



Australian Council of Social Service

# Social Security Trends

SNAPSHOT - APRIL 2014

The paper counters the argument that there is a 'blowout' in the number of people on welfare. It provides information about changes in the number of people who rely on social security payments, and about past and future budget expenditure on social security payments and services.

We hope this will help the sector participate in debates about what the government can and should be doing to provide the supports and services that the community needs and wants.

## 1. Key messages

1. Contrary to the message that there is a "welfare blowout", the proportion of the population receiving income support declined between 2002 and 2012.[1]
2. Australia's spending on social security remains comparatively low compared to the rest of the OECD. Expenditure on social security payments in 2013 was 8.6% of GDP, compared with an OECD average of 13% of GDP. [2]
3. Expenditure on social security is expected to increase in the future, driven primarily by spending on the Age Pension and the ageing of the population, rather than expenditure on working age payments.

## 2. Key facts about the number of people receiving income support

### *All payment types*

- Over the 10 years from 2002 to 2012, the number of people receiving income support increased from 4.86 million to 5.03 million, an increase of 4%, or 174,000 people [3]. Over the same period the population increased by 3.22 million.[4] As a result, the proportion of the population receiving a social security payment declined from 25% to 23% over this period.[5]
- Looking at all working age payments (excluding the age pension from the data), the total number of people on a social security payment declined from 23% of the working age population in 2002 to 18% in 2012 [6].
- Of all people receiving social security payments in 2012, the largest proportion were receiving the Aged Pension (45%), followed by the DSP (16%), Newstart Allowance (11%), Parenting Payment Single (6%), Youth Allowance Student (5%) and Carer Payment (4%).

### *Trends in people receiving Newstart, the Disability Support Pension and the Age Pension*

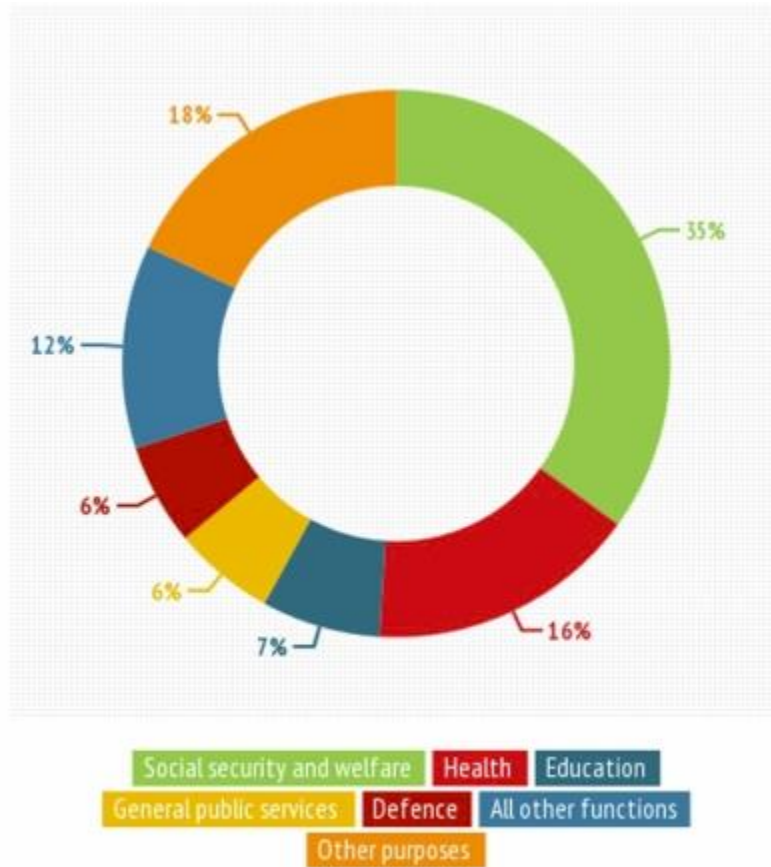
- Between 2002 and 2012, the number of people receiving Newstart actually decreased from 4.3% to 3.6% of the working age population, largely as a result of a strong and improving labour market over the period of strong economic growth up to 2008. The total number of Newstart recipients decreased by 1% to 550,000 people over the decade.
- There has been an increase in the number of people on Newstart in recent years. In February 2014, the number of people on Newstart increased to 726,740, up 6.4% from January 2013. This reflected the previous Government's decision to move single parents receiving the Parenting Payment Single (PPS) to Newstart once their youngest child turned 8, as well as tightening labour market conditions. The number of people receiving Youth Allowance also increased in the last year by 7.7% to 115,310 people.
- Over the decade between 2002 and 2012, the total number of people receiving the DSP increased by 26% to 827,000 people, however population growth meant that the proportion of people receiving the DSP within the working age population has remained relatively constant. Over the decade there was an increase in the number of people on DSP from 5.1% of the working age population in 2002 to 5.5%[7] in 2012.
- Nearly half of the increase in the number of people on DSP between 1996 and 2002 was due to the ageing of the population, as the incidence of disability increases with age. Other reasons include progressive increases in the eligibility age for alternative payments such as the age pension (particularly for women) and the phase out of other payments such as the Widow B pension[8] and other changes in the incidence of disability.

- Since 2010, eligibility criteria for the DSP have been tightened, with tougher impairment tables and job search requirements. This has slowed the rate of growth of people claiming DSP.
- The number of people receiving the Age Pension increased by 26% to 2.3 million people between 2002 and 2012. The proportion of the population receiving the Pension increased from 9.3% of the population to 10.1%.

#### *Social Security Expenditure in context*

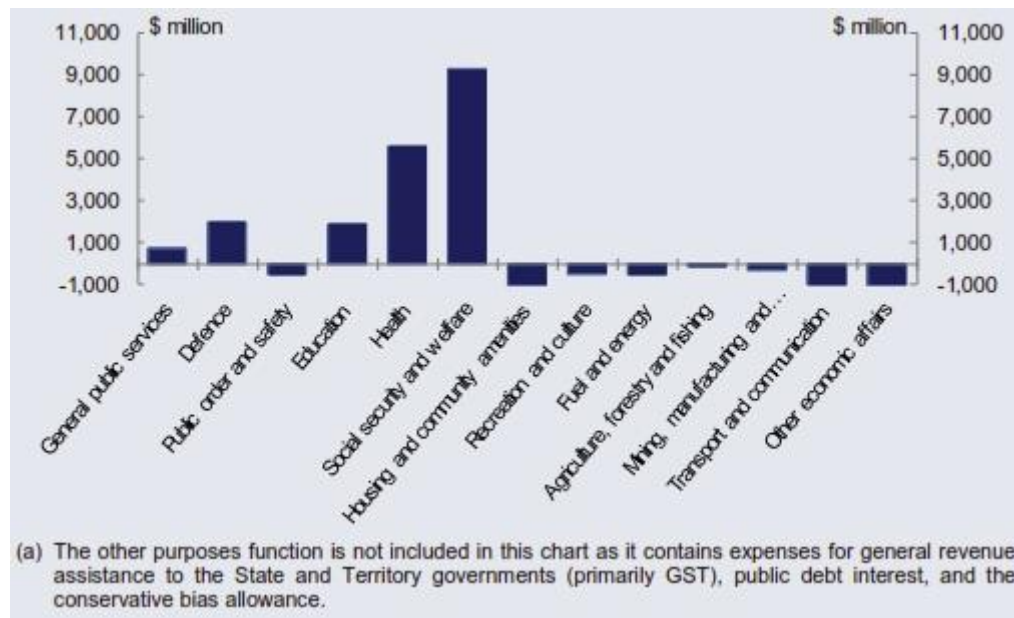
- Australia's expenditure on social security is low compared to the rest of the OECD. Expenditure on social security payments in 2013 was 8.6% of GDP, compared with an OECD average of 13%.[9] In 2013 Australia spent less on social security payments as a proportion of GDP than every other OECD country other than Iceland. Australia's social spending is the most tightly targeted in the OECD.[10]
- Expenditure on social security, including payments and services, is a significant component of government expenditure, with welfare for seniors now the largest component of welfare expenditure. In 2013-14, expenditure on social security and welfare, including expenditure on the aged pension and aged care, was the largest component of Commonwealth direct expenditure, with around one third (34%) of total expenses allocated to this area - see Chart 1 below.

Chart 1: Government expenses by function 2013-14 [11]



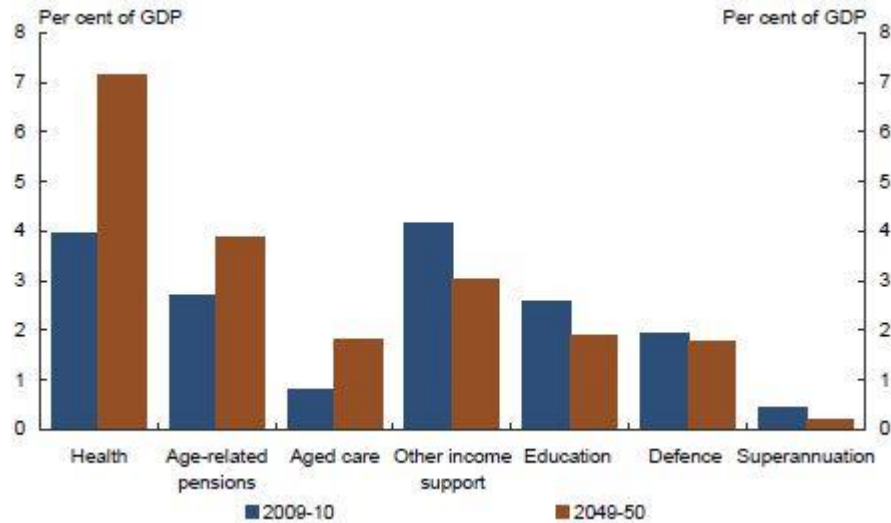
- The Treasury reported in 2013 that social security and welfare expenses were projected to grow strongly over the four years to June 2017. This is largely due to the ageing population as well as implementation of Disability Care Australia[12] (with more people accessing age, disability and carer payments and residential and home care) - see Chart 2 below.

Chart 2: Total real growth by function, 2013-14 to 2016-17 [13]



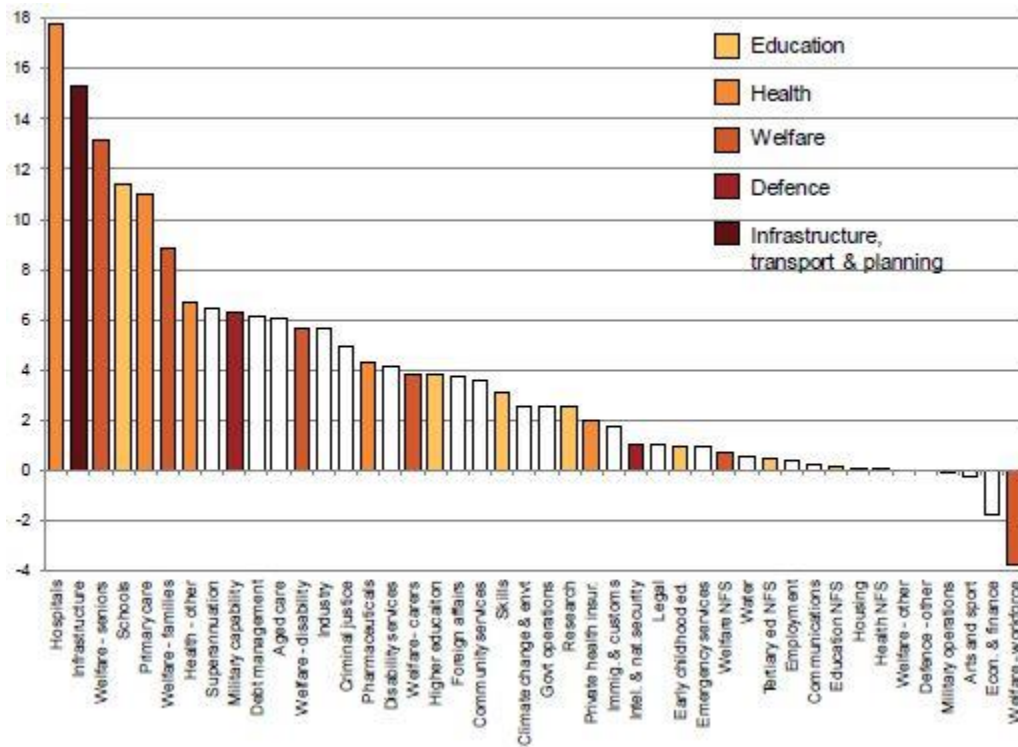
- Projections to 2050 show that while expenditure on aged care and the age pension are projected to increase over the coming decades, total expenditure on other income support payments will decline - see Chart 3 below. This is largely due to the fact that income allowances (such as the Newstart Allowance) are indexed to CPI (rather than wages), which will make them increasingly inadequate over time.

Chart 3: Projections of Australian government modelled spending by category [14]



- Chart 4 shows changes in expenditure between 2002 and 2012. Growth in expenditure on the age pension (\$13 billion) was due to an overdue and necessary increase in the maximum pension for a single person in 2009, but also to an excessively generous liberalisation of the assets test in 2007, as well as population ageing. Expenditure on family payments also increased, by almost \$9 billion. As with Age Pensions, much of this went to families in need of support, however, other bonuses, including the School Kids and Baby Bonus were poorly targeted and lacked a clear rationale.

Chart 4: Change in Australian government expenditure by policy sub-category, relative to CPI growth (\$bn change relative to CPI growth, 2002-03 to 2012-13) [15]



- While expenditure on the Age Pension is a large part of government direct expenditure, it should not be looked at in isolation. Superannuation tax breaks totalled a projected \$37 billion in 2013-14, broadly equivalent to the cost of the Age Pension and the largest component of tax expenditures. Current superannuation tax expenditure settings are poorly targeted, with some 30% of the value of superannuation tax breaks going to the top 10% of income earners and only 20% of tax concessions received by people in the bottom 50% of income distribution.

[1] Derived from: Department of Social Services (2011) *Income Support Customers: a statistical overview 2012. Statistical Paper Number 11*; and ABS (2013) 3101 *Australian Demographic Statistics*, June 2013

[2] OECD Statistical Database, available <http://stats.oecd.org/>

[3] Department of Social Services (2011) *Income Support*

[8] Whiteford (2014) *Is Australia's Welfare System Unsustainable*, in *Inside Story*, 10 February 2014

[9] *ibid*

[10] *ibid*

[11] Australian Treasury (2014) *Budget 2013-14, Budget Paper No. 1* Commonwealth Government, Canberra

[12] *ibid*

*Customers: a statistical overview 2012. Statistical Paper Number 11*

[4] ABS (2013) *ibid*, and Department of Social Services (2011) *ibid*

[5] *op.cit.*

[6] Derived from Department of Social Services (2011) *ibid* and ABS (2014) 6202.0 - *Labour Force, Australia, Feb 2014*.

[7] Department of Social Services (2013) *Characteristics of Disability Support Pension Recipients, June 2013*, p.6

[13] *ibid*

[14] Daley, John, McGannon, C., and Savage J (2013) *Budget pressures on Australian governments* Grattan Institute

[15] Australian Treasury (2010) *Australia to 2050: future challenges* Commonwealth Government, Canberra