Gender and the Cost of Living in Australia

Submission to the

Senate Select Committee on Cost of Living

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&

Women in Social & Economic Research (WiSER)

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This submission is made by Professor Alison Preston. It draws on research projects and programs that the author is involved in. Any errors or omissions in this submission are entirely the responsibility of the author.

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Disclaimer

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Part I

Terms of Reference

On 28 September 2022 the Senate established a select committee, to be known as the Select Committee on the Cost of Living, to inquire into and report on:

1. the cost of living pressures facing Australians;
2. the Government's fiscal policy response to the cost of living;
3. ways to ease cost of living pressures through the tax and transfer system;
4. measures to ease the cost of living through the provision of Government services; and
5. any other related matter.

Executive summary and recommendations

Thank you for the opportunity to make this submission to the Senate Select Committee on the Cost of Living.

It is pertinent that a gender lens is applied to this cost of living inquiry and, with that in mind, the main contribution of this submission is to offer a descriptive analysis of the income, wage and financial situation of Australian adults, disaggregated by gender.

The submission draws, in large part, on data from the Household, Income and Labour Dynamics (HILDA) in Australia survey. HILDA is a large sample, nationally representative, longitudinal household dataset that contains detailed information relating to socio-economic/demographic characteristics, income, wages, financial situation and attitudes to finance (to name just a few of the features). The survey commenced in 2001 and at the time of writing the most recent wave is for 2021 (wave 21).[1]

[1] For further information on the HILDA survey see https://melbourneinstitute.unimelb.edu.au/hilda.

The descriptive analysis is contained in Part II of this submission and is organised around six sections. In Section A the focus is on income and wages. A consideration of equivalised incomes shows that, in 2021, 13% of Australians were living below the poverty line. A comparison of median equivalised income by family type serves to highlight that elderly women living alone have the lowest equivalised income and, therefore, face the greatest risk of poverty. In the wage component the analysis highlights the significant gender gap in wages and the fact that men and women occupy different segments in the labour market. This matters as men and women are subject to different wage setting forces. Women, for example, are disproportionately more likely to be employed in the public sector than men and more likely than men to be employed in low wage sectors. Women are also disproportionately affected by state and federal government practices of wage restraint and by the national minimum wage (NMW) orders (decisions) of the Fair Work Commission (FWC). The net effect is that there is a widening gender (male-female) wage differential and with it a widening superannuation differential. Women are disproportionately adversely affected by increases in the cost of living.

In Section B HILDA data are used to shed light on who may be classified as being financially constrained. A person is defined as financially constrained if, because of a shortage of money, they could not pay their utility bills and/or could not pay mortgage and/or had to borrow etc. Estimates show that in 2021 19% of females and 17% of males were financially constrained. Regression analysis shows that women are significantly more likely than men to be financially constrained, as are young adults (aged 25-34), lone parents with dependent children, persons not in employment (i.e. the unemployed and those not in the labour force) and those renting. It suggests that the focus should be on interventions to alleviate the financial pressures these groups face – e.g., via increasing Centrelink payments, rent assistance and measures to address other budget constraints – such as HECS-HELP debt repayment obligations (discussed in section D).

The analysis in Section B also shows that financial literacy in Australia is low and is inversely correlated with being financially constrained (those with poorer financial literacy are more likely to be financially constrained). No causality is implied. Poor financial literacy correlates with poor financial decision making. Of particular concern is that around 20% of those who were financially constrained in 2021 indicated that should they need to raise funds in an emergency they would do so via a financial institution or credit. A failure to understand simple compound interest means this group is a particular vulnerable group, particularly in a market

where there is easy access to credit and 'buy-now-pay-later' (BNPL) products where the APR rates can be as much as 48% (BNPL usage is discussed in Section F).

Section C draws on recent work on superannuation, financial literacy and superannuation withdrawals during Covid-19. The analysis shows that there is a 60% gender gap in the mean superannuation balances of men and women aged 18-64 (based on 2018 survey data) and that nearly half (45.6%) of this 60% gender gap in mean balances derives from gender differences in earnings. An additional 34.9% of the gap derives from gender differences in years worked, while 8.5% of the 60% gap may be explained by gender differences in financial literacy. Australia's superannuation system has to be part of the cost-of-living inquiry. While efforts should be embraced to narrow the gender gap in superannuation balances (e.g., through policies to narrow the gender pay gap, policies that support the payment of superannuation contributions when in receipt of paid paternity leave (PPL) payments and policies to facilitate greater female attachment to paid employment), it is important to recognise that the average balances of Australians are low – even amongst those who have been covered by the compulsory system throughout most of their working life. The system benefits those with high wages and high employment attachment throughout their career – a minority of Australian employees. It means that the focus must be directed to supporting the Age Pension along with support for other costs such as rent assistance. This is the most effective way of minimising gender disparities in income in retirement and the poverty rates increasingly faced by older women in Australia.

Section D draws on data from the Australian Taxation Office (ATO) to study the HECS-HELP debt levels by age and sex. In 2021/22 total outstanding HECS-HELP debt stood at A$74,386,180,331 (i.e., A$74.4bn). While the HECS-HELP debt used to be indexed to AWOTE this is no longer the case. It is now indexed to the CPI. Assuming a CPI of 6.9% (the change in the cost of living between March 2022 and December 2022), in the absence of any repayments, on its own indexing would see total outstanding student debt increase to A$79.5bn. While some might argue that a HECS-HELP debt is the best sort of debt (in that it does not attract interest and is only indexed to the CPI), the reality is that repayments do reduce disposable income. Moreover, mortgage lenders are increasingly taking HECS-HELP repayments into consideration when setting borrowing limits. ATO statistics show that, in 2021/22, 61% of all those with an outstanding HECS-HELP debt were women. Young women (aged 20-29) are group most likely to hold a HECS-HELP debt. In 2021/22 they accounted for

26% of all those with an outstanding debt. Men aged 29-29 accounted for 19% of all HECS-HELP debt holders, a further 16% were women aged 30-39 and 10% were men aged 30-39. Gender differences in earnings (the gender wage gap) together with gender differences in patterns of employment participation, gender differences in hours worked over the life-course and gender differences in fields of study (and thus contribution rates) will see the HECS-HELP debt of women continue to grow at a faster rate than that held by men.

Section E draws on data from the National Financial Capability Survey (NFCS) to shed light on debt holding patterns of young adults. The analysis shows that the most common form of debt/credit held by young people is an outstanding student loan. The second most common form of debt is a BNPL debt (for females) and a credit card debt (for males). Estimates show that 27% of young women (18-24) report holding a BNPL debt compared to 13% amongst men. Understanding why there are such marked gender differences in the type of debt held should be part of the inquiry into cost of living. Is it because of peer effects and/or targeted marketing campaigns and what is the effect of such gender differences in debt holding patterns?

The final section (Section F) examines the association (correlation) between being financially constrained and mental health. Mental health has been on the decline in Australia and in recent years has significantly deteriorated. Women, on average, report poorer mental health than men. There is a significant correlation between being financially constrained and mental health that is evident in the descriptive statistics and also in reported regression results. In the 2018-21 period (four waves of HILDA data) persons who were not financially constrained had mental health scores that were 7.5% higher than their counterparts who were financially constrained. Further research is required to better understand the association and to explore the link between cost of living and mental health. Research is also required to understand the role that financial literacy might play in reducing mental health pressures associated with financial pressures.

Recommendations

As indicated in the introduction, the perceived value of this submission lies in the descriptive data provided in Part II. Some recommendations follow although it is recognised that this list is far from a comprehensive. In no specific order of importance they include:

1. A continued focus on interventions aimed at narrowing the gender wage gap and appropriately valuing the work women do. The Fair Work Commission's recent decision to award aged care workers a 15% is an important step in this direction.
2. State and federal governments to review the process for setting and adjusting wages in the public sector and to refrain from using wage caps and wage freeze initiatives as a way of making budgetary savings.
3. Revisit lessons from the Prices and Incomes Accord era to explore ways of awarding wage increases that do not feed into wage inflation. An example may be to award a deferred pay increase in the form of superannuation.[2]
4. Use the tax-transfer system to alleviate the financial pressures faced by particular groups – elderly women, single parents with dependent children. Measures could include increasing Centrelink payments and greater rent assistance.
5. Ensure the adequacy of Age Pension payments.
6. Establish objectives for the retirement income system (including the purpose of superannuation) and ensure that all retirees may retire with dignity and financial security.
7. Require the payment of superannuation on paid paternity leave (PPL).
8. Consider the HECS-HELP system and superannuation in tandem, considering the option of giving individuals with a HECS-HELP debt the choice to use mandated employer superannuation contributions to first clear their student debt.[3]
9. Ensure a stable system of retirement savings with contributions preserved until retirement. (Note, this may seem to contradict '8' above. It could be that contributions are preserved after HECS-HELP debt has been paid should individuals opt to use superannuation to pay down student debt).

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[2] Gareth Hutchens recently mooted this. See Hutchens, G. (2023), "Is there a better way to kill inflation than raising interest rates?", *ABC News*, 12 February 2023. Is there a better way to kill inflation than raising interest rates? - ABC News

[3] As per Geoff Sharrock's suggestion. (Sharrock, G. (2015), 'Use super contributions to repay student loans', *The Conversation*, April 29.

10. Set up an inquiry to review gender inequities in the HECS-HELP system and the gendered effect of HECS-HELP debt on budgets, borrowing and cost of living pressures.
11. Index HECS-HELP to AWOTE or CPI, **whichever is the lowest.**
12. Provide financial advice and financial literacy programs to support increased financial literacy within the community.
13. Monitor the use of buy-now-pay-later (BNPL) usage, particularly amongst young people and the role played by such products in the financial strategies of young people.
14. Undertake research to better understand the link between financial literacy and mental health.

Part II

Stylised Facts Concerning Income, Wages, Superannuation, Student Debt, Mental Health and Cost of Living in Australia

A. Income and wages

Household Income

This section offers a descriptive analysis of trends in household income in Australia using data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The focus of analysis is on equivalised income (i.e., total household income that takes into consideration differences in household size and age composition). The equivalised income calculation is based on a 'modified OECD' scale that divides household income by 1 for the first household member plus 0.5 for each other household members aged 15 or over, plus 0.3 for each child under 15.[1]

Focusing on median incomes, Table 1 shows that, over the 21 years of the HILDA survey (covering the period 2001 to 2021), around 14% of Australians fell below the poverty line (i.e., had equivalised incomes less than 50% of the median). This share dropped to 12.5% in 2020 during the pandemic and following the release of the stimulatory budget. It increased to 13% in 2021 and the prediction is that it will again rise in 2022 given significant differences in wage growth across sectors in recent years (discussed below).[2]

There is considerable difference in equivalised incomes by family type (see Figure 1). Couples with no dependent children, on average, have the highest equivalised household incomes while elderly women (aged 55 or more) have the least. The latter is consistent with research elsewhere showing that elderly women are the fastest growing group of those facing financial insecurity

[1] The approach is set out in R. Wilkins et al. (2022), *The Household, Income and Labour Dynamics in Australia: Selected Findings from Waves 1 to 20*. Melbourne Institute. See box 3.2.

[2] The tables and figures presented here follow those of Wilkins et al. (2022)), *The Household, Income and Labour Dynamics in Australia: Selected Findings from Waves 1 to 20*. Melbourne Institute.

and homelessness.[3,4] There is also considerable variation in equivalised income across Australia, with incomes lowest in Tasmania and highest in the Australian Capital Territory (ACT).

Table 1 Individuals' household equivalised income 2001-2021

Year	Mean	Median	Ratio of 90th percentile to the median	Ratio of 10th percentile to median	% of individuals below the poverty line
2001	$ 44,621	$ 39,000	1.98	0.45	14.3%
2002	$ 47,291	$ 40,008	2.01	0.45	14.2%
2003	$ 47,918	$ 41,151	1.96	0.45	14.7%
2004	$ 48,601	$ 42,120	1.96	0.45	14.4%
2005	$ 50,996	$ 43,913	1.94	0.45	14.3%
2006	$ 53,798	$ 44,562	2.03	0.46	13.3%
2007	$ 55,049	$ 47,247	2.00	0.44	14.7%
2008	$ 56,479	$ 48,238	2.01	0.43	15.0%
2009	$ 58,791	$ 51,994	1.90	0.43	14.6%
2010	$ 59,079	$ 50,341	1.99	0.45	14.4%
2011	$ 59,186	$ 50,364	2.01	0.45	14.2%
2012	$ 61,011	$ 51,671	2.00	0.45	14.0%
2013	$ 60,979	$ 51,792	2.01	0.46	13.8%
2014	$ 61,372	$ 51,602	2.02	0.47	12.8%
2015	$ 61,071	$ 51,361	2.02	0.48	12.2%
2016	$ 62,335	$ 51,653	2.01	0.48	12.6%
2017	$ 61,866	$ 51,140	2.03	0.47	13.1%
2018	$ 62,790	$ 52,633	2.02	0.47	13.3%
2019	$ 65,055	$ 54,331	2.03	0.46	14.1%
2020	$ 65,169	$ 54,350	1.96	0.47	12.5%
2021	$ 67,274	$ 56,352	1.96	0.47	13.0%

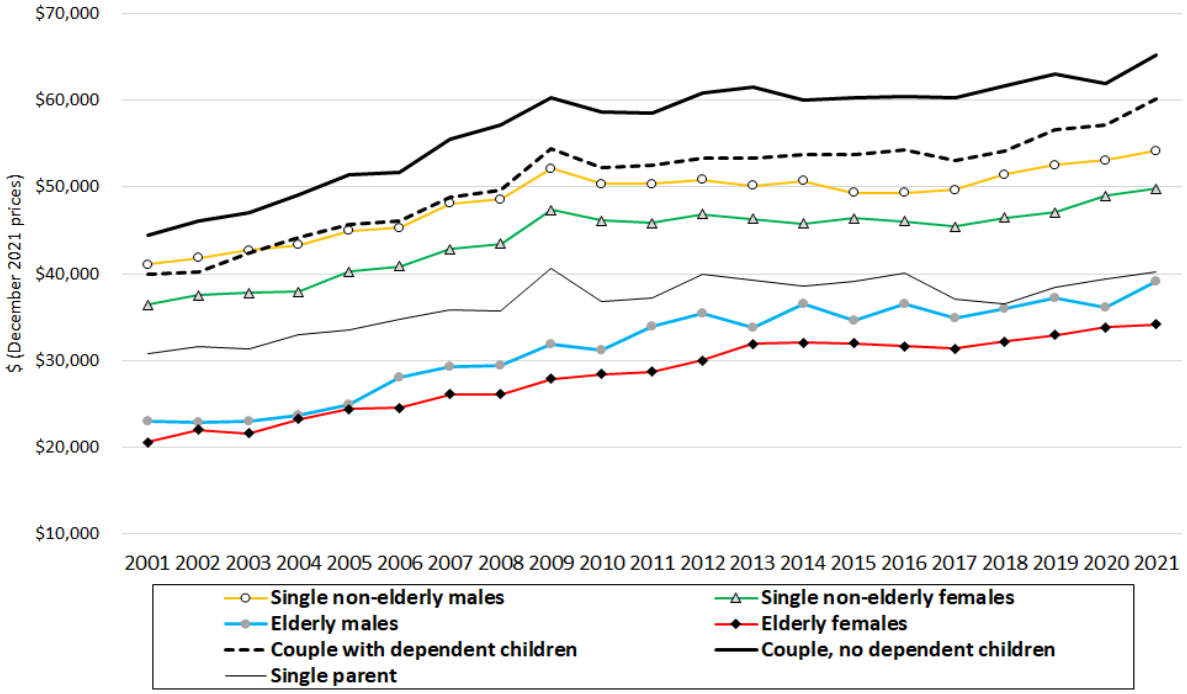
Notes:

1. All dollar amounts are in December 2021 prices.
2. The poverty line is defined as less than 50% of the median.
3. Source: HILDA, waves 1-21.

[3] https://www.theguardian.com/commentisfree/2020/nov/23/the-outlook-for-older-women-in-australia-is-dire-but-no-one-seem-to-care

[4] https://theconversation.com/older-women-often-rent-in-poverty-shared-home-equity-could-help-177452

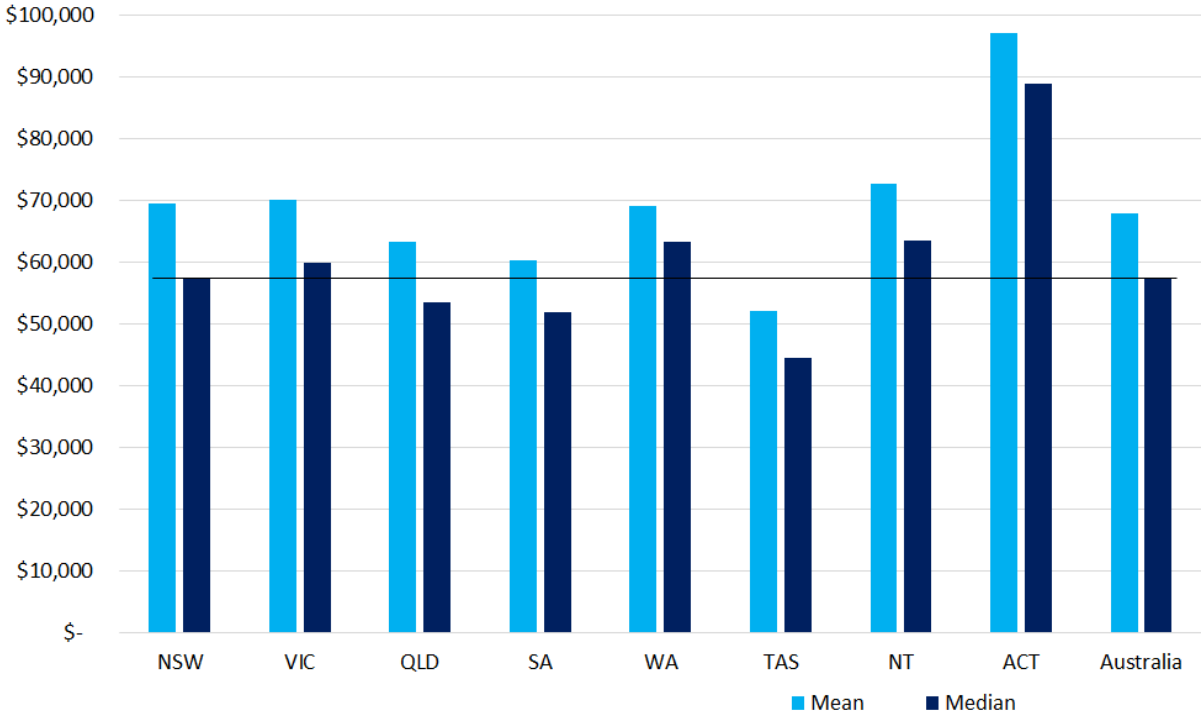
Figure 1 Median equivalised income by family type, 2001-2021



Notes:

1. All dollar amounts are in December 2021 prices.
2. Elderly defined as aged 55+; 2 Single defined as not married or living in a de-facto relationship.
3. Source: HILDA, waves 1-21.

Figure 2 Mean and median equivalised income by State and Territory, 2021



Notes: Source: HILDA, waves 1-21.

Wage Growth (Wages Price Index) and Inflation

Slow wage growth has been a feature of the Australian labour market for much of the last decade. It reflects, amongst other things, a decline in the bargaining power of workers, a change in the composition of the labour force (e.g., increase supply of tertiary qualified persons), changed supply and demand conditions (e.g., younger workers in competition with older workers) and a growth in labour intensive service sector jobs such as care related work where it is difficult to increase productivity.[5] It is also reflective of government wage policy where the focus has been on meeting fiscal pressures through wage restraint. In Western Australia (WA), for example, the state Labor government imposed a $1000 per annum cap on wage increases in 2017. The cap was subsequently lifted in 2022 but in the interim it put considerable downward pressure on wages. WA was not alone in restricting public sector wage growth during this time.[6]

Figure 3 (below) draws on data from the Australian Bureau of Statistics (ABS) Wage Price Index (WPI) series. The WPI tracks a 'basket of jobs' over time and is, therefore, unaffected by changes in the quality or quantity of the work performed. In other words the index is unaffected by compositional changes in the labour market such as a growth in more educated workers or a growth in the participation of older and more (or less) experienced.

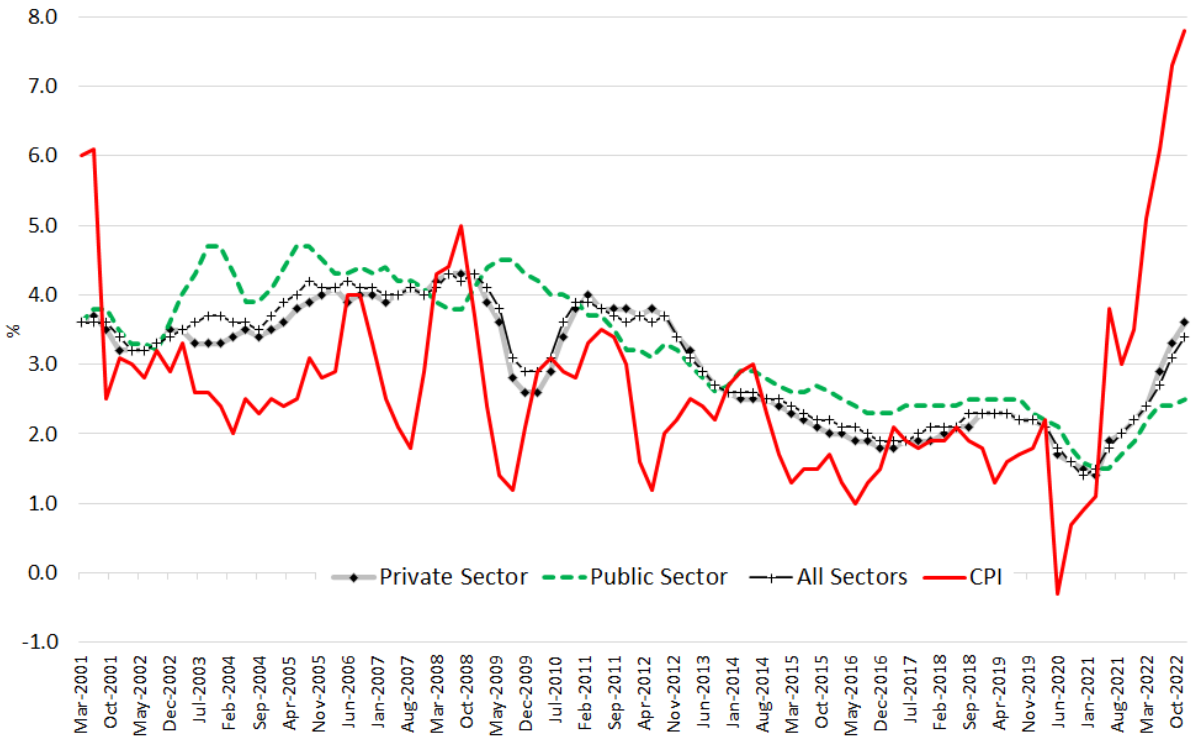
Estimates based on this index show that, prior to the Global Financial Crisis (GFC), annual wage growth was tracking at around 4% per annum. In the post-GFC period wage growth stalled, dropping to an annual growth rate of below 3% between June 2013 and June 2022 (see Figure 3). In the September 2022 quarter, annual wage growth increased above 3% for the first time since the March 2013 quarter. A disaggregated analysis shows that this was underpinned by a 3.3% growth in private sector wages and 2.4% growth in public sector wages. The December 2022 figures show that, when compared to December 2021, wage movements in the private sector were 3.6% higher over the year. In the public sector the growth rate was 2.5% year on year. Overall wages grew by 3.4% during December 2021 to December 2022. While this constitutes a significant change on previous periods, it is noteworthy that the 3.4%

[5] For further discussion see: Borland J. and Coelli, M. (2016), 'Labour Market Inequality in Australia', *Economic Record*, 92, 517-547; and Birch, E. and Preston, A. (2021), 'The Evolving Wage Structure of Young Adults in Australia: 2001 to 2019', *Economic Record*, 97, 365-386.

[6] See, also, Birch, E. and Preston, A. (2022), 'The Australian Labour Market in 2021', *Journal of Industrial Relations*, 64(3), 327-346.

overall growth rate is below the Reserve Bank of Australia (RBA's) target of 3.5% per annum (p.a.). The latter is based on a target inflation rate of 2.5%p.a. and productivity growth of around 1%p.a. With inflation increasing at 7.8% in the year to December 2022 (as measured via the Consumer Price Index (CPI)) (see, also, Figure 3) it means that real wages are on the decline[7]. In other words wages, as we know, are not keeping up with the cost of living increases in Australia.

Figure 3 Annual growth in total hourly rates of pay by sector, 2001-2022



Notes

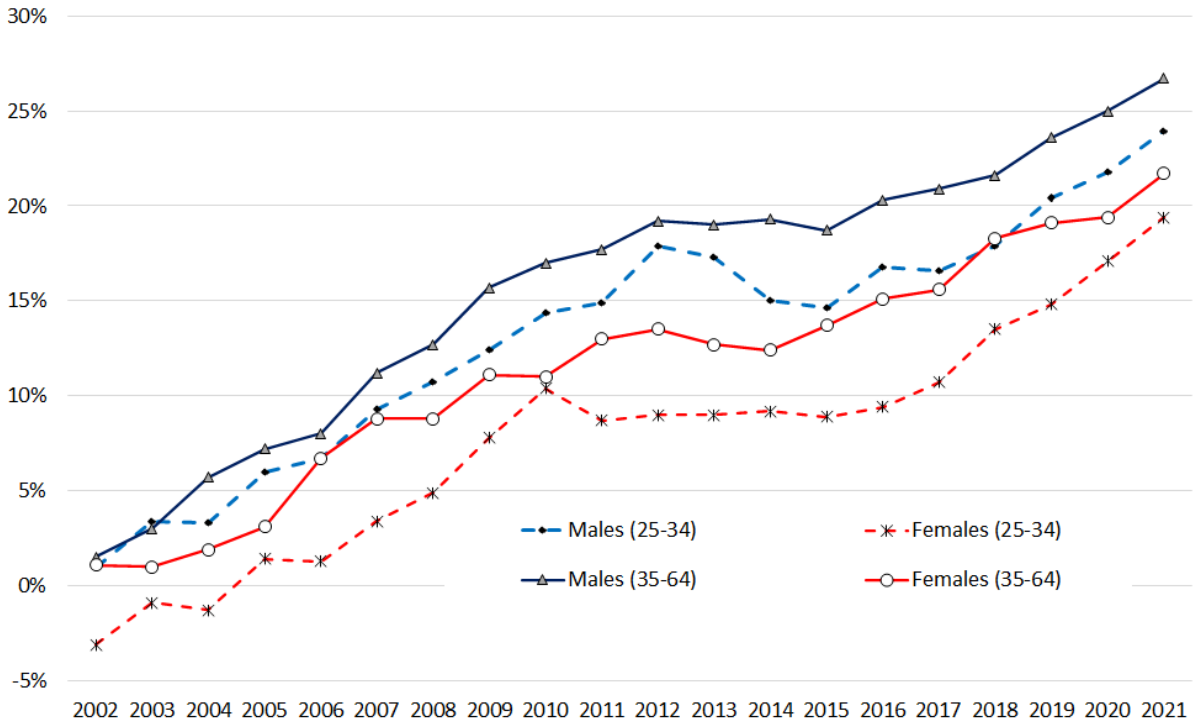
1. Annual wage growth measures the percentage change (from corresponding quarter of previous year) of total hourly rates of pay excluding bonuses.
2. Wage growth estimates derived from the ABS Wage Price Index, Table 1 (trend series) (ABS Cat. No. 6345.0, released 22/2/23).
3. CPI estimates sourced from the ABS Consumer Price Index, Australia, Tables 1 & 2 (series ID A2325847F, original series) (ABS Cat No. 6401.0, released 25.1.23).

[7] The real wage is the nominal wage adjusted for inflation.

Wage Growth - Mean Hourly Wages by Age and Sex

Figure 4 draws on data from HILDA to examine the trend in real wages while controlling for compositional changes in employment. Comparisons are made between males and females within different age groups (aged 25-34 and aged 35-64). The estimates show that, over the last two decades, females aged 25-34 have experienced the slowest wage growth (net of controls for schooling and experience). Real wages in 2021 were only 19% above levels observed in 2001. Males aged 35-64 experienced the strongest wage growth over this period (again, net of the effects of schooling and experience). Between 2001 and 2021 their average hourly wage increased by 27%.

Figure 4 Growth in the mean hourly real wage by sex and age, 2001-2021



Notes:

1. All wages are in December 2021 prices.
2. The estimated annual wage growth is obtained from a linear regression where the dependent variable is the natural log of the hourly wage in the main job and the covariates include controls for years of schooling, actual experience and it's square, country of birth (two dummies), geographic area of residence (7 dummies) and year dummies (with 2001 the base year). It is estimated separately for each of the four groups shown. Full-time students are excluded, as are the self-employed. The sample is across the age range 18-64.
3. Source: HILDA, waves 1-21.

The comparatively slower growth in wages of women relative to men relates, in part, to the sex-segregation of the labour market; i.e., the differing sectors within which men and women in Australia engage in paid work. A high proportion of women are engaged in the education and health sectors and, as a result, are more likely to be covered by public sector wage awards; i.e. awards where wage growth, in recent years, has been very slow.

To understand gender differences in sectoral employment Table 2 shows the distribution of adult employees by sector in 2021. The estimates are generated using the 2021 HILDA survey. In 2021 50% of all employees were women. Of this group, 55% worked in the private sector in their main job, 30% had their main job in the public sector and 14% in the not-for-profit sector. Of all male employees, only 19% worked in the public sector. Females therefore dominate public sector employment and in 2021 accounted for around 62% of all public sector employees.

Table 2 Distribution of male and female employees by sector, 2021

	Male	Female	Persons
Across			
Private Sector	76%	55%	66%
Public Sector	19%	30%	25%
Not-for-profit Sector	6%	14%	10%
Total	100%	100%	100%
Within			
Private Sector	58%	42%	100%
Public Sector	38%	62%	100%
Not-for-profit Sector	29%	71%	100%

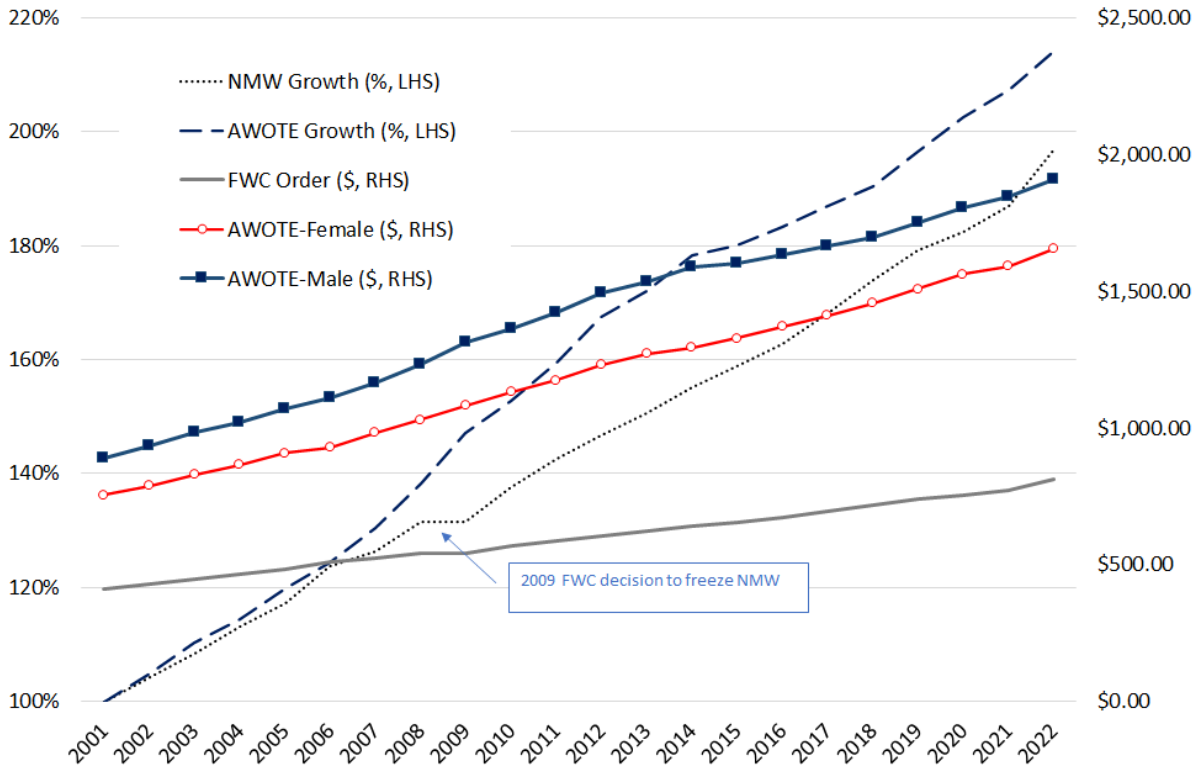
Notes
1. Sample: adult (aged 18+) employees.
2. Estimates weighted to reflect population totals.
3. Source: HILDA, wave 21.

Women are also more likely to work in low-wage sectors such as accommodation and food services or retail trade (in 2021 57% of all adult employees in these two industries were women (based on HILDA estimates)). This matters as many of the jobs in these sectors are low-wage jobs and, therefore, more likely to be affected by the minimum wage decisions of the Fair Work Commission (FWC) and state counterparts, where relevant.

Wage Growth – Average Weekly Ordinary Time Earnings (AWOTE) & NMW

Figure 5 shows the trend in average weekly ordinary time earnings (AWOTE) of men and women employed full-time alongside the trend in the national minimum wage (NMW) over the period 2001-2022. It also shows growth in male AWOTE and the NMW indexed to 2001. Over the period shown male AWOTE grew by 214% in nominal terms. Growth in the NMW was slower, at 197%. Of note was the decision by the FWC to freeze the NMW in 2009. It was a decision that affected proportionately more women than men and contributed, in part, to female AWOTE growing at a slower rate (vis-à-vis male AWOTE) post 2008. In the 2022 NMW decision the FWC awarded a 5.18% increase by way of a partial catch-up. Although 5.18% was above the male AWOTE growth rate of 3% in the same period it is important to remember that the wage adjustment was coming off a low base. In dollar terms it amounted to a $21.38 per week increase taking the NMW to $812.60 per week (or $42,000 per annum). At November 2022 male AWOTE stood at $1,907 per week (or $99,162 per annum). For the NMW $ value to equal the male AWOTE $ value the NMW would need to increase by 135%.

Figure 5 AWOTE and the national minimum wage (NMW), 2001-2022



Notes
1. FWC denotes Fair Work Commission
2. AWOTE denotes average weekly ordinary time earnings.

3. AWOTE data sourced from ABS Average Weekly Earnings, Australia (Cat. No., 6302, released February 2023). Amounts are for November of each year. Original series.
4. NMW data from the FWC decisions (various issues).

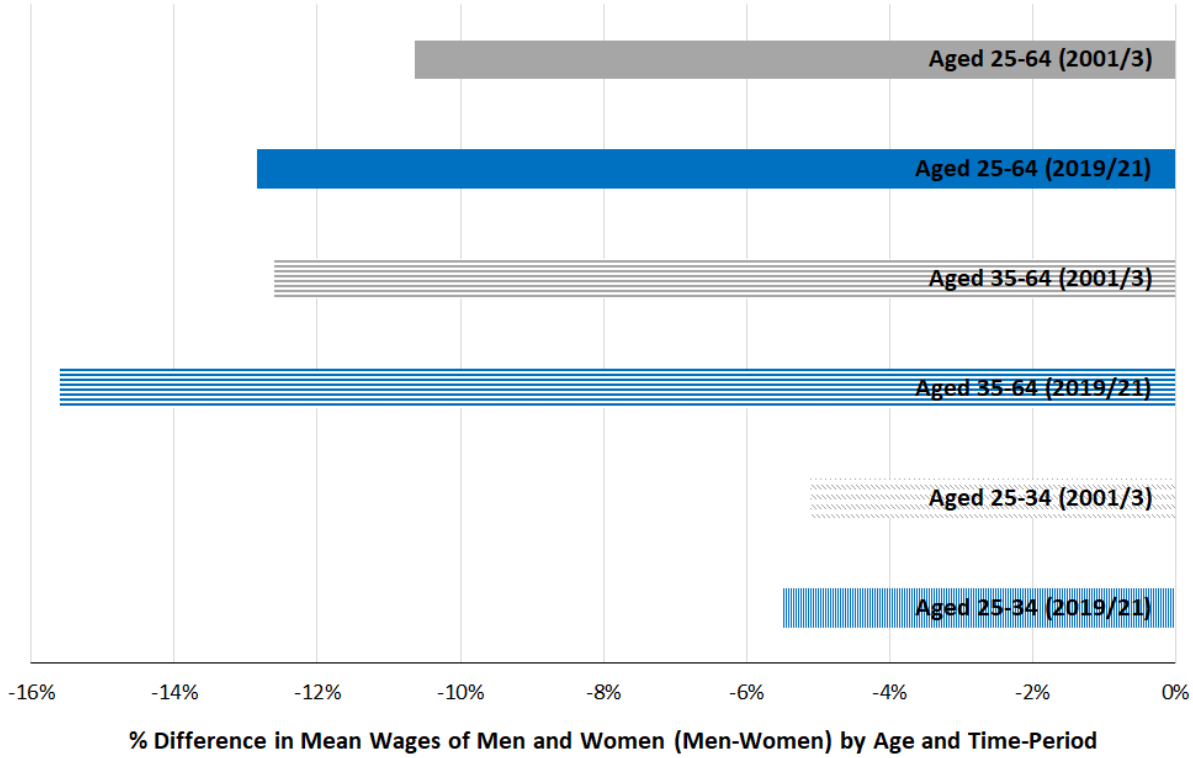
Wage Growth – Gender Wage Gap

Differing wage growth by sector matters for gender equality. At November 2022 the difference in the AWOTE of adult men and women employed full-time was 13% (measured as the female AWOTE divided by the male AWOTE (i.e., $1,653.6 / $1,907.1)). Figure 6 summarises the gender wage gap derived from a wage regression where the dependent variable is the hourly wage in the main job (in logarithms). A 'dummy variable approach' is used to estimate the gender wage gap. That is, gender is controlled for via a dummy variable equal to 1 if female and 0 if male. Other covariates are as before (i.e., years of schooling, experience and its square, country of birth and geographic area of residence). The gender wage gap estimated using this approach is commonly known as the 'adjusted' gender wage gap. In other words, it is the male-female differential after controlling for characteristics known to drive wages (e.g., education and actual work experience).[8] This differs from the 'raw' gender wage gap estimated using AWOTE data (where no adjustment is made for compositional factors).

The sample used to generate the adjusted gender wage gaps within the various age groups considered consists of adults aged 25-64 who are employees and not full-time students. Data are drawn from three waves of HILDA (2019-21). Over this three year period the mean gender wage gap of employees aged 25-64 was 13%. The corresponding gender wage gap in the period 2001/3 was 11%. When disaggregated by age it is clear that the gender wage gap is particularly large amongst older workers, equal to 16% in 2019-21. It is also clear that there has been a marked deterioration in this gap since 2001/3.

[8] The regression is estimated using a random effects model. It is important to note that the regression (and therefore the estimates) does not consider possible selection effects. In other words, if women are offered a discriminatory wage which is below their reservation wage then the extent of gender wage discrimination may be even larger than given by the estimates reported here.

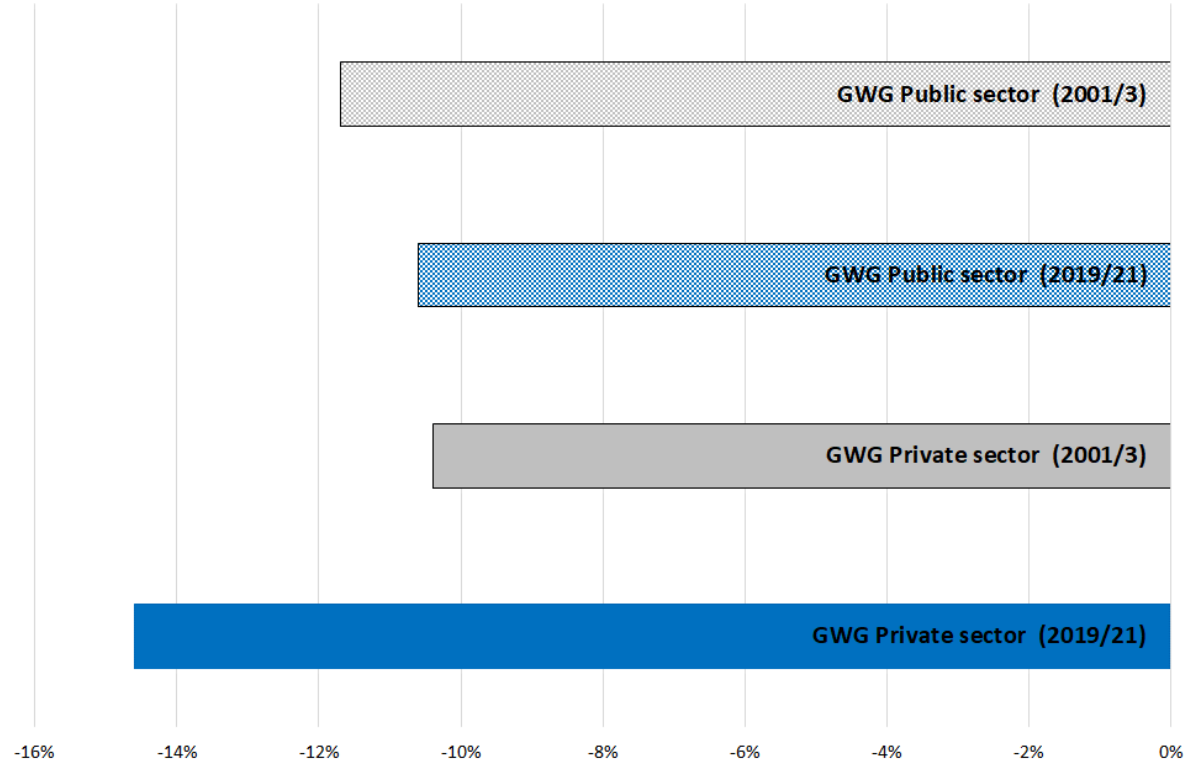
Figure 6 Adjusted gender wage gap by age, 2001-3 and 2019-21



Notes. Source: HILDA, waves 1-3 and waves 19-21.

The adjusted gender wag gap also varies by sector. Figure 7 shows that it is smaller in the public sector where wage growth has been slower, where women are the dominant group and where the wage structure is more compressed. In 2019/21 the adjusted gender wage gap in the public sector was equal to 11%. In the private sector the adjusted gender wage gap (for 2019/21) was equal to 15%.

Figure 7 Adjusted gender wage gap by sector, 2001-3 and 2019-21



Notes. Source: HILDA, waves 1-3 and waves 19-21.

B. Who are Financially Constrained? A Gendered Analysis

The wage and income analysis above serves to demonstrate the importance of a gender lens when considering trends in income and wages. As shown, there is a significant gender wage gap (even when controlling for compositional factors) and this gap is growing. The latter reflects, in part, slower wage growth in the public sector where women are significantly over-represented. It means that cost-of-living pressures will vary within and between groups in Australia.

Drawing, again, on HILDA data, the aim of this section is to illuminate who is financially constrained in Australia. In each wave of the HILDA survey (except wave 10), respondents were asked "Did any of the following happen to you because of a shortage of money (tick all boxes) …?"

- Could not pay electricity, gas or telephone bills on time
- Could not pay the mortgage or rent on time
- Pawned or sold something
- Went without meals
- Was unable to heat home
- Asked for financial help from friends or family
- Asked for help from welfare/community organisations

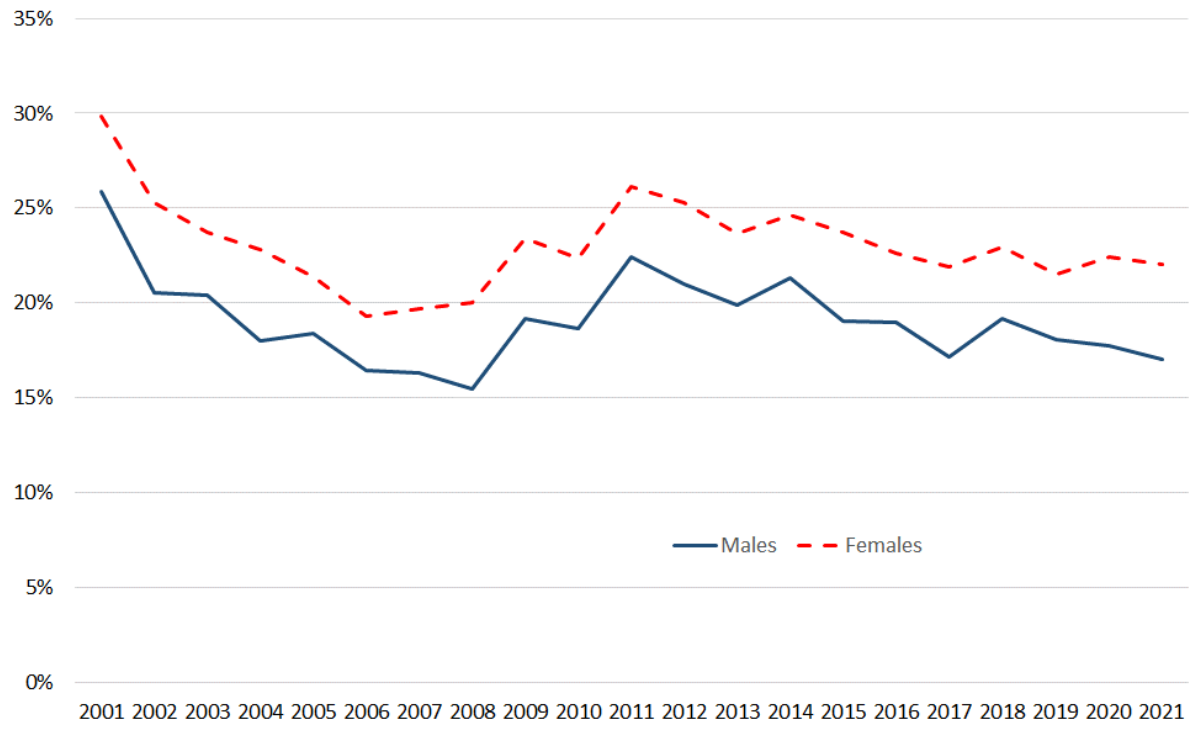
A person is defined as being financially constrained if they answered 'yes' to any of these questions.[9]

The analysis, however, begins with a consideration of who could and could not raise funds in an emergency (again drawing on HILDA data). In waves 1-8 respondents were asked if they could raise $2000 in an emergency, in waves 9-19 the amount was $3000 and in waves 20+ it was $4000. Respondents were asked to select from the scenario that best described them: (a) could easily raise emergency funds; (b) could raise emergency funds but it would involve some sacrifices; (c) would have to do something drastic to raise emergency funds; and (d) couldn't

[9] This approach follows La Cava, G. and Simon J. (2003), 'A Tale of Two Surveys: Household Debt and Financial Constraints in Australia", RBA Discussion Paper 2003-8.

raise emergency funds. Figure 8 shows the share of respondents who either couldn't raise emergency funds or would have to do something drastic to raise emergency funds. As shown there is a large gender gap with women, on average, less able to raise funds in an emergency. In 2021 the gap stood at 5 percentage points, with 22% of women indicating they either couldn't or would struggle to raise funds compared to 17% amongst men.

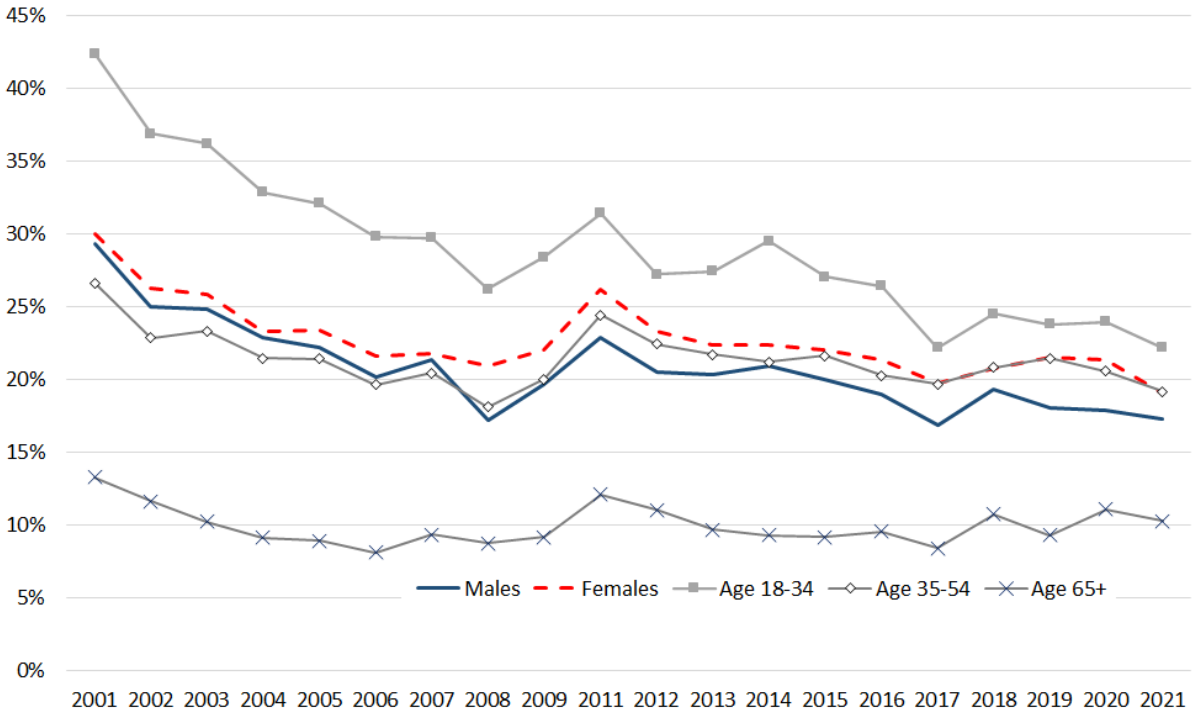
Figure 8 Share (%) of adults who could not raise funds in an emergency or would have to do something drastic, 2001-2021



Notes
1. Estimates weighted to reflect population totals.
2. Source: HILDA, waves 1-21.

The next chart (Figure 9) examines the share of Australians who are financially constrained (see above for a definition). The estimates show that a sizeable share (19% of females and 17% of males) were financially constrained in 2021; i.e., because of a shortage of funds could not meet expenses such as utility bills and/or rent or mortgage and/or borrowed funds, skipped meals etc. A disaggregation by wave shows that young adults (aged 18-34) are the most financially constrained.

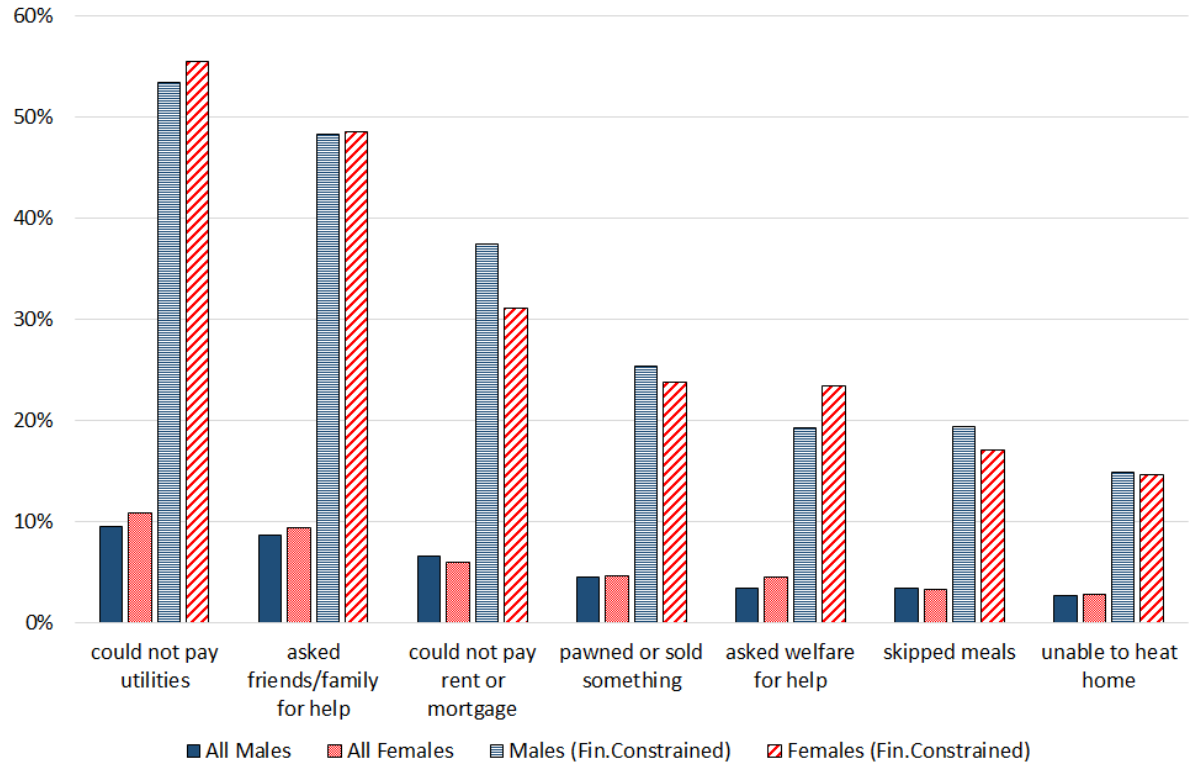
Figure 9 Share (%) of adults considered financially constrained, 2001-2021



Notes: 1. Estimates weighted to reflect population totals; 2. Source: HILDA, waves 1-21.

Figure 10 shows the financial adjustments made in 2021 by those who were financially constrained (a comparison to the whole population is also given). A significant share of those who were financially constrained (53% of males and 55% of females) reported not being able to pay their electricity, gas or telephone bill on time ("could not pay utilities"). Equal shares (48%) of financially constrained males and females indicated that in 2021 they asked family or friends for help, 37% of males and 31% of females in the financially constrained group indicated they could not pay their rent or mortgage on time etc.

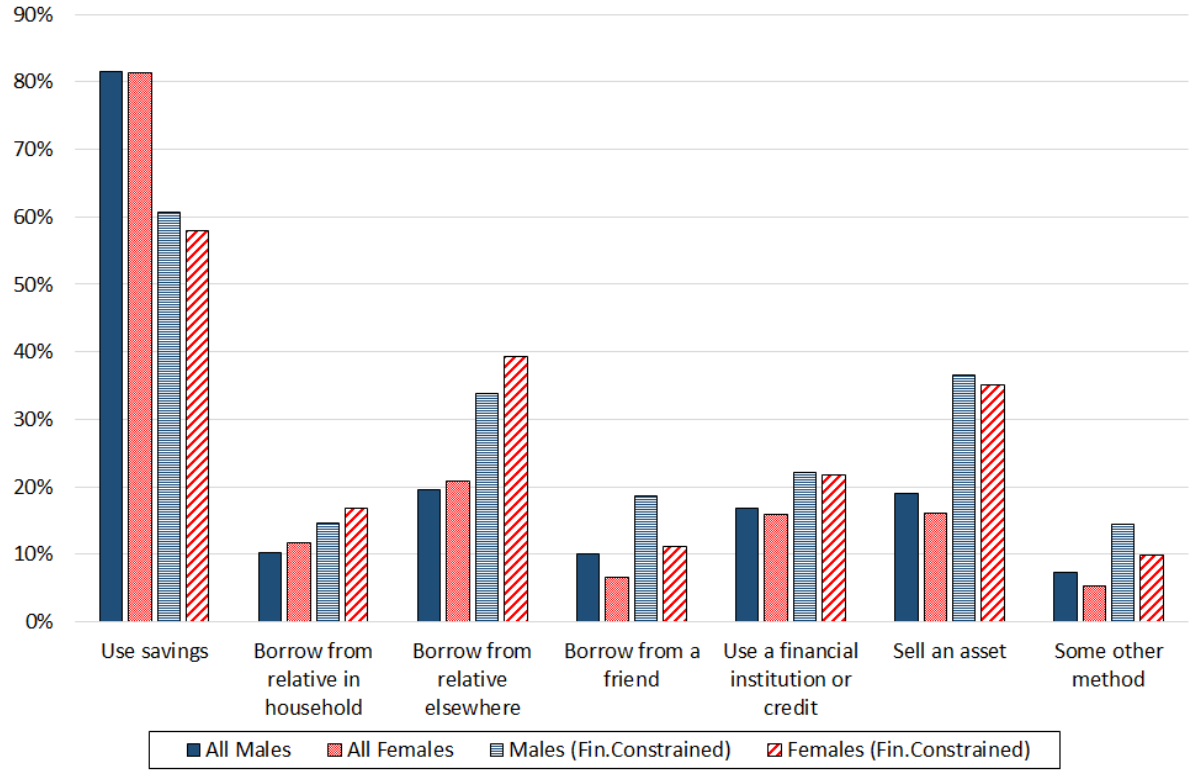
Figure 10 Share (%) reporting that because of a shortage of money in 2021 they ...



Notes: 1. Estimates weighted to reflect population totals; 2. Source: HILDA, waves 1-21.

Returning to the question concerning ability to raise funds in an emergency, HILDA also asks respondents how they would obtain the funds (conditional on saying they could raise funds – even if it required something drastic). Figure 11 summarises the results. As shown 82% of men and 81% of women would draw on their savings. This falls to 61% and 58% once conditioning on those who are financially constrained. The second most likely response is to borrow from a relative who is not living in the same household, followed by selling an asset and then using a financial institution or credit. The latter (borrowing from a financial institution or using credit) is concerning as research shows that financial literacy within Australia is low, particularly amongst those who are financially constrained.

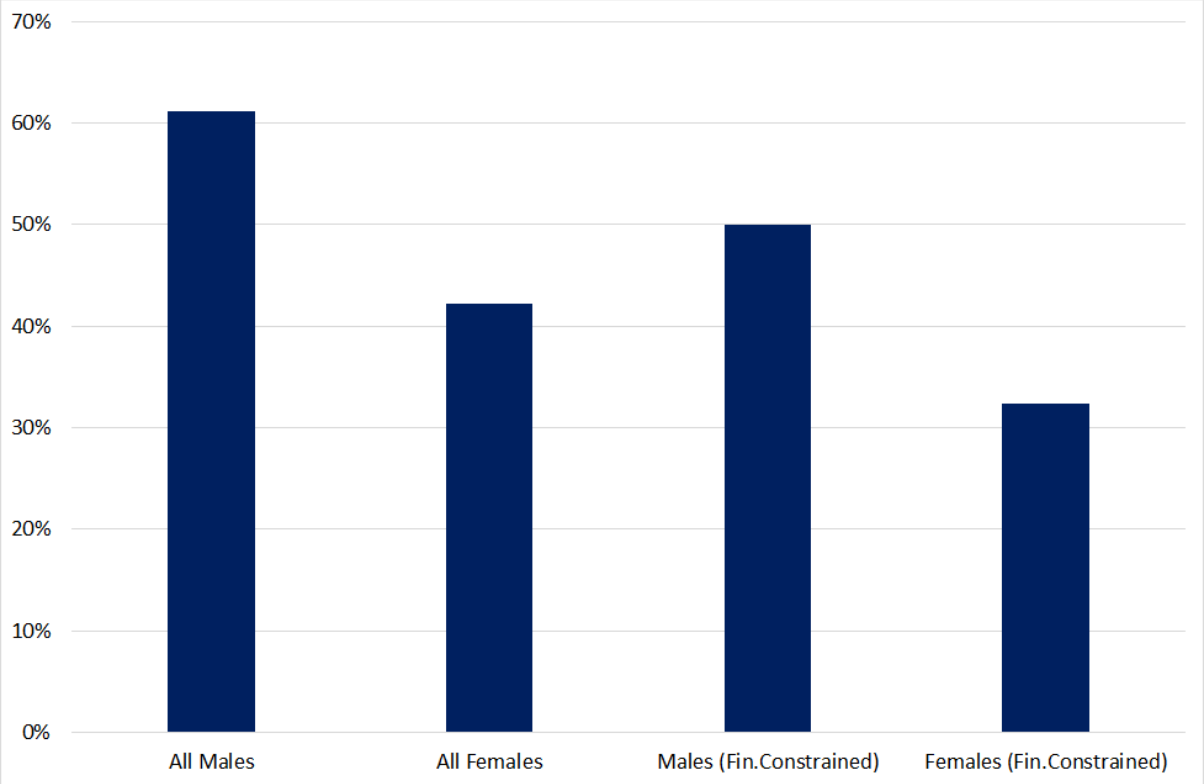
Figure 11 Share (%) who could raise funds in an emergency in 2021 would raise money by …



Notes: 1. Estimates weighted to reflect population totals; 2. Source: HILDA, wave 21.

Figure 12, draws on HILDA data on financial literacy which is reported in wave 20 (2020) (questions testing financial literacy have, thus far, only been asked in waves 16 and 20 of HILDA). The estimates show that in 2020 61% of adult men were considered financially literate (that is, they could correctly answer three questions concerning interest rates, inflation and risk). The corresponding share for adult women was 42%. When disaggregated by whether the respondent was financially constrained (based on the definition given previously), the financial literacy rates amongst men and women who are financially constrained falls to 50% for men and 32% for women.

Figure 12 Financial literacy rates of Australian adults, 2020



Notes

1. Estimates weighted to reflect population totals.
2. A person is defined as being financially literate if they can correctly answer three questions testing knowledge of interest rates, inflation and risk.
3. Source: HILDA, wave 20.

In a bid to further understand who is financially constrained a simple regression was estimated controlling for characteristics including gender, age, schooling, household type, labour market status, form of employment (if employed), renting/mortgage status and geographic area of residence. Taking advantage of the panel nature of the HILDA data, the regression was estimated over four waves of data (waves 18-21 covering 2018-2021). For comparative purposes it was also estimated over waves 1-4 covering 2001-2004. For ease of interpretation a linear probability model was estimated. The coefficient estimates are given in Table 3 below.

Focusing on column (2) for the period 2018-2021, the estimates show that women are significantly more likely than men to be financially constrained *ceteris paribus* (all else held constant). The likelihood of being financially constrained falls as schooling increases. Persons aged 25-34 are significantly more likely than those aged 18-24 (the base group) to be constrained, as are those aged 35-54. Older Australians (aged 55+) are significantly less likely

than younger Australians to be financially constrained (again holding other characteristics constant). Family type matters. The base group is couples with dependent children and the estimates show that relative to this group lone parents are significantly more likely to be financially constrained, especially those with dependent children. When compared to those in employment the unemployed and those not in the labour force have a higher probability of being financially constrained, as do those holding a casual job (if employed) (the assumption here is that casual employment is exogenous).

Those who are renters or living rent free (vis a vis those who have a mortgage or whose home is paid) also have a higher incidence of being financially constrained.[10] Table 4 offers a further simple disaggregation of this characteristic. Focusing on the age group 25-34 years, the estimates show that 53% of this group are renting or living rent free. When disaggregated by financial constraint status, of those financially constrained (and aged 25-34), 72% are either renting or living rent free.

Column (3) (of Table 3) summarises the estimates from a regression estimated over two waves of data (2016 and 2020) with a control for financial literacy (a dummy variable equal to 1 if the respondent could correctly answer three questions testing interest rate, inflation and risk). The results simply show correlations (no causality is claimed). The negative coefficient on the financial literacy controls indicates that there is an inverse relationship between financial literacy and the likelihood of being financially constrained. It may be that poor financial literacy ➔ lower wealth accumulation and greater financial pressures. Alternatively it may be that greater wealth accumulation ➔ greater financial literacy. The point of the descriptive contribution here is to highlight the fact that those in the community with low financial literacy are also those more likely to be financially constrained and more likely than those not financially constrained to use credit (or perhaps buy-now-pay-later products) to meet their financial needs. Faced with poor financial literacy and financial constraints, the risk is that some exacerbate their precarious financial situation by taking loans at high annual percentage rates (APR) (e.g. 48%).

[10] The HILDA variable used here is 'hsmgpd' which asks whether the household has completely paid of home loans. Response options are (a) loan paid off or (b) loan not paid off. Persons renting or living rent free (e.g., with family or friends) are not asked. They are classified here as 'renters'.

Table 3 Factors associated with the likelihood of being financially constrained

	(1) 2001-4 (four waves	(2) 2018-2021 (four waves)	(3) 2016&2020 (two waves)
Financial literacy	--	--	-0.018***
			(0.005)
Female	-0.008	0.020***	0.015***
	(0.005)	(0.004)	(0.005)
Years of Schooling	-0.014***	-0.011***	-0.010***
	(0.001)	(0.001)	(0.001)
25-34	0.001	0.043***	0.053***
	(0.010)	(0.008)	(0.009)
35-54	-0.067***	0.031***	0.029***
	(0.009)	(0.008)	(0.009)
55-64	-0.172***	-0.036***	-0.040***
	(0.010)	(0.008)	(0.010)
65-74	-0.259***	-0.127***	-0.127***
	(0.011)	(0.009)	(0.011)
75+	-0.308***	-0.177***	-0.182***
	(0.012)	(0.010)	(0.011)
Couple, with no dependent children	0.027***	0.012**	0.024***
	(0.006)	(0.005)	(0.006)
Lone parent with dependent children	0.199***	0.124***	0.149***
	(0.012)	(0.011)	(0.013)
Lone parent, no dependent children	0.092***	0.071***	0.095***
	(0.015)	(0.011)	(0.014)
Other family type	0.065***	0.062***	0.060***
	(0.011)	(0.009)	(0.011)
Lone person	0.078***	0.055***	0.049***
	(0.007)	(0.006)	(0.007)
Foreign born, main English speaking country	-0.015*	-0.000	0.003
	(0.008)	(0.007)	(0.008)
Foreign born, other	-0.030***	-0.010*	-0.019***
	(0.007)	(0.006)	(0.007)
Unemployed	0.152***	0.168***	0.184***
	(0.012)	(0.011)	(0.014)
Not in the labour force	0.090***	0.095***	0.103***
	(0.006)	(0.005)	(0.007)
Employed in a casual job, if employed	0.052***	0.058***	0.066***
	(0.007)	(0.006)	(0.008)
Mortgaged	-0.052***	-0.055***	-0.052***
	(0.006)	(0.005)	(0.006)
Home paid	-0.097***	-0.080***	-0.090***
	(0.005)	(0.004)	(0.005)
Urban	0.014**	-0.003	-0.002
	(0.007)	(0.005)	(0.006)
VIC	0.019***	0.013**	0.014**
	(0.007)	(0.005)	(0.006)
QLD	0.033***	0.028***	0.032***
	(0.007)	(0.006)	(0.007)
SA	0.038***	0.025***	0.039***
	(0.010)	(0.008)	(0.009)
WA	0.027***	0.024***	0.035***
	(0.009)	(0.008)	(0.009)

TAS	0.055***	0.032***	0.054***
	(0.017)	(0.012)	(0.014)
NT	-0.042	-0.044**	-0.069***
	(0.033)	(0.019)	(0.021)
ACT	-0.006	-0.013	-0.002
	(0.017)	(0.012)	(0.015)
Constant	0.479***	0.279***	0.278***
	(0.020)	(0.015)	(0.017)
Observations	48,455	64,515	33,349
# Unique individuals	15,463	19,084	19,876

Notes

1. Sample: adults aged 18+
2. The regression also controlled for time (wave dummies)
3. The base categories are: age 18-24; couple with dependent children; Australian born, employed, renting, rural, New South Wales
4. Robust standard errors in parentheses and clustered on the individual
5. Significance given by: *** p<0.01, ** p<0.05, * p<0.1
6. Column (3) is restricted to just two waves of data with information on financial literacy (waves 16 and 20)
7. Source: HILDA, waves 1-4, 18-21 and 16 & 20

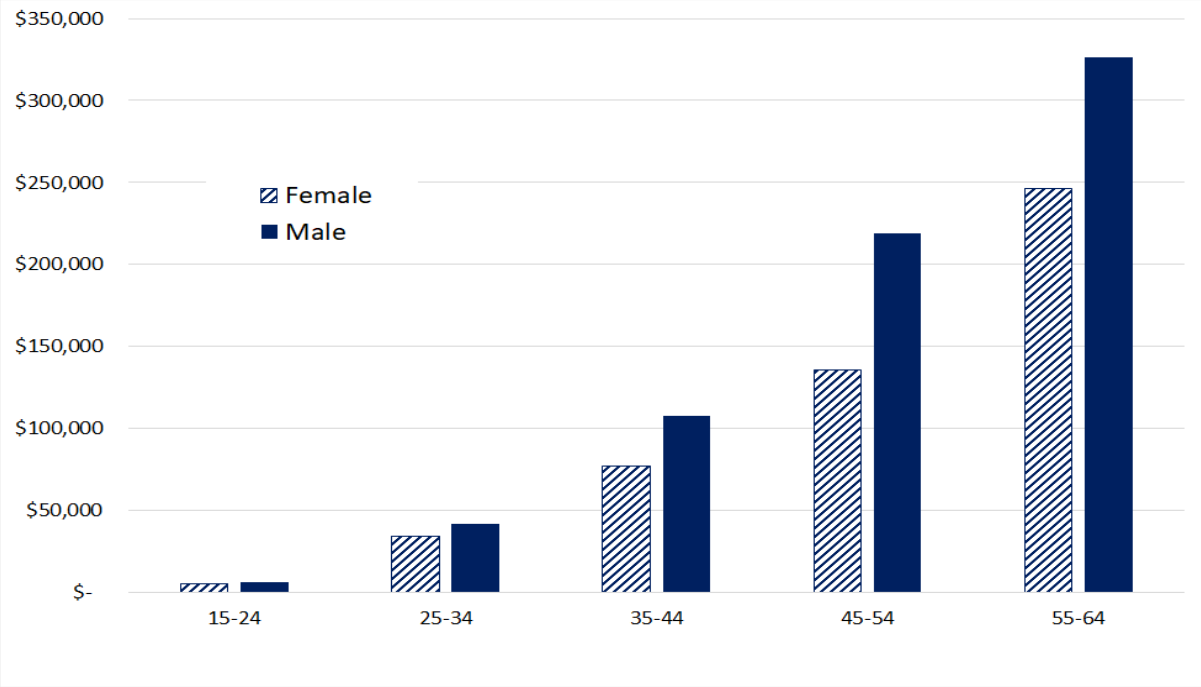
C. Gender, Superannuation and Covid-19

Australia's retirement income system is comprised of three pillars: (a) a means-tested universal Age Pension; (b) compulsory superannuation savings attained via mandated minimum employer contributions; and (c) voluntary contributions into superannuation funds plus private savings made elsewhere. The mandated component was first adopted in 1992 and since then generous tax concessions and government co-contributions have been used to incentivise voluntary savings into superannuation.

Gender gap in superannuation savings

Drawing on the most recently available data from the Australian Bureau of Statistics (ABS), Figure 12 shows the mean superannuation balances by age. Across all age groups there is a significant gender gap in superannuation savings. In the group closest to retirement (aged 55-64) the mean balances amongst men was $326,200 in 2019/20 and for women it was $246,300. (The median was $191.5 for men and $125.0 for women).

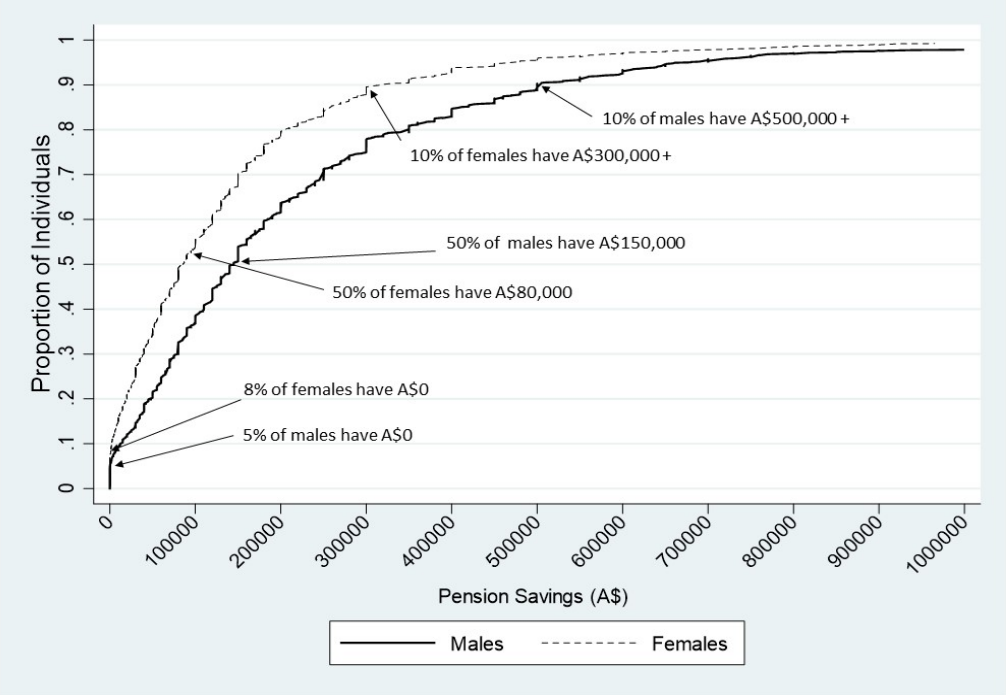
Figure 13 Mean superannuation balances of Australian men and women with positive balances, 2019/20



Notes
1. Sample: aged 15+ with positive balances
2. Source: ABS Household Income and Wealth, Australia: Summary of Results, 2019–20, Table 12.3. Catalogue released April 2022.

When compared with wage data, there is a surprising dearth of current, easily accessible, and publicly available, data on superannuation balances for a representative sample of Australians. There is even less data available for a disaggregated analysis by sex. In the absence of the latter, the following chart draws on data from the wealth module conducted in the 2018 (wave 18) HILDA survey. The superannuation balances are self-reported (or imputed). The main value in figure is in demonstrating that superannuation balances are highly skewed. HILDA estimates for the age group 45-54 (a group that has been covered by the mandated scheme for much of their working life) shows that the median balance for men was $150,000 in 2018 and for women $80,000. In other words 50% of women in this age group have less than $80,000. The top 10% of women aged 45-54 had balances of $300,000+. The top 10% of men had balances of $500,000+. The significance of this is that for most employees in Australia, superannuation savings are low. Most Australian's will be reliant on the means tested Age Pension in old age (Pillar 1) either in full or part.

Figure 14 Cumulative distribution of superannuation savings by sex and age, 2018



Notes:
1. For graphing, the underlying sample is restricted to pension savings of less than A$1m.
2. Sample: Aged 45-54 and not retired.
3. Source: HILDA, Wave 18.[11]

[11] This diagram was first published in Preston, A. and R.E. Wright (2022), "Gender, Financial Literacy and Pension Savings", IZA Discussion Paper No. 15250. https://www.iza.org/publications/dp/15250/gender-financial-literacy-and-pension-savings

Gender gap in superannuation savings and financial literacy

Recent analysis of the gender gap in superannuation balances in Australia shows that, in 2018, the mean balance (or savings) of men aged 18-64 was A$154,519 and for women it was A$97,317.2 (in 2018 prices). At the mean, if female balances are to equate to those of men it means that female balances need to increase by around 60%. In other words, at the mean, there is a 60% gender gap in superannuation savings amongst 18-64 year olds in Australia. Of this gap, the main source of the gap lies in gender differences in earnings (45.6% of the total gap) and gender differences in years worked (34.9% of the total gap). Research also shows that gender differences in financial literacy accounts for a further 8.5% of the overall 60% gender gap in balances. It suggests that beyond a focus on ways to increase female earnings and years worked could be expected to narrow the gender gap in superannuation savings, as would a focus on improving the financial literacy of women.[12]

Early withdrawal of superannuation

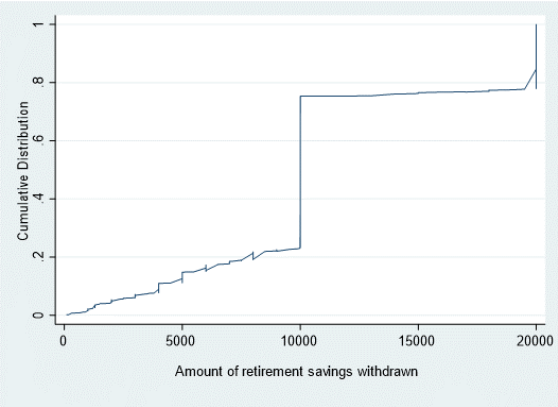
When the compulsory superannuation component was first introduced the vision, at the time, was for the preservation of contributions until retirement.[13] Early withdrawal is, however, provided for on the grounds of financial hardship, compassionate grounds and in instances of terminal illness. In 2020 there was a significant relaxing of the grounds for early withdrawal in response to the Covid-19 pandemic. Individuals could make two withdrawals (over two financial years) in 2019/20 and 2020/21 for up to $10,000 in each case. According to the Australian Prudential Regulation Authority (APRA) there were 3.5 million initial applications to withdraw funds and 1.4 million repeat applications. The modal withdrawal amount was $10,000 for men and women.

[12] See Preston, A. and Wright R.E. (2022), "Gender, Financial Literacy and Pension Savings", *Economic Record*, https://onlinelibrary.wiley.com/doi/full/10.1111/1475-4932.12708

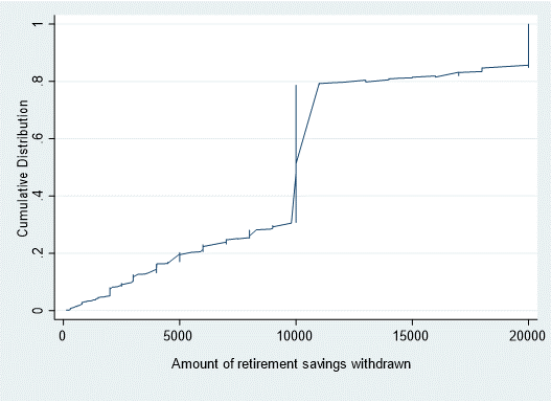
[13] Keating, P.J. Hon. (1991). 'A Retirement Incomes Policy' Address by the Hon. P.J. Keating M.P. to the Australian Graduate School of Management. 25 July. Available from https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FU69F6%22.

Figure 15 Cumulative distribution of Covid-19 superannuation withdrawal amounts, 2020

Males



Females



Notes:

1. Sample aged 18-64
2. Estimates weighted to reflect population totals
3. HILDA, wave 20.[14]

Those most likely to make an early withdrawal were aged 25-34, casual employed and financially constrained.[15] Men were also more likely than women to withdraw as were those who were employed at the start of the pandemic and who subsequently became unemployed. These outcomes are not particularly surprising given the early release eligibility criteria during the pandemic. To be eligible individuals needed to be either unemployed, eligible for a JobSeeker payment (e.g., youth allowance) or have been made redundant or had their hours cut by 20%. Gender differences in employment participation rates of men and women meant that women were less proportionately less eligible than men to make a withdrawal.

Given the characteristics of those who withdrew their superannuation, the expectation is that inequality in superannuation balances will have increased and the distribution will be even more skewed both in the short-run and the long-run. If the purpose of superannuation is to achieve an adequate income in retirement[16] then contributions need to be preserved and early withdrawal discouraged even if the funds are to be used to alleviate cost of living pressures.

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[14] This diagram was first published in Preston, A. (2022), Financial fragility, financial literacy and the early withdrawal of retirement savings during COVID-19, Australian Journal of Labour Economics, 25(2): 126-147.

[15] For further discussion and analysis see Preston A. (2022) (details above).

[16] Treasury (2020b), *Retirement Income Review – Final Report*, The Treasury, Australian Government, Canberra. Available at: https://treasury.gov.au/publication/p2020-100554

C. Gender, HECS-HELP Debt and Cost of Living

In this section the focus is on outstanding student debt under the Higher Education Loan Program (HELP). [17] HELP loans are income contingent student loans. They are interest free but indexed to inflation (the CPI). Students begin repaying their debt when their annual "reportable income" (RI) (all sources – including voluntary superannuation contributions)[18] reaches a minimum threshold. Required minimum payments range from 1% to 10% depending on the level of RI.[19]

Outstanding HECS-HELP balances – number of accounts and $ amounts

Figure 16 draws on data from the Australian Taxation Office (ATO). It shows both the growth in the number of males and females with an outstanding debt as well as the total value of the outstanding student debt by sex and year. Estimates show that, for financial year 2021/22, the total outstanding student debt was equal to $74.4bn. In 2005/6 total outstanding debt (in 2022 prices) was $18.4bn.

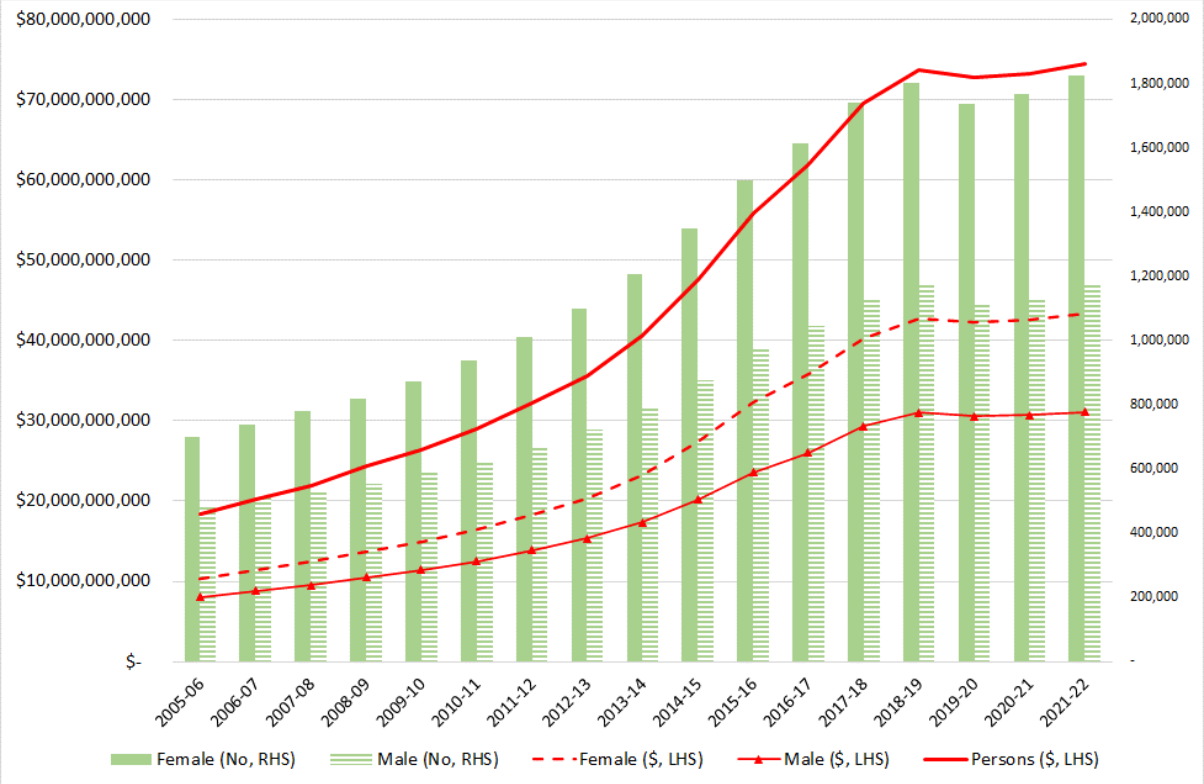
There are several factors driving the growth in the total amount of student debt owed. Growth in student enrolments and those using HELP arrangements to finance their study is the most obvious factor. In the 10 years from 2005/6 to 2015/16 the number of students with an outstanding debt more than doubled (from 1.2m to 2.5m) and in the six years since (to 2021/22) another 529,905 individuals joined the ranks of those with an outstanding debt – taking the total number of individuals with an outstanding debt to 2,998,884.

[17] HELP loans are income-contingent loans. There are two main types of HELP loans: (a) a 'Higher-Education-Contribution-Scheme' (HECS)-HELP which is a loan eligible students may access to pay the student contribution on a commonwealth supported place; and (b) FEE-HELP which is a loan an eligible student may access to pay fees on a full-fee paying course.

[18] Reportable income includes taxable income, reportable fringe benefits, net investment loss (including rental loss), exempt foreign employment income amounts and reportable superannuation contributions (https://www.ato.gov.au/individuals/study-and-training-support-loans/when-must-you-repay-your-loan/#Yourrepaymentincome).

[19] In 2022/23 the repayment thresholds are: 0% below $48,361, 5% for incomes between $79,207 to $83,958 and 9% for incomes $126,244 to $133,818 and 10% for incomes above $141,848. For the full schedule see https://atotaxcalculator.com.au/help-debt#hecs2022

Figure 16 Outstanding student HELP debt (Numbers and $) by year



Notes

1. Source: ATO (2022) HELP statistics 2021-22(XLSX). https://data.gov.au/dataset/ds-dga-ce4c58ec-c930-4a05-8a37-f244d960e5f8/details?q=
2. All dollar ($) figures are in 2022 prices using data from ABS 6401.0 CPI (Australia), All groups.

Another factor relates to recent increases in the student contribution rates, particularly in the humanities. In 2020 a humanities student would have faced an annual contribution amount for a year of full-time study (equivalent full-time student load (EFTSL) of $6,804). In 2021 the humanities contribution amount was increased to $14,500. In 2023 it stands at $15,142. For a student commencing university studies in 2023, the approximate cost of a bachelor degree in a field such as commerce, economics or arts is now around $45,426 if completed over a three year period full-time (and assuming no indexation) (see Table 4). Some qualifications may take more than three years to complete (e.g., medicine) and some sectors such as teaching new graduates are required to complete a two-year postgraduate qualification (whereas previously it was a one-year DipEd). [20] Aside from the opportunity cost (lost earnings) associated with such time in study, the requirement also raises the tuition fees. Assume the first degree is in economics (three years totalling $45,426) followed by a two-year master's degree in education.

[20] Joseph, R. (2022), 'A shorter path to teaching: exploring one-year postgraduate qualifications. Centre for Independent Studies Policy Paper No. 48, December.

This could see a graduate teacher with a HECS-HELP debt of $53,673 at the point of graduation (in 2023 prices).

Table 4 Approximate HECS-HELP debt associated with three years of study (2023 prices)

		Annual contribution for one year of full-time study	Approximate student cost for three years of study
Cluster 1	Law, Accounting, Administration, Economics, Commerce, Communications, Society and Culture	$15,142	$45,426
Cluster 2	Education, Postgraduate Clinical Psychology, English, Mathematics or Statistics	$4,124	$12,372
	Allied Health, Other Health, Built Environment, Computing, Visual and Performing Arts, Professional Pathway Psychology or Professional Pathway Social Work	$8,301	$24,903
Cluster 3	Nursing, Indigenous and Foreign languages	$4,124	$12,372
	Engineering, Surveying, Environmental Studies or Science	$8,301	$24,903
Cluster 4	Agriculture	$4,124	$12,372
	Pathology	$8,301	$24,903
	Medicine, Dentistry or Vet Science	$11,800	$35,400

Source: https://www.studyassist.gov.au/help-loans-commonwealth-supported-places-csps/student-contribution-amounts. Note some degrees (e.g., Medicine) take more than three years to complete.

A growth in the demand for post-graduate studies has also contributed to rising outstanding student debt. Estimates reported in Table 5 show that, in 2002, 4% of persons aged 15-64 held a postgraduate qualification (in the form of a Graduate Certificate, Graduate Diploma or higher). By 2011 this share had increased to 7% and by 2022 it was equal to 12% (in 2012 the estimate was over the age range 15-74). The significance of this is that while the fees for bachelor degrees in Australia are predominantly subsidised by the commonwealth government, this is not the case for postgraduate qualifications. A large portion of postgraduate qualifications (particularly in business) are full-fee paying courses, with master degrees completed over 1 ½ to 2 years depending on field of study at the undergraduate level. It is not uncommon for post-graduate course fees in full-fee paying courses in areas such as business to be in the $70,000 range. As previously noted, this might be on top of debt accumulated as an undergraduate student. While the cost of education has risen, the pay-off or wage return

associated with tertiary qualifications has significantly declined amongst young adults (aged 25-34) over the last two decades.[21]

Table 5 Highest educational attainment, persons, by age

	2002	2011	2022
Postgraduate Degree	2%	5%	8%
Graduate Diploma/Graduate Certificate	2%	2%	4%
Bachelor Degree	13%	17%	20%
Advanced Diploma/Diploma	7%	9%	10%
Certificate III/IV	15%	17%	17%
Yr 12 or equiv or cert 1/11	21%	21%	18%
Year 11	8%	7%	5%
yr10 or below	31%	22%	17%
	100%	100%	100%

Notes:
1. In 2002 and 2011 the sample age range was 15-64 years; in 2022 it is 15-74 years.
2. Source: ABS Education and Work, May 2022, 2011 and 2002.

The underlying rationale for HELP income contingent loans is that students may borrow today and defer payments until they earn at or above the threshold level for repayments. At the time of introduction (1989) there was concern that the system would disadvantage women as women, on average, earn less than men and have less attachment to paid work over their working life. The equity argument was that if women never reached the threshold they wouldn't be required to pay off their debt. It was unimaginable that the level of outstanding debt would soar to $74bn as, at the time, course fees were low, the contribution rate was low and the numbers enrolled were comparatively low. Since 1989 there have been a number of changes to the system of income contingent student loans. Changes include linking indexation to inflation instead of average weekly earnings – a change that has increased the amount of debt accumulated since growth in average weekly earnings is slow and, of late, significantly less than the CPI. Other changes include lowering the repayment threshold and removing discounts on voluntary payments.[22]

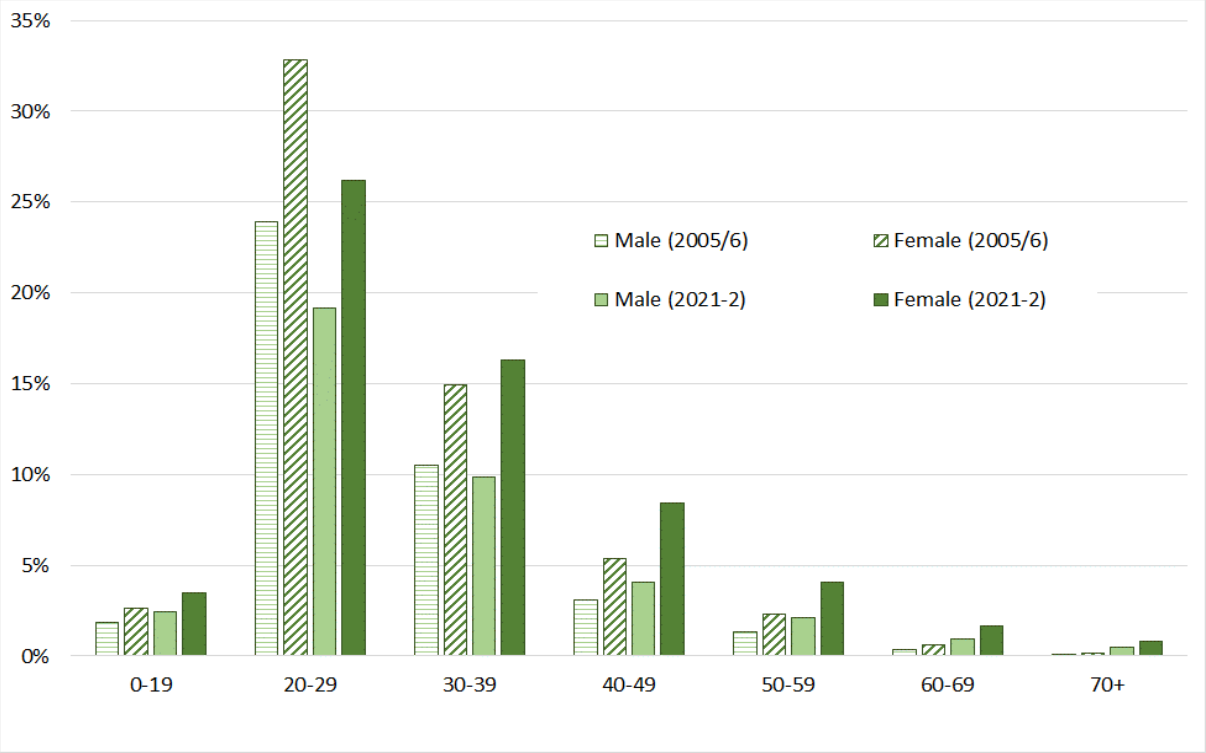
[21] See Birch, E. and Preston, A. (2021), 'The Evolving Wage Structure of Young Adults in Australia: 2001 to 2019', *Economic Record*, 97, 365-386. See, also Borland J. and Coelli, M. (2016), 'Labour Market Inequality in Australia', *Economic Record*, 92, 517-547.

[22] West, T. (2018), 'Lowering the HELP repayment threshold is an easy target, but not the one we should aim for', The Conversation, April 18.

HECS-HELP debt by age and sex

Figure 17 shows the age distribution in 2005/6 and in 2021/2 of those with an outstanding student debt. In 2005/6 females accounted for 59% of all those with an outstanding HELP debt. By 2021/2 this share had increased to 61%. In 2005/6, of all those (total) with an outstanding student debt, 33% were female aged 20-29 and 24% were males aged 20-29. The corresponding shares in 2021/2 were 26% for females and 19% for males. The change reflects the growth the proportion of older people (> 39 years of age) holding a HELP debt – particularly older females. Growth in those with an outstanding debt has been higher amongst females than males, although the average mean debt held males is above that of females (in 2021/22 the mean outstanding debt was $23,695 for males and $26,533 for females). Amongst those aged 20-29 it was $30,268 for males and $28,311 for females (Figure 18).

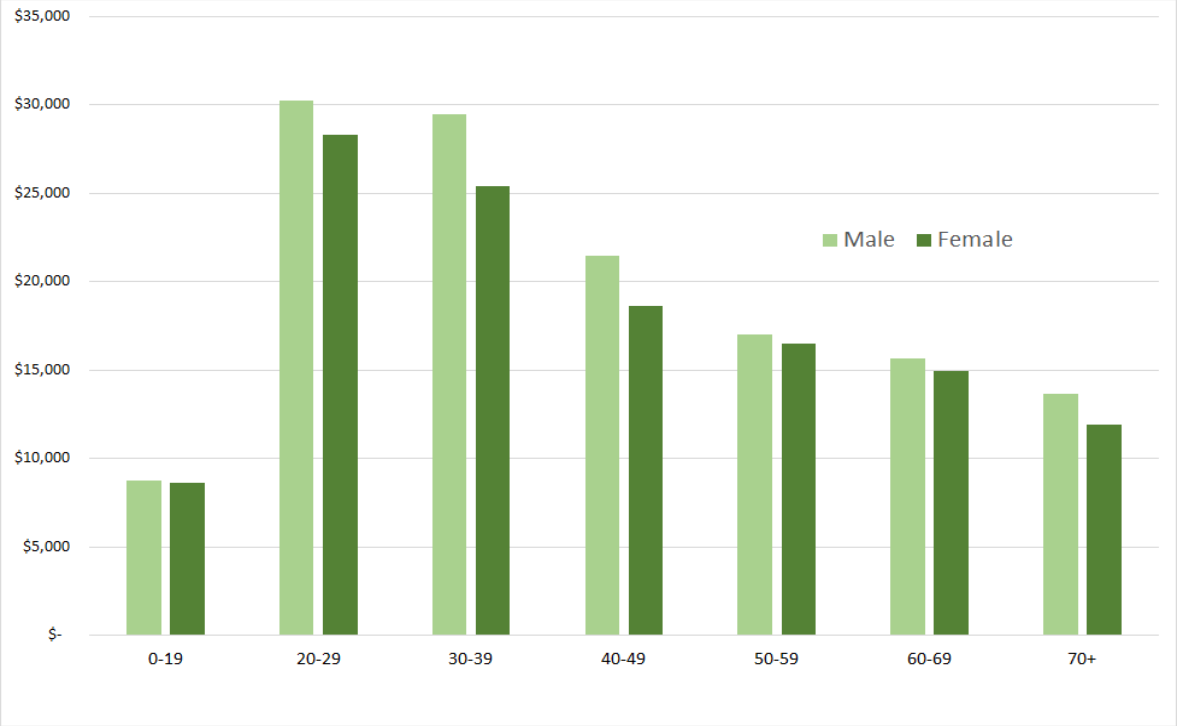
Figure 17 Distribution of those with outstanding debt by age and sex, 2005/6 and 2021/2



Notes

1. Source: ATO (2022) HELP statistics 2021-22(XLSX). https://data.gov.au/dataset/ds-dga-ce4c58ec-c930-4a05-8a37-f244d960e5f8/details?q=
2. Note: the male and female 2005/6 columns jointly sum to 100%, as do the male and female 2021/2 columns.

Figure 18 Average (mean) outstanding debt amounts ($) by age, 2021/22



Notes

1. Source: ATO (2022) HELP statistics 2021-22(XLSX). https://data.gov.au/dataset/ds-dga-ce4c58ec-c930-4a05-8a37-f244d960e5f8/details?q=

HECS-HELP– simple vignettes

Assume two individuals – John (male) and Jane (female) – each earning average weekly. Based on November 2022 data this would equate to $1618.7 per week or $84,172 per annum for John and $1144.3 per week or $59,503.6 per annum for Jane.[23] Assume John and Jane both fall within the age range 20-29 and both have an outstanding student debt which is equal to the mean for this group in 2021/2. For John his HELP debt would be $30,268 and for Jane her HELP debt would be $28,311 (Figure 18).

[23] These estimate for average weekly earnings (AWE) are drawn from ABS 6302.0 for November 2022. The assumption here is that annual earnings is equal to AWE*52.

Table 6 HELP Debt repayment and net income

Year 2022-2023	John	Jane
Gross income	$81,910.00	$59,503.00
Superannuation	$8,600.55	$6,247.81
Tax	$17,087.75	$9,805.48
HELP debt	$4,095.50	$1,487.58
Medicare levy	$1,638.20	$1,190.06
Tax offsets	$0.00	-$107.46
Net income	**$59,088.55**	**$47,127.34**

Source: https://atotaxcalculator.com.au/.

John's repayment will be $4,095.5 which is 5% of his gross income and Jane's repayment will be $1,487.58 which is 2.5% of her gross income. The difference relates to the differing thresholds. This will take John's HELP balance to $26,172.5 and Jane's to $26,823.4.

Each year on 1 June outstanding HELP balances are indexed in line with the CPI. For convenience, let us assume that the repayments occur prior to indexation and indexation occurs on the remaining balance. Let us also assume there is no voluntary repayments and the CPI is 6.9% (which measures the change in the CPI between March 2022 and December 2022). After indexation John's HELP balance will increase from $26,172.5 to $27,978 and Jane's from $26,823.4 to $28,674.2. Jane's 'indexed' amount will exceed her balance in 2021/2 even after making the minimum required contributions.

With inflation outstripping wage growth scenarios such as this will see outstanding debt continue grow. The gender gap in hourly, annual and life-time earnings will also see debt grow proportionately faster for women than men. Why does this matter? Some might argue that that because the HELP debt does not attract interest and is only indexed to inflation as a way of maintaining the real value of the loan in line with the cost of living then growth in the debt does not matter. Others similarly argue that if the outstanding debt of women grows at a faster rate than that of males because they earn less and repay back at a slower rate should also not matter. Equity in the system is seen to stem from the fact that some might never pay it back (e.g., because of zero earnings or low earnings below the threshold). It does, however, matter. Mortgage lenders, for example, take a HECs debt into consideration when assessing loan

borrowing capacity. In this regard it is a financial drag – a drag that seems likely to impact more on women than men.

Options to reduce HECS-HELP debt

The analysis here points to the need for a deeper inquiry into HECS-HELP arrangements and, in particular, the effect it is having on the cost of living pressures facing young adults. It is acknowledged that reverting to a system where education is free will shift significant pressures onto the government budget. However, is it fair to impose such high debt burdens on young people – particularly given declining returns to education? Are the current arrangements contributing to shortages in particular fields (e.g., teaching) and thus starting to drag on productivity? Does the system deter individuals to re-train and/or upgrade and engage in life-long learning, i.e. practices that are good for the nation's overall productivity growth.

If education is not to be made free then it is important that the inquiry considers ways of relieving the debt burden on students and on women in particular. Options include changing indexation back to AWOTE or setting the indexation rules to be either AWOTE or CPI, whichever **is the lowest**.

Another suggestion (proposed by Geoff Sharrock) is to let students use their superannuation to pay their student debt.[24] Under the Superannuation Guarantee (Administration) Act 1992 (The SG Act) employers are currently required to pay 10.5% of each employee's ordinary time earnings into a superannuation account (the amount will increase to 12% by July 2025). This means that an employee on an annual gross income of $18,200 in 2022/23 will pay no tax but will see $1,911.00 paid by their employer into a superannuation fund on their behalf. Contributions are taxed at a rate of 15% so $287 will go off to the ATO – even though the individual pays no tax on their earnings as they are earning below the first tax threshold. Such a scenario might apply to a student working part-time while studying. While the $1,911 in may grow as a result of compound interest it may also be subject to fees and charges such that the overall growth in superannuation savings may be low. The alternative could be to allow those with outstanding student HECS-HELPs debt to clear their debt through using superannuation and once cleared then start accumulating superannuation.

[24] Sharrock, G. (2015), 'Use super contributions to repay student debt'. The Conversation, April 19.

E. Buy-Now-Pay-Later (BNPL)

Alongside the growth in cost of living pressures has been a growth in the use of 'Buy-Now, Pay-Later' (BNPL) products (e.g., After Pay, Zip, Klarna).[25] Estimates from the Reserve Bank of Australia (RBA), for example, suggest that over the year to June 2022 BNPL customer accounts increased by 40% to $7 million and the value of transactions increased by 37% to $16 billion.[26] Several factors may explain growth in the latter, including more aggressive marketing, advancements in technology, the lack of regulation, rising cost of living pressures, and, concerningly, coercion (financial abuse).[27] Such rapid growth in is of concern, particularly as the sector is not yet formally regulated (i.e., not subject to the responsible lending standards and other related requirements of the National Consumer Credit Protection Act 2009 (the Credit Act)). BNPL products typically allow consumers to purchase a product or service and pay back the cost in interest free instalments. In offering interest-free credit contracts BNPL products fall outside of the scope of the Credit Act. However, while BNPL providers offer interest-free credits, they do charge for missed instalments and calls are now mounting for the sector to be regulated. As in response in November 2022 the Commonwealth Treasury released a regulatory options paper with submissions due 23 December 2022. [28]

Young people are considered an at-risk group within the current economic and financial environment and are particularly vulnerable with the unregulated BNPL sector. Young women are a particular at risk group. This reflects, in part, their financial vulnerability, their lower levels of financial literacy, the ease with which BNPL debt may be obtained and the fact that BNPL products are increasingly used to finance essential purchases (e.g., grocery and utility bills).[29]

Figure 19 helps further highlight the risk faced by young women in the current context. Ignoring the HECS/HELP student loan debt which does not accrue interest, of the remaining debt forms held by young people, BNPL is the most common. While young men have a higher

[25] Australian Securities & Investment Commission (ASIC) (2020), Buy Now Pay Later: An industry update. Report 672..

[26] Reserve Bank of Australia (2022), Payments System Board Annual Report, September

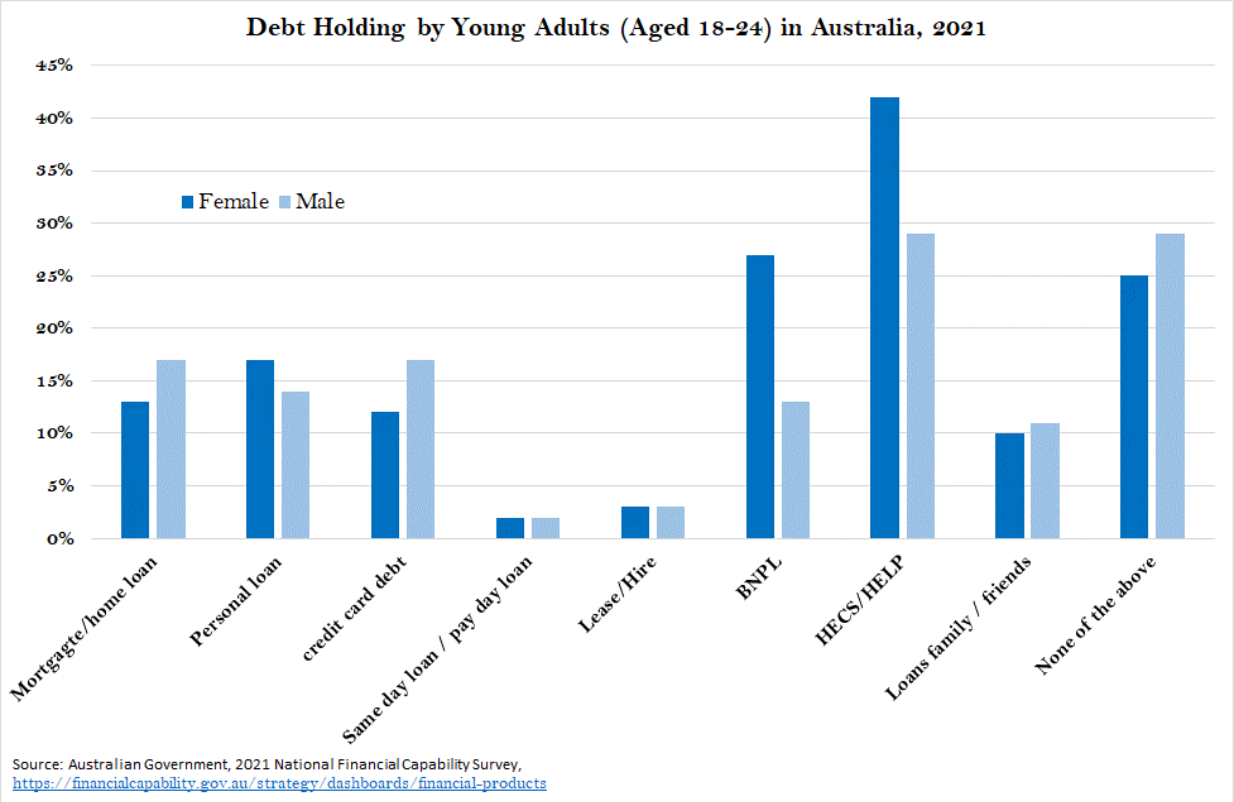
[27] Khadem, N. (2022), 'Inappropriate lending': Buy now pay later industry could face new regulations to stop financial abuse. ABC News. 21 November 2022.

[28] The Treasury, Australian Government (2022), Regulating Buy Now, Pay Later in Australia. Options Paper. November. https://treasury.gov.au/consultation/c2022-338372 (last accessed 21.11.22).

[29] Good Shepherd (2022), Safety net for sale: the role of buy now pay later in exploiting financial vulnerability. Report. November. Available from https://goodshep.org.au/wp-content/uploads/2022/11/Good-Shepherd-Report_The-Role-of-Buy-Now-Pay-Later-in-Exploiting-Financial-Vulnerability_November-2022-Full-Report.pdf (last accessed 19.11.22).

incidence of credit card debt, young women have a higher incidence of BNPL debt. (Of young adult (aged 18-24) respondents to the 2021 National Financial Capability Survey (NFCS), 27% of women report holding a BNPL debt compared to 13% amongst men). It is not clear from these data why young women have a greater propensity to hold a BNPL debt. Is it because marketers are more likely to target BNPL at young women? Is it reflective of a 'socialisation' and preference effect (increased use amongst peers)? Is it a coercion effect? Further research is required to understand gender differences in such debt holding patterns and responses to cost of living pressures.

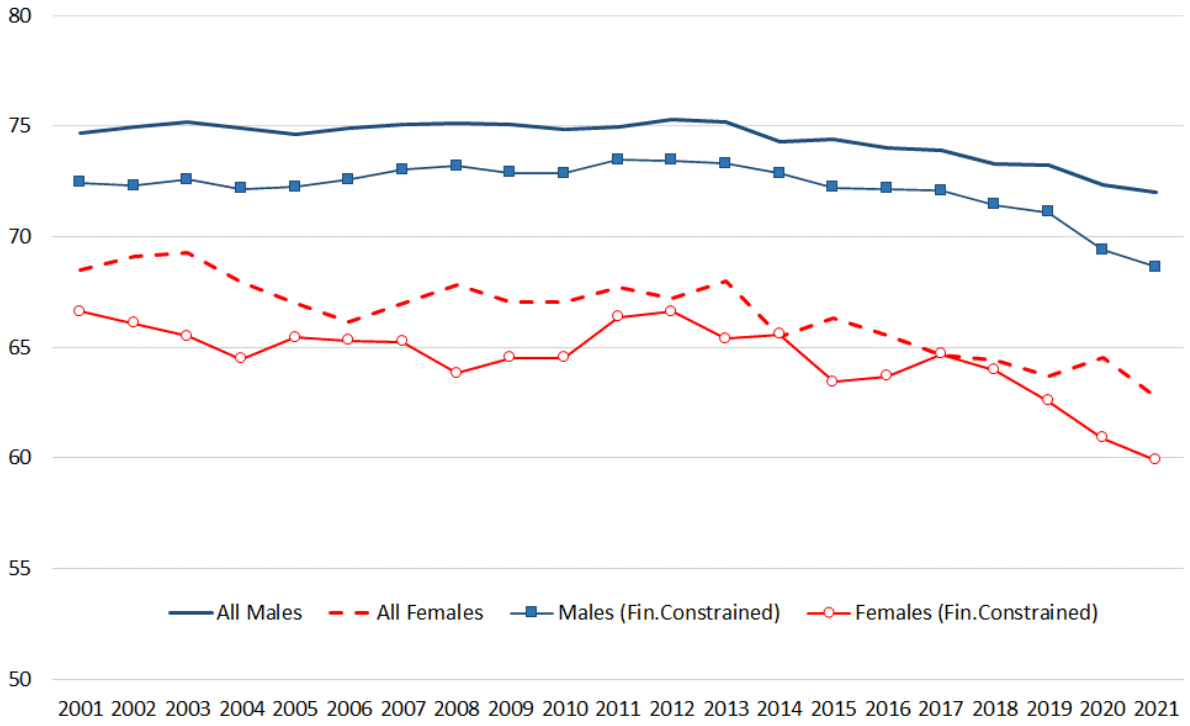
Figure 19 Debt holding by young adults (aged 18-24) in Australia, 2021



F. Gender, Mental Health and Finances

In this section the descriptive analysis draws on information in HILDA on mental health. The main variable of interest is from the SF-36 survey of mental health, which is collected via the self-completion questionnaire (SCQ). The actual variable employed is a derived measure generated by the HILDA team at the Melbourne Institute. It captures mental health (MH) on a normalised score ranging from 0 to 100. Figure 19 shows trends in the mental health score for all adult males and females over the period 2001 to 2021. A disaggregation based on the 'financially constrained' is also included. (The definition is as before: i.e. a person is considered financially constrained if, because of a shortage of money, they couldn't pay bills and/or had to borrow money, go without meals or sell something etc.). As shown there is a significant difference in the mean mental health (MH) score of men and women. Those who are financially constrained also have significantly lower MH scores.

Figure 20 Mental health score of Australian adults, 2001-2021



Notes

1. Sample: adults aged 18+
2. Estimates weighted to reflect population values.
3. Source: HILDA, waves 1-21.

Table 7 reports the results from a regression analysis with mental health score as the dependent variable. Again no causality is claimed. The results serve to show the significant correlation between gender and mental health and between financial situation (financially constrained) and mental health (columns (1) and (2)). Focusing on column (2), the results show that in 2018-21 women, on average, had a mental health score that was four percentage points lower than that of males. Persons who were financially constrained had a mental health score that was 7.5 percentage points below that of their counterparts who were not financially constrained.

In column (3) financial literacy is controlled for via a dummy variable that is equal to 1 if the respondent correctly answered three questions testing financial literacy. The estimates are across two waves of data and are included to demonstrate a correlation between financial literacy and mental health. It is commonly claimed that investing in financial literacy may be one way of defraying the mental health pressures associated with current cost of living pressures. While it is not unreasonable to assume that the acquisition of financial literacy skills could improve mental health outcomes, there is a dearth of evidence concerning this relationship in the literature. Further research is required to confirm if there is indeed a causal relationship and the direction of the relationship.

Table 7 Relationship between gender, being financially constrained, financial literacy and mental health

	(1) 2001-4	(2) 2018-21	(3) 2016 & 2020
Female	-0.019***	-0.040***	-0.028***
	(0.004)	(0.004)	(0.004)
Financially constrained	-0.071***	-0.075***	--
	(0.004)	(0.004)	
Financial literacy	--	--	0.017***
			(0.004)
Other controls	√	√	√
Observations	43,425	57,693	29,241

Notes

1. Sample: adults aged 18+
2. The dependent variable is a logarithmic transformation of the MH score.
3. For convenience the full regression results are not reported. The other controls in the regression are as per those listed in Table 3.
4. The regression is estimated using a random effects model.
5. Robust standard errors in parentheses and clustered on the individual.
6. Significance given by: *** p<0.01, ** p<0.05, * p<0.1
7. Source: HILDA, waves 1-4 and 18-21 and waves 16 and 20.