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

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Abstract

Several of the Youth Allowance eligibility criteria for independent status were subject to severe criticism in the recent *Review of Australian Higher Education* (2008). Specifically, it seems to be the case that many students are able to qualify for so-called “independent-at-home” financial support even though they may be living in circumstances of relative economic advantage. The paper examines the policy and statistical basis for these claims with the use of data from the HILDA survey and reports apparently strong support for the notion that the rules result in important inequities; the evidence was important to the deliberations of the *Review* Committee. The Commonwealth Government has recently announced changes to YA consistent with these findings.

JEL Codes: I00, I2, I20, I21, I22, I28.

Keywords: Youth Allowance; student income support; grants; “independent-at-home” HILDA.

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, 1993)¹. It follows that there are two broad questions to be considered in an assessment of the efficacy and integrity of student income support policy, one of which 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* (2008) (hereafter, “The Review, 2008”) as part of its appraisal of the current income support arrangements for Australian tertiary students. It is clear that the Review considered that the current design of income support could be significantly improved given that one of its many recommendations is for the Australian government to severely restrict eligibility for Youth Allowance (YA) in the 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” (page 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 25 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 18-month period (“The Review, 2008”, page 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. 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 25 years.

The number of students in receipt of the IAH allowance increased very rapidly in the period 1999 to 2003, from around 1,000 in the first year to around 21,500 in the last of these. In absolute terms subsequently the figure has remained virtually unchanged and stood at 22,689 in 2007². 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

¹ Bruce Chapman (1993) page 18.

² Source: Centrelink administrative data, 30 June each year.

which has expanded slowly since as the numbers eligible for other forms of YA have fallen 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 parents³. Thus the issue concerns of whether or not those on IAH assistance are receiving help in addition to that provided by what is received 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 25 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 which obviously doesn't apply to the IAH category.

The empirical matter promoted by this discussion can be summarized 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 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, 2007). Even so, it is broadly the case that there is not 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.

³ 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.

HILDA 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 to 2007. It contains 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.

HILDA allows comparison of the household incomes of full time higher education students aged less than 25 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 somewhat inaccurately, who in the sample might be in this category.

Our response to the above challenge is 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 that the maximum household income in which the full at home allowance is received is around \$32,000 in 2008 terms, after which the amount of YA paid is reduced by 25 cents in the dollar for households with one student on YA. These rules thus suggest that those in the sample identified as receiving YA but in households with incomes above \$55,680 are almost certainly going to be in the IAH category.

A further complexity is that in any one of the 2001-2007 annual surveys there are not enough observations of YA recipients living at home to provide confidence in statistical inference. This required two things, the first being the identification of different students likely to be in the IAH category in each year of HILDA, in order to have enough non-repeated observations. Second, the household income data for individuals observed in different years needs to be standardized for wage inflation and such a correction entailed the use of the Australian Bureau of Statistics' Average Weekly Ordinary Times Earnings (AWOTE) series; this involved an adjusted increase of the incomes data by about 5 per cent per annum from 2001 to 2006, the surveys we used.

We programmed the data for the 2001 to 2006 surveys and found that there were sufficient observations in 2006 (157) for one of our comparison groups, those aged less than 25 studying full time in higher education, living at home and not receiving YA. However, given that there were less than 30 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. Tables 1 and 2 show the distribution of observations for those in the YA category by year, and the basic statistical characteristics of the data for both groups.

Table 1
Number of Observations (YA recipients), HILDA Survey 2001-2006

Year	Male	Female	Total
2001	6	7	13
2002	16	9	25
2003	14	13	27
2004	8	8	16
2005	11	18	29
2006	16	10	26
Total	71	65	136

Table 2
Descriptive Statistics of the Samples

Variables	YA Recipients (2001-2006)				Non-YA Recipients (2006)			
	Male		Female		Male		Female	
	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
Household income (\$2008)	89,562	8,706	103,962	6,422	138,636	77,886	133,380	92,757
Household income above \$55,680 (\$2008)	122,322	10,991	139,335	11,057	155,458	72,572	160,255	93,764
Annual YA (\$2008)	6,859.3	611.71	9,432.7	554.6				
Age	20.1	0.20	19.9	0.20	19.5	1.45	19.3	1.5
Number of observations	71		65		65		92	

The data of Table 2 show that on average the household incomes of YA recipients in 2008 terms (\$89,562) are significantly less than the household incomes of those not receiving YA (\$138,636) when the entire distributions are used; the ratio of the two means being 0.646. However, it is instructive that with the exclusion from the first category of those in the first category who very likely to be in the YA means-tested group (that is, those with household incomes less than \$55,680) the average household incomes in 2008 terms are much closer, \$122,322 and \$155,458; the ratio of the two now being 0.787. 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 for both groups of students can be ranked in ascending order, and we now show the basic data for this exercise in Figures 1 and 2. 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, for example, it is clear that around 65 per cent of the YA recipients have household incomes above what we infer to be the means-tested upper boundary of \$55,680 per annum.

Figure 1
Annual Household Incomes of Youth Allowance Recipients “living at home” (in 2008 dollars)

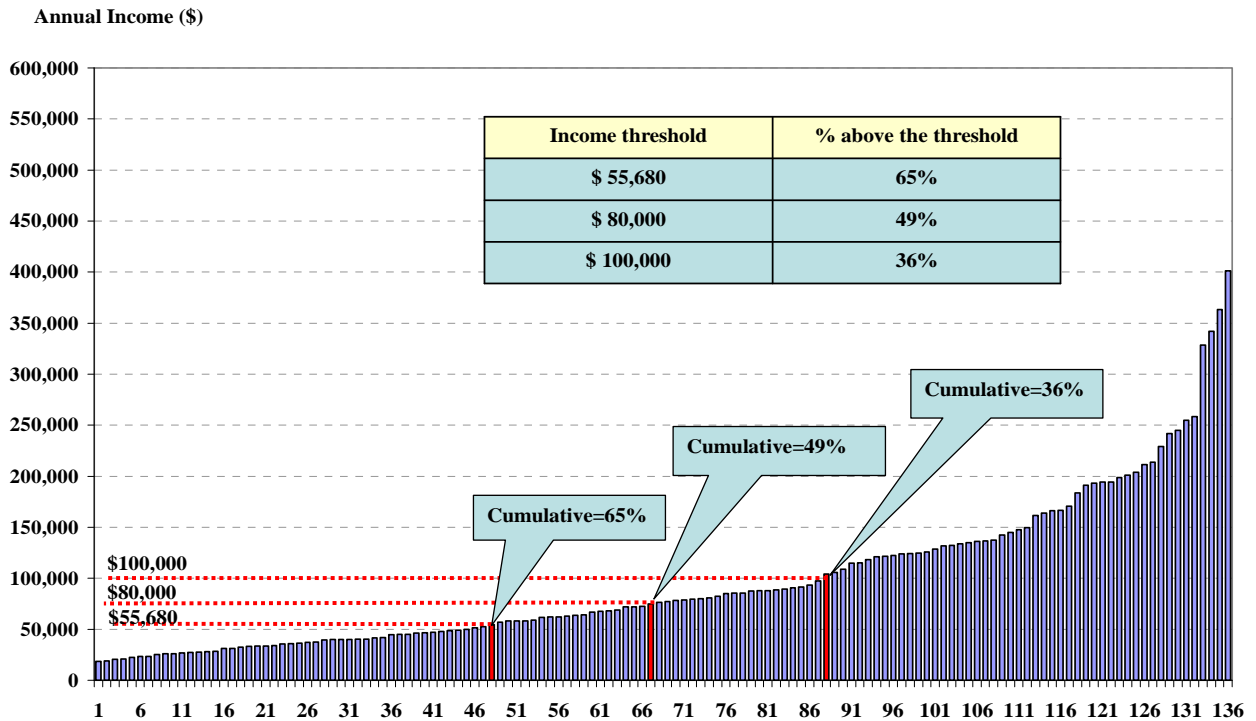
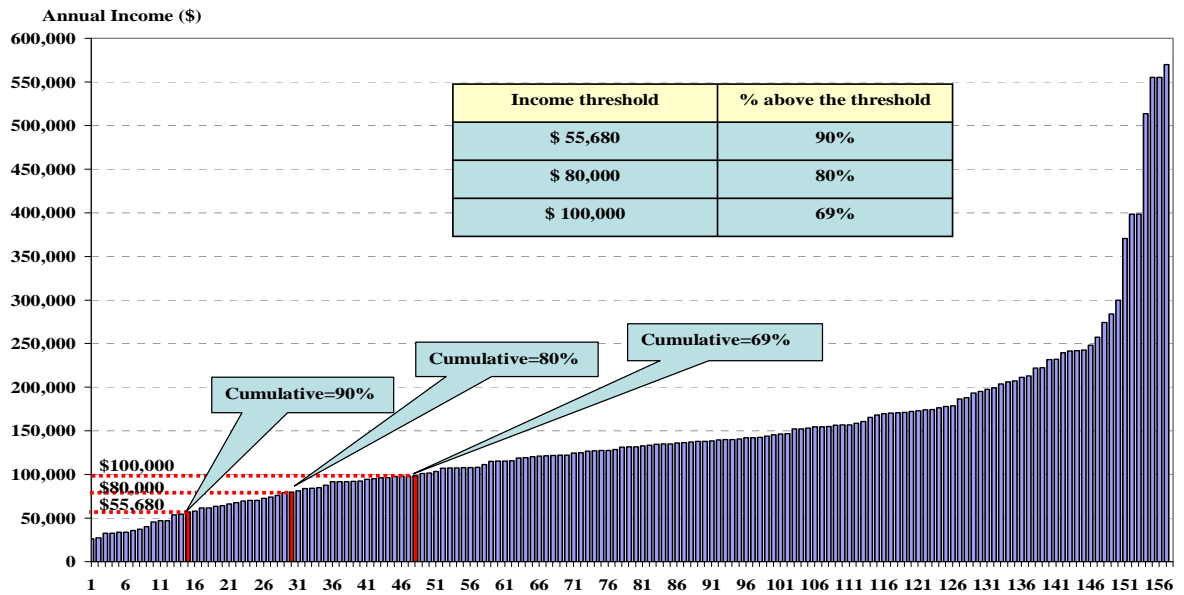


Figure 2
Annual Household Incomes of Non-Youth Allowance Recipients (in 2008 dollars)

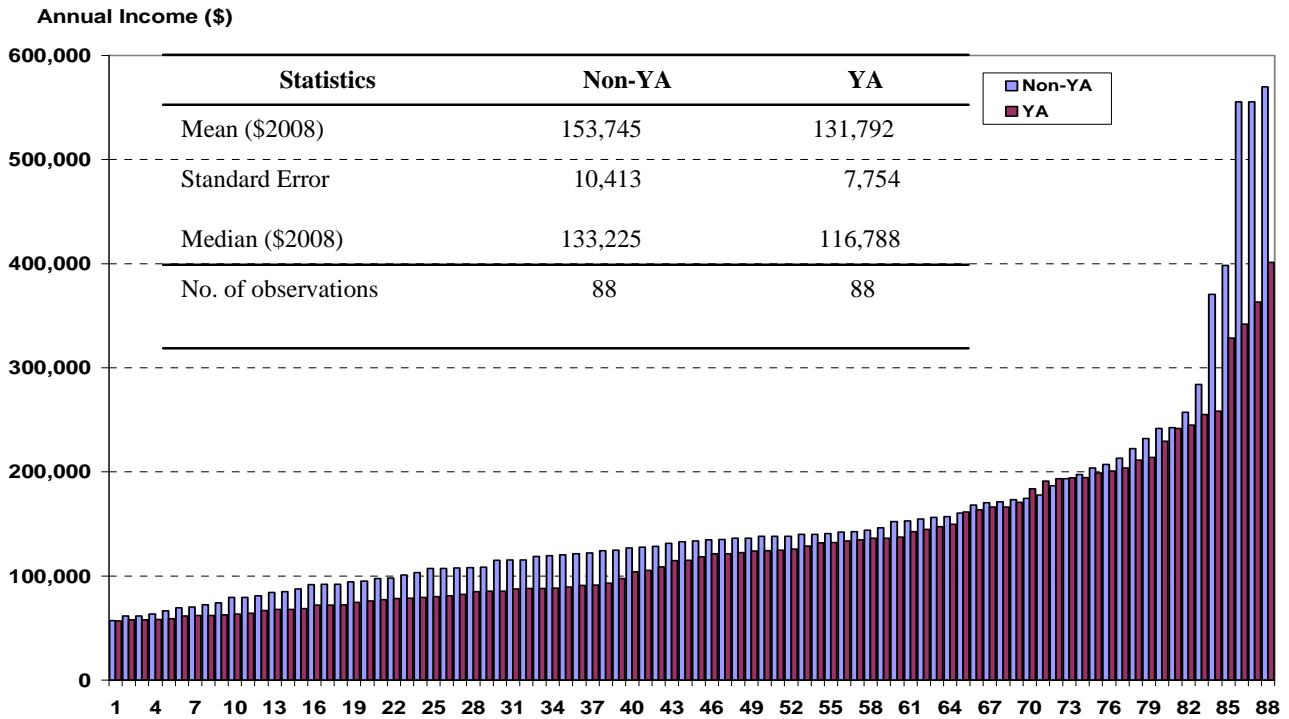


The apparent similarity between the two groups in the shape of the household income distributions for those with household incomes above around \$56,000⁴ is striking. Figure 3 shows this graphically, and records the similarities in the means and medians of household incomes for the groups, which was achieved visually by dropping odd-numbered observations from the on-YA recipient group to equalize the number of data points. This approach also allowed us to run an *ad hoc* ordinary least squares regression⁵ between the two series, the prediction being that the relationship between the ordinal ranking of household incomes are the same between the groups (that is, the coefficient on household incomes is statistically insignificantly different from 1). The result is shown in an Appendix.

⁴ A very small number of observations (around 10) had household incomes of less than \$55,680 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.

⁵ The statistical test is importantly *ad hoc* in several ways, one being that five observations from the non-YA group had unusually high household incomes and we chose to model these with a dummy, for no other reason than they are outliers.

Figure 3
A Direct Comparison of the Household Incomes of the Two Groups



5 Discussion

The Review (2008) recommended severely restricting the number establishing independence by abolishing two existing criteria which seemed to have allowed a significant number of students aged less than 25 years to receive the “independent living-at-home” Youth Allowance system. We have explored the empirical basis underlying 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 25 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 implies that significant government financial resources have been, and are currently being, used to support students who could have pursued their university study without YA. As evidence for poor targeting this conclusion sits comfortably with the Review's recommendation of the abolition of the independence eligibility criteria which have been very significant contributors to these inequities. The Commonwealth Government adopted these recommendations in the 2009/10 Budget.

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Appendix
**An *Ad Hoc* Regression Test of the Relationship Between the Household Incomes
of YA and non-YA Recipients**

Regression: $HHI(\text{non-YA}) = 20,312 + 0.95HHI(\text{YA}) + 148,258\text{Dummy}$
t-stats: 4.74 28.93 14.47
R-squared: 0.97
No. of observations: 88

Where $HHI(\text{non-YA})$ = the annual real household income of the non-YA recipients
 $HHI(\text{YA})$ = the annual real household income of the YA recipients
 Dummy = a dummy variable which takes the value of 1 for the last five observations