

**Inquiry into the *Social Security Amendment*
*(Supporting More Australians into Work) Bill 2013***

ACTU Submission



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Introduction

The ACTU welcomes the opportunity to make a submission to this inquiry into the *Social Security Amendment (Supporting More Australians into Work) Bill 2013* ('the Bill'). The ACTU supports the measures in the Bill. We recommend that these proposals be supported.

In our submission to the Senate Standing Committee on Education, Employment and Workplace Relations' ('the Committee') 2012 allowances inquiry, we called for the income free area for allowances to be increased to be equivalent to around three hours of work at the National Minimum Wage. The Bill will implement this proposal. We also called for this higher free area to be indexed, rather than fixed in nominal terms. The Bill will also implement this proposal, although it will index the free area in line with the Consumer Price Index rather than a measure of wages, as we would prefer.

We also welcome the two other key measures in the Bill, namely the proposed extension of eligibility for the Pensioner Education Supplement to single principal carer parents receiving Newstart; and the proposed 12-week extension of eligibility for Pensioner Concession Card to single parents who are no longer qualified to receive Parenting Payment (Single), and who do not qualify for another payment due to earnings. This brief submission is focused upon the proposed change to the income free area.

While we welcome these measures, we believe that broader reform of the allowances system is urgently required. We maintain our call for an increase in the base rate of Newstart Allowance for single adults of \$50 per week, and for the base rate of allowances to be indexed to a measure of wages. The changes proposed in the Bill would represent a modest improvement in the allowances system, but they fall far short of the change that is required.

The income free area

The income free area is the amount of private income (such as labour earnings) than an allowance recipient is allowed to earn before their payment begins to be reduced. From 1 July 1995, the income free area for a single recipient was reduced from \$90 per fortnight to \$60 per fortnight.¹ It has effectively remained at that level over the subsequent 18 years, with only a negligible \$2 per fortnight increase in 2000 as part of the GST compensation package.

When the 1995 reforms came into effect, the minimum wage² was \$341.40 for a 38 hour week, or \$8.98 per hour. This means that the free area of \$60 per fortnight (\$45 per week) was equal to 6.6 hours of work at the minimum wage (3.3 per week). The non-indexation of this free area means that as at June 2013, an allowance recipient can only work 3.8 hours per fortnight (1.9 per week) before their payment begins to be reduced.

This is unacceptably low, as we argued in our submission to the 2012 Allowances Inquiry. Most modern awards specify a 'minimum engagement' of at least three hours of work; a Newstart recipient who performs any work at all will therefore immediately lost some of their payment. We called for the free area to be increased such that it is equal to at least three hours of work at the National Minimum Wage ('NMW'). The Bill proposes to do this, and we welcome this proposal.

As at 1 July 2013, the National Minimum Wage will be \$16.37 per hour. The \$100 per fortnight (\$50 per week) income free area that the Bill proposes is therefore equal to 3.05 hours of work per week at the NMW. The historical levels of the NMW and the free area are shown in Figure 1; the number of hours of work at the NMW before a person exhausts the free area is shown at Figure 2. The figures for June 2014 assume that the free area proposed in the Bill is enacted. Table 1 also shows the same information, for the Committee's convenience.

¹ Prior to the 1995 reforms, the free area was \$60 per fortnight plus an additional \$30 if the recipient worked, giving a free area for employed allowance recipients of \$90 per fortnight.

² References to 'the minimum wage' in this submission pertain to the C14 rate of pay in the *Manufacturing and Associated Industries and Occupations Award 2010* and its predecessors. The C14 rate is equal to the National Minimum Wage, and was previously equal to the Federal Minimum Wage.

Figure 1: The NMW and the income free area over time

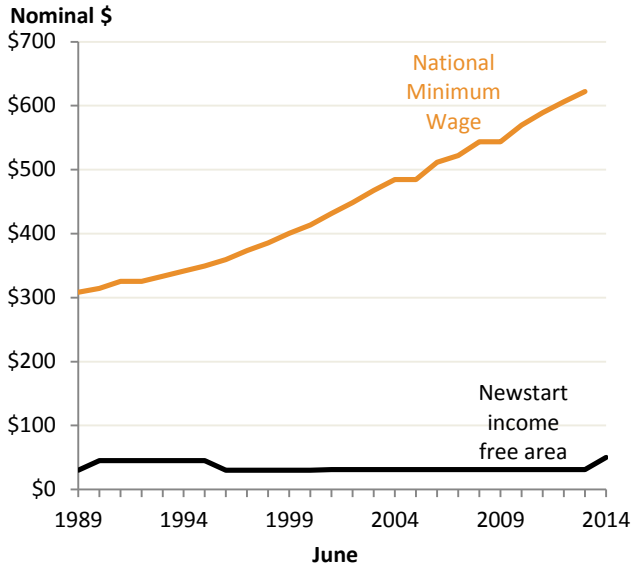
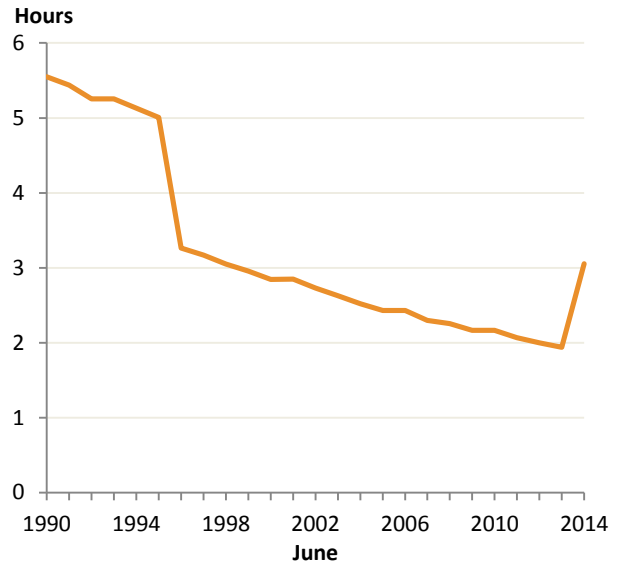


Figure 2: Hours of work at the NMW to reach the NSA income free area



Source: Calculations based on historical minimum wage rates (from FWC, AFPC, AIRC) and income free area information from FaHCSIA (http://guidesacts.fahcsia.gov.au/guides_acts/ssg/ssguide-4/ssguide-4.10/ssguide-4.10.2.html).

Table 1: Free area, NMW and hours at NMW to exhaust free area

30 June	Free area (per week)	NMW (per week)	NMW (per hour)	Hours at NMW to exhaust free area
1989	\$30.00	\$282.50	\$7.43	4.0
1990	\$45.00	\$308.20	\$8.11	5.5
1991	\$45.00	\$314.40	\$8.27	5.4
1992	\$45.00	\$325.40	\$8.56	5.3
1993	\$45.00	\$325.40	\$8.56	5.3
1994	\$45.00	\$333.40	\$8.77	5.1
1995	\$45.00	\$341.40	\$8.98	5.0
1996	\$30.00	\$349.40	\$9.19	3.3
1997	\$30.00	\$359.40	\$9.46	3.2
1998	\$30.00	\$373.40	\$9.83	3.1
1999	\$30.00	\$385.40	\$10.14	3.0
2000	\$30.00	\$400.40	\$10.54	2.8
2001	\$31.00	\$413.40	\$10.88	2.8
2002	\$31.00	\$431.40	\$11.35	2.7
2003	\$31.00	\$448.40	\$11.80	2.6
2004	\$31.00	\$467.40	\$12.30	2.5
2005	\$31.00	\$484.40	\$12.75	2.4
2006	\$31.00	\$484.40	\$12.75	2.4
2007	\$31.00	\$511.86	\$13.47	2.3
2008	\$31.00	\$522.12	\$13.74	2.3
2009	\$31.00	\$543.78	\$14.31	2.2
2010	\$31.00	\$543.78	\$14.31	2.2
2011	\$31.00	\$569.90	\$15.00	2.1
2012	\$31.00	\$589.30	\$15.51	2.0
2013	\$31.00	\$606.39	\$15.96	1.9
2014	\$50.00	\$622.16	\$16.37	3.1

Source: Calculations based on historical minimum wage rates (from FWC, AFPC, AIRC) and income free area information from FaHCSIA (http://guidesacts.fahcsia.gov.au/guides_acts/ssg/ssguide-4/ssguide-4.10/ssguide-4.10.2.html).

For many low-paid workers, the free area proposed by the Bill will still be equivalent to less than three hours work. That is because many low-paid workers receive minimum wages that are greater than the NMW. Many low-paid workers also receive a casual loading. The \$100 per fortnight free area proposed in the bill is the bare minimum required to meet our test of allowing three hours of work per week before the free area is exhausted.

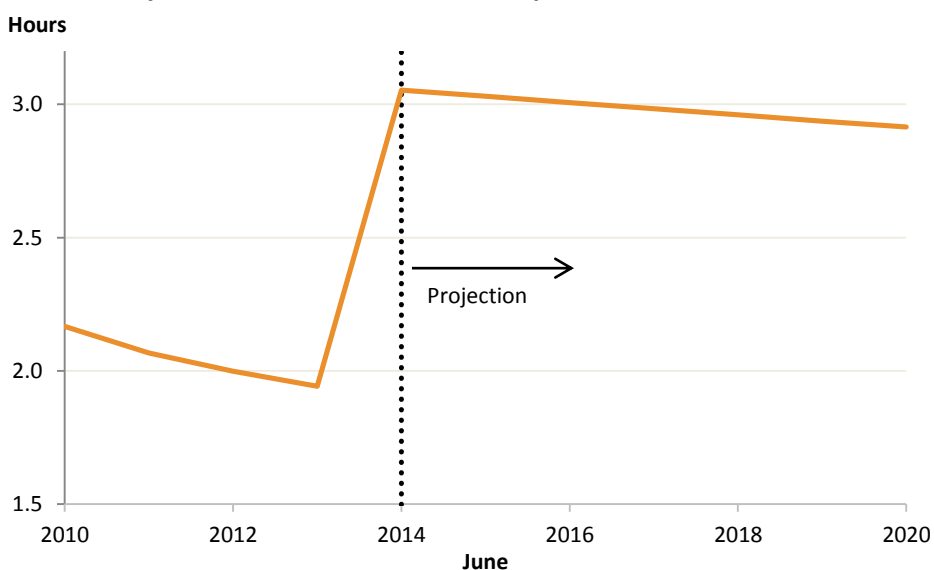
Indexation of the free area

We welcome the proposal to index the value of the income free area. The failure to index this threshold in the past has meant that it has eroded in real terms and relative to the NMW, as depicted in Figure 2. If Parliament decides that it is appropriate to set the free area to be equal to around 3 hours of work at the NMW, as the Bill proposes to do, then it is appropriate that it ensures that this relativity is not eroded through inflation and wages growth.

For this reason, we submit that it would be more appropriate for the free area to be indexed to a measure of wages, rather than the CPI. If the NMW increases in real terms over time, then indexing the free area to the CPI will mean that the number of hours a person can work before exhausting the free area will fall over time, although it will fall less rapidly than in the past when the free area was not indexed at all.

Over the period since 1997, the NMW has increased at a compound annual rate of 3.3% per annum. Since responsibility for adjustment of minimum wage adjustment was assumed by Fair Work Australia (now the Fair Work Commission), it has risen at a compound annual rate of 3.4% per annum. If we project the NMW forward at 3.3% per annum, and assume that CPI inflation will be in the middle of the RBA’s target band (ie. 2.5%), then we find that the income free area will be worth less than 3 hours of work at the NMW by 2017, and the ratio will keep falling.

Figure 3: Projected weekly hours of work at the NMW required to exhaust the income free area



Source: ACTU calculations. Assumes that the NMW increases by 3.3% per annum and that the free area rises by 2.5% per annum.

Need for further improvements

The proposed increase in the income free area would allow income support recipients to retain up to \$19 per fortnight more of their earned income. While we welcome this change, it is not sufficient to ensure that the Newstart Allowance protects recipients from poverty and assists them to find work. To achieve these goals, an increase in the base rate of the payment is urgently needed.



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