

# Reforming Youth Allowance: The “Independent-at-Home” Category

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The Review of Australian Higher Education (2008) recommended the elimination of the Youth Allowance (YA) category known as “Independent-at-Home” (IAH), a policy position which has been endorsed by the Australian Government. The concern is students gaining access to YA through this eligibility criterion are not disadvantaged and that consequently this aspect of the system is inequitably targeted. To cast light on this possibility, the research reported here examines the household income circumstances of individuals in the IAH category in a comparison with otherwise similar students. The research methods employed are indirectly due to the lack of available data, but we are able to adjust information from the HILDA survey to address the issue. The evidence is that, in the 2001 to 2006 period, a large proportion of those in the IAH category were not disadvantaged, which is support for the position of the Review and the government’s response to it.

Keywords: Youth Allowance, student income support.

## 1. Introduction

“Put simply...income support should be targeted to those with the most significant financial barriers and away from those with the least significant financial barriers” (Chapman, 1992).<sup>3</sup> It follows that an essential point to be considered in an assessment of the efficacy and integrity of student income support policy is: does the policy unreasonably deliver taxpayer resources in the form of grants to students who are not in need of assistance?

The above issue was examined by the review of Australian higher education (Commonwealth of Australia, 2008) – simply referred to as the “Review” hereafter – as part of its appraisal of the current income support arrangements for Australian tertiary students. It is clear that the Review considered

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<sup>2</sup>Bruce Chapman served as a consultant to the Review. The authors acknowledge the input of members of the Review team, the Secretariat to the Review, Lin Martin, David Phillips and the Department of Education, Employment and Work Place Relations. The authors acknowledge gratefully the constructive input of two anonymous referees. This paper uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the author and should not be attributed to either FaHCSIA or the Melbourne Institute. All errors and matters of interpretation are the sole responsibility of the authors.

<sup>3</sup>Bruce Chapman (1992, p. 18).

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that the current design of income support could be significantly improved given that one of its many recommendations is for the Australian government to eliminate the Youth Allowance (YA) category known as “Independent-at-Home” (IAH). In support of this reform it is argued that there is “...strong evidence that this aspect of student income support is quite poorly targeted and inequitable” (p. 53).

What follows explores the evidence used to reach the unequivocal view of the Review that the IAH aspect of YA should be modified significantly. To set the scene, we first outline the nature of the policy and describe its coverage over 1999–2007. The rest of this short paper considers in detail how panel aspects of the Household, Income and Labour Dynamics of Australia survey (HILDA) were used to inform the Review of the empirical basis for the debate concerning the distributional aspects of IAH.

## 2. The “Independent-at-Home” Category of Youth Allowance

In 1998, the Australian government extended the basis under which full-time tertiary students under the age of twenty-five years would be considered to be “independent” of the financial circumstances of their parents and thus eligible for income support grants, even if living at home. The additional criteria included: working a given number of hours in paid employment over a specified period of time; or, earning \$18,850 (in 2008 dollars) in a recent eighteen-month period (Review, 2008, p. 53). This opened the possibility that students could receive non-means-tested income support after having had a “gap year” or even through being employed at an exceptionally high wage rate for a short period by a family member or friend.<sup>4</sup> It is very likely that this policy development was in part a response to the possible inequities associated at that time with the increase in the “age of independence” to twenty-five years.

The number of students in receipt of the IAH allowance increased very rapidly in the period 1999–2003, from around 1,000 in the first year to around 21,500 in the last of these. From 2003, the figure remained virtually unchanged and stood at 22,689 in 2007.<sup>5</sup> This represented about 18 per cent of all recipients of YA in 2007, a proportion which grew very rapidly in the previous five years, and which expanded slowly as the numbers eligible for other forms of YA fell gradually.

The critical issue for policy concerns whether or not IAH income support recipients are in fact financially disadvantaged. This is more complicated than might seem at first blush because the actual government assistance provided to those in the IAH category is well below the amounts delivered to those in other categories of YA in which the recipients live away from their parent or parents.<sup>6</sup> Thus, the issue concerns whether or not those on IAH are receiving help from YA in addition to what is implicitly assumed to be transferred from parents or guardians in various forms. Unfortunately, for our analysis there are no data available that will allow confident conclusions with respect to the distribution of resources within households.

However, in attempting to address the above complexity, it is reasonable to suggest that in circumstances in which household incomes are relatively high it is more likely that young students receive more assistance than is implicitly assumed in the design of the payment rule levels. While there is no doubt that the financial assistance provided by the parents of students under the age of twenty-five years will differ very considerably, the implication this has for the efficacy and equity of the design of YA is addressed at least in part by the means-testing on household income eligibility criterion; this obviously does not apply to the IAH category.

The empirical matter promoted by this discussion can be summarised and simplified as follows: is it likely that those students receiving YA in the IAH category are in domestic economic circumstances that should not warrant government support on the basis of social disadvantage? While

<sup>4</sup>There are compelling data supportive of this possibility contained in the University of Melbourne Submission to the Review. They show much higher increases over the relevant period in the proportion of later-age enrolments in high income households (University of Melbourne, 2008).

<sup>5</sup>Source: Centrelink administrative data, 30 June each year.

<sup>6</sup>For example, the amount paid to those on IAH is around \$220 per fortnight, but the maximum received by those on Youth Allowance living away from home is about \$350 per fortnight and this is supplemented by Rent Assistance for students residing in high rent areas.

there are different ways to approach this, we have chosen to address the matter through examination of data concerning the household incomes of those in this YA category; the research task appears to be deceptively simple in conceptual terms but turned out to be quite difficult in application. The next section describes how we were able to use HILDA to address the matter.

### 3. Using HILDA to Inform the IAH Issue

The Australian government does not, as a matter of course, systematically collect information that would allow confident assessments of the precise financial circumstances of students in receipt of, or prospectively in receipt of, income support. The kinds of data that would be ideal would at minimum identify precisely the category of income support, and the exact levels of family income and their origins. Some youth surveys provide important information related to various aspects of student participation (such as the LSAY95 and LSAY98) and these have proved to be useful in research exercises concerned with access to higher education (Cardak and Ryan, 2006). Even so, it is broadly the case that there is no detailed statistical information that can be employed in a straightforward way to inform us of the circumstances of those in the IAH category. We had to find a round-about approach, and this involved HILDA.

The Household, Income and Labour Dynamics of Australia (HILDA) survey is Australia's randomly sampled longitudinal data set, and is a panel survey of about 7,200 households with a rich set of information collected annually, currently for the period 2001–2008. It contains a rich set of information on the demographic, educational and financial circumstances of around 17,500 people, including just over 300 higher education students in any one annual survey. For the IAH policy issue, the survey can be used as follows.

The HILDA survey allows comparison of the household incomes of full-time higher education students aged less than twenty-five years living at home (with a parent or parents) of those identified as being in receipt of YA with those identified as not being in receipt of YA. An important complication is that the type of YA received (for example, means-tested living at home, IAH or independent not living at home) is not identified in the survey. This problem of aggregation in the classification of YA implies that some proportion of those identifying as receiving YA will have qualified as a result of their living in households with low incomes and, even though they reside with their parents or a parent, they would not thus be in the IAH group. We need a method of determining, albeit necessarily imperfectly, who in the sample might be in this category.

Our response to the above challenge was to assume those identified as being on YA with low household incomes are in receipt of YA through means-testing and should thus not be classified as being in the IAH group. To help us identify the right part of the sample, it is important to note the maximum household income in which the full at home allowance is received. This turned out to be a bit of a challenge as this figure depends on not only measured household income but also the number and age of other child dependants in the household. To make it virtually certain that we are identifying only YA recipients who are in the "independent" category we determined the level of household income that would still qualify a student for means-tested eligibility even in the presence of two siblings whose household was in receipt of some forms of social security<sup>7</sup>; while this would mean potentially excluding a number of those who were actually in the IAH category the approach maximised the likelihood that all of those identified were in the group we are interested in examining.

A further complication is that there were clearly not enough observations of full-time higher education students aged less than twenty-five and living with their parents in each year of the survey to make up enough data points, so we needed to use the household income threshold levels unique to each of the years we used, from 2001 to 2006, and include the possibility of these additional young people in the household on income support. For example, for the 2006 data the threshold is around \$32,010 (\$29,550 for the YA student plus \$2,460 for two further children assumed to be on social security), after which the amount of YA paid is reduced by twenty-five cents in the dollar. These

<sup>7</sup>Each child increases the parental income cut-out point by \$1,230, a figure which apparently remained unindexed.

**Table 1.** *Descriptive Statistics of the Samples*

Variables	YA recipients (2001–2006)		Non-YA recipients (2006)	
	Mean	SD	Mean	SD
Household income (in \$2008)	97,755	74,520	145,806	93,241
Annual YA (in \$2008)	6,447	2,440		
Number of observations	136		157	
Household incomes above the cut-offs (in \$2008)	139,742	72,366	157,654	91,040
Number of observations	79		141	

rules thus suggest that those in the sample identified as receiving YA but in households with incomes above the \$54,912 cut-off are almost certainly going to be in the IAH category.

Our analysis of the data from the 2001 to 2006 surveys illustrated that there were sufficient observations in 2006 (157) for one of our comparison groups, those aged less than twenty-five studying full-time in higher education, living at home and *not* receiving YA.<sup>8</sup> However, given that there were less than thirty observations in each year for otherwise comparable YA recipients, it was clear that we needed considerably more data for this group than is available in any single year. Thus, for YA recipients we used the approach described above for all six of the surveys being used. Table 1 shows the distribution of observations for those in the YA category by year, and the basic statistical characteristics of the data for both groups.

The data of Table 1 show that on average the household incomes of YA recipients in 2008 terms (\$97,755) are significantly less than the household incomes of those not receiving YA (\$145,806) when the entire distributions are used; the ratio of the two means being 0.7. However, it is instructive that with the exclusion who are very likely to be in the YA means-tested group (that is, those with household incomes less than the cut-offs) the average household incomes in 2008 terms are much closer, \$139,742 and \$157,654; the ratio of the two now being 0.89. This suggests the possibility of two things: many of those in our sample receiving YA are actually in the IAH category; and a significant proportion of those in the IAH category seem to be living in households with relatively high incomes. The latter conjecture is now explored more fully.

#### 4. Fuller Comparisons of the Household Incomes of the Two Groups

Household incomes of students on YA can be ranked in ascending order, and we now show the basic data for this exercise in Figure 1. The method used is to show the cumulative number of observations at particular points of household income in order to understand more fully the distributions of household income by YA status. In Figure 1, it is clear that around 58 per cent of the YA recipients have household incomes above what we infer to be the means-tested upper boundary of the relevant years.

Descriptive statistics in Table 1 illustrate that mean incomes for both groups are quite close. This apparent similarity is explored further in the remaining part of this section. The analysis will focus on the similarity of the household income distribution of the two groups with household income above \$58,186 (the 2006 cut-out adjusted for inflation to 2008).

<sup>8</sup>A very small number of observations (around ten) had household incomes of less than \$54,912 yet were not in receipt of Youth Allowance. It is very likely that they qualified instead for Family Tax Benefit, which for some households with relatively large numbers of young children delivers more financial assistance.

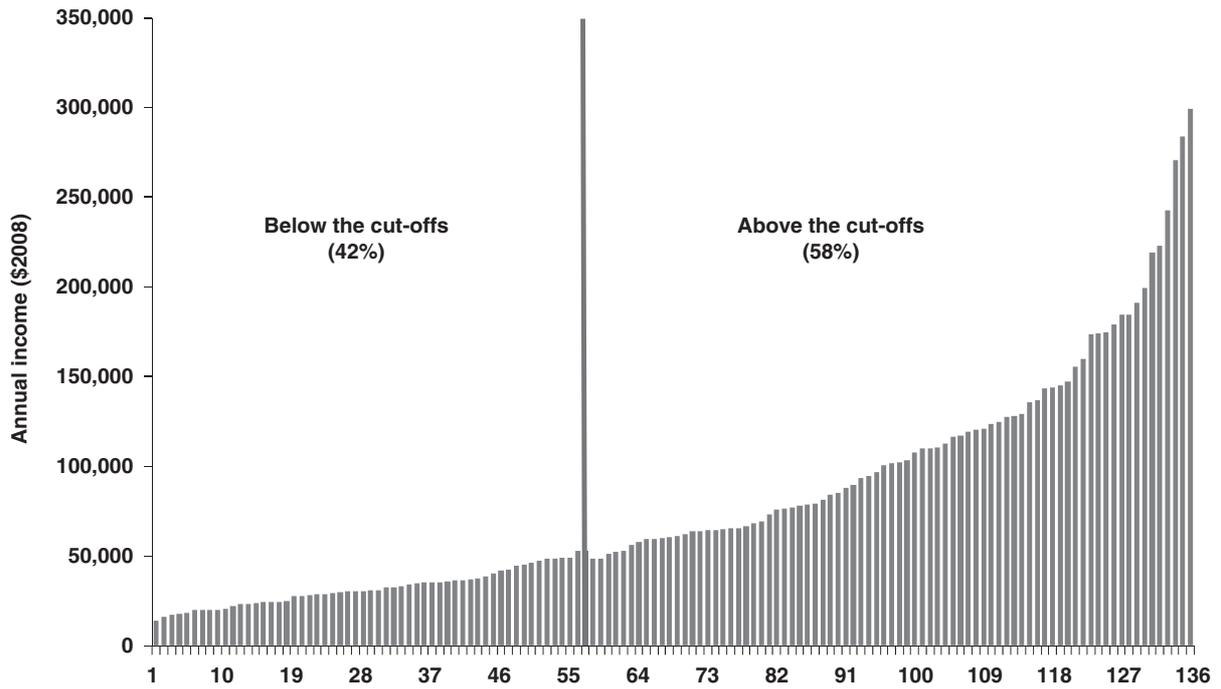


Figure 1. Annual Household Incomes of Youth Allowance Recipients “Living at Home” (in 2008 Dollars)

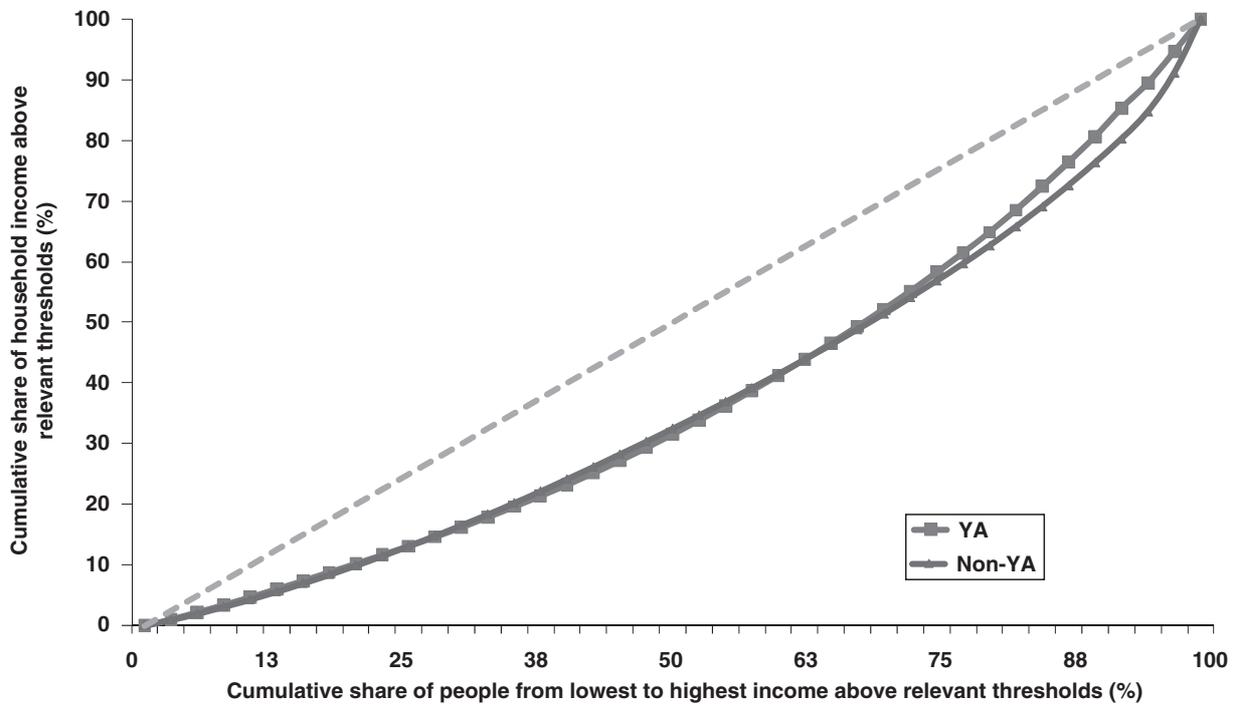


Figure 2. Comparison of the Household Incomes of the Two Groups

There are in principle different ways to illustrate how similar/dissimilar two data series are, with one possible approach involving the use of the Lorenz curve and Gini coefficients.<sup>9</sup> The relevant Lorenz curve shows the cumulative share of people from the lowest to highest income in our data plotted on the horizontal axis and the cumulative share of household income for household with income above \$58,186 being plotted on the vertical axis. The Lorenz curves for YA recipients and non-YA recipients are shown in Figure 2 and these allow us to construct Gini coefficients for both groups. If the Lorenz curve is represented by  $L(x)$ , Gini coefficients can be obtained with the following formula:

$$\text{Gini} = 1 - 2 \int_0^1 L(x) dx$$

As can be seen from Figure 2, the curves are very similar in shape. This suggests that the income distribution of these two groups are not significantly different from each other. For example, the bottom 50 per cent of YA recipients receives 30 per cent of cumulative household income, while 50 per cent of non-YA recipients receives 32 per cent of cumulative household income. The corresponding Gini coefficients are 0.256 for YA recipients and 0.268 for non-YA recipients, which are (subjectively) extremely close.

## 5. Discussion

The Review (2008) recommended the abolition of the “independent living-at-home” category of the Youth Allowance system, and we have explored the empirical basis of this decision. While there are only poor data available in the public domain to inform such a perspective, we have been able to use the HILDA survey to assess whether or not the IAH classification is meeting a demonstrable financial need. Our approach was to compare the household incomes of YA higher education students under the age of twenty-five living at home with the household incomes of an otherwise comparable group not in receipt of YA. The first point to emerge from this exercise is that a significant proportion of those in receipt of YA are in households with quite high incomes; about half of the YA recipients had annual (2008) household incomes above \$80,000 and one-third of the recipients had household incomes which are more than \$100,000.

Our second and major point entailed the exclusion from the sample of YA recipients who are apparently qualifying for assistance through the conventional means-testing rules. This allows us to compare the household incomes of YA recipients apparently in the IAH category with those not receiving YA. The important result is that the household incomes of the two groups are strikingly similar.

These findings seem to sit very uneasily with the implicit goal of an income support scheme such as YA, which is to assist students from more disadvantaged backgrounds to pursue higher education. It also is consistent with the possibility that significant government financial resources have been, and are currently being, used to support students who could have pursued their university study without YA (although we have no direct evidence on this issue). Our conclusion sits comfortably with the Review’s recommendation of the abolition of this aspect of YA. It should be acknowledged and regretted that the HILDA survey provides the only readily available data and consequently that the results are based on a small sample.

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<sup>9</sup>Closely related variants of this approach were suggested by both the referees, for which we are especially grateful.

Chapman, B. and Lounkaew, K. (2009), Reforming Youth Allowance: The “Independent-at-Home” Category. *Economic Papers: A journal of applied economics and policy*, 28: 304-309. doi:10.1111/j.1759-3441.2010.00044.x

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