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Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON EMPLOYMENT AND
WORKPLACE RELATIONS

Reference: Employment: increasing participation in paid work

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON EMPLOYMENT & WORKPLACE RELATIONS

Wednesday, 26 November 2003

Members: Mr Barresi (*Chair*), Mr Bevis (*Deputy Chair*), Mr Dutton, Ms Hall, Mr Hartsuyker, Mr Lloyd, Ms Panopoulos, Mr Randall, Ms Vamvakinou and Mr Wilkie

Members in attendance: Mr Barresi, Mr Bevis, Ms Panopoulos, Mr Randall, Ms Vamvakinou and Mr Wilkie

Terms of reference for the inquiry:

To inquire into and report on:

Employment issues in both rural/regional and urban and outer suburban areas, with particular reference to:

- Measures that can be implemented to increase the level of participation in paid work in Australia; and
- How a balance of assistance, incentives and obligations can increase participation, for income support recipients

WITNESSES

**FOSTER, Mr Chris, Assistant Secretary, Working Age Task Force, Department of Family and
Community Services 1**

**KINNEAR, Dr Pamela, Acting Director, Coordination and Research, Department of Family and
Community Services 1**

**SMITH, Mr Bruce, Assistant Secretary, Welfare Reform Task Force, Department of Family and
Community Services 1**

**WILSON, Ms Serena, Executive Director, Welfare Reform, Department of Family and
Community Services 1**

Committee met at 11.20 a.m.

FOSTER, Mr Chris, Assistant Secretary, Working Age Task Force, Department of Family and Community Services

KINNEAR, Dr Pamela, Acting Director, Coordination and Research, Department of Family and Community Services

SMITH, Mr Bruce, Assistant Secretary, Welfare Reform Task Force, Department of Family and Community Services

WILSON, Ms Serena, Executive Director, Welfare Reform, Department of Family and Community Services

CHAIR—I declare open the public hearing of the inquiry into employment and increasing participation in paid work. I would like to welcome representatives of the Department of Family and Community Services. Thanks for coming in today and meeting with us. The proceedings here today are formal proceedings of the parliament. Although the committee does not require witnesses to give evidence under oath, you should understand that these hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the parliament itself. Giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The committee does prefer that all evidence be given in public. However, if at any stage you wish to give any evidence in private, please ask to do so and we will consider the request. I invite each of you to make some preliminary comments about the issues you think are important to this inquiry, and then we will ask some questions.

Ms Wilson—I have a few preliminary comments that I would like to make, largely based on the FaCS submission that we have made to the committee. In thinking about the question of increased participation in paid work, the FaCS submission noted there are two main reasons for increasing participation in paid work in Australia among working age people.

First and foremost is the role that employment plays in the wellbeing of individuals and their families. Employment during the working years contributes to family income and protects families and individuals against financial hardship, both now and in the future. There is also evidence that children do better in later life if their parents are employed. So there are some intergenerational benefits from employment as well. This is of particular concern as Australia currently has one of the highest rates of jobless families amongst OECD countries, with around 820,000 children living in 416,000 jobless families in 2003.

Secondly, maintaining high rates of participation in paid work is also important in order to underpin economic growth as the Australian population ages over the coming decades. In particular, population ageing will increase the demand for labour as the supply of workers reduces. Population ageing will also bring opportunities for people who currently do not participate in paid employment and will provide them with more opportunities to do so. This makes it all the more important to ensure that people are ready and able to take advantage of those opportunities as they arise.

As our submission sets out, there are a range of groups within Australian society who currently have high levels of income support reliance and low levels of unemployment. They include lone parents, mature age—that is, people aged 50 and over—people with disabilities and Indigenous people. We also still have a relatively high level of people who are long-term recipients of unemployment payments. The submission also notes that low levels of participation in paid work have a regional dimension. An analysis of the distribution of income support payments shows distinct patterns in some areas. For example, the Northern Territory, northern and western areas of New South Wales and pockets of South Australia and Queensland have a high concentration of income support receipt in the working age population.

The question that we then discuss in our submission is: how can we increase participation in paid work? The first thing to realise is that, in finding policies and strategies to increase participation in paid work, we need to understand the uniqueness of the Australian setting—our institutions, our values and the specific dimensions and characteristics of the problems here. Whilst we can learn things from overseas developments and from their approaches to welfare reform, for example, we must not borrow those ideas uncritically. They have to translate well into the Australian context.

Our submission sets out a range of ways in which the portfolio tries to build and encourage people to utilise their capacity for paid work. The first of those is a range of initiatives that we might characterise as getting the foundations right. They include ensuring that structural impediments to paid work are minimised and supporting increased participation in both the short and long term through initiatives such as building community capacity, supporting families, engaging with business, promoting early intervention for children and early childhood development, providing educational opportunities and supporting life transitions in order to prevent or minimise factors that place people at risk of low participation throughout their working lives.

Our submission goes on to look in particular at approaches to help people move from welfare into paid work within the theme of getting a balanced approach that encompasses and generates synergies between the three main levers, which we articulate as being work incentives, participation requirements and assistance measures. In the submission we argue that research and evaluation evidence suggests that no one lever on its own will be sufficient to move large numbers of people into work, but you need all three and a balance between all three.

We go on to outline how the Australians Working Together package of reforms, which was the first major step towards welfare reform in Australia, has taken account of this research in seeking that balance between incentives, requirements and assistance. We discuss the consultation process on working age income support around the government's paper *Building a simpler system*, feedback on which the government will be shortly considering.

In future, we suggest that reforms will have to engage with two main challenges: first, how to ensure that all systems work together to maximise the incentives for people of working age to search for, find and sustain employment that is appropriate to their individual circumstances; and, second, to build on the existing evidence base in order to learn what strategies work best for particular groups and what combination of incentives, assistance and requirements is appropriate for the Australian context.

In summary, this is ongoing learning that we all need to experience whilst we undertake reform to ensure that we have the evaluation and the research evidence at our hands. There is not, if you like, a silver bullet in this area; it is a matter of ongoing refinement and continuous improvement in these areas. That is all I wanted to say in my opening comments. I am not sure if my colleagues wanted to add anything at this stage. We would be very happy to take questions from the committee.

CHAIR—Thank you very much. We have only just started this inquiry. We are in the early days of it, so we do thank you for your submission. There are a number of questions that arise from the evidence that you have given and particularly your submission. Can you give me an idea of what are the long-term implications of the trend towards part-time work in relation to increasing work force participation?

Ms Wilson—This is one of the challenges that the *Building a simpler system* consultation paper identified. Australia has a very high level of part-time work compared with other comparable OECD countries, and that is both an opportunity and a challenge. It is an opportunity in that it provides people with the capacity to reconcile their work and family responsibilities and to cope perhaps with the phased transition to retirement from the full-time labour force. It can also provide a stepping stone into more secure, more sustained, more intensive employment. But it can also mean for more people that their income will need to be a balance of some part-time or intermittent work and income support. We need to recognise that in the tax transfer system and help people with the intermittency or with the uncertainty of income and earnings that a very dynamic labour market such as ours can imply.

CHAIR—In a previous inquiry into mature age unemployment conducted by this parliamentary committee, one of the things that came out of the inquiry, I seem to recall, was the move for people to have a portfolio of part-time work. Your evidence so far has been about part-time work combined with income support as a way of getting through. Do you have any evidence or have you collected any data or statistics on the portfolio scenario and whether or not there is a growth in that?

Ms Wilson—That is not something that we can easily identify from our administrative data because we collect earnings rather than the numbers of jobs or the numbers of employers. Customers are required to report their level of earnings, but it does not go to the number of jobs that they might hold. There is nothing from our data that I can help you with on that front, I am afraid.

Mr Foster—It is mostly people—if you had a portfolio that added to a level of full-time wages—

Ms Wilson—It would be outside the system.

Mr Foster—You would mostly be outside the income security system. So the people in ours are mostly people who are working one or two days.

Ms Wilson—Other than people who might have a particular form of employment such as casual teachers. There may be several sectors in which they are working in the course of the year or what have you. They would not be a very large group in our system.

Mr WILKIE—On that part-time issue, years ago people would have chosen part-time work, I would think, and part-time work was pretty hard to find. Now that there is a growing trend towards part-time work, how many people do you think are actually wanting part time as opposed to those that want full time and just cannot get it?

Ms Wilson—We do have some data in the submission, I believe, on that issue. You are correct in that there is a mixture. In general terms, and Pamela will correct me if I am wrong, my understanding is that the majority of people with part-time hours are happy with those hours, but around one-quarter of those reporting part-time hours would prefer to work more hours and around 15 per cent of those in part-time work would prefer to work full time. So there is a group in that sector who would like more hours, but the majority report to the ABS that they are happy.

Dr Kinnear—If I can add to that: another thing we reported here is that the group that tends to be not so happy and in more insecure and unstable work are men in part-time work. Women in part-time work tend to be in more stable types of part-time work and tend to be happier with their hours. Part-time men can move either into joblessness or into full-time employment in a much more volatile kind of way. As well, women are more likely to have access to paid leave entitlements and things like that in their part-time work. So there are some gender issues.

Ms Wilson—Women as a group tend more to have permanent part-time work, if you want to characterise it in that way, rather than casual part-time work.

Mr BEVIS—I was just trying to find the graph in here that I looked at the other day which, from memory, showed male participation rates declining.

Ms Wilson—Page 6 or 7.

Mr BEVIS—Yes, at the top of page 6. What is the reason for that?

Ms Wilson—There are a range of reasons. One goes to a general trend towards early retirement and lower rates of employment amongst older men compared with the past, so there is a broader social thing that has been happening. Those men who become jobless later in life do find it more difficult to get back into the labour market. So there is quite a bit of involuntary early retirement as well. Disability can be a compounding factor.

Mr BEVIS—Why would that change over time? Why are there more disabilities now than before?

Ms Wilson—The ageing of the population in general has shown—

Mr BEVIS—I thought it might have been the ageing, too. If you turn over to the next page, there is a graph shown there. When you present us with graphs, if they are in colour at your end it is useful if you could make them in colour at our end because it is not always easy to interpret the differences in lines. But if I am interpreting figure 5 correctly, what it actually shows is that the male participation rate has dropped significantly across all age groups virtually, if you compare 10 years ago to now and, surprisingly, at the end of the age group—the one you just described—the opposite is the case. In fact, that is the only area in which male participation has increased.

Ms PANOPOULOS—That graph and what Mr Bevis is raising was something that particularly struck me when we had some evidence regarding the Treasurer's Intergenerational Report. That was quite marked, and no-one could answer the question then. I am interested as well. In that age group of 25- to 45-year-old males, you would think the more we are spending on health, the more you would not attribute health reasons to that. Why is there a permanent decrease, as Mr Bevis said, in that category of men?

Ms Wilson—In the 25- to 40-year age group, I am not sure that is something for which we have any clear explanation. One of the suggestions is that, if you map skill levels and participation, you see that those people with lower skills are more disadvantaged in the labour market. So education completion can be a factor potentially for that group.

Mr BEVIS—Is there a gender difference in that attribute?

Ms Wilson—There is in the younger cohorts now. As I understand the broader evidence, there are potentially sectoral issues as well. This is an area on which we are clearly not expert; it is more the territory of the Department of Employment and Workplace Relations. But if you understand where jobs growth has been occurring in which sectors of the labour market, it has been in the services sector in particular, which has tended to be more of a female segment of the labour market.

Ms PANOPOULOS—But we are not talking about jobs, we are talking about participation. So people who are permanently out of the work force in terms of holding a job or seeking a job.

Mr BEVIS—You are suggesting there is a structural change in the nature of work over the last 10 years that has led to what is a pretty consistent gap from age 15 to age 60.

Ms Wilson—From age 15 to 60, one of the contributing factors at the lower end of the age range—and it would be longer than over the last 10 years—would be increased education completion. Younger people are spending longer in education than was the case three decades ago. So that explains it at the bottom end.

Mr BEVIS—But presumably that is not gender based. Presumably, the participation or completion rates of year 12 are not substantially different if you plotted the change over, say, the last 20 years between males and females. I do not know the answer to that.

Dr Kinnear—If you cut that graph off at 20, you will find that the rates between males and females actually are pretty much the same at that point. It is only after that where the gender issues really cut in and they are basically child bearing, child rearing related.

Mr BEVIS—If you are comparing the slope of the male line and female line from 15 to 20, that is probably a fair comment. But if you are comparing, as I was originally, the male line of 1982 with the male line of 2002, then I am afraid that point is not relevant.

Mr Smith—To some extent, it is speculative because, as Ms Wilson said, this is more in the area of the department of employment. One factor would be the research that I think people such as Bob Birrell have done into the lower end of the male work force.

Mr BEVIS—When I saw the first graph and I was trying to figure it out in my mind before I turned the page, I thought maybe there were a lot of males who, through redundancies or whatever, at 55 have decided to exit the labour market early and that is showing up in the total figure. When you turn the page, that assumption is wrong because what you discover is there are more males past the usual retirement age working now than was the case 10 years ago. And the opposite is the case below the normal retirement age. That is a bit of an unexplained conundrum to me. I do not know the answer.

Mr Smith—My comment was really just a hypothesis which is based on some of the research that people such as Bob Birrell have done. There is a component of the lower end of the male work force living in caravan parks, excluded on a long-term basis from the labour force; whereas their female equivalents are finding jobs of one sort or another, often part time, in the service sector.

Ms Wilson—So it is at the lower end of the wages and distribution of those low paid, particularly full-time jobs, as I understand it, and not there for men to the same extent as they have been in previous periods.

Ms PANOPOULOS—I appreciate attempts to come up with the hypothesis but I am not convinced that it is all due to the fact that people live in caravan parks and it is easier for the women to get jobs. There has to be something more fundamentally wrong, because it is a persistent—

Ms VAMVAKINOU—I think it probably shows up in other areas of education in its relevance to boys and the whole aspect of trades and their availability. If you look at it from a broad perspective, they probably are losing their options and the education system itself is not preparing them for when they leave it and enter the workplace. That must substantially be the reason why these figures are consistently showing up, because they are appearing in those areas too. It is an ongoing issue with men and their place in the work force now and the education system as well. It seemed like an obvious correlation to me.

Mr BEVIS—I should correct my assumption on the retention rates at school. The secretary has just given me a copy of a committee report from 2002 which shows that the school retention rate to year 12 for males is lower than the female retention rate, which you could factor in to the early part of that graph as possibly a contributing factor, although it still would not explain the 40-year period. Do you think the employment department may be able to help us a bit with that?

Ms Wilson—Yes, I think they would be better placed.

CHAIR—We will note that.

Ms PANOPOULOS—Another one relates to seasonal workers: if someone is on an age pension, they are allowed to earn a certain amount over the course of the year. It has recently come to my attention that if one of these people who has a pension decides to do some seasonal work to earn their maximum amount for that financial year in a month, then there is no spreading out of that earned income over the 12 months—and that is just one example. Is there any detailed analysis or research regarding the income disincentives for people on support incomes to actually re-enter the work force?

Ms Wilson—I guess our submission addressed specifically working age people, and that is where our expertise is. In respect of your question about people on an age pension, there are mechanisms by which earnings can be averaged but it depends on what sort of pattern they fall into as to the extent to which they can be taken advantage of. Each case can be different, so I cannot really give you an answer about that in general terms.

A feature of the Australians Working Together package is the working credit which has been implemented from September this year. That is a mechanism specifically to help people with the intermittency of earnings. So if they have had a period without earnings whilst being on a working age pension or allowance, they are able to build up what is called a working credit for periods where they did not lose their free area in the income test. That can be used to offset the first \$1,000 of earnings once they have their maximum credit. So that can help people who have a period without any employment and then a short period of employment. It gives them a shelter from the income test in those circumstances. It can help people who return to full-time work in the first couple of weeks of earnings because they still get to keep their allowance and it is not addressed by the first \$1,000 of earnings. It can help people with more substantial part-time work.

CHAIR—It was suggested to us by previous witnesses that the working credit at that level was too low and it may not be sufficient to work. What are the results at the moment? I know it is only early days.

Ms Wilson—No-one would have a maximum credit as yet. They are only starting to build up their credits from 20 September when it was implemented. It would not be until March next year that people had a maximum credit that they could offset against earnings. We do anticipate that there will be a significant benefit to people from the working credit.

There is another feature of the working credit, apart from the shelter from the income test. One of the other disincentives that we have heard about, both in the consultations on *Building a simpler system* and in other research and consultations that have been carried out throughout the year, is a disincentive for people to return to employment, particularly if that employment is insecure. Often it is of concern to them about the risk that that might pose to their being able to access the income support system again should the work not be ongoing and not become permanent. One of the other major features of the working credit is an abbreviated process for people to come back onto income support should the work not become full time and not be sustained. We believe that that will also be of significant benefit to people with intermittent earnings.

CHAIR—Will you be doing an evaluation by March next year?

Ms Wilson—Not by March next year.

CHAIR—By when?

Ms Wilson—We are legislatively required to do an evaluation of the Australians Working Together package and report by June 2006. With all of these initiatives, there is a performance monitoring period and then there is a more substantive evaluation that will be undertaken. The Australians Working Together evaluation will be a substantive evaluation. We will have

benchmarking analysis work done by the end of next year and then we will be collecting data to be able to do that final report in June 2006 and, in order to do that, we have invested in the development of two major new data sets.

CHAIR—I am just thinking that, from the point of view of our report, it would be useful if we had some idea what the trend line shows on working credits by the time we write this report. But if we are not going to have any meaningful data by then, there is no point.

Ms Wilson—No, I am afraid that will not be the case. What is your reporting time frame?

CHAIR—Well before 2006.

Ms Wilson—Yes, but in the first half of the next calendar year, isn't it?

CHAIR—Yes, that is right.

Mr WILKIE—In terms of participation by people who work past the retirement age, there are not a lot of figures in the submission about that group. Do you have much information based around that?

Ms Wilson—We could take it on notice and provide you with some information about earnings of people in the age pension system, if that is the question that you are asking—

Mr WILKIE—No, I will say where I am coming from so that it will be clearer. Someone came to see me recently who is aged 70. He is very fit and wants to work, but there are a lot of disincentives to him actually working. He is not eligible for the pension because he has accumulated more assets in the last five years that he has worked; therefore he does not qualify. He would have been better off not working in that regard. Because he is 70, there is no requirement now for his employer to pay superannuation and so he is actually reducing his potential income in superannuation by continuing to work as well. But he does not want to retire; he enjoys working. I am wondering if there is any way we can look at removing some of the disincentives for people as they get older to pull out.

Ms Wilson—I think the question that you are asking really goes more to the Treasury portfolio's responsibilities insofar as superannuation is the issue that you have identified. For those who are eligible for the age pension, and I have to restrict my comments to that group, there is a bit of an incentive in the income test that they have for their payments to keep having non-pension income including earnings beyond their becoming eligible for age pension. They have a quite generous free area. There is only a 40c in the dollar income test for the age pension, so the cut-outs for pension go a fair way up the earnings distribution, both for singles and for couples. It is a system that recognises that people may wish to continue topping up pension with some earnings beyond their qualification age for age pension.

CHAIR—I turn to the disability support pension. On page 11 of your submission you state:

... Australia had the lowest employment rate of people receiving disability benefits (at around 10 per cent).

What do you put that down to? Is it possible that our disability support pension system is just so generous that there is no incentive to move off the pension and into paid work?

Ms Wilson—My view would be that it is a complex set of things. The disability support pension covers a very broad group of people, ranging from those with moderate disabilities to those with very severe disabilities. It is a system that has developed without participation requirements, even though amongst those that receive disability support pension there would be a group that would have some partial work capacity, albeit not a full-time at award wages capacity, because you cannot be eligible for the disability support pension if you are able to work more than 30 hours a week at full award wages within the next two years after vocational training.

It is a system that has its origins, I guess, in a different era in that it was based on an invalid pension and then broadened out eligibility requirements in the early 1990s at the same time as there was an attempt to encourage more disability support pensioners to earn whilst receiving the pension. There has always been voluntary access to things like rehabilitation for disability support pensioners.

There are the issues that I mentioned around risk—people who receive payments like disability support pension can become very concerned that they will risk their ongoing eligibility for pension if they take up work. So there are mixed messages in the way the system is constructed. There are a range of reasons, I believe, why we have such a low employment rate and a low earnings rate amongst disability support pensioners. The government has introduced into the parliament legislation to try to restrict eligibility for the disability support pension to those with work capacity of less than 15 hours a week at full award wages. That eligibility reform has not been successful.

One of the issues discussed in the *Building a simpler system* consultations with the community was around this issue: how can we encourage those who have some capacity for employment to use that? What is the range of services that they need? What are the incentives that they need? What are the participation requirements they ought to face in order to help more of them access employment and sustainable employment? There are issues that customer groups and consumer groups will raise about discrimination against people with disabilities amongst employers and there not being sufficient recognition of the capacity of people with disabilities to perform employment in a range of areas. It is a very complex interaction of issues.

Mr WILKIE—It was put to me last week at a function that I attended that the Commonwealth was trying to force a lot of the responsibility for finding employment for people with disabilities onto the states by reducing their funding for programs aimed at getting jobs for people with disabilities. What sort of response would you have to that?

Ms Wilson—I would draw the committee's attention to the expansion of disability employment places as part of the Commonwealth's contribution to the Commonwealth-state-territory disability agreement and the Australians Working Together package. There has been a significant expansion in disability employment assistance places for which the Commonwealth is responsible.

CHAIR—How is the expansion taking place? Have jobs been found that are now available that were not available in the past?

Ms Wilson—No, this is disability employment assistance. The department funds a range of services for people with disabilities.

CHAIR—These are business services—

Ms Wilson—No, there are more than business services. As well as business services, there are different forms of supported employment which go to supporting individuals and there is also support for open employment—so a range of services that the department funds that aim to assist people with disabilities into employment.

Mr BEVIS—Just on that same point, it seems the whole section is predicated on an OECD comparison of people on disability benefits in 20 countries. How did the OECD go about moderating the various systems? Or did it simply tabulate and take no account of the fact that somebody who qualifies for a disability in England is different from someone in Spain, is different from someone in Germany and is different from someone in Australia?

Ms Wilson—When doing this work, there is a framework that is usually developed up front to try to ensure that you have a reasonable basis for comparative analysis and there is a description of each of the systems that forms part of the work. I guess what is noticeable about Australia is that most countries—and Mr Foster may be able to add to this as well—tightened their disability related payments in the early 1990s, whereas Australia actually liberalised the eligibility criteria for the disability support pension when it replaced the invalid pension—

Mr BEVIS—Which is precisely my point. We are not comparing apples with apples in that table. It is a table of activity amongst a number of countries rather than a standardised reflection on a common scale. If I am wrong, please get us the data. I would be interested to know, because I do not have the OECD document in front of me, the methodology used. There are other OECD reports that will just tabulate it and then put a footnote saying, ‘This is what we have done,’ and then it becomes a question of how it is interpreted. I would not want to be misled by this information.

Mr Foster—Comparing across 20 countries and trying to explain every reason for a difference in outcome probably was not the purpose of a comparison like that. A comparison like that would look at the people who are classified as having a level of disability and look at the outcomes that they achieve across countries in employment.

Mr BEVIS—But the test of what a disability is across the various jurisdictions will be different. And in that report, I suspect it also identifies what percentage of the population is classified as disabled for the purposes of the benefit. Without trying to resolve it here—unless you have the report in front of you, I don’t think we’re going to—I would ask you to take on notice that question because I would like to have clarified the basis on which that was done and effectively the methodology they used.

Ms Wilson—I will make a couple of points around that. We will check by looking at the report, but there is an international measure of disability which the World Health Organisation

has promulgated. It is my belief that it is that sort of measure the OECD would have used in looking at the employment rates of people with disabilities in those 20 countries that the study was focused on.

The second point I would like to make around this issue is that, intuitively, if you liberalised a payment for people with disabilities, you would then anticipate that you might see a greater take-up of employment amongst those receiving the payment than arguably what we are experiencing and what countries with tighter definitions of disability for receipt of disability payments would demonstrate. I think those two points are fairly important—

Mr BEVIS—Which raises the added question in arriving at this conclusion in the OECD report that they use our measure of disability or that international standard that you referred to. My question stands. I would like to see the methodology and the detail so that I can put that report into some perspective.

I would also like to take up the point Mr Wilkie raised because I, too, have had this raised with me—that is, people over 70 years of age who are employed, who are not entitled to participate in ongoing superannuation and their employer is not required to make the standard contribution. I think they raise two valid considerations. They are actively employed and wish to be—not everyone that age wants to be; I doubt very much I will want to be if I am lucky enough to reach that age. These people are gainfully employed and making a positive contribution. They say, ‘We are prevented from having any benefit in our superannuation fund, and our employer is not required to make any contribution otherwise.’ That is, the nine per cent, 10 per cent, 12 per cent—or whatever the rate is—is not made to super nor is it made in any other way in the salary package. I suppose someone might argue that is a cost incentive to employ people in that age bracket but I doubt that that operates.

On the other side of the coin, the individual says, ‘I am being discriminated against. My remuneration package is reduced by, in round figures, 10 per cent simply because I happen to be a certain age.’ I think that is an issue we need to look at. If we are talking about circumstances of encouraging people to be employed, I know, from personal experience with constituents who have come to see me, that that grates on them and I can understand why it grates on them.

Ms Wilson—I am acknowledging the issues that you have raised, Mr Bevis, but I am not sure it is an issue that our portfolio is equipped to respond to. As mentioned previously, the issues around superannuation are really for the Treasury portfolio and issues of practices of wage fixing and remuneration are for the Department of Employment and Workplace Relations.

Mr BEVIS—There was one other area I wanted to raise, and again it may sit more properly with another agency. A lot of this report talks about how we can go about keeping people employed for longer and participating in the economy, and so on. The other side of the coin for a lot of people though is that, with part-time work and early exit out of the work force, a lot of people look forward to stopping employment, which is the flip side of the coin regarding the example I just gave of the others.

There are a couple of ways of addressing that. One is to say, ‘No, you should stay employed for longer.’ The other is that you should have in place a program for your self-funded retirement, which goes to the question of the rate at which compulsory superannuation should be applied if

we are going to have a sustainable retirement benefit for those individuals. Do you have a view as to what rate of wages should be set aside if we are going to have a sustainable retirement for an ordinary working person?

Ms Wilson—‘No’ is the short answer. There are so many imponderables which depend upon the individual circumstances—in general terms, their level of assets, their income needs in retirement et cetera. One way of thinking about the age pension is that it provides in effect a minimum income guarantee for those who are eligible to which superannuation can be a top-up for those who have it. In the mix of those accessing the age pension these days, increasingly there are more part pensioners. But the question about the rate at which people should make compulsory superannuation contributions or whether they should be made on their behalf is not one for this portfolio, I am sorry.

Mr BEVIS—We might have to raise that with other agencies, because I know the calculations have been done. There are all sorts of figures that float around. There was one other thing that your mention of pensioners just reminded me of, and it was a comment that was made earlier about the asset test being quite generous and so on. I have made that comment myself, so I am not critical of that.

My attention was drawn recently to the situation of people with allocated pensions and the fact that the allocated pension total is an asset for the purposes of determining their eligibility for benefit. The amount of \$440,000, I think, is the maximum other than the occupied home. The person pointed out to me that \$450,000 invested in an allocated pension does not provide a return that a lot of people would regard as a minimum to live on. Has there been any consideration given to treating assets differently? There was a time when allocated pensions were not regarded as an asset for the test, so obviously there was a time when that was treated differently and a conscious decision was taken to treat it as any other asset. But have you looked at the question of the extent to which assets should be treated differently for the purposes of eligibility for benefits?

Ms Wilson—That is not something that I am able to help you with, I am sorry, insofar as we do not come from that area of the department. If there is a specific question that we can take on notice to answer for you, we can do that, but it is not our area of expertise. Retirement incomes generally is a shared responsibility between Treasury and FaCS insofar as we have responsibility for the age pension. I could undertake to get a particular question addressed by my colleagues in our seniors and means test area.

Mr BEVIS—The specific question then is: in determining eligibility for the pension, should all assets be treated the same? Please get some advice on any work that may be done around that. I think I am right when I say that the allocated pensions at one point in time were not regarded as an asset. If I am wrong about that, please correct me.

Ms Wilson—No, that is correct.

Mr Foster—Would that be all financial assets?

Mr BEVIS—Any asset that is identified for the purposes of the assets test.

Mr Smith—With a particular interest in the allocated pensions and how they are treated.

Mr BEVIS—Yes. There are a number of policy issues arising out of this, and I am not sure what my view about it is. I would be interested in whatever information may be around, if people have looked at the question. Clearly, in respect of allocated pensions, it was looked at, because there was a change.

Mr Foster—I guess our focus has been on people under age 65 for the purposes of this submission, because it is where the greatest gains are to be made in increasing participation over the next 20 years. That is where we have focused our attention.

Mr BEVIS—That is a fair point.

Mr Foster—Assets then really do not come into play. It is the work and different combinations of work and so on which are the primary motivators, as well as caring and family responsibilities et cetera that need to be balanced as distinct from financial asset issues.

Ms Wilson—Mr Foster is right. Our focus has been the working age group. Noting that the growth in the labour supply will start to reduce by the end of this decade, clearly this is a very large group who could offset that reduction in the labour supply if they could be activated and assisted into labour force participation.

Dr Kinnear—As indeed would be the older workers. There will be a greater demand for those as long as they have the right skills and are in the right position to take advantage of the opportunities that are there for them.

CHAIR—Have there been any attitudinal studies done on the willingness of that particular cohort to move into part-time or full-time work? We talk about the ageing of the population and the figure of 500,000 jobs with no-one to fill them by the year 2020 has been mentioned to us, so there is going to be a demand for labour. But is labour willing to fill that demand?

Mr Foster—I think what we do know is that a lot of people do want to get work, but the longer you are out of work and the longer you are on benefits, the less the probability—

CHAIR—I am talking about a particular cohort of people though, not the 20- to 45-year-olds; I am talking about as we are moving into that older level.

Ms Wilson—So you are talking about the people aged 50?

CHAIR—For example, we talk about perhaps moving the retirement age up to 67, or even higher, and the ability to have some sort of enhanced pension benefits if you work on beyond the age of 65. But are people wanting to take that up or is there an attitude out there of ‘I have done my bit. I have worked up until the age of 60 or 65. I now feel it is my right to sit back and retire’?

Ms Wilson—We have not focused on the cohort of the 50-plus age group in any of the work that we have done. My general understanding—Dr Kinnear might be able to add to this—is that Australia has experienced this culture of early retirement but, for many, it has also been

involuntary. For many of those who end up in the income support system, it has been involuntary. Some work we did in the portfolio in looking at the work force intentions and retirement circumstances of people aged 50 and over with which I am only generally familiar found quite marked differences between those who were self-funded retirees and those who were in the income support system. Those who were in the income support system were more generally involuntarily retired early than people who had wished to retire.

It does really depend upon income and upon the expectations that you have of lifestyle and income in retirement. What we know about those of younger ages and what we have found, both in our consultations around *Building a simpler system* and in other research that we have done with new claimants of income support and with income support customers generally, is that very many want to work but are not quite sure how to go about doing that. In particular, the longer they are out of the system, the more difficult it is. The focus of the Australians Working Together package, including the measures for older jobless people which came into place from September, has been to try to engage with those people earlier in their income support receipt, to engage with them more often and to look at ways of plotting pathways into the work force for them—either pathways for people who have been out of it for a long period, so pathways back in, or pathways for those who have recently become jobless to get them back in quicker.

Dr Kinnear—The issue of whether people will be there to fill the opportunities in the future really goes to whether we are going to be successful in getting people still working at that age, anyway. At the moment we are having difficulty getting people to retirement age in the work force. That is actually the more urgent question than whether we should or should not raise eligibility rates for access to superannuation. The more urgent question is: how can we maintain access to the labour force until retirement age? Then we can deal with the question of what happens after that, if those people still want to continue.

Ms Wilson—Certainly employers in business have a role to play in that as well in rethinking their approaches to their older work force and not seeing them as being of less worth than people of younger ages. Many of the business peak groups are now beginning to see that and are themselves activating around this issue. They are becoming active in talking about their need to change themselves to recognise the challenge they will face with a reducing labour supply. They are recognising that those that are better able to cope with the diversity of their labour forces will be those that are more successful in the medium term.

Mr Smith—That is right. The evidence shows that older workers who do go on income support very quickly undergo an attitudinal change; that is, initially they see themselves as getting a job quite quickly and their typical experience is to experience basically age discrimination, as they see it. They get a very clear message that they are not even in the running for jobs and that is when they undertake the mental switch to say, ‘Well, in effect, I have just taken early retirement on income support.’

Mr BEVIS—You make the point about families with long-term unemployed adults in the household tending to have kids who leave school earlier, and we know that if they leave school earlier they are more likely themselves to be long-term unemployed. What are we actually doing to try to break that cycle?

Ms Wilson—The most immediate thing is to help their parents get a job. That has all sorts of other benefits for the family in terms of role modelling et cetera. At the same time, there are measures around and work that the portfolio is doing in looking at youth transitions. We are responsible for a range of programs—

Mr BEVIS—How do we help those kids stay at school?

Ms Wilson—We have a range of programs not only in our portfolio but also in other portfolios that try to help young people who are at risk of falling out of school or who have left school early to stay connected with training and with activities that will improve their employment prospects.

Mr BEVIS—Could you give us a bit of a briefing paper on what programs are around to try to keep young people in those risk environments engaged in education and training?

Ms Wilson—Yes, we can do that for you.

Mr BEVIS—Does that also include assistance to institutions, schools and others, to change their delivery?

Ms Wilson—The institutional support is not so much the responsibility of FaCS, but certainly the Australian government has a range of activities in that area. There is probably something that we can lay our hands on reasonably quickly to provide to the committee about this.

Mr Smith—There are summaries of programs and a whole range of things. A lot of that work was brought together in a report that was done a couple of years ago called *Footprints to the Future* by the Prime Minister's Youth Pathways Action Plan Task Force. It collected a lot of the evidence about state and Commonwealth programs and recommendations. We can bring together that evidence about what is happening.

Mr BEVIS—Thank you, that would be good.

CHAIR—Thank you very much. From what you have presented, you have given us a very good depiction of the situation as it is today both in the graphs and in the facts and figures behind them. There are still a lot of unanswered questions though about the meaning of some of the information given to us and how it can be resolved, and that will be our task in future meetings. I do thank you for coming along. There are a number of points or unresolved issues that you have been asked to follow up on our behalf, so if you could get those back to the secretariat, that would be great. We thank you for making the time available.

Resolved (on motion by **Mr Bevis**):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.17 p.m.