

National Welfare Rights Network (NWRN)

Submission to the Senate Community Affairs Committee Inquiry in relation to the Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009

The NWRN welcomes the opportunity to provide a submission to the Senate Inquiry into the Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009.

In this submission, NWRN sets out some of the key issues we have identified in relation to the provisions of the proposed Bill concerning the changes to tapering, indexation, the pension age, restrictions on who will receive the increase and the impact for single parents. The NWRN is concerned that insufficient time was provided for this inquiry which implements the Government's initial response to the Harmer Review and heralds an historic and watershed shift in the fundamental design and structure of Social Security payments in Australia.

Rate Increase to Some Pensions

The last year has seen the spotlight placed on issues around the inadequacy of the Pension particularly for single Age Pensioners in comparison to the rates paid to Pensioner couples.

The NWRN is broadly supportive of the historic increases to the rates of payment to Age, Disability Support, Carer, Wife and Widow B and Veteran's Pensioners which will see single and couples receiving increases of \$32.49 and \$10.14 combined per week respectively.

NWRN consider that this will assist in reducing the hardship experienced by some of the most vulnerable within our community and specifically addresses the issues relating to the adequacy of the single payment rate in comparison with the rate paid to couples.

Groups Excluded from Increases to Payments

NWRN is concerned that with the historic increase to the rates of some Pensions that sole parents and their families have been excluded from receiving this increase. This exclusion is perhaps the most significant assault on the payment conditions for sole parents in the last 35 years apart from the 2006 Welfare to Work changes which severely restricted access to Parenting Payment.

NWRN was shocked at the decision to exclude sole parents and cannot see any justification for the Government to sever the tie between the rates paid to Age Pensioners and those on Parenting Payment. This snub by Government undermines the financial security of hundreds of thousands of Australia's poorest families which include 400,000 sole parents and their 600,000 children.

The justification for ignoring sole parents made by the Treasurer prior to the May Budget was that:

"Single parents do receive very substantial family benefits, ...

And let's say you were comparing a single age pensioner to, say, a single mum with a couple of children. ...

The benefits are roughly twice that for a single mum than they are for a single pensioner. ...

And I'd also make the point that there has been very substantial assistance to single parents from this Government in the last budget and also by way of our various stimulus packages at the end of last year and this year, and most particularly the Back to School Bonus".¹

NWRN does not see that the sums add up in relation to the justification used to deny single parents the increase provided to all other single Pensioners. It is difficult to compare the circumstances of a single Age Pensioner who is responsible for the support of themselves alone and a sole parent endeavouring to raise children on their own. The Treasurer's statement suggests that sole parents had already received sufficient largesse from the Government through Family Benefits and one off stimulus payments and were not in need of ongoing increased assistance. This is despite the Harmer Review Report finding that "one-off lump-sum payments are not particularly effective mechanisms for addressing the adequacy of the Pension because they do not provide ongoing financial certainty for Pensioners".² It is questionable why the Government would suggest that one off lump sum payments would therefore be a more effective way of ongoing financial certainty for those charged with the support of children.

The reality for a single parent family with two children aged 6-12 is that they may receive an income of around \$550 a week, including Parenting Payment, Family Tax Benefit, Rent Assistance³ and the Pensioner Concession Card.⁴ Many have arrived at single parenthood as a result of domestic violence or divorce and fewer than 10% of single parents are aged less than 20 years. Additionally a significant number, 45% suffer from either a diagnosed or undiagnosed mental health condition. Few sole parents on income support receive any child support from their former partners and recent changes have resulted in reduced levels of Child Support payments for many. As more non resident parents lose their jobs as a result of the global financial crisis it is likely that Child Support payments to sole parents may reduce further.

¹ The Australian, *Single parents ruled to have already had their share of aid*, Patricia Karvelas, 11 May 2009.

² Pension Review Report, http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09_10/pension/Documents/Pension_Review_Report/summary.htm

³ Since 1995 the median weekly rent across Australian capital cities rose by 30% in real terms, to \$214 in December 2007.

⁴ The Pensioner Concession Card provides a range of other important financial benefits, such as the Pharmaceutical Allowance and Telephone Allowance and concessional transport. Single parent pensioners are not eligible for the Utility Allowance, which equates to about \$10 a week. Utility Allowance also goes to holders of the Commonwealth Seniors Health Care Card, which is provided to better-off retirees with incomes of up to \$50,000 a year.

Recent research undertaken by the Social Policy Research Centre found that sole parents stood out as being twice as likely as the general community to go without most of the essential items that the rest of the community takes for granted. While the average level of multiple deprivations in the wider community was 19%, almost 50% of single parents experienced multiple deprivations. Key findings were that for Parenting Payment recipients 43% lacked a decent and secure home, 57% were unable to pay utility bills, 56% could not access \$500 in an emergency, 24% could not afford to update schoolbooks and clothes for their children and 28% could not afford a rare gift for family or friends.⁵

Apart from sole parents the Government has also ignored the unemployed, students (including Independent Youth Allowance and Austudy) and Special Benefit recipients who will not receive increased rates of payment in line with the increase provided for some Pensioners. Single people receiving Newstart Allowance are currently paid at the rate of \$227 per week which is almost \$58 per week less than the level of the single Age Pension. Payments for students living independently or on Austudy can be as low as \$186 a week. Whilst the Government has announced some changes in relation to the Parental Income Test which will result in more receiving Youth Allowance and at a higher rate than previously nothing has been done to address the current situation whereby the independent rate of Youth Allowance and the rate of Austudy is entirely inadequate to support a person whilst studying.

Following on from the increase to be paid to some Pensioners from September 2009 the difference will be even greater between the single rate of Age Pension and the rate of Newstart Allowance to the tune of at least \$90 per week which equates to \$4,680 per annum. There will be an even greater disparity for Independent students and those on Austudy who will be \$131 per week worse off which over a year equates to \$6,837 per annum.

One group on Newstart Allowance recipients whose families are particularly vulnerable are those parents affected by the former Government's Welfare to Work rules who now receive Newstart Allowance rather than Parenting Payment. There are at least 20,000 parents who struggle to manage on Newstart Allowance, which is currently about \$40 per week less than the Pension. These families will be further disadvantaged as a result of the September increase with the difference between single Age Pensioners and sole parents on Newstart Allowance blowing out to \$72 per week or \$3,769 per annum. As a result of Welfare to Work there are also increasing numbers of people with disabilities in receipt of Newstart Allowance who in the past would have qualified for Disability Support Pension at the higher rate of payment.

Payments for unemployed people have traditionally been lower than for Pensioners because, in the past, it could have been argued that periods of unemployment were limited. However, this argument no longer holds, with almost one in four unemployed people having been out of work for five years or more. The current recession – the worst since the 1930's – will mean that people who are unemployed will face much longer periods out of work. Newstart Allowance can no longer be viewed as a short-term payment, with many job seekers facing the real potential for long term unemployment.

⁵ ACOSS, 2008. *Who Is Missing Out?* At: www.acoss.org.au (go to publications).

Whilst the increased rate of Pension to many Pensioners is a welcome reform by the Government it adds a new dimension of unfairness and confusion to the system of income support in this country. We now have the deserving, the less deserving, and the undeserving. We see the disconnect between payment rates going to recipients of different Social Security payments as further widening the divide and reinforcing views within our community that there are people who are deserving and undeserving of adequate income support. Potentially the gap in payments will provide more perverse disincentives to participation (by creating the need for people to try to access one payment rather than another) which goes against the objectives of the Government's participation agenda. It also seems inconsistent with the Government's push for reskilling of the nation with the Youth Compact and the new Job Services Australia that there is not the political will to ensure those on the lowest payments are not provided with a reasonable standard of living.

The NWRN recommends that the Bill is amended so that the rate increase is also applied to those on Parenting Payment single. Furthermore we call on the Government to introduce new legislation to address the inadequacies of payments to the unemployed and students and those excluded from the proposed increase to Pensions as a matter of urgency.

Removal of the additional child free dependent area

Prior to the introduction of Welfare to Work, NATSEM (2005) provided a detailed analysis relating to the impact of the Welfare to Work changes on both sole parents and people with disabilities.⁶ Apart from lower rates of payment the high effective marginal tax rates which applied to earned income for these groups as a result of the change from the Pension income test to the Allowance income test was emphasised. Particularly noted was the impact of the additional income test "free area" for dependent children and that for those placed on Newstart Allowance. The capacity to earn additional income was effectively reduced to \$31 per week which was significantly lower than that allowed under the Pension income test which also permitted an additional amount allowed for each dependent child.

The Budget papers do not disaggregate the savings which will arise from the changes to the taper rate from 60 cents to 50 cents in the dollar nor what savings will occur from the proposal to remove the additional income test "free area" for dependent children. In the second reading speech the Minister for Families, Housing, Community Services and Indigenous Affairs states that the purpose of the latter measure is:

*"To bring the pension income test into line with other means-tested payments, including allowances and family assistance, the additional income test 'free area' for dependent children will be removed."*⁷

⁶ NATSEM, Ann Harding, Quoc Ngu Vu and Richard Percival, *Options for Reducing the Adverse Impact of the Proposed Welfare-to-Work Reforms upon People with Disabilities and Sole Parents*, Report to the National Foundation for Australian Women, 3 November 2005, p 16.

⁷ Jenny Macklin, Second Reading Speech, *Social Security and Other Legislation Amendment (Pension Reform and Other Budget Measures) Bill 2009* 17 June 2009.

The measure to remove the additional income free area for dependent children will provide a disincentive to participation for those on Parenting Payment, Disability Support Pension and Carer Payment whose rates will be immediately reduced. The backdrop to this is that because at least 38% of those on Parenting Payment are already in some paid employment the changes may result in a reduction in the rates of payment to those who are trying to work and raise children. The impact of this change will be felt by most in families with more dependent children. The disincentive impact of this provision comes at a time when single parents and those with disabilities are being actively encouraged to participate. The disaggregated data on the numbers who will be adversely impacted by these provisions according to payment type should be of interest to the Committee.

NWRN recommends that the Schedule containing this measure be deleted from the Bill.

Financial impacts of the changes to indexation of Family Tax Benefit

NWRN has long been critical of the inconsistent indexation arrangements between Pensions and Allowances on the grounds that it further contributes to differential treatment of those in our Social Security System and compounds the poverty experienced by Allowees. According to the Government's own data in the last decade Pension rates have increased by 20 percent in real terms and in that same time the real increase for a single Allowee has been a fraction of this with an increase of just 0.5%. It is also important to recognise that changes to the indexation of FTB to CPI will have an adverse impact as payments relating to children will fall behind in real terms. It is of concern that this one initiative is expected to reap savings for the Government of \$1 billion over the next four years which will have a significant impact on the living standards of children in this country.

The majority of those eligible for FTB are Parenting Payment (Single) recipients, though FTB is also paid to a significant number of working families on low incomes. In 2006-07 about 640,000 or 35% of FTB recipients were also on some type of income support. There were almost 400,000 on PPS (62%), 130,000 Parenting Payment Partnered (20%), 42,100 on Disability Support Pension (6%), 20,800 in receipt of Carer Payment (3%) and only 4,800 on the Age Pension (or 0.75%).

While debates around levels of poverty are both contentious and complex the poverty amongst single parent families is real. The Centre for Independent Studies has been a voracious and consistent critic of current measures of poverty and they cite studies which found that in 1997, just over half of all sole parent households lived in poverty. "However, nearly 80% of *jobless* sole parent families lived in poverty" (their emphasis).⁸

NWRN recommends that the Schedule containing this measure be deleted from the Bill.

Change of Age Pension Age Qualification Age to 67

⁸ Brown, J, *Breaking the Cycle of Family Joblessness, Policy Monographs 95*, 2009, p. 5.

The qualifying age for Age Pension will increase for both men and women from 65 to 67. This will be phased in, with the age increasing by six months for every two years, commencing on *1 July 2017* and will be fully implemented on 1 July 2023. The decision to raise the Age Pension Age to 67 is supported by some as an inevitable response to increasing life expectancies. NWRN recognises that in the future, older people will be, on average, healthier than currently is the case, however the reliance on averages masks significant differences amongst older people who are an extremely diverse group.

Certain groups – those with a long history of manual labour, those with extensive caring responsibilities which causes intermittent workforce participation, and people with life-long disability or the onset of disability in later life, will be at great risk of being disadvantaged in their latter years if this measure is implemented. The difficulty for many older people is the ability and opportunity to find suitable work to the current Pension eligibility age, rather than even considering working past this age. For these people this change will condemn them to living on lower Allowance rates of payments which will be at rates of payments of more than \$110 a week less than the level of the Age Pension.

Older people will also struggle to meet activity requirements and will be faced with the humiliating experience of being overlooked by employers who, despite public awareness campaigns about the positive benefits of employing older people and recent legislation outlawing age-based discrimination, still remain reluctant to employ older people.

It is relevant for the Committee to examine the recent report from the Participation Taskforce which recommended that current flexible rules for older unemployed people be standardised, so that older unemployed people have the same job search requirements of younger job seekers. The report of the Participation Taskforce proposed that differential treatment of older unemployed people be changed. NWRN was a member of this Taskforce and argued that the situation currently facing older unemployed people was such that they would be disadvantaged by the proposals. While we were not supportive of this aspect of the report's findings it is instructive to note that the Government announced on Budget night that it would not proceed with the recommendations regarding older unemployed people. In light of this decision it is difficult to understand the logic in the decision to raise the eligibility age for the Age Pension.

If the Committee is to accept the arguments of increased life expectancy as the major reason to increase the current eligibility age for the Age Pension then it should follow that the Committee should recommend that the age at which Indigenous Australians are eligible for the Age Pension should be reduced, to take into account the lower life expectancy of Indigenous Australians.

The current system of income support for older people recognises that some individuals, and groups of individuals, as a result of their circumstances, should be allowed earlier access to Pension-type levels of income support once they reach a certain age. The current age at which veterans' become eligible for the Pension is recognition of this reality. It is also instructive for the Committee to consider the relevance that while the current Bill proposes to increase the age at which older people become eligible

for the Age Pension, the age of entitlement to the Veteran's pension remains unchanged, and is still set at age 60.

Half of all people claiming the Age Pension transfer from other income support payments, such as the Disability Support Pensions, Carer Payment and Newstart Allowance. These individuals enter the Age Pension system generally with few financial resources and assets, little if any savings and poor prospects of employment in the period prior to reaching Age Pension.

NWRN is extremely alarmed with the rapid pace with which the legislation to change the eligibility age qualification for Age Pension is being pushed through Parliament when this initiative is not to commence until 2017. It has meant that there has been no serious investigation into the impacts that such a significant change will have on the lives of older women and what this change means for their standard of living in retirement. Older women are considerably more disadvantaged than men in later years when it comes to the ability to accumulate reasonable levels of superannuation as a result of a combination of factors including intermittent and broken employment patterns, caring responsibilities (for both children, partners and parents) and the disparity between wages paid to women and men.

Prior to the passage of the change to the age qualification for Age Pension the Committee should seek an impact assessment from the Office of the Status of Women as a matter of urgency. The Government should also examine and publicly report on the outcomes and impacts of the decision by the Keating Government to raise the Age Pension Age for Women, from 1995 despite this not having been fully implemented until 2013. It is hardly surprising to the NWRN that since that decision there has been an increase in the numbers of older women over the age of 60 who receive Disability Support Pension (DSP).

NWRN recognises that many older people will relish the opportunity to work past the age of 65 – the current age at which a person becomes eligible for the Age Pension and the call by some Seniors' organisations to remove the current age-based restrictions which limit entitlement to the Superannuation Guarantee Charge over a certain age. The introduction of the Work Bonus which is also currently before the Committee is a further recognition of the desire of many older people to continue to work past the age at which they become eligible for the Age Pension where they have both the capacity and opportunity.

Older people consistently cite negative attitudes toward older people and discriminatory attitudes as the major barrier to workforce participation. Mature age people are over represented as "discouraged job seekers", according the findings by the Australian Bureau of Statistics (ABS).

A reliance on crude data about "average" life expectancies masks significant differences. The Committee should consider the health determinants of income and wealth, and what this means for the trajectories of different cohorts of people in retirement and the implications for their employment careers. While, as we point out, averages can be misleading there is an undeniable link between income, morbidity and (actual) life expectancy. The implications for those in retirement ages is clear, though somewhat

distressing. Many decades ago the former Department of Social Security reported that, on average, poorer full rate Pensioners live longer than part rate Pensioners and those with incomes and resources too high for any Pension entitlement live the longest of all. For more and more older people, the phrase “working yourself into the grave” will be the uncomfortable reality for those whose bodies and bones are broken but are forced to continue to work because there is an inadequate safety net.

The Bill proposes that the increase to the Age Pension eligibility age is not scheduled to start until 2017. If the Government were to reject this change there would be no impacts upon Government spending and no immediate consequences on the nation’s finances. The Government must put in place a comprehensive set of measures to ensure older people can remain in the workforce until the age of 65 including reform which encourages workforce participation from 55 years of age through changing the preservation age closer to the current Age Pension eligibility age requirement. Only then should the Government consider increasing the age of eligibility to the Age Pension.

NWRN recommends that the Committee should more closely align the preservation age with the current eligibility age for the Age Pension. Any consideration of an increase to the Age Pension eligibility age should not be considered until after 2013.



Kate Beaumont
President of NWRN
23 June 2009