up to \$500 in emergency savings, home contents insurance, and a week's holiday away from home each year. These overlap with the items that have the highest deprivation rates (see Table 9), although this outcome is not inevitable.

6.2 Objective Indicators

The comparisons shown in Table 15 replicate those presented in Table 9 for sub-groups based on the characteristics of those in the age pensioner group, as opposed to comparing across groups differentiated by their principle source of income. Many of the differences shown are not statistically significant, and those that are relate to the classifications based on living arrangement (single versus couple) and housing tenure (owner/purchasers versus renters). Four of the five instances where the difference is significant for these classifications relate directly or indirectly to the economic circumstances of the groups being investigated: lack of assets; low savings; an inability to raise funds in an emergency; and not being able to pay ones way when out with friends. This thus provides reasonably compelling evidence that the standard of living of single pensioners is below that of couples, as is that of renters compared with owner/purchasers.

Table 15: Objective Indicators of Standard of Living, by Income Category (percentages) ^{(a) (b)}

	Gender		Age		Living arrangement		Housing tenure	
	Male	Female	Under 75	75+	Lives alone	Lives as a couple	Owner/purchaser	Renter
<i>Access to economic resources:</i>								
Assets	55.9	46.2	48.5	54.2	41.0	58.9**	56.7	27.7**
Savings	71.4	66.7	67.6	71.3	59.8	72.3	77.5	35.0**
<i>Financial stress:</i>								
Unpaid bills	6.2	4.6	8.0	0.8**	6.9	3.0	4.1	12.5
Pawned, sold or borrowed	0.7	2.9	3.0	0.0	1.0	1.8	0.4	6.3
Welfare assistance	0.7	0.6	1.0	0.0	0.0	0.6	0.0	4.2
Can't raise \$,2000	18.6	18.3	20.5	15.0	20.6	16.1	13.3	43.8**
<i>Hardship/missing out:</i>								
No food	0.7	1.1	1.5	0.0	1.0	0.6	0.4	4.2
Got behind	0.7	1.1	1.0	0.8	2.0	0.6	0.0	6.3
Moved house	1.4	2.9	3.0	0.8	4.9	1.2	0.4	12.5*
Worn-out clothes	2.1	6.9*	5.5	3.3	2.9	4.2	3.7	4.2
Missed doctor	0.7	2.9	2.5	0.8	2.9	0.6	1.7	4.2
Missed dentist	11.7	8.6	13.0	5.0*	11.8	8.3	9.1	14.6
Missed prescriptions	0.7	3.4	2.5	1.7	3.9	1.2	1.2	6.3
No special treat	55.6	48.2	49.0	56.0	53.1	52.1	48.7	59.6
<i>Restricted social participation:</i>								
Unable to pay way	15.2	14.3	19.5	6.7**	19.6	13.7	10.4	33.3**
Missed wedding or funeral	2.8	1.7	3.0	0.8	2.9	1.2	1.7	4.2
No social life	20.9	18.5	18.6	21.5	26.3	14.4*	20.6	15.9
No community participation	46.2	33.7*	35.5	45.8	43.1	31.0*	35.7	47.9

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (**/*) indicates that the difference in mean deprivation score between the two categories is statistically significant ($p = 0.05/0.01$). Where there is no asterisk the difference is not statistically significant ($p = 0.05$).

Source: CUPSE survey.

6.3 Subjective Indicators

The results in Tables 16 and 17 show the differences in the two sets of subjective indicators between the age pensioner categories that correspond to those presented for the different main income source categories in Tables 11 and 12, respectively. As before, the asterisks (*) indicate that the difference in the estimates for the two categories is statistically significant.

Table 16: Satisfaction- Based Subjective Indicators of Standard of Living, by Income Category (percentages) ^{(a) (b)}

Indicator	Gender		Age		Living arrangement		Housing tenure	
	Male	Female	Under 75	75+	Lives alone	Lives as a couple	Owner/purchaser	Renter
SOL (%)	8.5	13.2	9.7	13.3	14.6	8.0	10.8	12.5
SOL (mean score)	2.82	2.97*	2.90	2.91	2.80	2.95	2.97	2.67*
Satisfaction with SOL (%)	60.3	64.9	63.8	61.1	61.5	67.5	67.2	50.0*
Satisfaction with SOL (mean score)	3.47	3.6	3.55	3.58	3.53	3.63	3.66	3.23*
Satisfaction-financial (%)	17.5	29.6*	21.5	28.2	24.7	23.5	28.4	11.1**
Satisfaction-financial (mean score)	5.48	5.85	5.52	5.95	5.46	5.81	5.98	4.56**
Satisfaction-accommodation (%)	90.0	89.2	89.7	89.2	83.3	94.5**	96.2	67.4**
Satisfaction-accommodation (mean score)	4.44	4.43	4.43	4.45	4.30	4.57*	4.60	3.86**
Satisfaction-location (%)	88.0	88.6	86.2	92.1	88.9	89.5	92.7	80.0*
Satisfaction-location (mean score)	4.37	4.36	4.32	4.43	4.26	4.48*	4.50	4.02**
Satisfaction-care & support (%)	87.0	85.4	84.1	89.9	82.3	87.6	87.0	81.8
Satisfaction-care & support (mean score)	4.35	4.25	4.23	4.41	4.15	4.39*	4.34	3.98*

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (*/**) indicates that the difference in mean deprivation score between the two categories is statistically significant ($p = 0.05/0.01$). Where there is no asterisk the difference is not statistically significant ($p = 0.05$).

Source: CUPSE survey.

Of the total of 96 differences shown in these two tables (24 indicators across four pension sub-categories), there are 16 instances where the difference is statistically significant. As in the case of the deprivation and objective indicators presented earlier, the significant differences are concentrated among groups classified according to their living arrangements (4 cases) and housing tenure (10 cases). These results again highlight the important role that housing tenure (and living alone) play in affecting the standard of living of those who are dependent on an Age Pension. The three areas of subjective well-being that feature most prominently among the significant cases are satisfaction with financial situation, satisfaction with location, and (most particularly) satisfaction with accommodation. Of concern also is the finding that the subjective health status of age pensioners who are renting is significantly lower than that of owner/purchaser age pensioners.

Although many of the differences shown in these two tables are not statistically significant (a reflection of the large standard errors associated with small sample size), it is notable that the estimates themselves consistently show that age pensioners living alone and those who are renting have a lower level of subjective well-being than those living as a couple and owner/purchasers, respectively. The estimates thus

present a consistent picture of relative well-being between the different pensioner categories, even though the statistical analysis is not able to confirm the robustness of this in many instances.

Table 17: Other Subjective Indicators of Standard of Living, by Income Category (percentages) ^{(a) (b)}

Indicator	Gender		Age		Living arrangement		Housing tenure	
	Male	Female	Under 75	75+	Lives alone	Lives as a couple	Owner/purchaser	Renter
Happiness (%)	87.8	89.1	87.7	89.9	84.0	91.9	90.7	81.3
Happiness (mean score)	2.96	3.02	3.00	2.99	2.95	3.06	3.04	2.90
Healthy (%)	48.9	53.8	54.2	46.8	45.7	54.0	55.5	39.5
Health status (mean score)	2.48	2.55	2.57	2.42	2.43	2.55	2.56	2.42
Not poor	76.9	84.4	80.0	82.6	78.9	83.3	85.2	67.4*
Income managing (%)	33.6	45.5*	39.5	41.1	33.7	42.6	48.5	8.5**
Income managing (mean score)	2.29	2.40	2.33	2.37	2.26	2.37	2.43	2.02**
Has control (%)	35.9	40.8	37.9	39.7	46.4	37.7	42.1	31.9
Choice & control (mean score)	6.50	6.62	6.56	6.58	6.76	6.55	6.77	6.00*
Too sick	2.8	1.7	3.0	0.8	2.0	2.4	1.7	4.2
Depressed	11.0	15.4	14.5	11.7	11.8	12.5	11.2	12.5
Anxious	21.4	33.7*	25.5	32.5	35.3	24.4	24.9	41.7*
Isolated & lonely	9.7	12.0	12.0	9.2	20.6	3.6**	7.9	20.8*

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (**/*) indicates that the difference in mean deprivation score between the two categories is statistically significant ($p = 0.05/0.01$). Where there is no asterisk the difference is not statistically significant ($p = 0.05$).

Source: CUPSE survey.

One of the factors that has emerged as important determinant of the living standards of the different pensioner categories in the above analysis is housing tenure, specifically whether the person owns (or is purchasing) their home or is renting. The comparisons have treated renters as a single group, despite the differences that may exist between those renting in the private sector and those in social housing provided through the public sector. This decision was taken to maintain a reasonably large sample size, given that the renter category as a whole only contains 48 cases (Table 4).

It is, however, of interest to examine and compare the circumstances of the two groups of pensioner renters, and this is done in Table 18. These results compare the living standards of private and public renters using the incidence of deprivation among all 19 essential items, the mean deprivation score across these items, and the other objective and subjective well-being indicators described above.

The numbers involved are very small and this greatly reduces the probability that the differences are statistically significant, as is borne out by the fact that there are only two instances where the differences are statistically significant. One of these cases relates to the economic circumstances (assets) where the difference was statistically significant in the earlier analysis (Table 15). These findings thus reinforce the importance of housing tenure as a determining factor in the standard of living of age

pensioners. It is also worth noting that the ranking of the two groups varies according to which indicator is used. Thus, many of the estimates of the incidence of deprivation and mean deprivation scores suggest that private renters are faring worse than public renters. There are, however, individual instances where the opposite is the case. Interestingly, for the four items that relate specifically to accommodation conditions - a decent and secure home, secure locks on doors and windows, a roof and gutters that do not leak, and home contents insurance – those who are renting in the public sector show up as having a considerably lower standard of living than those renting privately.

Table 18: Indicators of Disadvantage among Renting Age Pensioners, by Rental Sector (percentages) ^{(a) (b)}

Deprivation Item	Incidence of deprivation:		Other Objective Indicators	Private renters	Public renters	Selected Subjective Indicators (mean scores)	Private renters	Public renters
	Private renters	Public renters						
Medical treatment, if needed	0.0	6.2	Assets	45.8	8.7**	SOL	2.76	2.57
Warm clothes and bedding if it's cold	0.0	0.0	Savings	47.6	21.1	Satisfaction with SOL	3.12	3.35
A substantial meal at least once a day	4.5	0.0	Unpaid bills	8.0	17.4	Satisfaction-financial	4.57	4.55
Able to buy prescribed medicines	8.3	0.0	Pawned, sold or borrowed	0.0	8.7	Satisfaction-accommodation	3.91	3.81
Dental treatment, if needed	36.4	23.5	Welfare assistance	0.0	8.7	Satisfaction-location	4.00	4.05
A decent and secure home	42.9	27.8	Can't raise \$,2000	36.0	52.2	Satisfaction-care & support	3.65	4.33*
Regular social contact with others	18.2	12.5	No food	4.0	4.4	Happiness	2.80	3.00
Secure locks on doors & windows	4.5	16.7	Got behind	4.0	8.7	Healthy	2.52	2.30
A roof and gutters that do not leak	0.0	14.3	Moved house	12.0	13.0	Income managing	1.96	2.09
Furniture in reasonable condition	4.3	0.0	Worn-out clothes	0.0	8.7	Choice & control	5.71	6.30
Heating in at least one room	4.5	0.0	Missed doctor	4.0	4.3			
A telephone	4.5	0.0	Missed dentist	8.0	21.7			
Up to \$500 in emergency savings	40.0	11.1	Missed prescriptions	8.0	4.3			
A washing machine	0.0	0.0	No special treat	50.0	69.6			
Home contents insurance	26.1	52.9	Unable to pay way	28.0	39.1			
Presents for family or friends	23.8	18.7	Missed wedding or funeral	0.0	8.7			
Computer skills	14.3	18.7	No social life	13.6	18.2			
Comprehensive MV insurance	19.0	27.8	No community participation	44.0	52.2			
A week's holiday away from home	47.6	43.7						
Mean deprivation score	2.67	2.42						

Notes: (a) Percentages are expressed after omitting missing values. (b) An asterisk (**/*) indicates that the difference in mean deprivation score between the two categories is statistically significant ($\rho = 0.05/0.01$). Where there is no asterisk the difference is not statistically significant ($\rho = 0.05$).

Source: CUPSE survey.

The objective indicators shown in the middle column of Table 18 reveal a somewhat different story, with private renters showing up as worse off than public renters across all but one of the 18 indicators. Finally, the subjective indicators in the final column of Table 18 are very similar across the two groups, with the exception of satisfaction with care and support, where public renters far better than private renters. However, very few of the differences shown in Table 18 are statistically significant, making it problematic to draw any firm conclusions about what they imply about the relative living standards of the two groups.

7 Conclusions

This report has examined a variety of indicators of the living standards of older Australians in receipt of an Age Pension and compared them with the living standards of other groups. The principal aim of the analysis is to provide evidence that can contribute to a better understanding of the adequacy of the Age Pension, relative to other income support payments and to selected other forms of market income. The implications of the evidence for the adequacy of payments made to different groups of age pensioners have also been examined.

The indicators include both objective and subjective components and are related more directly to the standard of living actually achieved than income-based measures. Particular emphasis has been given to applying a deprivation approach. This involves identifying items regarded as necessities by a majority of the community and defining deprivation to exist when people say that do not have and cannot afford these items. Deprivation has emerged as an important new way of identifying who is experiencing poverty, but the approach can also be used to compare living standards more generally.

The use of a deprivation approach avoids many of the problems associated with measuring poverty and living standards using income. Problems have been identified with the accuracy and reliability of survey-based income measures, and controversy surrounds the merits of alternative adjustments to income to allow for differences in household need (the equivalence scale issue).

Most important of all, income-based measures of living standards cannot logically be used to inform assessments of income adequacy, since this requires the use of an independent benchmark of adequacy. The deprivation approach provides such a benchmark.

There are, however, several acknowledged problems with the deprivation approach itself. There is concern that the use of majority rule support as the criterion used to identify necessities is somewhat arbitrary. It is also not clear that the method used to identify deprivation is capable of distinguishing between items that cannot be afforded and items that people choose to forego in favour of something else. This implies that measures of deprivation may not be entirely independent of people's preferences, but may to some extent embody a subjective component. Finally, the quality of the data used to estimate deprivation may be subject to similar problems of mis-reporting that has undermined the quality of the income statistics.

These factors, in combination with the exploratory nature of the survey from which the estimates of deprivation have been derived, suggest that a degree of caution should apply to the findings. It would certainly be unwarranted to draw strong conclusions from any single indicator, and a wiser approach would be to examine the weight of the evidence – what a range of indicators *taken together* – implies about the standard of living of different groups.

In fact, the conclusions implied by the different indicators are remarkably similar, adding strength to their overall voracity.

The indicators were derived from data collected in a random sample of Australian adults conducted in 2006. The survey produced a sample of over 2,700 respondents, representing a response rate of close to 47 per cent. The sample is broadly representative of the total population and there are no obvious instances of systematic non-response likely to produce biased findings.

The first set of comparisons focused on comparing groups differentiated by their main source of income. Those whose main source of income was the Age Pension were compared with income support recipients mainly dependent on a Veteran's Affairs Pension, a Disability Support Pension, Parenting Payment and Newstart Allowance. Two other groups – older people whose main source of income was interest, dividends or superannuation (self-funded retirees), and full-time workers with low-income (low-wage workers) – added a further dimension to the comparisons.

A clear and consistent ranking of the living standard of these groups is provided by the deprivation-based indicators, and by the other objective and subjective indicators examined. On virtually all of the indicators, the self-funded retiree group has the highest standard of living, followed by veteran's affairs pensioners, age pensioners and low-wage workers. The relative ranking of these three groups varies across the indicators, although the age pensioner group most often ranking third highest overall – slightly behind those in receipt of a veteran's pension and slightly ahead of the low-wage workers group.

Almost every indicator shows the age pensioner group as ranking above those whose main source of income is one of the other three income support categories examined: Disability Support Pension, Parenting Payment or Newstart Allowance. These results do not of themselves indicate whether or not the current level of the Age Pension is adequate, but they do strongly suggest that the *relative* adequacy of the Age Pension (its ability to meet the needs of recipients) is above that of the Disability Support Pension, Parenting Payment and Newstart Allowance.

The second stage of comparisons compared the living standards of different groups of age pensioners, differentiated by their gender, age, living arrangements and housing tenure. These four characteristics were specified dichotomously so that tests of the statistical significance of the observed differences could be conducted. The results reveal relatively little difference in the circumstances of age pensioners differentiated by age or gender, although the differences between the estimates for those classified by their living arrangement and housing tenure are statistically significant.

Pensioners who live alone have a lower standard of living than those living as a couple, while those renting (either in the private or public sectors) are significantly worse off than those who own their home or are purchasing it. More detailed comparisons of the two categories of renters failed to uncover any systematic differences across all of the indicators, mainly because the sample sizes were very small.

In overall terms, the results show that those reliant on an Age Pension experience higher average living standards than several of the other groups of income support payment recipients. This suggests that the *adequacy* case for increasing the Age Pension applies with even greater force to these other payments. The differences in the living standards of different groups of age pensioners suggest that a realigned

payment structure would improve the adequacy of the system as a whole and treat different groups of payment recipients more equitably. There is a particularly compelling case for improving the adequacy of payments to those age pensioners who are living alone and those living in rented accommodation.

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