



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

COMMUNITY AFFAIRS LEGISLATION COMMITTEE

**Reference: Social Security and Other Legislation Amendment (Pension Reform
and Other 2009 Budget Measures) Bill 2009**

FRIDAY, 19 JUNE 2009

CANBERRA

BY AUTHORITY OF THE SENATE

THIS TRANSCRIPT HAS BEEN PREPARED BY AN EXTERNAL PROVIDER
TO EXPEDITE DELIVERY, THIS TRANSCRIPT HAS NOT BEEN SUBEDITED

INTERNET

Hansard transcripts of public hearings are made available on the internet when authorised by the committee.

The internet address is:

<http://www.aph.gov.au/hansard>

To search the parliamentary database, go to:

<http://parlinfoweb.aph.gov.au>

SENATE COMMUNITY AFFAIRS

LEGISLATION COMMITTEE

Friday, 19 June 2009

Members: Senator Moore (*Chair*), Senator Siewert (*Deputy Chair*), Senators Adams, Boyce, Carol Brown and Furner

Substitute members: (As per most recent Senate Notice Paper)

Participating members: Senators Abetz, Back, Barnett, Bernardi, Bilyk, Birmingham, Boswell, Brandis, Bob Brown, Bushby, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Eggleston, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Hanson-Young, Heffernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Kroger, Ludlam, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Nash, O'Brien, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Boyce, Furner, Humphries, Moore, Siewert and Williams

Terms of reference for the inquiry:

To inquire into and report on: Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009

WITNESSES

BEAUMONT, Ms Kate, President, National Welfare Rights Network Inc	32
BROWN, Mr Michael, Director, Government Relations, Uniting Care Australia	32
COAD, Ms Melissa, Political Strategist, Liquor, Hospitality and Miscellaneous Union	29
DAVIDSON, Mr Peter, Senior Policy Officer, Australian Council of Social Service	1
EDWARDS, Ms Therese, National Director, National Council for Single Mothers and their Children	7
FOSTER, Ms Alanna, Branch Manager, Seniors and Means Test Branch, Department of Families, Housing, Community Services and Indigenous Affairs.....	48
HAYES, Mr Thomas Plunkett, Vice-President, Australian Council of Public Sector Retiree Organisations.....	14
HELYAR, Ms Susan Jane, Director, Services Development, Uniting Care Australia	32
KENNEDY, Mr Jonathan, Senior Policy Officer, National Seniors Australia Ltd	21
MARTIN, Ms Clare, Chief Executive Officer, Australian Council of Social Service	1
O'NEILL, Mr Michael, Chief Executive Officer, National Seniors Australia Ltd.....	21
PAGE, Ms Samantha, Executive Director, Family Relationship Services Australia	32
QUINLAN, Mr Francis Gerard, Executive Director, Catholic Social Services Australia.....	32
RITCHIE, Dr James Barry, Chairman, Retirement Incomes Research Group, Association of Independent Retirees (AIR) Ltd	14
SOUTHWELL, Mr Peter, Acting Branch Manager, Family Payments, Department of Families, Housing, Community Services and Indigenous Affairs	48
SWINBOURNE, Ms Kathleen, President, Sole Parents Union.....	7
THOMAS, Mr Gerard, Policy and Media Officer, National Welfare Rights Network Inc	32
WHITECROSS, Mr Andrew, Branch Manager, Tax-Transfer Review, Department of Families, Housing, Community Services and Indigenous Affairs	48
YATES, Mr Ian, Chief Executive, COTA Over 50s.....	21

Committee met at 9.28 am**DAVIDSON, Mr Peter, Senior Policy Officer, Australian Council of Social Service****MARTIN, Ms Clare, Chief Executive Officer, Australian Council of Social Service***Evidence was taken via teleconference—*

CHAIR (Senator Moore)—The Senate Community Affairs Legislation Committee is looking into the Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009. We welcome the witnesses from ACOSS. I am aware that you are at a conference. I know you are both very experienced at this. In the room we have Senator Furner from Queensland, Senator Siewert from Western Australia, who is the Deputy Chair, Senator Boyce from Queensland and Senator Williams from New South Wales.

I would like to put on the record from the start that this is a very rushed inquiry for very significant issues, but as everyone would understand this is a budget measure and we are trying to get the debate on so whatever is approved will be able to flow quickly through the process. We understand and note your concerns that were stated in your submission about that. I wanted to acknowledge that we did agree on that basis. Would either of you like to make some opening comments and then we will go to questions?

Ms Martin—Yes. We will make some brief opening statements and then, of course, it is over to you. I would like to restate that we are concerned about the short time frame of this inquiry, given that it deals with such fundamental changes in Australia's social security system. The government consulted with ACOSS and other interested parties in the development of these policies, both through the Harmer pension review and the Henry review on retirement incomes. However, a fundamental weakness of this process this time was that there was no opportunity to consider the impact of the proposed changes on the social security system as a whole, which the Henry review is now examining. This has contributed in no small part to the problems with the legislation. In particular, the adequacy of most, but not all, pensions was considered by the Harmer review without regard to the adequacy of other payments and a major change is now proposed to the family tax benefits that was not examined in either the Henry or Harmer inquiries.

While the outcome of the legislation before the Senate will be greatly improved income support for most pensioners, which we certainly acclaim, it will also result in a less equitable and more complex social security system. We strongly support the increase in the single pension rate contained in the bill, but we also urge the committee to recommend that the bill be amended to extend this increase across the pensions to sole parents on parenting payment (single) and that the government be urged to bring new legislation before the parliament to extend the increase to recipients of all other income support payments, including, importantly, the Newstart allowance.

We also recommend that the proposed freeze in the real value of family tax benefits for low-income families be opposed. We recommend that the proposed tightening of the pension income test to restore the pre 2000 taper rate of 50c in the dollar be supported. We also recommend that the proposed increase in the pension age be opposed in the absence of an increase in the superannuation preservation age, and instead that the committee recommend a more rapid increase in the preservation age for superannuation to equal the current pension age, as was recommended by the Henry review. We also urge that the legislation to implement the proposed lowering of the annual cap on the concessional taxed superannuation contribution be introduced as soon as possible so that it can be voted on in conjunction with the current bill. That is an opening position from me and I will hand across to Mr Davidson.

Mr Davidson—Social security payments are a system where people move from one payment to another. If you change one part it affects the rest of the system. These issues were not considered by the Harmer review because the terms of reference were limited to a narrow range of payments. The outcome is a clear win for single pensioners—that is the largest increase since the Whitlam government—but a more unbalanced social security system and therefore a more inequitable and unstable social security system. That imbalance is made worse by the reduction in future family tax benefit payments for poorer families. The benchmarking of family payments to pension rates was the centrepiece of a carefully crafted strategy by the previous Labor administration to reduce child poverty. If those benchmarks go then the government needs to seriously consider how it will prevent child poverty from increasing.

Those facing the most severe hardship as a result of the recession, unemployed people and sole parents, will miss out on an increase. If the bill is passed in its present form the gap between pensions and Newstart allowance will be over \$100 a week, which in our view is irrational and unsustainable.

ACOSS supports the measures in the budget to make the pension system more sustainable as the population ages, or at least some of those measures. In particular, the tighter pension income test and also the proposed lowering of the cap on concessionally taxed superannuation contributions. It did not make sense to continue to extend the pension to couples on over \$60,000 a year while the poorest pensioners struggle on inadequate payments. However, we believe any increase in the pension age should come after the preservation age for superannuation is increased more rapidly; that is, in raising retirement ages we should begin with the 55- to 65-year-old group and move on from there, especially given that only half the people aged 60 to 65 are currently employed. Thank you.

CHAIR—Thank you. We will now go to questions.

Senator SIEWERT—I would like to go to the issue of the taper rate in terms of the new changes. I do not know if you have had a chance to look at the *Hansard* from estimates, but I will paraphrase what the department was saying. They said that you do not need to worry about the taper rate because what they are doing is phasing it in, I am fairly certain over five years, and they are going to run a test that if you are better off on the old system then you will stay on the old system. For example, if you are currently doing some part-time work you are better off on the old system; if you are not doing any work at all they are saying that you would be better off on the new system so you will be moved, but no-one will be moved to the new system if they are going to be worse off. Have you looked at the *Hansard* or have you heard that argument?

Mr Davidson—Yes, we have. I have to say the phasing-in arrangements are very generous. This is unusual and they have been deliberately designed, as we understand it, so that no-one loses. People remain on the old system until, due to the increase in the maximum rates, they are no worse off under the new system. As far as we can tell the proposed arrangements meet that objective.

Senator SIEWERT—Do you still have the same issues with the taper rate? Quite frankly, I have had a lot of emails about it expressing strong concerns. Do you still have concerns with the phasing-in process?

Mr Davidson—We do not have concerns. Indeed, we support the tightening of the income test because in the absence of that, with a large increase in the pension rate, it is not going to be fiscally sustainable. We thought it was unfair that couples on over \$60,000 a year could receive a part-pension when the poorest were doing it tough. We do not have a problem with that part of the bill.

Senator SIEWERT—I note your comment that you touched on earlier regarding the inequities in terms of one pension increasing and another not increasing for those on Newstart—I am aware that Newstart is not classed as a pension under the act—but particularly payments for single parents. You commented in your evidence and in your submission about the increase in child poverty and also that to rob low-income families to pay pensioners is unnecessary and inequitable. Have you made those arguments to government and what was the government's response?

Ms Martin—We certainly have made the arguments to government. There has been a range of responses, particularly in talking about sole parenting payment, that it was not included in the Harmer review, therefore it was not part of the pension increase in the last budget because it is going to be dealt with separately through the Henry review. That was one argument that came out of that. The other argument was that over the last nine months sole parents received support through the back-to-school bonus in the second economic stimulus package, and there was a payment in the first stimulus package so that was adequate but, as we reported, if you were on a support pension with children or if you were a carer with children you would have got the same bonus. It was not a logical response and we have pointed that out to government. To detach the sole parent from the other pensioners has not been given an adequate response.

Senator SIEWERT—You also talk about the cost of living pressures being greater on PPS and Newstart. Could you explain that in a little bit more detail? I have other questions that relate to housing, but we could firstly talk about your comments around the cost of living.

Mr Davidson—The evidence from research on the actual living standards of different kinds of families of different ages certainly has suggested consistently that sole parent families and unemployed people are among those households that struggle the most; if anything, more so on average than age pensioners, for example. Part of the reason for this is that much larger proportions of those groups than age pensioners are renting their housing, so often half of their budget goes into rent, which makes home ownership a big advantage for people on low incomes. It also comes down to the cost of children, which the benchmarking of family tax benefits to the married rate of pension was originally designed to address, and of course the Newstart allowance is already around \$70 a week less than the single age pension so they are behind the eight ball in terms of income.

Senator BOYCE—Can you speak up a little bit? I can hardly hear a word you are saying.

Mr Davidson—Do I need to repeat that?

Senator BOYCE—I heard you saying something about \$70, but I am not sure what that was about.

Senator SIEWERT—Newstart is already \$70 below age pension.

Mr Davidson—That is right.

Senator SIEWERT—I apologise; it is extremely hard to hear. My next question relates to the comments you have made around the freezing of the FTBA and then forcing children into poverty. While we are talking about the poverty line, could you also address the issues around how to calculate housing costs and the poverty line? I have been looking at some interesting work by the St Vincent de Paul Society, who have been looking at the issues around housing costs and their calculation.

Mr Davidson—It is inevitable if family payments are frozen in real terms that child poverty will increase; that is if you understand poverty as a living standard that is relative to living standards in the community, that is, poverty that falls behind the living standards of the rest of the community and not having what the rest of the community regards as essential goods and services. That is why the previous Labor government, in its family payment package, deliberately linked family tax benefit to the pension rate, which in turn is linked to average wages, so family payments would not fall behind community living standards. Low-income families on maximum rates of income support are hovering around the poverty line already, if you take commonly used poverty lines like 50 or 60 per cent of median income or the Henderson poverty line. If the payments are frozen in real terms the numbers of children in poverty measured in that way will inevitably increase over time, but more importantly there is direct evidence that the living standards of many sole parent families and unemployed people, in particular, are very low and that people lack essential items such as a decent and secure home, the ability to raise \$500 in an emergency and so on. That risk is considerably higher for those groups than most other social security recipients. As I mentioned earlier, housing costs are critical when measuring poverty and, in our view, they should be taken into account.

Senator SIEWERT—Thank you.

Senator BOYCE—Please accept my apologies if you have already answered questions that I ask because it was very difficult to hear the answers. Ms Martin, you mentioned that the proposed system was, in your view, less equitable and more complex. Could you list through for us the ways in which that is the case?

Ms Martin—I hope you can hear me. I will speak as loudly as I can. What we have got now in terms of a social security system is four levels of payment. We have a level of payment for the pensioners who are getting the terrific increase of \$32.50 a week, that is for the aged, carers, disability support and veteran's affairs. They will roughly be on a level of about \$330 a week, including the supplements that they get, but that leaves sole parents \$47 behind; it leaves your average Newstart recipient \$106 behind, and it leaves those on a youth allowance or Austudy at \$147 a week behind. There is no logic in having a four tiered system, particularly when it is recognised that if you are on a Newstart allowance there are additional costs that you have, particularly in searching for a job and travelling to those jobs, that someone who is on an age pension does not have. When you look at the budgets and the attempts at survival of say a single recipient on the Newstart allowance, they are doing it very tough and regularly going to community organisations to get emergency relief payments because they just cannot meet their bills even while living frugally.

Senator BOYCE—Could you quantify the use of emergency payments by sole parents and people on Newstart?

Ms Martin—There has been some work done recently by the Salvation Army and St Vincent de Paul on what they have seen from those who have been seeking emergency relief. I just cannot remember the increase in numbers or the percentages, but I think the Salvation Army reported almost 50 per cent of those coming to seek emergency relief for a variety of reasons were sole parents and St Vincent de Paul certainly said that those on Newstart were a significant proportion of those seeking emergency relief. We know that when it comes to those who are increasingly seeking that additional support it is those two vulnerable groups, the sole parents and Newstart.

Mr Davidson—In both cases, with St Vincent de Paul and Salvation Army, the vast majority of those seeking relief are either unemployed or sole parents.

Senator BOYCE—I note that whilst you support the increase in the pension age, you suggest that superannuation payments should not be available until pension age; is that correct?

Ms Martin—We think that is the end where the government should start encouraging people to retire later. Only half of people aged 60 to 65 are currently employed and one of the reasons that we have low participation in the workforce among people between 55 and 65 is that they can access their super that soon. We are suggesting that we should start with that group and then consider raising the pension age above 65.

The other advantage of that is that the people who benefit most from early access to super, that is those with the highest amounts of super, are generally the healthiest people in the community and generally the ones with the best prospects in the labour market, so starting with that group would also deliver the best results. Indeed, many of the people going onto the pension at 65 are coming off other income support payments—indeed, half of them are—so we are concerned that many of that group will simply end up staying for longer on other social security payments if the pension age is raised too soon.

Senator BOYCE—I have one more question on that. Firstly, on what statistics have you based your claim that it is the healthier people who retire earlier?

Ms Martin—It is not the healthier who retire earlier; the healthier people have gained the most benefit from accessing their super at 55 because they have the highest amounts in their accounts. They are the people who have had relatively well-paid jobs and access to super over their lifetimes. Many of the people who retire early have no choice because they have been retrenched, they have disabilities or they have caring responsibilities. Our concern is that many of those will wait for longer on other payments before they can receive the age pension. Our point is that if you raise the preservation age for super it will trigger a larger increase in employment amongst mature-aged people because those relatively healthy, relatively well off groups will remain in the workforce for longer.

Senator BOYCE—Thank you.

Senator FURNER—I have a number of questions in respect to some of the initiatives of the measures. Firstly, with the work bonus of \$500 a fortnight before the income test applies, I appreciate that you have made the example in your submissions regarding limited opportunities for people to work. I was wondering what your opinion was on that initiative for the access of income testing before the exhaustion of \$500 per fortnight? What do you think of that advantage?

Mr Davidson—It is beneficial for pensioners and should encourage more participation in the workforce, so we support it.

Senator FURNER—Do you think the opportunities will open for greater participation in the workforce in a variety of areas? I would appreciate any examples you may have.

Mr Davidson—I have no specific examples, but there is always a group of age pensioners who have the capacity to work, as there is in the present system. This will encourage more people who are able to do so to test the waters.

Senator FURNER—In your submission you make the point that relatively few perform permanent employment. I can imagine why. I think it was up to about 50 per cent perform some form of part-time employment. I think that was where you were dealing with the taper rate. Are you able to identify where those statistics would be available?

Mr Davidson—I think you are referring to the figure that I quoted earlier that only 50 per cent of people aged 60 to 65 are employed. That was either from the Harmer report or the Henry report on retirement income, but it is ABS data that is readily available.

Senator FURNER—Forgive me if I have not picked this up in your submissions, but can you give me your opinion on the amendments to the Aged Care Act where, out of the \$32.49, the proportion of \$22.40 per week goes to the residential care provider?

Mr Davidson—One of the major concerns of pensioner organisations is the potential for claw-back of pension increases through the aged care system. This is clearly an attempt to address that problem and to contain it a little, but I think it remains a concern.

Senator FURNER—In respect to the lifting of the superannuation age for access, do you consider that should be a voluntary or mandatory process?

Mr Davidson—It would have to be a mandatory process. Another option to consider, rather than simply raising the preservation age to the pension age more rapidly, is to restrict the amount that can be accessed at different ages so that, in effect, there is a phased preservation age so you cannot take out more than a certain amount in a lump sum until you are at least 65, but you can take out something. There are a number of ways

that it could be achieved, but the objective is to encourage people to retire later. We do not encourage people to retire later if we give them open access to their super at age 55, especially for those who have enough in their accounts to give them a comfortable standard of living from aged 55 onwards. Why would they not just leave the workforce?

Senator FURNER—Thank you.

Senator WILLIAMS—In relation to your comments that the current single pension rate is 60 per cent of that for married couples, which is low by international standards, I am well aware that the proposed budget changes are to take that to 66 per cent. Can you give me some examples of international standards? What are some of the rates of single compared to married couples in other countries?

Mr Davidson—Those are in the Harmer report. I am just turning to that. There is a graph there that compares a number of the overseas schemes and it is clear that on average the rate for singles compared to couples is well above 60 per cent.

CHAIR—We can get that from the report.

Mr Davidson—It is on page 45.

Senator WILLIAMS—I would like to go to your support for the increase in the pension age as time goes by. I have some concerns about that. I am from a country area and I have been a shearer myself so I am concerned about people in labouring jobs, such as shearing, bricklaying and so on. Are you concerned that for those very hard physical jobs people may not be able to work to the age of 67 as 2023 approaches?

Mr Davidson—That is one of the reasons we are saying to not do it yet, to start with the 55 to 65 age group and with those who are relatively healthy and relatively well off financially who are the ones that benefit most from the early preservation age for super. We are very concerned about those people approaching 65 years who have disabilities, caring responsibilities and in many cases have had a lifetime of manual work on relatively low incomes. We are very concerned that quite a few of those people will be cooling their heels on Newstart allowance for a number of years, which will be \$100 a week less than the pension. We do not think that is the place to start.

Ultimately, the pension age will have to be lifted and ultimately future cohorts of retirees will be healthier than the present cohorts, but that is one of the reasons we are urging caution and that we start with the 55 to 65 age group. There is a lot of work to be done with that group because a lot of that group are not participating in the workforce, so let us start with them.

Senator WILLIAMS—Exactly. Those people are actually burnt out by the time they get to 65, so to raise it to 67 over time would be a huge concern. I would like to take you to another issue, which is the proposed changes in the budget to youth allowance. I know people in regional areas have a huge concern about this, especially those in their current gap year and, of course, the second part of the change is those who wish to declare their independence from their parents have to work 30 hours a week for 18 months, which poses all sorts of problems such as deferring from university for two years. Even though some universities may well do that, others may be reluctant to defer for two years. There are also the problems of finding a job, especially in the smaller country areas, of 30 hours a week when we know that the forecast is for unemployment to rise to 8.5 per cent next year and one million people out of work. What is your attitude to the changes in regard to the youth allowance in the budget in respect to people in regional areas who live some distance from universities?

CHAIR—Senator Williams, I have let you go through the whole question, but as you know that is not part of this bill.

Senator WILLIAMS—Fair enough.

CHAIR—I do apologise, but we are on limited time.

Senator WILLIAMS—Could you take that question on notice? No doubt when that legislation comes to the Senate it will be referred and we would value your input on that issue.

Mr Davidson—Yes.

Ms Martin—I can comment quickly, even though it is not on this bill. I agree with the points you are raising. I think it needs to be very carefully examined. We do not want to see students who benefit from a gap year being forced to take longer out of university. There is a lot of anxiety from parents currently about whether students will go to university after a gap year, so you would not want to see that extended and students who we want to see educated being disadvantaged. There are a whole lot of issues there.

Senator WILLIAMS—Thank you. I look forward to your input on that later on.

Ms Martin—I have two university students myself.

CHAIR—Thank you. I realise it is a very short time. If there are other issues you would like to send to us, please do so. We will now be reporting on this bill on Wednesday, not on Tuesday, so there is a little bit of extra time. These are important issues. Thank you for your time.

[10.03 am]

EDWARDS, Ms Therese, National Director, National Council for Single Mothers and their Children
SWINBOURNE, Ms Kathleen, President, Sole Parents Union

Evidence from Ms Swinbourne was taken via teleconference—

CHAIR—Welcome. Ms Edwards, do we have a submission from you?

Ms Edwards—We are appearing in support of the council.

CHAIR—I do not believe that we have a submission from the Sole Parents Union, but I would presume they are part of the network with the National Council for Single Mothers.

Ms Edwards—Yes.

CHAIR—I would think so. I would expect no more.

Ms Edwards—We thought Kath was speaking later.

CHAIR—No, it is at the same time. We have got you sharing a segment between 10.00 and 10.45. We are just waiting for the telephone connection with Ms Swinbourne to work. In the meantime, I welcome Ms Edwards. I know you have done this before. Could you continue with your statement about supporting the written submission that we have got? I think it would be easier for senators who may not have spoken with you before.

Ms Edwards—Yes. It is from the National Council of Single Mothers and their Children from Victoria and Solo Mothers. We support both of them. They have asked me to speak to that and also provide our own information.

CHAIR—Thank you. Would you like to make an opening statement and then we will go to questions.

Ms Edwards—Certainly. First of all, thank you for allowing us to speak and also for having an inquiry. We see this as a really good opportunity to address some oversights that were part of the pension bill. We welcome the increase for the other pensioners, the ones that are doing it tough, but we are still not quite sure why sole parents were left out of the increase in the first place. Evidence overwhelmingly supports that this is one of our poorest groups in Australia and poverty on the children is certainly a great concern.

We would like to see quite a few things. We think this is a great opportunity and scope to make some changes, but we would really like the poverty to be recognised for sole parent families and children. We would like the past policies that have added to the hardship of parents to be recognised. The two that I would particularly like to draw your attention to are the welfare to work and also the child support reforms. I suppose the key message that I want to get across is that it is our belief that sole parents are actually starting from a deficit place and have had a really difficult time over the last few years, which is not a good starting place for the current government.

CHAIR—Thank you. Senator Boyce, would you like to start with some questions?

Senator BOYCE—Ms Edwards, are there any benefits of any sort in this bill for sole parents?

Ms Edwards—There were some benefits. The benefits were not in this bill.

Senator BOYCE—Carer payments?

Ms Edwards—Yes. There were some benefits around participation. There was certainly a relaxing of the first work requirements. There was acknowledgement that childcare is particularly difficult to secure over the Christmas period and there was also some acknowledgement of the difficulties in supporting a child with a disability. They were part of the participation. In terms of this bill there were a few nasties. There was also the family tax benefit indexation. I am not sure if you are aware that the indexation is going to be changed.

Senator BOYCE—It will be based on CPI in the future.

Ms Edwards—Yes. That does not keep up with the cost of living. The gap will start wide, but it will increase over time.

Senator BOYCE—Have you done any modelling or any work on what the effect of that is going to be for single mothers?

Ms Edwards—Yes, quite a few people have. It comes in on 1 July this year.

Senator BOYCE—That is right.

Ms Edwards—The concern is particularly for children. Do you mind if I put my head down to read this bit?

Senator BOYCE—No, please do.

Ms Edwards—What will happen for the family tax benefit A is that the partner rate of the pension will bring to a close the previous efforts to reduce child poverty. The maximum level of family payments for each child aged less than 13 and 13 to 15 years in a lower income family was tied to 16.6 per cent and 21 per cent respectively. This is going to be reduced over time and it is thought—because it depends on the size of the family and age of the family—that it will reduce by anything from \$50 to as far as \$120 a year for families, depending upon their circumstances.

Senator BOYCE—Are you saying \$120 a year less?

Ms Edwards—Yes.

Senator BOYCE—Would you like to tell me what the effect of that is going to be?

Ms Edwards—What I would like to try to relay is that the families are already in poverty. The most recent data that I have read from the family studies in 2008 was that this is probably going to be our poorest group of families that we have in Australia. They are already starting from a place where the income coming in is not sufficient to meet the cost of living. We know with sole parents that the greatest number of families is headed up by women. That is around 85 per cent. If you go to the younger cohort, the under-fives, we hit around the 90 to 93 per cent. We have a situation where we already know that what is the current state of play is inadequate, so if that is further reduced then it is quite reasonable to assume that they are going to fall further behind.

Senator BOYCE—Are single mothers with the under-fives group coping—that is not a word I like—with the payments that they currently receive?

Ms Edwards—No. I know you are speaking to a few of the emergency services today. They will probably talk about the increase in sole parents coming to them for food. We know that sole parents have more difficulty in paying bills. We know that the ABS said that around six per cent of children of sole parents skip their meals, whereas it is around one per cent in partnered families. It is also quite difficult in regional and rural areas where sole parents are moving to because there is cheaper rent, but there is less infrastructure and less opportunity to find a job, but secure tenancy is a real issue.

CHAIR—I believe we have Ms Swinbourne on the line now. Good morning, Ms Swinbourne. I am sorry for the technical hitches. We have Ms Edwards with us in the room so we started evidence there in order to make best use of the time. In the room we have Senator Furner from Queensland, Senator Boyce from Queensland, Senator Williams from New South Wales, and Senator Siewert from Western Australia will be returning very soon. Senator Boyce is in the middle of asking questions. What we will do is ask the senator who is asking the question to refer questions to you specifically so you are part of the whole process.

Ms Swinbourne—Thank you.

CHAIR—Ms Swinbourne, do you wish to make an opening statement?

Ms Swinbourne—I would like to say that I appreciate the opportunity to give evidence. It is very encouraging that you have actually asked for presentations from people who do represent sole parents, as sole parents seem to have been ignored in this legislation. We do appreciate the measures that are being put in place to improve access for sole parents to training opportunities.

We would like to focus on what is lacking in this legislation for sole parents, which is access to pension, to any increases and to a guaranteed pension rate which does try to get them and their children out of poverty. Unfortunately, the moves that have been made up to this point are about reducing security and reducing income. I would have to agree with what has already been said about pushing sole parents and their children further into poverty.

CHAIR—Thank you. I will go back to Senator Boyce.

Senator BOYCE—I have one last question. We have talked quite a bit about single mothers. Ms Swinbourne, is there anything different to add on the topic of single fathers? Are their problems the same?

Ms Swinbourne—Sole parents are sole parents and their children have the same issues regardless of whether they live with their mother or their father. I think the evidence is that sole fathers who used to be less

likely to live in poverty because they had greater access to paid employment than did sole mothers, for a variety of reasons, have recently found that these things are becoming more and more difficult. Sole fathers are also finding it harder and harder to work, particularly in trying to balance their work and family responsibilities, given the lack of childcare and the lack of flexibility in the workplaces that many can access and the problems and situation of sole fathers is becoming much more similar to the problems and situation of sole mothers.

Senator BOYCE—Would either of you like to quantify what is needed to restore relativity for single parents?

Ms Swinbourne—I can address that first. I am sorry, it is difficult to know whether or not I am jumping in here. There is the access to the pension and the rate and conditions of the pension for sole parents, which now cuts out when the youngest child turns seven. Sole parents do not have the same capacity as single people to look for and participate in paid work and putting the same conditions on them as with single people is disadvantageous to their children. They need the security of knowing that they have an ongoing income and that their children can be fed and can be housed. Unless that is re-established the situation is not going to improve.

Senator BOYCE—Ms Edwards.

Ms Edwards—We do have some recommendations that we would like you to make. First of all, we would certainly like an immediate increase to parity with the other pensions, just based on common sense. If the Harmer review has already found that single people are living in poverty, there is no reason to believe that single families are not living in poverty, because the family tax benefit is about raising children.

The other thing that we are deeply concerned about which might be an outcome of this legislation is breaking the nexus between this pension and the others. This pension was brought into play in 1974 by Bill Hayden, who was very proud of it. He has written to me recently to remind us that he was the architect of that. But recent history has shown that this pension and this population group have not been really high in the thinking and the considerations. Our fear is that if that nexus is broken between that and the other pensions it will be marginalised and it certainly could be vulnerable. There are already indicators and signals that it will not be increased as per other pensions. We wish for the legislation not to break that nexus. We feel that actually gives us some strength.

We would like to see the reversing of the target indexation decision. There is no sense in it being changed to CPI. It should stay the same. If you look at the principles of the family tax benefit, it is actually to raise children, so therefore it needs to keep up with the cost of living.

The other thing that we would particularly like to see taken into consideration is if we are really talking about securing and raising our children, keeping them out of poverty and having a practice that is aligned to the government's principles of social inclusion and early childhood, certainly when single parents enter into the workforce it would be good if the taper rate of 40c remained and also the current amount that parents could earn before it was affected by the threshold. That would really send such a positive signal to parents about their ability to work out of poverty, and it would also be a positive message for their children.

The last thing I would like for this committee to recommend is that this payment was not part of the scrutiny of the Harmer review. It was excluded. It is documented in the Harmer report that it is excluded. Here we have a significant part of our population and also our future population and we do not know what has happened. I talked about three almost invisible hammers coming over and hitting sole parents, one in the disguise of welfare to work, one in the disguise of family law reforms, one in disguise of the child support and now this one. Although we have a lens where we are looking at it singularly, the parents that are trying to raise their children and the kids that are trying to have the access, the means and the disposable income to purchase the things the same as their mates, they do not know which part of the government policy has reduced their income, so the whole lot needs to be looked at. If the capacity were there then that would answer some of your questions regarding what we really know.

My wish would be for this pension to receive the same scrutiny and that the principles that are behind the Harmer report be afforded, so we are working from an informed basis. We are quite often finding that there is an interaction between policies which was not always intended. We have a point now where we have also got a disparity between the impact of some coupled parents and the family tax benefit, and also sole parents and the family tax benefit. It would be tremendous if this pension payment and the circumstances for these families could receive that same scrutiny.

Senator BOYCE—I may have missed this in the legislation, but the change in the taper rate for earning income will apply to parenting pensions in the same way that it is going to apply to the increased age pension; is that correct?

Ms Edwards—No. What we are fearful of is that because we did not get the pension increase, we also did not get the increase in the taper rates or thresholds. What I am fearful of and what I am signalling to you is that if we do get that increase will we then enter into that other area.

Senator BOYCE—Thank you. That was a double message.

CHAIR—Ms Swinbourne, would you like to add anything?

Ms Swinbourne—Yes. With this new legislation and the increase in the pension rate which is not being passed on to sole parents, there will be a gap of \$43 a week between the standard pension rate and payments for sole parents. This is the payment that they get for looking after children. It is not just for themselves, it is for them and their family. It costs more money to look after children than it does to look after yourself. This is clearly inequitable and what we are doing is increasing the inequity in society. As has been pointed out, the Harmer review did not cover this. It did not cover sole parents. The pension rate has been increased in response to the Harmer review, yet those people who are living on the bottom now are falling further and further behind, which is something that really needs to be addressed.

Senator BOYCE—Thank you.

Senator FURNER—I would like to take you to the proposal in respect to the maternity immunisation allowance changes. Currently it is applicable to earn \$245.50 per child. Would you have any statistics available of how many people access that allowance? Do all of them, or are there some figures that we can rely upon to give some indication of what that might be?

Ms Edwards—Sorry, I do not.

Ms Swinbourne—No, neither do I.

Ms Edwards—The Family Assistance Office would be able to provide that information.

Senator FURNER—It is currently proposed to amend the increases which are applicable from March and September of each year through CPI to make it an annual indexation increase. Do you foresee any issues associated with those minor amendments?

Ms Edwards—I do not specifically around that, but it is not a long bow to draw for children from sole parents who the ABS has confirmed often do not have the level of medication or the doctor's visits that are available to others. I cannot add any more than that.

Senator FURNER—In the CSMC's submissions you quite rightly draw upon some issues associated with incidental matters outside of this bill's scope. Your first dot point relates to some issues associated with family friendly arrangements for single mothers dealing with hours of work, their employment and issues with school holidays, curriculum and so on. I am sure you are aware that the government has recently passed legislation for more friendly hours and assistance for people, whether they are in that situation or otherwise. Do you foresee that alleviating some of the concerns you expressed in this submission?

Ms Edwards—First of all, they are fantastic changes. The whole participation and the focus upon trying to make work more accessible is really positive, but what happened before the last recession in the early nineties is that sole parents were one of the groups who were disproportionately and highly impacted upon because they were the groups that had the casualised, low-skilled, seasonal type of employment. Even with that foundation in place I think it would certainly improve if we were in a more prosperous time. It is our belief that sole parents will probably suffer quite dramatically through this economic downturn, just because the jobs will not be there.

Senator FURNER—Can you point to any circumstances where there have been impacts, particularly from around about September last year when the financial crisis was starting to bite, of any circumstances of sole parents suffering or having issues associated with employment?

Ms Edwards—Yes. The biggest correlation is the increase in emergency requirements. I would like to point out that there is a myth about sole parents not being employed. Single mums are in the workforce. From the last statistics that we have there were around 24 per cent in the workforce and partnered mums were around 21 per cent of the workforce. The other statistics that we had were that sole parents who were Centrelink

recipients were one of the highest groups that already had participated in the workforce. They were also volunteering their time.

We have not collected data regarding the exact impact of the economic downturn. The biggest thing that is coming through is that there is just not enough money to start with, so the economic downturn for sole parents is probably of a little less concern because the biggest concern is that ongoing allowance income coming into the family.

We recently put out a request for sole parents on our Solo Mothers website to indicate what were their key issues and concerns, and it is that big pot of income not keeping up with costs. That is part of that pot, but we have not been able to disaggregate it to see where it has come from.

Ms Swinbourne—I can add to that. We have a number of stories from people who have either had their hours cut back or have lost jobs completely because, as has already been said, they are working in a casualised economy. They are working in service industries in retail or they have jobs where their hours are not set, anyway. We have had situations where sole parents have been replaced by 16-year-olds because they are cheaper. This is happening. I can point you to any number of case studies and I am sure there are many around the unions; other people will be collecting them as well. Centrelink data will reflect it. For those people who are working, their reliance on social security payments will be going up because their income is going down. It is happening across the country.

Senator FURNER—I would like to put you on notice to provide those case studies. We would appreciate that.

Ms Swinbourne—Certainly.

Senator FURNER—I believe it is no myth out there about the participation rate of solo mums or parents in the workforce. I know this from the past; they are a great asset to our economy and workforce. I would like to go to the third dot point of CSMC's submission where it indicated the lack of availability of childcare and out-of-school hours care. It has been some years since I had my children in those arrangements, so I am wondering what the issues are?

Ms Edwards—I would like to thank Ms Swinbourne for following up on that last question because that certainly fits within her domain. With childcare, the real pressure point is once the children have turned 12. We know that out-of-school care and vacation care are already tight, but where parents are finding it particularly difficult is once their youngest is 12 and has started high school or secondary education, because the places are not there. That is where the lack of a second person in the home to provide that back-up care is particularly harsh.

Ms Swinbourne—I would like to tell a story about one of my personal experiences. This was back in 2000, but I happen to know the situation has not changed a lot. When I was working full time I had three children who at the time were nine, 10 and 11 years old. It was school holidays. I was working full time for an organisation that should have known better. However, it is not always the ones that should know better that do implement what they talk about. Whilst there was vacation care available for them, at 10 and 11 years of age they do not want to go. They consider themselves too old for this sort of thing because these places are filled with much younger children. I had a situation where I was at work full time and I had three children to care for. I took them into the office with me one day. I was in the city. They could go to the movies, come back and I could send them in and out to do different things. I could take them out to lunch and so on. I had my employer tell me that my children were not allowed in the office. This still happens. It happens continually. It is not just about having the places available. These places are no good if kids will not go to them. Vacation care and out-of-school care hours, whilst they are ostensibly available for 12-year-olds, are not really because they are focused on younger children. In order to get 10-, 11-, 12- or 13-year-olds into care you need care dedicated to that age group, otherwise it does not work.

Senator FURNER—Thank you.

Senator WILLIAMS—Ms Edwards, one of the things that concerns me immensely in your report is that 57 per cent of sole mothers were unable to pay utility bills. That is obviously a situation. Do they get support from the Salvation Army or St Vincent de Paul?

Ms Edwards—No.

Senator WILLIAMS—What happens if they do not pay their electricity bill? Do they have their electricity cut off?

Ms Edwards—Often, yes. There is then the reconnection fee as well. An ABS study in 2007 indicated:

Loss of utilities due to non-payment of bills and reconnection and debt collection fees means living without electric lighting, hot water, refrigeration, cooking facilities, temperature control and washing machines. This makes it difficult to prepare home-cooked meals, wear clean clothes, stay warm, do homework at night.

That is ABS 2007.

Senator WILLIAMS—You said that six per cent of children are skipping meals.

Ms Edwards—Yes.

Senator WILLIAMS—Are they skipping meals because there is not enough food in the house? What is the reason?

Ms Edwards—Once again, it is ABS data and it is quite contemporary. It is 2007. These are just some examples of how poverty is actually played out. It states:

Inability to purchase nutritious food. Developing children will have skipped meals, eat low-nutrition, cheap and unhealthy foods such as cordial, packet noodles and white bread ... ABS data (2007, p.75) identifies that 6% of one parent families with dependent children went without meals compared to 1% of couple families with children.

Senator WILLIAMS—I cannot give an argument over white bread because I love white bread.

Ms Swinbourne—So do most of us.

Senator WILLIAMS—Obviously there are single mums who have lost their husbands or partners by sickness, accident or tragic events. Excuse my ignorance because I am new to this committee. I am here to learn as well and perhaps have an input. Obviously there are a lot of single mums where the father of the children has simply left or they are divorced. What has been done about that father contributing financially for the help and the raising of those children? Obviously there are a lot that do not contribute. In your opinion what can be done in that area?

Ms Swinbourne—The Child Support Agency is trying to do a lot of work in this area and child support is designed for that. There have been changes to the Child Support Scheme which have reduced the child support most sole parents receive. It is extremely difficult. If somebody disappears and you cannot find them, you cannot collect money from them. I think the Child Support Agency figures show that there is an enormous child support debt which means a lot of people just are not supporting their kids.

Single parents, the custodial parents, actually lose income from family tax benefit if they do not receive this child support, which makes it even more difficult for them. Child support is an extremely difficult area. There is a lot of effort going into it, but if people refuse to pay, they refuse to pay. We would like to see a lot more work put into actually collecting money where it is due. It is not just that, it is not allowing debt to rack up in the first place. I think one of the problems is that it is left too long so a debt gets unmanageable before the Child Support Agency really steps in and says, 'That's it, you must pay.' If that action was taken earlier in order to continue payments and to keep debt low, we think it would be much more effective.

CHAIR—I would like to follow up on a question that I asked the department to chase up for me. We have had anecdotal reports that there has been an increase in the number of people not paying their child support because of the recession and that it is starting to cause some very significant hardship. Have you got any comment on that and is that anecdotal evidence that we are hearing consistent with what you are hearing?

Ms Swinbourne—We have heard from some people that they have stopped getting child support, which has been fairly recent. People are saying, 'I can't afford it.' Where the income of the paying parent is reduced they can ask the Child Support Agency to reduce the amount that they are supposed to pay. Honestly, where people have good relationships they work these things out together and they say, 'You can't afford it this week. You haven't got the income.' It is something that the Child Support Agency is keeping an eye on and it is something that they do need to keep an eye on. How much of it is in fact due to the recession and how much of it is opportunistic, I do not know. I do not have any exact figures. I would hope to get them from the Child Support Agency.

Unfortunately, the Child Support Agency's stakeholder engagement group that we have been on has changed the rules and now stakeholders actually have to pay their own expenses to get to Canberra and to stay in Canberra in order to engage with the Child Support Agency to discuss these issues. Unfortunately, as an unfunded organisation we cannot afford to do that. I cannot afford to be out of pocket for any time that it takes them to get money back to me; therefore, we have not been able to take part in these groups.

CHAIR—Thank you for that. I will follow that one up at estimates.

Ms Swinbourne—Thank you.

Senator WILLIAMS—Ms Edwards, I have another issue. I know prior to the 2007 election when I was elected to this job I had a lot of contact from fathers who did not have access to their children. Some were very angry and some very dejected. For example one was where his former partner had taken an AVO out against him to prevent him going near her or the children. He went to a football match to watch his son play football and as a result he spent two days in jail. These are tragic events. Am I correct when I say that when we have a situation where the dads do not have access to the children it would encourage them even more not to give any financial support?

Ms Edwards—Can I go back to your other question?

Senator WILLIAMS—Yes.

Ms Edwards—I am not sure what goes through a lot of dads' minds so I do not want to respond to that, but with regard to the Child Support reform that you were talking about there have been some policy changes that have eroded the income. That goes to answer some of your prior questions. A big one is if the non-residential parent—that is a parent that does not have the bulk of the caring—see their child one night a week it reduces the amount that they pay by 24 per cent. For me, mathematically, that does not make any sense at all. That is a huge incentive.

Senator WILLIAMS—Is that to see their child or to actually have their child with them?

Ms Edwards—One overnight visit a week reduces the amount that they pay by 24 per cent. Also what happened in the recent child support reforms that are still playing out is that there has been a cap on the assessment of the person who earns and, furthermore, there has been a decrease in the amount that the residential parent can earn. You were asking what could be done. That needs to be looked at because out of those changes, particularly in many low-income families that have children aged between nought and 12, the outcome of those formula changes has actually resulted in a lot less disposable income for those children. That 24 per cent reduction is a significant incentive for men to see their children. It is one that I certainly do not support. I think the incentive needs to be one that is fairly managed.

Ms Swinbourne—I would also like to say that we do not like this change to the child support at this level. We fully support any moves to keep children and both parents engaged, and to try to keep that relationship a good one. However, we do not think a financial incentive is the way to go. We do not think people should have to be paid to see their children. If you have costs in your household to support your children, then it is only fair that child support is divided, but one night a week is not picking up on the day-to-day costs of the children and all that is happening is that, again, they are missing out even more in their residential household.

Senator WILLIAMS—I would like to finish by saying that I have no problem with men being responsible for their actions and I think they should do their bit. I know circumstances vary right across these scenes. Some can be friendly split-ups and some can be very bitter, but I would say that men are responsible for their actions.

Ms Swinbourne—We agree.

Ms Edwards—We have not even touched on domestic violence. Chair, I would like to go to your point. The National Welfare Rights did put out a press release regarding the impact of the recession and the income, and I think they are speaking today.

CHAIR—Yes, they are. We have a representative sitting in the audience.

Ms Edwards—I have given them a bit of a guernsey.

CHAIR—Thank you very much. I apologise; I had to go to a previous speaking commitment. If I have any further questions that were not covered, I will put it on notice.

Ms Swinbourne—That will be great.

Ms Edwards—Once again, thank you for your interest and your inquiry. Let us hope that you make some fantastic recommendations.

Proceedings suspended from 10.47 am to 11.00 am

HAYES, Mr Thomas Plunkett, Vice-President, Australian Council of Public Sector Retiree Organisations

RITCHIE, Dr James Barry, Chairman, Retirement Incomes Research Group, Association of Independent Retirees (AIR) Ltd

Evidence was taken via teleconference—

CHAIR—Thank you for your patience. I welcome the representative from the Australian Council of Public Sector Retiree Organisations and the Association of Independent Retirees Australia. I will just check that the association is available to take part by teleconference.

Dr Ritchie—Yes, I am here.

CHAIR—Thank you very much. You both have information about parliamentary privilege and the protection of witnesses. Mr Hayes, we will start with your making an opening statement and then, Mr Ritchie, we will go to you. In the room, Dr Ritchie, the committee members who are present are Senator Mark Furner from Queensland, Senator Rachel Siewert from Western Australia, who is Deputy Chair; Senator Sue Boyce from Queensland, and Senator John Williams from New South Wales.

Dr Ritchie—Thank you.

CHAIR—Mr Hayes.

Mr Hayes—Thank you. The Australian Council of Public Sector Retiree Organisations has 11 affiliated organisations, which include the Defence Force Welfare Association, the South Australian Superannuants, the Superannuated Commonwealth Officers' Association and similar retiree organisations in New South Wales, Victoria, Tasmania, Western Australia and Queensland. Together, our 11 organisations have 700,000 members. The average public sector retirement pension paid to these members varies between \$25,000 and \$30,000 per annum. Most of these members presently receive a part age pension, with their entitlement being determined by the income test.

Before commenting on the changes to the income test, I need to say that my organisation supports the announcement in the federal budget of the base rate of the age pension being raised and the single pension rate becoming two thirds of the couple's rate; however, we are most concerned with the intention to raise the income-test taper rate from 40c to 50c in the dollar. There is to be no change in the asset-test taper rate. Dr Hickman of the South Australian Superannuants has provided the committee with papers that set out the combined impact of the increases in the age pension and the increase in the taper rate, so I will avoid going into that detail.

The first of the brief points that I want to make are that the income-test taper rate change will go far beyond the stated intention of just preventing the full flow-on of the base rate increase. Existing income tested part age pensioners will be forced on to the new higher taper rate. People who will be adversely affected include people of modest means, such as couples with combined private incomes of as little as \$12,000 per annum. It appears that income tested part age pensioners are the only group of Australians required by government to accept a reduction in their standard of living. Income tested part age pensioners appear to be the only group of retirees being asked to contribute towards the cost of an increase in the age pension base rate. Income tested part age pensioner couples of very modest private means will be not only contributing to the cost of the increase in the base rate for those worse off than themselves but also contributing towards the cost of providing an increase for asset-tested pensioners who are much better off. We believe that the base rate should be increased without any change to the means testing, until a fair and more equitable change to means testing has been devised.

I need to say something about the grandfathering provisions or the so-called transitional safety net that has been announced by ministers. There is no doubt that most retired couples receiving part age pension will quickly find themselves worse off than they would be under the present arrangements with no increase in the base rate. Existing part age pensioner couples who are income tested are destined to have their age pension entitlements reduced compared with what those entitlements would be if the taper rate were not changed. Over time, they will find themselves moved to a pension calculated by using the new higher taper rate. The time it takes for this to happen depends on the amount of private income that the couple has. People with relatively small private incomes will find themselves on the new lower pension relatively quickly. A couple with a private income of \$30,000 per annum, such as a public sector retirement pension, will be moved over to the new taper rate gradually. After eight years, they will be \$40 a week worse off than they would be under the

present arrangements with no increase in the base rate. All this is set out in the tables contained in the papers provided by Dr Hickman. Thank you.

CHAIR—Thank you. Dr Ritchie, would you like to make an opening statement?

Dr Ritchie—Thank you. AIR represents the interests of self-funded retirees and its concern is primarily with the change to the income tested taper rate from 40c to 50c. About 800,000 retirees are on a part pension, according to the report from the Henry tax review into retirement incomes. About 700,000 of those get over 90 per cent of the full age pension. As a result, all of those people, as a proportion of the three million retirees—a large group—receive private incomes not very much over the full age pension amounts. They are not wealthy and they have few assets. In addition, they have great uncertainty about issues such as how long they will live, whether their money will last and their risks of having to change their accommodation and of poor health. The increase in the taper rate means that they will not be able to maintain their wellbeing, which they need to do, and they will use up their assets faster. This will cause their income to fall faster and they will move faster to higher pensions and a reduced standard of living. The end result of this is that they will have a reduced standard of living and the government will have to meet higher costs in the long term. So, for a short-term gain, the government will incur long-term costs.

Let us look at the order of magnitude of the proposed change. A retiree couple with a 90 per cent full age pension presently receives about \$575 a week, compared with the full age pension of about \$500 a week, and they contribute about \$125 of their own money. For the same contribution of \$125 a week, under the proposed new taper rate, they will receive about \$563 a week; that is, their income will fall by \$12 a week. While this might seem a small amount to those with a lot of money, it will be a large amount for individuals who are living at these levels. So the drop is quite substantial and it covers a very large number of people—some 700,000.

The pension can be considered as a wage paid by the government to retirees and, in that sense, it can be related to the industrial relations system. Effectively, the wage which is to be paid is to be reduced by \$12 a week. Very few unions would accept this proposition, and no other group in Australia is being asked or forced to reduce their income at this time. It seems unreasonable that this should be thrust purely on part age pensioners.

The proposal pre-empts the Henry tax review, which has stated that it will review part age pensions as a part of its review to be reported at the end of the year. The present proposal is ill considered, the transition arrangements make little sense, the effect on the standards of people with UK and New Zealand part pensions has not been taken into account and it is retrograde. It would be far better to wait for the Henry tax review to introduce a measure of such importance to pensioners. Thank you.

CHAIR—Thank you.

Senator SIEWERT—You have made a point about 75 per cent of retirees being on over 90 per cent of the pension. How many of your members will be affected by these changes?

Dr Ritchie—The last survey we have is from 2006, when about 80 per cent of our members had a part pension.

Senator SIEWERT—You talk about part pension; what would be the average percentage?

Dr Ritchie—I do not have that figure for our members. The figure that I have is from the Henry tax review, which says that about 800,000 of them are on a part pension, most of which are quite close to the full age pension level.

Senator SIEWERT—But they would not count as self-funded retirees, would they?

Dr Ritchie—Yes. We count self-funded retirees as those who fully or partly support themselves from their own investments, if that makes sense.

Senator SIEWERT—How many people do you calculate will be affected by the taper rate?

Dr Ritchie—The figure shows it to be about 800,000.

Senator SIEWERT—We will move over completely to the new system in 2013. Is that right?

Dr Ritchie—Yes. Of course, by 2013, the number will be 800,000 plus the increase in retirees between now and then; so, in that sense, it is difficult to give you an actual figure. At present, the 800,000 people will not be directly affected but they will move, as Tom Hayes has said, fairly quickly to be affected by this.

Senator SIEWERT—In terms of—

Dr Ritchie—The transitional arrangements.

Senator SIEWERT—At estimates, the department said that, between now and 2013, they will check constantly to see whether you are better off under the new system or the old system. You say that they will not be affected immediately, but they will be by 2013.

Dr Ritchie—That is correct; but they will be affected much earlier than that because of changing circumstances. Every one of those people has to have their pension redetermined every year and what happens to their part pension depends on the performance of their investments.

Senator SIEWERT—The way the department described it is: if you are better off in the old system, you stay in the old system; and, if you are better off in the new system, you go to the new system. That is how they are characterising it, and we can double-check that with the department this afternoon. But, basically, they say that for the next five years they will check. In theory, it is supposed to be that, whichever way you are better off, you remain or are on that system. Is that how you understand it?

Dr Ritchie—Yes; except that I must say it is extraordinarily difficult to understand.

Senator SIEWERT—Yes, I know. It took a long time to ask the department and get to the bottom of it.

Dr Ritchie—I cannot understand how one will become worse off from the new system if, as the budget says, existing people will have their present rights retained. That does not make any sense to me, I have to say.

Senator SIEWERT—We will follow that up again with the department this afternoon.

Dr Ritchie—But I am sure that, as presently planned, the effect will be that those people will move much faster on to the new arrangements than the five years referred to.

Senator SIEWERT—That is in relation to the taper rate. What do you think of the other two amendments that relate to changes in the pensioner index and to MTAWÉ?

Dr Ritchie—We very much support the change to the percentage of the MTAWÉ that moves the single pension to 67 per cent and then proportionally across to couples; we strongly support that. We support the new index. But, remember, the ultimate measure is the percentage of the MTAWÉ. So, if the new index increases costs to people, that will be brought back again—if I can use that term—when the percentage against the MTAWÉ is determined. So the index really only provides small changes in between the periods when the percentage of the MTAWÉ is determined. I am sorry; can you understand what I have said?

Senator SIEWERT—No, I am sorry; I did not follow that.

CHAIR—We will give that argument to the department and see whether they can make it clear, because that is certainly not how I understood it.

Senator SIEWERT—As I have said, we spent quite a bit of time during estimates trying to work out how they were doing it and what was the interaction between the various indexation rates. When I came out of that, I must admit that I thought, ‘Oh yeah, it sounds okay,’ but maybe I misinterpreted what the department said. Would you mind commenting on the age pension age being increased from 65 to 67? Do you have any thoughts on that?

Dr Ritchie—As an organisation, we do not have a comment on that. Our members are retired already, so I have to say that the issue of raising the retirement age from 65 to 67 by 2014 is not of great interest to them.

CHAIR—Mr Hayes, do you have a comment to make on that?

Mr Hayes—We are in the same situation as Dr Ritchie. Our members are all retired, so we do not have anything special to say about it.

Senator SIEWERT—It is just that I presume you will continue to get more members—that is all—who may be affected by this.

Mr Hayes—Yes, we will. But I think we have to look at these community-wide decisions and make our own judgements about whether they have some reasonableness behind them. I think you could pass the increase in the age pension age on that test, but you cannot pass the increase in the taper rate on that test. It is discriminatory, and Dr Ritchie has made an excellent case as to why it is. With all due respect to the department, the use of ‘better off in the present system or better off in the new system so that they will always be better off’ is just a cloud of dust. This measure is going to save \$1.2 billion over the forward estimates. It has to come from somewhere and it is coming from part age pensioner couples in particular. That is exactly what Dr Ritchie has said, and he and I are absolutely at one on this.

Senator BOYCE—At the risk of confusing ourselves even more, I would like to explore the grandfathering aspect a little further. Do I understand you to say that the reason for it cutting in in less than five years is that people have a lot of variation in their pensions on an annual basis and, therefore, they will fall out of the grandfathering provisions potentially with those changes to their assessments each year?

Dr Ritchie—Yes, that is what I am saying. That will happen and then it becomes a matter of what the actual formula to be used is. If people who are already on the 40c in the dollar taper rate continue to operate on it for five years and to get all of the other benefits, how do they ever become worse off, if you like, than if they were on the 50c taper rate? I just cannot understand what that means and I cannot determine from the bill what the precise meaning of that is intended to be.

Senator BOYCE—Mr Hayes, do you have something to add?

Mr Hayes—They will continue on the 40c taper rate, but their part age pension will be indexed only in so-called ‘real terms’. That means they will be indexed according to CPI, which is less than the way the part age pension is presently indexed and will continue to be indexed. The age pension and part age pension are indexed to wages or MTAW. When you index something to CPI, it will fall behind gradually by between one and two per cent per year, and that is what will erode the part age pension. They will be on the 40c taper rate, but their part age pension will be eroded by the lower indexation until such time as they would be better off switching to the higher taper rate. That is the only way you can make sense of what the government has announced.

Senator BOYCE—I think I understand that. Just to try to put some figures around that: how many of the 800,000 people to which you have referred would have a variation year to year? Do the majority continue to have the same level of pension every year, or is it a moving feast?

Dr Ritchie—No. The great majority change each year.

Senator BOYCE—Mr Hayes?

Mr Hayes—I do not want to make a statement about what percentage change or do not change, but a pensioner couple receiving a part age pension at the present time of \$50 a week, for example, immediately will get the \$10.14 per week improvement that has been promised by the government. Then it goes on increasing but according to the CPI; it is a slower rate. Eventually at some point, had their part pension been calculated according to the new taper rate of 50c, they would fall to that level and that would take over. That is the crucial point. It will start impacting on most part-pensioner couples in about two years time. The \$10.14 means that they will see an increase immediately; but the lower indexation will cut in after that and, within two years—certainly three years—most of them will be worse off than they are today.

Senator BOYCE—But they will not be worse off compared to others; so they would stay on the 40 per cent and not go to the 50 per cent. Is that what you mean?

Mr Hayes—Within two years, they will be worse off than had the \$10.14 not been awarded and the taper rate left alone. That is because their pension would have been indexed with MTAW.

Senator BOYCE—So the whole benefit of the pension increase will be gone within two years and then slowly they will start going backwards. Is that what you are saying?

Mr Hayes—Yes, they will be sliding backwards, although not in dollar terms. Each year they will see an increase but comparatively. Take two pensioner couples living side by side. One couple has this new arrangement imposed on them and, for some reason or another, the other couple are living in old time with nothing changing. If they compare their pensions year by year, the couple in new time will see their pension improve by \$10.14 and they will think they are better off but, within two to three years, they will be worse off than the couple that did not get the \$10.14. I hope that makes it clear.

Senator BOYCE—Yes, that makes it very clear. I have one general question for both of you, and I think Dr Ritchie touched on this earlier. There is a general impression that self-funded retirees are very busy booking their holidays to the Bahamas and buying condominiums in Spain. You have quantified that by pointing out that the vast majority of self-funded retirees, having so little extra income, are entitled to the full pension. Could you give us a sense with some descriptive material of what life is like for a self-funded retiree?

Dr Ritchie—Yes, I can try to do that. I did not say that a large number are on the full age pension; I said that they are on 90 per cent of the full age pension.

Senator BOYCE—Thank you.

Dr Ritchie—That is, they receive a very large amount of full age pension. I think the first thing to say about that is that the figures I quoted you are that a couple who at the moment are on the full age pension get about \$500 a week. That is regarded as a safety net figure, giving a minimum living standard. Under the new system, a self-funded retiree receiving 90 per cent of the full age pension, which is the case with the great majority, will receive an extra \$63 a week to live on, although they will contribute \$125 a week from their own savings. The difference, of course, is the part pension. The sum of \$63 a week is not a lot of money to live on above the minimum safety net position of the full age pension. So we are not talking about part age pensioners living on \$2,000 or \$3,000 a week; we are talking about the majority of them living on about \$563 a week. There are about 20,000 to 25,000 fully self-funded retirees who have an income greater than the top of the 40c in the dollar marginal tax rate—that is, on incomes of about \$150,000 a year. So it is only 20,000 of those people in Australia that one could think of as being wealthy. The other 800,000 self-funded retirees do not fit in that category at all. I think perhaps that is the best way to explain it. I know there is a feeling in the community that self-funded retirees are wealthy; the fact is that that is not true. Then, of course, on top of those receiving a part age pension, there are those who get the Commonwealth seniors health card; that represents about another 120,000 self-funded retirees. That demonstrates, I think, that the number of wealthy self-funded retirees is extremely small: only 20,000 to 25,000 people out of three million.

Senator BOYCE—Mr Hayes, would you like to comment?

Mr Hayes—Our members, of course, are existing on public sector retiree pensions; by and large, those pensions are very modest: \$25,000 to \$30,000 a year. They are not people with a lot of capital. They are expolicemen, postal services people, teachers and so on. I do not think you could ever categorise any of them as wealthy members of the community. These people will be hit hardest by this change in the taper rate, as it is aimed at a more severe test of private income; your public sector pension is private income. It is hard to understand why the government could be persuaded to increase the age pensioner rate and at the same time get stuck into part pensioners in such a severe way.

Senator BOYCE—I just want to confirm some of the figures in the material from Dr Hickman. You suggest that, with the change to the taper rate, a pensioner would be \$673 a year worse off after four years, which would rise to a maximum of \$3,854 after 10 years. Is that correct?

Mr Hayes—Yes, that is correct.

Senator FURNER—Thank you for coming along to this inquiry today. I just want to rely on the evidence of the submission of the South Australian Superannuants. In his submission, Mr Ray Hickman draws upon the assumptions of changes in the taper rate moving from MTAWA to CPI. He relies upon the current CPI March 2009 annual figure of 2.5 per cent as opposed to the MTAWA figure of four per cent. Historically, the CPI figure for December was 3.7 per cent; if I take you back even further to June 2000, when the previous government introduced GST, it was six per cent. Is the real concern here about an erosion of the taper, based on it relying on the CPI figure? That is the feeling I am getting. Mr Hayes and Dr Ritchie, could you both respond to that, please?

Mr Hayes—For the transition to achieve the savings forecast by it, the government is relying on an expectation that the CPI will be significantly less than MTAWA; otherwise, the transition does not make any sense. So, by indexing existing part age pensioners to the CPI, they will slide down gradually. If we have some totally bizarre development in the economic landscape whereby CPI exceeds MTAWA, that would be totally disruptive; but nobody expects that to happen. The Henry review and all the economists expect that the CPI—as it has behaved for quite a while now—will be less than MTAWA.

Senator FURNER—I guess that is the problem with CPI figures: they relate to the economy, the price of living and all those other variables at the time; there is no projection on what they might be.

Mr Hayes—The CPI these days is a measure of pure inflation and not of prices on the shelf. Prices on the shelf are corrected for perceived improvement in quality; they are discounted for that if there is an improvement in quality, because that is not pure price increase. Australia has followed world standards and world practice in this, which is why the government for many years now has been obliged to index the age pension to MTAWA. That is not done because of their generous heart; it has been done because it is necessary to keep the age pension abreast of shelf prices. CPI is not a reflection of shelf prices.

Senator FURNER—Dr Ritchie?

Dr Ritchie—I can only support what Mr Hayes has said and I cannot really add anything to it.

Senator FURNER—Earlier today, we heard evidence from one group—in part, this relates to the retirement age being increased to 67—based around lifting, in parallel, access to the superannuation age and also advocating that it be mandatory. What is your view on that occurring to bring it into line? The situation, particularly for your members, will be of their being able to access their superannuation at, say, 55 or later—between that and the retirement age. If that were the case, what sort of impact would it have on your members?

Mr Hayes—I will go first because I think this question is primarily for Dr Ritchie. It does not affect our members, but I do know a little bit about it. To align that with the increased age pension age, I think, would be a very severe blow to the superannuation system.

Senator FURNER—Dr Ritchie?

Dr Ritchie—Again, I cannot speak for the association on this, but I would tend to support the movement of the preservation age to being the same as the age pension age simply because it gives a view in the community of consistency in approach. It says that the benefits of superannuation will occur at the same time as the benefits of the age pension. That makes logical sense because the superannuation system itself contains incentives to encourage people to work and to continue to work to benefit their eventual retirement. I believe that consistency is the sensible way to move.

Senator FURNER—Part of the proposed incentives of the package is to introduce a change to the work bonus—and I am sure that you are aware of it—which is the ability to have a test of indexation of \$500 per fortnight. Of your membership, how many who are in some form of employment might benefit by that scheme?

Dr Ritchie—A very high percentage of our members above the age of 65 still work part time. They will benefit directly from that, even though in many cases their earning rate is greater than \$500 per week.

Senator FURNER—You have said ‘a high percentage’; what sort of percentage are you referring to?

Dr Ritchie—We tend to think that people do not work after they have retired, but the figure of those who do is around 10 per cent. You can use me as an example, if you like: I am just coming up to 76 and I stopped working six months ago.

Senator FURNER—Good on you.

Mr Hayes—I really cannot add much to that. It is a sensible improvement to the system. It encourages people to stay in work, and we have to applaud that. But I am not able to give you any figures about the percentage of our members who are still partly employed.

Senator FURNER—Thank you very much.

Senator WILLIAMS—Dr Ritchie, I imagine that many self-funded retirees rely on dividends from the stock market.

Dr Ritchie—Yes. The vast majority of self-funded retirees, including those on a part pension, have investment, either through superannuation or self-funded investment. That is the dominant form, apart from property, of the way in which assets are held.

Senator WILLIAMS—Obviously, as a result of the crash of dividends in the stock market, a lot more people would have been reliant on a larger pension intake because of the shrinking of their dividends. Would that be correct?

Dr Ritchie—That is quite correct. In addition, their assets, of course, have reduced markedly, which makes it very, very difficult for them to perceive how they will manage over the full life of the 30-or-so years that they still have to live.

Senator WILLIAMS—Hence, if we do not see a marked improvement in the stock market and the dividends from those investments, we will see more people being affected by this taper rate change in years to come.

Dr Ritchie—Yes, absolutely; and the government will be up for a much higher cost in the future, as people are forced to move to higher part pensions and then to full pensions.

Senator WILLIAMS—Thank you, Dr Ritchie. I commend you on your work ethic. I am sure that working longer did you more good than harm.

Dr Ritchie—It kept me interested and away from my wife.

Senator WILLIAMS—Well done.

CHAIR—As there are no further questions, we thank you, Mr Hayes and Dr Ritchie. If you think of anything else that you want to add, please get back into contact with us when you can.

Dr Ritchie—Thank you, Madam Chair.

Mr Hayes—Thank you, Madam Chair, and thank you, Senators.

[11.40 am]

YATES, Mr Ian, Chief Executive, COTA Over 50s

Evidence was taken via teleconference—

KENNEDY, Mr Jonathan, Senior Policy Officer, National Seniors Australia Ltd

O'NEILL, Mr Michael, Chief Executive Officer, National Seniors Australia Ltd

CHAIR—Mr O'Neill, while we are waiting for COTA to come on the line, you might like to make an opening statement.

Mr O'Neill—Just briefly, National Seniors is a national membership based group. We have about 280,000 members across the country aged 50 and above, the average age being 61, and about 70 per cent of them are under 70; so we have a wide age range. In terms of the pension issue, National Seniors has been active on the issue for a decade, seeking changes to the adequacy of the pension and, I guess, as part of that, having a particular focus on the single age pension. As such, we welcome the pension reform package; we think it provides a very good first step towards providing a more adequate, equitable and sustainable pension arrangement. We understand the need for sustainability, which was part of our discussions and presentations to the Harmer review and previous Senate inquiries, recognising that, if this were to occur, it would need to be sustainable over time.

I will go to the specific issues that I understand the committee is interested in. On the tapering issue, we would say that, whilst the taper increase is not desirable, it is probably unavoidable—certainly in the context of sustainability—and we think the targeting is probably an important part of that. The Work Bonus scheme, we think, lessens the disincentive there is with earning additional income. Certainly, if it performs in any way, it would be better than the previous scheme, the Pension Bonus Scheme, which failed to operate in any way effectively; it was a bureaucratic mess and simply did not deliver. So we pray that there is a good improvement with the new scheme.

CHAIR—We will just have to see.

Mr O'Neill—We will. We will all be looking carefully at that. We also think the transitional safety net is an important part of what is being proposed there so that people will be no worse off. We support the proposed indexation arrangements. Certainly, in our submission to the pension review committee, we proposed the development of a more robust indexation model—a model for measuring increases. The overwhelming view of our membership was that the existing basket of goodies simply did not apply adequately to what pensioners were spending their funds on and it was missing the mark. So we think this is a good initiative. In addition, obviously the policy of adopting the best of the three is welcome—and I think our membership would be pretty positive about that as well.

On the age pension issue, our view is that, given what is happening globally, that was probably an inevitable move. In addition, I guess it is an important part of sustainability of the pension longer term. As I said at the start, sustainability of pension reform needs to be a key part of what goes on.

With respect to the pension age increase, we say that perhaps the most critical thing is around ensuring that there are jobs available for people. Also, some of the existing ageism and discrimination that exists in the workplace needs to be dealt with. It is no good getting to 2017 and 2023 and changing the rules and there being no jobs. From our perspective, that really needs to be a critical area of activity over the next five to six years, as the case may be. We say that not only government but particularly the corporate sector need to be involved in providing drive and leadership in that regard. The trade union movement and, more broadly, the community need to move on from some community attitudes around ageism as well. Such attitudes manifest themselves particularly in discrimination in the workplace, but they apply elsewhere as well.

A particular issue that we think would provide an important symbol for government to act upon is the current superannuation arrangements that discriminate on the basis of age. Between 16 and 69, there is an obligation for employers to pay nine per cent superannuation; but, once you turn 70, that obligation ceases. A change in that regard would be a very simple but very symbolic gesture to say, 'The date on the calendar doesn't matter to the way that we treat you in the workplace.' At the moment, that distinction is being made but it really does not have any foundation. That is the kind of symbolism that we think would kick along the whole response to the ageism issue.

I guess that is our broad outline. We will be providing a submission after today; we have done a little bit of work already but, given the short notice, you will have it Monday.

CHAIR—Thank you. Do we have COTA on the line?

Mr Yates—Most certainly.

CHAIR—Welcome, Mr Yates. I know that you have done this before, so you know the system. Perhaps you would like to make an opening statement, after which we will go to general questions. Just for your information: in the room we have Senator Mark Furner from Queensland; Senator Rachel Siewert from Western Australia, who is deputy chair; Senator Sue Boyce from Queensland; and Senator John Williams from New South Wales.

Mr Yates—Thank you for that and thank you for allowing us to appear today. We appreciate the reasons for the short notice and I apologise that it was not possible to be with you in person, but we are running a major World Elder Abuse Awareness Day seminar here at the moment. We have provided the committee with a brief written submission—'brief', given the time.

CHAIR—Thank you. Yes, we have that.

Mr Yates—I will refer briefly to it and just note for the record, of course, that COTA, Councils on the Ageing, is a federation of organisations present in every state and territory. It is a mixture of individual membership and membership of organisations of seniors, which collectively represent many hundreds of thousands of seniors. Like National Seniors, we strongly welcome the pension reform package as a first step. We have been active also over the last decade on these matters and, for a period of time, as a merged body with National Seniors; so we were extremely pleased to open the budget papers in the lockup and find that significant steps had been taken.

As pointed out in our submission, the campaigns that we have been involved in would have liked to have seen a higher increase in the pension and we think even the Harmer review provides a basis for them to have been a bit higher. But a first step is a first step and, particularly for single pensioners, this is a really historic shift.

On the issue of the taper, certainly many in our constituency are not happy about it. But we take the point made just now by Michael O'Neill that a key to the level of the increase that was achieved was the question of sustainability over time. There is a particularly dramatic graph, I think, in the budget overview documents at page 23, to which we refer, which indicates the modelling that Treasury obviously had done on the impact of this increase in the out years, which is what worries them; the impact of the changes to the income test is a very significant proportion of that.

As I said in the submission, while we would prefer not to have had the taper increase, it recognises those fiscal realities. We certainly would have preferred to have had a higher pension increase with a 50c taper than a lower increase with the 40c taper remaining. Briefly, we support the indexation arrangements. We have been pushing for this kind of thing. We will be looking very closely at what the next index looks like and watching how it works.

On the pension age issue, I certainly acknowledge that I think this matter is and will continue to be of some controversy in the community. We accept that the argument of time and the shift in working life and retirement life make this pretty inevitable. We would underline the points made by Michael O'Neill about tackling mature age employment, unemployment and age discrimination in the workforce, and we think the government ought to be taking a lead with this.

The real issues here go to, firstly, people who at the moment struggle to get to 65 and will feel that they have to hang out another couple of years, although many people in those kinds of jobs are struggling already in their mid-50s; and, secondly, those who are long-term unemployed in their 60s who will be on Newstart allowance for another two years. I would remind the committee that, of people going on to a full age pension in recent years without other income streams, 50 per cent have been coming off another Commonwealth benefit, predominantly either Newstart or disability.

In conclusion, we welcome the various provisions of this package, understanding that it is an integrated package that was argued that way through government processes to achieve the very significant lift there has been, particularly in the single pension, even though we would have liked to see both go up by a lot more.

CHAIR—Thank you very much.

Senator SIEWERT—We might start where you have just left off. ACOSS also raised with us the issue of the number of people who already will be on some form of income support when they go over to the age pension; other arguments I have heard in the media go to these people very often being, for example, blue-collar workers or those who are ill. I think there are some pretty significant arguments there, although I also understand the argument for increasing the age at which the age pension kicks in. Can you think of a better way to achieve these aims? ACOSS also said that they understood the intent and agreed with the principle. It seems to me that the issue here is really about how you do it rather than necessarily arguing about the fact that, in the longer term, it needs to happen. Can you think of ways in which it could happen differently or where you could help those who are on income support already? The group of people that will be most affected are those who do not have a lot of super, the most vulnerable workers and blue-collar workers. Do any of you have suggestions for how we could still achieve the aim but perhaps make it more palatable and more equitable?

Mr Yates—I will have a go at that first. Our formal position is that the amount of notice that has been given of the increase in the age is fair, but the issues you raise, which are very real and which our constituents raise, are heightened by this. If this shift leads to government taking the issue of mature employment and age discrimination more seriously than has been the case, it will be a welcome by-product. Really, if we have people struggling in the workforce from their fifties onwards due to a combination of those factors that you, Michael and I have mentioned, we ought to be addressing them in themselves and not just because we have shifted the pension age by two years. We need to recognise that we will need to keep people in the workforce; therefore, we have to do much more about promoting the opportunity for multiple careers and for retraining, and for support during those processes, and for redesigning jobs so that they do not lead to people becoming disability pensioner recipients in their mid-fifties. They are the things for which certainly we need a concentrated effort in the corporate sector and the unions, but we also need some federal government leadership on this matter.

Mr O'Neill—I certainly support what Ian has just said. I think the issue of participation rates for people when they are in their fifties is a real starting point as well; lifting those and providing that opportunity for people to reskill or to maintain or enhance their skills so that they can remain in the workforce is an important part of that.

In addition to what Ian has said, there perhaps is a broader issue here of the community not recognising the contribution that older Australians continue to make. In some ways, we are approaching this shift in the demographic with the real focus being on the negative side of it—the cost and the threat that it represents to the community, the economy and society—when there are a whole lot of pluses with it as well that we do not properly recognise. I think the negative perception there just reinforces the challenges that people in the workplace face in terms of discrimination. It also reinforces an absence of action by governments generally on the issue of mature age employment. With respect, very few programs are specifically targeted towards mature age. That is not to say there is not a good foundation for young people—youth schemes, apprenticeships, traineeships and all of that; there is no argument with that at all—but we also need to see some stuff specifically targeted at older Australians. That then goes a little bit to that issue of the kind of symbolism and leadership that Ian has just alluded to. Superannuation change would be a simple starting point.

Perhaps I could share with you one example that we have seen globally, which has been quite instructive, which concerns the UK supermarket group Tesco. That group has 25,000 to 30,000 employees across the UK; it has implemented a major program of greater emphasis being placed on mature age workers and has measured the successes of that. But, looking back over time, its reflections are that it only happened after the managing director took charge and provided some leadership for it to happen. We think the lesson out of that, in part, is that it is time for the government and particularly the corporate sector to stand up and provide some greater leadership on this issue to drive it forward, for the trade union movement to do so as well and then, more broadly, for it to be done within the community. But it does require that leadership to shift those present attitudes.

I will table one document that I want to share with you. We have just released something called *Still putting in*, which measures the contribution of older Australians in the workplace and the community—in society generally. That is part of trying to shift the perception that it is all about costs and negatives rather than the upside that older Australians do provide.

Senator FURNER—Chair, could I suggest that, if possible, the committee be provided with a copy of that?

Mr O'Neill—I think we have multiple copies.

Senator SIEWERT—I know about this issue already. Our ‘cost of living for older Australians’ inquiry highlighted yet again that a particular group of women, those from the age of about 45 on, have been identified as having very low super. It seems to me that group is one of those that will get caught up with this change. We have been talking about a whole lot of other people as well, but that is another of the groups amongst all of those that I am concerned about. Have you come across that issue and do you have any suggestions about how we specifically deal with that particular cohort there that we know does not have any super? I think average super is \$32,000 or something like that, isn’t it?

CHAIR—It is in the thirties.

Senator SIEWERT—It is very, very poor. They are going to be hard hit by this change as well, potentially.

Mr O’Neill—I think that is perhaps a continuation of the disadvantage that older ladies who are currently of pension age are experiencing now; it is a continuation of that.

Senator SIEWERT—That is exactly right, yes.

Mr O’Neill—I think it reflects also on folk who are carers and those who go out of the workplace to provide a care function.

Senator SIEWERT—That is exactly right. It is all those groups that, for various reasons, have not been in the workforce continually. When compulsory super came in, some groups had already been working for a specific period of time. Also, of course, there is that group of carers who, as you have just said, are in and out of the workforce.

Mr O’Neill—That is right. Beyond recognising that the problem is there and it needs to be somewhere within the income transfer system to deal with it, I do not have any specific suggestions.

Senator SIEWERT—I want to go to the issues of tapering. I think you were here for part of the evidence from our previous witnesses who had very strong concerns about the issues of tapering. Mr Yates and Mr O’Neill, you have both said that you would rather not have it than have it, but you do not seem to be overly concerned about it. Would that be a correct summary of your submissions?

Mr Kennedy—Obviously, an element of our constituency would be concerned by this. When it comes to tapering, I think there are three important points. The first is the need to target the increase in the pension, which need was picked up in the Harmer report; we recognise that. The second element is the Work Bonus. So, although the tapering now will take 50c as opposed to 40c, the Work Bonus distinguishes between income that is earned—employment income—and income from other sources. In the past, we have raised the fact that a number of pensioners out there want to top up their low fixed incomes with intermittent, part-time or seasonal work; the Work Bonus allows that to happen. That is one thing that needs to be taken into consideration when we are looking at the broader taper rate changes.

The third and probably most important point when it comes to the taper rate is that there is a transitional safety net in place. I think Ian would agree that we welcome that concession. That means that no transitioning pensioner will be worse off as a result of the guarantee that they will be on a transitional arrangement.

Senator SIEWERT—Following up on that last point: both organisations put the argument that there is a transitional safety net but, once 2013 comes, the proportion of people who are self-funded retirees will be worse off. I think it affects them more. If they have income other than through employment, they will be worse off than if the system had not changed. Have you looked at that?

Mr Yates—Perhaps I could comment on that. Certainly that is true at the margins, but I emphasise what we both said in our opening remarks. We would have liked it to have been higher, but this package was designed to get the highest possible increase in the pension for people who are wholly or substantially dependent on the pension and the key part of the taper is the sustainability of these changes over time. A lot of our constituency would prefer the taper to be at 30c, but you have to live with those realities. I think, as I said in our submission, we would prefer to have the larger increase with the increased taper rather than the lower one with the 40c taper.

Senator SIEWERT—So you are saying that you cannot have everything you want.

Mr Yates—We would love to, but the political reality in the current economic climate is that we cannot.

Senator BOYCE—Mr O’Neill, I was surprised at the average age of your membership. Can you roughly give us a sense of the composition of your membership? How many of them would be people on pensions et cetera?

Mr O'Neill—As I said, we have a membership of about 280,000, aged from 50 to over 100; about 70 per cent of them are under 70. Of the 65-plus category, I would guess that probably 35 to 40 per cent are on a full pension, probably a similar number are on a part pension and a smaller number—maybe 20 per cent—would be self-funded retirees in their own right. That would be my sense of them. Then, of the under 65s, probably 60 to 70 per cent are still in the workplace.

Senator BOYCE—In a part-time capacity?

Mr O'Neill—Yes, part time.

Senator BOYCE—The majority of them would have some sort of income support, wouldn't they?

Mr O'Neill—Are we talking about the under-65s?

Senator BOYCE—Yes.

Mr O'Neill—Overwhelmingly, they would be in work, either part time or full time.

Senator BOYCE—But would they receive government benefits?

Mr O'Neill—No, no more proportionately than any other part of the community. We have a lot of folk who are still in full-time work.

Senator BOYCE—The other point you have raised here and COTA has raised in its submission is the issue that the increase was not as Dr Harmer's report would lead you to think it should be. The figure being used nearly two years ago, I think, as being needed then was \$30. Obviously \$30 now is not worth quite the same as it was then. In terms of a starting point, is \$30 sufficient?

Mr O'Neill—We certainly believe that it is. That figure represents an increase in the proportion of a single's pension to a couple's pension from just on 60 per cent up to two thirds, which for quite some time has been a goal of our group and I think, with respect, of Ian's as well. That was an inequity that really disadvantaged severely single pensioners, 65 per cent to 70 per cent of whom were older ladies who, as we just discussed, had missed out on superannuation for a range of reasons over time. We think it had a good foundation for being shifted in the way it has been and I think, in the broader circumstances, it was a fair result across the entire package.

Senator BOYCE—You mention that there is no obligation on employers to pay superannuation for those aged over 70. Do you have a sense of how many would anyway?

Mr O'Neill—I certainly have enough correspondence from folk who do not have it paid to indicate that there is an issue there. I guess, in principle, there is an issue there that we should not have a date on the calendar determining access to employment arrangements.

Senator BOYCE—That leads me to my next question, which is directed to both of you: have your organisations done any work on age based discrimination within government law that should be considered in terms of this inquiry?

Mr O'Neill—I think the superannuation issue is a perfect example of that.

Senator BOYCE—I just wonder whether you have looked across the board.

Mr O'Neill—In more detail? We have looked at superannuation. We have also looked at the state level at workers compensation arrangements, which differ from state to state—

Senator BOYCE—Of course.

Mr O'Neill—but also have an age element treatment within them. I think they are the two that are most prominent in our research to date.

CHAIR—What about COTA?

Mr Yates—We have not done it recently, because it was done some years ago and a lot of age related issues were addressed in both the federal and state arenas, when age discrimination legislation was introduced. But certainly I concur totally with Michael: we receive a large number of representations relating to superannuation provisions—regarding both the over-70s and, in fact, I think at the age of 75, at which point the contributions cease to get an advantage—and workers compensation arrangements, which really are going to be a major problem because we already have many more people working beyond the age of 65.

Senator BOYCE—The point about the 75 is that people over 75 cannot contribute to super in any form, irrespective of whether it is their own money or someone else's.

Mr Yates—Correct.

Mr O'Neill—That is right. In fact, we will be releasing in the next couple of weeks a paper prepared by the University of Adelaide on mature age employment. It has a great example in it of a medical practitioner who spent a lot of time in regional areas in Australia. He shifted to Adelaide and commenced a practice there at age 75. He has all the AMA qualifications and whatever else. He has his wife as his practice manager. Both of them are over 75 and work full time, and they cannot do anything at all to contribute to superannuation. The reason that he is continuing to work, apart from wanting to do it, is that he has inadequate super from his time in the bush. So he continues to be active and continues to want to work, and the system says, 'We treat you differently because of your age.'

Senator BOYCE—In fact, we have a system that is almost designed to force him into retirement, haven't we?

Mr O'Neill—Yes.

Senator FURNER—I will go to COTA's submission first. In point 4, 'pension age', it indicates that, from surveys you rely on, about half of the baby boomers plan to participate in the workforce beyond the age of 65. Both from COTA and the witnesses present here today, perhaps I could get some indication of whether that sort of view is consistent.

Mr Yates—In my hurry to put this together for you in less than 24 hours, I have not cited all sources. However, official government statistics show that the numbers working beyond 65 are on a steady increase; they are off a low base, but they are on a steady increase. In addition, a number of commercial surveys have pointed to varying figures ranging, I think, from about a third to about a half of the baby boomers who indicate now that it is their intention to work past 65.

There are a number of reasons for that. One is that many of those people see no reason why they should stop at an arbitrary age; the age of 65 for many of them will not mean that that is what they need to do for income reasons. Then there are also the people we spoke of earlier who do not have much super and who want to keep working past 65 so they can continue to accumulate a bit more superannuation, and they are fit and able to do so. The third reason, of course, is that, particularly as we move out of the current economic circumstances, we are on a trend line where employers will find they need to attract people over 65 to stay in the workforce in many areas; otherwise, they will not have workers.

Mr O'Neill—I support all of the things that Ian has just said. I have two additional points. Firstly, very clearly, there was a trend to increase post-65 work before the recent economic downturn. That was there already, and we think that will be encouraged and exacerbated by the events of the last 12 to 18 months. Secondly, I think there is an emerging amount of health related evidence that indicates that people remaining engaged and particularly in a workplace environment, with its social contact and whatever else, is pretty good for folk.

Senator FURNER—I was going to go there. Research out there now indicates certainly that people being active and involved in some form of activity contributes to the reduction of illnesses like Alzheimer's and those sorts of things. Does either organisation have any material or evidence it can rely upon in that respect at this stage?

Mr O'Neill—I think we have some research that we can flick through to you coming out of some gerontologists' studies that we are aware of in New South Wales; we will find those.

Senator FURNER—Going to this point about discrimination of retirement in the workforce, it is a particular interest of mine; I certainly have been lobbied strongly particularly by police in my state, indicating that legislation is compulsory there to have them retire at sixty. I wonder whether that is consistent across the board in other states and whether there are compulsory retirement ages for police in particular or other professions. I think judges, from memory, might be one area where they are required to retire at a set age as well.

Mr Kennedy—I think it varies pretty much from state to state, but there are certain professions where mandatory retirement ages still apply—the legal profession with judges, as you just mentioned, and police and possibly the armed forces. But we do not have any details of the differences between the states and territories—only that they are different between each state and territory.

Senator FURNER—Turning to the Work Bonus, part of the proposed measures is that the indexation arrangements will not kick in until \$500 per fortnight has been earned. How much of that will advantage your members, in your opinions?

Mr Kennedy—The government figures suggest that 75,000 pensioners will benefit from the Work Bonus. At the moment, the proportion of pensioners who work and earn employment income is quite low; it is lower than we would like and it is purely because the income test is a disincentive. So the point we raised previously, and we raised it in our submission to the pension review, is that, now we have this distinction between wage income and other forms of income, we hope that those people that do want to go out and top up their incomes with ‘occasional’ work, shall we say, cannot be penalised unnecessarily for doing so.

Senator FURNER—You did indicate earlier that 60 to 70 per cent of your members are in the workforce. Do you have any estimates of how many out of those sorts of percentages would get some sort of benefit out of the particular proposal?

Mr O’Neill—No, we would be speculating as to what number that might be. There would be 60 to 70 per cent under 70, a proportion of whom would still be working; but, no, we would be playing with numbers there.

Mr Kennedy—A lot of them obviously will be working full time, so they would not be applying for an age pension anyway. We could not give you the exact figures.

Senator FURNER—Is there any feedback from COTA?

Mr Yates—We think similarly that just making this change will encourage people to continue to work part time, which many of them desire to do in a transition arrangement. It is really that half of up to the first \$500 a fortnight or \$250 a week will not be taken into account. That is a significant consideration, as was argued by my National Seniors colleagues earlier, when you take the whole taper change into account; it changes the financial return for someone who is on a full pension considerably, if they can get some part-time work. So I think it will lead to an increase in people, particularly in their late 60s and early 70s, working part time in many roles in our community that we struggle to find people to work in.

Senator WILLIAMS—Mr Yates, in your conclusion you say, ‘There are areas of significant challenge that must still be better addressed, such as pensioners in private rental.’ Would you like to expand on that, please?

Mr Yates—It is common ground amongst everyone, I think, that pensioners who are in the private rental market are in the most difficulty; the Harmer report confirms that. The Harmer report indicated that there was a need to look at not only the provision of housing, which certainly the government is doing, but also how you might change the rent allowance. In the end, the government has not increased the rent allowance or made any other changes to it. So, even though the pension has gone up, people in the private rental market will still be under the most financial stress of anyone in this cohort. So we think that is something that needs more work and we will be talking with the government about that.

Senator WILLIAMS—Is it still the situation that, when there is a pension rise, we see the rents of those living in state public housing often increasing dramatically, basically giving the pensioner the result of no increase in pension?

Mr Yates—That has certainly been a matter of great contention amongst the constituency. The Prime Minister did write to all state Premiers in relation to this increase, arguing that that not be fully applied, and I know that it has not been in some states. I do not yet have a poll of every state and I do not know whether my National Seniors colleagues do.

Senator WILLIAMS—Perhaps I can take you to one other issue that I have been concerned about for many years, and that is those age pensioners, especially single pensioners, who own their own homes. I come from a country town and housing has been much cheaper, if I can say that, over decades in smaller country communities. I am concerned that local governments always seem to be strapped for money and this goes to the council rates that single pensioners especially have to pay on their residence. Do you know whether many councils give discounts or substantial discounts to pensioners for their council rates?

Mr Yates—There are council rate concession schemes in all states and, as usual, they vary. But also, in recent years, some states have introduced voluntary rate deferral schemes whereby you can defer the payment of your rates against the estate. That has had a variable take-up. In my home state of South Australia, the state government has legislated to ensure that local governments must offer this. I have to say that it has not been hugely taken up at the moment, but I think that might change over time.

Senator SIEWERT—ACOSS has talked also about the preservation age for super. Do you have a comment on that?

Mr Kennedy—We do not have any significant detail into this, but I think one important consideration here is that, if they do increase the preservation age along similar lines as the age pension age increase, we would like to see a long lead-in time. We think that is important because people have retirement plans in place. Obviously, that will allow people who have plans in place to continue under the current system. So we would like to see that concession, if indeed they did go ahead and increase the preservation age.

Senator SIEWERT—Obviously, they planned a long lead-in time for the increase in the age pension age anyway. Do you mean that it should be linked to that?

Mr O'Neill—No. We would be of the view that it would need to be a longer lead-in period, given the impact of retirement planning that folk already have in place; so it would need to be longer. In terms of the most appropriate timing, we are still looking at that.

Mr Yates—Perhaps I can add to that. We need to remember that, at the moment, policy is that the preservation age will step out from 55 to 60. We do not have formal policy on this either, but my intuition is that the community as a whole would expect there to be some gap between the two ages.

CHAIR—Thank you very much to the witness from COTA and also to the witnesses from National Seniors. Once again, we are due to report next Wednesday. If there is something that you think we have missed, please get in contact with us as quickly as possible.

Mr Yates—Thank you.

Proceedings suspended from 12.20 pm to 1.22 pm

COAD, Ms Melissa, Political Strategist, Liquor, Hospitality and Miscellaneous Union

Evidence was taken via teleconference—

CHAIR—Welcome, Ms Coad. Do you have an opening statement before we go to questions?

Ms Coad—Yes. I do have an opening statement. The specific area that I wanted to talk about today is the proposed amendment to increase the age pension eligibility age to 67. The LHMU represents low paid workers across a range of industries, including hospitality, cleaning, aged care, childcare and security. For our members extending the age of eligibility for age pension by two years is a meaningful change. Our members are predominantly people who will be reliant on the age pension in retirement. They retire with an average of about \$10,000 to \$12,000 in superannuation and would have at most a maximum of \$20,000 superannuation at retirement. During their working life they have low incomes, are often underemployed or work part time, and can have broken periods of employment for a variety of reasons, including women taking extended time off to raise children.

For our members the age pension is a critical—and overwhelmingly the only—source of income in retirement, making any change to the age of eligibility more significant. Our members work in physically demanding jobs. The hospitality industry has the highest injury rate for women of any industry and the second highest after construction for men. The cleaning industry in New South Wales has the second highest workers compensation insurance premiums after construction, again of any industry, and that represents the high number of workers compensation insurance claims that are made. In some of our other industries, for example, the aged care workers are prone to back injuries and related injuries because of the lifting work that they undertake. In addition to the already physical nature of these jobs work intensification across a lot of these industries has exacerbated what, as I said, are already hard physical jobs.

In summary, our members are minimum wage workers, working in physically demanding jobs. When they retire they will have only very small amounts of superannuation and will rely overwhelmingly on the age pension to provide them with a source of retirement income. Increasing the age at which they will be able to access that pension is a significant change for our members.

CHAIR—Thank you. We will go to questions. Senator Siewert.

Senator SIEWERT—Do you not support the increase at all or do you think it should be done in a different way? How do we deal with the issues that you have raised? Those issues have been raised with us by other people as well? Do you have suggestions about the way forward or do you think it is just not an appropriate policy mechanism?

Ms Coad—At this stage I would say it is not an appropriate mechanism. Given the short timeframe of this inquiry, we have not had a chance to put a lot of thought into alternatives, but certainly we would be happy to think about that. At this stage we would say it is not appropriate to increase the age.

Senator SIEWERT—Is your main area of concern with this bill the increase in the age limit?

Ms Coad—That is right, yes. That is our only area of concern in the bill.

Senator SIEWERT—Most people will have had letters about this change. The concern that a lot of people have raised, which you have just touched on, is the lack of time people have had to consider the consequences and come up with alternative proposals. Other people have said that they can see the rationale, but again they are concerned about the people who are going to be most affected. For example, the workers that you represent have been identified; women in the retail industry on their feet all the time and, in particular, women who do not have adequate superannuation. Have you been able to look at any of those issues and have you had any discussions with government about it?

Ms Coad—No, we have not had any discussions at this stage. We would probably have a similar view to those that you just raised. We can certainly see the rationale, but when you are talking about people who have an average of \$10,000 to \$12,000 in superannuation when they retire, that is obviously not an income that they are going to be able to live off for any period of time, so the age pension is a critical source of income for them in retirement.

Senator SIEWERT—Thank you.

Senator BOYCE—Do I take it from what you told Senator Siewert that you are happy with every aspect of the pension reform except for the extension of the entitlement age for the pension?

Ms Coad—Yes, I might just clarify that. We are certainly happy with the increase in the base rate of the pension. We probably have not put much thought into some of the other areas, but on a quick glance we do not have any opposition to them.

Senator BOYCE—We had evidence earlier today pointing out that about half the people who go on to the age pension have been on some form of income support previously and the suggestion was made that this would include people who had physically demanding employment and had therefore perhaps stopped working earlier than the pension age.

Ms Coad—Yes. That might be a possibility with some of our members as well, but we also might have some members who continue to work. As I said, they are often part time and on very low incomes. They may still have a small entitlement to some other social security or some other income support before age pension age in addition to some part-time work that they might be continuing to undertake.

Senator BOYCE—I am trying to get a sense of the work path of the sorts of people you are talking about. I am getting the sense that perhaps people might work to 50 or 55 and then, because of injury or the like, go on to some sort of income support, perhaps with some part-time work, and hanging out to get to 65. Of the people we are talking about, who will be most affected by this change?

Ms Coad—In terms of our members, I do not have any figures in front of me in terms of what proportion of or at what age people might move on to some sort of payment before retirement age, but anecdotally I know that in our industries there are definitely people working into their late 50s/early 60s. We would have a number of people who would continue to work through to the current age pension age or retirement age, but I am sorry, I do not have the figures.

Senator BOYCE—Can you provide us with any figures on notice?

Ms Coad—I can certainly look into that and let you know.

Senator BOYCE—Has there been any discussion within the membership of other ways that this might be addressed other than not changing the pension age? Are there some sorts of transitioning payments, schemes or programs available for people whose jobs just simply mean they cannot do it for their whole working career?

Ms Coad—As I said, we have not had an opportunity to have any consultation with our members or discuss in any more detail some alternatives.

Senator BOYCE—Again, I am just trying to get a sense of how big an issue this is. I used the term before ‘people who hang out to get to 65’. Can you talk anecdotally in any detail about some of the people that this would apply to?

Ms Coad—I can anecdotally. In the cleaning industry I have met a number of members who continue to work in that industry until age pension age, but at that point, because it is a physically demanding job, look very much forward to the opportunity to retire and discontinue that sort of work.

Senator FURNER—I have a series of questions. Firstly, you indicated that most of your membership is employed part time; is that correct?

Ms Coad—I would not know whether most are, but certainly a lot are. We also have industries where people have what you might term underemployment. Again, in the cleaning industry people might have limited hours that they work per week. For example, they might do two 3-hour shifts a day.

Senator FURNER—So, it could be part time or it could be casual?

Ms Coad—Yes. Certainly in the restaurant industry and hospitality there would be a lot of casual and part-time employment.

Senator FURNER—What would you suggest would be the average amount of hours per week, whether it be part time or casual?

Ms Coad—I would not want to suggest an average. I can certainly try to get back to you with some detailed figures.

Senator FURNER—Thank you. You indicated that the hospitality industry is the second highest with respect to injuries, only second behind construction.

Ms Coad—Yes. That is for women. Those figures come from the ABS from 2007. From ABS 2007 figures accommodation, cafes and restaurants was the top industry that had the highest work related injuries for women, and that was 98 per 1,000 employed women.

Senator FURNER—Do we know what the range of injuries was?

Ms Coad—I do not have that information in this data, no.

Senator FURNER—Looking at superannuation, many unions have been successful in some areas—not in all areas—in negotiating superior levels of contributions. In these particular industries that you are referring to has your union been successful in negotiating higher contributions at all?

Ms Coad—Across some of them it has. I guess the issue is that even with a higher rate of contribution when you are starting from a really low income that does not significantly increase the amount of money that you retire with in a superannuation fund.

Senator FURNER—Do you have a standard superannuation fund that you have your members covered by at all or is there a degree of choice across-the-board?

Ms Coad—Yes, there would be choice and it would vary across industry.

Senator FURNER—How have those funds been performing?

Ms Coad—I am not sure. Like most, I would imagine not too well in the past little while.

Senator FURNER—Part of the initiative—and I guess it goes contrary to what you are advocating—is the work bonus in the proposal where someone when they retire can do part-time work. Given the evidence that you have provided today in terms of difficulties with illness and injuries, are you familiar with that and would it be of benefit to your members when they reach retirement age, that is, still being able to perform some degree of part-time or casual work without incurring any disadvantage to their pension?

Ms Coad—I have not looked at that amendment in detail, so I am not sure that I completely understand what it is proposed to do. There would be a number of our members who would continue to do some part-time work after retirement, but predominantly we would say there probably is not given the physical nature of those jobs.

Senator FURNER—Thank you.

CHAIR—Thank you. If there is anything that you do want to send us, please do so, because this is going to be an ongoing discussion, but we are due to bring down this report on Wednesday.

Ms Coad—Yes. I will try to gather some of those figures and pass them through on Monday.

CHAIR—Thank you for your time.

[1.34 pm]

BEAUMONT, Ms Kate, President, National Welfare Rights Network Inc

PAGE, Ms Samantha, Executive Director, Family Relationship Services Australia

QUINLAN, Mr Francis Gerard, Executive Director, Catholic Social Services Australia

Evidence was taken via teleconference—

THOMAS, Mr Gerard, Policy and Media Officer, National Welfare Rights Network Inc

BROWN, Mr Michael, Director, Government Relations, Uniting Care Australia

HELYAR, Ms Susan Jane, Director, Services Development, Uniting Care Australia

CHAIR—I have put on record that we know this is a very short time frame, but as you would understand it is a budget measure and that is why it has been brought on so quickly. We thank you for making the effort to appear and for providing submissions. I have to admit to both Uniting Care and Catholic Social Services that I have not read their submissions yet, as they have just arrived and they are both big.

Mr Quinlan—They probably arrived after I did.

CHAIR—They will be on record when we are working to put the response together. We are now bringing down this report on Wednesday next week. I am aware that there are opening statements, so we will start with Uniting Care, move down the line and then we will get into questions.

Ms Helyar—Uniting Care Australia welcomes the opportunity to contribute to this inquiry. We are here today representing the national Uniting Care network, which comprises 1,300 sites for social service delivery, 35,000 paid staff and 24,000 volunteers who work in inner city, urban, regional and remote communities across every state and territory.

Our services engage every day with older people, people with disabilities, Indigenous communities, families and individuals, many of whom are disadvantaged, vulnerable and receive income support. Uniting Care Australia believes that in a social democracy government is responsible for ensuring that each citizen has access to the means and supports for a decent life and the definition for that is in our paper. Adequate income support is a fundamental component of ensuring a decent life for all people and is a core responsibility of government.

We have a long and proud history of partnering with communities and with government to deliver services and support, and to enhance the capacity of people in communities to fulfil their potential and meet their aspiration, so our submission reflects the knowledge that we have gained through this experience.

Our submission to this inquiry has been based on three core principles for income support: it should be adequate to support a decent life; it should be equitably distributed on the basis of need, not on what demographic category you belong to; and it should enable long-term participation in the social and economic life of the community. We would like to acknowledge the significant step taken by the current government to respond to longstanding calls for increases to income support payments and the measures outlined in this bill are essential. However, we disagree with the decision to limit the increase in payments to people on age, disability, carers, wife and widow B, special needs pensions, veterans and bereavement allowance recipients. People on unemployment benefits, single parents, people under the age of 21 who are on disability support pension, and especially people on youth allowance receive significantly less income support and experience ongoing financial hardship and deprivations as a result.

As we enter a time of increased unemployment and reduced labour market options for people facing barriers to employment even more people will be facing long periods of reliance on completely inadequate income support payments.

That said, the new indexation and benchmarking arrangements outlined in this bill are noted, especially the decision to calculate a pensioner and beneficiary living cost index separately from the consumer price index. However, it is not clear to us how indexation will work under the changes proposed in this bill and whether income support recipients will benefit from the indexation change, which is a key concern of ours. If there are benefits to these indexation changes they should be applied to other income support payments as well. We think these changes would be complemented by an additional measure, which is the establishment of an entitlements commission, as advocated by Catholic Social Services Australia.

We have a few specific concerns with the bills. The new work bonus will enable age pensioners to keep more of the money they earn from work by reducing the effective marginal tax rates faced by age pensioners. This same principle, equitable treatment of income regardless of its source, should be applied to income earned by people on other income support payments.

The decision to raise the qualifying age for the age pension will disproportionately disadvantage people who have experienced barriers to employment during their working lives, particularly women who have been out of the labour market because of caring responsibilities, who face extremely limited employment opportunities as they re-enter the labour market in their 50s and 60s, and men and women who have become unemployed later in life, often as a result of industry restructuring, that removes low skilled and manual labour jobs from the economy.

Another concern is the flexible arrangements for accessing advances on payments. They are useful. However, we would not think that was a substitute for ensuring the adequacy of income support overall. The experience of our agencies in providing emergency relief and financial counselling would suggest that people on income support have extremely limited capacity to build up savings, and poor access to financial services that provide affordable credit on equitable terms. Long-term reliance on both advance payments and emergency relief make people on income support extremely vulnerable to relatively small economic shocks, both in their own lives and in the country.

We look forward to seeing whether the increased investment in financial inclusion products and services announced in February this year will address these problems, but we also call for the government to monitor and report on demand for advance payments as one way of assessing the adequacy of income support payments in the longer term.

The implication of pension reform in aged residential care is also a concern. Uniting Care Australia has put on the record through several other parliamentary processes our call for substantial reform in policy and funding for aged care. The provision of additional funds through an increase in pension payments is a small step in the right direction. However, we have two concerns. All people in residential aged care, especially those in high care settings, are entitled to better levels of funding to ensure their needs can be met. Residents who are pensioners should not be the primary source of additional funding into the system. Changes to pension based contributions and other government provided subsidies have added yet another level of complexity to the funding arrangements for residential aged care, so determining the eligibility for and allocation of the subsidy levels, and therefore the funding available for each resident, has got that much more complicated and we have not seen any information from the government or the department indicating that there will be any additional funding provided to aged care services to ensure the cost of fulfilling this added administration task is not redirected from provision of care to meeting administration costs.

I would like to note that, given the time available to prepare for this inquiry, we have not provided a comprehensive assessment of all aspects of the bill, but we would like to concur with a number of other submissions, particularly the submission made by ACOSS earlier today, and to affirm again that we support the concept of an entitlements commission, which Mr Quinlan will talk about further. Thank you for the opportunity to participate.

CHAIR—Thank you. Mr Brown, do you have any comments?

Mr Brown—Nothing at this stage. Thank you.

CHAIR—We will now move to National Welfare Rights. I believe we have the President of National Welfare Rights on the phone. Ms Beaumont, will you or Mr Thomas be making an opening statement from National Welfare Rights?

Ms Beaumont—It will be me.

CHAIR—Thank you.

Ms Beaumont—I wish to thank the committee for providing us with the opportunity to talk to you today. We are appearing on behalf of the National Welfare Rights Network, a national network of 14 community legal centres that specialise in delivering information and advice about social security law and policy to clients all around Australia. Our network is dismayed at the short timeframe allowed for this inquiry for such important changes to our social security and family assistance system. We wish to set out some of the key issues that we have identified in relation to the provisions of the proposed bill concerning the changes to tapering, indexation, the pension age, restrictions on who will receive the increase and the impact for single parents.

Whilst the National Welfare Rights Network welcomes the spectre of a widespread review of our pension system through the Harmer review, we have seen through the terms of reference that some of the most vulnerable within our community have been ignored. At a time when we are looking to the government to ensure the livelihood of those on income support payments we see the increases to the rate of payment to single and couple, age, disability, carer and veterans pensions as positive outcomes. The exclusion of those on parenting payment (single) from receiving the increase is a retrograde step that severs the 30-year tie between the rate of age pension and that for sole parents. Even more disregard has been paid to those who receive even lower rates of payment, including the unemployed and independent students, who following on from the 2006 welfare to work changes include at least 20,000 sole parents and also many with disabilities who no longer qualify for disability support pension.

We see the disconnect between payment rates going to recipients of different welfare payments as further widening the divide and reinforcing views within our community that there are people who are deserving and undeserving of adequate income support. Potentially the gap in payments will provide more perverse disincentive to participation by creating the need for people to try to access one payment rather than another, which goes against the objectives of the government's participation agenda.

The National Welfare Rights Network is concerned that as well as being excluded from the pension increase single parents will be further disadvantaged by the changes to the additional income free area permitted for dependent children and the changes to the family tax benefit indexation arrangements. At a time when single parents are being encouraged to participate in employment and at least 38 per cent of this group are in some paid employment the changes will result in a reduction in the rates of payments to those who are trying to work and raise children. Furthermore, the altered indexation arrangements for family tax benefit will mean that into the future the rates of child payment will fall behind, as has occurred for other payments only linked to CPI increase.

While the National Welfare Rights Network is not opposed to better targeting of payments to the most disadvantaged within our community it is clear that these measures will impact on children and have the potential to increase the numbers of children living in poverty in this country. Over the next four years this one initiative will take \$1 billion out of the mouths of children in our community.

The National Welfare Rights Network is supportive of changes to the pension taper rates, but does not support the change to increase the age qualification to 67 years, as is contained in this bill. Whilst accepting that people live longer than when the age pension was first introduced, it needs to be understood that currently almost half of those going on to age pension are already receiving income support payments. The change of the age pension qualification age will result in many older people being left on lower allowance rates of payment for longer periods. We should be making adequate provision for them at a time when they may be less likely to find further employment due to disability, caring responsibilities and in light of labour market trends that make it more difficult for older workers to find employment.

In conclusion, the National Welfare Rights Network urges the committee to ensure that the bill is amended to include those on parenting payment (single) receiving the increase provided for other pensioners. Furthermore, we call on the government to introduce new legislation to address the inadequacies of payments to the unemployed, students and those excluded from the proposed increases to pensions as a matter of urgency.

We also call on the committee to reject changes to the additional dependent child-free area and family tax benefit indexation arrangements as these will particularly disadvantage single parents and their children. We urge the government to consider practical targeted measures that better align the preservation age of superannuation to the current age pension age rather than increasing the age pension age to 67.

Finally, we reiterate our network's concerns that this important legislation is being rushed through, providing little chance for discussion and debate in relation to these major changes that will impact now and into the future. Our network would also like to provide a written submission to the inquiry, if possible.

CHAIR—Ms Page, would you like to make an opening statement?

Ms Page—We are just really going to reiterate many of the points that other people have already made. We have produced a very brief submission. Our primary concern, as others have stated, is the impact on children of having parenting parent not included in the pensions that will be increased. We have also supported the call that other groups have made for that to be looked at and for the unemployment payment, Newstart, to be looked at as many Newstart recipients are also parents who are financially responsible for children. We see

that group as highly vulnerable, along with single parents on parenting payment, as households living in poverty, and we are very concerned about the impact on children. We also think it is at odds with the substantive national agendas around child protection and work being done to strengthen families to support children and reduce the number of children exposed to neglect and abuse, which is unfortunately strongly correlated with poverty.

We have also included in our very brief submission to this inquiry support for the call by Catholic Social Services Australia for pension rates to be set independently. We think that would be a significant improvement. We also have some concern about the changes to indexation rate on family tax payments. We are not opposed to tightening and targeting family tax benefit payments at all, but we do not believe this particular change is in the best interests of low-income families and the children they care for.

CHAIR—Thank you. Mr Quinlan.

Mr Quinlan—Thank you for the opportunity. I will be very brief but just draw your attention to a number of issues raised in our written submissions that I believe you received very recently. I would also highlight our concurrence with other submissions that you have received. I especially note the submissions from St Vincent de Paul and ACOSS, which really do underscore the importance of the issues that we are dealing with. In particular, there is a concern that this is not just about income but also about dignity and self-respect for some of Australia's most vulnerable.

We certainly welcome any increase in pensions and the recent increases are welcomed. As others have already indicated, we remain concerned about the fundamentals of the process for setting pensions and entitlements and have made some proposals about that. Previous governments have established the Fair Pay Commission. The Fair Pay Commission is essentially conducting an independent assessment of the needs of low paid employees and making a recommendation about where the floor price in low wages ought to rest. We are essentially saying to employers, 'Here's a point and below this point you may not pay less than this because it is not befitting of the dignity or the needs of the individuals who are working for you', but we place no such restrictions on governments and I think that is a flaw in the argument. The current process for setting pensions and entitlements rests largely on what our Prime Minister has called the argy-bargy of politics. The loudest voices sometimes get a political opportunity to get a breakthrough, but the lowliest voices seldom do and hence we track in the papers before you a long history of adhocery, bonus payments and nonsense in terms of the way pensions are set.

We renew our calls in this context, to have an independent mechanism to establish what the floor price ought be for people who are vulnerable and who are dependent on the community purse for not just their income but also their self-respect. I am happy to talk in more detail about that, but there is more presented in the submissions before you.

Also, I would like to add that in our submission we reject the argument sometimes put in relation to excluding some people from pension increases or for keeping some payments lower, that this is a respectable strategy for promoting workforce participation, and we make a number of arguments as to why we think that argument fails fundamentally.

We also present some new data from a different context. The chair of the Australian Catholic Commission on Employment Relations, Mr Brian Lawrence, recently made submissions to the Fair Pay Commission that we think detail some considerable problems in the way in which housing costs and payments have previously been calculated in our contexts and some new information that we think suggests that traditionally housing costs have been significantly underestimated and the available income for some low-income groups has been significantly overestimated. We hope that relatively new information might also be of assistance to your inquiries.

CHAIR—Thank you. Senator Siewert.

Senator SIEWERT—I was quoting St Vincent de Paul's work this morning to ACOSS and I had forgotten it was actually—

Mr Quinlan—That is okay. We are among friends.

Senator SIEWERT—I might start there. As I understand it, the proposition in the paper and the work that has been done is that the wrong calculations on housing costs are being used to calculate the Henderson poverty line. Is that a correct understanding?

Mr Quinlan—Yes, or simply that the adjustments since the Henderson poverty line has been established have not adequately taken into account the changed costs of housing.

Senator SIEWERT—Then there is the impact that has on the costs assumptions for low-income earners, which is then too high.

Mr Quinlan—That is right. In the particular case of the Fair Pay Commission that is coupled with a miscalculation about the availability of rent assistance to some of those low-income households, which is calculated on the basis that the full amount of rent assistance is available to all of those people under consideration rather than some averaged figure, which is probably much more realistic.

Senator SIEWERT—It is probably worth noting that I have asked in estimates for the yearbook figures. As I understand it, FaHCSIA has undertaken to get back to us with the most recent figures.

Mr Quinlan—That is excellent. It will not surprise you to hear me say that I think those sorts of issues really do underscore the importance of establishing some sort of objective and transparent mechanism to establish costs and so on. Our current processes for setting pensions and allowances do not allow us to have any of those sensible debates about what real estimates of costs ought to be.

Senator SIEWERT—I do not know whether you want to go topic by topic rather than agency by agency. Can we go topic by topic? I think that would probably be better.

CHAIR—I remind the other senators that if you have questions on particular topics just jump in at the time.

Senator SIEWERT—I would like to go to the tapering issue first. I think it is fair to say that most organisations—I will say ‘most’, because the Association of Independent Retirees and the Australian Council of Public Sector Retiree Organisations disagree—that have presented this morning have all said they would rather not have the change to the taper rate but they do not strongly object to the changes in the taper rate. What are your opinions on the changes to the taper rate?

Ms Helyar—We would defer to people like National Welfare Rights, who are way more qualified to speak on this than we are.

Mr Thomas—That is putting me in the hot seat. Thank you for that.

Senator SIEWERT—We do not have a spotlight.

Mr Thomas—Yes. There are no cameras here. We are on record as supporting taper rates before the budget changes were announced. Part of our concern is that if you are going to have a tightly targeted system the only way to provide a substantial increase to the pension—and that is what we got, a historic increase in pension levels—was to cut back on what we saw as excessive taper rates, which have been built into the system over a long period. The current 60c in the dollar taper rates were introduced in 2000 as a result of the goods and services tax. That was very generous, particularly when you compare those taper rates and the income free area for pensioners, which is \$71 a week, with income free areas for people on Newstart, which is \$31 a week. That rate has not been indexed for about 30 years on dollar for the GST, and also the cut-out rates for allowances at 50c and 60c in the dollar are much higher than for pension increases. As it is they are still quite generous in terms of the cut-out points for people on pension rate payments. You are still looking at incomes of probably up to around \$700 a week getting some part pension. When you compare that with people working, that is a quite reasonable level of income.

Previous to this the National Welfare Rights used to work with pension organisations. We would go cap in hand year in, year out to get a \$1 or \$2 increase for the pension. This is a magnificent achievement for people who are getting that increase. It is unsustainable to provide that so it flows right through the system and it is unfair on working people as well. Obviously it begs the question about the anomalies now that are built in there about the taper rates for people on Newstart allowance and youth allowance as well.

CHAIR—Mr Thomas, when you worked in the pension area was the issue of the taper rate an important one, from the pension perspective?

Mr Thomas—It has been for many older people. The focus of the group that I worked for at the time, the Australian Pensioner and Superannuants Federation’s—and still with the combined pensioner groups and things like that—was on old people on the very lowest of incomes. The focus really was to provide something adequate at the bottom end of the scale, recognising that you cannot provide a substantial increase for people right at the bottom. There are a million or so people just on the full pension. Thirteen per cent of age pensioners have just the pension alone, single pensioners. This was seen as a reasonable trade-off. Certainly

people are not going to be happy about it, but that was the only way we thought it was sustainable and fair to the community as well in the long term.

CHAIR—Do Relationships Australia or Catholic Social Services have any input on the taper rate?

Mr Quinlan—No.

Ms Page—We do not have a view on the taper rate. We have made some comment in our submission about changes to family tax benefit and whether it would be better to taper that rather than change the indexation regime, but that is a different issue.

Senator SIEWERT—I want to go on to that. I thought I would get the easier ones out of the way first.

CHAIR—Do any of the other senators have any questions on the age pension taper rate changes?

Senator HUMPHRIES—No.

CHAIR—Senator Siewert, next topic.

Senator SIEWERT—I would like to turn to indexation for the pension and then we will come back to the family tax and the lack of increase in other pension areas. Most people seem fairly happy with the changes that are proposed with the new indexation process for the pensioner index and the changes to the MTAWWE process. Is that the case?

Ms Helyar—We were not clear that we were happy.

CHAIR—You had to be clear on what it was first.

Ms Helyar—Yes.

CHAIR—We will be asking these specific questions that you have raised with the department, who are the next witnesses. If you have a specific question about why you were not clear, we can give it to them.

Ms Helyar—The specific concern we had was decoupling. Average Male Weekly Earnings is generally a better reflection of increasing standards of living across the community than other measures, so we would want to make sure that any move away from that did not mean that people were falling further behind the standard of living of the broader community.

Senator SIEWERT—We went through this in quite a lot of detail at estimates and it took a long time, because it is quite complicated. We are going to check this, but it seemed to me that they are introducing the new measure and it is still how it used to be, in other words, the best outcome of the three. That is what I think it is.

CHAIR—That is what I think it is.

Senator SIEWERT—We are going to double check that. If that were the case would you be happy with that?

Ms Helyar—The best measure of the three is good, but the question is whether people are still falling behind the standard of living increases of the general community. That is the key concern; that that is what has happened for people on income support over a long time. If any of these measures keeps that in place then they are all inadequate.

Senator SIEWERT—As I understand it, this is only to apply to age pensions. It is not applying to the others. We will get there in a minute in terms of the other pension payments.

Mr Thomas—Are you saying that within MTAWWE the 27.7 is only for age pensions?

Senator SIEWERT—That is how I understand it. I would love it if I were wrong.

Mr Thomas—That has not necessarily been clear. It will see, again, another differentiation between different groups of people on income support. It is already so terribly confusing now, and to add into this mix 25 per cent, which I presume single parents will be benchmarked against. But I thought other people were getting the federal increase, benchmarked at 27.7 per cent. It would be a concern if that were the case.

Senator SIEWERT—I am sorry, I may have misled you. It is for the group of people that has been increased. They get that. But the people that have not do not get the new—

Mr Thomas—That is going to mean that the single-parent pensioners are going to fall further behind. While they are not getting the \$30 increase in the pension plus the supplement, it is going to be indexed to that higher rate. There is going to be a gap between not just pensions and allowances now but payments to the deserving pensioners, if you like, and sole parents as well. Different rates of payments—I think four now—

will creep into the system. As far as the beneficiary and pensioner measurement for CPI, I know it has been a longstanding source of frustration amongst older people when they go to the supermarket and they do not think these measurements live up to what they are finding. Over a long time it is swings and roundabouts with what happens with the CPI, but the main thing is that the best of the measures are going to be benchmarked and so people's payments are secure and will be maintained to community standards. That is a good outcome for pensioners, but not great for other groups.

Senator SIEWERT—Are there any further comments on that issue?

Mr Quinlan—It is impossible for me to understand why you would have different indexing regimes for different payments. I can see no justification for that whatsoever. If the aim of indexation is to keep payments up to date, I can see no logic at all in having different rates of indexation or adjustment.

CHAIR—Ms Page?

Ms Page—I was just going to add also that the complexity of it and the science that needs to go into it is another reason it really should be handled independently of a political process or a departmental process. There are no easy answers, but whatever is the best and fairest way should be applied to everybody, and that needs to be determined by the experts.

Senator HUMPHRIES—Do any of you have experience with the application or have understanding of how this special pensioner cost of living index might work? A couple of years ago I asked FaHCSIA in estimates how pensioner increases would have changed had that factor been included in the adjustment formula, and I believe the answer I received was that of the previous 20 increases in the pension only one would have been higher as a result of the use of that special pensioner indexation rate. It was almost always because MTAWA ended up being higher than the pensioner increase. Do any of you have any insights into how this formula actually works and why it would be a valuable ingredient in that calculation?

Mr Thomas—Many years ago the ABS did a study into this whole issue. I was on a committee at the time that looked at whether there should be a different indexation for pensioners and beneficiaries. As you were saying, they found over the longer term there would not be much difference. But take it from the perspective that people are seeing that computers and a whole lot of things that they do not buy, say, travel, are in, but they spend more on food and this does not make sense to them. I am not sure in reality what great difference it is going to make. Obviously it is very expensive.

There has been an experimental index for linking a beneficiary, which has been tracked for a number of years. I am not sure of the outcomes of that, but I am assuming that has fed into the development of this new index. It is a constant source of complaint from older people about the CPI. I am not sure whether that is what is behind this new measure or whether there is more to it. We will have to wait and see. To be frank, I am not sure.

CHAIR—I remember that interchange—

Senator HUMPHRIES—Yes, that is right.

CHAIR—Senator Furner, do you have any questions on the indexation?

Senator FURNER—Other than on the last comment about seniors having an issue/complaint with CPI, do you think it is an issue associated with the lack of science perhaps of how it works or how it fluctuates with people having a concern with how it goes up and down?

Mr Thomas—I think it is related to what they are buying at the supermarkets. There are certain things like the cost of medicines and food. They notice the increase in the basics of milk, bread and things like that; they are on a very limited budget. They even notice the GST not being on food. There is a lot of talk about utility increases. It is those sorts of things that are biting people and where the concern is. I am not sure what this is going to mean in a practical sense, but people are often puzzled when the pension increase comes because, in their experience, they think it should be more.

Senator FURNER—I was asking a previous witness about a submission we received from the South Australian Superannuants. They relied upon the relationship with the CPI. They used 2.5 per cent, which is the current March annum figure, as opposed to four per cent under the MTAWA; whereas the previous annum figure was 3.7 per cent in the CPI. It does fluctuate. I give it that. It goes up and down. Even back in June 2000 it was six per cent when the GST came into play. It would be interesting to do some research into how it has averaged out over time.

Mr Quinlan—This is quite accurate and simple once you understand the mechanism. I do not claim to understand it but for those who do it is quite simple to plot the trajectory of various payments and you can even do some of that historically, imagining that different indexes were applied. I do not need to see the graphs to know what that will show is that some of our benefits—Newstart and unemployment benefits—are going to hit the floor some time in the next decade because of the separation between them and pensions in terms of growth. We are building in a process or a problem that is going to have to be fixed. A government is going to have to fix this problem, and the day that it is going to have to fix it is sooner rather than later.

Ms Helyar—The other thing that I would add to that is in thinking about the difference between the CPI and the lived experience of cost of living increases. The Household Expenditure Survey data is quite instructive on it. It says that people earning less than \$25,000 a year and then the next quintile up, earning less than \$40,000, spend 60 per cent to 70 per cent of their income on utilities, housing, food and transport. They are the things that through the last few years, particularly as a result of scarcity of foods, oil supplies and those sorts of things, have gone up much more than things like electronic goods, which are part of the basket of goods that the CPI includes but are not things that people are buying who are on the lowest income. There is a mismatch between the basket of goods that the CPI includes and the basket of goods that is purchased by the most disadvantaged households. If there can be some work done to address that it would make a lot more sense to people who receive these income support payments.

Senator SIEWERT—Is that what you would see an entitlements commission doing?

Mr Quinlan—That is one of the things it could do.

Senator SIEWERT—Is that the sort of independent work that you would expect them to be doing?

Mr Quinlan—Yes.

CHAIR—Next topic?

Senator SIEWERT—FTB.

CHAIR—Senator Siewert.

Senator SIEWERT—Another one of the changes that affects sole parents is the issue around the FTB and the freezing of FTB for three years, the maximum rate. Again in estimates I asked and confirmed that all income support recipients who are parents who get FTB are on the maximum rate, so it is affecting them straightaway. It also then obviously affects low-income earners as well, but I do not know the percentage breakdown of those who are on the maximum rate and how many low-income earners are affected by that freeze. We know that single parents are affected by it. I think it is a saving of about \$1 billion over four years. That is obviously a significant amount of money, but it is also a significant amount of money for the people that receive the payments. How much do single parents rely on FTB to supplement their income? What sort of impact is it going to have?

Mr Quinlan—I cannot give you a detailed analysis, but I note in St Vincent de Paul's submission that they estimate that 30 per cent of the people they currently assist are sole parents. I think it is fair to deduce from that that any reduction in payments that are going to single parents is going to have a dramatic effect not just on them but also on the agencies serving them.

Ms Page—That is not just St Vincent de Paul. That is across-the-board of emergency relief provision. Sole parents are well over 30 per cent of the clients most frequently seeking emergency relief, crisis payments and assistance. We just had 24 hours to pull together a very quick submission for you and it does not have as much data as I would like it to have. There is a wealth of data about poverty, disadvantage and the difficulty that single parents face when they are living on income support and/or low-income earnings. Was it \$1 million over four years?

Senator SIEWERT—It was \$1 billion.

Ms Page—That has to make a big difference to single parent households—more difference to them than I would say to the Commonwealth, particularly when we are having to increase expenditure on emergency relief payments, crisis payments, crisis services and homelessness services, which are supporting this very target group.

Mr Thomas—It is another in the range of measures in the budget that negatively impacts upon the finances and the financial situation of single parents. Not getting the pension increase and the fact that the FTB will in future increase at a lower amount than the current system. In addition, add the change—and I have not seen other witnesses give evidence about this—that the government is arguing that for measures of consistency it

needs to remove the additional pension-free area for children. That is currently \$24.30 a fortnight and it deals with the additional costs of raising children. There is an additional income free area per child.

According to the Harmer report, 38 per cent of single parents work either full time or part time. You would presume for most of them they are earning above, say, the income free area. The changes in the budget will mean a hit to their pockets of \$6 per child if they are working. That is another cost that you need to factor in in terms of the impact of this on parents. The other issue that is a concern is that while parents' hours are being reduced because of the global crisis, at the same time their ex-partners are often full-time males losing their jobs. That translates into child support payments being reduced.

Certainly a month or two ago Welfare Rights was in the paper raising a particular issue and Minister Ludwig, as it was at the time, agreed that was a concern. Again, there are a number of hits in the budget that are impacting negatively on parents. That is very unfortunate, particularly for those parents who a few years ago were affected by the Welfare to Work changes. They are going to find the difference between what payments they are on and what a parent on parenting payment is going to be on, which is going to be quite significant with the cumulative changes in the last few years. It is not a good story. It is great for age pensioners and other pensioners, but it is really bad news for parents.

Ms Page—And for their children in that particularly vulnerable group.

Mr Thomas—Yes.

Ms Page—I am looking at the rates of family tax benefit and at the proportion of that of overall income. You are looking at around a quarter of total income. If your only source of income is parenting payment and family tax benefit payments then to not have a quarter of your income appropriately indexed has to be significant. I wish we had time to do the figures for you. We can perhaps go away and try that. That has to be significant.

Ms Helyar—I reiterate what we said in our submission to the pensions review. This is incredibly complicated and potentially the lack of understanding of how FTB is working and what it means for individual households is a disincentive to seeking work, because people are worried about what will happen to their income support as they move into employment. In our pension submission we called for proper benefit counselling to be part of a major component in any changes that are happening. Given the complexity of some of the changes that is even more important now so that people clearly understand what it means for them and they can be making properly informed decisions.

Ms Page—It may be relevant to this question that there was a graph presented by Treasury at a recent ACOSS symposium on tax that showed the effective marginal tax rates for low-income families/parents moving from income support into the workforce. It was extraordinary. There was a spike on the graph.

Senator SIEWERT—Are you talking about people on low incomes and the margin?

Ms Helyar—What they lose in terms of income support to what they gain in terms of wages.

Ms Page—It is how quickly the family tax benefits and other benefits cut out, such as the healthcare card, particularly if you have a child with a long-term health issue or a disability. And also how quickly the payment itself cuts out for the relatively low level of earnings that you are likely to have as you first make that transition out of long-term unemployment particularly into work. It was certainly acknowledged that the Henry review was aware of this, was looking at it and had looked at the quantum of payments to that population.

Mr Quinlan—I would draw your attention to page 3 of our submission. We make a reference to the work conducted by NATSEM on precisely some of these issues. They have done quite a comprehensive breakdown of the effective marginal tax rates and the effects of various movements in payments. As Ms Page has suggested, even for some groups, say, those on a marginal income of 16.5 per cent, the effective marginal tax rate can end up being 98 per cent, which is a considerable disincentive to change your circumstances.

Ms Page—Then you need to be able to afford childcare on top of that, which is not counted.

Senator SIEWERT—Mr Thomas, while it is in my head I would like to go back to the issue around the pension-free area for dependent children. Let me get this right because, as you said, it is an area that no-one else has brought up as far as I can recall, and these measures take that away. People have been focused on the other things that we have been talking about.

Mr Thomas—There was one line in the media release around the taper rate changes. It mentioned something about making it consistent between allowances. The only consistency is that it is consistently bad,

from that point of view. I cannot say anything positive about it. Consistency works both ways. I did try to find further information in the papers. I have not read it. I would like to be told by FaHCSIA that I am wrong on this, but it certainly is a concern. It is true on allowances that payments were never meant for children, anyway, so you do not have that with allowances. People on Newstart or principal carers affected by Welfare to Work changes do not have that extra income-free area. That is what I am assuming is going to happen. It is for pensioners, so if you are a carer pensioner, if you are a person on disability support pension and you have a dependent child, you get access to that extra dependent child-free area. It is going to affect a lot more pensioners than just single parent pensioners.

Senator SIEWERT—They are doing that for all pensioners?

Mr Thomas—That is my understanding, yes.

Senator SIEWERT—We will check with the department. The point here is that they are also changing it for single parents.

Mr Thomas—Yes.

Senator SIEWERT—But on the pension side of things they are actually putting in the new work bonus.

Mr Thomas—Yes.

Senator SIEWERT—Does that make sense?

Mr Thomas—Let us see how the work bonus would work. I have not thought about that. That might mitigate it for other pensioners; you are right.

Senator SIEWERT—But single parents do not get the work bonus.

Mr Thomas—No, that is right. That could be the case.

Senator SIEWERT—I will double check that with the department.

CHAIR—Does anyone else have FTB questions?

Senator HUMPHRIES—No.

Senator FURNER—No.

Senator SIEWERT—I would like to ask a general question. How many children do you calculate are living in poverty at the moment?

CHAIR—Does anyone have a number for that?

Senator SIEWERT—The comments have been made in the submissions—and Ms Page commented earlier—that there is going to be an increasing number of children living in poverty under these changes. ACOSS made the same statement. Do we have some numbers? As I understand it, there are 300,000 single parents and 600,000 children who are being supported through Parenting Payment (Single). I am trying to get a picture of how many people are going to be affected by these changes. Does that make sense?

Ms Page—I would not mind taking that question on notice. There are so many different ways to define ‘poverty’. I know that we have cited different figures at different times, but I would like to go back and check to see which one we would feel most comfortable putting forward at this time. I think we would feel that any child living in a household that is completely dependent on income support is in poverty or very close to it.

Senator SIEWERT—They are already in poverty?

Ms Page—There would not be many households that are completely dependent on income support that you would say are comfortably over the poverty line. It would be at least the majority of those children, if not all of those children, that are certainly in poverty or close to it.

Senator SIEWERT—I am not trying to catch anyone out. There are going to be more affected children living in poverty and it seems to me that they already are living in poverty when they are on income support. The argument is that this is going to make the situation worse? Is that a better understanding of the argument?

Ms Page—Yes. In general, we have been raising this in a number of different forums. We work with the Child Support Agency, Centrelink, FaHCSIA and the Attorney-General’s Department. We have been calling for a national focus on children in poverty, because it has been so long since we have had that and I do not think there is a clear agreement around what constitutes poverty for children, what sorts of numbers of children we would be able to agree are at risk and how we track the flow-on impact through the service

system, the education system and the health system. The longer term impacts of that are substantial and there would certainly be a strong economic argument for doing something about it if we could quantify it.

Mr Quinlan—As I understand it, there are 360,000 sole parents and in the order of 600,000 children. That is an enormous block of children to start with, because we concur and suggest that any child living in a household that is entirely dependent on the parenting payment (single) for their support is effectively living in poverty.

Senator SIEWERT—Backtracking a little to FTB, the changes to FTB affect not only those on income support; they will also affect anyone on a minimum wage, as I understand it, because they are also on full FTB. Is that what your understanding is?

Ms Page—Yes. Family tax benefit A begins to taper when annual family income is \$41,000. Under that level they would be on full family tax benefit A.

Senator SIEWERT—They are affected by the changes as well?

Ms Page—Yes.

Senator SIEWERT—From the statements that have been made one of the reasons that was given for not increasing the carer's pension and disability through to single parents is that single parents get other payments. In particular, they cited FTB.

Ms Page—Yes.

Mr Quinlan—I do not remember who said this, but part of that debate was that single parents were actually receiving twice as much once you calculated some of those other benefits and entitlements, but it seemed to me that it ignored the fact that single parent households had at least twice as many people in them and possibly more than that.

Ms Page—The two tables I did manage to print off before I left the office looked at the rate that family tax benefit payments are made and the Child Support Agency calculations regarding the cost of children. Certainly with the cost of children against the family tax benefit payments you cannot say that the family tax benefit fully compensates families for the cost of children. That is really clear. If we had more time I might be able to put together some more coherent examples of that, but any household with children has additional costs and therefore should have additional payments. That does not mean that their base income should not be a liveable wage.

CHAIR—If there is nothing else on family tax benefits we will move to the next one.

Senator SIEWERT—I just wanted to go back. Obviously one of the big issues is the fact that the payment has not been made to sole parents. Is the position that the increase should go across all of them? I cannot remember the different categories off the top of my head, but they are actually paid under different provisions. You have benefits versus allowances and anybody on benefits should have been granted the same increase? There is also Newstart, because they are on allowances and they are separate.

Mr Quinlan—Our position is fundamentally 'a pox on both your houses' really. That is not the right question. Rather than suggesting how we can add a bonus payment, a top-up here or an adjustment there, we should make a fundamental assessment starting from a different question about what it actually costs these people to live in the community. As I said at the outset, we have certainly welcomed an increase in pensions. We would similarly welcome an increase in Newstart allowance, other payments and so on, but we still do not feel that we have answered a fundamental question, which is about what it would actually cost to raise these people out of poverty to perhaps frugal misery or something. We know that we are a long way below a reasonable benchmark now.

Mr Thomas—The pension increase for those people who are getting it is going to widen the gap between allowances in pensioners to about \$100 a week just for Newstart. As to any objective look at rates of Newstart, typically people are renting privately on Newstart. If they share with another unemployed person they receive the sharer's rate of rent assistance. That was introduced in 1997, which means that your rent assistance is reduced by a third. That affects age pensioners as well. There is a whole lot of costs that people on Newstart face that are different from those faced by people on the age pension. Unemployed people have the costs of looking for work and things like that. In some states if you are on a part-rate Newstart allowance you do not get access to half-rate transport concessions. I do not know how you are supposed to meet your activity requirements and those sorts of things.

Fundamentally, for people on Newstart, while 30 per cent of people on the age pension have income apart from the pension, about 35 per cent of people on allowances have no income apart from the pension. They have the same sorts of similar costs, and often more, because they do not get any concessions to help them with utilities and so on that pensioners get that have been rolled into these supplements now.

Whenever you look at the bonuses provided under the previous government and the bonuses provided with the stimulus package the notable omission was unemployed people, who miss out, and you have to ask why. You hear a lot of differentiation between unemployed people now and about people who have 'lost their jobs through no fault of their own'; that somehow that is different from people who are long-term unemployed. There is another category of deserving, undeserving or less deserving—or more deserving, I think they are. It is worrying that every time there is a comment about unemployed people it is caveated by having lost jobs 'through no fault of their own'. DEEWR's own submission to a Senate inquiry into the new penalty system set the facts straight, saying that one in three people on Newstart had a mental health problem, 18 per cent had drug and alcohol problems and 13 per cent were ex-prisoners. There is a range of issues there that we are not catering for. One of the key problems for allowance payments is that they are not indexed to MTAW. They are only indexed to the Consumer Price Index, so the gap is going to increase exponentially.

For example, for young people on Newstart allowance and students their payments are indexed only once a year. If you are looking at people's needs, it seems to be when you argue, 'Why didn't you give an increase to people on pensions?', the government's response is, 'They're much better off working.' We know that, but there are no jobs for people at the moment.

It is good that they are talking about productivity places and they have given increased assistance for newly unemployed through Job Network. They have changed the liquid assets test, but it does not put bread and butter on the table. It seems to be that, if you increase allowances by a few dollars, somehow you are going to create a whole lot of malcontents and malingers who will not want to work. These payments are really low. There was a rush by everyone to say they could not live on the pension, but no-one has come out and said they could not live on Newstart allowance. It goes back to this whole notion of the deserving and undeserving, which unfortunately is alive and well in some circles. I am not saying that the extreme versions of that, which we have experienced in the last few years, are not played out in public, but we cannot understand why you cannot provide a reasonable standard of living and encourage people to work as well.

Mr Brown—There does seem to be fairly good evidence that people in the categories that have not been included, particularly single parents and people on unemployment benefits, actually do face a higher level of hardship. If I can refer to the work by the Social Policy Research Centre that ACOSS referred to in its budget analysis. They found that 19 per cent of single mature-age people could not afford three or more essential items, and eight per cent of mature-age couples. But when you look at unemployed people, 54 per cent could not afford three or more essential items; 49 per cent of sole parents and 27 per cent of people with disabilities. Not only is there evidence that in difficult economic times people in the categories who have been left out from this increase are doing it just as tough; there is probably evidence that they are doing it even tougher.

CHAIR—Anyone else on this issue? Senator Humphries.

Senator HUMPHRIES—In the general area of poverty?

CHAIR—Yes.

Senator SIEWERT—I do want to come back to the age increase.

CHAIR—We are in the general area now and we have until 3 o'clock. I would like to hear from Mr Quinlan in a little bit more detail about his proposed commission. I know it is in the submission, but I think it would be useful to have that on record. We have time, Senator Humphries.

Senator HUMPHRIES—That is what I was going to ask about.

CHAIR—We think too much alike.

Senator HUMPHRIES—We do. That is a bit of a worry. Mr Quinlan, in your submission you say that a test that an entitlement commission should use to determine what is an appropriate level of income support is that a person has the goods and services necessary to live in reasonable comfort, maintain dignity and take part in the life of the community. Those are necessarily, I suppose, quite imprecise terms and are open to a variety of interpretations. How would you see a test like that operating in relation to a properly calculated poverty index, such as an updated Henderson poverty line?

Mr Quinlan—I think the most promising work is in the area of a budget standards approach. I think the Harmer review points to this as well. This is to really say that we need a transparent, objective, dispassionate and scientific way to document the actual costs for certain household types, and to document the interaction—and we list only some of them there—of the range of subsidies, other benefits and transfers that households might be either the beneficiaries of or that might be available to them. There are a number of pieces of work already. I think the SPRC has made the most progress in the area of actually documenting some of these approaches.

The decision about what you do with some of that information then becomes somewhat subjective and ultimately it is the parliament of the country that is going to be held accountable for those decisions. What we are suggesting—and I think frankly what we have demonstrated over the course of the last three-quarters of an hour—is that this whole system is almost impenetrable. It has become so complex, convoluted, disjointed, disconnected and ad hoc as to be almost incomprehensible. You might expect that some of us here would have a much better shot at understanding it than many people outside this room, so our suggestion is merely that we have people with considerable expertise not just in a budget standards approach to assessing the needs of households, but people who understand the tax and transfer system and people who understand business, the political process and the budget process to sit down and actually lay out some of this in an orderly and transparent way so that some of those subjective decisions can be made about how we reasonably approach those standards.

Senator HUMPHRIES—Would there be a significant difference between providing support to keep people out of poverty and providing support at a level to allow them to participate in the community and maintain dignity? Is it a question of relative outcomes for people?

Mr Quinlan—Sure. It is also a question of definitions of ‘poverty’. We would have to have some of those discussions. Again, the SPRC has done some of this work by starting to assess popular judgements about what poverty and what reasonable lifestyle might be. I think the evidence they are beginning to collect suggests that most of the population when considering the practical implications of low payments—things like kids missing out on excursions or families not maintaining adequate health care for themselves and so on—actually start to say that is a poor lifestyle and not something that we should be accepting in a modern society.

Laying some of those real impacts bare in a transparent way allows us to have a much more fulsome debate about what is reasonable and unreasonable. Ultimately, they are very practical questions and in fact in a sense in a sad way it becomes simpler for poorer households because so much less of their income is in fact discretionary. The questions around the edges actually narrow rather than broaden as you have a detailed look at what household expenditure looks like.

Senator HUMPHRIES—Is there any work available that might answer this question: to what extent is poverty in Australia the product of inadequacies of our social security system or our welfare safety net, and to what extent is it a product of other factors that prevent people accessing that safety net, such as mental illness, addiction, living in communities where there is not good information about where to find services and so on?

Mr Quinlan—I think you are right to identify that it will be a complex interaction between a range of those issues. It is fair to say that we could do a much better job—as I described in my introduction—of establishing some sort of floor price. I think we can say in a way that below a certain level we can be pretty guaranteed that there is simply not enough money in the kitty to meet the objective costs that we know are around food, utilities, healthcare and some of those things. I look forward to the day when we could have a political debate between the various parties about who was going to move further above that floor price.

Senator HUMPHRIES—That floor price only affects people who are covered by the safety net, does it not? The point I am making is that there are people who, for whatever reason, do not get to use the safety net or who use it but cannot use it to their full advantage because there are other factors that prevent them from using that resource to compensate for their—

Mr Quinlan—As we have discussed in other circles, there are people who get tangled up and stuck in that safety net and unable to move out. Rather than it being a safety net it becomes a poverty trap for people. There are some questions about how we better integrate those systems. We have made the point a number of times in relation to the recent employment services tender which saw, in our view, a number of very valuable community services lost principally, as you have mentioned, because of a lack of coordination across the system, that we think there would be great value in establishing a longer term vision for that safety net in the broader sense, and not just the income support part of it but in the whole provision of social services.

We saw the government recently produce a white paper that gave a 20-year horizon to Defence planning and expenditure. We would love to see something similar that suggested to us over a long period we could have a relatively bipartisan approach of saying, 'Here are the likely demographic trends of the next decade or so. Here is what the social services workforce looks like currently. This is where we think it's going to need to be in 10 years time. Here is the distribution of agencies that we have currently in mental health services and other supports.' If we could have a much more coherent approach to having that system work together I think we could do a much better job of ensuring that people—as you rightly identified—do not fall outside the services that we have currently. We do have a range of services currently that I think could be much more effectively used and much more closely integrated if we had somebody taking an overview for how they were implemented and working together.

Ms Helyar—I would like to add to that. I think it is a critical question that the income support system is part of a broader system of support to people who have particular barriers or struggles that they face. We have great hopes in terms of debates around new federalism and thinking differently about how levels of governments' interactions with people might be considered holistically about a person rather than about a system. Our analysis, which we put to the federal government, is that whilst you have a system based approach to provision of services there are always gaps, because it is not the job of any individual part of the system to ensure a holistic and comprehensive response to the needs of the person that might present anywhere in that system. There are structural problems, and one of the main ones is the structural problem between things like health services, prison services and housing services being primarily state based; income support is federal based and there is no proper way of thinking about what that means for an individual who is interacting with all of those different levels. That is a critical concern. Part of the cost that income support dependent households bear is the cost of dealing with the transactions with all of those systems. That is an expensive process, from their perspective, in terms of time, effort and energy.

Mr Quinlan—For fear of sounding like a broken record—only because I know you have heard me say this before—we surveyed 18 of our members in 620 different contracts with various human services departments at federal and state levels trying to provide services on the ground. As to the practical impact of that, for instance, when the employment services contracts are withdrawn from Centrecare in Toowoomba the FaHCSIA services funded to assist refugees, migrants or providing mental health services are also cut back.

Ms Page—There is a complex interaction between those two things, because when income support is inadequate it causes a constant strain and stress that can lead to mental health issues such as depression and anxiety. When you cannot maintain secure housing and you are moving around all the time it can cause people to rely more perhaps on alcohol than they might have otherwise done. It is not as clear cut as one or the other. We work with families who are experiencing difficulties, conflict and separation, and all of these factors are very complicated and intertwined. There are many families accessing Family Relationship Services that would have multiple issues around mental health, drug and alcohol, income, security of housing and so forth. We also work with a substantial proportion of families who just do not have enough money to survive. It is not about mental health issues or anything that they have done to bring these circumstances on themselves. They are simply in a very strained financial situation that cannot be readily overcome without cold hard cash. That puts an extraordinary pressure on their relationships and often after separation they are worse off. While we want to explore those complexities and we want to make sure that the service system can respond we also want to avoid getting back into the who is deserving and who is not deserving, because it is a cycle that happens to people.

Senator HUMPHRIES—I do not think anyone is raising that complexion on the issue today. We are just saying that an adequate safety net is only part of the solution.

Ms Page—Yes, that is right. Sitting here on behalf of a service delivery network I would have to agree with you. We would say services are equally important, particularly in having a safety net around families. I wanted to jump back to one of the other general issues around our broader concept of the social income safety net. I do not think that the system, for all its complexity, really caters to or understands the particular issues facing separated families. We have an increasing number of parents who are sharing the care of children and constantly battling with definitions of family tax benefit, how that gets split and who qualifies for parenting payment. We have people living on Newstart and with that being garnered to pay child support. Newstart is not a viable income on its own, but try living on it when you have three kids and child support is coming out of it. If there were an opportunity through this process to have a rethink on the whole way payments are structured, particularly around people with responsibility for children, we would love to give some examples of that.

Senator FURNER—I have a question.

CHAIR—One question, because we have indicated the age issue. Do you have a question on that issue?

Senator FURNER—I have a question I want to raise regarding the proposal for the independent commission. What would you foresee as the composition of that commission?

Mr Quinlan—We will make some suggestions in our paper. As I said, I think it would need people with expertise in the budget standards approaches. You would need some academic input. I think you would need people with expertise in relation to taxation and transfers, because we have all seen how complex and complicated that system could be. I think quite possibly some kind of judicial or semijudicial oversight to allow the interpretation and balancing of evidence. I think some engagement of people who understand the processes that governments have to go through in order to establish budgets and so on. And quite possibly also the idea of eminent persons. I think part of the problem that we have in explaining the system is that it is so complex. What I am trying to say is that we need to have eminent citizens who might give the population a sense of confidence in the process. It needs to be at that sort of level and standing.

Senator FURNER—How often and how regularly do you think that body would meet to determine increases?

Mr Quinlan—I think it would be relatively continuous work. It might need to establish an annual decision and so on, but I would have thought there was a lot of work there and with the monitoring of movements, budgets and so on it would mean there would be an ongoing process and dialogue. We have not developed the thought further in terms of making a particular decision. I think the Fair Pay Commission makes an annual recommendation.

Senator FURNER—Not regularly, annually.

Senator SIEWERT—What is your group's position on the increase from 65 to 67 in terms of the pension age?

Ms Helyar—We understand the need to respond to the demographic shifts that are happening and to provide a sustainable pension system into the future, but there will be people who are disproportionately disadvantaged by that. I note that the LHMU's evidence today spoke a bit to that, but I think we would also say that there are people for whom access to the labour market is very poor later in life, and that is through a whole heap of reasons to do with gender, structure of the economy, discrimination in employment and so on. For a number of people an increase in the age of the pension is not a reasonable thing.

Mr Thomas—From our point of view we are a bit puzzled and perplexed by this idea. This is a simplistic answer to a very complex problem. We have heard a lot of the time that this is inevitable. It is inevitable that people will live longer and that is a really good thing, but to say that the increase is an inevitable response is not a good enough reason to make such a significant change to the pension. If it was going to be logical and you were looking at longevity, for example, the committee should also be looking at, and actually recommending, lowering the pension eligibility age for Indigenous Australians, given their life expectancy. There is a whole range of issues around it. I do not know all the research, but there are people who do know about all of this and the social determinants of health. If you look back years ago there were reports from the old DSS, for example, a report called *Better incomes for older Australians* in about 1989, which said that full pensioners die earlier than part-rate pensioners, who die earlier than self-funded retirees. It is a bit simplistic to lay it out like that, but there is a range of issues around this.

The Harmer review looked at this, but it did not recommend what ACOSS is suggesting and that seems sensible from our point of view, which is closely realigning the preservation age with the current age pension age. They need to be looking at people so-called double dipping in the system. There are a huge number of older people who are just not coping with ill health and caring responsibilities. However, discouraged job seekers amongst that group are enormous. I know we have been looking at the issue of age discrimination. For years there has been a long succession of reports into mature-age workers and older unemployed. I can see that being done again. Until we have addressed that problem I do not think that we should be proceeding.

The participation taskforce that recently met from the Department of Education, Employment and Workplace Relations examined the whole issue of older people's activity requirements and considered tightening up and making older people over 55 have the same job search requirements as younger people. They decided against that in the current economic environment. Years ago they introduced mature-age allowance because of the difficulties faced by older people in the system. Now we are saying that somehow those problems that people are facing are suddenly going to disappear because we are increasing the pension

age. A lot of women are working on payments longer and struggling with activity requirements because of the decision in 1994 to increase the women's pension age. We do not want to make the same mistake without making sure that you are giving people real opportunities. That is what it should be about, providing opportunities, choice and flexibility about how people transition to retirement. Until you have those fundamentals and a plan in place I think it is too early and you are going to be sitting here in 10 years time talking about it.

CHAIR—How many years is it before it goes up?

Mr Thomas—It is a number of years, but how many years have we been coming to Senate inquiries and talking about the need to address something about mature-age unemployment? I know you need business and attitudes to change and you now have discrimination legislation that has been recently improved. All of those things are positive, but I do not see that in itself is the right change at the moment. If the issue were about sustainability I think it would make more sense to align the preservation age. A lot of people who do work and can work will continue to work. For some people it is a positive choice and we would expect that to continue, but it is a matter of removing those opportunities for that very vulnerable group. I do not have the answer for it, but I am certainly concerned, as a lot of people are, about that group. If you could solve the difficulties for them I do not think we would necessarily have a problem, but we have not got anything in place to address those concerns. It is a long way off, and granted they have recognised they cannot change the retirement goalposts. I accept that. But it is still cause for concern that you are going to have that group of people whose bodies are just worn out.

CHAIR—Are there any other comments?

Ms Page—We did not have a position on it.

Mr Quinlan—As others have said, it is an adjustment that is going to have to come. It is a question of how the adjustment is made.

CHAIR—And in a coordinated fashion towards a pension date.

Mr Quinlan—All of the other strategies that will be required to go with it; that is the fundamental issue.

CHAIR—Senator Furner, do you have any questions on the age entitlement?

Senator FURNER—No.

CHAIR—Senator Humphries.

Senator HUMPHRIES—No, thank you.

CHAIR—Is there anything we have not touched on that you think needs to be put on the record? If not, thank you very much.

[3.05 pm]

FOSTER, Ms Alanna, Branch Manager, Seniors and Means Test Branch, Department of Families, Housing, Community Services and Indigenous Affairs

SOUTHWELL, Mr Peter, Acting Branch Manager, Family Payments, Department of Families, Housing, Community Services and Indigenous Affairs

WHITECROSS, Mr Andrew, Branch Manager, Tax-Transfer Review, Department of Families, Housing, Community Services and Indigenous Affairs

CHAIR—Good afternoon. You are all experienced departmental officers. You will not be asked to give opinions on matters of policy, although this does not preclude questions asking for explanations of policy or factual questions about when and how policies were adopted. Does the department have an opening statement?

Mr Whitecross—There are a number of issues that have cropped up in the course of the day.

CHAIR—If you do not have an opening statement we thought we might go issue by issue, as we did with the previous witnesses and then if there is anything that we have not touched on we can do it that way. Certain common elements have come up through the day. Would that suit you?

Mr Whitecross—That is okay. There are a few factual inaccuracies that have come up.

CHAIR—Do you have a couple that you would like to throw on the table straightaway? We will follow your lead. You tell us what you have ready to go.

Senator SIEWERT—That is fine. If we get those out of the way first that will make life a bit easier.

Mr Whitecross—The trade-off is jumping between topics.

CHAIR—That is always inevitable. Start with what you have.

Mr Whitecross—One was around transitional arrangements.

CHAIR—Is this for the pension?

Mr Whitecross—This is for the pension. Mr Southwell needs to clarify something in relation to the family payments measure, which I will pass to him to do. I am mainly focusing on the pension changes.

CHAIR—That would be the change in pension and the protection mechanisms put in place for people? That is a very important area and we have had significant evidence on that. If you would like to clarify that it would be very useful.

Mr Whitecross—Perhaps the way to start this is to describe in a positive way the transitional arrangements and along the way I can just clarify a couple of points that came up.

CHAIR—That will be fine.

Mr Whitecross—As you would be aware, the basic package involves increases in the payment rates and some changes to and tightening of the income test. On their own that would mean that some pensioners might otherwise have received a lower rate than they are currently receiving. In order to ensure that all pensioners get an increase and that they cannot be worse off as a result of the changes, the transitional provisions provide for everyone to get an increase, \$10.14 for singles or \$10.14 combined for couples, and that those payment amounts would be preserved in real terms, that is, they would be indexed to the CPI so that the purchasing power for those pensioners is maintained in real terms and does not reduce. There was some concern that perhaps it would reduce in real terms, but that cannot happen.

The other misapprehension that arose was that there was some time limit on the operation of the transitional provisions and there was some reference to five years. Pensioners will remain on the transitional provisions as long as they need to as long as they are better off on the transitional arrangements compared to the new arrangements. People will not be moved off the transitional arrangements after five years. They will be moved off them as and when they are better off under the new arrangements. That change could occur as a result of a change in circumstances where they are better off. For example, you could say they have a drop in income. They could be better off under the new rules, in which case they will transition to the new rules at that point. Or alternatively, over the passage of time the payments under the new system will be worth more because of the differences in the indexation arrangements and as that occurs people will move across to the new rules.

Senator SIEWERT—Do they stay on whichever system is better for them for as long as it takes?

Mr Whitecross—As long as it takes.

Senator SIEWERT—I thought it was 2013. When we discussed this at estimates for some reason I got in my head the 2013 cut-off.

Mr Whitecross—I apologise. I may have been responsible for confusing you on that. In evidence that I gave at estimates I said that we estimated that about half of the customers would move from the transitional arrangements to the new arrangements by the end of the forward estimates period, but that is just a guess and it depends on the circumstances of the individuals.

Senator SIEWERT—That has cleared that up. Thank you for that.

CHAIR—Does anyone have any questions in that area?

Senator FURNER—Yes.

CHAIR—Mr Whitecross and Mr Southwell, I think this is in your areas. Have you seen the detailed attachments that the South Australian Superannuants provided in evidence?

Mr Whitecross—Yes. We have had a quick look at those.

CHAIR—That was on the issue of how over time certain people would be disadvantaged. That was reflected in Dr Ritchie's evidence and also that from Mr Hayes. They were quite convinced along the areas that you have just mentioned. Has the department had a chance to talk with the Australian Council of Public Sector Retiree Organisations and the Association of Independent Retirees Australia to ensure that there does not continue to be undue concern?

Mr Whitecross—We have obviously seen things from them and we are certainly happy to clarify any misunderstandings with them.

CHAIR—That would be very useful. It was that area, in particular, and they did point to that evidence that they provided. We would value someone getting back in contact with them, not necessarily to have people agree, but at least to know on what they disagree. That would be very useful.

Mr Whitecross—Yes.

CHAIR—What is the next point, Mr Whitecross?

Mr Whitecross—Also on income testing, there were some submissions from Welfare Rights that suggested that sole parents would lose access to child disregards under the income test. They are not making any changes to income tests for parenting payment (single) recipients, so they will continue to be assessed on exactly the same rules as they are now and there will not be any change to their means testing, so there should not be any change to their entitlements if they are on parenting payment (single).

CHAIR—And no change to their taper rates?

Mr Whitecross—No.

CHAIR—They will stay the same, except for any future increase on whatever methodology there is?

Mr Whitecross—That is right.

CHAIR—Are there any questions on that part of the sole parents area?

Senator SIEWERT—That has cleared that up.

Mr Whitecross—There was some confusion in relation to indexation and I thought I should have another go at explaining indexation.

Senator SIEWERT—We could have an indexation remedial class for us.

CHAIR—It is almost like an examination.

Mr Whitecross—As you would be aware, there are three factors we look at when we are considering adjustments to the pension. Adjustments to the pension are made twice yearly in March and September. We look at movements in the consumer price index over the six months to June and calculate an adjustment to the pension based on movements in the consumer price index. We then look at movements in the new pensioner and beneficiary living cost index and make an adjustment to the previous pension rate based on the pensioner and beneficiary living cost index, which I will talk a bit more about in a minute. We compare those two numbers and whichever of those two numbers is the better number becomes the index number that we work with. We then compare the index number to the MTAW benchmark and if the MTAW benchmark is above

the index number we increase the index number to the MTAWWE benchmark and that is the number they get. Along the way there are various roundings and things, but that is the basic process.

The way it is going to work for pensioners is that we make these adjustments for a combined couple rate. So, we index the combined couple rate to the pensioner and beneficiary living cost index and compare those two numbers. We then compare the result with 41.76 per cent of male total average weekly earnings. Whichever is the higher of those two is the one that we pay to pensioners. We then pay the single pensioners 66.33 per cent of what we are paying to the couples.

CHAIR—So, the couple is the basic model?

Mr Whitecross—Yes.

Senator FURNER—It would be helpful if you could give some examples that demonstrate what we have now as opposed to what is being proposed in dollar terms, so we can use that to demonstrate where there are concerns in this area.

Mr Whitecross—There are so many different numbers that we use in the calculation that people are struggling to come to grips with how the different numbers indirect. I can produce a working example for you, which would obviously be entirely hypothetical. At this point we do not have the indexation factors that we would need to use in September. They come out in July and August. We will not know until the end of August what the actual rates will be that will apply from September, but I could produce for you a step-through example.

CHAIR—Yes. Are there any further questions on that, Senator Siewert?

Senator SIEWERT—No.

CHAIR—Can you remind me who developed the pensioner beneficiary index?

Mr Whitecross—The pensioner and beneficiary living cost index has not been published yet.

CHAIR—That is what I thought.

Mr Whitecross—It is being developed by the Australian Bureau of Statistics. You may be aware that there were previous analytical living cost indexes produced by the ABS in relation to different segments of the population. This will be produced focused on people who are mainly dependent on income support. ABS are proposing to publish at 30 June an information paper on how they are going to develop the index, which will include some time series and also, I believe, some information on how the index will be refined over time.

CHAIR—In effect, that is the only new element? The double calculation has been in place now for a number of years.

Mr Whitecross—The comparison between the CPI indexed rate and the MTAWWE has been in place for some time.

CHAIR—The new element people are struggling with understanding is the new index?

Mr Whitecross—That is right.

CHAIR—They may understand that more after they can see what is on paper from the Bureau of Statistics at the end of June?

Mr Whitecross—That is right.

Senator HUMPHRIES—I would just like to clarify that. Was there an earlier version of that pensioner CPI index?

Mr Whitecross—Yes. The ABS previously produced what they called analytical living cost indexes for different groups. One of them was for age pensioners and there was another one for other transfer recipients. They have produced that for a few years now.

Senator HUMPHRIES—Why is that not going to be the tool that they will use for this exercise? Why does it have to be upgraded?

Mr Whitecross—There are two reasons. One is that the customer group we want to apply this to is broader than just age pensioners. It includes age pensioners, but it also includes a range of working age pensioners as well, mainly DSP but a few others. We needed an index that was broader than just age pensioners because people at different ages have different baskets of goods. However, low-income people have some similarities in their patterns of consumption compared with higher income people. That was the first reason.

The second reason is that the ABS does not believe that the analytical living cost indexes are robust enough to use for this purpose. As the name implies, they were really produced for information purposes—that is why they are called analytical—rather than as a robust measure of movements in living costs for particular segments of the population. They believe that to produce an index that would be robust enough to be used to adjust pensions they needed to do some further work on refining and developing an index, which is what I believe they are outlining in this information paper.

Senator HUMPHRIES—Would you expect that the new test will be dramatically different from the indexation figure that the old analytical test produced?

Mr Whitecross—This is, of course, an area of speculation. If we look at the history of the age pension analytical living cost index and compare it with the history of CPI, for example, you would say that over an extended period the two deliver about the same increase because, broadly speaking, prices for the whole community more or less go together.

The difference is that prices of different goods move at different times and age pensioners and other low-income households may be more susceptible to price rises in relation to particular goods than other goods, so they might be more vulnerable to increases in the price of food, for example, which they spend more of their money on and less effected by reductions in the price of electrical goods because they do not consume as many electrical goods.

In the short run an index which is more responsive to their basket of goods ensures that they maintain the purchasing power of their payments in relation to the kinds of goods that they buy. In the long run it might not make that much difference because in the long run things tend to even out.

Senator FURNER—Why were the adjustments for the months of March and September put in?

Mr Whitecross—I am probably going to be scratching to remember exactly why. I would only be relying on my memory. This goes back a long way, to the March and September days. I am not sure if any of my colleagues are aware of it.

Ms Foster—No. I am afraid I am scratching my memory as well.

CHAIR—It is a long time.

Senator FURNER—The reason why I ask that is that if there is a reliance on the CPI figures then the March will be relying on the December and the September will be relying on the June figures.

Mr Whitecross—That is right.

Senator FURNER—Is that intentional?

Mr Whitecross—The June figure comes out in July and the male total average weekly earnings figure and the pensioner beneficiary living cost index will come out in August. September is as early as we could adjust them. I am always being told by my colleagues how tight I have made the schedules for adjusting it in September as it is. That is just the lags between when the ABS collect the data and when they publish the numbers, then it is the administrative processes that we have to go through to adjust the pensions means that even though three months sounds like a long time, it is not that long.

Senator FURNER—The March figures were released on 22 April this year, so it gives you an indication why that delay is there. I understand that.

Mr Whitecross—We have tried to get that time frame down to the shortest time frame we can get it to in order to make an adjustment.

CHAIR—What is your next issue, Mr Whitecross?

Mr Whitecross—I think they are the main ones at the moment. If I come up with some others I will let you know.

CHAIR—Mr Southwell, are you going to do the family tax one?

Mr Southwell—Yes. I just wish to distinguish between two different measures that were in this budget. One involved pausing the upper income thresholds for three years for several of our payments and the other one involved permanently breaking the link to the MTAWA indexation via the CPC pension rate. The second of those is a permanent break rather than a three year only.

Mr Whitecross—There was one minor matter in relation to indexation that I wanted to mention. Mr Hayes from the Council of Public Sector Retiree Organisations in his evidence said that MTAWA was introduced to

allow pensions to keep up with shelf prices of goods. We believe that the consumer price index and the pensioner beneficiary living cost index are elements which are designed to keep the pensions adjusted for increases in the prices of goods that pensioners buy. The adjustment by male total average weekly earnings is really about keeping the rate of pension in line with general living standards in the community. It is not really to do with changes in prices, it is more of a community living standards benchmark.

CHAIR—Are they the issues that you wanted to clarify?

Mr Whitecross—I am happy to answer questions on anything else that you have got.

Senator SIEWERT—One of the questions that I had we have just dealt with. I wanted to ask about the work bonus. Is that what we are calling it?

Mr Whitecross—Yes.

Senator SIEWERT—Is that \$500 a fortnight, or \$250 a week?

Mr Whitecross—Yes. We usually talk about it in terms of a fortnight because pensions are paid on a fortnightly basis and the income is assessed on a fortnightly basis.

Senator SIEWERT—I have had a number of people suggest to me that it sounds really good, but it is not, because Centrelink already counts in a level.

Mr Whitecross—Do you mean the free area?

Senator SIEWERT—Yes, the free area. Can you clarify for me what they currently do?

Mr Whitecross—The general operation of the income test is that there is a free area. It will go up on 1 July, but it is currently \$138 for a single person and \$240 combined for a couple.

Senator SIEWERT—I think there are some people getting a bit confused about what is counted in.

Mr Whitecross—The reason it is called a free area is that you can earn that much without it having any impact on your pension entitlement. When your income exceeds that point your pension will begin to be reduced. As outlined in the changes to come into effect on 20 September, that reduction will be 50c for every dollar that you earn. The work bonus operates on top of that to reduce the amount of income that is assessed.

Senator SIEWERT—It is going to operate on top of the current free area.

Mr Whitecross—The way the work bonus will operate is that it changes the amount of income that will be counted in your assessment. If you earn \$500, instead of counting \$500 in your assessment, if you were say a single person it would be \$362 over the free area, because we are only going to count half of that income, we will count only \$250 in their assessable income which means they will be only \$112 over the free area.

Senator SIEWERT—I see, so both will still count?

Mr Whitecross—Yes.

Senator SIEWERT—You have still got the free area and then the work bonus on top of that.

Mr Whitecross—Yes.

CHAIR—That only includes income generated by work.

Mr Whitecross—Yes, by employment.

Senator SIEWERT—That is a specific encouragement to keep people in the workforce.

Mr Whitecross—The evidence in the consultations around the pension review was that a lot of people, particularly people with not very high savings, looked to work as a way of supplementing their pension. It is obviously a matter for individuals whether they want to work or not, but if they do want to work we wanted to make sure that they were able to get a return on that and to supplement their pension.

Senator SIEWERT—If I interpret where the government is coming from, it is those who are most in need of extra support or extra income that are helped to get that.

Mr Whitecross—The bonus is targeted at the first \$500 of earnings. Obviously it is designed to assist people earning up to a certain amount to supplement their pension. Anybody who works will get the benefit of it.

Senator SIEWERT—It will be greatest for the people that are on the smallest income.

Mr Whitecross—Proportionately it will be greatest for the people earning the lower amounts.

Senator SIEWERT—I think I am fair in quoting a number of the submitters that said that there was a group of self-funded retirees, for example, who are not working. They are concerned that they are supplementing their income from their own savings and they do not get the same benefit. That is the position they were putting this morning.

CHAIR—It was them and overseas pension recipients. They are the two about whom people raised in submissions the fact that, in their belief, their income should be equated with work earnings as opposed to other forms of income. I know that is a policy decision, but in the submissions they would be the two groups.

Senator SIEWERT—I am not seeking to get your opinion on the policy position, I am trying to get an understanding for people reading this and for those who have been writing to us so that they can understand where the government is coming from on not including other income outside of that which is earned through work.

Mr Whitecross—All I can say is that the government's decision was to target this measure to employment income as a way of assisting people who were working to supplement their income.

Senator SIEWERT—That is what I was interpreting it to mean. I wanted to be clear. Thank you.

CHAIR—Are there any other questions on that issue?

Senator SIEWERT—Somebody said today that in documents it says that there are around 70,000 people it will assist. Have I misinterpreted that or do you have numbers on how many people you think it will assist? I thought that was actually surprisingly small, given the number of people that are on—

Mr Whitecross—I do have that number somewhere. My number here is 74,000. It is the number of people who would get a rate increase as a result of that, but we have not attempted in that calculation to model any behavioural change, so the change may encourage other people to do more work, and of course, that does not count people who are working whose earnings are below the free area and who may be able to increase their earnings without reducing the pension.

Senator SIEWERT—They keep their work below the figure.

Mr Whitecross—Yes. There would be other people who would be earning and able to benefit from it, but this was the number of people, based on the data as it was around the time of the budget, who would benefit straightaway from the change.

Senator SIEWERT—Thank you. I wanted to move on to the age increase. I am sure you will have read the submissions and heard people's commentary regarding concerns around the age increase from 65 to 67. One of the issues that ACOSS and a number of other submitters have raised is increasing the preservation age for super. I am wondering whether that has been considered, or was that considered? I am aware that I am moving into policy areas, but what are the reasons why it is not a good idea?

Mr Whitecross—That area of policy is really within the portfolio of the Treasurer rather than our portfolio.

CHAIR—At estimates you referred to the Henry review and said that element of discussion was with them.

Mr Whitecross—I think there was some reference to it in the retirement incomes paper that was published at the time of the budget as well. I think it is a matter that the Henry review would be looking at. It is certainly within their terms of reference.

Senator SIEWERT—I understand it is the department's comments, but it is also wrapped up in this whole issue. If we are going to make such a significant change then it is something that I think should be considered together.

Mr Whitecross—Yes. Obviously that is a matter for government on how they set those things and presumably the Henry review may be looking at that. The preservation age is currently 55 and I think rising to 60 progressively over time, so it is already below the age pension age.

Senator SIEWERT—Senator Boyce is not here, but I know Senator Humphries may raise this point, too. Senator Boyce was asking some questions this morning around resolving some of the issues surrounding age discrimination. A lot of that related to superannuation. I presume that I will have to ask Treasury those questions, but have you looked into some of the barriers? When you were looking at the policy of increasing the age from 65 to 67, did you look at some of those issues? I know there has been work done, but it was raised today that there are still some areas where, on the surface, it looks like major discrimination barriers within the legislation.

Mr Whitecross—In relation to employment of older workers, a lot of these policies relate to the work of other portfolios. I know that there is a range of measures within the Department of Education, Employment and Workplace Relations looking at assistance for older workers. They and FaHCSIA are also responsible for some measures in relation to employment for people with disabilities, which includes a lot of older workers. There is consideration of these things. The Department of Education, Employment and Workplace Relations is probably better placed to give you further information about what programs are in place to support older workers. The changes are coming in progressively from 2017, which is eight years away, so there will be an opportunity to consider how those programs are operating and what else might need to be done in relation to that.

Senator SIEWERT—I hear what you are saying in terms of the time available to work it out. Some of the comments that have been made here today are that we should be getting on to it sooner rather than later if we actually want to make changes and lessen the impact on people.

Mr Whitecross—I can tell you that we have obviously discussed this issue with the Department of Education, Employment and Workplace Relations as the department primarily responsible for programs and services to support older workers to stay in work and to find work. They are probably the best placed to describe what those programs are and what processes they have in place to monitor them.

Senator SIEWERT—I will take it up with them when I get an opportunity.

Mr Whitecross—It is worth noting that employment amongst the pre-retirement age is increasing rather than reducing. Since 1995 it has gone up.

Senator SIEWERT—The figures that were quoted to us this morning are that 50 per cent of those between the age of 65 and 60 are on income support. I will need to check the figures.

CHAIR—Senator Humphries.

Senator HUMPHRIES—I was in another committee when this area was covered in the estimates committee a couple of weeks back, so possibly this question has been answered. I understand the argument for increasing the pension age from 65 to 67. It is not clear to me, though, whether there is an argument that it should stop at 67. What is the rationale for 67 as opposed to 70, for example, and has the government made a statement that 67 is the extent of its ambitions for the age pension to be adjusted to?

Mr Whitecross—I am not aware of any statement in relation to that. My understanding is that the announcement that the government has made is in relation to increasing the pension age from 65 to 67 progressively from 2017 to 2023. That is the only statement that I am aware of in relation to that.

Senator HUMPHRIES—What is the rationale for 67? Is that a formula arrived at by virtue of the work done in the pension review that reflects some kind of calculation of the cost of aging in the community versus the amount available? Is there some magic in that figure or is it simply a figure produced to arrive at a certain saving to the government?

Mr Whitecross—The age of the age pension is basically a government decision. I could not unpack that particularly. It is broadly consistent with moves we have seen in some other countries. It is broadly consistent with movements in life expectancy that we might expect to see over the period that we are talking about.

Senator HUMPHRIES—In fact, since the age pension was originally set at 65 life expectancy has increased dramatically, so on that basis you could argue that the increase should be more than two years. I am trying to work out whether there was any rationale other than to say, 'We need to save some money. This will produce certain savings so we'll put it up to 67.'

Mr Whitecross—I think the retirement age was discussed in the Harmer report. I will see if I can direct you to anything that will be helpful in relation to that.

CHAIR—There were some international comparisons.

Mr Whitecross—Yes, there are certainly international comparisons that are relevant.

Senator HUMPHRIES—Rather than detain the committee at the moment, can you perhaps take on notice the relevant pages? I am happy to go back and refer to those at my leisure.

Mr Whitecross—Yes. When I was referring to life expectancies, I am obviously aware that life expectancy has increased quite a lot since 1909, but even over a shorter period life expectancy is expected to grow by a number of years between now and 2023. It was more in the shorter horizon than the rise since 1909 that was

looked at. There is some discussion of this in the report around about pages 144 and following, but if there is other information I can provide then I am happy to do that.

Senator HUMPHRIES—I will have a look at that. I have one more question. I cannot see in the explanatory memorandum to the bill any estimate of a full-year saving that the government would make from this pension age adjustment. Do you have a figure for that?

Mr Whitecross—In relation to this issue the savings are outside forward estimates period so there are no formal estimates in relation to those savings. The budget overview that Treasury produced included some modelling which indicated the kind of long-term savings they expected to get from the increase in the age pension age. That was in the budget overview document that was published by Treasury on budget night.

Senator HUMPHRIES—Can you recall approximately what the first full year of that effect will be?

Mr Whitecross—I think those things were described in terms of percentages of GDP. They said around about 0.2 per cent of GDP at 2017, rising to 0.7 per cent of GDP in the longer run.

Senator HUMPHRIES—Is there a dollar figure in the budget papers?

Mr Whitecross—I am not aware of the dollar figure. I think that far out they focused on percentages of the GDP rather than dollar amounts.

Senator HUMPHRIES—Thank you.

Senator FURNER—I have a number of issues around discrimination on retirement age. There have been a few witnesses appear today expressing concerns. National Seniors Australia were concerned about issues associated with people in forced retirement or mandatory retirement and I expressed to them my concerns in my own state—I appreciate it is state legislation—where police have to retire at age 60. We heard from the LHMU about concerns in the hospitality industry. I think they quoted that was the second-highest industry of associated injuries and they were finding it difficult to live on their benefits, given that they come from part-time employment and that sort of environment, and having to work until 67. Thirdly, I understand under the public service that a public servant needs to make application to work beyond their retirement age. I am just wondering what you are doing about those sorts of issues that we are aware of?

Mr Whitecross—In relation to issues of people who are not able to continue working as a result of occupational injuries, the main thing to say is that the social security system is a safety net system. It does not just apply at age 67 or 65. People who are incapacitated and unable to work or have a disability which prevents them from working are able to access income support through the disability support pension, or if it is a short term injury, through the sickness allowance. So there are provisions. In the case of disability support pension, the rate of assistance is the same as the age pension.

If people in their specific circumstances are not able to continue working because of a disability that they might have acquired at work, then there are other provisions to support those people. I am not in a position to comment in relation to compulsory retirement ages.

Ms Foster—In terms of public servants, for instance, they would have to be canvassed with the Australian Public Service Commission. I do not know that we could comment on those issues.

CHAIR—Any other questions, Senator Furner?

Senator FURNER—No.

CHAIR—Any other topics? We have had a great deal of discussion about the fact that sole parents are not part of this process and statements about breaking the nexus of the sole parent payment being treated as a pension as opposed to a benefit. I just want to clarify. The pensions that are part of this program are going to have the three-part comparator for looking at their increases. How are Newstart and sole parent benefits going to be assessed for increase of those areas? I just want to get that clear on the record.

Mr Whitecross—In relation to Newstart, sickness allowance and other allowances, they will continue to be indexed twice yearly in the March and September dates for increases in the consumer price index, so there is no change in relation to them. There is also no change in relation to parenting payment (single). It will continue as now to be indexed to the consumer price index and then benchmarked against male total average weekly earnings to ensure that the maximum base rate equals 25 per cent. They are the same arrangements as exist at the moment.

CHAIR—In terms of a comparator, we have got the ongoing basis just on CPI for benefits and allowances. We are still going to maintain the sole parent payment or they will have the comparator, whichever is greater,

of CPI or MTAW, and then the new group will have the pension benefits cost price index as yet another comparator?

Mr Whitecross—That is right, and a different MTAW benchmark as well.

CHAIR—Sometimes I think it would be useful to have one great big graphic that had them all side by side so you could see it, because there is great confusion. Apart from any other aspect that has come out in this very short inquiry, it continues to be the confusion around it. Just to put it on record, can you tell us what information processes the department has gone through to ensure that people do have the correct information? I know we asked that at Senate estimates, but to round off the inquiry it would be good if we could put on record what information and public relation processes there are in place, because these changes are going to impact on a wide range of the community across all kinds of areas. One of the aspects is that I do not think everybody knows what payment they are on now; they just know they receive a payment. How are we going to inform people about how they fit, how they could ask questions and to whom they should ask questions?

Ms Foster—In *News for Seniors*, for instance, there will be an issue coming out fairly shortly. I think it is scheduled for publication in July, the winter edition. That is published by Centrelink. That will have an outline of the measures. I am conscious that I am talking for another agency here in terms of referring to Centrelink, but Centrelink is planning a number of articles in various journals that it produces as well as foreign language newspapers describing what the changes will be.

CHAIR—Does FaHCSIA itself have a strategy?

Ms Foster—FaHCSIA itself is examining the possibilities for a strategy.

CHAIR—The reason I ask is that extensive amounts of activity were put in place for the Harmer review and probably the database of people who gave submissions and attended public forums for the Harmer review led to probably one of the better databases in this area that any organisation has. I was wondering whether you had any thought of using that mechanism?

Mr Whitecross—I could have answered that. Yes, we have corresponded with people who made submissions to the Harmer review to provide them with information about the changes. Obviously people are writing to us to clarify issues in relation to the changes and we are also corresponding with them in relation to their questions on how the changes will work as well. We have provided people who interacted with the Harmer review, or participated in making submissions, with information about the changes.

CHAIR—Is the contact point FaHCSIA or Centrelink for people who are confused about where they fit?

Mr Whitecross—Different people might want to raise different issues. Generally, if people are concerned about their own entitlements it is better for them to talk to Centrelink because Centrelink is in a reasonably good position to discuss their actual circumstances with them. Sometimes customers do not want to raise issues about the policy and we are happy to answer questions about how the policy works.

CHAIR—You may have to take this on notice, and it is probably a longer term question, but a number of people have raised with us their concerns about the increase in the entitlement age for the age pension, which has come across a whole range of things. It would be useful to have some indication of what the department and the government's position is going to be about what kind of consultation and what kind of community interaction is going to be taken over the following years. That is a long-term question, but there has been so much concern expressed about this change, and it is the first change in 100 years to this particular entitlement and eligibility age. We would like to get some idea for the committee and also for the Senate about what the information and consultation process is going to be, because there are so many levels to that. The other things are immediate changes to entitlement and payment, but this one is the most significant policy change.

Mr Whitecross—As Ms Foster indicated, we are looking at what communication activities we might want to undertake complementary to Centrelink. One of the groups that we are conscious of is that there would be a group of people who would be interested or concerned about the change to the pension age who are not currently Centrelink customers. While Centrelink has an important responsibility in relation to their customer group, it is an important role for us in communicating with the broader community that might be affected by some of these other policy changes, so we are looking at that.

CHAIR—Senator Furner, you asked a question earlier today about maternity allowance. Was there anything that you wanted to clarify with the department about that?

Senator FURNER—No, that is fine.

Senator HUMPHRIES—I have a couple of questions. One of the things in the explanatory memorandum says the bill contains amendments to provide for the necessary increases and future adjustments of indexation for pensions that cannot be included in the Carbon Pollution Reduction Scheme (Household Assistance) Bill 2009. I have not gone through the bill to find out what those provisions are, but what sort of provisions are we talking about in the bill?

Mr Whitecross—The provisions in this bill in relation to that relate to household assistance for pensioners. They were not included in the other bill because in preparing the other bill people were mindful of the fact that we were proposing changes to the way we pay pensioners, including the development of the new pension supplement. So it was more appropriate to include the measures to provide for household assistance associated with the carbon pollution reduction scheme in the bill where we were introducing the changes to the pension arrangements, otherwise we would have been amending provisions that did not exist.

Senator HUMPHRIES—What exactly does this bill do? Does it provide a mechanism for the minister to increase pensions by determination in the future?

Mr Whitecross—No. It nominates the percentage adjustments to how the amount will be calculated. It provides a provision which explains how the amount will be calculated and that it will be added on to the pension supplement amount.

Senator HUMPHRIES—It is not the actual amount. It is a mechanism for this current—

Mr Whitecross—It describes in terms of percentages of payments. Obviously you will have a chance at some stage to look at this, but they are described in schedule 5 of the bill.

Senator HUMPHRIES—I will look at that later on. Thank you.

Mr Whitecross—It describes increases in two stages. One is on 1 July 2011 and the other on 1 July 2012, and it has the method for calculating the amount that will be added to the pension supplement in relation to household assistance and subsequent adjustments to indexation arrangements to ensure that the price affect which is being advanced through those adjustments is not delivered a second time through in placing adjustments. They are different because the architecture of the pension is different, but in substance they are similar to the arrangements for beneficiaries and other groups who were in the other household assistance bill.

Senator HUMPHRIES—It is a very long schedule so I look forward to using that to deal with my insomnia.

Mr Whitecross—Be sure to read schedule 4 first so that you can understand schedule 5, which is even longer.

Senator HUMPHRIES—I am extremely grateful. I have a question which you could take on notice. I asked in a previous estimates committee for an estimate of how many of the previous five years' pension adjustments would have been higher by virtue of the application of the ABS analytical index for cost of living increases for aged people. I accept that is not going to be the tool that we will use in this case, but as an indicator, is it possible to get an update to that answer for the purposes of the last five years?

Ms Foster—We will try to look at that. The previous analytical living cost indices were produced on an irregular basis. I think they were always published annually, but at different points during each year. I do not know if we will be able to do a direct comparison.

Senator HUMPHRIES—The last five years for which figures are available will be fine. Thank you very much.

Mr Whitecross—I know that at the last point that we had in our analytical living cost index, which was the September point last year, the age pensioner analytical living cost index was below the CPI.

Senator HUMPHRIES—I think that was for 19 of the 20 increases for that period I asked for. That would have been the case as well, so I assume that it is a similar answer now.

Ms Foster—Since that discussion there have been 24 indexation points. This information only goes to the MTAW benchmark and CPI, so I am happy to do that.

CHAIR—Was the answer to that, that it was nearly always higher with the CPI?

Ms Foster—The MTAW is almost always based on CPI.

CHAIR—There was great concern raised by some of the agencies today that using the different assessment tools was going to make the gap between the different payments even wider, and the fact that the other

payments, as you pointed out to me, are mainly on the CPI, which indicates that that gap up until now has not been as wide, but if you have a look at the evidence that was given by the group of agencies, Uniting Care, Welfare Rights, Relationships Australia and Catholic Social Services, they were all concerned that the different models would cause a greater gap.

Mr Whitecross—It would be fair to say that the predominant factor that adjusts pension rates is male total average weekly earnings. The CPI and the new pension beneficiary living cost index will mainly have the affect of ensuring that if prices are higher than wages in the short run pensioners will get the benefit of a full increase to reflect increases in prices, but in the long run that tends to be overtaken by male total average weekly earnings adjustments.

CHAIR—Thank you very much. Have we missed anything?

Mr Whitecross—I know Senator Furner has left, but he was asking before about the March and September indexation arrangements.

Senator SIEWERT—The wonders of modern technology.

Mr Whitecross—Thanks to the wonders of modern technology and the diligence of my staff I can tell you that March and September indexation has been in place since September 1990 and that prior to that the indexations were in April and November. That change was to bring indexation forward by roughly four weeks in order to make the adjustments more timely.

CHAIR—That is very useful. Is there any other area that you think we need to know about this afternoon?

Mr Whitecross—I think we have covered all the things that needed to be covered from evidence earlier today. If I detect anything else, I will provide that to you.

CHAIR—The *Hansard* for this will be available late Monday and then we are due to give the report on Wednesday, so I am sure you will be seeking the *Hansard* to check things out. That will be very useful. Thank you.

Committee adjourned at 4.03 pm