

## CHAPTER 5

### INCOME SUPPORT

*The adequacy of social security payments is the most important direct influence on poverty levels. In this way gaps and anomalies in the social security system continue to be a major contributor to poverty and hardship in Australia.<sup>1</sup>*

5.1 Australia's social security system plays an important role in ensuring that Australians without adequate income from employment or other sources are able to afford the basics of life – food, clothing and housing. The social security system is designed to address the objective of the alleviation of poverty and hardship, in contrast to many overseas countries – based on the social insurance model – which are more geared to the aim of earnings replacement. This inquiry has highlighted that, nevertheless, for many people the assistance provided by the income security system is barely adequate to ensure a reasonable standard of living and that serious gaps persist that need to be addressed.

#### **Income support arrangements**

5.2 Australia's income support system is categorical in its structure, that is, it consists of quite distinct programs with specific eligibility directed at particular groups in the community, the main categories being: unemployed people, older people without jobs, the aged, people with disabilities, parents with primary care responsibilities, people with short-term illness and students.

5.3 The social security system distinguishes between pensions (such as the Age Pension and Disability Support Pension), which have traditionally been assumed to last for an extended period of time, and allowances (such as Newstart Allowance for jobseekers), which have been seen as short-term payments. Pensions are paid at a higher rate than allowances. In addition, many recipients receive allowances for rent and other costs as well as financial support for children.

5.4 Pensions are adjusted in line with movements in the Consumer Price Index (CPI) twice a year but are 'topped up' to maintain the maximum rate of pension at a level of at least 25 per cent of Male Total Average Weekly Earnings (MTAWE). Allowances are adjusted in line with movements in the CPI. As average weekly earnings have been rising faster than the CPI in recent years, increases in allowances have not kept pace with pension increases. Table 5.1 summarises the major social security payments and their eligibility criteria.

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1 *Submission 163*, p.124 (ACOSS).

**Table 5.1: Main Income Support Payments and Allowances**

<b>Payment</b>	<b>Eligibility</b>	<b>Recipients as at June 2003</b>
<i>Income support payments</i>		
Age Pension	Men aged over 65 and women aged over 62, subject to residency, income and assets tests.	1,854,012
Parenting Payment	Carers of children under 16 years, primarily in single income families (including sole parent families) with low income. Parenting Payment Single is paid according to pension rates and conditions; Parenting Payment Partnered is an allowance.	Parenting Payment (Single) 436,958 Parenting Payment (Partnered) 181,405
Newstart Allowance	Unemployed persons aged over 21 and actively looking for work.	521,677
Disability Support Pension	People with a physical, intellectual or psychiatric impairment that prevents them from working full-time (30 hours per week) for the next two years.	673,334
Carer Payment	People who provide full-time care to someone with a severe physical, intellectual or psychiatric disability who is expected to require this care for at least 6 months. Paid under pension conditions.	75,937
Youth Allowance	Full-time students under 25 and unemployed people aged 16-20 years. Income tested on both individual and parental income.	400,980
Sickness Allowance	People aged over 21 who are temporarily unable to work or study because of illness, injury or disability.	8,927
Austudy	Students aged 25 years and over; paid as an allowance.	39,092
Special Benefit	People ineligible for other assistance and in severe financial need due to circumstances beyond their control. Paid as an allowance.	12,228
Widow Allowance	Women aged over 50 who become widowed, divorced or separated and have no recent workforce experience.	43,209
<i>Other payments</i>		
Family Tax Benefit (A)	Families with children under 16 or full-time dependent students aged 16-24; income tested on family income	1,783,278 families
Family Tax Benefit (B)	Single income families, including sole parent families, especially those families with a child under the age of five (who receive a higher rate of payment). Income tested on second earner's income only in two-parent families.	1,223,560 families
Childcare Benefit	Families using either formal child care or informal (registered) child care. This subsidy either reduces fees at a child care service, or can be paid as a lump sum to parents at the end of the year. Income tested on family income.	517,000 families
Rent Assistance	Pensioners and beneficiaries boarding or renting (excluding public housing)	940,708 (number of persons or couples receiving assistance)

Source: Submission 165, p.36 (FaCS); FaCS, *Annual Report 2002-03*, Vol 2.

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5.5 During the inquiry three main aspects of the effectiveness of income support in protecting people from poverty were identified. These were:

- the adequacy of income support payments;
- compliance requirements, especially the level of penalties applied to people who do not meet the conditions of income support; and
- poverty traps – the disincentive effects of the rate at which benefits are withdrawn when a person moves from unemployment to paid employment.

### **Adequacy of income support payments**

5.6 Issues concerning the adequacy of income support payments were raised in evidence. It was argued that for many income support recipients these payments are insufficient to provide an adequate standard of living to meet individual or household needs.

5.7 This section reviews the adequacy of payments and the measures used to determine 'adequacy'; and questions related to the payment structure and level of payment as they apply to social security benefits. The concessions available to income support recipients and the need for a participation allowance are also reviewed.

#### ***Payments – how adequate is the 'safety net'?***

5.8 Advocacy groups and evidence from income support recipients commented on the inadequate nature of pensions and allowances. In relation to pensioners and superannuants, the APSF noted that:

However poverty is measured, it is reasonable to assume many people on pensions and superannuants/retirees receiving incomes in the same range as pensions can be defined as living in poverty. Unless they holds assets – such as their own home, or have investments (which would, at any rate, reduce the pension payment) and do not have large expenses going towards health or other essential services, pensioners and superannuants should be considered as living in poverty or, at the very least, vulnerable to poverty.<sup>2</sup>

5.9 COTA National Seniors also stated that:

Older people on full pensions and allowances continue to struggle to make ends meet. People have reported to COTA Seniors Information Services in the last 2-3 years that the GST, increased user pays, removal of some medications from the PBS and pressures on services such as dental care have all played a part.<sup>3</sup>

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2 *Submission 223*, p.3 (APSF).

3 *Submission 184*, p.19 (COTA National Seniors).

## 5.10 Other evidence presented a similar picture of hardship and struggle:

### **Pensions and allowances – just how adequate?**

Many ...talk about the inadequacy of income support payments. Many of us are calling for increases in the basic help that people need. The loss of dignity in having to rely on so many other people because you cannot make ends meet, having to rely on family and community support...the loss of independence and losing control of your life is very real.

*Committee Hansard 2.5.03, p.212 (Tasmanian Catholic Justice & Peace Commission).*

I receive the disability pension and, everything considered, there is not really enough money to be able to get to that very first step. I am referring to rent, furnishings, food, deposits for electricity and gas, bus and train fares, prescriptions and doctors' bills. Simply put, there is just not enough money there.

*Committee Hansard 4.8.03, p.1197 (Mr M Brennan).*

Social security for old age is becoming more and more difficult. To live on 25 per cent of the adult wage at the moment is very difficult.

*Committee Hansard 2.5.03, p.224 (Tasmanian Poverty Coalition).*

5.11 In addition to the individual testimonies from those attempting to live on social security benefits, there are a number of other indicators that can be used to assess the adequacy of income support payments including:

- income based poverty measures;
- budget standards; and
- direct measures of deprivation and hardship.

5.12 Given the complexity and diversity of people's circumstances determining adequacy benchmarks are inherently difficult and it is not realistic to expect to establish a single 'perfect' measure of adequacy.

### ***Income based poverty measures***

5.13 ACOSS and other welfare groups pointed out that social security payments for many households are significantly lower than income poverty benchmarks.<sup>4</sup> ACOSS noted that a simple comparison between the Henderson poverty line and social security payments shows that, in many cases, payments fall short of that benchmark

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4 ACOSS, *Fairness and Flexibility: Reform of Workforce Age Social Security Payments in Australia*, September 2003, pp.40-42. See also Harding A & Szukalska A, *Financial Disadvantage in Australia – 1999*, The Smith Family, 2000, p.5.

especially in the case of single unemployed people or students, and young people living independently of their parents - see Table 5.2.

**Table 5.2: Comparison of Social Security Payments to the Henderson Poverty Line (including housing costs) – \$ per week, September quarter 2002**

Family/Income Unit	Base Rate	FTB A and/or B	Rent Assistance	Total Payment \$ per week	Poverty line \$ per week	Rate as % of poverty line
<i>Head in Workforce</i>						
Single adult unemployed	\$185	N/A	\$45	\$230	\$294	78%
Single, away from home, 18-20 unemployed	\$150	N/A	\$45	\$196	\$294	67%
Couple unemployed – 0 children	\$333	N/A	\$43	\$376	\$393	96%
Sole Parent unemployed – 1 child	\$211	\$101	\$53	\$365	\$378	97%
Sole Parent unemployed – 3 children	\$211	\$228	\$60	\$499	\$536	93%
Couple unemployed – 1 child	\$333	\$63	\$53	\$449	\$473	95%
Couple unemployed – 3 children	\$333	\$190	\$60	\$583	\$632	92%
<i>Head not in Workforce</i>						
Single adult student	\$151	N/A	0	\$151	\$238	63%
Single student, away from home, 18-25	\$151	N/A	\$45	\$196	\$238	82%
Single Age/Disability Pensioner	\$211	N/A	\$45	\$256	\$238	108%
Age/Disability Pensioner couple – 0 children	\$352	N/A	\$43	\$395	\$338	117%
Sole Parent not in labour force – 1 child	\$211	\$101	\$53	\$365	\$322	113%
Sole Parent not in labour force – 3 children	\$211	\$228	\$60	\$499	\$481	104%

Source: ACOSS, *Fairness and Flexibility*, September 2003, p.41.

### **Budget standards**

5.14 Budget standards have also been developed to assess the adequacy of payments. The Social Policy Research Centre (SPRC) has developed 'low cost budgets' based on assessments of the minimum cost of essential budget items. Table 5.3 compares some of the key budget standards with social security payments. As the table shows, all of the payments compared fall below the low cost budget standards. The pattern of risk

in relation to hardship is similar – couples without children do relatively well whereas single people on allowances fare relatively badly

**Table 5.3: Low cost budget standards and social security payments (2002)**

	<b>Low Cost Budget - \$ per week</b>	<b>Unemployment allowance - \$ per week and as a % of Low Cost Budget</b>	<b>Pension - \$ per week and as a % of Low Cost Budget</b>
Single adult	\$341	\$230 (67%)	\$256 (75%)
Couple without children	\$443	\$376 (85%)	\$395 (89%)
Sole parent, two children	\$564	\$428 (76%)	\$428 (76%)
Couple, two children	\$698	\$512 (73%)	\$531 (76%)

*Source:* ACOSS, *Fairness and Flexibility*, p.42. The data are based on SPRC data for 1998 updated to 2002 values.

### ***Hardship measures***

5.15 Other Australian research has compared the circumstances of different low-income groups using direct measures of hardship or financial stress. This data includes:

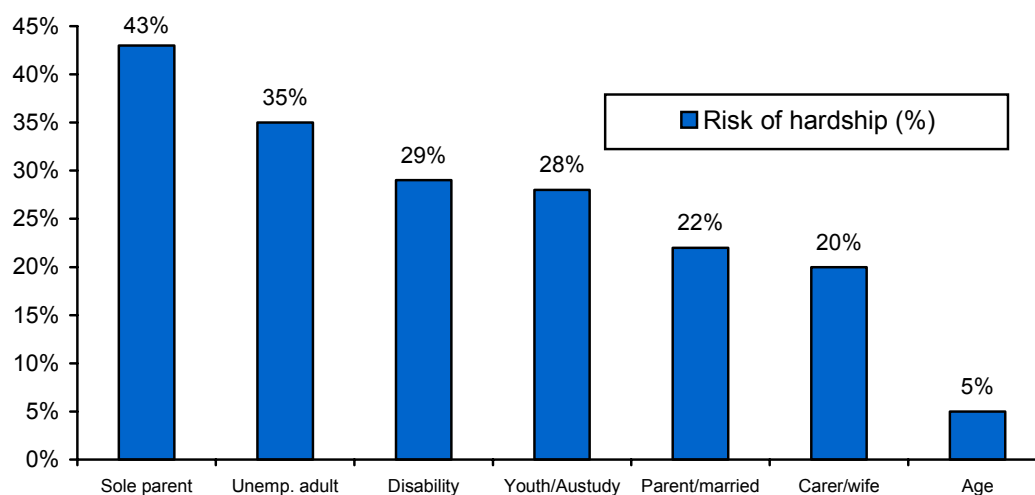
- a study of financial hardship by Bray, based on recent ABS data;
- a study by Travers and Robertson, commissioned by the Department of Social Security in the mid-1990s.
- emergency relief data collected by ACOSS.

5.16 The study by Bray into financial hardship, referred to in chapter 2, found that lower income households experienced a greater degree of hardship than higher income households; households that were mainly dependent on pensions and benefits reported much higher levels of hardship than those that received no government assistance; and jobless households experienced very high levels of hardship compared with households with members in employment.<sup>5</sup>

5.17 Figure 5.1 presents data from the study relating to hardship experienced by households mainly reliant on social security. Risk refers to the proportion of each group experiencing hardship.

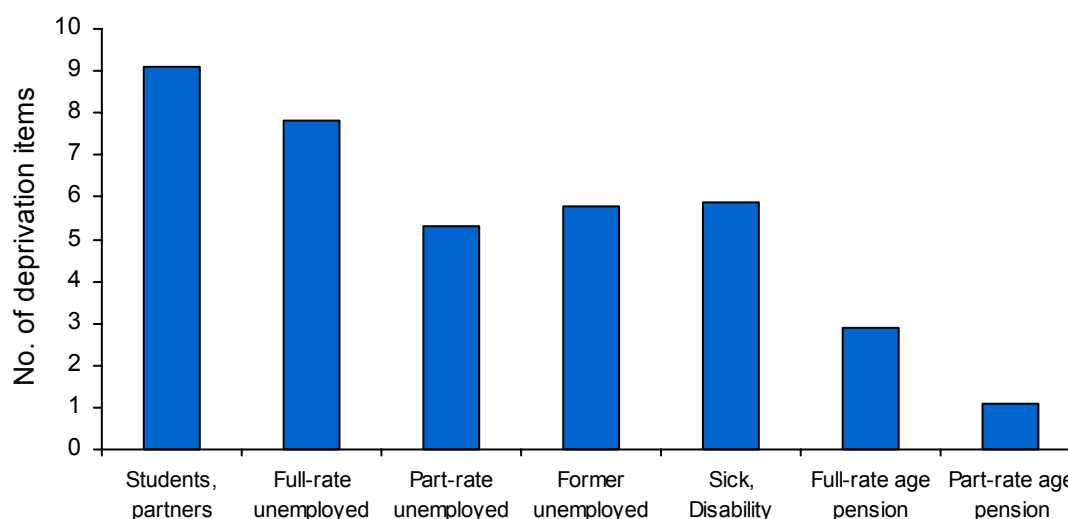
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5 Bray J, 'Hardship in Australia', FaCs Occasional Paper No.4, December 2001, pp.x-xi. 'Hardship' refers to not being able to afford heating and meals as well as having to pawn items or needing to obtain assistance from community organisations.

**Figure 5.1: Risk of hardship by social security payment**

Source: Bray J, *Hardship in Australia*, FaCS Occasional Paper No. 4, 2001, p.42.

5.18 The study by Travers and Robertson compared the living standards of age pensioners, unemployed people, people with disabilities, and students. The study examined deprivation in terms of a range of items, including lack of basics of life, financial strain, income and health. The study found that students, the unemployed and people with disabilities were particularly disadvantaged (see Figure 5.2). The 'former unemployed' also had high deprivation scores, reflecting in part a range of new expenses incurred in the move from unemployment to employment.<sup>6</sup>

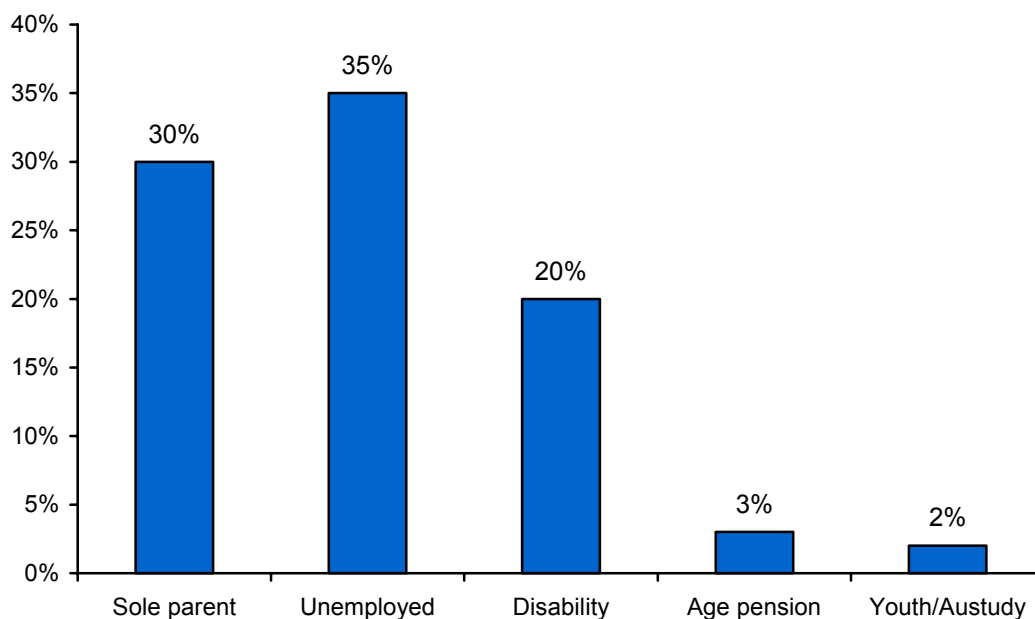
**Figure 5.2: Deprivation score by DSS payment category**

Source: Travers P & Robertson F, *Relative Deprivation among DSS Clients*, Flinders University of SA, Adelaide, 1996, p. 27.

6 Travers P & Robertson F, *Relative Deprivation among DSS Clients*, Flinders University of SA, Adelaide, 1996. No families with children were included in the study.

5.19 Emergency relief data collected by ACOSS and other agencies provide another indication of hardship in the community. Figure 5.3 shows that people reliant on income support payments are the main recipients of emergency relief. Such data suggests that for many people income support payments are insufficient, with many increasingly reliant on welfare agencies for additional support and assistance.<sup>7</sup>

**Figure 5.3: Composition of emergency relief applicants by social security payment - ACOSS survey (1999)**



*Note:* Composition refers to the % of all applicants, out of a total of 50 159 applicants.

*Source:* ACOSS, *Fairness and Flexibility*, September 2003, p.44.

5.20 Evidence from individual emergency relief agencies reported substantially increased demand for services over recent years.<sup>8</sup> Fairfield Community Aid, for example, which administers the largest emergency relief grant in Australia, stated that their funding 'isn't anywhere near enough to cope with the demands placed on it by the poor in the area let alone the working poor or those who find themselves in sudden emergency situations'.<sup>9</sup> The impact of increased demand on welfare agencies is discussed further in chapter 17.

7 See also *Submission* 169, p.15 (Mission Australia).

8 *Submissions* 75, pp.2-3 (Fairfield Community Aid); 189 pp.1-2 (Holroyd Community Aid); 226, pp.1-3 (Anglicare Illawarra).

9 *Submission* 75, p.2 (Fairfield Community Aid). The Committee heard stories of hardship first-hand from the workers at Fairfield Community Aid during its visit to their facilities.



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## Conclusion

5.21 Although the data sources and methods used in the above studies vary, some consistent patterns emerge. The studies that examined the relative position of different types of family found that *single people* were generally more financially disadvantaged than couples. Those studies that examined the relative position of recipients of different types of social security payment consistently found that *unemployed people* are relatively disadvantaged.

5.22 In relation to the 'hardship' studies, *sole parent families* emerged as a relatively disadvantaged group (compared, for example, to couples with children). This is consistent with anecdotal evidence from community agencies and many local studies of financial hardship. The hardship studies also suggest that *people with disabilities* face a relatively high risk of hardship. This may reflect additional costs associated with having a disability that are not picked up in traditional poverty studies.

5.23 The findings with regard to *young people* and *adult students* show that these groups are also disadvantaged. While the level of benefits payable to these groups is relatively low, the extent of disadvantage faced may be mitigated for some by the extent to which they can draw on family support for assistance. Anecdotal evidence from community agencies suggests, however, that poverty among young people who are not living with their parents has increased in recent years.<sup>10</sup> The Brotherhood of St Laurence (BSL) stated that 'the payments for young people, particularly those under 21, are so low that it is almost impossible for them to live and they rely on agencies like ours, emergency relief and a whole bunch of things just to get by'.<sup>11</sup>

## Payment structure

5.24 Several submissions and other evidence argued that the large and growing gap between allowance and pension rates was contributing to increasing financial hardship for many people. Submissions commented that the argument that people receive allowances for only a short period of time is no longer tenable – the casualised labour market and the incidence of long-term unemployment mean that people must rely on allowances for an extended period. Given these changes, submissions argued that there was no rationale for the continued difference in payment rates between pensions and allowances.<sup>12</sup> Table 5.4 illustrates the major anomalies in current base rates of payment.

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10 ACOSS, *Fairness and Flexibility*, p.45. See also *Submissions* 187, p.27 (SA Government); Victorian Government, p.11 (Victorian Government).

11 *Committee Hansard* 30.4.03, p.63 (BSL).

12 *Committee Hansard* 30.4.03, pp.63-64 (BSL); *Submissions* 163, p.128 (ACOSS); 98, p.17 (BSL).

**Table 5.4: Major anomalies in base rates of payment (June 2003)**

<i>Payment</i>	<b>Single rates</b>		<b>Married rates</b>	
	<i>Maximum rate (\$ per week)</i>	<i>Amount below pension rate</i>	<i>Maximum rate (\$ per week)</i>	<i>Amount below pension rate</i>
Pension	\$220	0	\$184	0
Newstart Allowance	\$190	\$30	\$171	\$13
Austudy	\$155	\$65	\$155	\$29
Youth Allowance (away from home rate)	\$155	\$65	\$155	\$29

*Source: ACOSS, Fairness and Flexibility, September 2003, p.52.*

5.25 Welfare and advocacy groups argued that allowances should be increased up to the level of the pension and indexed to 25 per cent of MTAW, with some arguing that this should be extended to all allowances.<sup>13</sup> ACOSS argued for 'targeted increases' in social security payments – 'our proposal is that for particular groups and unemployed people – and youth in particular – the income support available to them is progressively raised to the rate of the pension'.<sup>14</sup> ACOSS noted that raising allowance rates to pension levels 'would help some of the most financially disadvantaged groups of recipients – unemployed people, adult students, and independent young people – and reduce some of the worst income poverty'.<sup>15</sup>

5.26 Other groups argued that the major *adult* payments should be aligned with pension rates. SACOSS argued that priority should be to bring single unemployed adults and single adult student rates up to pension levels and that the independent rate Youth Allowance should be progressively increased to align with pension rates.<sup>16</sup>

5.27 Others proposed that increasing allowances to pension rates could be introduced progressively, with the BSL suggesting that this reform should be introduced by 2010.<sup>17</sup> ACOSS argued that as a first step Austudy rates should be aligned with those of Newstart Allowance and the single adult rate of Newstart Allowance and the away

13 *Submissions* 98, p.17 (BSL); 163, p.133 (ACOSS).

14 *Committee Hansard* 20.6.03, p.674 (ACOSS).

15 ACOSS, *Fairness and Flexibility*, p.51.

16 *Submission* 46, p.21 (SACOSS).

17 *Submission* 98, p.viii (BSL).

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from home rates of Youth Allowance should be increased. Other allowances would then be increased progressively.<sup>18</sup>

5.28 FaCS advised the Committee that the cost of increasing allowances to 25 per cent of MTAWWE as currently applies to pensions would be \$1.4 billion for 2004-05. The cost would continue to grow from 2004-05 due to the effect of MTAWWE indexation.<sup>19</sup>

### *Conclusion*

5.29 The Committee believes that there is a pressing need to remove anomalies in the income support payments for allowees in comparison to pension payments. This reform would address the severe financial difficulties faced by many people receiving allowances, especially unemployed people, independent young people and adult students. The Committee considers that allowances should be progressively increased to pension levels and that they should be indexed to 25 per cent of MTAWWE.

## **Recommendation 11**

### **5.30 That the Commonwealth Government:**

- **consider increasing the base rates of allowances to the level of pension payments and that these payments be indexed to 25 per cent of MTAWWE; and**
- **consider the feasibility of introducing this reform by 2005.**

### *Level of payment*

5.31 Some evidence suggested that, in addition to the need to increase allowances to the level of pension payments, there was a need, at least over the longer term, to increase social security payments generally to a higher level than the benchmark of 25 per cent of MTAWWE currently applied to pension levels.

5.32 The SVDP National Council argued that social security benefits should be gradually increased in yearly increments, for example, by 0.01 per cent, until 'social justice' is achieved.<sup>20</sup> COTA National Seniors argued for an increase of \$300 (which would be indexed) or 3 percent annually for those on full pensions and allowances. This would be paid to all people aged 50 years and over reliant on social security payments.<sup>21</sup>

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18 ACOSS, *Fairness and Flexibility*, p.52.

19 *Submission* 165, Supplementary Information, 13.8.03, p.7 (FaCS).

20 *Submission* 44, p.71 (SVDP National Council).

21 *Submission* 184, p.19 (COTA National Seniors).

5.33 Several pensioner groups argued that the rate of pension should be increased to 35 per cent of MTAWWE to better reflect the cost of living faced by pensioners. These organisations pointed to the higher pension payments provided in overseas countries.<sup>22</sup> The CPSA conceded that this would represent a 'considerable rise' – 'but we feel that would do a lot in terms of alleviating poverty. It would mean that people would have a better quality of life'.<sup>23</sup>

5.34 FaCS advised the Committee that the cost of increasing social security payments to even 30 per cent of MTAWWE would be substantial. Increasing pensions and allowances to this level would cost \$11 billion for 2004-05. The cost would continue to grow from 2004-05 due to the effect of MTAWWE indexation.<sup>24</sup>

### *Conclusion*

5.35 The Committee believes that while the cost of increasing the rates of social security payments would be substantial, the Commonwealth Government should have, as a long-term goal, a commitment to increasing the rate of both pensions and allowances to a substantially higher rate than the current 25 percent of MTAWWE benchmark at present applied to pension payments.

### *Concessions*

5.36 In addition to the direct payment of income support, many social security recipients are eligible for a range of non-cash benefits. These include assistance with the costs of prescription medicines through the PBS, and concessions from State and local governments and discounts from private providers, such as reduced local government rates and charges and discounts for transport costs.

5.37 Over three million pensioners have Pensioner Concession Cards, while 1.7 million allowees and low income households have Health Care Cards, with the Commonwealth Seniors Health Card (CSHC) providing concessions to over 275 000 self-funded retirees.<sup>25</sup> In total, 31 per cent of the adult Australian population is in receipt of a Health Care Card or Pensioner Concession Card, increasing to 33 per cent with the inclusion of CSHC holders. Data by State on the receipt of Commonwealth concession cards is provided in Table 5.5.

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22 *Submissions* 223, p.13 (APSF); 29, p.11 (CPSA).

23 *Committee Hansard* 26.5.03, p.283 (CPSA).

24 *Submission* 165, Supplementary Information, 13.8.03, p.7 (FaCS).

25 *Submission* 165, p.41 (FaCS).

**Table 5.5: Commonwealth Concession Card holders by State, June 2002<sup>(a)</sup>**

State	Health Care Card & Pensioner Concession Card	%	All Cards <sup>(b)</sup>	%
NSW	1 490 550	29.6%	1 593 178	31.7%
VIC	1 165 225	31.4%	1 234 131	33.2%
QLD	902 015	32.6%	950 512	34.3%
WA	427 861	29.7%	454 037	31.5%
SA	415 197	35.5%	434 593	37.2%
TAS	143 635	40.6%	149 310	42.2%
NT	41 798	30.3%	42 572	30.8%
ACT	46 454	19.1%	52 083	21.4%
<b>TOTAL</b>	<b>4 632 735.00</b>	<b>31.2%</b>	<b>4 910 416</b>	<b>33.0%</b>

<sup>a</sup> Numbers of adult Australians (aged 18 years and over) in receipt of a concession card as a proportion of this age group.

<sup>b</sup> Includes Commonwealth Seniors Health Card holders.

*Source:* Submission 165, Supplementary Information, 13.8.03, p.1 (FaCS).

5.38 Problems in relation to the wide variation in the nature and eligibility for concessions across the States and the interaction between Commonwealth payments and the various State programs were raised in submissions. NCOSS noted that in NSW transport concessions under the NSW Half Fare Entitlement Card are limited to people in receipt of the maximum rate of certain Centrelink payments. This excludes many people on low incomes with transport needs, including many young unemployed people and unemployed people who have been breached by Centrelink. ACOSS noted that recipients of allowances generally receive concessions that are vastly inferior to those available to pensioners, despite the fact that transport and communication concessions are of particular importance to unemployed people to help with job search.<sup>26</sup>

5.39 NCOSS recommended that the Commonwealth should negotiate an agreement with State Governments in relation to concessions that established minimum standards for concessions, for example, in relation to transport concessions for students and jobseekers; that concessions should be targeted on the basis of need rather than being targeted solely to pension recipients; and that easily accessible information on the

concession regimes in each State and their linkages to the income support system should be available.<sup>27</sup>

5.40 The Victorian Government raised concerns in relation to the Commonwealth's extension of concessions to seniors of independent means. The Victorian Government stated that this approach 'would undermine the Victorian concessions policy framework by re-directing limited funds from vulnerable households to relatively affluent seniors'.<sup>28</sup> ACOSS also noted that the extension of concession cards to these groups has the effect of undermining their value for the neediest recipients, as suppliers in the private and public sectors progressively withdraw or diminish discounts for cardholders.<sup>29</sup>

### **Recommendation 12**

**5.41 That the Commonwealth and the States review their approach to concessions by:**

- **establishing common eligibility criteria for concessions by removing anomalies in the level and scope of concessions between pensioners and allowees;**
- **that priority for access to concessions be directed to low income pensioners and allowees; and**
- **that information be widely disseminated on the nature and extent of concessions available.**

### ***Participation costs***

5.42 Many people on income support lack the financial resources to meet expected obligations placed on them by Government through activity test requirements for income support payments, or to meet the extra costs incurred, for example, in job seeking activities. Submissions indicated the need for the introduction of a participation allowance in recognition of the costs of such participation.<sup>30</sup>

5.43 A number of such payments to assist with participation costs exist already, including the Pensioner Education Supplement (which is payable to Centrelink income support payees who are undertaking full-time or part-time study) and the Work for the Dole Supplement (which is a supplement to income support for eligible

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27 *Submission* 143, pp.3-4 (NCOSS).

28 *Submission* 69, p.28 (Victorian Government).

29 ACOSS, *Fairness and Flexibility*, p.63.

30 *Submissions* 169, pp.17-18 (Mission Australia); 166, p.34 (Salvation Army); 163, pp.128-29 (ACOSS).

jobseekers who participate in activities of value to local communities).<sup>31</sup> ACOSS noted, however, that under the present system, unemployed people on Newstart Allowance, for example, are usually expected to apply for several jobs a week, and be prepared to search for jobs that require substantial travel yet there is no supplement to meet these costs. While some costs associated with participation requirements, such as education courses for pensioners, are directly subsidised, others are not.<sup>32</sup>

5.44 As noted above, increased participation requirements can impose an additional financial burden on people whose incomes are already severely limited, especially in the areas of transport and education. The Salvation Army argued that incentives or payments should be provided, given that the costs of participation often outweigh income support and the incentives currently provided. Ancillary support in the form of financial supplements for travel and other costs 'are critical for people to truly participate and seek employment'.<sup>33</sup>

5.45 The *Australians Working Together* welfare reform package goes some way to recognising participation costs through the introduction of a Language, Literacy and Numeracy Supplement which provides a payment to eligible people who undertake approved language, literacy and numeracy training to overcome barriers they may have in gaining employment. This payment is to assist people with the incidental costs of undertaking training such as transport, parking costs or meals, though it is not intended to fully cover all the costs associated with undertaking the training.

5.46 ACOSS noted that there are a number of ways to address the issue of participation costs. One approach is to extend cash supplements to all recipients of workforce age payments engaged in an approved economic participation activity. For example, the Work for the Dole Allowance could be replaced by a more generous jobsearch and work experience allowance to assist with the costs of meeting job search requirements and participating in work experience programs. The Pensioner Education Supplement could be replaced by an education and training allowance for recipients of workforce age payments, to assist in the ancillary costs of participation in approved further education and training courses.

5.47 An alternative approach suggested by ACOSS would be to provide an entitlement for jobseekers and participants in approved education, training and work experience programs by way of a series of payments designed to reimburse key costs, such as transport fares, student union fees and books. The advantage of this approach is that assistance could be targeted towards those facing the highest costs. The main

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31 *Submission* 165, Supplementary Information, 13.8.03, p.6 (FaCS).

32 ACOSS, *Fairness and Flexibility*, p.64.

33 *Submission* 166, p.34 (Salvation Army).

disadvantage is that it would be more complex and costly to administer than a cash supplement.<sup>34</sup>

### *Conclusion*

5.48 The Committee believes that there is a need for the introduction of a comprehensive participation allowance in recognition of the costs associated with jobsearch, work experience or further education and training activities of jobseekers. While a number of participation payments already exist these supplements need to be replaced by a broader and more generous payment for those engaged in jobsearch and related activities. The Committee envisages that the proposed participation allowance would subsume existing payments.

5.49 The Committee believes that the allowance should be means-tested and reimburse certain ancillary costs up to a prescribed level associated with jobsearch and other activities, as noted above. Those eligible for the allowance would need to provide receipts with respect to expenditure incurred.

### **Recommendation 13**

**5.50 That the Commonwealth Government introduce a means-tested participation allowance, to broaden and replace existing payments, to meet the additional costs, up to a prescribed level, associated with jobsearch, work experience or further education and training activities of jobseekers.**

### **Compliance requirements and penalties**

5.51 Evidence highlighted the impact harsh breach penalties have on unemployed income support recipients for failure to comply with the various requirements linked to the receipt of these payments, and the financial impact this has on already vulnerable groups in society. The breaching regime also has flow-on effects to community welfare agencies that provide assistance and support to those impacted by the current breaching regime. This is discussed further in chapter 17.

5.52 There are two types of breaches – activity test breaches and administrative breaches. Activity test breaches relate to failing to meet certain obligations such as failure to accept a reasonable job offer or to attend a job interview with a prospective employer. An administrative breach relates to failing to comply with some procedure or administrative requirement, for example, failure to attend an interview at Centrelink

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34 ACOSS, *Fairness and Flexibility*, pp.64-65.



### **Breaching – penalising the poorest**

...overall, the system as it operates at the moment relies far too much on obligations and compulsion, based on the idea that people have to be banged over the head or they will not do anything. From our experience that is just nonsense. We know that people want to work, they are trying the best they can to find jobs, and they face a whole lot of barriers to getting into employment, including, as we have heard, the fact that there are six people for every job vacancy. The system of providing more compulsion and more obligations is just obscene. When you think that with the breach penalties, we are talking about \$800, \$1,200 or \$1,500 being applied to people who are the poorest in our society.

*Committee Hansard 30.4.03, p.64 (BSL).*

Breaching seems to be a government KPI – key performance indicator. No amount of discussion from our clients, as related to us, makes any difference. Nothing works: there are no excuses if you breach: "Bang! There is another one. Caught you! Performance review appraisal? Well, that will look good". They are fairly cynical comments but that is the way it seems to come across to the people and to us. ... The frustration of not having and not being able to find a job is soul destroying on its own without being subjected to this injustice of being breached.

*Committee Hansard 2.7.03, p.963 (SVDP Society – Central Illawarra).*

...it [breaching] does so much harm to the community. I have talked to young people who were at the edge of committing suicide. I have talked to young people who have actually acquired disabilities as a result of breaching because they were put out on the streets. If you have eight weeks with no income, what are you going to do? Where are you going to live?

*Committee Hansard 29.4.03, p.21 (Disability Action).*

5.53 Current activity test penalties for unemployed jobseekers on Newstart and Youth Allowance are:

- 18 per cent rate reduction in base payment for 26 weeks for the first breach;
- 24 per cent rate reduction for 26 weeks for a second breach in the two years prior; and
- a non-payment period for 8 weeks for third and subsequent breaches.

Current penalties for administrative breaches are set at a 16 per cent rate reduction for 13 weeks or one fortnight of non-payment.

5.54 Under the welfare reform package, *Australians Working Together*, passed in the Senate on 27 March 2003, the participation/activity test and breaching regime has been extended to sole parents and older unemployed people. From September 2003, people receiving Parenting Payment whose youngest child is aged 13 to 15 years are subject to a participation requirement to plan for a return to work. Parents with older children are required to do a part-time activity of up to 150 hours in each 6 month

period to increase their employment prospects. The requirements do not apply to parents caring for a child with a serious disability.<sup>35</sup>

5.55 If a person has not complied with the requirements under a participation agreement then a penalty will be applied. Parenting Payment recipients are subject to the same activity test penalties applying to Newstart and Youth Allowance recipients. The main difference is that in relation to these breaches where the recipient complies with the requirement in the breach period within 13 weeks, the breach is revoked and full arrears in payments are made. This does not apply in the case of Newstart and Youth Allowance recipients, where once the breach penalty is imposed the full period is served. In addition, Parenting Payment recipients are not subject to administrative breaches.

5.56 Mature age Newstart Allowance recipients (aged 50 years and over) are also subject to activity test requirements and penalties. Recipients are required to look for work but the activity test is flexible, especially for those with no recent workforce experience. Participation agreements will take into account a person's circumstances, skills and abilities.

5.57 Where a person fails to comply with the terms of the agreement, a penalty will be imposed. Mature age Newstart Allowance recipients are subject to the same activity test penalties applying to Newstart and Youth Allowance recipients. However, the remaining penalty is waived on compliance, but full arrears of payment is not made (as is the case with Parenting Payment).

5.58 Commenting on the recent changes, ACOSS noted this reflected a 'significant softening' of the breaching regime as it applies to sole parents and older unemployed people.<sup>36</sup>

5.59 Submissions noted that the number of breaches increased dramatically between 1997 and 2001. ACOSS stated that there was a 189 per cent increase in the rate of breaching in the three years from 1998, culminating in a record 348 000 breaches in 2000-01.<sup>37</sup> While the number of breaches has started to decline after reaching this very high peak, the impact of breaches on those subject to them is still very severe. As noted above, for a third 'activity test' breach, the penalty is no payment at all for 8 weeks.

5.60 Submissions and other evidence noted that penalties affect groups in society that are already vulnerable, such as homeless people, people who have a mental illness, and others who may not have the capacity to comply with Centrelink requirements

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35 Parenting Payment recipients whose youngest child is aged between 6 and 12 years are required to attend an annual participation interview but they are not subject to breaches and penalties.

36 *Submission* 163, p.132 (ACOSS).

37 *Submission* 163, p.131 (ACOSS).

and who subsequently incur a penalty that further marginalises them from social and economic participation.<sup>38</sup>

5.61 Evidence shows that the application of breach penalties pushes many Australians into poverty and increases the pressure on charities and welfare agencies. A Salvation Army survey found that of the people who approached them for emergency assistance because they had been breached:

- 84 per cent said they were unable to afford food and/or medication as a result;
- 63 per cent said they were unable to pay gas, electricity, water, and/or phone bills;
- 17 per cent indicated that they had become homeless as a result of being breached; and
- 11 per cent said they resorted to crime to make up for the money lost as a result of being breached.<sup>39</sup>

5.62 A joint research project undertaken by the BSL, St Vincent de Paul Society and the University of Melbourne on the impact of breaching reported similar findings. The study found that people coped with the reduced income as a result of breaching by cutting basic expenses, relying on welfare organisations, using up savings or borrowing money from family or friends. Most respondents said it was very difficult and frustrating coping with the loss of that money and it was a struggle to pay for essentials such as food and transport.<sup>40</sup>

5.63 A number of welfare and advocacy groups argued that the current breaching and penalty regime needs to be reviewed to reduce the impact of breaching on the most vulnerable groups in society.<sup>41</sup> They pointed to the Independent Review of Breaches and Penalties in the Social Security System (the Pearce Review) recommendations in relation to breaches as providing a useful model for a breaching regime, especially in its emphasis on assisting and reinforcing compliance rather than identifying and punishing non-compliance.

5.64 The Pearce Review was established in 2001 by nine leading charities and other organisations. The purpose of the review was to identify factors affecting, and the

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38 *Submissions* 133, p.7 (UnitingCare Australia); 98, pp.17-18 (BSL); 163, p.131 (ACOSS). See also *Committee Hansard* 30.4.03, p.64 (BSL).

39 *Submission* 135, p.4 (Salvation Army).

40 *Submission* 98, p.17 (BSL). See also *Committee Hansard* 2.5.03, pp.219-220 (Anglicare Tasmania); 1.5.03, p.135 (Knox City Council).

41 See, for example, *Submissions* 163, p.134 (ACOSS); 166, p.36 (Salvation Army).

consequences of, recent changes in the incidence of breaches and penalties relating to unemployed people receiving income support payments; and to recommend improvements in the effectiveness and fairness of the system.

5.65 In relation to breaches, the Pearce Review recommended that:

- all penalties should be fully recoverable if the jobseeker takes reasonable steps to comply with the relevant obligation;
- the duration of penalties should not exceed eight weeks and the rate of reduction in allowance should not exceed 25 per cent;
- if penalties are not made fully recoverable, the duration of penalties should not exceed eight weeks and the rate of reduction should not exceed 15 per cent;
- penalties should not commence until at least 14 days after written notification to the jobseeker; and
- the combined rate of a jobseeker's reduction in allowances through penalties and Centrelink recoveries should not exceed 20 per cent.<sup>42</sup>

5.66 The Committee recommended in its 2002 report that the recommendations of the Pearce Review should be implemented in full.<sup>43</sup> ACOSS has also argued for full implementation of the Pearce Review recommendations and that, in particular, penalties should be fully recoverable if a jobseeker takes 'reasonable steps' to comply with reasonable requirements not later than four weeks after imposition of a breach; the duration of penalties should not exceed eight weeks; and the rate of reduction in allowance should not exceed 25 per cent of income.<sup>44</sup>

5.67 The BSL also argued that the breaching regime should ensure that breach penalties do not reduce payments for longer than eight weeks.<sup>45</sup> The BSL added that the Government's recent changes do not go far enough – 'we would say there is a need to reduce some penalties for second breaches. The Government has introduced something for first breach penalties, which is a positive initiative, but it does not go far enough'.<sup>46</sup>

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42 Independent Review of Breaches and Penalties in the Social Security System (Pearce Review), *Making it Work*, 2002, pp.83-86.

43 Senate Community Affairs References Committee, *Report on Participation Requirements and Penalties in the Social Security System*, September 2002, chapter3.

44 *Submission* 163, p.134 (ACOSS). See also *Submission* 46, p.21 (SACOSS).

45 *Submission* 98, p.ix (BSL).

46 *Committee Hansard* 30.4.03, p.64 (BSL).

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## **Conclusion**

5.68 The Committee believes that the current breaching regime and associated penalties remain harsh and inequitable, especially for Newstart and Youth Allowance recipients, and contribute to increasing poverty and financial hardship for many of the most vulnerable people in society, as well as placing an increased burden on the services of welfare agencies. The Committee notes some softening in the breaching regime for sole parents and older unemployed people but believes further changes are needed.

5.69 The Committee considers that the conclusions and recommendations in its 2002 report remain valid and that the recommendations of the Pearce Review provide a fairer and more effective compliance system and are less punitive than current arrangements and therefore should form the basis of a more balanced breaching regime.

## **Recommendation 14**

**5.70 That the breaching and penalty system be amended in line with the recommendations of the Pearce Review; namely that:**

- **all penalties should be fully recoverable if the jobseeker takes reasonable steps to comply with the relevant obligation;**
- **the duration of penalties should not exceed eight weeks; and**
- **the rate of reduction in allowance should not exceed 25 per cent.**

## **Poverty traps**

5.71 Submissions noted that the tax and transfer system in Australia interact in a way that imposes high effective marginal rates of tax for people moving from or combining income support and work. Some people on social security payments can lose up to 87 per cent or more of every extra dollar they earn from working. This creates a disincentive to move into work and is often described as a 'poverty trap' that locks many people into welfare dependency.<sup>47</sup>

5.72 All income support payments, except for people who are legally blind, are subject to an income and assets test to ensure that payments are targeted to those most in need. The balance between targeting payments to those most in need while still encouraging self provision and financial rewards is a fundamental issue in designing any income support system.

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47 *Submissions* 98, p.18 (BSL); 187, p.28 (SA Government).

5.73 The rate of income support a person receives depends on a number of factors, such as whether they are single or partnered, have dependent children and how much income they earn. Income tests comprise:

- a 'free area' – this is the amount of private income a person can receive from earnings or other sources before their income support payment is reduced;
- a 'taper rate' – this is the rate at which income support payments are withdrawn or 'tapered away' over the range of private income between the free area and the final cut-out point; and
- a 'cut-out point' – this is the amount of private income at which a person ceases to receive any income support payment.

5.74 A tight income test – such as with a steep taper and a low cut-out point – ensures strong targeting of assistance to those with little or no income, but can reduce the financial rewards from increasing private income (such as through earnings). This is because of the interaction of the income test and increased tax liability. For example, for each extra dollar a person earns, they lose part through the reduction in income support payment and the tax they pay on the income.

5.75 Conversely, a more generous income test – for instance, having a low taper rate and high cut-out point – will reduce the net effect of the interaction between the withdrawal of payments and tax liability, and hence increase financial rewards from working. Moreover, a more generous income test will also reduce the extent to which assistance is targeted to those with the lowest incomes.

5.76 In essence, a balance needs to be struck in designing income tests between encouraging people to work and maintaining an affordable system that does not require an increase in taxes or a withdrawal of goods and services provided elsewhere by government.

5.77 One measure of the proportion of income that is lost to income tax and income tests when a person increases their income is the effective marginal tax rate (EMTR). In effect, an EMTR is how much money people will lose from each additional dollar of private income. When EMTRs are high, and especially if EMTRs are sustained over wide income ranges, they will reduce the incentive to work since people get to keep only a small amount of the additional income they earn. In cases where the EMTR is 100 per cent, there is no gain from earning additional income over the range covered by that EMTR. In some cases EMTRs are more than 100 per cent, and people would actually lose money from working more hours. Given that income support and family payment rates differ according to a person's family circumstances, EMTRs also differ across different family types.

5.78 An increase in EMTRs has two possible effects on work incentives:

- The 'income effect' arises because an increase in the tax rate reduces the amount of disposable income from a given amount of work and so might encourage greater work effort to make up for this loss; and
- The 'substitution effect' recognises that the return for giving up an extra hour of 'leisure' in order to work has been reduced by the increase in the EMTR and so people may be inclined to work fewer hours.

5.79 These two effects work in different directions and the net effect on work incentives will depend on an individual's preferences and their circumstances. For example, it may be that mothers who are second income earners and face the demand of family responsibilities will be more influenced by the substitution effect. On the other hand, primary earners may give greater weight to the income effect.<sup>48</sup>

5.80 ACOSS stated that taper rates for people on unemployment benefits are a very real disincentive to paid work. For fortnightly income between \$62 and \$142 the taper rate is 50 cents in the dollar, for income above \$142 per fortnight it is at the higher rate of 70 cents in the dollar. Partner income which exceeds the cutout point reduces the fortnightly allowance by 70 cents in the dollar. The 70 per cent withdrawal rate, when combined with a 20 per cent tax rate, leads to very high effective marginal tax rates for many unemployed people seeking employment.

5.81 By contrast, people in receipt of a pension payment are subject to a withdrawal rate of 40 cents in the dollar for all income over a free area of \$116 a fortnight. Unemployed people thus have a much higher effective marginal tax rate than age and disability pensioners, despite the fact that they face extra expenses in looking for work and improving their work skills. They also have much higher marginal tax rates than Australians on the highest incomes. ACOSS argued that poverty traps could be reduced by easing the social security income tests for unemployed people with casual or part time work.<sup>49</sup>

5.82 The BSL argues that the problem could be diminished by raising the earnings threshold at which people begin to lose some of their benefits (the 'free area') and by introducing a standard withdrawal rate (for example, 60 per cent) instead of the current two-tier rates of 50 and 70 per cent. These two changes would mean that people who worked part-time would retain more of their earnings.<sup>50</sup>

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48 Reference Group on Welfare Reform, *Interim Report: Technical and Other Appendices*, Appendix 4, pp.38-48.

49 *Submission* 163, pp.133-34 (ACOSS).

50 *Submission* 98, p.18 (BSL).

5.83 ACOSS also argued that the interaction of income tests for Family Tax Benefit, Youth Allowance and Child Care Benefit also contributes to poverty. This has implications for work outcomes, as mothers with children in low and middle income families are particularly sensitive to employment disincentives. Where a family has more than one child attracting these payments, these income tests 'stack' – together with personal income tax – to produce very high effective marginal tax rates on family income, often in excess of 80 per cent. Family Tax Benefit A is withdrawn at the rate of 30 cents in the dollar of family income. When combined with personal income tax, this leads to effective marginal tax rates of 60 per cent for many families.<sup>51</sup>

### **Recommendation 15**

#### **5.84 That the Commonwealth Government review social security income tests:**

- **to reduce the high effective marginal tax rates for many unemployed people with casual or part time work;**
- **reduce the high effective marginal tax rates for families caused by the combined effect of income tests for Family Tax Benefit A, Child Care Benefit and Youth Allowance, in cases where a family has children attracting more than one payment.**

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51 *Submission 163*, p.133 (ACOSS).