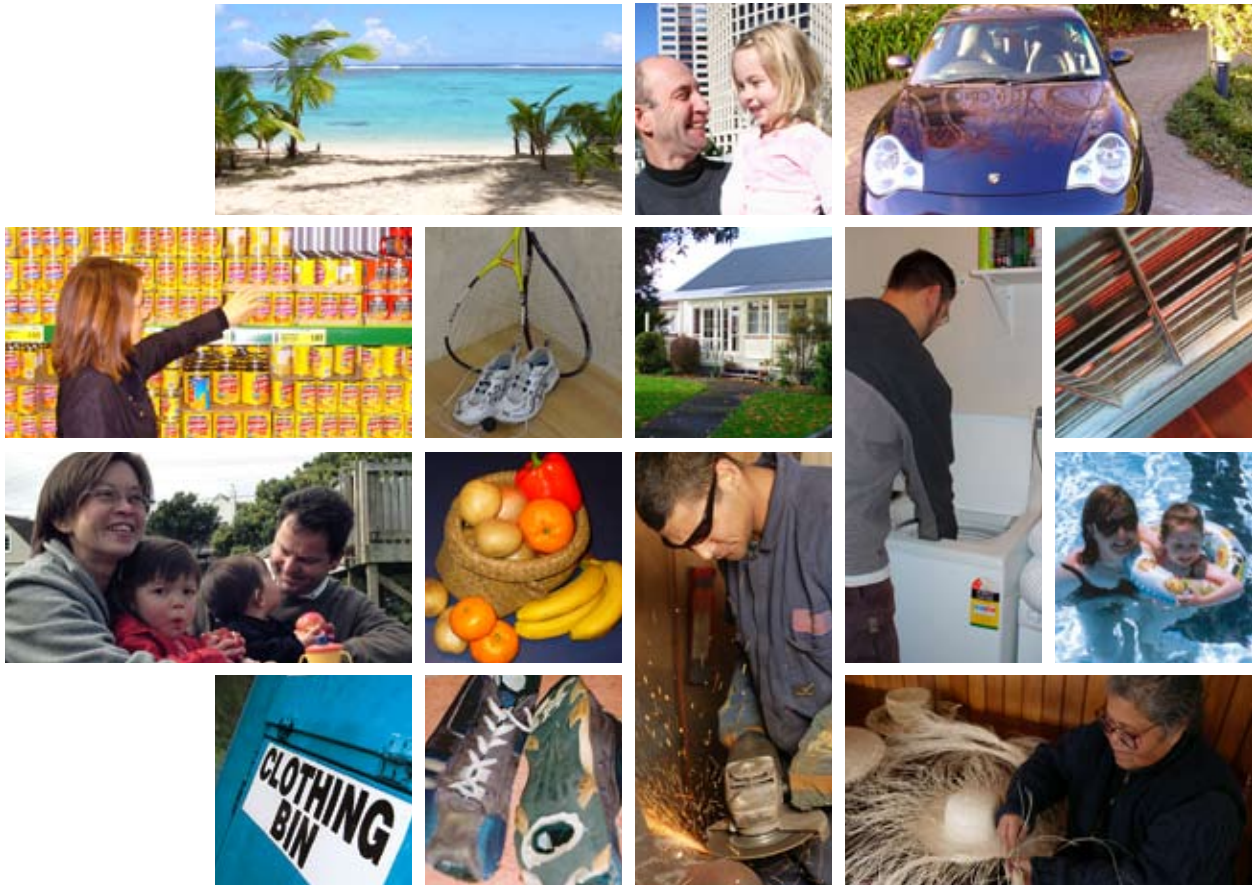


# New Zealand Living Standards 2004 – An overview



*Ngā Āhuatanga Noho o Aotearoa*



New Zealand  
Living Standards 2004  
– An overview

*Ngā Āhuatanga Noho o Aotearoa*

John Jensen, Vasantha Krishnan, Rob Hodgson,  
Sathi G Sathiyandra and Robert Templeton

Centre for Social Research and Evaluation  
Ministry of Social Development

© 2006

Ministry of Social Development  
PO Box 1556  
Wellington  
New Zealand

This document is also available on the MSD website:  
[www.msd.govt.nz](http://www.msd.govt.nz)

ISBN: 0-478-29327-5

Graphic design and print management by Capiche Design Ltd.

#### **Acknowledgements**

In a project such as this, where many people contributed in many different ways, the assignment of authorship has an unavoidable element of arbitrariness. Particular thanks are due to Linda Angell, Davina Jones, Rebekah Goldstein-Hawes, Penny Beynon and Matt Spittal for their crucial input at certain stages of the research.

We would also like to thank the many national and international reviewers who gave generously of their time to provide valuable criticism of drafts and constructive suggestions for improvement. Thanks are also due to many people within the Ministry of Social Development who made contributions by way of review, discussion or practical assistance.

#### **Disclaimer**

Any opinions expressed in this report are those of the authors and do not necessarily represent the views of the Ministry of Social Development.

# Foreword

The Ministry of Social Development first produced a comprehensive report on New Zealanders' living standards in 2002. The report, *New Zealand Living Standards 2000*, was based on the award-winning measurement tool, the Economic Living Standard Index (ELSI), created by the Ministry's Centre for Social Research and Evaluation.

This current report, *New Zealand Living Standards 2004*, not only updates the information in *New Zealand Living Standards 2000* but also significantly expands it by looking into a wider range of factors that can affect people's wellbeing and living standards. Understanding the relationships between living standards and factors such as life history, personal health and access to childcare will help strengthen the knowledge base on which social policy rests – and provides a big step up in our understanding of New Zealanders' needs for social assistance and ways that assistance might best be targeted.

This research has produced a rich source of information that will help researchers, policy makers across sectors, communities and government agencies to develop sound policies to address both living standards and wellbeing more generally. We would like to see this information used as widely as possible to improve understanding of New Zealand life.

We welcome inquiries from people who wish either to extend the research reported here or to use the data to look at new topics and questions.

The living standards research is a significant ongoing research programme, and *New Zealand Living Standards 2004* is an important resource for building a better understanding of our society – I commend it to you.



**Peter Hughes**

Chief Executive, Ministry of Social Development

# Contents

<b>Foreword</b>	<b>3</b>
<b>Summary of living standards in 2004</b>	<b>5</b>
Measuring living standards	6
Positive living standards for most New Zealanders	7
Living standards reflect a range of economic factors	7
Life stages and life shocks affect living standards	8
Different living standards despite similar incomes	9
Differences in living standards between groups of people	10
Changing economic conditions	10
Changes in living standards between 2000 and 2004	11
Full analysis of differences in living standards the focus of a future report	12
The Working for Families package	12
The Economic Living Standard Index (ELSI)	13
<b>Results for the total New Zealand population and major subgroups</b>	<b>17</b>
Total New Zealand population	17
Living standards and economic circumstances	18
Adversity and living standards	21
Income source	26
Families	30
Ethnicity and living standards	34
<b>References</b>	<b>36</b>



# Summary of living standards in 2004

The Ministry of Social Development's ongoing Living Standards Research Programme aims to develop a comprehensive description of the living standards of New Zealanders. A descriptive picture of living standards will help communities and government agencies develop effective and informed policies to address disparities between different groups of New Zealanders.

This report provides an overview of the findings of the Living Standards 2004 survey, a large and representative national survey carried out in 2004 that updates and expands MSD's first living standards survey, carried out in 2000 (Krishnan et al. 2002). *New Zealand Living Standards 2004* (Jensen et al. 2006) presents the detailed findings from this survey.

The focus of *New Zealand Living Standards 2004* is on giving a descriptive picture of living standards in this country and indicating how the picture has changed since 2000. While this report points to some of the factors that influence living standards, and helps to explain differences between individuals and groups, a full analysis of variation in living standards will be published by MSD in 2007.

The 2004 survey provides valuable data, containing information that will help us to better understand living standards, such as details on family structure, labour market participation, education, disability and health. MSD welcomes inquiries from researchers interested in furthering this analysis.<sup>1</sup>

1 Please address any data requests to: The manager, Social and Economic Wellbeing Evaluation Team, CSRE, Ministry of Social Development, PO Box 1556, Wellington, with the heading "Access to living standards data".

## MEASURING LIVING STANDARDS

In both the 2000 and 2004 studies, living standards were measured using an instrument called the Economic Living Standard Index, or ELSI (described on page 13).

The Ministry of Social Development developed ELSI to provide a secure and rigorous foundation for its Living Standards Research Programme. Although the research has been developed through a highly technical process, it encapsulates a commonsense understanding of living standards.

ELSI is a direct measure of living standards, based primarily on what people have and are consuming. As such, ELSI differs from income-based measures of material wellbeing. The two types of measure provide different perspectives on material wellbeing, with each being useful for particular purposes:

- an income-based measure is useful for monitoring the effects of government income redistribution policies
- a direct living standards measure such as ELSI shows actual living standard outcomes, which are determined not only by income but by a variety of other factors.

ELSI won the Bearing Point Innovation Award in 2003 in the Public Sector category.

ELSI has been incorporated into Statistics New Zealand's regular Household Economic Survey (HES).

ELSI has been used as the model for a living standards measure called NILSI in Northern Ireland as part of the Equality & Social Inclusion in Ireland project.

*Direct Measurement of Living Standards in New Zealand: Development and application of the ELSI scale* (Jensen et al. 2005a) won the John and Mary Goodyear Award for Best International Paper at the ESOMAR Public Sector conference in Berlin, Germany, in 2004.

## POSITIVE LIVING STANDARDS FOR MOST NEW ZEALANDERS

Overall, the majority of New Zealanders have positive living standards. Results from the 2004 study found that 76% have living standards categorised as “fairly comfortable” to “very good”. This reinforces the findings of the *New Zealand Living Standards 2000* report (Krishnan et al. 2002).

The generally good living standards mean that most New Zealanders have basic items, eg:

- 96% have warm bedding
- 95% have a good pair of shoes
- 97% have a washing machine.

The majority of people also have things they want for a good quality of life, eg:

- 66% of those who want to are able to take a holiday away from home each year
- 79% of those who want it have access to the internet
- 64% of those who want it have pay TV.

At the other end of the range, 8% are categorised as being in “severe hardship”.

The results in the report increase our understanding of current needs for social assistance and ways to best target that assistance, and will be immediately useful in assessing social policy priorities.

## LIVING STANDARDS REFLECT A RANGE OF ECONOMIC FACTORS

We found in the 2000 study that income and living standards are strongly linked, and the findings of the 2004 study reinforce this. The relationship is not a simple one, however. The results of the studies show not only the expected link between living standards and income, but also strong positive links with other indicators of economic position (eg home ownership, assets, education) and strong negative links with various indicators of adversity (including marriage break-ups,<sup>2</sup> life shocks and restrictions resulting from health problems). People with high living standards tend to have multiple economic advantages and few sources of adversity, while people with low living standards tend to have no economic advantages and multiple sources of adversity.

Figure 1 The seven levels of ELSI

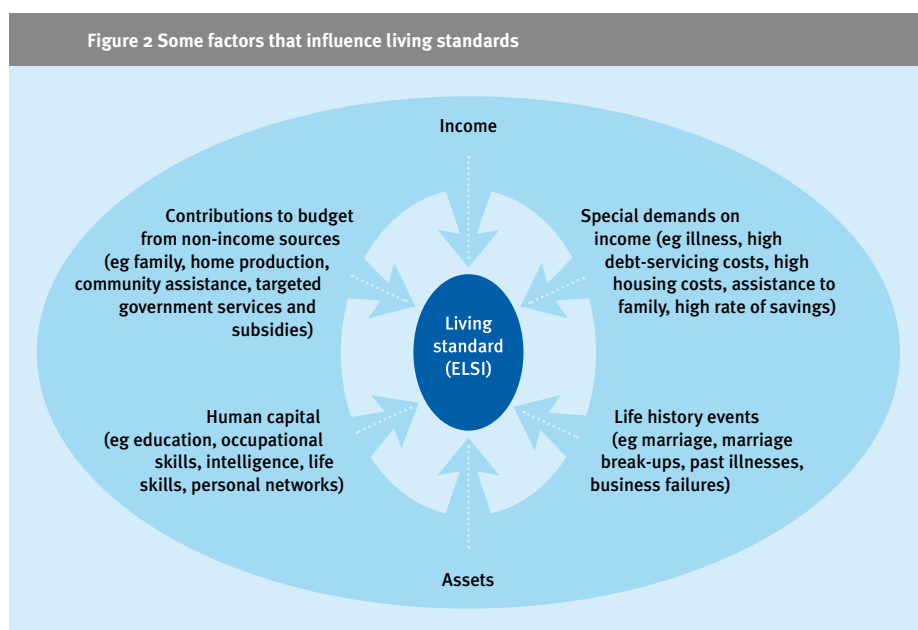


2 The term “marriage break-up” is used in this report to refer to the break-up of a marriage or a relationship in the nature of a marriage. That is to say, the term encompasses the break-up of both *de facto* and *de jure* relationships.



Because living standards are strongly linked to economic factors in addition to income (particularly homeownership and assets in general), there is a range of living standards even at the lowest income level; a low income does not exclude the possibility of a high living standard. However, a sufficiently high income removes the risk of a low living standard.

Figure 2 shows some of the factors that influence living standards.



Taken together, the research results strongly suggest that people’s living standards are affected by many aspects of their economic circumstances, not just income level. This is especially important in understanding the differing living standards of people with lower incomes.

## LIFE STAGES AND LIFE SHOCKS AFFECT LIVING STANDARDS

When we look at the relationship between living standards and people’s stages in life (eg getting married, retiring), we find that living standards often drop when a person becomes a parent (either a sole parent or part of a two-parent family).

A new area that we examined in the 2004 research is the relationship between living standards and various types of adversity, past and present. The 2004 survey asked about many different types of life shocks, such as a marriage break-up, a substantial period of unemployment, a protracted illness and experience of violence. The results show that people who have had a marriage break-up have a lower average living standard, especially

where there have been multiple break-ups and where there are dependent children. Other research also shows the detrimental effect of a marriage break-up on the partners' subsequent financial situations where there are dependent children.

People whose lives are restricted in various ways by a serious health condition also tend to have lower living standards. The effect on living standards is greater where it is a dependent child who has the serious health condition.

Lower living standards tend to be associated with life shocks generally, but particularly when a person has had a large number of life shocks (eight or more). While many types of life shocks do not appear to have a significant impact when they occur in isolation, multiple shocks can combine to produce a large effect and substantially lower living standards when the overall burden of adversity reaches a certain level – the threshold effect.

### DIFFERENT LIVING STANDARDS DESPITE SIMILAR INCOMES<sup>3</sup>

Discussions about living standards sometimes assume that differences occur simply as the consequence of differences in income. As we said earlier however, our research has found that differences in the living standards of people receiving similar incomes are a consequence of a wide range of factors, only one of which is income.

This point is strikingly illustrated by comparisons between groups of low-income people whose incomes are from different sources.<sup>4</sup> Low-income people whose incomes are principally from income-tested benefits have generally low living standards, with more than a quarter in "severe hardship". Low-income people whose incomes are from market sources (mainly employment) tend to have higher living standards (although still substantially below the national average). Low-income people whose incomes are from New Zealand Superannuation have generally good living standards (actually a little above the national average). The different living standards of these three low-income groups reflect differences in each group's economic advantages other than income (for example, many superannuitants own their homes without a mortgage). The different living standards also reflect the levels of adversity faced by each group, with beneficiaries often having multiple sources of adversity.

3 Results presented in this report show that living standards have a statistical association with various types of adversity and economic disadvantage. The caveat is often made about such results that "correlation is not causation", meaning that the lower living standards of people who have had marriage break-ups, for example, may be caused not by the break-ups as such but by other factors that are associated with break-ups. This issue has been examined using a standard procedure called statistical regression analysis, which is commonly used for this purpose. The results show that the various types of adversity and disadvantage are interrelated, so that (for example) people who have had marriage break-ups also tend to have lower incomes, fewer assets, etc. However, when these interrelationships are taken into account, an association still remains between marriage break-ups (to continue the above example) and lower living standards. A way of stating this technically is to say that marriage break-ups appear to have an "independent effect" on living standards, meaning that break-ups affect living standards separately from the other factors included in the analysis. Factors (additional to marriage break-ups) that are found by the regression analysis to have an independent effect on living standards include: income, assets, housing tenure, life shocks and restrictions caused by a health condition.

4 The analysis has been carried out for low-income people because those people are of special interest to a government social policy agency such as the Ministry of Social Development

## DIFFERENCES IN LIVING STANDARDS BETWEEN GROUPS OF PEOPLE

*New Zealand Living Standards 2004* examines the living standards of a large number of population subgroups, including groups defined by ethnicity and family composition, as well as income, home ownership, assets and education.

We found that while many groups have favourable living standards (eg people who own their houses without mortgages, self-employed people, and market-income couples without children), there are several groups with substantially depressed living standards. Income-tested beneficiary families with children are the most prominent group in this regard: nearly one in three is in “severe hardship”, with few economic advantages and a high rate of multiple adversity. Other groups with comparatively depressed living standards distributions are Māori, Pacific peoples and people with large families. The result for the Māori and Pacific groups partly reflects their comparatively high proportions of beneficiary families, whose low living standards pull down the overall averages for those groups.

## CHANGING ECONOMIC CONDITIONS

As well as comparing the living standards of different groups in 2004, we have also looked at how living standards changed between the two surveys. In considering those results, it is useful to be aware of the changing economic context.

Between 2000 and 2004, New Zealand showed a pattern of broad-based growth. Real Gross Domestic Product grew at an average 3.7% per year. Unemployment fell from 6.1% in June 2000 to 4.0% in June 2004,<sup>5</sup> the lowest rate in 17 years, ranking New Zealand second in the OECD (New Zealand Institute of Economic Research 2004). The composition of the benefit population changed markedly, due in part to the steady fall in the unemployment rate and the government’s policy of actively assisting people off benefit. Overall, the number of income-tested beneficiaries fell by 44,000 (12%).<sup>6</sup> The number of Unemployment Beneficiaries halved. Those receiving Sickness and Invalid’s Benefits increased 33%, in line with international trends, while the number of Domestic Purposes Beneficiaries remained stable.

and also because it provides a way of controlling for income in the analysis, thus revealing more clearly the relation of living standards to other factors.

5 Statistics New Zealand, [www.stats.govt.nz](http://www.stats.govt.nz).

6 Figures from Ministry of Social Development administrative data.



Median incomes rose 6.6% over the period<sup>7</sup> and income poverty fell from 22% to 19% of the population between June 2001 and June 2004 (MSD 2005). However, income inequality slightly increased over this period. Additionally, median house prices increased by 43%,<sup>8</sup> at a faster rate than incomes, and debt levels increased while savings decreased.

In terms of the likely effect on living standards, these social and economic developments present a mixed picture.<sup>9</sup> The changes might be expected to affect different groups in different ways and to differing extents, with some groups showing consequential rises in living standards and other groups showing falls.

### CHANGES IN LIVING STANDARDS BETWEEN 2000 AND 2004

Comparing the results from 2000 and 2004 shows that average living standards across the population are similar in the two years, although the gap between those with higher living standards and those with lower living standards has widened slightly due to a small increase in the proportion of people in “severe hardship”. Most of the subgroups we examined also showed this pattern, although beneficiary families with children showed significant changes, with lower living standards in 2004 than in 2000 and a substantially higher proportion in “severe hardship”. This group (beneficiary families with children) is comparatively small, comprising only one-tenth of the population. However, because the rise in “severe hardship” is pronounced, other groups that include a substantial proportion of beneficiaries with children (eg Māori and Pacific peoples) also showed a substantially higher proportion in “severe hardship” in 2004 than in 2000.

A confident explanation for this rise is not possible mainly because of the limited nature of the relevant data collected in 2000. The reasons may include increased pressures on parents to meet rising education-related and health costs and the costs of managing increased levels of personal debt. Another factor could be that there was a slight decrease in the “real” benefit income received by Domestic Purposes Beneficiaries (the largest group of beneficiaries with dependent children), largely due to the non-indexation of Family Support, an issue which has been resolved by the Working for Families package. However, we cannot formally test these speculations within the context of the study because of the data limitations mentioned above.

7 Statistics New Zealand 2005.

8 Real Estate Institute of New Zealand, <http://www.reinz.org.nz>.

9 The information is not only mixed in its implications, it is also not comprehensive. The developments that have been described relate to only some of the contextual factors that may have affected living standards over the period.

It is very important to keep in mind that the results are from two independent surveys and not from a longitudinal study where the same set of people are tracked over time. As a consequence, when we say (for example) that beneficiaries with children showed a rise in the proportion in “severe hardship”, this is a shorthand way of saying that the proportion for the 2004 beneficiaries with children was higher than the proportion for the corresponding group in 2000. The sets of people in the population who were receiving benefits were not the same in the two survey years, because many people moved off benefits while other people who had not been receiving benefits began to do so.

## **FULL ANALYSIS OF DIFFERENCES IN LIVING STANDARDS THE FOCUS OF A FUTURE REPORT**

This overview report (and the more detailed report *New Zealand Living Standards 2004*) focuses mainly on giving a descriptive picture of living standards in this country and noting how the picture has changed since 2000, when the first survey was carried out. While the report has pointed to some of the factors that affect living standards, and can help explain differences between individuals and groups, a full analysis of this issue is currently being undertaken. MSD will publish a report exploring variation in living standards in 2007.

## **THE WORKING FOR FAMILIES PACKAGE**

The government is progressively implementing a wide-ranging package of financial assistance programmes for low- and middle-income families. This package, known as Working for Families, was introduced in 2004, subsequent to the collection of the data for the present living standards research. As a consequence, the results obtained from the research do not reflect the improvements in family living standards that are expected to flow from the package. However, the study will provide baseline information for assessing how well the goals of Working for Families are achieved. The next national living standards survey is scheduled for 2008. In addition, living standards information is being collected in some of Working for Families’ specific evaluation studies being carried out before that time.



## THE ECONOMIC LIVING STANDARD INDEX (ELSI)

### The ELSI scale<sup>10</sup>

We have measured living standards in this research using the Economic Living Standard Index (ELSI). This is a direct measure of living standards, based on information about what people have and are consuming. It also includes three general self-ratings relating to standard of living. Overall, the scale uses information from 40 items. The information is combined to give a numerical score (between 0 and 60) for each person,<sup>11</sup> with higher scores indicating higher living standards.

### Seven living standards levels

In reporting on the living standards of the population, and of particular subgroups within the population, we have focused on showing how the living standards of the people concerned are spread across the range. This is referred to as the living standards distribution. A group's distribution shows whether the people in the group are tightly bunched together or spread widely across the range, and shows the proportion with particularly low living standards (an issue of primary importance to government social policy agencies). To permit distributions to be presented in a straightforward way, the ELSI score range is divided into seven parts (or standard score intervals), which are referred to as living standard levels. The distribution of a group is shown as a diagram giving the breakdown of the group members into the seven living standard levels.

**Table 1 ELSI levels**

Level 1	0–15 ELSI points	Severe hardship
Level 2	16–23 ELSI points	Significant hardship
Level 3	24–31 ELSI points	Some hardship
Level 4	32–39 ELSI points	Fairly comfortable living standard
Level 5	40–47 ELSI points	Comfortable living standard
Level 6	48–55 ELSI points	Good living standard
Level 7	56–60 ELSI points	Very good living standard

### Comparing groups

Most of the results in this overview relate to specific groups of people (eg people who rent their accommodation, Māori, sole parents), with a diagram given for each group to show its distribution. We also give (immediately below the diagram) the mean ELSI score for the people in the group, together with the mean score for the group in 2000. The mean score provides a simplified but useful indication of the general position of a group.

10 For an extensive non-technical account of the ELSI instrument, see *New Zealand Living Standards 2004* (Jensen et al. 2006).

For a technical account of its derivation and properties, see *Direct Measurement of Living Standards: The New Zealand ELSI Scale* (Jensen et al. 2002). For information on a shorter version of ELSI, see *ELSI Short Form: User Manual for a Direct Measure of Living Standards* (Jensen et al. 2005b).

11 The sampling unit for the living standard surveys is the economic family unit, or EFU, which in general terms is the nuclear family group to which the survey respondent belongs. The EFU can comprise (i) a single (unpartnered) person with no dependent child/children (ii) a couple with no dependent child/children (iii) a single person and her/his dependent child/children (sole-parent family) or (iv) a couple and their dependent child/children (two-parent family). The primary score produced by the ELSI measurement procedure relates to the respondent but may be used also to characterise the EFU (on the basis that members of the EFU will generally have similar living standards). The results given for most groups relate to the individuals in the groups. There are four cases (in figures 10, 11, 14 and 15) where it has been more convenient to give results for EFUs, as indicated in the figure headings.

The question arises as to how the differences between the mean scores of different groups should be viewed. The same issue arises in examining the difference between a group's mean scores in 2000 and 2004. What size of difference can be regarded as large? What size is too small to be of any practical importance? The following table is a guideline on this matter.

**Table 2 Size of differences**

Size of difference	Description
0 to <2 points	Very small or negligible
2 to <5 points	Small or moderate
5 to <10 points	Appreciable or substantial
10 to <15 points	Large
15 or more points	Very large

### Statistical significance

Some of the mean differences from 2000 to 2004 are marked by an asterisk (eg "difference -3.2\*", shown for those with assets worth \$10,000 or less). The asterisk indicates that the difference is "statistically significant at the 0.05 level of significance", which means that there is a likelihood of less than five in 100 that the difference is due simply to chance.

Because the research is based on large sample sizes, differences between means for 2000 and 2004 are sometimes statistically significant even when the differences are small (and of no practical importance). This occurs for some of the larger subgroups. Conversely, some of the small subgroups show quite appreciable differences between 2000 and 2004 that are not, however, statistically significant.

### Validity of ELSI for comparisons between surveys

This is the first time that we have used ELSI to compare living standards in two time periods. We have therefore closely examined whether ELSI provides a valid basis for the comparisons. Two issues have arisen that deserve comment.

First, each item is more sensitive in distinguishing living standards in some parts of the living standards range than in other parts of the range. It is possible for this feature of an item to change over time, altering the properties of the scale. Examination of the items shows that, overall, this has not occurred to an appreciable extent.<sup>12</sup>

12 Some of the ELSI items are more sensitive in the lower part of the living standards range while others are more sensitive in the upper part. Changes in where the items are most sensitive could alter the properties of the ELSI scale and call into question the validity of comparisons over time. Analysis of the items indicates that computer ownership and internet access are shifting from being elite to mainstream forms of consumption. This change tends to inflate the ELSI scores (compared to what they would have been otherwise) but only to an extremely small extent.



Second, it is possible for the scores produced by ELSI to be affected by changes in people's consumption preferences and expectations. There is evidence that this has occurred but only to a small extent, causing ELSI scores to be 1–2 points lower on average than they would have been otherwise. The size of this effect can be described as very small or negligible. The effect occurs in a relatively uniform way across subgroups.<sup>13</sup>

In summary, the analyses suggest that ELSI provides valid living standards comparisons between the two survey years. Nonetheless, while the item set does not require modification at present, it will need to be kept under review. It is likely that some updating will be necessary from time to time (as is done, for example, with the items included in the Consumer Price Index). More generally, the measure remains a new tool which needs to be studied further so its properties can be fully understood.

- 13 We analysed whether preferences and expectations have changed in ways that may have affected the scores produced by the scale. Our analysis indicates that such an effect has probably occurred but only to a small extent. Examination of data on a particular set of consumption items suggests that expectations or wants have increased a little, with consumption of those items also increasing but at a rate that has lagged slightly behind expectations.





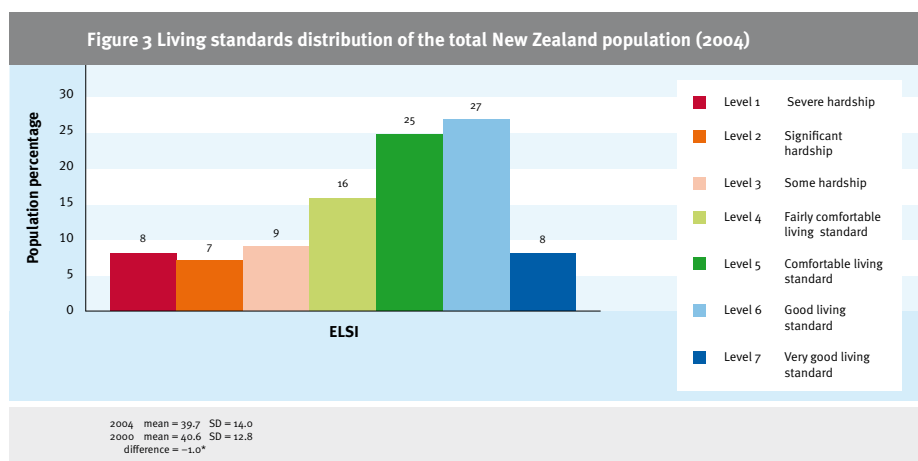
# Results for the total New Zealand population and major subgroups

This section gives 2004 results for the total New Zealand population and major subgroups, with ELSI means for 2000 also given to indicate changes since the first survey.

## TOTAL NEW ZEALAND POPULATION

### Key points

- New Zealand has a generally favourable distribution of living standards. More than three-quarters of the population have living standards that are “fairly comfortable” to “very good”.
- The mean ELSI score for the total population is “comfortable”.
- The distribution in 2004 is largely unchanged from 2000, as is the mean ELSI score.
- While mean ELSI scores are similar for 2000 and 2004, the gap between those with higher living standards and those with lower living standards has widened slightly, with slightly more people in “severe hardship” in 2004 (8%) compared with 2000 (5%).



### Ownership and participation

Almost all New Zealanders have basic items:

- 97% have a washing machine
- 96% have warm bedding
- 95% have a good pair of shoes.

The majority of New Zealanders have things they want for a good quality of life:

- 66% of those who want to be able to have a holiday away from home each year
- 79% who want it have access to the internet
- 64% of those who want it have pay TV.

### What does the graph show?

The graph breaks down the population across the seven living standards levels. The bar on the extreme left shows the proportion of people who are in “severe hardship” (8% in figure 3), the next bar shows the proportion in “significant hardship” (7%), and so on.

The box underneath the graph shows the mean (average) ELSI score for 2004 (39.7) and the standard deviation (SD) (14.0).

The SD indicates how widely the scores are spread across the range. If everyone had the same ELSI score (indicating perfect equality of living standards), the SD would be zero. If the spread was completely even across the range, the SD would be 17.1. The box also shows the 2000 mean (40.6) and SD (12.8), and the difference between the means (-1.0\*).

The asterisk indicates that the difference is statistically significant (0.05 level), despite being too small to be of any practical importance.

Please note that differences are calculated from unrounded estimates.

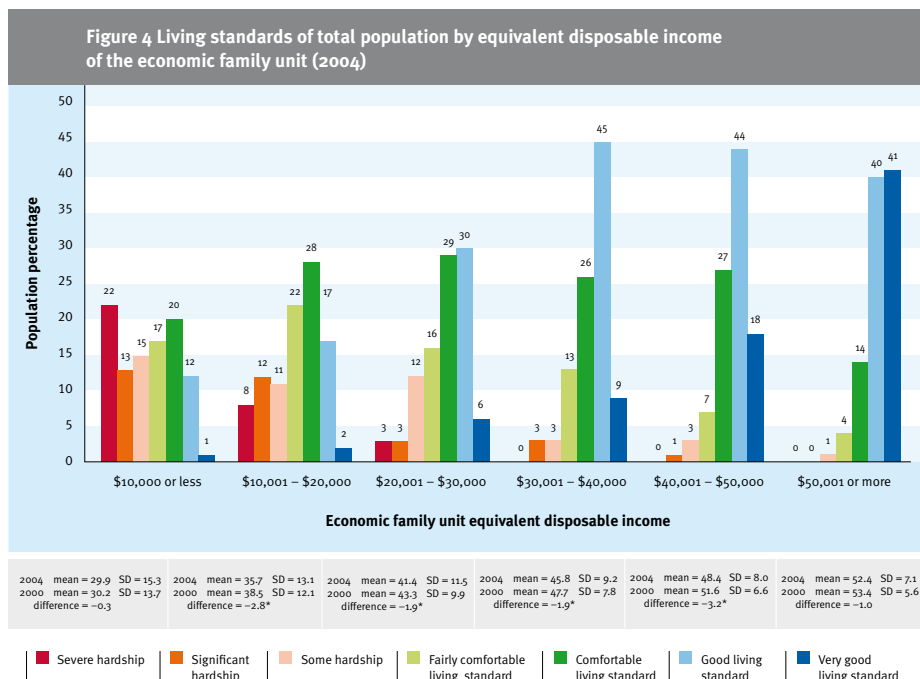
## LIVING STANDARDS AND ECONOMIC CIRCUMSTANCES

Figures 4, 5 and 6 show how living standards vary with income level, assets and housing tenure.

### Income

#### Key points

- As would be expected, average living standards rise progressively with equivalent disposable income.<sup>14</sup> Equivalent income is where income is adjusted to take account of the greater income needs of larger families. This allows comparison between families of differing types and size.
- There is wide variation in living standards in the low-income groups. For example, even in the lowest group, a third has “comfortable” to “very good” living standards.
- Factors that enable people with low incomes to achieve good living standards include homeownership and having savings.
- While low income does not exclude the possibility of high living standards, high income eliminates the risk of low living standards.



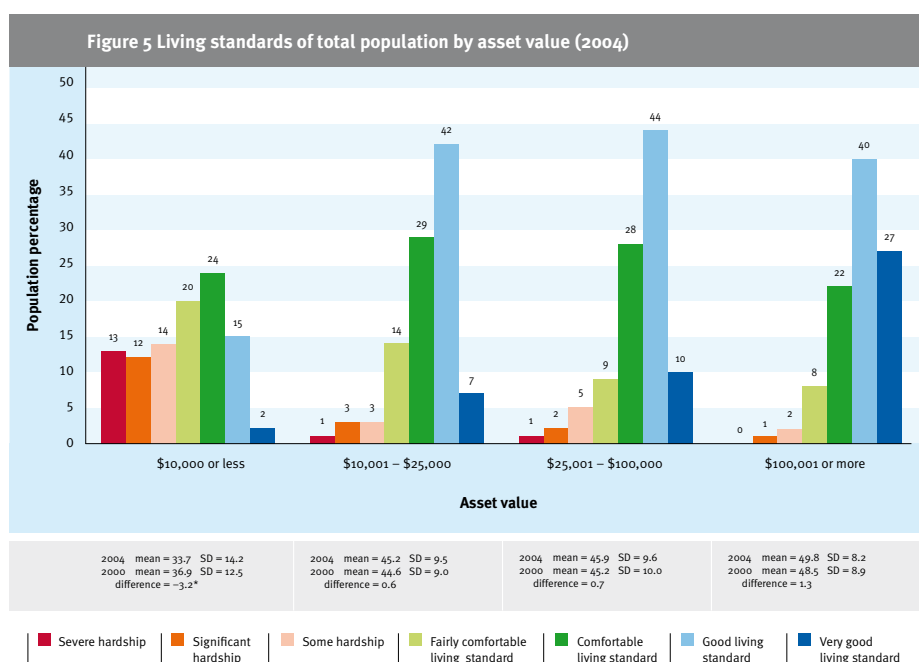
14 The income of the economic family unit (EFU) has been adjusted using the 1988 Revised Jensen Equivalence Scale (RJS). The RJS is a set of ratios (calculated to allow for economies of scale and the differential consumption by adults and children) that specify the relative incomes assumed to be required for households/families of different size and composition to attain a similar material standard of living. The RJS adjusts the EFU's disposable incomes to a per capita (single adult) standard, allowing for the number of adults and the number and ages of children. The parameter values incorporated into the RJS are such as to maximise its correspondence with the Whiteford geometric mean scale, the values of which are the means of many different scales based on a variety of methods.



## Assets

### Key points

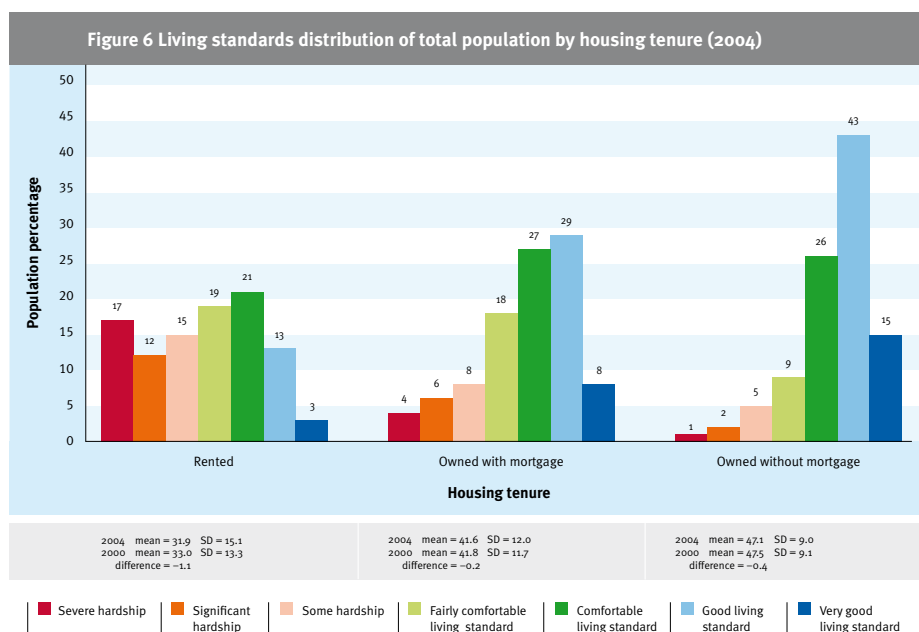
- Mean living standard scores increase as asset value increases.
- While it is not essential to have high asset levels to obtain a high living standard, those with low assets are more likely to be in hardship.
- Those with high asset levels have a low likelihood of hardship.
- Assets can boost living standards because they can be run down to fund consumption, can act as a buffer or cushion against unexpected economic shocks and can help people to avoid spending out of their current income (Fergusson et al. 2001).



## Housing tenure

### Key points

- Homeowners, with and without mortgages, have favourable living standards, indicated by the distributions being bunched towards the right-hand side of the scale.
- The average living standard for mortgaged homeowners is considerably lower than for mortgage-free homeowners but still high relative to renters.
- Although homeownership is an indicator of superior living standards, the rate of homeownership has been falling in recent years and is predicted to continue to fall in the future.<sup>15</sup>



15 Centre for Housing Research  
Aotearoa New Zealand 2005.



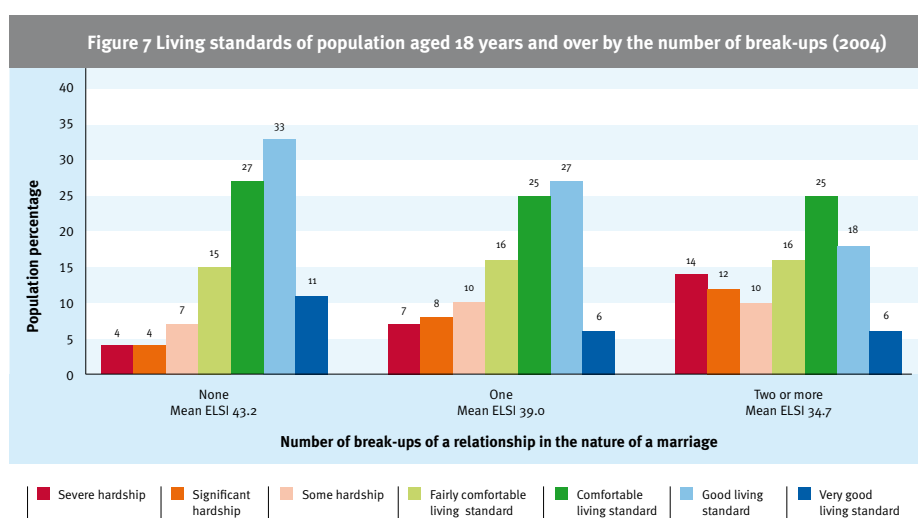
## ADVERSITY AND LIVING STANDARDS

Unlike the 2000 living standards survey, the 2004 survey included questions on a range of topics that could help explain differences between people's living standards. Topics included incidents that constitute life shocks (such as becoming unemployed or being a victim of crime), restrictions on social and economic participation (eg being unable to work) that are a direct result of poor health, and not making use of childcare services due to cost. Figures 7–11 show how living standards vary with these factors.

### Marriage break-ups

#### Key points

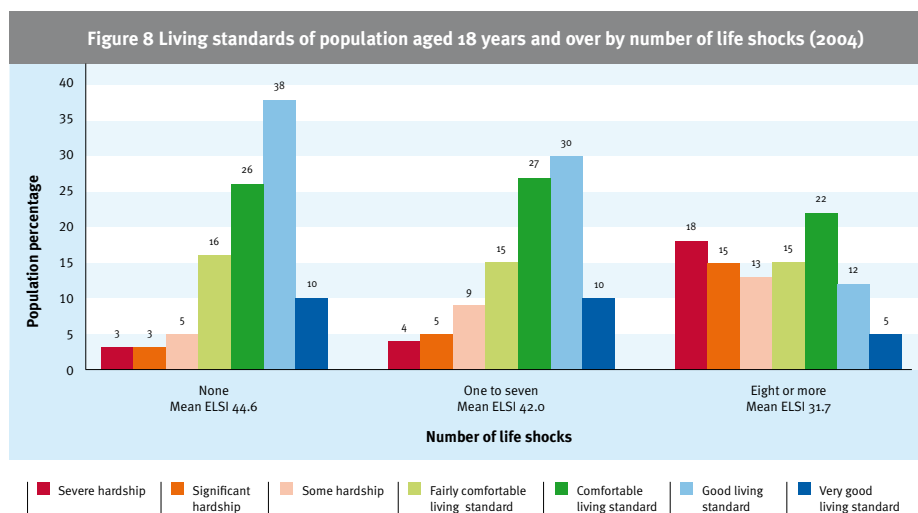
- People who have had a marriage or marriage-like relationship break-up have a lower average living standard, and a higher likelihood of hardship, than those who have not.
- The greater the number of marriage break-ups, the greater the likelihood of being in hardship.
- Women who have had a marriage break-up are more likely to be in hardship than men who have had a marriage break-up.



## Life shocks

### Key points

- Adverse life events (life shocks) can potentially have a long-lasting negative influence on a person's living standards.
- People who have had between one and seven life shocks have a similar average living standard to those with no life shocks.
- However, people who have had eight or more life shocks have a substantially lower average living standard, and a higher likelihood of hardship, than those who have not.
- This pattern of differences may reflect a threshold effect. Most types of life shocks do not have a substantial impact when they occur in isolation but are capable of combining with others to produce a large collective effect, which occurs when the overall burden of adversity reaches a certain level, or tipping point.
- While there is evidence that life shocks can result in long-term reductions in living standards, it is also likely that low living standards increase the likelihood of life shocks occurring.



### Life shocks

- Marriage break-up
- A mortgagee sale of home
- An unexpected and substantial drop in income
- Eviction from home/flat
- Bankruptcy
- A substantial financial loss
- Being made redundant
- Becoming a sole parent
- Three months or more of being unemployed (when actively seeking employment)
- Major damage to home
- House burgled
- Victim of violence
- Imprisonment
- Receiving a non-custodial sentence
- An illness lasting three months or more
- A major injury or health problem that required substantial hospital or specialist treatment
- An unplanned pregnancy and birth of a child

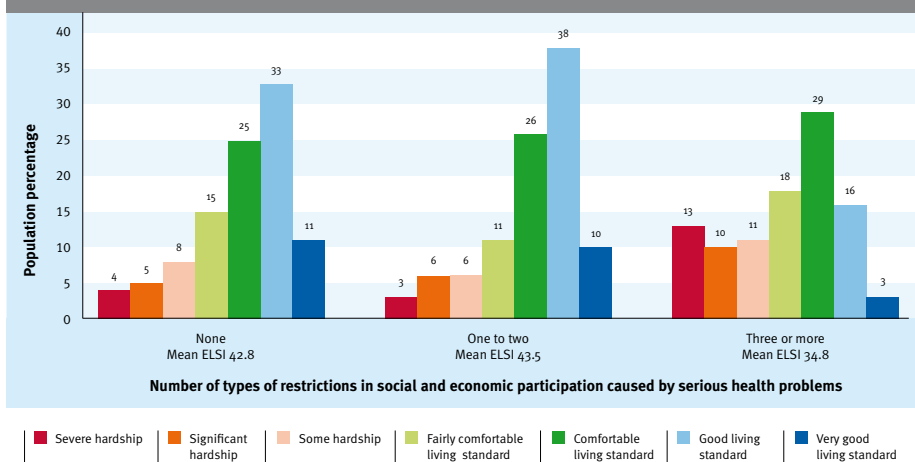


## Restrictions caused by health problems

### Key points

- As with life shocks, a threshold effect seems to influence whether a person’s living standard will reflect various specific types of restrictions in social and economic participation (eg being unable to work) caused by a serious health condition.
- People with three or more types of restrictions have a lower average living standard, and a higher likelihood of hardship, than people with fewer types of restrictions.
- However, there was no significant difference in living standards between those with none of the specified types of restrictions and those with one or two types.
- These results, taken together, suggest that the restrictions due to health have little impact on living standards when they occur in isolation but multiple restrictions are capable of combining to have a big cumulative effect.
- While poor health can be expected to lower living standards, there is also evidence that poor living standards increase the risk of poor health.
- Thus, the observed statistical association between health problems and lower living standards probably does not reflect a simple causal relationship but rather a recursive process whereby each influences the other.

Figure 9 Living standards of population aged 18 years and over by number of types of restrictions on social and economic participation caused by serious health problems (2004)



### Types of restrictions caused by serious health problems

- Employment
- Education or training
- Daily living, eg personal care or transport
- Social activities
- Finances

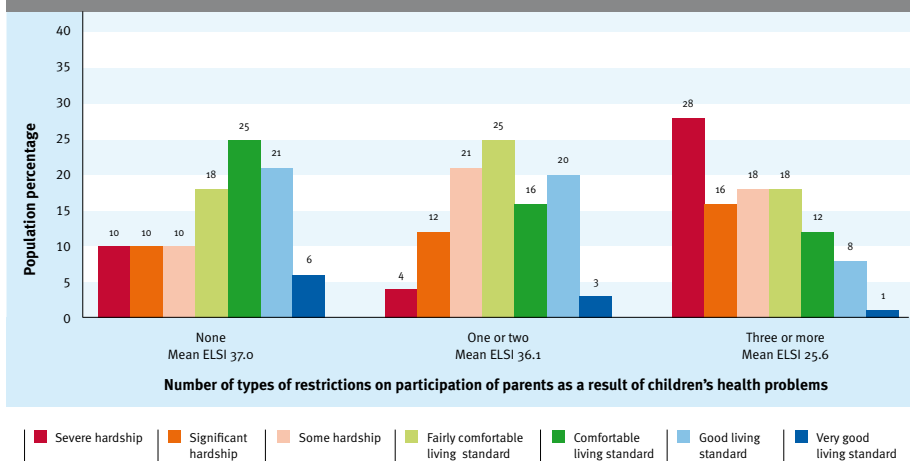


## Restrictions caused by children’s health problems

### Key points

- As with adults’ health problems, the results for children’s problems seem to reflect a threshold effect, with a certain number of adverse indicators being necessary before adverse consequences occur.
- There was no difference in average living standards between families where parents had none of the specified types of restrictions due to children’s health problems and families where parents had one or two types.
- However, the average standard of living was lower, and the likelihood of hardship higher, for families where children’s health problems resulted in three or more types of restrictions on parents.
- Restrictions on parents due to children’s health problems had a greater effect on the family’s living standard than restrictions due to parental health problems.

Figure 10 Living standards distribution of families with dependent children by the number of types of restrictions to social and economic participation of parents as a result of serious health conditions of their children (2004)



### Types of restrictions on families caused by the serious health problems of dependent child(ren)

- Employment
- Education or training
- Daily living, eg personal care or transport
- Social activities
- Finances

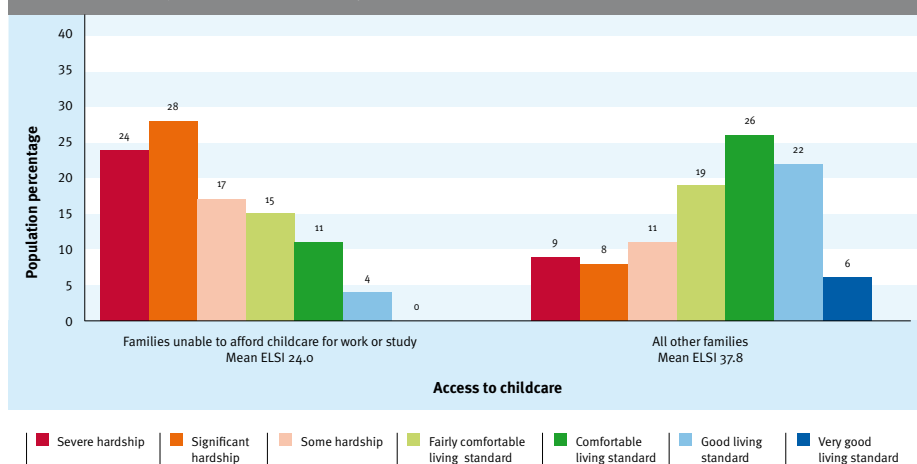


## Inability to afford childcare to enable work or study

### Key points

- Fifteen percent of families with children identified cost as a reason for not being able to use childcare to enable parents to work or study (with the consequence that they had not taken up the work or study).
- These families had substantially lower average living standards than other families with dependent children.

Figure 11 Families with dependent children by whether they are unable to afford childcare to enable parents to work or study (2004)



## INCOME SOURCE<sup>16</sup>

Government social policy agencies are particularly interested in how living standards vary according to people's source of income (eg benefit, earnings from employment). Figures 12 and 13 look at income sources.

### Key points

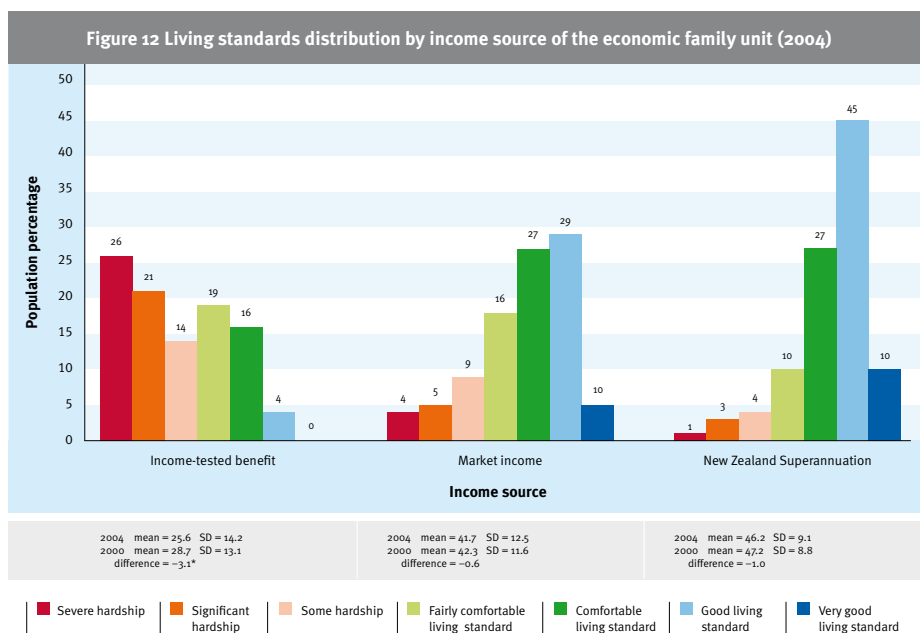
- Market-income earners and superannuitants have average living standards above the national average, with the peak being level 6 ("good living standards").
- The superannuitants group has the highest average living standard.
- Although the superannuitants have lower incomes on average than the market-income earners group, a high proportion own mortgage-free homes and very few have dependent children.
- Of the market-income earners group, self-employed people have appreciably higher mean living standards than wage and salary earners (46.7 compared to 42.2).
- Income-tested beneficiaries have an unfavourable living standards distribution, with the peak being level 1 ("severe hardship").
- We would expect people with market incomes to have better living standards than beneficiaries because the former have higher incomes.
- Income-tested beneficiaries have a lower average living standard and higher proportion in "severe hardship" in 2004 than 2000 (26% compared with 17%).
- The overall size of the income-tested beneficiaries group has fallen since 2000 (see page 10), as has the number of beneficiaries in hardship. However, the number in "severe hardship" has increased.

16 The analysis divides the population into three mutually exclusive groups:

- income-tested beneficiaries, specified here as people in EFUs where there was receipt of an income-tested benefit (core benefit) in the previous 12 months and no one was in full-time employment at the time of the survey
- New Zealand Superannuitants, specified here as people in EFUs where there was receipt of New Zealand Superannuation
- market-income earners, specified here as people in EFUs in neither of the above two categories and therefore receiving income primarily from market sources.



- The composition of the income-tested beneficiaries group has changed markedly between the surveys, with the proportion of Unemployment Beneficiaries being lower in 2004, the proportion of Sickness and Invalid's Beneficiaries being higher in 2004, and the proportion of Domestic Purposes Beneficiaries being slightly higher in 2004.
- However, analysis shows that the change in composition did not contribute significantly to the fall in the average living standard of the income-tested beneficiaries group. That fall was primarily due to a fall in the living standards of Domestic Purposes Beneficiaries.<sup>17</sup>



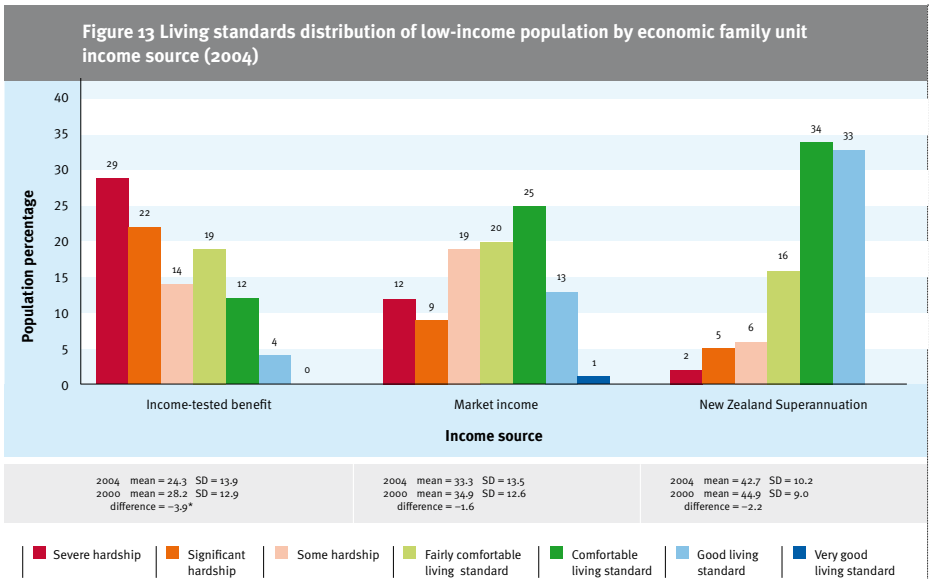
17 Although the number of people receiving a Domestic Purposes Benefit remained stable between 2000 and 2004, this group constituted a higher proportion of beneficiaries in 2004 than 2000 because the total number of beneficiaries has fallen.

## Low-income group<sup>18</sup> by income source

### Key points

- People in the low-income population have markedly different living standards depending on whether they receive an income-tested benefit, market income or New Zealand Superannuation.
- Of the three low-income groups, those receiving income-tested benefits have the lowest average living standards, while those receiving New Zealand Superannuation have the highest average living standards.
- The result for New Zealand Superannuitants shows that even those with little additional income have a favourable living standard, with an ELSI mean that is above that of the total population.
- There are fewer income-tested beneficiaries but they have a moderately lower average living standard in 2004 than 2000 and a substantially higher proportion in “severe hardship” (29% compared with 18%).
- The large differences between the low-income groups demonstrate the influence that factors additional to income have on living standards, especially for people with limited incomes.
- Initial analysis suggests that the living standard difference may be due to differences between the groups in their levels of:
  - homeownership (positive effect on living standards)
  - assets of other types (positive effect)
  - dependent children (negative effect)
  - marriage break-up (negative effect)
  - adverse adult life events generally (negative effect)
  - restrictions in social and economic participation caused by serious health conditions (negative effect).

18 The low-income level is set at the 33rd percentile of the equivalent disposable incomes in the 2004 survey. It is then Consumer Price Index-adjusted to the year 2000 level to identify the comparison group from the 2000 survey.



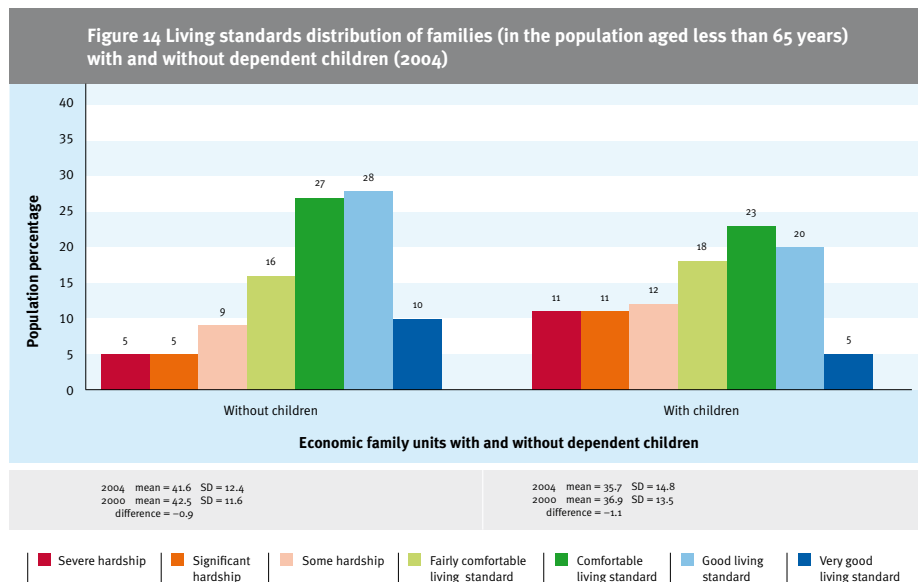
## FAMILIES

The government has a variety of policies directed specifically at assisting families with dependent children. Figures 14 and 15 and table 3 show the living standards of such families.

### Families with dependent children

#### Key points

- Families with dependent children have lower living standards than the overall population (see also the results on the next page breaking down families by income source).
- The average living standard of families with children was similar in 2004 and 2000.
- However, the proportion of families with children in “severe hardship” was higher in 2004 than in 2000.



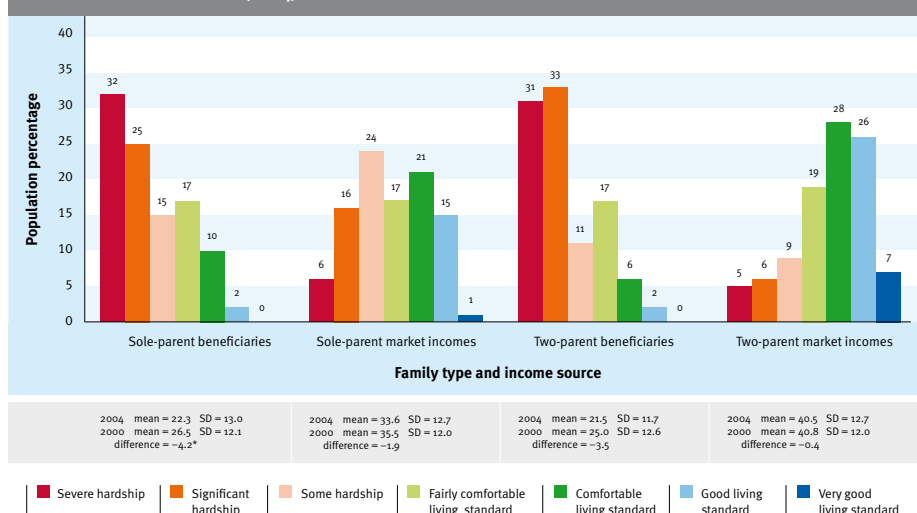


## Families with dependent children – type and source of income

### Key points

- Two-parent families with market incomes have generally favourable living standards that are the same as the overall population.
- Sole-parent families with market incomes have living standards between those of two-parent market-income families and families reliant on income-tested benefits.
- Families reliant on income-tested benefits (both the sole-parent and two-parent groups) have depressed living standards.
- Beneficiary families have multiple disadvantages. They have lower incomes than the population overall, fewer assets, and a higher likelihood of having had a marriage break-up, multiple life shocks and multiple restrictions from health problems.
- The average living standard of beneficiary families (both the sole-parent and two-parent groups) is moderately lower in 2004 than 2000.
- Although there is little change between the surveys in the aggregate proportions in hardship (ie in levels 1–3), there are substantially higher proportions of sole-parent beneficiary families and two-parent beneficiary families in “severe hardship” in 2004 (with rises of more than 10 percentage points in “severe hardship” for both groups).

Figure 15 Living standards of families with dependent children by family type and income source (2004)





## Age and family composition

### Key points

- Living standards can be analysed within a life-stage framework that shows movement through a stylised sequence of living situations from youth to old age, with stages involving some degree of economic independence. The stages are:
  - young, financially independent, single adult, who acquires a partner and becomes part of a
  - young couple without children, who have children and become part of a
  - couple with children, whose children grow up to leave home, at which stage they are a
  - middle-aged couple without children, who withdraw from the paid workforce and become a
  - retired couple, who are eventually reduced by bereavement to a
  - retired single person.
- Bold cells indicate typical progression through the life-cycle model.
- It is sometimes postulated that the first two stages (involving at least modest incomes that are not required to be stretched for the support of dependent children) will give rise to adequate-to-good living standards, which can be expected to fall at the point where the couple have children, followed by a rise after the children have become independent, and then a decline following retirement.
- In table 3 the cells corresponding to this sequence contain bold numbers. The table shows that the postulated pattern of changes occurs up to 65 years but, after that age, living standards remain high (on average) rather than showing a decline.
- Table 3 also signals the many different trajectories that may occur over the life course, suggesting that different paths may give rise to different patterns of rise and fall.



**Table 3 Average living standard scores of population aged 18 years and over by age and family composition of the respondent (see page 13 for a description of what levels these scores fall into)**

Economic family unit type	18–24 years	25–29 years	30–34 years	35–54 years	55–64 years	65–74 years	75 years plus
Single without children	<b>40.1</b>	41.6	39.4	38.1	39.0	41.9	<b>47.4</b>
Couple without children	39.7	<b>42.4</b>	45.8	46.7	<b>47.7</b>	<b>46.0</b>	47.8
Couple with children	35.2	36.5	<b>37.5</b>	<b>40.4</b>	41.3	–	–
Single with children	28.1	27.6	24.6	27.8	–	–	–

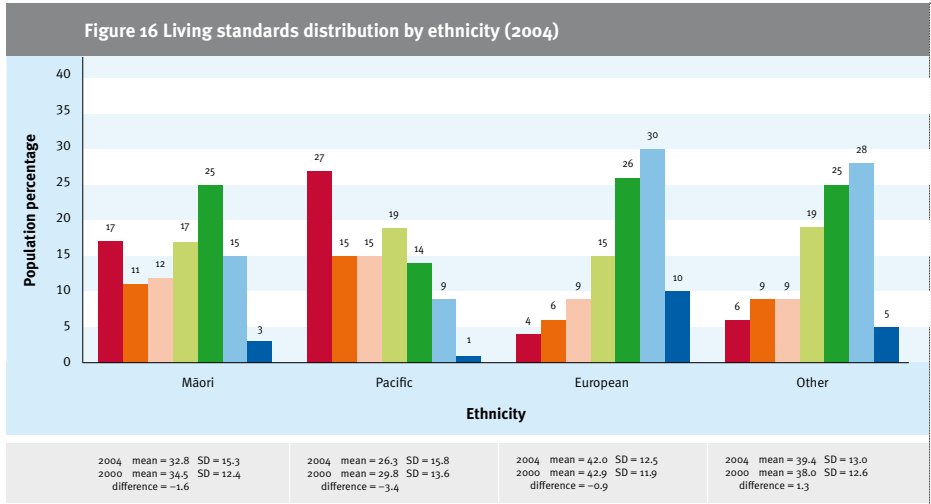
## ETHNICITY AND LIVING STANDARDS

There has been long-standing concern at the relatively disadvantaged position of some ethnic groups. Figure 16 shows how living standards vary with ethnicity.

### Ethnicity

#### Key points

- Māori and Pacific peoples on average have substantially lower living standards than the population as a whole.
- This is consistent with the well-documented economic disadvantage of Māori and Pacific peoples, who have lower average incomes, fewer assets, higher rates of benefit receipt, and larger families (all factors that are associated with lower living standards).
- The average living standard for Māori is much the same in 2004 as in 2000, and the disparity between Māori and the overall population remains the same.
- However, Māori living standards in 2004 show an increased spread (ie increased inequality), with an increased concentration at both ends of the living standards scale.
- Although there has not been an increase from 2000 to 2004 in the proportion of Māori in the hardship levels of the ELSI scale, there has been a rise in the proportion in “severe hardship” (from 7% to 17%).
- For Pacific peoples, there has been similar pattern of change, with a rise in the proportion in “severe hardship” (from 15% to 27%).
- The rise in “severe hardship” amongst Māori and Pacific peoples partly reflects the rise in “severe hardship” amongst income-tested beneficiaries with children, who are disproportionately likely to be Māori or Pacific.



## REFERENCES

Centre for Housing Research Aotearoa New Zealand (2005) *Annual Report*. Wellington, New Zealand.

Fergusson D, Hong B, Horwood J, Jensen J and Travers P (2001) *Living Standards of Older New Zealanders: A Summary*. Ministry of Social Policy, Wellington, New Zealand.

Jensen J, Krishnan V, Hodgson R, Sathiyandra S G and Templeton R (2006) *New Zealand Living Standards 2004*. Ministry of Social Development, Wellington, New Zealand.

Jensen J, Spittal M, Crichton S, Sathiyandra S and Krishnan V (2002) *Direct Measurement of Living Standards: The New Zealand ELSI scale*. Ministry of Social Development, Wellington, New Zealand.

Jensen J, Spittal M and Krishnan V (2005a) "Direct measurement of living standards in New Zealand: Development and application of the ELSI scale", in *Excellence in International Research 2005*, ESOMAR, Amsterdam.

Jensen J, Spittal M and Krishnan V (2005b) *ELSI Short Form: User manual for a direct measure of living standards*. Ministry of Social Development, Wellington, New Zealand.

Krishnan V, Jensen J and Ballantyne S (2002) *New Zealand Living Standards 2000*. Ministry of Social Development, Wellington, New Zealand.

Ministry of Social Development (2005) *The Social Report 2005*. Ministry of Social Development, Wellington, New Zealand.

New Zealand Institute of Economic Research (2004) *Update September 2004*. New Zealand Institute of Economic Research, Wellington, New Zealand.

Statistics New Zealand (2005), *Household Economic Survey*, unpublished data.

Publications from the Living Standards Research Programme are available in hard copy (contact [info@msd.govt.nz](mailto:info@msd.govt.nz) or +64 4 918 3300) and on the Ministry of Social Development's website. [www.msd.govt.nz/work-areas/social-research/living-standards/index.html](http://www.msd.govt.nz/work-areas/social-research/living-standards/index.html)



MINISTRY OF SOCIAL DEVELOPMENT  
*Te Manatū Whakahiato Ora*

Bowen State Building, Bowen Street, PO Box 1556, Wellington, New Zealand  
Telephone: +64 4 916 3300 Facsimile: +64 4 918 0099 Website: [www.msd.govt.nz](http://www.msd.govt.nz)

ISBN:0-478-29327-5