



### The winners and losers from the pension increases

May 2009

In this week's Budget, the Government announced a rise in Age Pensions and supplements for singles of \$33, from \$300 to \$333 per week, and a \$10 rise for couples to \$501.

Single recipients of the Age Pension, Disability Support Pension and Carer Payment will all receive the increase, but not sole parents on another pension payment - Parenting Payment Single - or those on the lower unemployment and student allowances.

This is this biggest pension increase since the Whitlam Government raised pensions by 10% in 1972. **ACOSS welcomes this additional assistance to hard-pressed single pensioners and acknowledges the historic significance of the increase.**

The increase in the single pension recognises the higher living costs of single people living alone. The single rate of pension is currently 60% of that for a married couple, which is low by international standards. As a result, single pensioners are much more likely to experience financial hardship than couples. The pension increase raises the single rate to 66% (two thirds) of the married rate. This sets a sensible benchmark for all social security payments.

The exclusion of sole parents, unemployed people, and students from payment increases opens up new gaps between different social security payments and widens existing ones. The social security system will be more complex and less fair as a result:

- A new gap of \$43 per week will open up between the standard pension rate and payments for sole parents.<sup>1</sup>
- The gap between pensions and Newstart Allowance will widen to \$106 pw.
- The gap between pensions and Austudy or Youth Allowance for students aged 18-64 years living independently of their parents will widen to \$147 pw.

Instead of a well integrated system of social security payments, we will have one divided into first, second, third and fourth-class payments, based not on financial need but on outdated divisions between groups considered more or less 'deserving' of support.

Those who miss out are the people most severely affected by the recession, and it is well established that they face a high risk of poverty.

**If \$285 per week was not enough for a single pensioner to live decently, than \$227 is not enough for single unemployed person. Also, \$550 per week (including \$285 for the parent and \$265 in Family Tax Benefits for the children) is not enough for a sole parent to raise two school age children alone.**

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<sup>1</sup> This includes the gap between base rates of payment and the Utility Allowance which sole parents don't get. A sole parent with 2 school age children also receives approx \$265pw in Family Tax Benefits for her children, which is not included here because we are comparing payments for adults. The payment gaps below include Utility Allowance, Pharmaceutical Allowance and Telephone Allowance, are not paid to NSA or student payment recipients.

### Gaps in social security payments

Social security payments for jobless adults are divided into three categories: pensions, allowances for unemployed people, and student or youth payments. They are paid at different rates for historical reasons that are no longer make sense.

Pensions are paid at the highest rate - \$285 per week for a single person, plus around \$15 in supplementary payments (mainly Utilities Allowance).<sup>2</sup>

Allowances for unemployed people (mainly Newstart Allowance) are paid at a lower rate - \$227 per week - and do not attract these supplements. There are over 500,000 people on Newstart allowance and their number will rise substantially with the recession.

In the past, Governments sought to justify the gap between pensions and unemployment payments on the grounds that pensioners have to rely on income support for longer. However, half of all people on Newstart Allowance now rely on this payment for over one year, and over a quarter for over two years.

People's capacity to live on social security payments depends as much on their assets as their income. Although most age pensioners own their homes outright, it is those who rent who face the worst financial hardship. The majority of Newstart Allowance recipients rent. They are required to draw down their savings before they receive their first payment, so they usually commence on income support with little or no assets.

*An additional group for whom current rates of total assistance do not appear to be providing a basic acceptable standard of living are some pensioners who do not own their own home, and rent privately. Pension Review*

Another argument sometimes used to justify lower payments for unemployed people is that work incentives would be affected if the payment was increased. However, this is not a big problem. A single unemployed adult would almost double their disposable income if they got a fulltime job at the minimum wage.

Allowances for independent students 18-64 years of age (Austudy Payment or Youth Allowance) are even lower than Newstart Allowance, at \$186 per week.

The basis for this gap was an assumption that fulltime students will be supported by their parents. This is despite the fact that many young students live away from home without parental support, and the low rate of payment extends to adult students up to 64 years old. The Government acknowledged the independent status of students aged 22 years or over with its Budget decision to remove the parental income test from their Youth Allowance. Yet the rate of payment remains lower than Newstart Allowance.

The Parenting Payment Single (PPS) for sole parents with young children has always been paid as a pension. Like the age pension, its maximum rate is \$285 per week. There are about 360,000 sole parent families with around 600,000 children between them on this payment. For the first time, the Budget decision breaks the nexus between pensions for sole parents and other pensioners.

<sup>2</sup> There are other supplements including Rent Assistance. We have only included in this analysis the supplements that extend to all pensioners.

### How did payment gaps emerge?

These payment gaps have not always existed. In the early 1970s, all payments for adults were equal.

The gaps emerged during the late 1970s. At a time of high inflation, the Fraser Government indexed pensions to the CPI, but not unemployment allowances.

The Hawke Government was elected on a platform that included closing the gap between 'pension' and 'benefit' payments (as allowance payments were called then) and had halved the gap by the late 1980s. But progress stalled.

In the mid-1990s, the Howard Government legislated to index pensions to 25% of average earnings while continuing to index allowances to the CPI only. The gap has grown year by year because average earnings rose faster than the CPI. Over the last decade, pensions rose by 20% in real terms but the real increase in unemployment allowances was limited to just 0.5% (and this was to compensate for the GST). The living standards of those relying on Newstart Allowance are no better than those of unemployed people at the time of the last recession in 1991, despite the prosperity of the last decade.

The pension payment for sole parents - Parenting Payment Single - was introduced by the Whitlam Government in 1973. It played a vital role in helping many women to escape from difficult or violent relationships and in reducing poverty among children.

Parenting Payment Single used to be paid to low income sole parent families until the youngest child reached 16. From 2006, the Howard Government lowered this to 8 years for new applicants for social security payments. Most new applicants with older children are now receive the lower Newstart Allowance. Around 20,000 sole parents receive Newstart Allowance. Parents with children over 5 years old are required to seek part time work whether they are on Newstart Allowance or a pension.

This week's \$33 increase for single pensioners represents an 11% rise in the rate of payment, which is similar to the pension increase awarded by the Whitlam Government in 1972. The pension was increased by 4% under Hawke in 1984 and by 2% under Howard in 1998, when it was set at 25% of average earnings in the legislation.

### The gaps widen – effects of Budget decisions

In this Budget, the Government announced a \$33 per week increase in the rate of the single pension for all other pensioners excluding sole parents. Payments for pensioner couples will increase by \$10 per week to \$501. If neither sole parents nor unemployed people and independent students receive an increase in their social security payments, the gaps between payments will widen (see table below).



# Budget Analysis

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**Table 1 - Payment rates and gaps – pre and post Budget (\$ per week)**

Payment type	Payment increase for singles	Single rate post-Budget	Gap pre-Budget 09-10	Gap post-Budget 09-10	Payment increase for couples	Couple rate post-Budget	Ratio of single: couple rate pre-Budget	Ratio of single to couple rate post-Budget
<b>Age pension</b> Mature aged	\$30 (\$33 incl supplements)	\$315 (\$333 incl supplements)	-	-	\$0 (\$10 in supplements)	\$476 (\$501 incl supplements)	60% (61% incl supplements)	66% (66.5% incl supplements)
<b>Parenting Payment Single</b> Sole parents	\$0	\$285 (\$290, incl supplements)	\$0 gap (-\$10 incl supplements)	-\$30 (-\$43 incl supplements)	N/A	N/A	N/A	N/A
<b>Newstart</b> Unemployed people	\$0	\$227	-\$58 (-\$73 incl supplements)	-\$88 (-\$106 incl supplements)	\$0	\$409	55%	55%
<b>Youth Allowance; - Austudy</b> Independent students	\$0	\$186	-\$99 (-\$114 incl supplements)	-\$129 (-\$147 incl supplements)	\$0	\$371	50%	50%

\* Note that low-income parents also receive Family Tax Benefit (FTB) to assist with the costs of children. For example, a sole parent with two school age children could receive up to \$265 in FTB and Rent Assistance, if renting privately.

Pension payments for sole parents will remain the same at \$290 including supplements. This will be \$43 per week less than the other pension payments. A single person on Newstart Allowance will continue to receive \$227 per week, \$106 per week less than pension payments. A single independent student aged 18-64 years will continue to receive \$186 per week. This will be \$147 per week less than the pension.

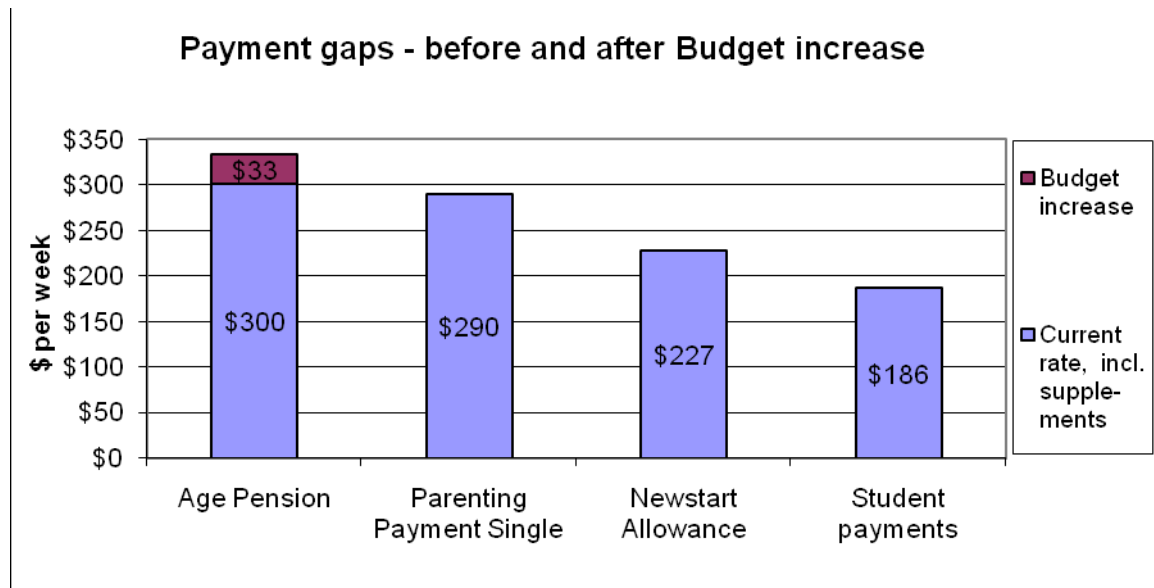
A key argument for increases in single pension rates, which ACOSS supports, is that the system disadvantages single people by failing to take account of the higher costs of living alone. Single people don't enjoy the economies of scale available to couples. For example the housing costs of a couple are less than twice those of a single person.

*The review considered that the evidence showed that that where a pensioner couple lived in their own house or rented from a public housing authority, and did not face an unusually high costs of health or disability, the total package of assistance they receive was appropriate. The review considered however, that the current relativities between single and couple rates do not take sufficient account of the costs faced by single pensioners who live by themselves. Pension Review*

**After researching this issue, the Government decided that the single pension rate should be equal to two thirds (67%) of the married couple rate. Yet the above table shows that a single adult on Newstart Allowance receives just 55% of the married rate of payment and a single independent student receives just 50% of the married couple rate. The system is inconsistent and inequitable.**

The stark differences between payment rates for single people after the Budget pension increase (the dark shaded area) are illustrated in Figure 1.

**Figure 1:**



\* Includes utilities allowance, telephone allowance & pharmaceutical allowance



### **Mind the gaps – financial hardship**

Most sole parent families live on low incomes – over 70% are in the bottom 40% of Australian households ranked by income. It is well known that sole parent families on social security payments face a high risk of poverty. For example, a weekly income of \$550 is usually not enough to meet basic living costs for a family of three. Around two thirds of sole parent families rent their homes and it is now common for rents for 3 bedroom properties in capital cities to exceed half this amount (\$275 pw).

Sole parents and their children living on social security payments often have to go without the essentials of life. Research by the Social Policy Research Centre published recently by ACOSS surveyed what Australians regarded as the essentials of life, and who was missing out on them. Only those items considered essential by over half the population were included.

The research found that 43% of Parenting Payment recipients lacked a decent and secure home, 57% could not pay a utility bill in the last 12 months, 56% lacked \$500 in emergency savings, 54% could not afford necessary dental treatment, 24% could not afford up to date school books and clothes, and 40% could not afford a hobby or leisure activity for their children.<sup>3</sup>

Most people also struggle to live on Newstart Allowance of \$227 per week (\$32 a day). In the same survey, 54% of recipients lacked \$500 in emergency savings, 28% were unable to pay a utility bill, and 23% lacked a decent and secure home.

The survey provides support for the proposal to raise pensions for single people – 19% of single people over 64 years lacked 3 of the 26 essential items identified compared with 8% of married mature age people. However, 54% of unemployed people, 49% of sole parents, and 27% of people with disabilities lacked 3 or more essential items. It is vital that these groups also benefit from any increase in payments.

*The review considered that the full rate of pension should provide a basic acceptable living standard for those who are fully reliant on it, often for extended periods, without any assumptions about access to private incomes or assets. Pension Review Report*

### **Mind the gaps – complexity and work disincentives**

As anyone who has had dealings with Centrelink knows, the social security system is very complex. The division of payments into three levels – pensions, allowances for unemployed people and allowances for students - causes much of the complexity. If sole parents don't receive the same increase as other pensioners, another payment level will be added to the system.

The different levels of payment mean that when people's circumstances change their level of payment often changes as well even though their financial needs are the same.

<sup>3</sup> ACOSS 2009, *Missing out*. ACOSS Info Paper, citing research by the Social Policy Research Centre, University of NSW. See [www.acoss.org.au](http://www.acoss.org.au) and go to 'publications'.



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For example, once the youngest child of a sole parent reaches 8 years of age, she must transfer from the pension to the lower Newstart Allowance payment.

The system also creates perverse incentives for people to withdraw from the workforce in order to claim the higher payments. The reason for this is that the higher pension payments are reserved for people deemed 'unable to work' such as disability support pensioners. This is another outdated assumption – many people of working age on pension payments could work if given the opportunity, training, or rehabilitation.

Instead of encouraging them to take up these opportunities, the system penalises them once they obtain work, by shifting them onto the lower Newstart Allowance.

Similarly, unemployed people are discouraged from studying to improve their future job prospects because they will end up on the even lower student payments such as Austudy Payment.

The system would be a lot simpler, and these perverse disincentives would be removed, if levels of payment were based on financial need, not an (often arbitrary) assessment of whether or not the recipient is able to work.

### **ACOSS's recommendations**

In ACOSS's submission to the 2009-10 Budget, we called on the Government to ensure that:

***1. Any increase in pension payments for single people should extend to sole parents on Parenting Payment Single, along with people on Disability Support Pension and Carer Payment.***

***2. The single rates of Newstart Allowance, Austudy and Abstudy Payments, Special Benefit and Youth Allowance (for those living independently of their parents) should also increase to match the increase in pensions.***

As the number of jobless people grows, these recommendations will be all the more important. By stopping the payment gaps from widening, these recommendations would lay the foundations for reforms to simplify the social security system – based on the minimum cost of living in Australia today. Ideally, there would be a common, core rate of payment that reflects the minimum costs of an adult living in Australia today, and add-ons to meet additional costs such as rent, and the costs of disability or caring.