



Brotherhood of St Laurence

Working for an Australia free of poverty

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Mr Elton Humphery
Committee Secretary
Community Affairs Legislation Committee
Parliament House
Canberra ACT 2600

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Dear Mr Humphery

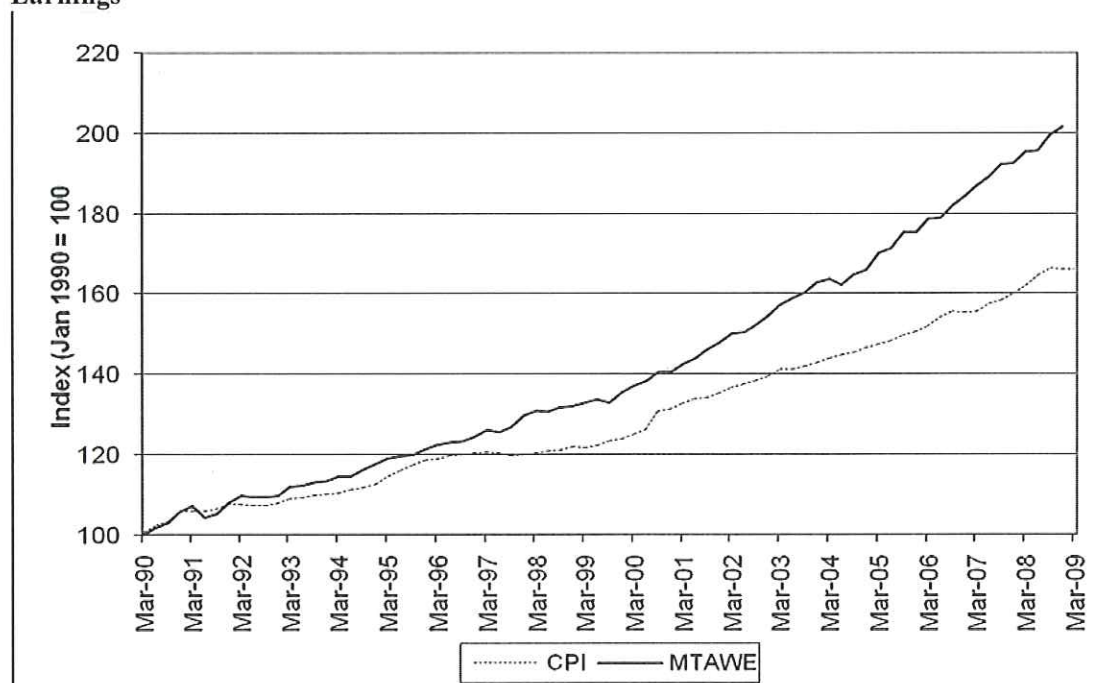
Thank you for the invitation to make a submission to the Community Affairs Legislation Committee regarding the Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009.

Given the short timelines we are making this submission in the form of a letter.

Firstly, we are concerned that changing indexation arrangements to Family Tax Benefit Part A (linking them to the Consumer Prices Index rather than Male Total Average Weekly Earnings) will erode the value of benefits to low income families over time. In the longer term this runs the risk of increasing numbers of children living in poverty.

The following graph shows the divergence between CPI and MTAWE between 1990 and 2009.¹

Figure: Comparison of trends in Consumer Price Index and Male Total Average Weekly Earnings



Source: ABS, 6401.0 Consumer Price Index, Australia
ABS, Average Weekly Earnings, Australia

¹ If FTBA were indexed to the CPI over this period the payment would be just under 20 per cent less than it currently is.

This effect will be compounded for jobless families dependent on Newstart. The announcement of a Training Supplement of \$41.60 per fortnight for people on Newstart and Parenting Payment Single was welcomed by the Brotherhood however this is a temporary, conditional supplement and does not fully compensate for the basic inadequacy of Newstart or for the change to the indexing arrangements of FTBA.

Jobless families in Australia are amongst the most disadvantaged in the OECD. In a recent paper, Peter Whiteford from the SPRC argues that

“Australia has the eighth lowest non employment rate for working age individual amongst OECD countries but the fifth highest joblessness rate for households and for households with children, the fourth highest joblessness rate. Inequality of household earnings including households with no earnings is the second highest in the OECD with the Gini co-efficient at around 0.47.” (Peter Whiteford 2009 “Transfer issues and directions for reform: Australian transfer policy in comparative perspective.” Social Policy Research Centre, University of New South Wales.)

While we agree that the broader policy goal should focus on reducing the rate of jobless families, the issue of income adequacy is still important, particularly for jobless families where children are at risk of growing up in poverty.

The Brotherhood broadly supports changes to the aged pension however there was scope for greater recognition of the differences between different pensioner groups, in particular non home owning pensioners have a much greater need for assistance than those who own their own homes and this was not recognised in changes to the pensions system.

In February the Brotherhood released research that it had commissioned from NATSEM that found that:

- Age pensioners who own a home also tend to have the highest non-pension private incomes, including superannuation income. Of these age pensioners, 12.6% have private incomes of more than \$200 a week.
- By contrast, age pensioners who are not owner occupiers tend to have much lower private income- 83% have private incomes of less than \$20 a week. Moreover unlike owner occupier pensioners these pensioners have to pay for their accommodation through rents.

The full report by Simon Kelly from NATSEM “Reform of the Australian Retirement Income System” is available at:

http://www.bsl.org.au/pdfs/NATSEM_BSL_Reform_of_Australian_retirement_income_system.pdf

Similarly other research has found that after accounting for the value of not having to pay rent, non home owning older people had twice the rate of poverty (using the Henderson poverty line of less than 50% of AWE) compared to home owning older people. (See Bruce Bradbury, SPRC, UNSW and Judith Yates, University of Sydney “Home ownership as a crumbling fourth pillar of Social Insurance in Australia”.)

In a submission to the Harmer and Henry reviews the Brotherhood made the following recommendations.

As a matter of urgency the Government should:

- Increase the base rate of the single age pension from 59% of the couples rate to 66%.
- Increase rent assistance by 50% for all recipients of rent assistance.
- Introduce a second taper rate (the rate at which the pension decreases as other income increases) for those with high private incomes – from 40% to 60% at twice the current threshold, using a threshold of \$480 for both couples and singles.

As part of the Henry review the Government should:

- Introduce a universal pensioner concession card for all people over 65 to prevent people reorganising their assets in order to qualify for at least a part pension and therefore eligibility for concession entitlements.
- Include owner-occupied housing as part of the means test for the age pension for homes of high value, say above \$1 million. This could include arrangements for reverse mortgages so people can remain in their family home while drawing down on its equity to create an income.
- Reform the grossly inequitable superannuation system, which provides tax concessions worth over \$20 billion to the wealthy.
- Make superannuation contributions for people with intermittent labour force participation and those on government benefits for extended periods.

Overall however, the Brotherhood supports the increase to the single pension that was announced in the Budget and changes to the income test arrangements of the pension (i.e. increasing the withdrawal rate from 40 cents in the dollar, to 50 cents in the dollar).

Should you require any further clarification in regard to this submission, please contact Nicola Ballenden, General Manager of Public Affairs and Development at the Brotherhood of St Laurence on (03) 9483 1340.

Yours sincerely



Tony Nicholson
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Brotherhood of St Laurence