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OUT OF THE MAZE: A BETTER SOCIAL SECURITY SYSTEM FOR PEOPLE OF WORKING AGE

This paper was prepared by Peter Davidson, Senior Policy Officer, with the benefit of advice from the ACOSS's Employment, Education and Training Policy Advisors. Responsibility for the content rests with ACOSS.

Thanks to Associate Professor John Murphy from the Australian Centre at the University of Melbourne and colleagues who provided us with extracts from interviews conducted with 150 low income Australians about (among other issues) their experiences of the social security system. The names of the interviewees were changed to protect their privacy. The report of their study *'Half a citizen': The stories of 150 welfare recipients in Australia*, by John Murphy and Suellen Murray, with Sonia Martin, Jenny Chalmers, Kate Connelly and Greg Marston, will be published soon (see www.australian.unimelb.edu.au/aboutus/thecentre.html)

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Executive Summary

This report proposes ‘root and branch’ reform of the system of social security payments for people of ‘working age’ (18 to 64 years), including Newstart Allowance, Disability Support Pension and Parenting Payment.¹

The social security system is not working for jobless Australians. It leaves people in poverty: for example the Newstart Allowance for single adult is just \$231 per week. It discourages them from seeking employment: a sole parent working part time often loses 60 cents of their payment if they earn an extra dollar. It is needlessly complex: the Social Security Act runs to over 630 pages and even experts do not fully understand it. It is based on an unfair and outdated distinction between ‘the deserving and undeserving poor’. People classed as ‘unable to work’ get pension payments while those classed as ‘able to work’ receive allowance payments that are typically \$120 per week less. The system forces people with disabilities to ‘prove’ that they are unable to work and they face the risk of transfer to a lower payment if they find a job. Levels of payment are arbitrary and not based on actual living costs or needs. Activity requirements take little account of individual circumstances.

Instead of applying more band aids to a broken system, this report proposes that we go back to first principles and rebuild it from the ground up. Payment levels would be based on need and rather than the likelihood of employment, so the distinction between pension and allowance payments would be removed. Instead, income support payments would be set at an ‘Australian Minimum Standard of Living’: the minimum level of income a person needs to cover their basic expenses and live decently. In addition, supplements would be paid to assist people with special costs including the costs of disability and caring, and housing rents. Income support recipients would be encouraged to search for work and to train through job search and training supplements that help with the costs of doing so.

The social security system should provide a pathway to employment where this is a viable outcome for people. Individually appropriate activity requirements play a key role in linking people with the supports they need to achieve their employment goals. Any requirements should be fair and predictable to give their recipients security of income. The present system strays far from these ideals. Requirements are too prescriptive, recipients have little say in determining their pathways to employment, and those on activity tested payments have little or no income security. In the proposed system, payment categories such as disability, parenting, and carer would be retained – not to fix levels of payment but to provide a legislative framework of activity requirements that gives people a degree of certainty and acknowledges disabilities and caring roles. Within this framework there would be more flexibility for recipients to negotiate with Centrelink and employment services a sequence of activity requirements and supports relevant to their individual circumstances.

Income tests would be redesigned to lower barriers to participation in part time and casual employment and to simplify them so that they can be understood by recipients. As an added incentive, many of the proposed supplementary payments such as the disability supplement would extend to people in full time jobs who face additional costs such as those associated with a disability. Also, the proposed job search and training supplements would continue to be paid for some time after people find employment.

¹ It does not deal with reform of age pensions or family payments, apart from proposals to extend certain supplementary payments to recipients of those payments. See ACOSS 2009, Reform of retirement incomes and ACOSS 2009, Reform of family payments which deal with those payments in depth.

The resulting social security system would be a lot simpler. Instead of confronting a maze of payments, income tests and requirements assembled in ad hoc fashion over the years, income support payments would provide a decent minimum standard of living, supplements would reflect additional living costs including the costs of disability, and activity requirements and supports would be adapted more to personal circumstances. A key design principle for the proposed system is that no group should be financially worse off and those with the greatest need for increased support should receive it.

6 key problems with the present system:

This report identifies six key problems with the present system.

1. Levels of payment are arbitrary and there are serious anomalies between payments.

- The rates of income support payments are not based on any objective assessment of basic living costs. The Harmer Review in 2008 set new benchmarks for the adequacy of pensions. Based on research on the relative living costs of singles and couples, it recommended that single pensions be raised to two thirds of that for couples. While this led to a big improvement in pensions for single people without children, the Review did not assess whether either the single or couple rate of pension were adequate in the first place. Further, its terms of reference excluded allowance payments such as Newstart Allowance and the pension payment for sole parents, so they missed out on the resulting increases in income support payments.
- The Newstart Allowance is just \$231 per week which is \$120 per week less than the pension rate for a single adult. Payments for a single fulltime student living independently (regardless of age) are \$162 per week less than the pension. These distinctions are arbitrary and unfair.
- The disconnect between payment levels and living costs leads to financial hardship. For example, recent academic research on hardship found that 54% of Newstart Allowance recipients, 56% of sole parents on Parenting Payment, and 42% of Disability Support Pensioners could not raise \$500 in an emergency.²

'Living on the dole is not living, it's surviving.' (Graham, Newstart Allowance)

'I feel terrible saying I can't buy you a new pair of shoes this week, you're going to have to wait two weeks. How can you say that to someone when their toes are getting curled over at the end?' (Caroline, Parenting Payment Single)

2. The system is complex and outdated.

- Each of the dozen or so income support payments has its own set of eligibility requirements, rates of payment, income tests, and activity requirements. The Social Security Act runs to over 630 pages - even experts have difficulty understanding it.

'I always get a chuckle from the first question I do: 'Do you require an interpreter?' I tick yes. Then [they ask] for what? SS to English.' (Stephen, Disability Support Pension)

² ACOSS 2009, Missing out.

- The reason that allowances such as Newstart Allowance are lower than pensions is that historically, unemployed people were not considered ‘deserving’ of pensions because they were ‘able to work’ and only needed short term help to tide them over between jobs. Pensions were reserved for people classed as ‘unable to work’.
- This division of people into those ‘able’ and ‘unable’ to work is outdated. Most people with disabilities would rather get help to overcome their barriers to work than rely on Disability Support Pension yet they have to devote their energies to ‘proving’ their inability to avoid transfer to a lower payment. Similarly, carers cannot continue to receive the Carer Payment if they are employed for more than 25 hours a week.

*‘I’ve come to sort of realise that, okay, in many ways disability is a social construction. I can’t work because the workplace actually doesn’t provide me with carers. It doesn’t provide me with suitable equipment so that I can work. I can (no) longer drive. Now I cannot use the buses. Transport is not wheelchair accessible. How do I get to work? So again I realised that society was also putting restrictions on me so that even if I wanted to work it was actually going to be extremely difficult.’
(Leah, Disability Support Pension)*

- The idea that Newstart and other Allowances are short term payments for people without any barriers to work is also outdated. In 2009, of the 627,000 Newstart Allowance recipients, 309,000 received this payment for over a year, 222,000 for over 2 years, and 112,000 for over 5 years. Most long term jobless people are disadvantaged in the labour market. Reasons for prolonged unemployment include ‘too old’ (31%), a ‘disability or poor health’ (26%), and ‘no jobs in local area’ (13%).³
- The system arbitrarily places people in very similar circumstances on very different payments. For example, the income support paid to an unemployed sole parent family drops by \$50 per week on the youngest child’s 8th birthday (when the parent transfers across to Newstart Allowance) if the parent applied for Parenting Payment on or after 1 July 2006. If she applied for payments one day earlier, she would continue to receive the higher pension payment until her youngest child reaches 16.

3. The division between pensions and allowances discourages employment.

- If a Disability Support Pension recipient remains in a job for 2 years, their pension eligibility is reviewed. If they then lose the job they could end up \$120 per week worse off because they would have to claim the lower Newstart Allowance.
- Similarly, if a sole parent with school age children on Parenting Payment Single obtains fulltime employment or re-partners for more than 3 months, she puts her pension at risk, and could end up \$50 per week worse off on Newstart Allowance.
- If a carer is employed for more than 25 hours a week they can no longer receive Carer Payment.

³ DEEWR 2008, APM evaluation.

4. Governments keep moving the goal posts by tightening access to pensions - leaving more people to rely on the lower allowance payments.

- The two tier system of income support (higher pensions and lower allowances) encourages Governments to save money by making it harder to get a pension. Instead of pursuing lower unemployment and overall reliance on income support, social security policies shift people from one payment to another.
- In 2006, the previous Government's Welfare to Work policy tightened the pension rules for people with disabilities and sole parents. New applicants for income support who had disabilities but were able to work part time were no longer eligible for Disability Support Pension and parents with children over 7 years of age were no longer eligible for Parenting Payment. Most ended up on Newstart Allowance.
- An official evaluation of Welfare to Work found that six months after those affected by this policy started receiving Newstart Allowance, 90% of the people with disabilities and 62% of the sole parents were still on income support – the main effect of the policy was to shift people onto lower payments.⁴

5. Income tests discourage part time and casual work.

- People on Newstart Allowance lose over 70 cents per dollar earned above \$125 per week. This means that part time work is not worthwhile for most recipients, yet the majority of low skilled jobs nowadays are part time.

People on income support are discouraged from seeking casual work because their income is assessed every fortnight, which usually disqualifies them from payment if they work fulltime. There are limited opportunities for recipients to average their incomes over longer periods. As a result of the complexity of income tests, people risk under and overpayment of income support every time they take on a casual job.

'I worked it out I would have been worse off in the hand \$30 after working extra and getting paid for extra hours and having to pay for day care and my Centrelink payment came down and my rent went up and everything.' (Sophia, Parenting Payment Single)

6. Activity requirements are complex and inflexible and penalties are too harsh.

- Once a person with a disability or caring responsibilities crosses the boundary from a pension to an allowance payment, strict work requirements apply. They are usually required to seek a certain number of jobs every fortnight (for example, five) and visit Centrelink regularly to prove this. Little account is taken of individual circumstances. For example, the Government's Participation Task Force reported that it is not possible for parents to meet activity requirements by combining job search and training, and that parents with activity requirements were expected to seek casual jobs throughout the Christmas holiday period.⁵ Little account is taken of multiple barriers to work, for example caring for young children *and* having a disability.

⁴ DEEWR 2008, Welfare to work evaluation.

⁵ Participation Task Force 2008, Report of the Participation Task Force, DEEWR.

- The requirements are usually imposed rather than negotiated with Centrelink and employment services, which probably reduces the prospects of success.
- Failure to meet these requirements can lead to harsh penalties - up to 8 weeks without income support. Last financial year this penalty was imposed in 19,000 cases. Due to recent reforms the number of people affected is far fewer than previous years, but this penalty is still far too harsh.

7 principles and directions for reform

These problems can only be resolved with a 'root and branch reform' that changes the basic structure of the system. The key is to remove the distinction between pensions for those 'unable to work' and allowances for those who can. Recipients would have a right to payments set at an 'Australian Minimum Standard of Living' and a responsibility to take reasonable steps towards financial independence in keeping with their circumstances, taking account of any disabilities or caring roles.

Other countries have been moving towards a social security system with common basic rates of income support and supplements, including the United Kingdom and New Zealand.

The following is a proposed set of principles and steps towards reform in this area.

1. Following the release of the Henry Report, the Government would commission an independent expert reference group to develop, in a two year time frame, detailed proposals for comprehensive reform of working-age social security payments.
2. This group would consult widely, including with social security recipients, consumer advocates, the community sector and independent experts before releasing a report with its recommendations for reform. This would include discussion papers setting out the main issues and options for reform, scope for formal submissions, and consultation sessions. Efforts would be made to include those who are ordinarily less likely to participate or who have barriers to participation, including people with disabilities, Indigenous people and young people on income support.
3. This process would be informed by official and independent research on key topics including the living costs and standards of social security recipients (building on the work done by the Harmer Review and taking account of Age Pension rates and conditions), overseas social security systems and reform proposals, the design of a more flexible set of activity requirements, and how recipients experience the social security system. All research results would be promptly released.
4. Benchmarks would be set for the adequacy of income support payments.
5. Income support payments would be consistently indexed to take account of both inflation and broad increases in community living standards (including wage rises).
6. No group of present or future recipients should be financially worse off as a result of reform, and those with the greatest need for increased support should receive it.

7. The system of social security payments should continue to be based on legislative entitlements to cash payments, striking a reasonable balance between legislative protection against arbitrary decision-making and scope for Centrelink and payment recipients to adapt the system to individual circumstances.

This is consistent with ACOSS's opposition to the blanket extension of compulsory 'income management' (with half of income support provided in-kind) to certain categories of income support recipients in disadvantaged areas.⁶

8 options for reform

The following options for reform are advanced in the report:

1. *Instead of splitting the social security system into a set of pension and allowance payments based on 'ability to work', it would be divided into a set of income support payments for people lacking an adequate private income and a set of supplements for special needs.*
2. *Income support payments for people of working age would be based on an Australian Minimum Standard of Living – a minimum publicly acceptable standard of living for a single adult home-owner living alone, while supplements would be designed to assist with additional non-discretionary costs such as housing rents and the costs of disability. Separate categories of income support payment would remain (for example a disability payment and a parenting payment) but basic eligibility conditions and levels of income support would be the same.*
 - Couples would receive one and a half times (rather than double) this amount, to take account of their 'economies of scale' as recommended by the Harmer Review.
3. *As a first step towards a minimum standard of living for income support recipients and to reduce the gap between pensions and allowances, the single rate of Newstart Allowance and other allowance payments should be raised by \$45 per week.*
 - This is two thirds of the Allowance rate for married couples, the same benchmark the Harmer Report recommended for pension payments.
 - *Social security payments should be indexed by legislation to price increases and community living standards.*

This should apply consistently across the different payments, otherwise the gaps between payments will continue to widen. One option is to link the new single rate of income support to movements in median (middle) fulltime wages.
4. *Supplements would assist with major additional non-discretionary costs that are experienced by a large minority of income support recipients. Examples include housing rents, the costs of disability, the costs of caring, the costs of job search or education and training, and the costs of sole parenthood.*
 - Thus, for example, a person with a disability would receive a combination of an income support payment (at the same level as other social security recipients) and a disability

⁶ ACOSS 2010, Submission to Senate Community Affairs Committee on Income Management.

supplement. The supplement could be designed as a standard 'safety net' payment for disability-related costs that are not picked up by other systems (such as payments under the proposed National Disability Insurance Scheme if one is introduced, and the Pharmaceutical Benefits Scheme).

'I think the amount that we are given in our pensions is not enough to cover basic, basic, basic living expenses, that for example when I hurt my back, for me to be able to get well enough to actually gain employment, I didn't have the support for it. To be able to afford physiotherapists, hydrotherapy. Even through the public assistance places where you had to pay a smaller fee for those things. Maintaining things like medications were just ridiculous.' (Serena, Disability Support Pension)

- Supplements would also be introduced for job search and training costs, both to help with the costs involved (such as phone bills and text books) and as an immediate encouragement to seek employment or to train. These would be paid to income support recipients in addition to other supplements (for example a disability supplement), and could be retained for a period of time after employment begins as an additional employment incentive.
 - A sole parent supplement would be introduced within the Family Tax Benefit (FTB) system. This would replace 'FTB Part B' for sole parents, and would be paid to those with school age children at least the same level as for preschoolers (this payment now drops by \$20 per week once the youngest child reaches five). Its purpose would be to assist with the higher costs involved in raising a child alone, and to reduce child poverty and deprivation - which are particularly high in sole parent families.
5. *Activity requirements would still be framed by social security legislation through categories of income support payment, but there would be more flexibility for recipients to negotiate requirements with Centrelink and employment services, especially for people who are overcoming barriers to employment.*
- Categories of income support payment such as disability, carer, and parenting payment would continue but these would no longer determine levels of payment (which would be based on the Australian Minimum Standard of Living). Instead, their purpose would be to delimit the range of activity requirements that could apply to each group. This is important to ensure that any activity requirements are predictable and fairly applied across the country.
 - However, individuals would have more scope within this legislative framework to negotiate activity requirements relevant to their circumstances, as they move closer to (or further away from) being able to engage in paid employment. For example, sole parents who have disabilities would have both of these barriers to employment taken into account. This would be based on a holistic assessment of their employment capacity (rather than for example, taking account of disabilities, vocational skills and caring responsibilities separately). A person with a disability who is ready to re-enter the labour market might be required to seek part time work or to undergo rehabilitation or vocational training. People would have better access to independent advice and advocacy to assist them to negotiate their requirements. The 'mutual' would be put back into 'mutual obligation': Governments and employment service providers would commit to providing the sequence of supports to enable each individual to get and keep a job.

6. *Income support payments would continue to be targeted towards low income households but income tests would be redesigned and simplified to reduce disincentives to take on part time and casual jobs. As a general principle, supplements would either be income test free or more loosely income tested than income support.*
 - Income support payments are mainly designed to reduce poverty, so they should be targeted towards low income households. However, the most stringent income tests (especially those in the 'allowance' system) would be eased to encourage part time and casual employment. One option is to apply the same income test to all working age payments and allow people to 'average' their income test 'free area' over a longer period than a fortnight so they can make use of it if they get a casual job.
 - There is a strong case for not income testing supplements as stringently as income support payments since their role extends beyond reducing poverty. Supplements are also designed to compensate people with unavoidable extra expenses (such as those arising from a disability). This would encourage people on income support who have such expenses to seek fulltime employment. Even if they lose their income support they could take the supplement with them into the job. For example, one option is to extend Rent Assistance to low paid fulltime workers without children. Another option is to continue to pay the proposed job search and training supplements for a period of time to people who obtain a fulltime job.
7. *All working age payments would be administered by a single Government Department.*
 - At present most of the pension payments for groups deemed 'unable to work', including Disability Support Pension and Carer Payment, are administered by the Department of Families Housing Community Services and Indigenous Affairs (FaHCSIA) while those targeted towards people assumed to have a 'work capacity' are paid by the Department of Education, Employment and Workplace Relations (DEEWR). This split ensures that levels and conditions of payment will continue to diverge. For example, the only income support payments within the scope of the Harmer Review of pensions were FaHCSIA's payments, and consequently these were the only income support payments increased in last year's Federal Budget.

'You do have to go through a lot of hurdles, rings of fire.' (Terry, Disability Support Pension)
Description of the social security system by a DSP recipient - All quotes from social security recipients are from Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne (names changed to protect privacy).

What are working-age social security payments?

Over 2 million Australians of working age receive social security payments at an overall cost of around \$30 billion per year. There are two types of payments for people of workforce age.

The first is a set of *income support* payments designed to meet the basic living costs of jobless adults and those in families with low incomes. These are divided into two categories: *allowance* payments for those deemed able to work or study (for example, Newstart Allowance for unemployed people and Austudy Payment for students) and *pension* payments that are usually restricted to those considered ‘unable to work’ for the foreseeable future (such as the Disability Support Pension and Carer Payment).

The second type of payment is *supplements* for special needs or expenses. These include Rent Assistance and Mobility Allowance. They are paid on top of income support payments to assist people with additional costs that don’t apply to most income support recipients such as private rents and the extra transport costs faced by many people with disabilities.

The main income support payments and supplements are listed in the table below.

Table 1: Major income support payments and supplements

Payment	Target group	Number of recipients (2006-07)
Major income support payments - pensions		
Disability Support Pension (DSP)	People with disabilities assessed as ‘unable to work full or part time’	714,000
Carer Payment (CP)	People providing constant care for a person with a disability	117,000
Parenting Payment Single (PPS)	Sole parents of children under 8 years old	395,000
Major income support payments - allowances		
Parenting Payment Partnered (PPP)	Primary carer of children under 6 years in a couple	144,000
Newstart Allowance (NSA)	Unemployed people	418,000
Austudy or Abstudy Payment	Full time students over 24 years old (Abstudy for Indigenous students)	62,000
Youth Allowance (YA)	Fulltime students up to 24 years and unemployed people up to 20 years	332,000

Table 1 (continued): Major income support payments and supplements

Payment	Target group	Number of recipients (2006-07)
Major supplementary payments		
Rent Assistance	People renting privately and receiving an income support payment	approx. 700,000 ⁷
Pension Supplement	Recipients of DSP, CP, and certain other pensions	approx. 850,000
Mobility Allowance	People with disabilities unable to use public transport (not income tested)	54,000
Carer Allowance	People providing daily care to a person with a disability (not income tested)	393,000
Pensioner Education Supplement	Pension recipient undertaking post secondary study	45,000
Work for the Dole Supplement	Participant in Work for the Dole	approx 50,000 ⁸

Source: Australia's future tax system 2008, Architecture of Australia's tax and transfer system.

6 key problems with the present system

1. Levels of payment are arbitrary and there are major anomalies between payments.

Although most payments are indexed to inflation, the payment levels themselves are arbitrary. Even where they are linked to community standards, as pensions are to average male wage levels, these benchmarks are arbitrary (for example the single pension is equal to approximately 27% of male average wages). Payment levels are not based on an assessment of the costs of living of the recipients, or what the community would regard as a 'decent minimum income'.

A rare exception to this is the recommendation of the Harmer Review of pensions, that the maximum rate for a single person should be two thirds that for a married couple.⁹ To arrive at this conclusion, the Review undertook a careful analysis of the living costs of singles and couples, and international comparisons of pension rates. However, neither the single rate nor the married rate is itself based on typical living costs for pensioners. Also, this ratio between single and married rates of payment does not apply to other income support payments such as Newstart Allowance. The single rate of Newstart Allowance is still only 55% of the married rate and the single rate of Austudy Payment is still just 50% of the married rate.

⁷ Number of R.A. recipients also receiving working age income support payments (other RA recipients receive Family Tax Benefit only or an aged or veteran's pension) in June 2009, Senate Families, Housing, Community Services and Indigenous Affairs Estimates Committee Question on Notice 120, 2009.

⁸ Estimate based on DEEWR, 2009, Labour market assistance outcomes June 2009

⁹ Harmer 2009 Pension review report, Australia's Future Tax System, Canberra.

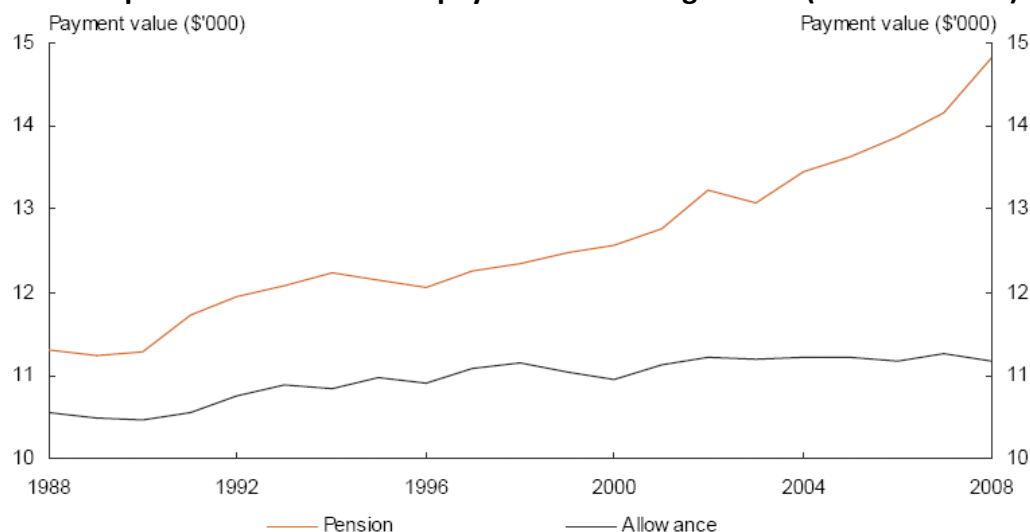
Supplementary payments for special needs are also arbitrary. For example, the maximum rate of Rent Assistance in March 2010 for a single adult was \$57 per week. This is a small fraction of typical rent levels in the larger capital cities and does not vary according to rent levels in different parts of the country.

There are major differences in levels of income support payments that bear no relation to the living costs of the groups concerned. The main anomaly is that allowance payments are much lower than pensions. For example, as the table below indicates, the single rate of Newstart Allowance is \$120 per week less than the pension. This gap between pensions and allowances widened considerably following the Government's decision last year to raise single pensions by \$32 per week (above normal indexation) but to exclude allowance recipients from this increase.

This payment gap automatically increases every year because Newstart Allowance is only indexed to the Consumer Price Index (CPI) whereas the pension is also indexed to wage increases. Newstart Allowances have not increased in real terms (above the CPI) since the early 1990s. This means that unemployed Australians have not shared in increases in living standards received by the rest of the community over the last 15 years. By contrast, average wages rose by around 2% more than the CPI each year and pensions rose with them. The graph below shows how the gap widened over the last 20 years.

Chart 1:

Real value of pension and allowance payments for a single adult (in 2008 dollars)



Source: Australia's future tax system 2008, Consultation paper, Commonwealth of Australia

The Treasury has estimated that due to the different indexation arrangements, by 2040 Newstart Allowance will be paid at only half the pension rate, and these estimates were made before the \$32 increase in pensions.¹⁰ This growing gap between payments is not sustainable.

Similarly, sole parents on the Parenting Payment Single payment missed out on the recent \$32 per week pension increase, even though they receive a pension payment. As a result, for the first time since this payment was introduced in 1974, a gap of \$50 per week has opened up between pensions for sole parents and other pension payments.

¹⁰ Treasury 2006, Intergenerational Report.

Those on the lowest payments are young people and adult students. The single rate of Youth Allowance for young people living independently of their parents is \$147 per week less than pension rates. Austudy Payment for fulltime students aged 25 to 64 years is paid at the same low rate as Youth Allowance.

Table 2: Anomalies in levels of payment and supplements (March 2010)

Payments	Target groups	Singles		Couples (combined rates)	
		Maximum rates including pension supplement (\$pw)	Gap between payment and pension rate (\$pw)	Maximum rates including supplements (\$pw)	Gap between payment and pension rate (\$pw)
Pensions (other than for sole parents)	Retirees, people with disabilities, carers, some widows and partners of pensioners	\$351	0	\$529	0
Parenting Payment Single	Sole parents of children under 8 years	\$301	\$50	n.a.	n.a.
Newstart Allowance	Unemployed people, including many people with disabilities, carers and sole parents	\$231 (\$250 for sole parents)	\$120 (\$101 for sole parents)	\$418	\$111
Austudy Payment/ Youth Allowance	Students 18-65 yrs living independently, unemployed young people	\$189	\$162	\$377	\$152

Levels of payment for couples also differ between pensions and allowances, but the gaps are not quite as large as for singles because the partnered rate of allowances was equal to the pension rate for couples until the late 1990s.¹¹

The arguments for lower payments for allowance recipients are weak

These gaps between payments reflect historical views of which groups are more or less ‘deserving’ of support.

The lowest payments are those for young people and adult fulltime students. The assumption here is that young people and students can rely on their parents to supplement their income support. There are a number of problems with this argument. To begin with, youth payments extend well beyond adulthood (up to 25 years) and recipients of student payments (Abstudy and Austudy) may be up to 64 years old. Further, the rates included in the table above apply to people who are

¹¹ The couple rates in the table are combined rates, so each partner receives half these amounts and the gaps between pensions and allowances are also half these values for each member of a couple.

already assessed as living independently of their parents. Their living costs – for example rent and food – are not lower simply because they are young or studying fulltime.

One of the arguments for keeping Newstart Allowance lower than pensions is that unemployed people only need short term income support in between jobs. However, as shown below, half of all Newstart Allowance recipients receive that payment for over 12 months.

Another argument for keeping Newstart Allowance low is that unemployed people would be discouraged from seeking work if it was increased. Yet there is a significant gap between allowance payments and minimum wages. Modelling by the former Australian Fair Pay Commission indicated that benefit replacement rates (the ratio of disposable incomes on income support to those on the minimum fulltime wage) for selected families in 2007 were:

- Between 55% and 60% for single adults,
- Between 60% and 65% for sole parent with one child,
- Around 70% for a couple with no children,
- Around 75% for a couple with two school age children.¹²

This means that a single adult on Newstart Allowance would almost double their disposable income if they obtained a fulltime job on the minimum wage. There is clearly scope to increase this payment without undermining fulltime work incentives. In any event, if Governments are concerned about work incentives for unemployed people, there are better ways to improve them than by keeping payments for unemployed people below poverty levels. For example, we raise below the option of extending some supplementary payments, such as Rent Assistance, to full time wage earners.

Evidence on living costs

Independent research on the living standards of income support recipients has found that they are generally very low, and that those on the lower allowance payments often face greater risks of hardship and deprivation.

The table below uses a 'deprivation index' developed by the Social Policy Research Centre to compare the number of essential items that different groups lack. Those lacking 3 or more out of 20 essential items (for example, a 'decent and secure home' and access to dental treatment when needed) are described as experiencing 'multiple deprivation'.¹³ It also shows the incidence of one of the essential items used in this and other research on deprivation: whether the household is unable to raise \$500 in an emergency. Results for other items, such as access to dental care and a decent and secure home, are broadly similar to this (see the Attachment at the end of this paper).

¹² AFPC 2009, *Economic and social indicators*.

¹³ The essential items were chosen on the basis that at least 50% of respondents to the survey (a random sample of Australian adults) considered the item essential.

Table 3: Deprivation among at-risk households (2006)

Population group (not confined to income support recipients)	% with multiple deprivation	Income support recipients	% lacking \$500 in emergency savings
Unemployed households	64%	Newstart Allowance	54%
Sole parent families	49%	Parenting Payment Single	56%
People with disabilities ¹⁴	27%	Disability Support Pension	42%
People over 65 on less than \$500pw	12%	Age Pension	10%
People over 65 renting privately	39%		
All households	19%	All households	18%

Source: Data provided to ACOSS from 'New Indicators of Disadvantage' project. For background see Saunders, Naidoo & Griffiths 2007, Towards new indicators of disadvantage, Social Policy Research Centre, UNSW.

Recipients of the main social security payments for people of working age – Newstart Allowance, Parenting Payment, and Disability Support Pension – have on average much lower average living standards than age pensioners and the community at large. Likely reasons for this include their low levels of asset ownership (especially homes) and the fact that these payments are targeted towards a disadvantaged minority in the community. This interpretation is supported by relatively high deprivation level among mature age people who rent privately shown in the table above.

'I feel terrible saying I can't buy you a new pair of shoes this week, you're going to have to wait two weeks. How can you say that to someone when their toes are getting curled over at the end? There's been times where I haven't been able to afford to buy him things and my youngest as well and it's awful. I feel like a terrible person. How can I have brought kids into this world when I can't even afford to look after them the way they should? Just the basic minimum things that they should have.'
(Caroline Parenting Payment Single)

'Pay rent, eat some food, not a whole lot more. It doesn't allow you to do a whole lot of things. I would have – after I pay rent, I think I have left maybe \$15 a day, something like that.' (Stuart Newstart Allowance)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (names changed to protect privacy)

The table below compares poverty levels among the different groups, using standard poverty lines set at 50% and 60% of median disposable household income. This shows that in 2006 (the latest year for which poverty estimates are available) all recipients of social security payments faced a

¹⁴ Although it may appear from the table that people with disabilities are on average less likely to experience multiple deprivation than sole parents and unemployed people, the research does not take full account of the costs of disability. The second column suggests that people with disabilities on the DSP (who are more likely to have lower incomes and more severe disabilities) are more disadvantaged than those not relying on income support. Note that carers of people with disabilities were not separately identified in this study.

high risk of poverty as it is conventionally measured.¹⁵ This reflects the low level of the payments and their targeting to people with limited additional income. One weakness of the poverty data, however, is that the assets available to a family are not taken into account.

Table 4:
Estimated percentage of each group living below poverty lines (2005-06)

Household type	% living below 50% of median income	% living below 60% of median income
Unemployed people	44.7%	64.8%
Sole parents	16.4%	33.4%
Single over 65 years	46.9%	65.9%
Couple over 65 years	17.8%	43.8%
Main income social security	40.7%	69.9%
All persons	11.1%	19.4%

Sources: Saunders, Hill & Bradbury 2007, Poverty in Australia, Social Policy Research Centre.

The table below compares social security payments with another commonly used measure of the adequacy of payments – budget standards. These were developed by the Social Policy Research Centre by calculating budgets to cover the basic costs of living for different kinds of households. These ‘low cost’ budgets were limited to essentials. Since they were compiled back in 1995, the basket of goods and services used would now be out of date, even though the overall budgets have since been indexed to the CPI. This suggests that these budgets are a conservative measure of minimum living costs. Further, the table shows the lowest of the budget standards (those for mature age home owners) which take no account of additional costs such as rent, the costs of disability or the costs of seeking employment.

Table 5: Income support payments and ‘Low Cost’ Budget Standards (December 2009 in \$pw)

	Low Cost Budget (mature age home owner)	Pension rates	Gap (Low Cost Budget minus payments)	Newstart Allowance rates	Gap (Low Cost Budget minus payments)
Single, no children	\$309	\$336	-\$27*	\$228	\$81
Couple, no children	\$422	\$507	-\$85*	\$412	\$10

Sources: Saunders 2004, Updating and extending indicative budget standards for older Australians, SPRC; Saunders 2004, Updating budget standards for Australia. Note: Budget standards indexed to December 2009 using the CPI.

*In this case, income support is higher than the Budget Standard.¹⁶

¹⁵ Poverty rates among single age pensioners are likely to have fallen significantly as a result of the \$32 per week increase last year.

¹⁶ These Budget Standards are for mature age home-owners, so do not include rent or the costs of working or job search. They have been updated to Dec 2009 using the CPI. Payment rates include the pension supplement (which is paid to all

The table shows that last year's pension increases brought single pension rates slightly above the budget standard for mature age home owners. However, Newstart Allowance payments for single adults were \$81 per week below the relevant budget standard.¹⁷

'Living on the dole is not living, it's surviving.' (Graham, Newstart Allowance)

'I've done the whole 'I'm not eating very much or eating a pack of noodles a day, because I don't have any food' kind of thing. It's not very nice, but I'm still pretty good with that, because I know a lot about nutrition and stuff and I go to the markets and get food out of bins if I need to...and go to places and agencies where people provide food for free on certain days. I reckon it's pretty disgusting. Basic things like food and shelter and stuff that people should be provided with.' (Taylah, Newstart Allowance)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

The budget standards also suggest that single people generally fare relatively poorly in our social security system compared to couples, which reinforces the Harmer Review's recommendation that priority for any payment increases should go to singles rather than couples.

People with disabilities and their carers face additional costs above and beyond the basic living costs faced by everybody else. For example, research commissioned by the former Department of Family and Community Services a decade ago found that over 90% of DSP recipients identified specific disability related costs, mainly relating to travel, prescriptions and therapeutic goods. These costs were very diverse.¹⁸

People with disabilities may also pay more for non-disability specific goods and services. For example, people with limited mobility often pay higher rents to live near public transport while people with intellectual disabilities may find it more difficult to shop for the best deals where comparing the options is a complex task (for example, mobile phone plans). Although there are many schemes to assist with disability related costs, including taxi subsidies, continence aids, and the Pharmaceutical Benefits Scheme (PBS), there are many deliberate or unintended gaps in these schemes (for example access to disability aids and equipment is often rationed and there are co-payments for the PBS). A common experience of carers of people with disabilities is an inability to sustain the social networks that enable them to cope with the pressures and strains of full time caring.

'I think with the amount that we are given in our pensions is not enough to cover basic, basic, basic living expenses, that for example when I hurt my back, for me to be able to get well enough to actually gain employment, I didn't have the support for it. To be able to afford physiotherapists, hydrotherapy. Even through the public assistance places where you had to pay a smaller fee for those things. Maintaining things like medications were just ridiculous. There were pills and vitamins to take to get my health to optimum levels.' (Serena, Disability Support Pension)

'Well from a carer's position, the money that you earn covers roughly your food and enough (for)

recipients of qualifying pensioners) but not those supplements that are restricted to people with particular costs (such as Rent Assistance).

¹⁷ Note that this budget does not take account of the costs of job search.

¹⁸ Department of Family and Community Services 1999, Cost of disability survey. See also Saunders 2006, The Costs of Disability and the Incidence of Poverty. Discussion Paper 147, Social Policy Research Centre, University of NSW; Tibble 2005, Review of existing research on the extra costs of disability, Department for Work and Pensions, London.

paying the bills to a degree. What you miss out on is sometimes socially going out, not being able to go out, not being able to take your person out. I try and take her out once a week...sometimes I can't do that for up to a couple of weeks if I don't have enough money. I can't go out so I can't network and have a life instead of just being isolated all the time. Sometimes we go without certain things. I haven't bought clothes in nearly 3-4 years. Just things like that, you make do with what you've got.'
(Gregory, Carer Payment)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

2. The system is complex and outdated

Needless complexity

We have in effect two social security systems – one referred to as 'pensions' and the other 'allowances'. Each has its own levels of payment, eligibility requirements (for example, how long recipients must have lived in Australia to qualify), income tests, assets tests, and activity requirements. The basis for this distinction is not the cost of living for these two groups of social security recipients. Historically, allowances or benefits were payments for those deemed 'able to work' (in the paid workforce) and pension were for those deemed 'unable to work'.

Table 6: The main differences between pensions and allowances

	Allowances	Pensions
Levels of payment	Lower	Higher
Eligibility requirements to get the payment	Less strict	Stricter
Activity requirements to keep the payment	Stricter	None or less strict
Income and assets tests	Tighter	Looser

These two separate and distinct payment systems are more costly for Centrelink to administer than a simpler system that draws no distinction between pensions and allowances. The system is also very confusing for recipients. The Social Security Act runs to over 630 pages, including sections dealing with each category of payment. Fine lines are drawn between those eligible for the higher pensions and the lower allowance payments for example whether a disability is sufficient to qualify for DSP, and whether two people are living in a marriage-like relationship. Most appeals against the decisions of Centrelink deal with these two issues alone.¹⁹

'I always get a chuckle from the first question I do: 'Do you require an interpreter?' I tick yes. Then [they ask] for what? SS to English.' (Stephen, Disability Support Pension)

'I'd rather not have all this bureaucracy in my life. I don't think anyone who is not divorced and doesn't go on welfare, could understand the amount of paperwork. I mean I've got a filing system in

¹⁹ The reforms proposed below would not remove the need to make these kinds of assessments, but they would reduce the potential income losses for recipients if Centrelink makes an adverse decision.

there and you'd just love to burn it. It's just files full of stuff'. (Gayle, Parenting Payment Single)
Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

Many people fall between the cracks of a very complex system. For example, a person with a disability who has not been a resident of Australia for more than 10 years cannot normally receive the Disability Support Pension due to the residence requirements for pensions.²⁰

The social security system forces hundreds of thousands of people to move between payments as their circumstances change. For example:

- most DSP recipients originally transferred to that payment from Newstart Allowance when they were assessed as 'unable to work', yet the vast majority already had the same disability while on Newstart Allowance
- many recipients of Parenting Payment Single were previously on Parenting Payment Partnered before they and their partners separated.

Every time people transfer from a pension payment to an allowance payment or vice versa, their levels of payment, and the income tests and activity requirements change. This adds unnecessary complexity to the system, and anxiety to the lives of low income people.

Changes in family circumstances also trigger major changes in payment levels and conditions. For example, because the Parenting Payment for sole parents is a pension and that for partnered parents is an allowance, sole parents who re-partner are financially penalised. The typical income support payment for a parent with a preschool age child drops from \$301 per week to \$209 if they re-partner.

There is a good reason to pay partnered parents less than sole parents – their cost of living is lower due to 'economies of scale' (such as sharing the cost of housing and power bills). But the drop in payment levels when a sole parent re-partners is based on historical accident rather than deliberate policy design. When a pension was introduced for sole parents in the 1970s no similar payment was introduced for married people who were the primary carers of children. The Parenting Payment for this group was only introduced in the 1990s, and it was paid at the lower allowance rates.

The birthday of a child can trigger arbitrary financial penalties for people on income support. For example, when the youngest child of a sole parent reaches 8 years of age the family's income support is typically reduced by \$51 per week. This has nothing to do imposing requirements to seek employment, which already applied to such parents from the time the child was 6 years old. It is the arbitrary result of a transfer from Parenting Payment to Newstart Allowance.

The distinction between pension and allowance payments is out of date

The basic idea behind the pension - allowance divide is that allowances were designed to tide people over temporarily until they found work, while pensions were designed to provide long term income support.

The differences between pensions and allowances also reflect a historical view that pensioners were more 'deserving' of income support because they were 'unable to work' through 'no fault of their own'. This is often referred to as the distinction between the 'deserving and undeserving

²⁰ See the National Ethnic Disability Alliance's report on this problem at www.neda.org.au

poor'. This view implies that stringent activity requirements are not enough to encourage those who are classed as 'able to work' to search for a job; that payments for unemployed people should be set below minimum living costs to spur them into leaving the social security system. This 'starve them into submission' approach deliberately imposes poverty on people until they find work. As well as being harsh on unemployed people and students, the system is based on an outdated notion that jobless people can readily be divided into two groups who are 'able' and 'unable' to work is outdated:

- Parents are no longer considered 'unable to work' because they have primary responsibility for caring for their children. Caring responsibilities still restrict their ability to seek paid employment, especially when children are younger. However, the ability of parents to undertake paid work employment varies widely according to factors as availability and quality of child care, whether the job is family friendly, and whether they have a partner who shares the care of their children. Although there is a community expectation that the age of the youngest child should be taken into account when imposing job search rules, parents can no longer be simply be divided into a group that is 'able to work' and another that is 'unable to work'.
- Similarly, it is no longer taken for granted that people with disabilities are 'unable to work'. Instead, it is more widely acknowledged now that the main barrier to employment for many people with disabilities is not the impairment itself, but the way that workplaces and jobs are designed (for example, limited access to buildings for people with physical disabilities and limited access to days off for people with episodic illnesses). To simply classify people with disabilities as 'unable to work' is discriminatory and excludes them from the labour market.
- Due to changes in the labour market, many people are relying on allowance payments for much longer periods of time. In May 2009 among the 627,000 Newstart and Youth Allowance (other) recipients, 309,000 received it for over one year, 222,000 for over 2 years and 112,000 for over 5 years.²¹ A major reason for this is that employers have much higher expectations of the skills and productivity of their workers than was the case 20 years ago. As a result, a substantial minority of the workforce who have very low education, social or work skills, are now effectively excluded from stable employment. Further, there is still widespread discrimination in the labour market against Indigenous people, mature age people and people with disabilities.

'I've come to sort of realise that, okay, in many ways disability is a social construction. I can't work because the workplace actually doesn't provide me with carers. It doesn't provide me with suitable equipment so that I can work. I can (no) longer drive. Now I cannot use the buses. Transport is not wheelchair accessible. How do I get to work? Wheelchair accessible taxis, the service is, one, very expensive; and, two, quite poor and unreliable in peak times. So again I realised that society was also putting restrictions on me so that even if I wanted to work it was actually going to be extremely difficult.' (Leah, Disability Support Pension)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

The table below lists the main reasons given by long term unemployed people receiving Job Network services in 2006 for their lack of employment. It also profiles this group. For example, 45%

²¹ DEEWR (2009b), Department of Education, Employment and Workplace Relations response to Senate Estimates question No EW0015-10.

were over 45 years of age and 31% indicated that their main barrier to work was their age, suggesting that employers were unwilling to hire them for this reason. This indicates that in today's jobs market there are many reasons that people become unemployed long term through 'no fault of their own'.

Table 7: Barriers to work for long term unemployed people* (2006)

Profile of job seekers	%	Main reported barrier to work	%
Over 45 years of age	45%	Too old	31%
Unemployed over 2 years	89%	No specific barrier	30% ²²
Less than Year 12 education	64%	Poor health, disability	26%
With disability	16%	No jobs in local area	14%
Aboriginal	6%	Inadequate transport	13%

DEEWR 2008, APM evaluation report. * Refers to unemployed people completing the second stage of Intensive Support Customised Assistance in the Job Network (who were mostly unemployed for 2 years or more). Barriers to work were self reported.

'You know, like I've had one (employment service) consultant admit to me that when you hit fifty, you're not going to find a job ever again... I think if you fall in the too-hard basket for them, they'll go through the motions and I'm sure they'll say, get up and swear on a stack of bibles that they're looking for work and all that for you, but in reality, no.' (Jimmy, Newstart Allowance)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne.

The circumstances of many Newstart Allowance recipients are not dramatically different from those of Disability Support Pension or Parenting Payment Single recipients, who are paid under pension conditions.

Of the 540,000 NSA recipients in mid-2009:

- 92,000 were assessed as only able to work part time due to a disability
- 19,000 were sole parents whose youngest child was under 16 years old
- 35,000 were exempted from activity requirements for reasons such as a disability or temporary illness.²³

Often, the only difference between people on pensions and allowances is the date that they claimed income support. For example:

- Sole parents with school age children who applied for income support before the Welfare to Work changes were introduced on 1 July 2006 receive Parenting Payment Single until their youngest child reaches 16 years, but those who applied after July 1 2006 were likely to end up on Newstart Allowance.
- The same applies to people with disabilities assessed as able to work 15 hours a week but not full time.

²² The report notes that this figure 'may reflect unwillingness on the part of job seekers to report barriers or a lack of recognition of their barriers'. P113.

²³ Response to Estimates questions EW15_10; EW 21_10; EW 16_10; Data for sole parents was for February 2008 (EW138_08)

3. The division between pensions and allowances discourages people from seeking employment

Having a class of payments for people who are deemed 'unable to work' discourages pensioners such as those on DSP or Carer Payment from seeking employment. To receive these payments in the first place, they must 'prove' their 'inability to work'. If they get a job once they are on a pension they face the risk of being assessed as 'able to work' and ultimately being transferred to the lower allowance payments. If assessed as able to work more than 15 hours a week and transferred to Newstart Allowance, a single disability pensioner could lose \$108 per week in income. If they work part time, they will face a tougher income test on the Newstart Allowance, resulting in even greater income losses.

The Government has tried to alleviate these concerns by allowing DSP recipients to continue on the payment without review for up to 2 years once they obtain work. This is a sensible approach. However, concern about loss of the pension still weighs heavily on the minds of many recipients who are considering a return to the workforce.²⁴

Carer Payment recipients are generally not 'allowed' to work more than 25 hours a week because this payment is targeted towards people providing fulltime care. This rule excludes many carers who maintain their connection with the labour market by combining part time care and part time employment, and ultimately entrenches people in poverty.²⁵

Sole parents with school age children who were already on Parenting Payment Single when the Welfare to Work changes were introduced in July 2006 can remain on this payment until their youngest child reaches 16 years, but if they obtain fulltime work for more than 3 months and leave that payment, they are likely to end up on Newstart Allowance (which is at least \$36 per week lower) if they lose the job later on.

These restrictive conditions of payment for pensions are a much more important work disincentive than income tests and tax rates, because they affect people's present and future *security* of income, not just the returns they receive from taking on a part time job. For example, people with disabilities are understandably anxious to lose the higher pension payment, even though many feel trapped within the income support system and would prefer to seek employment. If they do get a job, there is always a risk that they will lose it and they will not have the pension to fall back on. The social security system should provide people with an adequate and secure income whether or not they are on a payment called a pension.

4. Governments keep tightening access to pensions, leaving more people to rely on the lower allowance payments

Governments to continue to tighten eligibility for pension payments because these are more expensive to fund and they usually have no activity requirements. The latest attempt to reduce access to pensions was an administrative change to tighten impairment assessments for the DSP. This was introduced in the 2009 budget at the same time that single pension payments were increased by \$32 per week.²⁶

²⁴ Australian Federation of Disability Organisations 2008, Submission to the Harmer Review.

²⁵ Carers Australia 2008, Submission to the Harmer Review.

²⁶ Australian Government 2009, Budget Paper No 2, Budget Measures.

After expressing concern about growth in the number of DSP recipients, the previous Government introduced its Welfare to Work changes in 2006. This denied pension payments to new applicants for social security who:

- have a disability and are assessed as able to work part time
- are the sole parents of a child aged 8 to 15 years.

Since the introduction of these changes over 40,000 sole parents and people with disabilities have been paid Newstart or Youth Allowance instead of the higher pension payments they would otherwise have received.²⁷ This resulted in major income losses for those affected, as described above. ACOSS argued at the time that it was not necessary to cut people's payments in order to encourage and support active job search.²⁸

An official evaluation of the Welfare to Work policy found that six months after those affected by this policy started receiving Newstart Allowance, 90% of the people with disabilities and 62% of the sole parents were still on income support – the main difference was that their payments were lower.²⁹

As long as pensions are much more generous than allowances, it is inevitable that Governments will continue to tighten access to pensions so that fewer people with disabilities, carers, and parents will be able to get them in future. Fundamental reform of the system to prevent this outcome is in the interest of future recipients of social security payments with disabilities and caring responsibilities.

The social security system should not be designed in a way that encourages Governments to shift people onto lower payments. Instead of worrying about the number of people receiving a particular payment (such as DSP), Governments should focus on the bigger picture: the overall number of people who have to rely on income support. A transfer to a lower payment is not a 'good' policy outcome – it merely entrenches people more deeply in poverty.

5. Income tests discourage part time and casual work.

In Australia it is generally accepted that income support payments (pensions and allowances) should be income tested to target assistance to those most in need. The challenge in designing income tests is to target income support without discouraging too many people from seeking employment. The allowance income test is much more stringent than that for pensions, so that for many allowance recipients it is not financially worthwhile to seek a part time job. Income tests discourage casual work as well, due to the overpayments, underpayments and Centrelink debts that often result. A further issue of concern is the way that social security income tests interact with other systems (especially income tax rates and the rent rebates for social housing tenants) to generate very high 'effective marginal tax rates' on the next dollar earned.

Key features of the income tests for Newstart Allowance, Youth Allowance (for students), Parenting Payment Single and Disability Support Pension are shown in the table below:

- the 'free area' is the amount recipients can earn without reducing their payment
- the 'taper rate' is the rate at which the payment is reduced for every additional dollar earned
- the 'cut out point' is the level of earnings beyond which no payment is made.

²⁷ Senate Standing Committee on Education Employment and Workplace Relations, Answers to Questions on Notice EW24_10 and EW 15_10.

²⁸ ACOSS 2005, Submission to Senate Employment and Workplace Relations Committee on the Welfare to Work Bill.

²⁹ Department of Education Employment and Workplace Relations 2008, Welfare to work evaluation report.

Table 8: Income tests for a single person on income support (March 2010)

	Free area	Taper rates (%)	Cut out points
Disability Support Pension (\$ per week)	\$71	50%	\$772
Parenting Payment Single (\$ per week)*	\$84	40%	\$835
Newstart Allowance (\$ per week)**	\$31/\$125	50%/60%	\$432
Youth Allowance/Austudy (\$per week)***	\$118/\$158	50%/60%	\$439

* with one child – note that the free area increases for every additional dependent child

** income above \$31pw attracts a taper rate of 50%, for income above \$125pw it is 60%

*** income above \$118pw attracts a taper rate of 50%, for income above \$158pw it is 60%

Compared to the pension income tests, the allowance income tests strongly discourage part time employment. Once an unemployed person on Newstart Allowance earns over \$125 per week, they lose 60 cents of every additional dollar earned until the payment is reduced to zero.³⁰ When this is combined with income tax, the person usually loses at least 70 cents of every dollar of part time earnings. This is a deliberate feature of the allowance system – the income test is designed push people directly into a full time job rather than allowing them to rely on combinations of part time earnings and social security payments.

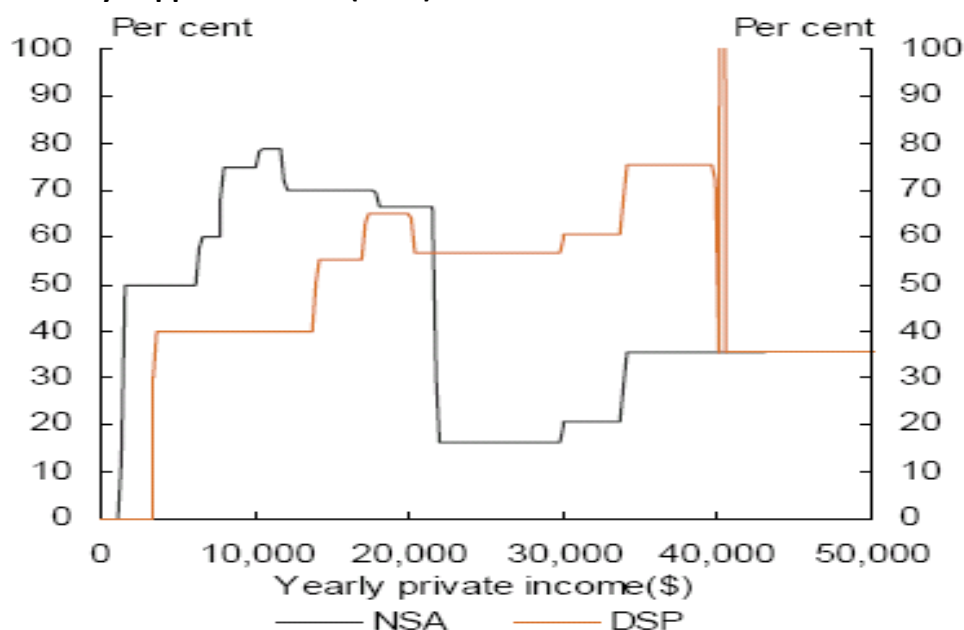
If he tried to earn income from casual work, then ‘all of a sudden Centrelink steps in and says alright, we’re going to cut half of your dole out. They’re shooting themselves in the foot.’ (Fred, Newstart Allowance)

Murphy et al (forthcoming), ‘Half a citizen’: The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

The graph below illustrates this problem by comparing ‘effective marginal tax rates’ (the percentage of the next dollar earned that is ‘clawed back’ as a result of social security income tests and income tax rates) for a single adult on Newstart Allowance and a pension in 2008.

³⁰ At lower earnings levels they lose 50 cents per dollar earned between \$31 and \$125 per week.

Graph 2: Effective marginal tax rates for a single adult on Newstart Allowance and Disability Support Pension (2008)



Source: Australia’s future tax system 2008, Consultation paper, Commonwealth of Australia
 Note: the pension income test has since been tightened so that typical EMTRs exceed 50%
 The ‘spike’ in EMTRs for DSP shown in the graph is the point at which the former Utilities Allowance cut out.

One problem with the very strict allowance income test is that a majority of low skilled jobs today are part time.³¹ As shown above, most unemployed people on income support have low skill levels. As low skilled fulltime jobs become harder to get, it is important to encourage unemployed people to seek part time work even if this means they still receive some income support from the Government while working.

When sole parents and people with disabilities were diverted to the lower allowance payments under the Welfare to Work policy introduced in 2006, they were required to seek part time employment. Yet at the same time they were subject to the tougher allowance income test that penalised part time work. One of the most common complaints among those affected by the policy is that it is not worth working, once child care, travel, and other costs are taken into account.

‘I worked it out I would have been worse off in the hand \$30 after working extra and getting paid for extra hours and having to pay for day care and by the time my Centrelink payment came down and then my rent went up and everything.’ (Sophia, Parenting Payment Single)

Murphy et al (forthcoming), ‘Half a citizen’: The stories of 150 welfare recipients in Australia, University of Melbourne.

A growing proportion of low skilled jobs are also casual or temporary. As a result many pension and allowance recipients move in and out of low paid jobs. The system discourages recipients from undertaking and declaring casual work due to the risk of under and overpayments and the hassle and uncertainty of negotiating these issues with Centrelink when earnings vary. The basic problem here is that earnings are taken into account each fortnight. A number of adjustments have been made to income tests to ease this problem, but they are complex and inconsistent between different payments. Although the ‘Working Credit’ for allowance recipients eases this problem a

³¹ ACOSS 2010, Submission to Fair Work Australia on minimum wages.

little (by ignoring part of a person's earnings from casual jobs) it is complex and limited in scope. There is also a 'work bonus' for pensioners over age pension age (basically a higher 'free area' for income from employment), but this does not extend to other social security recipients such as DSP recipients. The work bonus means that half the first \$500 of fortnightly earnings is disregarded under the pension income test. These income test 'concessions' have been developed in ad hoc fashion.

'So what I would like is for (Centrelink) (to) average out the hours over the year and do it like that, rather than over one fortnight. I think because people that are on DSP, often their ability to work fluctuates up and down and Centrelink can't take that into account. ...You might work a period of 40 hours in one week, and then actually nothing for four months, so instead of averaging that out, they'll look at the 40 hours and they'll say, oh you worked 40 hours here. Well not only are we taking your income, but we're going to suggest that you move off DSP, because obviously you can work those hours, and that's the problem with it' ... (Rhianna Disability Support Pension)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

Social housing residents usually pay about 25% of their income in rent. When this is added to social security income tests and income tax rates it often results in effective tax rates on the next dollar of earnings that exceed 80%. In addition, people jeopardise their position on social housing waiting lists if they obtain employment.³²

'When we get an increase in DSP, automatically our rent goes up. So really, they're giving it to you [in] one hand but taking it out of the other.' (Alex, Disability Support Pension)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

6. Activity requirements are complex and inflexible and penalties are too harsh.

Many social security payments have activity requirements attached to them, for example to seek employment or prepare for work through training or employment programs.

To ensure fairness and provide certainty for social security recipients the basic activity requirements, including those groups excluded from any requirements, should be set out in legislation. Otherwise, arbitrary variations in the activity requirements could be imposed on people by local Centrelink offices and employment service providers. However, the present social security law is complex and inflexible. This is largely due to the pension-allowance divide referred to previously. Movements between categories of payment (such as DSP and Newstart Allowance) can give rise to large 'sudden death' changes in activity requirements, even though the recipient's circumstances have not dramatically changed.

For example, on moving from DSP to Newstart Allowance, the recipient faces a sharp escalation of activity requirements (from none at all to searching for at least 15 hours a week of employment). Similar problems arise for people with caring responsibilities. A parent with a disabled child that does not quite qualify them for a Carer Payment has to apply for special exemptions from the Newstart Allowance activity requirements. If they do qualify for Carer Payment, no activity requirements apply but they have less access to employment assistance.

³² Dockery et al 2008, Housing assistance and economic participation, AHURI, Melbourne; Dockery et al 2008, The relationship between public housing wait lists, public housing tenure, and labour market outcomes, AHURI, Melbourne.

There is limited capacity within the pension-allowance system to take account of multiple barriers to work, such as combinations of disabilities and care burdens. For example, many sole parents have children with disabilities and many carers have disabilities themselves.

The requirements are also insensitive to people's job prospects, capacities and how far they have moved towards (or away from) employment. This is illustrated by the Newstart Allowance requirements for parents. A Participation Task Force established to review the 'welfare to work' activity requirements for parents and mature age people criticised rules that required parents to seek employment throughout the end of year school holidays, to reapply every 16 weeks to renew exemptions on the grounds of domestic violence, and to continue to seek employment while engaged in training courses. The Task Force recommended changes in these areas.³³

I remember ringing up and saying that's ridiculous, because I'm working every day and then I've got to come into Centrelink once every two weeks to have a chat about finding work. It just doesn't make sense. (Madeleine, Parenting Payment Single)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

A further problem with the present system of activity requirements is the very limited scope for unemployed people to negotiate requirements and supports that are appropriate to their circumstances. In theory, activity requirements for Newstart Allowance recipients are based on 'employment pathway plans' negotiated with Centrelink or employment service providers, and underpinned by assistance to overcome barriers to work such as low skills or lack of recent work experience. In practice, little or no 'negotiation' occurs – the plan is determined by the relevant agency and usually follows a standard formula (for example, to search for 10 jobs every fortnight).

There is also a serious imbalance between the requirements imposed on jobseekers and the supports available to help them find work. Employment service providers have very limited resources available to help overcome barriers to work (for example, around \$500 in an 'Employment Pathway Account' for a long term jobless person). This lack of flexibility and support is demoralising for jobseekers, who have to devote their energies to 'following the rules' rather than working with employment service providers to improve their job prospects.

Kathleen had two very different experiences of the social security system:

'I've been breached twice. One because I refused to sign the activity agreement initially because there was nothing about an agreement there. It was about signing this because 'we're the bully and we're going to make you do it and if you don't you get breached'. There wasn't any kind of agreement about like 'how can we make this work together'. You know, no place of understanding or anything. And they don't look at any history.'

'So like the woman who assessed me, she said 'tell me about your life, tell me your story'. She validated my story. She said 'tell me about all the things that impact on your life, like I want to know your whole picture'. And based on that, let's together work on a plan because I can hear that at some stage you want to, you want self reliance and self responsibility, but you need these things in order to do it. I can hear your intention. I can hear where you want to get to...We've done a plan, and she says what do you think about this? It's acknowledged we work on a plan.' (Kathleen, Parenting Payment Single)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

³³ Participation Review Task Force Report 2008, Department of Education, Employment and Workplace Relations.

Recipients of activity tested payments who do not fulfil their activity requirements face penalties of up to 8 week's loss of income support. Last financial year (2008-09), this penalty was imposed in 19,406 cases. While the social security system needs a means to enforce activity requirements, this penalty is far too harsh. Many people have become homeless or otherwise faced severe hardship as a result of this policy. Recent legislative and administrative changes appear to have led to a welcome reduction in the number of people facing harsh financial penalties. For example, the number of 8 week penalties imposed in 2007-08 was 32,000. Nevertheless the loss of income support for 8 weeks is still too harsh, even if it is now imposed on a smaller number of people.

'(Centrelink) don't realise that cutting somebody off means that they're, you know, they're out. They're starving. They have to go begging for food parcels then. Do they really think that, that's inhuman to do that to people.' (Jimmy, Newstart Allowance)

Murphy et al (forthcoming), 'Half a citizen': The stories of 150 welfare recipients in Australia, University of Melbourne. (name changed to protect privacy)

How did we get into the present mess?

1900-1970

The first social security payments introduced in Australia at the turn of the last century were age and disability pensions designed for people deemed 'unable to work'. Following the great depression, unemployment benefits were introduced in 1944 for people deemed able to work who were actively seeking employment. Other categories of payment were then progressively added for different groups of people considered unable to support themselves through employment, including sole parents, students, and carers. Each payment had its own eligibility and activity requirements, though rates of payment and income tests were generally divided into two types: 'pensions' and 'benefits' (the latter were subsequently called 'allowances'). Benefit payments such as unemployment benefits were lower due to the assumption that people would only need them on a short term basis.

The 1970s

The allocation of people to pension or benefit status was often arbitrary. For example, a pension was introduced for sole parents without private means of support in the early 1970s, paid at the same rate as other pensions. However, when a separate payment was introduced for partnered carers of children in jobless families in 1995 (Parenting Payment Partnered) this was paid at the lower allowance rates. Similarly, when pensions were increased last year, sole parents missed out so there is now a separate (lower) pension rate for sole parents only.

In the early 1970s, in response to the report of the National Poverty Inquiry led by Professor Henderson, the Whitlam Government committed to raising the single rate of pension to 25% of average earnings and unemployment benefit payments were raised to pension levels.

However, the indexation of pensions to average earnings was not legislated, nor was there a legislative guarantee that pensions or benefits would be indexed to keep up with inflation, which was running at over 10% per year. By the late 1970s, the Fraser Government had removed the link between pensions and wages, and although pensions were indexed to the Consumer Price Index, benefit payments were not. This resulted in a rapid decline in the real value of benefit payments for unemployed single people. Benefits for couples were still linked legislatively to pension rates (and

thus indexed for inflation) until the late 1990s. This meant that over this period allowance payments for single people declined by comparison to allowance payments for couples.

The 1980s

The Hawke Government, as part of its 1982 'Accord' agreement with the unions, committed to raising pensions back to 25% of average earnings, indexing both pension and benefit payments to inflation and progressively restoring parity between pensions and benefits. As a result the real value of unemployment benefits was substantially increased in the early 1980s, recovering some of the ground lost in the late 1970s. However, progress in closing the gap between pensions and allowances had come to a halt by the late 1980s, though there was a small real increase in unemployment allowances for single adults (\$2 per week) after the recession of the early 1990s.

The 1990s

In 1994, the former Department of Social Security released a discussion paper calling for reform of the system of payments for people of working age to remove the distinction between pensions and allowances. However, the reform was not progressed before the Keating Government lost office.³⁴

The Howard Government set the single pension rate at 25% of average male wages by legislation. This also led to increases for pensioner couples because the single and couple rates of pension were already linked by legislation. However, the link between the married couple rates of pensions and allowances was severed, so both singles and couples on allowance payments began to fall further behind pensioner levels of payment.

The 2000s

In 2000, following broad consultations with community organisations, the Howard Government's Reference Group on Welfare Reform recommended that the system be restructured and simplified.³⁵ In 2002, the Government released a discussion paper on options to 'build a simpler system'. This was published jointly by the then Departments of Family and Community Services and Employment and Workplace Relations. The paper called for the replacement of the present pension and allowance levels of payment for people of working age with a common base rate of payment and supplements for special needs. Further consultations on this proposal were held around the country with community organisations.³⁶

However, in 2005, following the transfer of administration of payments for people of working age from the Department of Family and Community Services to the Department of Employment and Workplace Relations, the Government abandoned this reform and pursued a different course. Instead of reforming the structure of the system (removing the distinction between pensions and allowances), the 'welfare to work' legislation 'shifted the goalposts', diverting many people with disabilities and sole parents from the pension system to the allowance system. An opportunity for lasting structural reform was lost.³⁷

³⁴ Perry 1994, A common payment? Department of Social Security.

³⁵ Reference Group on Welfare Reform 2000, Participation support for a more equitable society (McLure Report), Department of Social Security.

³⁶ Vanstone & Abbott 2001, Building a simpler system to help jobless families and individuals, Commonwealth of Australia.

³⁷ Commonwealth of Australia 2005, Welfare to work, Budget Papers.

In 2009, following a review of pensions (the Harmer Review), the recently elected Rudd Government increased the single pension rate by around \$32 per week above and beyond CPI indexation, raising its proportion of average earnings from 25% to over 27%. Payments for pensioner couples were increased to a lesser degree.³⁸ However, as indicated previously, the pension for sole parents (Parenting Payment Single) was not increased, so the link between the value of that payment and other pensions was broken for the first time since 1973. Also, the increase did not extend to allowance payments, so the gap between pensions and allowances widened substantially. Regrettably, these payments were outside the scope of the Harmer Review, so they were excluded from the assessment of payment adequacy that was undertaken for the other pensions. This was another lost opportunity for thorough-going reform. ACOSS was advised at the time that the Henry Review would examine the adequacy of allowance payments as part of its broader review of taxes and transfers.

To summarise, differences in levels of payment between various pensions and allowances are based to a large extent on a series of arbitrary decisions and historical accidents, underpinned by an assumption that some groups of recipients were more 'deserving' of income support than others. Although previous Governments were aware of these problems and attempts were made to reform the system as a whole on a logical basis, these were not followed through.

How policy administration entrenches divisions between payments

Currently, income support payments for people of working age are split administratively between two Government departments:

- the allowance payments and the pension for sole parents are administered by the Department of Education, Employment and Workforce Relations
- the remaining pension payments, including the Disability Support Pension and Carer Payment, are administered by the Department of Families, Housing, Community Services and Indigenous Affairs

This administrative split reinforces the traditional assumption that people with disabilities and carers are 'unable to work' and makes reform in this area (and the administration of social security payments generally) more complex and difficult. It is likely that without a concerted drive for structural reform, the levels and conditions of payment for these two sets of payments will drift further apart over time.

³⁸ The Harmer Review recommended that only the single pension rate be raised, as single pensioners were judged to face greater hardships.

Policy developments in other countries

Other countries with broadly similar systems of social assistance payments for jobless households have also been working on reforms of the kind envisaged by the 'simpler system' review.

New Zealand

The former New Zealand Labour Government proposed to replace categories of payment for unemployed people, sole parents, carers and people with disabilities with a single benefit. This would be divided into three streams, focussed on a 'rapid return to fulltime work', 'work development and preparation', and income support for those with 'severely restricted employment capacity'. Core rates of payment would be the same for these three categories, but the activity requirements would be different. As the terminology implies, those in the 'work development' stream would be expected to make a gradual transition to employment (for example through training or rehabilitation pathways) or to work part time only. Most recipients of the existing disability, sole parent, and carer payments would move into this stream. A minority of income support recipients who had 'severe' impediments to work would have no activity requirements. The proposal included a supplement for the costs of disability, which would extend to people in fulltime employment as well as those out of work. Financial incentives would be available to those in the work development stream to encourage them to seek a fulltime job, where they were able to do so.³⁹

This major social security reform agenda, which also involved parallel reforms to employment assistance, was not completed by the time the former New Zealand Labour Government lost power last year.

United Kingdom

The United Kingdom Government is also in the process of reforming its social security system for people of working age along these lines. Presently there are three main payments for people of working age: Job Seekers Allowance (equivalent to Newstart Allowance), Income Support (mainly paid to sole parents) and the Employment and Support Allowance which is progressively replacing the Incapacity Benefit (equivalent to our Disability Support Pension). The Employment and Support Allowance applies to new applicants for social security who have disabilities. It is expected that the majority of new applicants will receive the 'employment allowance' element of this payment, which has work related requirements (mainly attendance at job centre interviews and relevant work preparation activities rather than active job search). A minority of applicants with more severe barriers to work will instead receive the 'support component' which has no activity requirements.

A landmark report on welfare reform commissioned by the Department for Work and Pensions, the Freud Report, advocated replacing these payments with a single base rate of income support payment, with an option to increase the rate for long term recipients. Activity requirements would range from active search for fulltime work to search for part time employment (for parents whose youngest child is over 12 years) and work preparation activity (for many people with disabilities). Supplements would continue to be paid to assist with the direct costs of a disability, housing costs, and the costs of caring for people with disabilities.⁴⁰

³⁹ Minister for Social development and employment 2005, Cabinet submission on Extending opportunities to work.

⁴⁰ Freud 2007, Reducing dependency, increasing opportunity, Report for Department for Work and Pensions. See also Sainsbury & Stanley 2007, One for all: active welfare and the single working age benefit, Institute for Public Policy

Most other OECD countries (apart from Australia, New Zealand, and the UK) have very different systems of social security to ours. Typically, they have social insurance payments for people with a substantial recent employment history and social assistance payments for those who do not qualify for social insurance. Social insurance is a contributory scheme whereas social assistance is a safety net payment financed from general government revenue, akin to our social security system. Although their social assistance payments are often paid by provincial or local governments, the levels of payment tend to be more consistent across different groups of recipients (for example, sole parents, unemployed people, and people with disabilities). Instead of separate categories of payment for different groups of recipients, they often have just one social assistance (income support) payment for all people on very low incomes.

Objectives and principles for reform

The lesson of many years of partial and ad hoc reform in this area is that a ‘root and branch’ review is needed. It is hoped that the Henry Review applies this approach to social security reform rather than opting for another ‘quick fix’.

Ideally, the Henry Report will set a framework for a thorough and detailed review of payments for people of working age. This would be based on first principles, starting with a clear statement of the main objectives of the social security system. It would be undertaken in close consultation with social security recipients, peak bodies, advocates, and community service organisations. The following is a suggested set of core objectives for a reformed system.

Proposed objectives for a new social security system:

1. To ensure that all Australians have the financial capacity to attain a decent basic standard of living according to contemporary community norms
2. To encourage and support people of working age to achieve financial independence from Government where practicable
3. To treat people with similar needs and living costs in a fair and consistent way
4. To provide extra financial help for people with costs above and beyond the basic living costs of a typical low income single adult or couple, without making too many fine distinctions in payment levels that lead to complexity
5. To target income support to those in greatest need without undermining work incentives
6. To be sustainable over the long term
7. To treat people with respect and respond to individual circumstances, including by providing a gateway to other community services
8. To provide assistance in the simplest and most accessible way.

Proposed principles and processes for social security reform:

The following is a proposed set of principles and steps towards reform in this area.

1. Following the release of the Henry Report, the Government would commission an independent expert reference group to develop, in a two year time frame, detailed proposals to implement comprehensive reform of working-age social security payments.
2. This group would consult widely, including with social security recipients, consumer advocates, the community sector and independent experts before releasing a report recommending major social security reforms. This would include discussion papers setting out the main issues and options for reform, scope for formal submissions, and consultation sessions. Efforts would be made to include those who are ordinarily less likely to participate in such consultations or who have barriers to participation, including people with disabilities, Indigenous people and young people on income support.
3. This process would be informed by official and independent research on key topics including the living costs and standards of social security recipients (building on the work done by the Harmer Review and taking account of Age Pension rates and conditions), overseas social security systems and reform proposals, the design of a more flexible set of activity requirements, and how recipients experience the social security system. All research results would be promptly released once they are submitted to Government.
4. Benchmarks would be set for the adequacy of income support payments.
5. Income support payments would be consistently indexed to take account of both inflation and broad increases in community living standards (including wage rises).
6. No group of present or future recipients should be financially worse off as a result of reform, and those with the greatest need for increased support should receive it.
7. The system of social security payments should continue to be based on legislative entitlements to cash payments, striking a reasonable balance between legislative protection against arbitrary decision-making and scope for Centrelink and payment recipients to adapt the system to individual circumstances. This is consistent with ACOSS's opposition to the blanket extension of compulsory 'income management' (with half of income support provided in-kind) to certain categories of income support recipients in disadvantaged areas, as currently proposed by the Government.⁴¹

⁴¹ ACOSS 2010, Submission to Senate Community Affairs Committee on Income Management.

Options for reform

This is a complex area of social policy. The purpose of this report is not to develop a detailed blueprint for social security reform. That should emerge from the above policy development and consultation process.

Instead, the remainder of the report raises a set of broad options for reform of the system of payments for people of working age. It also raises a number of questions for further discussion and debate.

1. Instead of splitting the social security system into a set of pension and allowance payments based on ‘ability to work’, it would be divided into a set of *income support* payments for people lacking an adequate private income and a set of *supplements* for special needs.

The broad thrust of the proposed reforms is to *remove the distinction between pension and allowance payments*. Separate categories of income support payment would remain (for example a disability payment and a parenting payment) but basic eligibility conditions and levels of income support would be consistent across these payments. For example, the same residency requirements would apply to all income support payments for people of working age. This would greatly simplify the system and remove anomalies such as the exclusion from disability payments of recent migrants to Australia. The main purpose of retaining payment categories would be to distinguish the activity requirements (if any) that apply to different groups of income support recipients (which we discuss later). Levels of income support payments would no longer be tied to payment categories. Higher payments beyond the basic level of income support (that is, supplements) would be justified by additional living costs not an ‘inability to work’.

The key divide between different payments in the proposed system would be that between *income support payments* and *supplements*. This division already exists (for example, the distinction between Newstart Allowance and Rent Assistance) but the distinction between the two is rarely articulated.⁴² Clarifying the different roles of income support payments and supplements would help guide social security reform, including the best way to target these two types of payment.

The purpose of income support payments is to prevent poverty by raising the incomes of people without adequate means of private support (most of whom are jobless people) to a set minimum standard. That benchmark, which we discuss below, would be based on the minimum ‘universal’ expenses of a typical low income person living alone, excluding additional costs that are faced by some but not others (such as housing rents and the costs of disability), which would be addressed by the supplements. Income support payments are thus the core or foundation payments within the proposed system. Income support payments include for example, Newstart Allowance, Austudy Payment, Youth Allowance, Carer Payment, Disability Support Pension and Parenting Payment. Reflecting their role as an income guarantee for people with limited means, income support payments would generally be targeted towards low income households.

The purpose of supplementary payments is to assist people with unavoidable costs above and beyond these ‘universal’ or ‘core’ expenses. Without supplementary payments, many people who face additional costs such as housing rents could not achieve the same standard of living as other households, so the supplements improve ‘horizontal equity’ within the system (treating people with

⁴² The ‘Simpler System’ proposals were based on this distinction. (see Vanstone & Abbott 2002)

similar needs consistently). These costs include, for example, housing rents, the costs of disability, the costs of caring, sole parenthood, and the costs of job search and training.

Reflecting their different purpose, there is a strong case for not income-testing supplementary payments as strictly as income support payments, and in some cases for not income-testing them at all. In other countries, some of these needs are met through tax allowances (which are generally not income tested). However, this is an inefficient and inequitable way to assist people with living costs, because the bottom one third of households do not pay income tax and have no reason to deal with the Taxation Office.

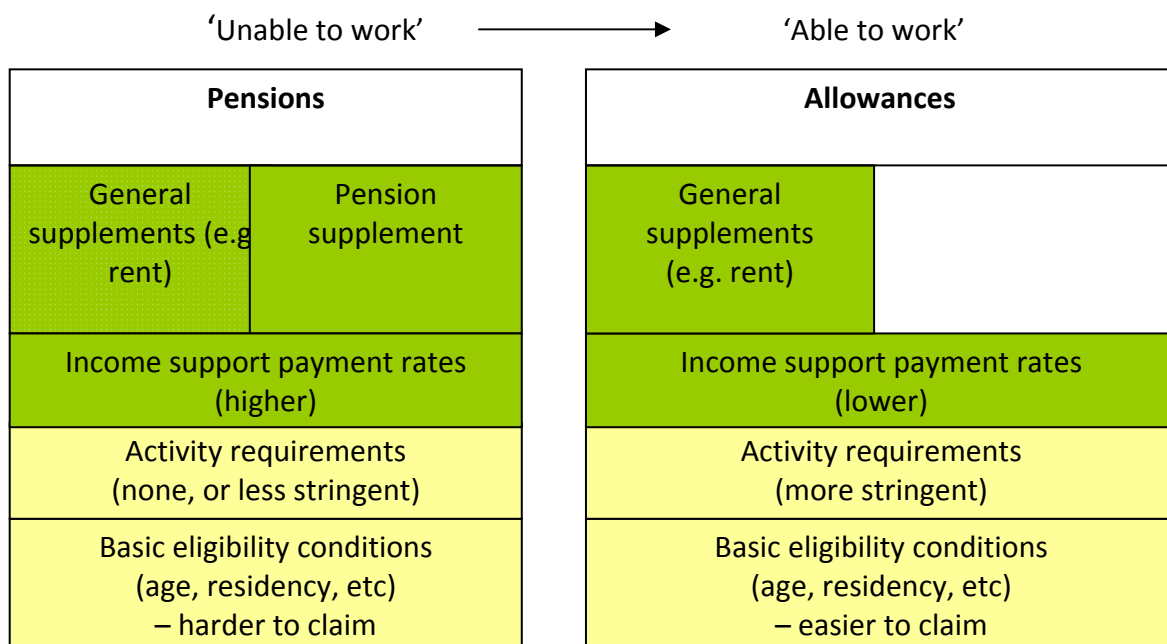
To keep the system as simple as possible, supplementary payments would be limited to major expenses that are experienced by a large minority of people. Although it would be possible in theory to fine tune the social security system to respond to the many differences in household costs (for example, with special allowances for food, heating, and so on) such a system would be complex and intrusive. It is better to provide low income people with an adequate base level of income support so that *they* can choose how to efficiently allocate their budgets. Nevertheless, many people face major unavoidable expenses that are not faced by others, such as housing rents. They should be targeted for additional support.

The direct costs of children should be met through the Family Tax Benefit (FTB) system rather than the system of payments for people of working age, so we do not deal with child payments in any detail here. However, this paper canvasses a proposal for an FTB supplement to assist with the extra costs of lone parenthood, since this need is partly met by the current Parenting Payment Single payment.⁴³

The existing and proposed structures for the social security system are compared in the chart below.

⁴³ See ACOSS 2009, Reform of family assistance, for our proposals for reform of these payments.

Structure of the existing system



Structure of the proposed system

Supplements, e.g:	Rent	Disability	Carer	Sole Parent	Job search	Training
Income support payments Based on minimum costs of living for a single adult/couple						
Activity requirements none -----work preparation/part time employment-----fulltime employment (based on disability-caring-parenting status)						
Common basic eligibility conditions residence, age etc						

Note: Yellow boxes represent conditions of payment; green boxes represent rates of payment.

A threshold issue to be resolved with the proposed system is its scope: how should we define ‘working age’? The present social security system is divided in complex and inconsistent ways by age group. Family Tax Benefits are available for dependent children up to 25 years, Youth Allowances for dependent and independent young people aged 16 to 24 years. There is another set of payments for people aged 21-64 years (for example, Newstart Allowance), but Disability Support

Pension extends from 16 to 64 years. Finally, Age Pensions are available for those aged 64-65 years or more.

There is a case for removing the overlap between child and youth payments for dependent young people aged over 15 years. The simplest solution would be to incorporate these into the Family Tax Benefit system. This would also resolve the problem where parents are income tested (on their own income) more than once in respect of each dependent young person on Youth Allowance together with any younger children on Family Tax Benefit. This creates very high effective tax rates on the parent's earnings. However, if the separate category of 'youth allowances' were removed, a new boundary line would have to be drawn between payments for children and payments for adults, with 18 years (the age at which people can vote) being the logical benchmark. This would then mark the lower boundary of the working age payments system.

A related issue is the scope of the supplements (for example a disability supplement), including whether they should extend to people of age pension age (those over 64-65 years). To the extent that the living costs they target are faced by mature age people (for example, the costs of rents, disability or caring) this is only fair, though not all of these supplements (for example pensioner education supplement) currently extend to people of age pension age.

Another threshold issue is whether all of the 'basic eligibility requirements' for working age income support payments can be standardised, and on what basis? The main issue here is residence. For example, Disability Support Pensions are not generally available to people who have not resided within Australia for at least 10 years whereas Newstart Allowance is generally payable after two years' residence. Since the main purpose of income support payments is to provide a basic income to Australian residents with limited private means of support, a more liberal residency requirement seems appropriate. It is not reasonable to exclude people from disability payments until they have lived in Australia for 10 years.

Issues for discussion:

1. At what ages should people qualify for 'working age' income support payments?
2. Should a separate Youth Allowance continue to be paid for people aged 16-24?
3. Should supplements extend to people of age pension age (over 64-65)?
4. Should basic eligibility requirements (especially residency) be the same for all income support payments for people of working age?

2. Income support payments for people of working age would be based upon an *Australian Minimum Standard of Living* for a single adult home-owner living alone.

The proposed Australian Minimum Standard of Living is the minimum income required to the necessities of life according to standards commonly accepted in the community, that is, to avoid poverty. This should be based on the best available research on the living costs and financial circumstances of low income Australians, including:

- household budgets developed by experts to reflect the minimum expenditures required to achieve a decent standard of living (Budget Standards);
- poverty lines;
- research on the actual living standards of recipients of the different payments, including access to widely-accepted 'essentials of life' and financial stress indicators.

Ideally, this work should be undertaken by an independent panel of experts or Commission, tasked with commissioning independent research and consulting widely with social security recipients, peak and advocacy bodies, and others with an interest in this issue.

Instead of separate maximum rates of payment for pensioners and allowees, there would be a common base rate of payment that is adequate to provide this minimum living standard. For example, this could be based on the typical minimum cost of living for a single home owner without children, disabilities or caring responsibilities. This base rate of payment or 'basic income guarantee' would be the foundation of the reformed social security system.

Since the assessment of the living standards of social security recipients requires extensive research and consultation, once this minimum benchmark is established it should be linked to a measure of community living standards, preferably wages (see further discussion of the options below). This would ensure that payments increase in a predictable way and keep in touch with general living standards. However, it would be desirable to regularly evaluate the living standards of social security recipients and review the Australian Minimum Standard of Living benchmark, for example once every five or ten years. One option would be to maintain an independent advisory body or commission for this purpose.

Those living with a partner would receive a lower level of payment, as they do now, because partners can share basic expenses such as rent and utility bills. Based on research on the relative living costs of singles and couples, the Harmer Review concluded that single rates of payment should equal two thirds (rather than half) of the married couple rate to reflect these economies of scale.⁴⁴ Put another way, a couple would receive one and half times (rather than double) the income support paid to a single person. This relativity could be preserved in the reformed system.

Another option that could be considered is to base maximum rates of income support payments on the recipient's household status rather than their marital (or defacto marriage) status as is the case in the existing system. The main advantage of the household income unit approach is that intrusive investigations would not be required to establish whether marriage-like relationships exist.

However, there are two problems with this approach:

- It is based on an expectation that households share living costs. Although married couples do not necessarily share their living costs, it is more reasonable to expect this of people who have committed to a marriage or marriage like relationship than it is for people who happen to live together in the same home.
- It would be difficult to enforce such a requirement because recipients of income support often change address. This is a major problem for social housing providers, who set rents based on household rather than family income. They must for example take account of the often fluctuating income of adult children, who may or may not be prepared to pay board to their parents.

A more radical departure from the present system would be to ignore marital and household status in determining people's maximum rates of payments and income tests. One benefit of this approach is that it would remove the assumption that women are reliant on their partner's income and ease work disincentives for partnered people on income support, especially women. However, unless Governments are prepared to spend a great deal more on the social security system (by extending the higher single rates of payments to partnered individuals) this would disadvantage single people, who usually face higher living costs due to their reduced capacity to share their living

⁴⁴ Harmer 2009, Report of the Pension Review.

expenses. Most poverty research indicates that single people face a higher risk of poverty and deprivation.⁴⁵ If income tests no longer took account of partners' incomes, the cost of the income support system would increase further as the partners of middle and high income earners would qualify for income support in their own right.

Issues for discussion:

5. How should an Australian Minimum Standard of Living be calculated, and who should undertake this work?
6. Should there be a separate standard payment rate for partnered people as distinct from singles? What should be the ratio between these levels of payment?

3. As a first step towards a minimum standard of living for income support recipients and to reduce the gap between pension and allowance rates, the single rate of Newstart Allowance and other allowance payments should be raised by \$45 per week.

The research and consultation required to develop a robust measure of an Australian minimum standard of living would take some time. It is vital that progress is made in the meantime in reducing existing anomalies between payments and improving the living standards of those on the lowest payments.

It is clear from the above discussion that, on average, single recipients of allowance payments (including sole parents on Newstart Allowance) receive the lowest payments and face a high risk of financial hardship. Therefore, the first step towards an Australian Minimum Standard of Living should be to reduce the gap between these payments and the single pension rate.

This first step could be to bring the single Newstart Allowance rate up to the same proportion of the married rate (of Newstart Allowance) that now applies to pensions - that is, two thirds. This is consistent with the conclusions of the Harmer Report on the relationship between single and married couple rates of payment. As indicated previously, single allowance recipients fell behind their married counterparts from the late 1970s to the late 1990s for the arbitrary reason that their payments were no longer linked to pensions. At present, the single rate of Newstart Allowance is just 55% of the partnered rate.

To raise the single rate to two thirds of the partnered rate would require an increase of approximately \$45 per week, which is almost half the \$120 per week gap between the single allowance and pension rates. As a first step towards improving student payments, this new rate of payment could also be extended to students over 24 years (who presently receive Austudy Payment which is \$162 per week below the pension rate). This would remove a major disincentive for jobless adults to study fulltime to improve their future employment prospects.

As an interim measure to improve income support for young people, the Youth Allowance for people living independently of their parents could also be increased by \$45 per week. Possible structural reforms in this area were discussed previously.

The sole parent rate of Newstart Allowance would also be increased to the new single rate of that payment. Although this means that there would no longer be a supplement for sole parents in the income support system, we propose below that a sole parent supplement be introduced within the family payments system.

⁴⁵ For example, see ACOSS 2008, Who is missing out?

4. Social security payments should be indexed by legislation to price increases and community living standards

The present system of income support payments is indexed to the Consumer Price Index (CPI), though some payments including Youth Allowance are indexed less often than others, an anomaly that should be removed. Arrangements for indexation of supplementary payments vary. However, only pensions are indexed to movements in wages, and over the long term wages rise by around 2 percentage points a year above the CPI. This is the main reason that the gap between pension and allowance rate keeps growing. Official projections indicate that by 2038 Newstart Allowance for a single adult would be worth only half the value of the pension.⁴⁶ This projection was made before the \$32 per week increase in pensions introduced in 2009.

To maintain parity between payments once the Australian Minimum Standard of Living is introduced, and to ensure that people currently on pension payments are not made worse off in future as a result of the proposed reforms, this minimum standard should be linked to increases in wages as well as prices.

One potential problem with linking payments for unemployed people to general increases in wages is that it may undermine work incentives over the medium to long term. This would occur if the benchmark wage level used rose more rapidly than minimum wages, since many unemployed people have limited skills and are more likely to obtain jobs at around minimum wage levels. One option to deal with this problem is to link social security payments explicitly with the federal minimum wage, as they do in the Netherlands.⁴⁷ This option has one major problem: it would mean that the Fair Work Commission would set payment levels for millions of social security recipients in addition to a much smaller number of minimum wage earners. The Commission's flexibility to take account of wage developments, the state of the economy, and other factors when setting minimum wages would be impaired. A further, equally serious problem is that long term recipients of income support payments would not be able to count on regular, predictable increases in their payments.

The use of an average wage benchmark for indexing income support is problematic at times when wage inequality is increasing. This is because average measures are particularly sensitive to movements in wages at the top end of the distribution. It makes more sense to link income support levels to a median or 'middle' wage level because the main purpose of the Australian Minimum Standard of Living is to keep the lowest incomes in touch with the living standards of 'middle Australia' (rather than those of high income earners). For similar reasons, the most commonly used poverty measures in Australia and overseas use a poverty benchmark equal to a fixed proportion of median household incomes.⁴⁸

Pensions are currently linked to average wage levels using the Male Total Average Weekly Earnings (MTAWE) measure published by the Australian Bureau of Statistics. This is different to most other measures of average wages in that it is confined to men and it includes part time earnings. One unanticipated outcome of adopting this benchmark is that it has increased more slowly than other average wage measures, due to an increase in the proportion of men employed part time in recent years.

⁴⁶ Treasury 2006, Intergenerational report.

⁴⁷ The single rate of their unemployment assistance payment is equal to 70% of the gross minimum wage.

⁴⁸ Typically, either 50% or 60% of median equivalent household disposable income.

A wages benchmark that is confined to men and affected by changes in the balance between full and part time employment is not appropriate for indexing income support payments. This was recognised by the Harmer Review, which considered replacing it with a measure of movements in median fulltime wages for both men and women. The Review identified that this measure has moved in almost identical fashion to Male Total Average Weekly Earnings over the last 5 to 10 years.⁴⁹ We estimate that the current pension benchmark (of around 27% of MTAW) is equivalent to approximately one third of median full time earnings.

Another issue to consider is whether social security payments should be linked to a gross or net (after tax) measure of community living standards. Pensions are currently linked to a measure of gross (before tax) wages. Although it more closely reflects people's actual living standards, the main problem with a net measure is that it would be arbitrarily affected by changes introduced into the income tax system from time to time, such as income tax cuts and adjustments to the Low Income Tax Offset. This reduces the predictability of increases in payments and the flexibility of future Governments in reforming the income tax system. For example, if tax rates were cut substantially, income support payment payments would automatically increase, thus squeezing the federal budget at both ends.

Issues for discussion:

7. How should social security payments be indexed?

5. Supplements would assist with major additional non-discretionary costs that are experienced by a large minority of income support recipients. Examples include housing rents, the costs of disability, the costs of caring, the costs of job search or education and training, and the costs of sole parenthood.

A sole parent supplement would be introduced within the Family Tax Benefit system.

The cost of living varies considerably among income support recipients. Making adjustments for all of these special costs would be much too complex. However, the system should compensate for a limited number of special costs that are both substantial, and shared by a substantial minority of recipients. If the vast majority of recipients share these costs (for example, food and clothing) it is simplest to meet them through the base rate of payment. If only a small number face these costs – for example dialysis services for people with kidney disease - it would be fairer and simpler to subsidise the provision of that particular service (either by funding the service or by paying the user a subsidy to purchase it) rather than incorporating subsidies for this purpose into the social security system.

Housing rents stand out as an expense that warrants a special supplement. Rents are a major component of the budget of income support recipients who are private tenants. Rent Assistance fulfils this role at present. Among current Rent Assistance recipients, almost one third (31%) paid more than 30% of their income in rent in 2006, a standard definition of housing stress.⁵⁰ In the absence of a payment to assist with rents, many income support recipients would face severe poverty. One issue that should be considered in redesigning Rent Assistance is whether the maximum rates should vary by State, Territory or region, given the large variations between rent

⁴⁹ See graphs on pages 68 and 78.

⁵⁰ AIHW 2007, Australia's welfare.

levels in different parts of Australia. This is a critical issue in those parts of Australia where rents far exceed the maximum level of Rent Assistance. Jobless people are forced to leave these areas in search of affordable housing, often at the expense of employment opportunities. Another issue is the targeting of Rent Assistance. Although many middle income families with fulltime jobs receive it (as part of their Family tax Benefit), low wage earners without children do not. It is the high rent payments that often put low paid workers under financial stress, and force them to move to areas with cheaper rents but fewer jobs. Consideration could be given to extending Rent Assistance to these workers.

The costs of disability should also attract a supplementary payment. This has been pursued by disability advocacy organisations for many years.⁵¹ The main difficulty in designing a disability supplement is that the costs associated with a disability are very diverse. This suggests that it might be better in the first instance to link subsidies to assist with these costs with the provision of specific services (either by providing the service or by entitling people with disabilities to a subsidy to purchase it), rather than incorporating them into social security payments. The Productivity Commission is inquiring into a proposed National Disability Insurance Scheme to cover these costs, as advocated by the national Disability and Carer's Alliance.⁵²

However, not all disability-related costs can be met in this way. For example, the Pharmaceutical Benefits Scheme is designed to cover most of the costs of pharmaceuticals needed by low income earners, but it deliberately leaves a gap fee for the patient to pay and excludes many items such as skin creams. Further, it is not always possible to accurately assess the range of services, aids and equipment an individual will need in advance. As a result, even if a scheme along the lines of the proposed National Disability Insurance Scheme is adopted many people are likely to be left with residual out of pocket expenses. A disability supplement paid through the social security system could provide a 'buffer' to help with these costs. This could be a flat rate payment for all people above a certain level of assessed disability, or it could be supplemented with more targeted payments for individuals likely to face higher costs, such as the existing Mobility Allowance for people who have difficulty using public transport without assistance. The relationship between this supplement, income support payments, and payments and services that are part of any National Disability Insurance Scheme would have to be carefully considered in consultation with people with disabilities, advocates, and relevant community organisations.

Similar issues arise with supplements for carers. Further, the purpose of the present Carer Allowance is not clear - for example whether its purpose is to assist with the direct costs of care or to partly compensate carers for their work.

Social security recipients are increasingly required to train for and seek employment so that their need for income support is reduced. However, there is only very limited assistance with the costs involved. In the case of job search these include additional transport costs, clothing, and communications costs. For example, many Newstart Allowance recipients are required to seek up to ten jobs a fortnight within a 90 minute bus or train journey from where they live. In the case of recipients undertaking education and training the direct costs include fees, text books, and travel.

⁵¹ See for example see Department of Social Security 1998, Reform of income support for people with disabilities: "A forum of disability and peak organisations at this time 'considered that any new [social security] payment structure should provide both an income support component and a costs-of-disability supplement to compensate for the non-discretionary costs involved in having a disability" p17.

⁵² See the Alliance's website at <http://www.ndis.org.au/index.php>.

There is a complex array of supplements to help with some of these costs, but these are fragmented and inadequate:

- The Pensioner Education Supplement of up to \$31 per week is restricted to pensioners below age pension age;
- The Work for the Dole supplement of \$10 per week is restricted to participants in that program;
- Child care subsidies under the JET Child Care Fee Assistance program are available for parents undertaking some training courses but not for fulltime education courses over one year in length.

These payments could be replaced by a more coherent set of supplements to assist income support recipients with the costs of education and training, job search and preparation, and child care, respectively. In addition to assisting people with direct costs, these supplements could improve incentives for people to undertake job search or training where they are not required to do so. One benefit of this approach is that the financial incentive is immediate, whether or not the person is successful in securing employment. Another option to consider is whether to extend these supplements at least temporarily to people who obtain employment that disqualifies them from income support. Although this would be more costly, it would further improve work incentives and provide a financial 'buffer' for people who have just started a new job, to help with some of the immediate expenses involved. 'In work payments' of this kind have boosted employment among income support recipients in other countries.⁵³

The present social security system also recognises the extra costs associated with caring for a child alone (for example, costs arising from the lack of economies of scale and more limited access to help with caring responsibilities), and the elevated risk of poverty and deprivation in sole parent families generally. This is done in part through Family Tax Benefit (Part B) which is paid to most sole parents and also through higher rates of Parenting Payment (Single) and Newstart Allowance for sole parents (than singles without children).

However, these costs are not dealt with in a consistent way:

- Family Tax Benefit Part B reduces from \$67 to \$47 per week when the youngest child reaches 5 years, yet the evidence suggests that the direct costs of children increase with age. The reason for this is that when FTB(B) was introduced in 2000 it bundled together a former supplement for sole parents (Guardian Allowance) with a payment to enable one member of a couple (usually the mother) to care for a child at home (the Basic Parenting Payment). The thinking behind the reduction in this payment when a child reaches school age is that the school age children of married couples are less likely to need a parent to care for them at home. However, whether the child is cared for at home is not relevant to a sole parent supplement.
- When the youngest child of a sole parent reaches 8 years of age, the parent is usually no longer eligible for Parenting Payment Single and must transfer to Newstart Allowance. In that event, the income support available to the family drops by a further \$50 per week even though the cost of the child is still rising at this time.

One option to assist sole parents with these costs is to replace the Family Tax Benefit Part B payment for sole parents with a more explicit sole parent supplement, which is paid on top of the

⁵³ For example, the Canadian Self Sufficiency Program (SSP).

standard single rate of income support available to all recipients of working age payments. Unlike the present system, this sole parent supplement should not decline as children grow older.⁵⁴

Issues for discussion:

8. Which costs should attract supplementary payments?
9. Should Rent Assistance rates vary by location and how should it be targeted?
10. How should Disability and Carer Supplements be designed and targeted, and what relationship should they have with the proposed National Disability Insurance Scheme?
11. How should supplements for the costs of education and training, and job search and preparation be designed and targeted?
12. How should a supplement for the specific costs associated with sole parenthood be designed and targeted?

6. Activity requirements would still be framed by social security legislation through categories of income support payment, but there would be more flexibility for recipients to negotiate requirements with Centrelink and employment services, especially for people who are overcoming barriers to employment.

The main purpose of income support payment categories in the proposed system (such as disability, parenting and caring) is not to determine levels of payment. These would be the same across the categories of payment. Rather, these payment categories would determine the activity requirements, if any, that apply.

Activity requirements are a necessary feature of the social security system for people of working age and they have been expanded in recent years. However, the system has always acknowledged that many people face barriers to work due to disabilities or caring responsibilities. It is crucial that social security legislation offer a degree of certainty and security for people in these situations. Activity requirements should not be arbitrary determined by local Centrelink or employment services. The system should also formally recognise the effect of disabilities on employment, and the social value of caring. In many cases, for example, where people have severe disabilities or intensive, fulltime caring responsibilities, no activity requirements should apply. Other people with barriers to work can still seek employment, with appropriate help. The challenge in designing activity requirements in these circumstances is to balance the security and certainty of a legislative framework with flexibility to take account of individual circumstances and aspirations.

One of the benefits of the proposed model of payments for people of working age is that it separates out the determination of rates of payment from activity requirements. The present system confuses these two issues by bundling them together. If an individual is no longer eligible for a disability pension, then they receive a lower rate of payment *and* a new set of activity requirements. Given this dramatic change in people's conditions of payment it is not surprising that people avoid losing the pension. If an individual has an improved capacity to work (their barriers to employment are being overcome) it may be appropriate to apply activity requirements and link them to employment assistance services and supports. There is no need to cut their payments. Once the link between payment levels and requirements is removed, there is more room to tailor activity requirements to individual circumstances without disadvantaging them financially.

To ensure that this new flexibility works for the recipients of income support, they should be given a great deal more say in the activity requirements and supports that apply to them. In the New

⁵⁴ For further discussion of reform of family payments see ACOSS 2009, Reform of family assistance.

Zealand income support system, for example, there is an active partnership between recipients and their case managers around planning for a return to employment. In the present Australian system requirements are mostly standardised and imposed on people by the authorities. Further, the penalties for not complying with requirements should be substantially reduced – especially the 8 week ‘non payment period’. In a well managed income support system that is responsive to individual needs, penalties should only be used as a last resort.⁵⁵

Issues for discussion:

13. How should activity requirements vary between categories of income support payment?
14. How can more space be created for individuals to negotiate activity requirements and supports relevant to their circumstances without undermining fairness and income security?
15. How can the compliance and penalty regime be improved so that penalties are used as a last resort and hardship is minimised?

7. Income support payments would continue to be targeted towards low income families but income tests would be redesigned and simplified to reduce disincentives to take on part time and casual jobs.

As a general principle, supplements would either be income test free or more loosely income tested than income support payments.

One option to simplify and reform income tests for income support payments is to apply the same income test to all of these payments. This should result in a much less stringent income test for people currently on allowance payments, which would make part time employment more worthwhile.

A key issue to consider is whether income support should extend to fulltime workers on low wages. This currently applies to pensions but not allowance payments (see table 8 above). One problem with this is the income support would then act as a general supplement for low pay, the benefits of which would at least partly be captured by employers. A long standing principle of minimum wages in Australia is that they should be adequate to meet the needs of at least a single adult, without the need for supplementation by Government. It is possible that minimum wages would decline in real terms if a substantial supplement was paid by Government, shifting the burden of providing a decent minimum income for low skilled workers from employers to the social security system.⁵⁶

If a decision is made *not* to extend income support payments to fulltime workers on the minimum wage or above, then the income test should be strict enough to ensure that the payment cuts out below the minimum fulltime wage. Alternately, there could be two income tests for income support payments: a stricter one for those expected to seek fulltime work and a more liberal one for those required to seek part time work.

A second key issue is whether to give priority to encouraging recipients to move from unemployment to a part time job or a fulltime job. If income tests were eased to encourage part time employment (for example by increasing ‘free areas’ or reducing ‘taper rates’) this may discourage people from moving from part time work to a full time job because earnings from part

⁵⁵ See for example, the well considered views of the McClure Report (Reference Group on Welfare Reform 2000) on this subject.

⁵⁶ Australian Governments have for many years supplemented minimum wages for families through the family payment system.

time employment would be supplemented to a greater extent by income support. By severely discouraging part time work, the strict allowance income test fails to strike the best balance between these goals. Given that most low skilled jobs are part time, and that financial incentives usually have the greatest impact on decisions to move from joblessness to employment (as distinct from increasing earnings at the margin), there would seem to be a strong case for easing this income test as it applies to part time work.

More could also be done to encourage recipients of income support to take on casual employment. The present earnings credit for allowance recipients is a good first step but it is complex and limited in scope. The income test free area varies substantially between allowance payments pensions. One option to encourage casual employment is to replace the present 'free areas' for different payments with a uniform one that is indexed for inflation, and to allow recipients of working age payments to 'bank' this 'free area' over a much longer period than a fortnight. This system would be much easier for recipients to understand than the present complex array of income tests and the working credit. Another option would be to follow the practice in the United Kingdom, where the equivalent agency to Centrelink provides a 'better off in work' calculation to recipients who are considering taking up employment. If recipients know in advance how much they would gain from employment they may be more likely to search for work. This would also expose any weaknesses in financial work incentives and encourage Governments to deal with them.

Ideally, these changes would be taken in conjunction with reform of social housing rent rebates, so that tenants no longer lose an additional 20-25% of their earnings to rent increases, and no longer lose their place on waiting lists if they get a fulltime job.

Some supplements (such as Carers Allowance) are not income tested whereas others (such as Rent Assistance) are. Broadly speaking, supplements should be less strictly income tested than income support because their purpose extends beyond poverty alleviation. They are also designed to equalise the living standards of people with markedly different living costs. For example, Family Tax Benefits assist both low and middle income parents to attain a similar living standard to those who don't have children.

Whether a supplement should be income tested at all depends on its purpose. For example, there is a strong case for not income testing supplements to assist with the cost of disabilities or caring because these aim to help people overcome the financial disadvantages and barriers to participation faced by people with disabilities and carers. One potential benefit of a clear separation between income support payments and a disability supplement for people with disabilities is that many people would be able to take a greater part of their overall social security payment with them if they obtain fulltime employment.

On the other hand, it would be more difficult to justify extending Rent Assistance to middle or high income families, who may have chosen to rent and invest their savings in the sharemarket rather than purchase their home.

Issues for discussion:

16. Should there be a single income test for income support payments or a less stringent income test for those only expected to seek part time employment?
17. Should income support payments extend to minimum wage earners?
18. What changes to income tests are needed to encourage casual employment?
19. Which supplements should be income tested, and how?

8. All working age payments would be administered by a single Government Department

As long as two separate Departments are responsible for policy development in this area, fundamental reform will be difficult. Inconsistencies and anomalies in rates of payment, activity requirements and other features of the various payments are likely to worsen over time as each Minister and their Department pursue their own policy agenda. These problems would be avoided if a single Department administered all working age social security payments, as is the case, for example in the United Kingdom and New Zealand.

Issue for discussion:

20. Which Government Department should administer working-age social security payments?

Attachment 1: Issues for discussion

1. At what ages should people qualify for 'working age' income support payments?
2. Should a separate Youth Allowance continue to be paid for people aged 16-24?
3. Should supplements extend to people of age pension age (over 64-65)?
4. Should basic eligibility requirements (especially residency) be the same for all income support payments for people of working age?
5. How should an Australian Minimum Standard of Living be calculated, and who should undertake this work?
6. Should there be a separate standard payment rate for partnered people as distinct from singles? What should be the ratio between these levels of payment?
7. How should social security payments be indexed?
8. Which costs should attract supplementary payments?
9. Should Rent Assistance rates vary by location and how should it be targeted?
10. How should Disability and Carer Supplements be designed and targeted, and what relationship should they have with the proposed National Disability Insurance Scheme?
11. How should supplements for the costs of education and training, and job search and preparation be designed and targeted?
12. How should a supplement for the specific costs associated with sole parenthood be designed and targeted?
13. How should activity requirements vary between categories of income support payment?
14. How can more space be created for individuals to negotiate activity requirements and supports relevant to their circumstances without undermining fairness and income security?
15. How can the compliance and penalty regime be improved so that penalties are used as a last resort and hardship is minimised?
16. Should there be a single income test for income support payments or a less stringent income test for those only expected to seek part time employment?
17. Should income support payments extend to minimum wage earners?
18. What changes to income tests are needed to encourage casual employment?
19. Which supplements should be income tested, and how?
20. Which Government Department should administer working-age social security payments?

Attachment 2

Percentage of people in 'at risk' groups lacking essential items (2006)

Essential item	All people	Newstart Allowance	Parenting Payment	Disability Support Pension	Age Pension	Mature age (over 64 years)			
						renting	single	married	income >\$700pw
decent and secure home	6.6	23.1	43.1	7.1	7.3	29.8	8.3	2.1	2.9
could not pay utility bill	12.5	27.5	56.6	28.6	5.6	8.8	3.3	2.2	0
\$500 in emergency savings	17.6	53.8	55.8	42.2	10.1	39.3	14.5	8.2	3
home contents insurance	9.5	55.6	51.9	31.0	7.6	28.6	11.1	2.1	2.9
unable to buy prescribed medicines	3.9	16.7	12.5	11.4	2.0	6.7	4.5	0.6	2.9
dental treatment	13.9	44.7	54.0	32.4	12.9	28.1	17.5	5.9	2.9
regular social contact	4.7	20.6	14.9	18.1	5.4				
presents for family and friends	6.6	29.7	27.7	26.4	7.2	19.6	8.9	3	0
week's holiday away from home	22.4	69.4	63.3	52.9	23.5	43.9	27.2	14.4	3
bedroom for each child >10	6.1	8.6	20.0						
up to date schoolbooks & clothes	3.8	6.5	24.0						
hobby or leisure activity for children	5.7	24.2	39.6						

Source: Data provided to ACROSS by Social Policy Research Centre; for details of source see Saunders et al 2007, *Towards new indicators of disadvantage*, Social Policy Research Centre November 2007.

Note: Shaded areas represent cases where the risk of deprivation exceeds twice that of the general population (the figures in the first column).

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