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Inquiry into student income support

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National Welfare Rights Network

"A dog's breakfast" – income support for families and young people

Income support for low income families and young people in Australia is inadequate, riddled with inconsistencies, disincentives and unfairness.

A report by the Welfare Rights Centre, Sydney for the National Welfare Rights Network

March 2005

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Acknowledgments

This report was researched and compiled by Jacqueline Lees as a Ronald Henderson Foundation Scholarship project at the Welfare Rights Centre, Sydney.

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In 2004 Jacqueline began the Economics Honours program at Macquarie University and earned a Ronald Henderson Foundation Scholarship. This involved completing a one year internship at the Welfare Rights Centre, Sydney where she examined the socio-economic effects of the Australian Social Security system on young people. This research was compiled to form this report.

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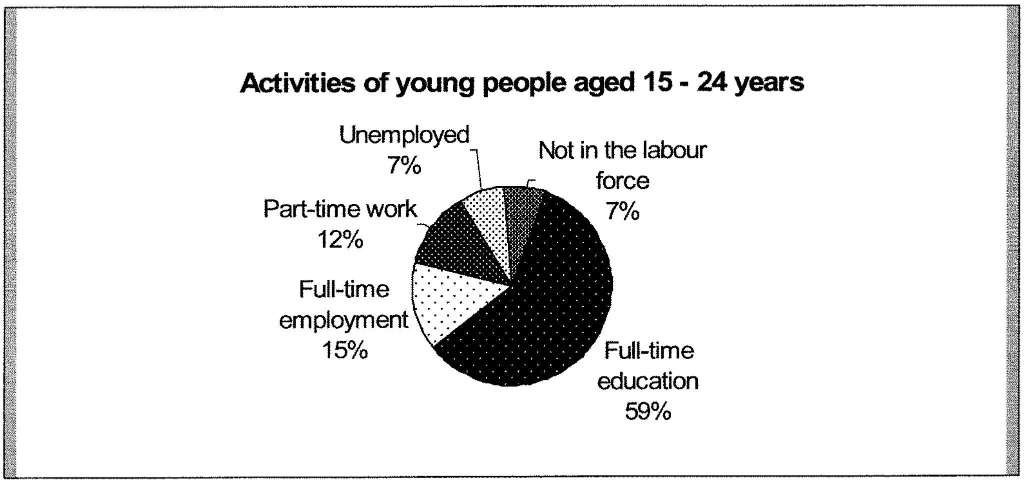
1. Executive Summary

1.1 Introduction – income support and a participatory society

The majority of 15 to 24 year olds in Australia (59 percent) are engaged in full-time study or training. This is the personal and national preferential form of participation for this cohort. Fourteen percent of 15 to 24 year olds are neither studying nor working (see Chart 1)[1]. This group is one of the most vulnerable groups in Australian society, as a successful transition from school to work is critical not only to their personal success and life chances, but also to the quality of the labour force and the future economic growth of the nation.

According to OECD data on the proportion of young people aged 15 to 24 who are neither studying nor working, Australia's proportion of "at risk" youth is high compared with other OECD countries[2].

Chart 1: Activities of young people aged 15 to 24 years



This paper analyses a number of critical issues currently confronting these two groups, particularly in relation to income and other "participation" supports. Its findings and recommendations point to significant problem areas and essential new directions.

An adequate level of income to support young Australians through their studies and through periods of unemployment is critical to a successful completion of school and study, a successful transition from school to work and to achieving full and productive participation in society. It is an essential investment by government in our human capital. But it not only needs to be adequate, it also needs to be structured so as to provide the right incentives. The key question is how to best support young people in Australia as they make the transition from childhood to adulthood and from education and training to employment.

The role, structure and adequacy of the income support system for 16 to 24 year olds is more important today than 30 years ago as this cohort is more dependent on their family than was the case in the 1970s. Today young people are remaining in education for longer and achieving economic independence at a later stage in their life. This, combined with increased housing costs (see 3.8), has caused delayed home ownership and since the 1970s there has been a steady increase in the proportion of 20 to 24 year olds living in the parental home. The proportion of dependent 15 to 17 year olds increased by 17 percent in the period 1982 to 1996. For 18 to 20 year olds, dependency increased by 24 percent. (see 3.4 and 3.8)

[1] Dusseldorp Skills Forum, *'How Young People are Faring:* Key Indicators 2004', Monash University - ACER, Centre for the Economics of Education and Training. Available online at: www.dsf.org.au

[2] OECD, *Education at a Glance 2004, OECD Paris.*

1.2 How much do children and youth cost?

NATSEM has found that older teenagers cost *at least* twice as much as younger children, irrespective of family income. On average, an 18 to 24 year old costs $322 per week compared with $164 for a 5 to 9 year old. This increased cost also represents a far higher proportion of family income being spent on children as they get older – on average 11% of family income is spent on a 5 to 9 year old while 19% is spent on an 18 to 24 year old. (see 5.1)

1.3 Adequacy – do income support payments meet these costs?

One of the key findings of this paper is that the Australian system of youth income support fails its first test in that it does not meet the average costs of living faced by young Australians aged 16-24.

Despite the fact that the Henderson Poverty Line is almost the same as the actual cost to a family of raising a 16 to 24 year old, about $320 per week, **Youth Allowance rates range from 33 percent to 50 percent below this figure.** (see 3.7 and 5.2.) **The situation for adult students over 24 is by far the worst as their payment of $163 per week is 49 percent below this cost of living and Poverty Line figure.** (see 3.7) This is because, in what can only be seen as a glaring anomaly, Austudy Payment recipients do not qualify for Rent Assistance. (see 3.9)

A recent report by CPA Australia[3] found that 55 percent of young people rated having enough money to survive as their main concern in life. It far exceeded other issues such as relationships or health. Ás noted above, levels of financial dependency of young people on their parents has increased over the last 30 years. This has placed a great strain on many families, particularly low-income and single parent families with older teenage children. In many cases, even if the young person is employed, junior wages are now inadequate for them to achieve independence.

1.4 Major structural flaws in design and indexation prevent participation and hurt families

- The manifest inadequacy of the basic rates of Youth Allowance (and Newstart Allowance) is seriously compounded by a number of other serious design and structural flaws.

These include:

Parental Income Test – locks out too many

- The Parental Income Test for dependent young people is too low. It is currently almost $4,000 lower than the threshold for Family Tax Benefit. Under the current system, families surviving on incomes only marginally above the Henderson Poverty Line are ineligible for Youth Allowance unless the young person can prove independence. The combined parental income threshold of $28,850 is only 8.6 percent higher than the relevant Poverty Line (calculated for a couple with "head in workforce", plus one dependent child). (see 3.10)

Families triple taxed – EMTRs over 100%

- Many families are being "triple taxed" on the receipt of additional income, **losing 60 to over 100 percent** of each additional dollar earned. When two or more Social Security payments are received, for example Family Tax Benefit, Youth Allowance and/or Child Care Benefit, **the individual income tests for each payment all apply and hence they stack-up on top of each other** thus creating punishingly high effective marginal tax rates (EMTRs). The result is that many families receiving income support payments have EMTRs that are far higher than those paid by Australia's highest income earners. (see 3.11)

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3. The CPA Australia, *Saving Generations X and Y*, 2004. Available online at: www.cpaaustralia.com.au

Different indexation formulae – unjustifiable outcomes

- There is a major, unjustifiable inconsistency in the method of indexation for different Social Security payments. We could find **no logical or fair reason why Youth Allowance, Austudy Payment and ABSTUDY are indexed significantly less favourably than other income support payments**. This outcome results from both indexing these payments by CPI only and by indexing less often (once a year only) than pensions. In contrast, pensions are indexed by the higher of MTAWE or CPI and twice each year. Newstart Allowance is a hybrid as it is also indexed by the lower CPI formula only but twice each year.
- As a consequence, since 1998, the highest single rate of Youth Allowance has increased by just **$61 per fortnight**, compared with an increase of **$116 for all pensions** over the same period. The single adult rate of Newstart Allowance has not fared much better, having increased by just **$73 compared with a $97 increase** in the couple rate (for each member) of all pension payments (see 4.2.) **In July 1998, the single rate of Newstart Allowance was $25.70 per fortnight higher than the couple rate of pension. In January 2005 the single rate of Newstart Allowance was just $1.60 per fortnight higher than the couple rate of the pension.**
- If this indexation issue is not addressed, payments for young people and unemployed adults will continue to fall as a proportion of average weekly earnings and the couple rate of pension will overtake the single Newstart Allowance rate in July 2005. This will mean that **each member of a pension couple will soon receive more than a single Newstart Allowance recipient.** (see 4.3) At this point it will not be possible for the Government to justify such a manifestly unfair position.

Income free area – not indexed

- In addition to this discrepancy in the indexation of the basic rate, **the income free area for Newstart and Youth Allowance has not been increased for 29 years** (aside from a $1 per week increase with the introduction of the Goods and Services Tax). This is in contrast to the pension income free area which is indexed annually to the Consumer Price Index. Partly as a consequence of this indexation, **the single pension income free area is currently $30 a week higher than the income free area for allowances.**
- Apart from a $1 per week GST compensation increase in July 2000, the last increase to the income free area occurred 29 years ago. On 1 May 1986 the income free area for the single rate of Newstart was increased from $20 to $30 a week. **At the time, the single rate of Newstart Allowance was $95 a week, with the income free area representing 22 percent of the payment. In January 2005, the single rate of Newstart Allowance was $197 a week, yet the income free area has remained unchanged and now represents just 15 percent of the payment.** In addition, the value of the payment relative to the pension has fallen dramatically, as can be seen in Table 7.
- If the income free area had been indexed to the CPI for the last 29 years, the income free area would now be around $43 a week. (see 4.5) This would mean that there would be far more incentive to seek casual or part-time earnings and far more reward for doing so. The current failure to index this income free area provides yet another participation barrier for unemployed young people.
- The student income band of $6,000 per annum has not been indexed since its introduction in 1998.

Family income decreases when youngest child turns 16

- Another major flaw in the design of the income support system for families with 16 to 24 year olds is that **families whose youngest child turns 16 are often faced with a dramatic decrease in overall family income** as the type of payments received by family members changes. This decrease is worst for sole parent families. The problem is exacerbated by the loss of Rent Assistance, which is payable with Family Tax Benefit (FTB), but not Youth Allowance. The parent will generally move from a pension rate to the lower Newstart Allowance rate. They may also loose the benefits available with the Pensioner Concession Card and must meet the costs of looking for work that are required under Newstart Allowance. This drastic decrease in income comes at precisely the time when the costs of raising a child are at their highest.[4] NATSEM estimates that it costs $213 a week to raise a 16 -17 year old in a low income family. Yet the maximum Youth Allowance payment for a 16 or 17 year old is $87 a week. This is not even half the minimum cost of raising a teenager of that age. In recent years, the financial loss when the youngest child turns 16 has worsened. **In 1996 the drop in overall household income was around $6 a week. It is now over $50 a week. Based on current projections, it would be almost $90 a week by 2010.** (see 5.3)

Youth Allowance – the most complex

- Despite its supposed simplicity, Youth Allowance remains one of the most complex payment structures in the Social Security system. Within the four streams, there are sixteen subcategories. Young people are particularly vulnerable to being excluded from benefits, or being on the incorrect payment, as they tend to be uninformed of eligibility criteria or their right to appeal. They often have difficulties filling out claim forms and can lack the confidence to question Centrelink decisions. (see section 6)
- One of the consequences of the low Parental Income Test is that a significant number of young people are likely to have no dealings with either Centrelink or the Job Network. This means that some unemployed young people are unlikely to be linked into the Job Network, or to any of the assistance that might be available to help them into study, employment or training. (see 6.3)
- Young people are far more likely to have a breach imposed than older people. Centrelink data for the quarter ending September 2004 reveals that 53 percent of all administrative breaches and 47 percent of all activity breaches were imposed on young people under 25.

Disencentives to study

- Unemployed adults over the age of 21 are entitled to Rent Assistance. In contrast, students receiving Austudy Payment are ineligible for Rent Assistance. An unemployed person on Newstart Allowance with Rent Assistance receives $164.90 a fortnight more than a student receiving Austudy Payment. This disparity can discourage people from pursuing an education that could improve their chances in the labour market and ultimately return much more to the nation.

[4] Percival R., Harding A. *'The Cost of Children in Australia Today'*, A report by National Centre for Economic Modelling. 2003.

2. Income support for students and young unemployed people

2.1 Brief history - 1940 to 1998

In Australia, income support for secondary students has been provided since 1964, the maximum rates of payment have always been low. Payments to 16 and 17 year old school children are currently around 10 percent of Male Total Average Weekly Earnings (MTAWE).

Income support was first provided to tertiary students in 1943 and allowances have always been at least partially means tested on parental income. In the past, income support has been reserved for students with excellent academic records. Over time, the targeting of tertiary student assistance has shifted from a merit-based system to a needs-based system. This shift is justified since the merit-based system used in the past is unlikely to equalise opportunities across young people of different socioeconomic backgrounds. There is strong evidence that a child's early academic achievement in school is influenced by their socioeconomic background[5]. If financial support is to effectively improve young people's ability to participate in the community and the economy, it must be provided early on and maintained throughout a young person's period of education.

The real value of maximum payments to tertiary students has declined since the early post-war period and income tests have been tightened since the introduction of the Tertiary Education Assistance Scheme (TEAS) in1974[6]. This decline in the real value of payments raises the issue of whether income support continues to cover costs of living faced by tertiary students. If it fails to do so, the implication is that tertiary students become increasingly dependent on employment and/or their parents, in order to supplement their income.

There has been also been a reduction in the real value of payments to young unemployed people since the 1970s[7]. Changes to eligibility criteria have meant that young unemployed people, once considered adults, are now treated more like dependent children. Since the late 1980s, benefits to young unemployed people have progressively been made equivalent to student benefits. For instance, the 1998 changes to Youth Allowance mean that even the higher rate for unemployed people under 21 years is still lower than the adult rate. The implication of these policy changes is that families should support their unemployed older children.

The current expectation of the Government is that parents will subsidise their older children's incomes, through ongoing financial support.

2.2 Social Security payments for young people and students

The following sections outline the current income support arrangements for young people since 1998.

2.3 Youth Allowance

In July 1998, Youth Allowance was introduced for students 25 years and under. It was promoted as providing a new, simpler framework as it replaced five payment types with one. It aligned many of the conditions for students and unemployed people up to the age of 21 years and extended eligibility for Rent Assistance to full-time independent students living away from home. At the same time as the introduction of Youth Allowance in 1998 the age that a student

[5] Australian Council of Educational Research (ACER) 'Pathways from School to Work', *Longitudinal Survey of Australian Youth Briefing* No.4, November 2001.

[6] Schneider J. 'The Increasing Financial Dependency of Young People on their Parents', Social Policy Research Centre Discussion Paper No.96 , 1999.

[7] Schneider J. 'Income Sharing Between Young People and Their Parents', University of New South Wales, PhD Thesis 2002.

is automatically considered independent was increased from 22 to 25 years. As a result, more young people were subject to the Parental Means Test.

Youth Allowance replaced the following payments:

- AUSTUDY for 16-24 year olds and certain 15 year olds
- Newstart Allowance for 16-17 year olds (and certain 15 year olds)
- Youth Training Allowance for 16-17 year olds (and certain 15 year olds)
- Sickness Allowance for 16-20 year olds (and certain 15 year olds)
- Over-the-minimum rate Family Payment for secondary students aged 16-18 not eligible for AUSTUDY.

There are certain exemptions for 15 and 25 year olds, and personal circumstances (for example homelessness, illness or major personal crisis) may exempt some young people from the activity test. Rent Assistance is also available to single people without children who receive the away from home rate of Youth Allowance. Students and those undertaking training are entitled to a $6,000 Income Bank.

Independent status

For a young person to be classed as independent, and thus receive a higher Youth Allowance rate, they must establish that it is unreasonable to live with their parents, or have a child, or prove workforce participation and/or employment earnings. A young person must satisfy Centrelink that they have been out of school for at least 18 months and have earned $15,990 in an 18 month period.

Unless a young person meets the limited and complicated criteria for independence any Youth Allowance received will be paid at the lower '"at home" rate and will be dependent on parental income. A person is considered independent if aged 16 or over, and:

- has been out of school at least 18 months and earned an amount equivalent to 75 percent of the Commonwealth Training Award Rate in an 18 month period before lodging a claim, or
- has worked full-time, at least 30 hours a week, for 18 months during the preceding two years (or for a period or periods of 12 months if you are considered disadvantaged), or
- has worked part-time for at least 15 hours a week for at least two years since last leaving school.

A person is also considered independent if aged 15-24 and they:

- are a refugee, an orphan, or it is unreasonable to live at home, or
- are in state care, or only stopped being in state care because of their age
- have, or have had a dependent child
- are or have been, married, including living in a marriage-like relationship for 12 months or more, or six months (in special circumstances)
- have parents who cannot exercise their responsibilities.

As the above demonstrates, achieving independent status is difficult and complicated.

Unless a young person is independent, their Youth Allowance payments are subject to the Parental Means Test. This has three components as set out below[8].

1. Income test

The maximum allowance is paid if combined parental gross annual income is less than $28,850. The threshold increases by between $1,230 and $7,585 if the family has other

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[8] Centrelink figures and assessment criteria are from the Centrelink Website, www.centrelink.gov.au, January 2005.

dependent children, contingent on their age and circumstances. The allowance is reduced by $1 for every $4 of income above the threshold.

2. Assets test

If family assets exceed $502,750 then no Youth Allowance payments are made. Farming and business assets are discounted by 75 percent.

3. Family Actual Means test

This relates to family spending and saving, and includes family income derived from a variety of sources, such as funds received from a trust or if a wage earner has declared a business loss.

2.4 Newstart Allowance

Newstart Allowance is currently paid to unemployed adults who are looking for work or participating in approved job-related activities. Eligible people must be over 21 years and below Age Pension age. Payments are subject to an income and asset test, but not a parental income test.

Young people aged 18 to 20 years old who were on Newstart or Sickness Allowance when Youth Allowance commenced, were able to remain on Newstart Allowance. Newstart can be accessed by part-time students over 21 under certain conditions. This allows the student to work part-time.

2.5 Austudy Payment

Austudy Payment is for people aged 25 and over undertaking approved study. Austudy Payment is subject to a personal income and asset test. Students are entitled to a $6000 Income Bank. Rent Assistance is not available to Austudy Payment recipients.

2.6 Student Income Bank

The student income bank is available to students on Youth Allowance and Austudy Payment who have an income free area of $6,000 in the form of an Income Bank. If a student earns less than $236 in a fortnight, their Income Bank is credited with the difference. Income earned between $236 and $316 reduces fortnightly allowance by 50 cents in the dollar. Income above $316 reduces payment by 70 cents in the dollar. However as the majority of students work during the semester so benefit from the free area fortnightly rather than accrue substantial credits in their Income Bank for vacation work. The Income Bank amount of $6,000 has not been indexed or updated since its introduction in 1998.

2.7 ABSTUDY

ABSTUDY is an income support payment for Aboriginal and Torres Strait Islander students undertaking approved school and tertiary courses. An income test is applied to students aged 16 or over and independent students under 16. A Parental Income Test, Family Asset Test and Family Actual Means Test applies to dependent students.

Table 1: Selected client numbers and expenditure on income support payments, 2003-04[9]

Payment type	Client numbers 2003-04	Expenditure in 2003-04
Youth Allowance	381,805	$2.3 billion
Newstart Allowance	483,093	$4.7 billion
Austudy Payment	35,026	$ .258 billion

[9] Department of Family and Community Services, *Annual Report*, 2003-04.

3. Young Australians – increased needs, reduced support

3.1 Independence delayed

Young people aged 15-24 make up approximately 11.4 percent of the total Australian population[10]. Today young people are remaining in education for longer and achieving economic independence at a later stage in their life. In the past, young people left home to start their own family or for work and training reasons. In contrast, young people of today are delaying home ownership and since the 1970s there has been a steady increase in the proportion of 20 to 24 year olds living in the parental home. Changes in social attitudes also have resulted in delayed marriage and childbirth. The proportion of young people getting married has fallen dramatically and the population growth rate has trended downwards since the 1970s[11].

3.2 Investment is essential to meeting the fiscal challenge of population ageing

This relatively recent phenomenon has a range of impacts, particularly in the context of Australia's ageing population. The ratio of people over 65 to those 15–64 will double over the next 40 years. This demographic shift will have significant impacts on the size of Australia's workforce, particularly in terms of revenue and expenditure. It is expected that pension costs will increase only slightly as a percentage of GDP. Most of the increased costs of an ageing population will be health-related, and driven primarily by newer technologies in the health care system. The Access Economics report *Population Ageing and the Economy* suggests that productivity improvements in the labour market are essential if Australia is to maintain and improve its standard of living in the future.[12]

In light of this, it is clearly important to have a labour force that is highly motivated, educated and skilled. Expanding the opportunities for young people today will place Australia in a better position to meet the challenges of an ageing population and help to at least partially offset the associated additional costs. Increasing the capacity of the future labour force will increase future revenues and reduce future outlays overall, but especially among the working age population.

Increasing young people's participation in the future economy will positively affect their ability to contribute to future revenue. Young people should be encouraged and assisted to increase their skills and education credentials. A key step to improving Australia's human capital resources involves encouraging young people to begin and complete tertiary education and supporting them whilst they are enrolled. In a similar way, unemployed young people should be encouraged to undertake training to increase their skills, qualifications and future productivity. Investment in the education, training and employment prospects of Australia's young people is an essential component of meeting the emerging fiscal challenge.

3.3 Young Indigenous Australians

Aboriginal and Torres Strait Islander people aged 15-24 make up approximately 3.2 percent of the total Australian population[13]. While Australia faces an aging population, this trend is completely reversed for Indigenous people. Forty percent of Indigenous Australians are currently under the age of 15. This means that young Indigenous Australians will make up a larger proportion of all young people over the next two decades[14]. These Indigenous

[10] Australian Bureau of Statistics (ABS), *Census*,. 2001.
[11] Access Economics, *'Population Ageing and the Economy'*, Commonwealth of Australia, January 2001. Available online at: www.health.gov.au
[12] Access Economics, ibid.
[13] Australian Bureau of Statistics, *Population Characteristics, Aboriginal and Torres Strait Islander Australians*, catalogue no. 4713.0.
[14] Dusseldorp Skills Forum, '*How Young People are Faring*: Key Indicators 2003', Monash University - ACER, Centre for the Economics of Education and Training. Available online att: www.dsf.org.au

Australians are particularly vulnerable to hardships and face a significant risk of disengaging from education and training[15].

Indigenous students have poor Year 11 and 12 education retention rates. Nearly 70 percent of non-Indigenous teenagers are still at school, compared with only 45 percent of Indigenous teenagers. Many Indigenous early school leavers are not moving into full-time work. The proportion of Indigenous teenagers aged 15 to 19 who are not fully engaged in work or education is three times that of non-Indigenous young people.[16] The ACER longitudinal survey data[17] found Aboriginal students to be *the most* educationally disadvantaged group in terms of entry into higher education. There is an urgent need to equalise opportunities between young Indigenous Australians and the overall population.

According to Centrelink data, around half of young Indigenous adults receive income support, compared with around 23 percent of non-Indigenous young people.[18] If income support is adequate and suited to Indigenous people's needs, it could improve their long-term education and employment opportunities.

3.4 Increasing levels of financial dependency among young people

Financial dependency of young people on their parents has increased substantially since the 1960s. Young people today are less likely to earn incomes sufficient to enable them to be financially independent.[19] The proportion of dependent 15 to 17 year olds increased by 17 percent in the period 1982 to 1996. For 18 to 20 year olds, dependency increased by 24 percent. The main reasons for this are the increased participation in education and lower employee incomes[20].

The Social Policy Research Centre (SPRC) recently examined the shift away from financial independence. It defined a young person as *dependent* if benchmark income less independent income was greater than zero. The benchmark used was the updated 1997 Henderson Poverty Line. Independent income describes total income including income from Government allowances, less income received from parents. It is argued that dependence has increased over time and that the proportion of young people with personal incomes lower than the poverty line has increased. More specifically, the SPRC found that in 1995/96 an extra 12 percent of young people were being supported by their families, or were having to survive on incomes lower than the Henderson Poverty Line, compared with 14 years earlier.

The SPRC found that full-time tertiary students in particular now experience high levels of dependency. It is estimated that over 90 percent of students are dependent.[21] That is, without income supplement from their parents, 90 percent of tertiary students would be placed below the Poverty Line. If parents cannot afford to support their adult children, students must rely on minimal Social Security payments to cover their costs of living. If these are inadequate, students may be forced to leave or defer their full-time study and increase their employment.

According to the SPRC study, it is less likely today that a young person working full-time would earn enough to live independently. This is because over the past 20 years, junior wage rates have declined on average, as a proportion of male average weekly total earnings. People under 21 who work full-time and who are not paid at the adult rate for their occupation, earn less on average than 20 years ago (when indexed to MTAWE). In the early 1980s it was rare for any full-time employee, regardless of their age, to be dependent (according to the

[15] ABS Yearbook Australia Statistics, 2003, quoted in Commonwealth of Australia, '*Living Choices: The Australian Government's Commitment to Young People.*
[16] Ibid.
[17] ACER, 'Entering Higher Education in Australia, *Longitudinal Survey of Australian Youth Briefing,* No .6, January 2003.
[18] Dusseldorp Skills Forum, op. cit.
[19] Schneider J. '*The Increasing Financial Dependency of Young People on their Parents'*, op. cit.
[20] Schneider J. '*The Increasing Financial Dependency of Young People on their Parents'*, ibid.
[21] Schneider J. '*The Increasing Financial Dependency of Young People on their Parents'*, ibid.

SPRC definition). Yet in 1999, it was estimated that[22] 65 percent of all full-time employees aged 15 to 17 years were dependent.

3.5 Young people in hardship

According to the 2004 United Nations Development Report, Australia has the highest levels of poverty among the highly developed nations, after the United States of America. Fourteen percent of Australians are living below the poverty line[23]. Conservative estimates by Mission Australia indicated that 145,000 young Australians aged 15 to 24 years were living in poverty during 2000. It is estimated that half of the young people who were living in poverty were living with their parents[24].

Poverty has many dimensions and there is no universally accepted measure for poverty. In developed countries like Australia, it is most appropriate to describe poverty in *relative* terms. Poverty is not just about material deprivation. It is also about being unable to fully participate in Australian society. Young people in financial hardship often experience community isolation and exclusion from their inability to take part in everyday social activities. In the longer term, poverty limits a young person's education and employment opportunities. A lack of self-esteem is a key problem relating to poverty, yet some young people are remarkably resilient:

"Staff who work in Mission Australia's youth services often find that young people in significant financial hardship do not necessarily call themselves 'poor'. Instead they may say things like 'I've missed the rent... or the electricity has been cut off for the second time'."

Mission Australia 2004, p. 3[25]

Homelessness is one dimension of poverty that particularly affects young people. It usually involves frequent moving and unsafe living conditions. Mission Australia reports that in 2001, nearly 50 percent of all homeless people in Australia were under the age of 25. Young people who are most at risk of becoming homeless are those belonging to low income families, wards of the state and young people reliant on step-families for financial support.[26]

3.6 Understanding poverty measurement

The Australian Bureau of Statistics[27] calculates relative poverty by ranking families according to levels of equivalent income. A poverty line is then drawn at some point in the distribution and if a household's income is below that line, then it is said to be in poverty. Of course the level at which the poverty line is drawn is subjective and the number of people in poverty can be greatly affected by small changes in the level of the poverty line. This is due to the tendency for incomes to be clustered. For instance when Social Security payments are very close to the poverty line, slight changes in either will markedly alter the number of people deemed to be living in poverty.

Poverty is not however a threshold event. Certainly if someone has more money, they are better off. Yet it's unrealistic to say that if a person receives one dollar more than the poverty line, then they are not poor. Poverty is a continuous phenomenon. It follows that discussion involving young people in hardship should include those living near to the poverty line as well as those living below it.

The Henderson Poverty Line is a widely used measure for relative poverty. There has however been substantial community debate over its use and in particular, whether its

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[22] Schneider J. *'The Increasing Financial Dependency of Young People on their Parents'*, ibid.

[23] Poverty line based on 50 percent of median income.
United Nations Human Development Report, 2004. Available online at: http://hdr.undp.org/reports/global/2004/

[24] Mission Australia, *Poverty Fact Sheet: Children and Young People in Australia*, 2004.
Can be found online at: www.missionaustralia.com.au

[25] Mission Australia 2004, ibid.

[26] Schneider J. *'The Increasing Financial Dependency of Young People on their Parents'*, op. cit.

[27] Australian Bureau of Statistics, *'Poverty and Deprivation in Australia'*, Year Book Australia 1996, catalogue no. 1301.0.

quarterly revisions are relevant to Australian society. Initially developed in 1966, the Henderson Poverty Line has been updated quarterly in line with the seasonally-adjusted household disposable income per person. It is regularly used by the Australian Bureau of Statistics, ACOSS and the Brotherhood of St Lawrence to assess Government policy[28].

In our analysis, the Henderson Poverty Line provides a normative benchmark for the adequacy of Social Security payments. A weakness of the Henderson Poverty Line is its broad definition of income groups and its lack of attention to the age of the people within each group.

Despite this, the Henderson Poverty Line is still the most recently updated poverty indicator relevant to our purposes. There is little doubt that Australians living near or below the Henderson Poverty Line are struggling to make ends meet on very limited incomes. While many of these people are in dreadful situations, the issue is rarely one of survival. The concern is that they experience a standard of living that is well below that enjoyed by most Australians. Poverty in the context of young people is particularly devastating due to its long term implications for the person involved and for society as a whole.

3.7 Income support payments and the Henderson Poverty Line

A comparison of income support payments with the relevant Poverty Line for various Social Security payments is set out in Table 2.

Table 2: Income support payments and Henderson Poverty Line comparison

INCOME UNIT		SOCIAL SECURITY PAYMENT	TOTAL PAYMENT $ per week	POVERTY LINE $ per week	% BELOW POVERTY LINE
A	**Single unemployed adult**	Newstart Allowance + Rent Assistance	245.70	317.61	**23%**
B	**Single, independent full-time, student 16 to 24 years**	Youth Allowance + Rent Assistance	211.65	317.61	**33%**
C	**Single independent full-time student 16 to 24 years**	Youth Allowance + sharers' rate of Rent Assistance	195.52	317.61	**38%**
D	**Single, dependent student 18 to 24 years**	Youth Allowance	107.45	213.75	**50%**
E	**Single adult student over 25 years**	Austudy Payment	163.25	317.61	**49%**
F	**Pension (single)**	Pension + Rent Assistance	283.75	257.53	**10% above**
G	**Pension couple (each)**	Pension + Rent Assistance	242.20	182.40	**33% above**

[28] Saunders P. '*Welfare and Inequality: National and International Perspectives on the Australian Welfare State*', Cambridge University Press, 1994.

Assumptions:

A. Newstart Allowance: single unemployed adult aged 21 or over. The recipient lives alone and receives the maximum rate of Rent Assistance. The relevant Henderson Poverty Line is the single person, "head in workforce" unit. Housing costs are included.

B. Youth Allowance: single full-time student aged 16-24 years. The recipient is assumed to be independent and thus receives the "independent" Youth Allowance rate. The recipient is assumed to live alone and received the maximum rate of Rent Assistance. The relevant Henderson Poverty Line is the single person, 'head in workforce". Housing costs are included.

C. Youth Allowance: single full-time student aged 16-24 years. The recipient is assumed to be independent and thus receives the "independent" Youth Allowance rate. The recipient is assumed to live in a shared household and received the maximum rate of Rent Assistance for "sharers". The relevant Henderson Poverty Line is the single person, "head in workforce". Housing costs are included.

D. Youth Allowance: single full-time student aged 18-24 years. The recipient is assumed to be dependent and thus receives the "at home" Youth Allowance Rate. The recipient is ineligible for Rent Assistance. The relevant Henderson Poverty Line is the single person, "head in workforce". Housing costs are not included as it is assumed the person lives in the parental home.

E. Austudy Payment: basic rate for single person undertaking qualified study. The student is aged 25 years or over. Austudy Payment recipients are ineligible for Rent Assistance. The relevant Henderson poverty line is the single person, "head in workforce". Housing costs are included.

F. Age Pension: basic rate for a single person. The person may also be eligible for a Pensioner Concession Card although we do not include these benefits here. The person is assumed to live alone and receive the maximum rate of Rent Assistance. We assume the Age Pension recipient is not working nor looking for work. The relevant Henderson Poverty Line is the single person, "head not in workforce". Housing costs are included.

G. Age Pension couple: basic rate for each person. The person may also be eligible for a Pensioner Concession Card although we do not include these benefits here. The person is assumed to live with their partner and receive the maximum rate of Rent Assistance for couples. We assume the recipient is not working nor looking for work. The relevant Henderson Poverty Line calculated by dividing the "couple", "head not in workforce" income unit by two. Housing costs are included.

Notes:

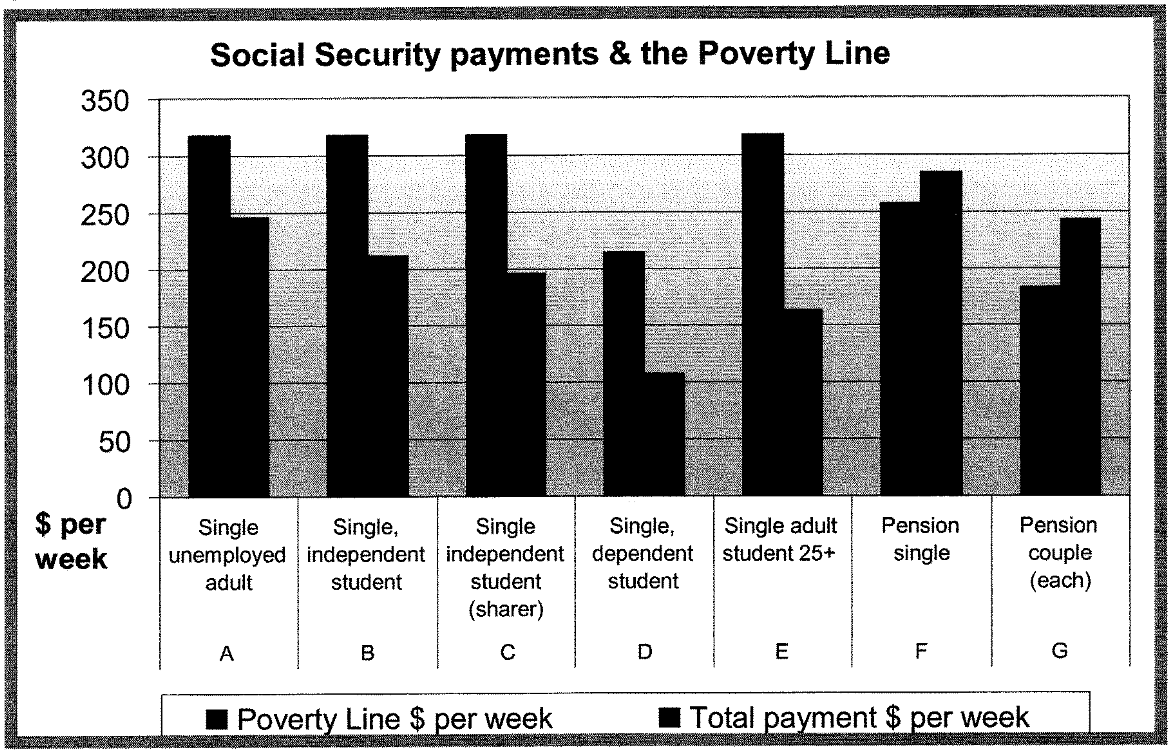
In this analysis, poverty is measured indirectly, via the cash income resources available to people to purchase goods and services. The Poverty Line refers to the Henderson Poverty Line for the September quarter 2004, released in February 2005[29]. More specifically, the Henderson Poverty Line estimates the amount of money that a person needs to maintain a minimum standard of living. Housing costs are included unless specified. The poverty line refers to a single person in all cases except for the Age Pension couple rate where the poverty line is calculated by dividing the poverty line for a couple "head not in workforce" by 2.

The "head in labour force" Poverty Line assumes the individual or family member receiving income support payments is either working, looking for work, doing employment related study or volunteer work.

In Figure 1 (over page), each income support payment is compared to the relevant poverty line. The income units A, B, C, D, E, F, G correspond to Table 2.

[29] Melbourne Institute of Applied Economic and Social Research, *Poverty Lines Australia*, September Quarter 2004, February 2005.

Figure 1: Income support payments and the Henderson Poverty Line



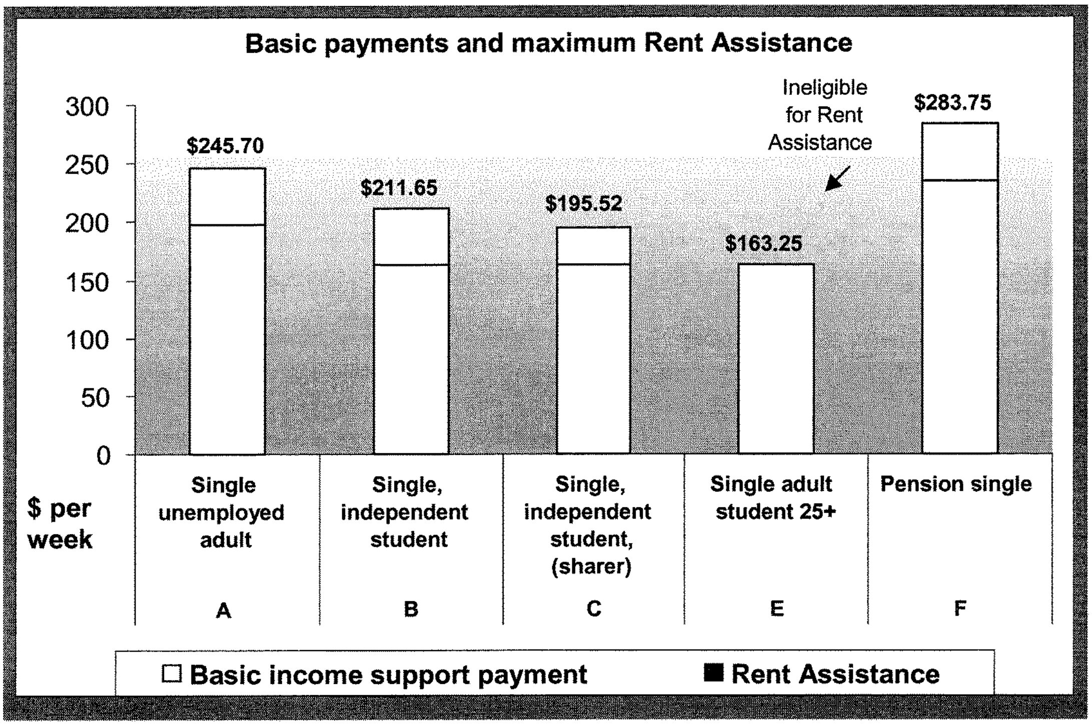
According to this analysis, pension level payments place single recipients 10 percent **above** the Poverty Line whilst those who are a member of a couple are 33 percent above the Poverty Line.

However, Youth Allowance students aged 16 to 24 years who live away from home are 33 percent **below** the Poverty Line while single Youth Allowance students aged 18 to 24 years who are dependent, are 50 percent below the Poverty Line. It is possible that these students live at home and receive income or other "in kind" support from their parents which would raise their standard of living.

Adult students receiving Austudy Payment are 49 percent below the Poverty Line. These adult students receive a total weekly payment that is substantially less than all other Social Security payments. The main reason for this is that Austudy Payment recipients are not eligible for Rent Assistance. As a consequence, Austudy Payment recipients receive $32 per week less than independent 16 to 24 year old students. Further, it is unlikely that these students who are 25 years and over, can rely on parental support to meet their costs of living.

The effect of Rent Assistance on the total payments received by Social Security recipients is presented in Figure 2.

Figure 2: Weekly income support payments and Rent Assistance



Recommendation:

That Youth Allowance rates be increased:

- to ensure that the at home rate is at least equivalent to the FTB rate, and
- the independent rate is at least equivalent to the Newstart Allowance rate.

3.8 Young people and housing costs

The proportion of young people living at home has increased over the last two decades. In 1980, 85 percent of 15-19 year olds and 38.3 percent of 20-24 year olds were living at home. By 2000, 88 percent of 15-19 year olds and 45.5 percent of 20-24 year olds were living at home. Of those who do move out of home, greater proportions of them now live in shared household arrangements than in the past. In 1980, 26 percent of young people lived alone and 18 percent were in shared arrangements. By 2000, only 9 percent lived alone while 39 percent lived in shared arrangements[30]. Increased rental costs combined with young people's low incomes are a likely cause for this shift in living arrangements.

The main issue for young people living away from home is their high dependence on the private rental market, in the context of a low fixed income. In the private rental sector, the availability of low cost housing is a major problem, particularly for tertiary students whose education institutions tend to be located in inner urban areas.

Yates and Wolff[31] use Census data to examine the decline in low cost rental dwellings over the period 1986-1996. While private rental stocks increased by 34 percent, not one single low cost dwelling was added to the rental stock in this period. Low cost stock is defined as private rental dwellings with rents less than $100 a week (in 1996 dollars). In 1986 low cost stock represented 26 percent of total rent stock Australia-wide. By 1996 low cost stock represented only 14 percent of total stock.

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[30] Australian Bureau of Statistics, *Labour Force Statistics and Other Characteristics of Families*, catalogue no. 6224.0

[31] Yates J. and Wolff M, '*W(h)ither Low Cost Private Rental Housing*?',in Urban Policy and Research, vol. 18, no. 1 pp. 45-64, 2000.

Rental costs are currently rising much faster than CPI adjustments to Youth Allowance, Austudy Payment and ABSTUDY.[32] There is a limited stock of cheaper rental options available and high accommodation costs will significantly increase young people's costs of living. According to ACOSS/National Shelter, nearly all students living in share households near to educational institutions were paying over 50 percent of their total incomes, including part-time earnings, in rent[33].

According to the Australian Housing and Urban Research Institute young people pay a large proportion of their income in rent. As young people's incomes tend to be low to begin with, this leaves them little money to live on, let alone meet the costs of studying. Young people often choose to live in group households to save costs. Eight percent of young people living in share or group households still pay over 50 percent of their income in rent. Of those living alone, two thirds pay over 25 percent of their income in rent, while one third pay over half their income in rent. Paying over 50 percent of income on rent is defined as severe housing stress by housing researchers. Most Australians (75 percent) spend less than 25 percent of their income in rent[34].

Eligible students who share accommodation receive rent assistance at a lower rate (the "sharer's rate"). If there are financial benefits due to economies of scale between sharers, they do not benefit young people affected by the "sharers rate" of Rent Assistance. In addition to this, it's likely that certain economies of scales available to family households may not be available to unrelated persons living in a share household.

Recommendation:

The Department of Family and Community Services undertake research into the extent that economies of scale exist for unrelated people sharing accommodation.

3.9 Rent Assistance - the key to participation in study

A study commissioned by the Department of Family and Community Services (FaCS) reports that 66 percent of survey respondents eligible for Rent Assistance (RA) considered that getting RA was a significant factor in their decision to study. Entitlement to Rent Assistance was especially important for young people from rural and remote areas, where over three-quarters nominated RA as a significant factor in their decision to study. Despite this positive evidence, Austudy Payment recipients are not eligible for RA.[35]

Over half of these FaCS survey respondents "agreed" or "strongly agreed" that RA enabled them to reduce their work hours and concentrate on their studies and nearly three quarters agreed that it helped them continue with their studies.

According to longitudinal surveys detailed in the same report, Youth Allowance was not enough to make a young person financially independent, especially if they had to relocate. The majority opinion was that Rent Assistance increased people's choices and had a positive influence on their lives. For respondents who felt that Rent Assistance meant the difference between coping and not coping, the majority were students. Written comments to the survey indicated that assistance with housing costs is a critical determinant in young people's decisions to start or continue studying[36];

"Without it I couldn't survive. The payments I receive supply the bare minimum I need to live."

"Without it I would not be studying."

[32] McInnis C. Hartley, R., Polesel, J. and Teese, R., *'Non-Completion in Vocational Education and Training in Higher Education: A Literature Review'*, commissioned by the Department of Education, Training and Youth Affairs, Centre for Higher Education, The University of Melbourne, 2000.
[33] ACOSS/National Shelter, '*Rent Assistance: does it deliver affordability?*', September 2003.
[34] Australian Bureau of Statistics, *Australian Housing Survey - Housing Characteristics, Costs and Conditions.* 1999.
[35] Burke T., Ewing S. & Pinkney S., *Rent Assistance and Young People's Decision-Making*, Australian Housing and Urban Research Institute (AHURI), Swinburne-Monash Research Centre, January 2002.
[36] Burke T., Ewing S. & Pinkney S, ibid.

Recommendation:

That Rent Assistance be extended to Austudy Payment recipients.

That the "sharer's rate" of Rent Assistance be increased to the standard rate.

3.10 Youth Allowance and the Parental Income Test

From July 1998 the Parental Income Test was extended to Youth Allowance received by 16 to 24 year olds. Under the new arrangements, job seekers under 21 years and full time students under 24 years who are eligible for Youth Allowance are now subject to the Parental Income Test unless they are deemed independent. This extension of the Parental Income Test does reflect socio-economic trends as more young people are relying on their parents longer and leaving home later in life. However it assumes that parents who earn over a certain amount *can* afford to support their adult children, *and that they are willing to do so.*

There is concern that the Parental Income Test is too low. It is currently almost $4,000 lower than the threshold for Family Tax Benefit. Under the current system, families surviving on incomes only marginally above the Henderson Poverty Line are ineligible for Youth Allowance unless the young person can prove independence. The combined parental income threshold of $28,850 is only 8.6 percent higher than the relevant poverty line (calculated for a couple with head in workforce, plus one dependent child).

The Henderson Poverty Line is likely to *under*estimate the income required to support families with *older* children for two reasons. Firstly, the use of Henderson equivalence scales. These scales estimate the income required to meet the basic needs of families of different sizes and compositions. As a result, the needs of dependent children of different ages are generalised. This report finds that the costs of living rise considerably with the age of the young person. Secondly, the Henderson Poverty Line estimation is in terms of disposable income, while the Parental Income Test considers gross income and does not take account of parental debts.

Youth Allowance for families with one dependent child under 18 living at home, is $89 per week if the gross family income is less than $28,850. The students' income payment declines by $1 for every $4 over the threshold, and cuts out completely when gross family income reaches around $47,000. For example, if the family income is $37,000 then Youth Allowance is reduced to just $50 per week. Table 3 compares the Youth Allowance income test with that for Family Tax Benefit and shows the impact these different income tests have on payments to families. The impact is such that with a gross annual family income of $50,000 a family with a 15 year old receiving Family Tax Benefit will still receive $21 per fortnight while a family with a 16 year old eligible for Youth Allowance would not receive any Youth Allowance.[37]

These low rates of payments lead to a drop in household income at the same time as costs increase with older teenagers. This can make it difficult for young people to sustain full-time study. The *Family Responses to Youth Allowance Survey* commissioned by FaCS[38] indicated that:

"families earning less than $40,000 a year, despite the assistance they are already receiving, often feel they need extra financial assistance to support their children, particularly if their children are full-time students."

FaCS also reported that:

"In all the community consultations, service providers and community groups saw the Parental Income Test thresholds, 'cut-outs' and sibling concessions as 'unrealistically low'."

[37] The young person is assumed to be single and dependent. The Parental Income Test is applied to the "at home" Youth Allowance payment, as set out in Centrelink, *A Guide to Australian Government Payments*, January 2005.
[38] Department of Family and Community Services (FaCS), *Youth Allowance Evaluation Final Report,* December 2001. Available online at www.facs.gov.au.yae/index.html

Middle-income families who were just over the means threshold found the Parental Income Testing to be a problem, according to the FaCS report. Often these "borderline" families cannot afford to support a young person in the city or can afford to support only one at the expense of the other siblings. The Parental Income Threshold was also seen to be particularly harsh on those families whose children have to relocate in order to attend university and college.

Table 3: Anomalies in payments to younger and older children

Gross Family Income ($ per annum)	Family Tax Benefit 13 – 15 years ($ per week)	Youth Allowance under 18 years ($ per week)	Youth Allowance over 18 years ($ per week)
25,000	84.70	**89.35**	107.45
30,000	84.70	**83.82**	101.92
35,000	75.03	**59.78**	77.88
40,000	55.80	**35.74**	53.84
45,000	36.57	**11.70**	29.8
50,000	21.49	**0.00**	5.77
60,000	21.49	**0.00**	0.00
80,000	21.49	**0.00**	0.00
85,000	15.00	**0.00**	0.00

In order to support themselves through university, many students require the higher Youth Allowance rate paid to students assessed as independent, rather than the dependent rate. This forces students to delay their entry into university until they can earn sufficient income to establish their independence. Access to tertiary education for these young people depends heavily on parents' resources and the result is that many students are not proceeding directly from school to university. Research by the Monash Centre for Population and Urban Research[39] shows that students are delaying their entry into university in increasing numbers. The data which is based on Centrelink figures shows that between 1998 and 2001, full-time enrolments by 21, 22 and 23 year olds, increased by 11, 15 and 12 percent respectively. Yet enrolments by 19 year olds increased by only one percent over the same period.

Recommendation:

The Parental Income Test be increased to the Family Tax Benefit income test threshold, as a first step and that research be undertaken to assess the impact of the Parental Income Test on families and on young people's decisions about study.

That the age of independence be lowered from 25 to 21 years.

3.11 High effective marginal tax rates

Many families are being "triple taxed" on the receipt of additional income, losing 60 to over 100 percent of each additional dollar earned above their benefit. When two or more Social

[39] Birrell B., Rapson V., Dobson I. R., and Smith T. F, *Higher Education at the Crossroads,* Centre for Population & Urban Research, Monash University, 2003.

Security payments are received, for example Family Tax Benefit, Youth Allowance and Child Care Benefits, income tests stack-up, creating punishingly high effective marginal tax rates (EMTRs). The result is that many families receiving income support payments have EMTRs that are far higher than those paid by Australia's highest income earners. ACOSS[40] reports that 20 percent of workers in married couple families and 50 percent of sole parent workers lose over 60 cents of every extra dollar earned above their benefit. This can hinder moves towards self-reliance by discouraging the affected persons from seeking additional employment and can also act as a disincentive which can negatively impact upon a young person's decision to undertake study.

The McClure report[41] identified the problems of high EMTRs, particularly for families with children entitled to the Family Tax Benefit when another child turns 16. Disposable income may fall as private income rises, creating poverty traps for low income families.

3.12 The lack of relevant information on the costs of living for young people

"...we study poverty because it is bad – bad for adults, bad for children and bad for society. We study poverty in order to reveal it, to understand it, to explain it, and to encourage and assist, both by direct and indirect means, policy makers to do something about solving it."

Bradshaw J. (1992)[42] p. 6

The average indexation of Youth Allowance and Austudy Payment for 2002-2004 was 2.7 percent[43]. This increase is based upon the general cost of living increase, which may not be relevant for all population groups whose payments are linked to price movements. This is because the prices for the "basket of goods" that form the bulk of students' living expenditure have increased above this. For instance basic foods such as vegetables and fruit increased 13 percent and 4.9 percent respectively, and urban transport fares increased 5.5 percent between the December 2003 quarter and March 2004 quarter. It is estimated that transport and food represent nearly 30 percent and 20 percent respectively, of the total living costs faced by 18 to 24 year olds[44].

There is currently a scarcity of data estimating the costs of living for young people 16 to 24 years of age. This age group is generally not covered by living expense surveys for children and they are universally neglected as an income unit in budget standards and Poverty Line benchmarks. The Social Policy Research Centre (SPRC) estimates budget standards for over 16 different household income units, yet the most relevant category for a young single person is a 'single female - 35 years'.[45] Clearly, this profile does not provide a meaningful assessment to be undertaken as to the costs of living for young people. Young people 16-24 years of age have very different lifestyles to single women in their mid 30s. The two groups will exhibit quite different income and expenditure patterns.

The most relevant research concerning annual living costs of children includes the NATSEM report '*Estimates of the Costs of Children in Australian Families*' which is based on the 1993-1994 ABS household expenditure survey. The report was prepared for FaCS and estimated the average annual costs by age for 0 to 17 year olds. More recently, NATSEM prepared *The Costs of Children in Australia Today,* which estimated parental expenditures on dependent

[40] ACOSS, 'Fairness and Flexibility: Reform of Workforce Age Social Security Payments in Australia', Paper 129, September 2003.
[41] Department of Family and Community Services (FaCS), P. McClure, *Participation Support for a More Equitable Society: Final Report*, Reference Group on Welfare Reform, 2000.
[42] Bradshaw J. (1992) '*Why and How do we study Poverty in Western Nations? Various Approaches to the Study of Poverty*', paper presented to the Multidisciplinary Research Conference on Poverty Distribution, Oslo, November 1992.
[43] ACOSS, '*Proposal for Reform to Student Income Support*', Submission to the Senate Employment, Workplace Relations and Education References Committee's Inquiry into student income support, June 2004.
[44] Percival R., Harding A., op. cit.
[45] Social Policy Research Centre, *Budget Standards Indicative Research*, commissioned by the Department of Social Security, 1996.

children 0 to 15 years and full-time students 15 to 24 years who live at home, which is examined in this report.[46]

While there remains a shortage of research relating to older teenagers and young adults, in particular, there is a lack of data estimating the costs of living for young single individuals living in shared households. Rent Assistance payment rates assume there exist economies of scale for these larger households, and Rent Assistance payments are lower for those living in group households. However it is likely that many economies of scale and savings that may be available to related couples and families are not available in group households of unrelated individuals.

The absence of research into the costs of living for young people is of significant concern and there is a great need to improve the knowledge base that informs debate and policy concerning young people in Australia.

Recommendation:

That the Australian Bureau of Statistics compile exploratory data on costs of living for young people, and that the Social Policy Research Centre include a relevant profile of a younger person in any updates to its examination of Budget Standards measures.

[46] Percival R., Harding A., op. cit.

4. Social Security payments – for young people

The significant problems with the indexation of Social Security payments are documented and analysed in this section.

Youth Allowance, Austudy Payment and ABSTUDY are only indexed once a year; the income free area has not been indexed for almost 30 years, and the single rate of Newstart Allowance hovers precariously close the couple rate of pension. Pension payments increase in real terms twice each year, but payments to young people whither on the vine. These issues are outlined below.

4.1 Indexation woes - young people shortchanged

The current indexation provisions for Social Security payments are listed below in Table 4

Table 4: Comparison of indexation arrangements for the main Social Security payments

Youth Allowance, Austudy Payment and ABSTUDY	Newstart Allowance	Pension payments
Indexed once a year in line with the annual CPI increase.	Indexed twice a year in line with the six month CPI increase.	Indexed twice a year in line with MTAWE or the six month CPI increase (whichever is greater).
Indexation occurs every 12 months;	Indexation occurs every six months;	Indexation occurs every six months;
1 January indexation is linked to June of the previous year. An "indexation lag" of up to 18 months can apply.	20 March indexation is linked to six month CPI increase from the July-December period.	20 March indexation is linked to the previous July-December period.
	20 September indexation linked to the six month CPI increase from the January-June period.	20 September indexation linked to the previous January-June period.

4.2 Impact of different payment indexation formulae

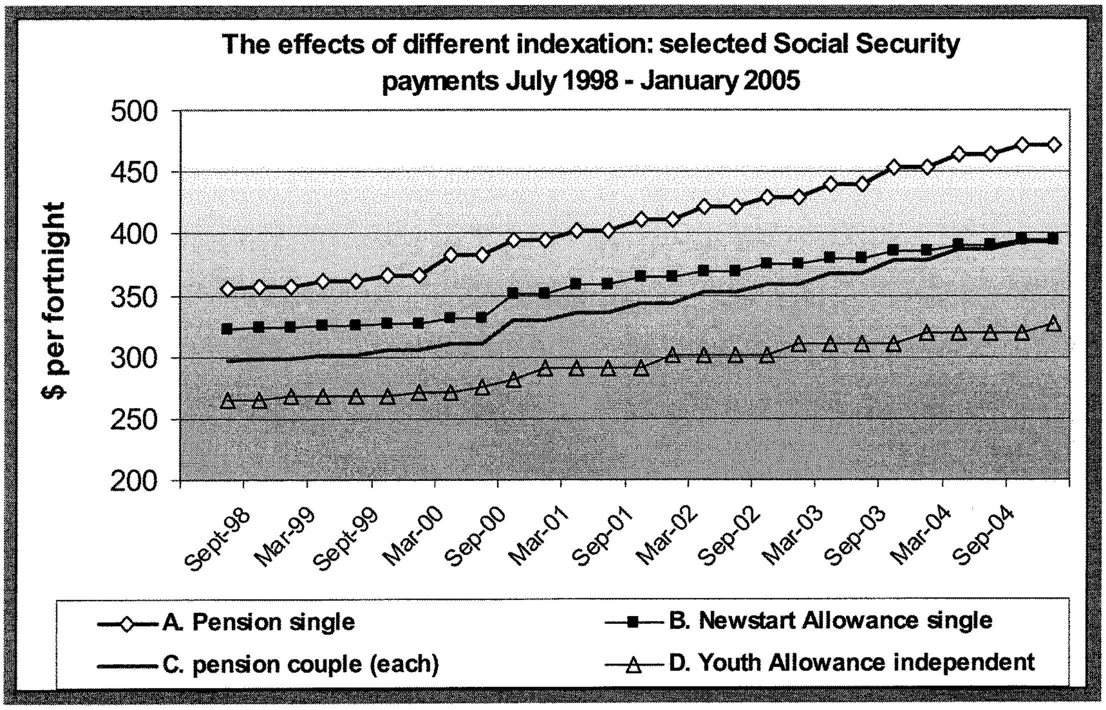
As a result of the different indexation methods, Youth Allowance, Austudy Payment and ABSTUDY are less responsive to changes in cost of living increases relative to other Social Security payments. The growing divergence between pension payments and Youth Allowance, Austudy Payment and ABSTUDY is primarily a result two factors. Firstly, Youth Allowance, Austudy Payment and ABSTUDY are not indexed to wages growth, through MTAWE. Recently in Australia, average weekly earnings have risen at a faster rate than the Consumer Price Index[47],[48]. Pension payments have been kept in line with MTAWE and/or the CPI whichever is the higher, while the rates of Youth Allowance, Austudy Payment and ABSTUDY, like Newstart Allowance rates, have fallen further and further behind. This is unsustainable over time.

[47] Australian Bureau of Statistics, *Consumer Price Index, All Groups*, March Quarter, 2004, catalogue no. 6401.0
[48] Australian Bureau of Statistics, *Average Weekly Earnings*, catalogue no. 3602.0

The divergence of payment rates is also due to Youth Allowance, Austudy Payment and ABSTUDY being updated less frequently than other payments. While an 18-month indexation lag can occur with Youth Allowance, Austudy Payment and ABSTUDY, pension payments and Newstart Allowance are indexed twice each year and recipients receive compensation for price increases closer to the actual period of price increase. The effects of these different indexation arrangements are presented in Figure 3 which covers the period from July 1998 to January 2005[49]. Throughout this period, Social Security payments increased at different rates due to the different indexation arrangements. Pensions are the only payments that are indexed to increases in MTAWE. As a result pension payments experienced the highest growth over the period.

Youth Allowance, Austudy Payment and ABSTUDY are indexed annually in January, unlike the other income support payments which are indexed every March and September. Throughout the period Youth Allowance, which has the lowest fortnightly payment rate, has had the smallest growth in payments. In July 1998, the independent Youth Allowance payment was $265 per fortnight. By January 2005 it had increased to $326 per fortnight - an increase of $61. In contrast, the single rate of pension increased by $116 per fortnight over the same period. The single rate of pension was $354 in July 1998 and reached $470 in January 2005. The change in payments from July 1998 to January 2005 is set out below for the pension rate (single), Newstart Allowance (single), pension couple rate (each), and Youth Allowance (independent). The effect of indexation is also shown in Figure 3, 4 and Table 5.

Figure 3: Impact of different indexation arrangements for selected payments

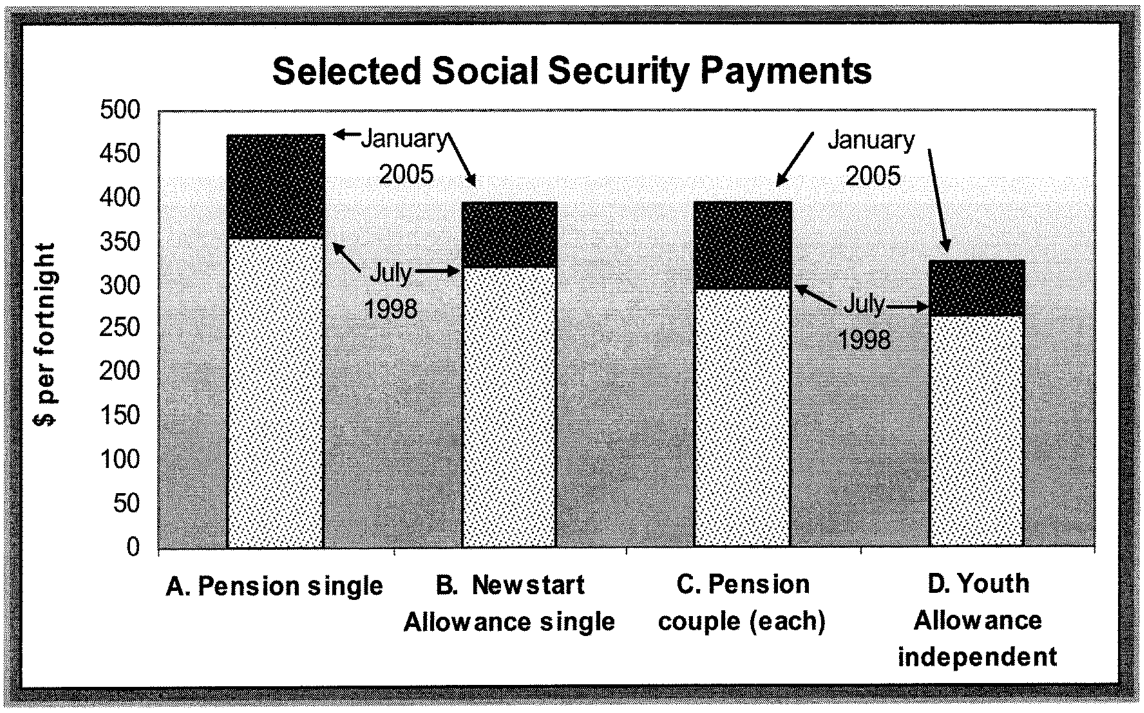


[49] Centrelink, *A Guide to Australian Government Payments*, January 2005.

Table 5: Indexation impact on fortnightly rates of selected payments - 1998 to 2005

DATE	Pension single	Newstart Allowance single	Pension couple (each	Youth Allowance independent
July 1998	$354	$321	$296	$265
July 2000	$383	$331	$310	$277
July 2002	$421	$369	$352	$301
July 2004	$464	$389	$387	$318
January 2005	$470	$394	$393	$326
Difference between July 1998 and January 2005 payments	**$116**	**$73**	**$97**	**$61**

Figure 4: Indexation impact on fortnightly rates of selected payments - 1998 to 2005



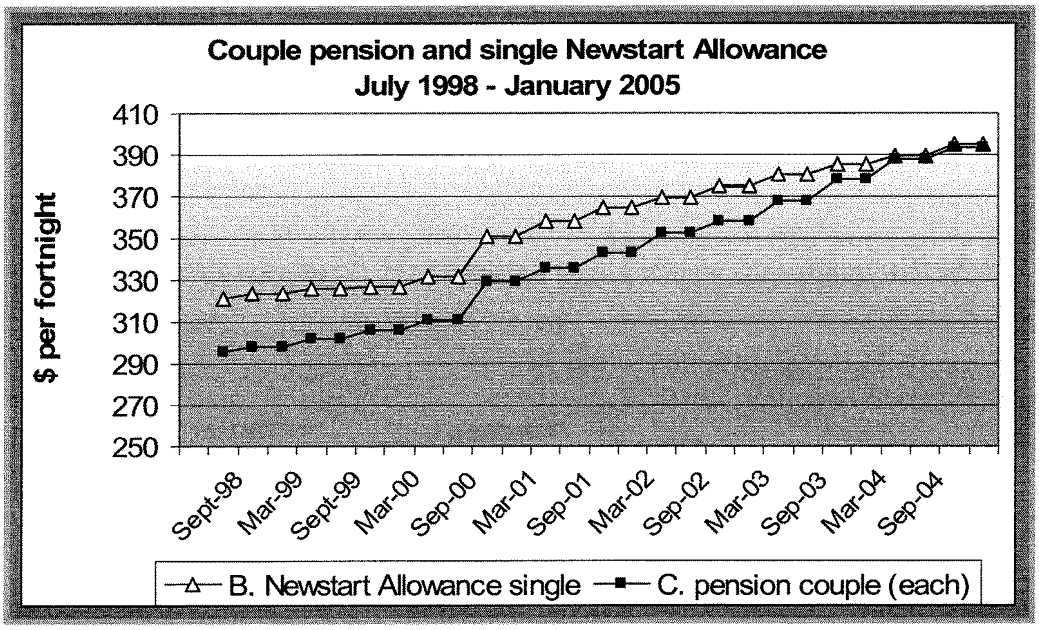
Current indexation arrangements are widening the differences between Youth Allowance and Newstart Allowance rates which can exacerbate current incentive problems. Some full-time students already receive significantly less than unemployed people, and this can act as a powerful economic disincentive to taking up or completing education or training.

4.3 Convergence of Newstart Allowance and pension rates

If indexation anomalies are not addressed, in 2005 the partnered pension rate will exceed the single Newstart Allowance rate. This will expose the indexation provisions as extremely inadequate and unfair.

Figure 5 highlights the unsustainable nature of different indexation arrangements in the existing Social Security system in Australia.

Figure 5: Convergence of pension couple rate and single Newstart rate



As a consequence of this difference in indexation, the couple rate of pension will overtake the single Newstart Allowance rate in 2005. In July 1998, the single rate of Newstart Allowance was $25.70 per fortnight higher than the couple rate of pension. In January 2005 the single rate of Newstart Allowance was just $1.60 per fortnight higher than the couple rate of the pension.

Social Security payments for members of a couple have typically been below the payment level for singles. The costs of living for a person who lives with a partner is typically less than the cost of living for a single person living alone[50]. It is reasoned by the Government that a couple living together experience certain economies of scale which are unavailable to single people. An unemployed person on Newstart Allowance must also meet the costs of looking for work. On this basis, it is unreasonable and lacking in logic for the couple rate of pension payment to exceed the single rate of Newstart Allowance.

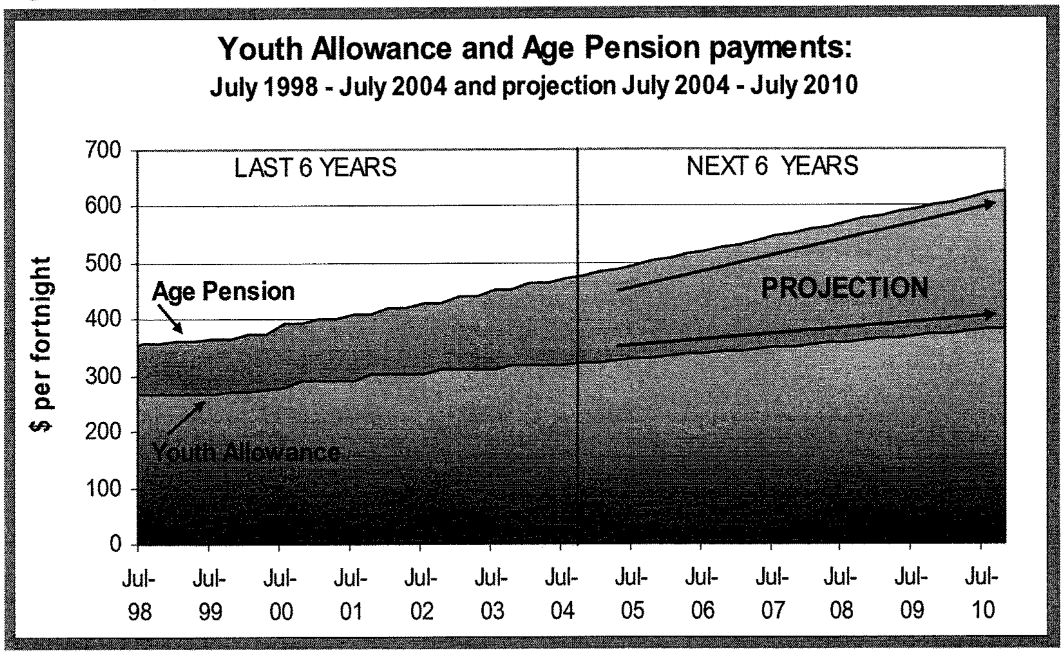
4.4 Pension rates bloom...while Youth Allowance withers

If Youth Allowance is to provide adequate support to enable young people to study or look for work, it is imperative that the rate of Youth Allowance is not just indexed to keep track of inflation, but linked to a benchmark that relates to community standards and expectations of decent living standards.

Figure 6 illustrates the growing divergence between Youth Allowance and the pension for the six years since Youth Allowance was introduced and projects the growth in the gap between these payments to 2010. The Youth Allowance payment is the independent rate for young people aged 16 to 24 years.

[50] Social Policy Research Centre, *Development of Indicative Budget Standards for Australia*, Research Paper Number 74, University of New South Wales, March Quarter 1998.

Figure 6: Projections of Youth Allowance and pension rates to 2010



In the last six years the single rate of pension has increased by 33 percent while the rate of Youth Allowance has increased by only 20 percent. We assume that MTAWE and the CPI will continue to grow at the same rate for the next six years, as they have for the last six years. To illustrate the effect of the different indexation arrangements, the current indexation methods are used.

As pensions are indexed to the MTAWE, they are likely to increase at a faster rate relative to the rate of Youth Allowance. In September 1998 single people on the pension received $91 more each fortnight than young people on Youth Allowance. By September 2004 this figure had risen to $145. It is projected that in September 2010 the single rate of pension will be $243 higher each fortnight than the rate of Youth Allowance.

These projections showing the growing financial gap between payments for young people and pension rates can be seen in Figure 6 and Table 6.

Table 6: Fortnightly Youth Allowance and pension rates to 2010

		Single rate pension (per fortnight)	Youth Allowance (single) (per fortnight)	Difference between pension and Youth Allowance(per fortnight)
	September 1998	$357	$265	$91
	September 2004	$464	$318	$145
Projection	September 2010	$626	$382	$243

Recommendation:

That the indexation method that applies to the pensions payment should be applied uniformly to all Social Security payments. That is, Youth Allowance, Austudy Payment, ABSTUDY and

Newstart Allowance should be indexed twice a year to MTAWE or the Consumer Price Index, whichever is the higher, in the same way that pensions are indexed.

4.5 Lack of indexation of the income free area for Newstart and Youth Allowance

One of the most significant anomalies in the Social Security system is that the Newstart and Youth Allowance income free area, i.e. the amount that a person can earn before their payments start to reduce, is not indexed to the Consumer Price Index (CPI). This is in contrast to the pension income free area, which is indexed on 1 July each year to the CPI. Partly as a consequence of this indexation, **the single pension income free area is currently $30 a week higher than the income free area for allowances.**

Apart from a $1 per week increase in July 2000 as part of the payments adjustments to maintain their value as a result of the introduction of the Goods and Services Tax, the last increase to the income free area occurred 29 years ago. **On 1 May 1986 the income free area for the single rate of Newstart was increased from $20 to $30 a week. At the time, the single rate of Newstart Allowance was $95 a week, with the income free area representing 22 percent of the payment. In January 2005, the single rate of Newstart Allowance is $197 a week, yet the income free area has remained unchanged and now represents just 15 percent of the payment.** In addition, the relative value of the payment has fallen dramatically, as can be seen in Table 7.

If the income free area had been indexed to the CPI for the last 29 years, the income free area would now be around $43 a week. This would be a substantial improvement, but is still $18 a week less than the single pension weekly income free area.

Table 7: Pension and allowance income free areas – 1985 - 2005

	Newstart Allowance		Pension	
Year	**Single rate (per week)**	**Income free area (per week)**	**Single rate (per week)**	**Income free area (per week)**
1985	$91	$20	$97	$30
1986	$95	$30	$102	$30
2000	$172	$31	$193	$56
2005	$197	$31	$235	$61

Recommendation:

That the allowance income free threshold be immediately restored to its 1986 equivalence and increased to $43 per fortnight and indexed annually according to movements in the CPI thereafter, as is the case with the pension income free area.

5. Costs of living for 16 - 24 year olds in Australia

5.1 NATSEM study

In 2003 NATSEM estimated the cost of children 0 to 24 years and found that the highest costs were for 18 to 24 year old students living with their parents. These students cost an average of $322 a week. This cost was $215 for low income families and jumped to $466 in high income families.

According to NATSEM, the cost of raising a child rises with the age of the child and with the level of family income. This is presented in Table 8. Estimated weekly costs include expenditure on housing, transport, recreation, food, clothing, child care and education (not including HECS debts).

Table 8. The average costs of a single child, estimated by age of child and family income[51]

				Age of young person		
	Average income	**0 to 4**	**5 to 9**	**10 to 14**	**15 to 17**	**18 to 24**
Level of income	$ per week	$ per week	$ per week	$ per week	$ per week	$ per week
Low income	567	55	98	130	213	215
Middle income	1,195	95	156	199	305	309
High income	2,426	167	255	315	458	466
Average	1,324	102	164	209	318	322

"Older children place a particularly heavy financial burden upon low income families."[52]

The NATSEM study found that 18 to 24 year olds have significantly higher food, recreation and transport costs than 15 to 17 year olds. When 18 to 24 year olds live at home, these higher costs are generally offset by lower furnishing and housing costs. This is because the NATSEM study assumes that most families purchase homes when their children are young. Therefore, in its analysis, average housing costs decrease with the age of the child and are actually negative for the 18 to 24 age group. That is, families with 18 to 24 year olds living at home, spend less on housing and furnishing, relative to families with children aged 15 to 17. The result is that the costs of living for students at home is approximately equal for the 15 to 17 age group and the 18 to 24 age group.

[51] All figures from the NATSEM 2003 report '*The Cost of Children in Australia Today*' by Percival R., Harding A. Low income families are defined as the bottom one-fifth of all couples with children. Middle income families are the middle one-fifth, and high income families are the top one-fifth of all couples with children. Families are ranked by their gross cash income and consist of a couple with one child.

[52] Percival R., Harding A. op.cit.

NATSEM found that the *proportion* of family income devoted to spending on children also increases with the childs' age. NATSEM reports that for low income families, the cost of a 0 to 4, year old single child as a proportion of total family income, is around 10 percent. However when the young person is 15-24, they will absorb around 38 percent of total family income. In contrast, the proportion of family income spent on older children tends to fall sharply as family income increases. In a high income family, the single 15-24 year old will absorb on average, less than 20 percent of total family income.

The NATSEM study finds that older teenagers cost *at least* twice as much as younger children, irrespective of family income.

Table 9. Average cost of children as proportion of family income, by age and family income

	Age of Child				
	0 to 4	5 to 9	10 to 14	15 to 17	18 to 24
Low income	10%	17%	23%	38%	38%
High income	7%	11%	13%	19%	19%

Despite this evidence, government financial assistance rises only minimally as a child grows older. Families who rely on Social Security payments struggle to cover basic costs such as accommodation, food, clothing and schooling. This can put pressure on teenagers to leave school early and can significantly reduce their chances of gaining skilled employment in the longer term.

5.2 Costs versus payment rates versus Henderson Poverty Line

The costs of children aged 15 to 17 and 18 to 24 are compared with Youth Allowance Payments in Figure 7 and Figure 8 respectively. The Youth Allowance rate is the dependent rate for each age group. Rent Assistance is not included because it is unavailable to dependent young people who live at home. The Poverty Line is specified for "head in workforce" and housing costs are included.

The data indicates that Youth Allowance is significantly less than the costs of living for either age group. Young people who rely on these income support payments are placed significantly below the Henderson Poverty Line.

Figure 7. Cost of living, Poverty Line and 15 – 17 Youth Allowance comparisons

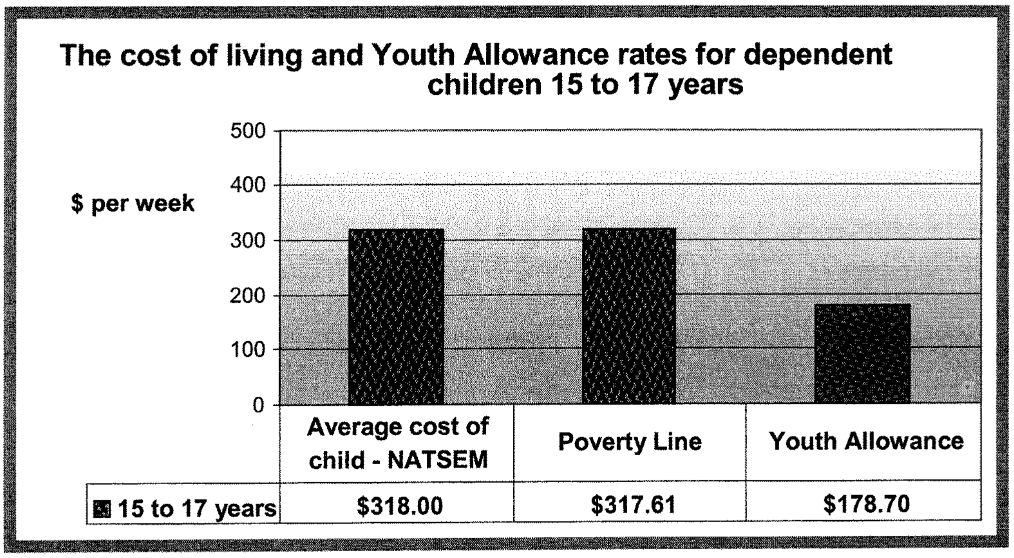
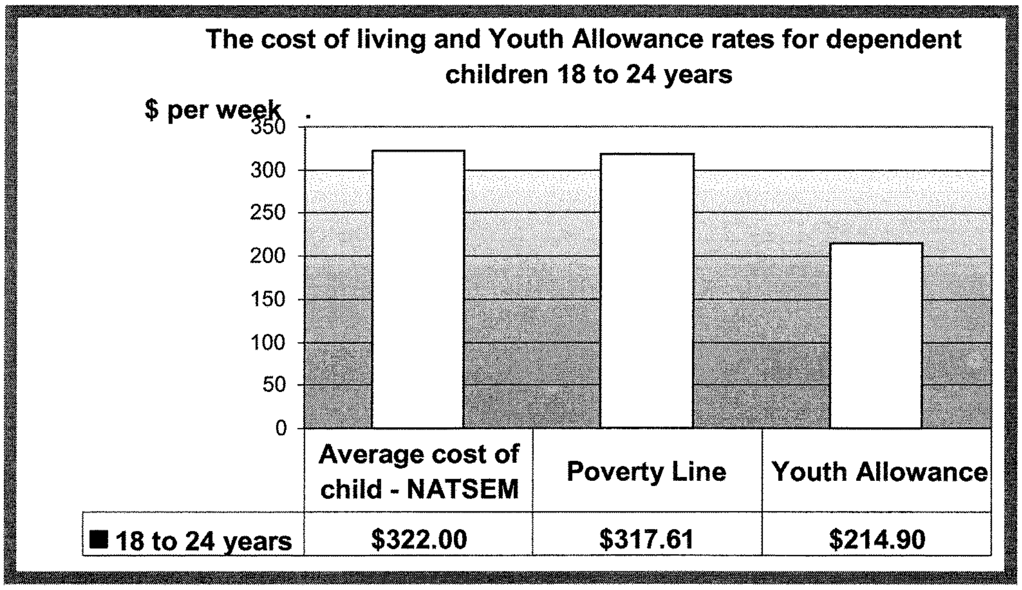


Figure 8. Cost of living, Poverty Line and 18 – 24 Youth Allowance comparisons



5.3 Family financial loss when youngest child turns 16

In many families there is a substantial drop in financial assistance once the youngest child turns 16. Household income falls as the family moves off one combination of benefits onto another. The effects are worst for lone parent families. The problem is exacerbated by the loss of Rent Assistance, which is payable with Family Tax Benefit (FTB), but not Youth Allowance. The parent will generally move from a pension rate to the lower Newstart Allowance rate. They may also loose the benefits available with the Pensioner Concession Card and must meet the costs of looking for work that are required under the arrangements of Newstart Allowance.[53] The dollar value of this card varies according to usage, but is estimated to be worth between $1,500 and $2,500 a year.

The drop in Rent Assistance occurs because families with dependent children who receive Family Tax Benefit Part A, are paid a higher rate of Rent Assistance than those without dependent children. This changes once the child turns 16.

This drop in household income support occurs precisely when the costs of raising the child are peaking.[54] NATSEM estimates that it costs $213 a week to raise a 16-17 year old in a low income family. Yet the maximum Youth Allowance payment for a 16 or 17 year old is $87 a week. This is not even half the minimum cost of raising a teenager of that age. In recent years, the financial loss when the youngest child turns 16 has worsened. In 1996 the drop in overall household income was around $6 a week. It is now over $50 a week. Based on current projections, it would be almost $90 a week by 2010.

The past, present and projected future drop in income support when the youngest child turns 16 is presented in Table 10 over the page[55]. Rent Assistance is not included.

[53] Centrelink, *A Guide to Australian Government Payments*, January 2005.
[54] Percival R., Harding A. op. cit.
[55] Due to the overlap of Family Tax Benefit with Youth Allowance as well as the different payments available under each benefit, all figures relate to approximations.

Table 10: Reduction in family income when youngest child turns 16, 1996-2010

Negative financial impact once the youngest child turns 16	
Year	loss per week
1996	$6
2004	$50
2010	$90

Families whose youngest child turns 16 are faced with a dramatic decrease in overall family income as the type of payments received by family members changes. This decrease is far worse for sole parent families, as shown in Table 11. For example a sole parent with one child who turns 16 will no longer receive the Parenting Payment (Single) of $470 per fortnight but will most likely be transferred to a Newstart payment of $394 per fortnight. While the young person would become eligible for Youth Allowance of $178 the parent would lose the Family Tax Benefit A of $169 and Family Tax Benefit B of $79. All of these changes represent a loss of $146 per fortnight in family income. If this same family were receiving maximum Rent Assistance the loss of income would increase to $163 per fortnight.

This drastic decrease in income comes at precisely the time when the costs of raising the child are at their highest, an estimated average of $322 per week.

Table11: Financial loss when youngest child turns 16; Rent Assistance included

Total family income: single parent of 15 year old $ per week/fortnight	Total family income: single parent of 16 year old $ per week/fortnight	Total family loss per week/fortnight
$416/$833	$335/$670	$81/$163

Recommendation:

That the family income support system be restructured so as to remove the anomaly of reduced family income payments when the youngest child turns 16. Payments must be structured so as to take account of "family" income and to ensure an increase in payments at age 16, when children cost the most, regardless of which payment combination the parent and child receive.

6. Young people and Centrelink

6.1 Dealing with a complex system

Despite its supposed simplicity, Youth Allowance remains one of the most complex payment structures in the Social Security system. Within the four streams, there are sixteen subcategories. Young people are particularly vulnerable to being excluded from benefits, or being on the incorrect payment, as they tend to be uninformed of eligibility criteria or their right to appeal. They often have difficulties filling out claim forms and can lack the confidence to question Centrelink decisions. Unless Centrelink staff assist young people through the complex eligibility and payment structure of the Social Security system, they can be left trapped on an incorrect and inadequate level of income.

Despite the changes to Youth Allowance, there are still complexities concerning the overlap of Youth Allowance with Family Tax Benefit (FTB). From July 2000, Family Allowance (FA) was replaced by FTB. Under Family Allowance payment continued to 16 year olds until the end of the school year that they turn 18. FTB extended the payment period to 16 to 20 year old students, job seekers and those not in the labour force. In addition, 21 to 24 year olds are entitled if studying an approved course full-time. Families must choose between FTB and Youth Allowance. While most families are better off receiving Youth Allowance, choosing Youth Allowance over Family Tax Benefit involves a more complex claim process[56].

According to 2001 surveys by FaCS, community organisations continually raise concerns about how income support is delivered to young people.[57] The experience of the Welfare Rights Centre confirms that there are efficiency issues involved with Centrelink processing claims which can lead to problems for young people in vulnerable situations. Delays are particularly serious for vulnerable young people and those with "unreasonable to live at home" claims. Where a young person claims the independent rate of Youth Allowance because of difficult family circumstances, entitlement must be assessed by a Centrelink social worker. Claims can take many months to process, leaving young people in destitute circumstances. In addition, assessing these claims can take up a considerable amount of social workers' time, leaving them with little or no time for other important work with clients experiencing problems with domestic violence, homelessness or child maintenance problems.

Recent changes which saw policy responsibilities for young people spread over three different Departments – the Department of Family and Community Services, the Department of Employment and Workplace Relations (DEWR) and the Department of Education Science and Training (DEST), run the risk of placing added complexity into a system that is already overwrought with complexity.

6.2 Centrelink and participation supports for young people

Apart from programs such as Reconnect for young homeless people, the Jobs Placement Employment and Training Program for "at risk" young people and some mentoring programs, there is little in the current system of support for young people to assist them to make the successful transition from school to higher education, training or employment.

This lack of support for young people's transitions to wider participation contrasts unfavourably to the help available to certain parents and mature age unemployed people that is available from the network of Personal Advisers through Centrelink.

This lack of assistance becomes even more puzzling when one takes into account that the activity requirements imposed on young people are currently more onerous and demanding than those placed upon both parents and mature age unemployed people. The fact that

[56] Department of Family and Community Services (FaCS), *Youth Allowance Evaluation, Final Report*, op. cit.
[57] Ibid.

almost half of all Centrelink breaches are imposed on this young age group points to the need for greater levels of support.

Recommendation:

That Centrelink extend the support offered by Personal Advisers to Youth Allowance recipients.

6.3 Young people locked out of participation assistance

One of the consequences of the Parental Means Test is that significant numbers of young people are likely to have no dealings with either Centrelink or the Job Network. Given our previous concerns over the unfairness of the Parental Means Testing arrangements, it is likely that many low income young people are people left without any assistance whatsoever.

This means that they may not be aware of or access Centrelink or job search services, and are unlikely to be linked into the Job Network, or to any of the assistance that might be available to help them into study, employment or training.

This situation seems to be at odds with the Government's objectives of increasing overall participation rates.

Recommendation:

That as a matter of priority, Centrelink and the Department of Employment and Workplace Relations put in place strategies to ensure that young people who are excluded from Centrelink assistance because of the Parental Means Test, are informed about job search assistance that is available and to ensure that they are able to access these services.

6.4 Breaches and young unemployed people

People in receipt of Youth Allowance are required to meet an activity test in order to remain eligible for payment. The activity test generally takes the form of job seeking or study. Where a person fails to comply with any aspect of the activity test or other administrative requirements a penalty can be imposed. The penalty is known as a breach and is a reduction in rate of payment (of 18% or 24%) or a non payment period for up to eight weeks. Administrative breaches of 16 percent of a payment for 13 weeks can also apply.

Young people are far more likely to have a breach imposed than older people. Centrelink data for the quarter ending September 2004 reveals that 53 percent of all administrative and 47 percent of all activity breaches were imposed on young people under 25.[58] Problems such as substance abuse, mental illness and homelessness often lead to breaches.

If a breach occurs, it places young people in an extremely precarious financial position reducing already lower rates of payment and makes future compliance with any activity test even more difficult. Welfare and community organisations argue that the current penalties are harsh, unfair and can impose significant hardship, and that the impact of breach penalties is unfairly felt beyond the person being breached and has negative impacts on their families and the wider community.

Recommendation:

That the Minister for Employment and Workplace Relations accept the recommendations of the Breaching Review Taskforce to make the penalty system both fairer and simpler.

[58] Centrelink, *Quarterly Breach Data*, June to September Quarter, 2004.

6.5 Centrelink overpayments and prosecutions

Centrelink overpayments arise when a person receives payments that they were not entitled to. Overpayments can be due to Centrelink not being informed of changes in recipients' circumstances or Centrelink error. A common source of Youth Allowance overpayments is where a young person receiving Youth Allowance ceases to be a full-time student and does not notify Centrelink. These debts can accrue over a long period due to significant delays in data matching between Centrelink and educational institutions. This can result in large debts being incurred by the young person.

According to the NSW Office of Fair Trading[59], around one fifth of young people are concerned about Centrelink debts and considered them to be a problem.

Debts over $5,000 are generally referred for consideration for criminal proceedings. Charges of Social Security fraud have damaging long-term consequences particularly for young people seeking to work in particular occupations such as teaching, law or the police. Centrelink has put in place some debt prevention measures that target young people, but given the serious nature of the debt consequences for young people's future career prospects, much more needs to be done. Debts raised as a result of a person ceasing to be a full-time student have a particular element of unfairness as often the young person would have remained entitled to Youth Allowance.

Students are often uninformed of their rights and are unaware of their obligation to communicate all changes in circumstance to Centrelink. In fact young people often gain much of their knowledge of Social Security from their peers. Students completing education courses by correspondence are more likely to be uninformed of their rights and obligations due to their lack of contact with their educational institution and student services on campus. Furthermore, young people rarely appeal their cases, or are generally unaware that they are entitled to do so.

Recommendation:

That Centrelink and the Department of Education, Science and Training expand their debt prevention programs that target students and that more appropriate consideration be given to the referral of young people for criminal prosecution.

6.6 Centrelink debt recovery

When a person has a debt to Centrelink, the standard rate of recovery of repayment is set at 14 percent of the full rate of the pension or allowance. A Youth Allowance payment, less 14 percent to repay a Centrelink debt, results in a very low payment which is unlikely to cover living costs. Youth Allowance recipients already receive low rates of income support, relative to single people on the Age Pension, for example. Community organisations have suggested that the rate of debt repayment should be lowered for Youth Allowance recipients from the current 14 percent to 10 percent. There is strong justification for this; a lower rate of recovery for Youth Allowance debts would reflect the lower rate of Youth Allowance payment.

When a young person has both a Centrelink overpayment and a Centrelink breach, their financial position becomes intolerable, as they must repay both the overpayment and the breach at the same time. Although the maximum amount that can be withheld from their payments at any time is 25 percent, this rate is far too high and does not allow a young person to afford the basic necessities of life.

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[59]NSW Office of Fair Trading *'Youth Debt:: A Research Report*, November 2003.
Can be found online at, **http://www.fairtrading.nsw.gov.au/youth/youngpeopleanddebt.html**

Recommendation:

That DEWR should not require that young people serve a breach penalty period at the same time that a Centrelink overpayment is being recovered.

That Centrelink reduce the standard rate of recovery for debts from 14 to 10 percent for young people on the maximum rate of Youth Allowance.

6.7 Other debts among young people

For some young people, debt has become the way to get by. The AVCC's survey in 2000 found that over 10 percent of undergraduate students had obtained a loan, with the average amount being nearly $4,000. The students most likely to be in debt were those who were from financially disadvantaged, low socio-economic backgrounds.[60] A recent report commissioned by the NSW Office of Fair Trading found the average amount of reported debt to be $3,000 for those under 18, and $5,000-$6,000 for 18 to 24 year olds. Expensive items such as mobile phones and cars are increasingly being accepted as lifestyle necessities for young people. Peer group pressure to "keep up" was identified as an influence in falling into debt, along with young people's lack of financial knowledge. Students who have minimal parent support, raised "money" as a critical problem in terms of everyday coping.[61]

The need to borrow is an indicator of a lack of financial resources. Advances of Youth Allowance, Austudy Payment and Newstart Allowances of up to $500 are payable to approved recipients. Youth Allowance and Newstart Allowance recipients received 43 percent of all Social Security advance payments, according to one report[62]. This suggests that many people receiving income support are experiencing severe cash flow problems.

The report revealed that 30 percent of parents and 22 percent of young people consider youth debt to be a major problem. Nearly a quarter of those aged 18-24 have experienced a debt which caused them some grief and anxiety. Among young people, owing money was considered to be a more serious and prevalent concern than either unemployment or youth suicide.

The overall picture is of one of many young people who are moving into adulthood with significant debts, whether they be private debts, overpayments due to Centrelink, or debts incurred as a result of HECS.

Recommendation:

That State and Federal Governments coordinate education and information campaigns to help reduce the levels of debt amongst young people.

The Higher Education Contribution Scheme (HECS) provides income-contingent deferred payment arrangements for eligible students enrolled in Government funded higher education institutions. The costs of higher education are substantial and many young people defer their HECS payments to meet their other costs of living. HECS fees have increased significantly in 2005, with 26 of the 37 public universities raising fees and 18 of them by a full 25 percent. Claims have been made that the decline in enrolments for 2005 is a result of these increased HECS fees.

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[60] Long, M. and Hayden., *Paying Their Way: A Survey of Australian Undergraduate University Student Finances,* commissioned by Australian Vice Chancellors' Committee, 2001.
[61] NSW Office of Fair Trading *'Youth Debt:: A Research Report*, November 2003, op. cit.
[62] Welfare Rights Centre, 'Runaway Youth Debt – No Allowance for Youth', October 2002.

For the 2001-2002 year the total accumulated HECS debt was $8,104 million dollars. The estimated total accumulated HECS debt for 2004-2005 is $11,186 million dollars.[63]

6.8 Consultation between Centrelink and young people

Centrelink has a range of mechanisms to consult with its key client groups. For instance, there are currently a range of "Centrelink Reference Groups" which provide feedback and advice on service delivery to older people, carers, people with disabilities and clients affected by participation requirements.

There is currently no formal mechanism for Centrelink to obtain feedback on its services for young people, from their representative groups or other stakeholder organisations which deal with the interests of young people.

In the past, Centrelink has established two reference groups relevant to young people; the Centrelink Partnership Group for Young Jobless and "At Risk" Young People, and the Centrelink National Student Partnership Forum.

As this paper has identified, there are numerous areas where the interests of young people and Centrelink services delivery intersect, and a deal of room for improvement as to how best Centrelink services connect with and meet the needs of young people.

Recommendation:

That Centrelink establish a formal consultation mechanism, in the form of a young people's and student's reference group, to provide advice and feedback on the delivery of Centrelink services to young people, and that policy agencies, including DEST and DEWR participate in these forums.

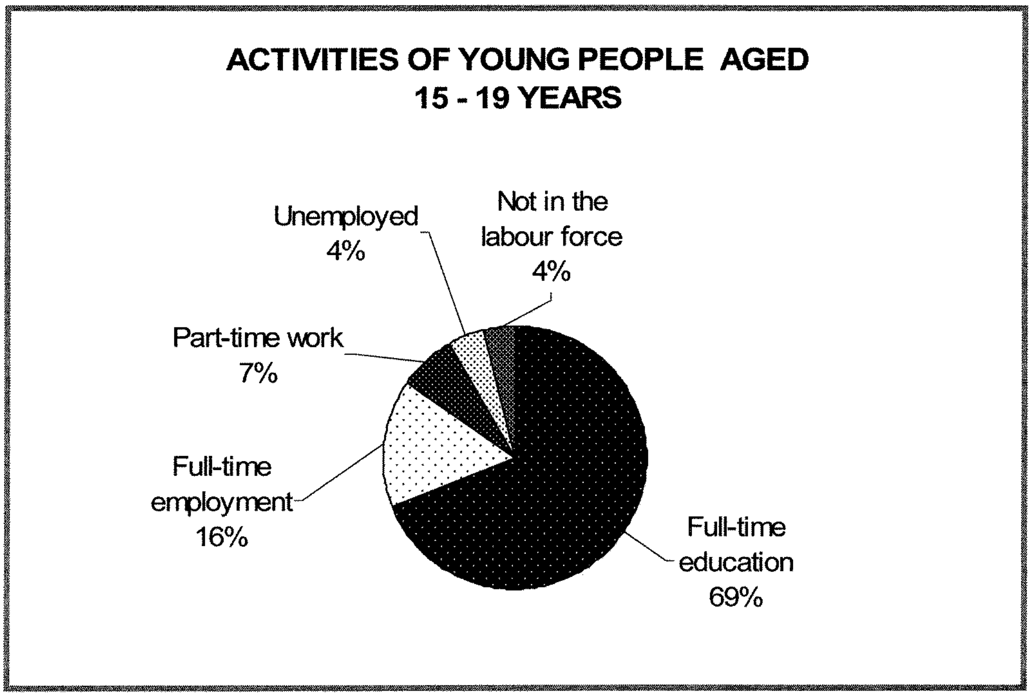
[63] Department of Education Science and Training. *Higher Education Report for the 2004-2006 Triennium*. Available online at: www.dest.gov.au/highered/he_report/2004_2006/default.htm

7. Young people in education and employment

7.1 Participation rates

Sixty-nine percent of young people aged 15 to 19 years are actively engaged in full-time education, either at school, TAFE or university. Of the remaining third (31 percent) half are involved in full-time work and the other half (15 percent) are either in part-time work, looking for work or not in the labour force. Therefore, just over 1 in 8 teenagers is not fully engaged in learning or work[64]. These figures are shown in chart 2 below.

Chart 2 : Activities of young people aged 15-19 years



7.2 Trends and implications of changes

In Australia, school attendance is compulsory until age 15 (age 16 in Tasmania). Since the late 1950s school participation rates for older teenagers have increased, while full-time employment rates have decreased. Restructuring of the labour market, government assistance to students, and the introduction of more vocational oriented and broader subject offerings in schools have encouraged young people to stay at school longer.[65] This means that a smaller proportion of young people is in a position to support themselves financially. They have become more dependent on the financial support provided by their families and the government.

Rates of participation in higher education have increased dramatically since the 1980s. More young people are participating in post-secondary education than ever before in Australia. Total enrolments in bachelor degrees (of non-overseas students) increased by 43 percent from 322,570 to 460,310 between 1990 and 2001.

These increases in enrolments however, do not necessarily mean there has been greater equity in participation. People from high socio-economic backgrounds continue to be overrepresented in higher education. The participation rate of students from low socio-economic backgrounds has remained around 15 percent over the past decade, compared

[64] Dusseldorp Skills Forum, op.cit.
[65] Schneider, J. *Income Sharing Between Young People and their Parents*, op. cit.

with 25 percent low socio-economic background in the Australian community[66]. Providing adequate income support to such students could improve their participation rate in higher education.

Education is a long-term poverty prevention strategy and can provide the skills and training that facilitate entry into the labour force. In Australia, those with low levels of education suffer a relative disadvantage in terms of unemployment. Young Australian's aged 25 to 29 without a senior certificate are twice as likely to be unemployed as those with upper secondary or post-school, but not tertiary education[67]. The OECD reports that education in Australia is more important for employment than in about half of the other 25 comparable countries.

In contrast, higher levels of education are associated with higher levels of employment and individual earnings. Longitudinal studies by the Australian Council of Educational Research (ACER) indicates that tertiary qualifications aid considerably in young people maintaining full-time employment.[68] It follows that unemployment among the 25 to 64 age group is lower for those with a tertiary education, compared to those with only upper secondary education[69]. Higher education contributes to economic growth through its effect on labour productivity and technological innovation. It can also provide greater equity and contribute to social capital.[70]

7.3 Barriers to participation in education

A lack of financial resources can be a major barrier to students participating in education. While early achievements in numeracy and literacy greatly influenced tertiary entrance scores, ACER reports that some social-economic influences operate over and above the influence of early achievement. For Year 9 students of the same educational achievement, their socio-economic background influenced their final high school grade and tertiary entrance scores.

ACER[71] also found that those *without* tertiary education were most likely to have parents from the lowest socio-economic group. They were also more likely to have lived in rural areas. According to ACER:

"young people from educational backgrounds of higher parental occupational status, better parental educational attainment and greater family wealth were more likely to have completed year 12, to have entered higher education from year 12 and to have participated in higher education by age 19."

7.4 Student involvement in the labour force

Attitudes towards students working, and the role of income support payments, have changed and evolved overtime. In the past, student income support was provided primarily to allow students the time and money to focus on their studies. Under the 1943 scholarships scheme, students were *not allowed* to work. Similarly the 1974 Tertiary Education Allowance Scheme (TEAS) was intended to provide students with *"the leisure to think as they pursued their studies."*[72] This presents a sharp contrast to the double life of work and study many students face today. Sixty one percent of students on Youth Allowance were employed in 2001, with 17 percent working for more than 20 hours a week[73].

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[66] Australian Technology Network of Universities, Submission to the Senate Student Income Support Inquiry, July 2004.
[67] Dusseldorp Skills Forum, op. cit.
[68] Australian Council of Educational Research, *Pathways from School to Work, Longtitudional Survey of Australian Youth Briefing*, Survey No. 4, 2001.
[69] OECD Employment Outlook 2004. Available online at www.oecd.org
[70] Knack S. and Keefer P. *'Does Social Capital Have an Economic Payoff? A Cross Country Investigation'*, Quarterly Journal of Economics, 112: 1251-1288, 1997
[71] Long M., Carpenter P. and Hayden M., ACER: 'Participation in Education and Training 1980-1994', *Longitudinal Survey of Australian Youth* Research Report No.6, September 1999.
[72] Chapman, 1992, quoted in Schneider J. *'Income Sharing Between Young People and Their Parents'*, University of New South Wales, PhD Thesis, p. 133, 2002.
73 Department of Family and Community Services, *Youth Allowance Evaluation Final Report*, December 2001.

The most striking differences between students in the early 1990s and now, is the increased proportions that are enrolled full-time and working part-time. There is also an increase in the number of hours they are working[74]. In 2000, the Australian Vice Chancellors Commission (AVCC)[75] undertook an extensive survey of the financial circumstances of undergraduate students in 2000. Nineteen of the 37 public universities participated with a total of 34,752 student replies, providing a good representation of student views. The AVCC reports that more than 70 percent of full-time students at Australian universities are employed during the semester, working an average of 14.5 hours per week. This is supported by McInnis and Hartley's (2002) research for the Department of Education, Science and Training (DEST)[76], which found full-time students work an average of 15 hours a week, with nearly 20 percent working 21 hours or more.

7.5 The tension between work and study

The AVCC found strong evidence that financial hardship is having a substantial impact on students' studies and is adversely affecting students' progress and retention in higher education.[77] In fact, 28 percent of students reported that they "frequently" or "sometimes" missed classes due to their paid employment. Ten percent missed classes "frequently" or "sometimes" due to travel costs. Travel costs are expensive and students commented that they could not afford to move closer due to the high cost of housing surrounding their university and/or not being eligible for income support.

The need to earn sufficient money to survive clearly affects students' ability to attend classes and study. There is a growing research consensus that financial pressures have effects on university retention rates. Indeed McInnis (et al)[78] found the main reason for students withdrawing from tertiary education were employment demands, either full-time or part-time. Their inability to survive financially was a key factor in their decision to withdraw. Survey results repeatedly identify financial difficulties as a source of stress and anxiety for some students[79]. The report for the Department of Education, Science and Training indicates that a third of the students involved in the study had seriously considered ceasing their enrolment at university in order to earn more money[80].

According to the ACER[81] working 20 hours per week or more increases the odds of dropping out of university study by 160 to 200 percent, compared with those who do not work. There are also financial barriers to full-time study. A quarter of the students surveyed by the AVCC were enrolled part-time and of these students, over half reported that they would prefer to be full-time if financial circumstances permitted. Students' opportunities are being limited to their capacity to meet everyday costs of living.

Furthermore, there is evidence that tertiary students are pursuing illegal sources of income and of some students turning to prostitution in order to supplement their income. Financial circumstances are forcing some students to live a double life, one split between work and study.

[74] Australian Bureau of Statistics, *Education and Training in Australia*, 1998, catalogue no. 4224.0
[75] Australian Vice Chancellors' Committee op. cit.
[76] McInnis C. and Hartley R. *Managing Study and Work: The impact of full-time study and paid work on the undergraduate experience in Australian Universities*, Commissioned by Department of Education, Science and Training, DEST Evaluations and Investigations Program. 2002
[77] Long, M. & Hayden M, op. cit.
[78] McInnis C. Hartley, R., Polesel, J. & Teese, R., '*Non-Completion in Vocational Education and Training in Higher Education: A Literature Review* ', commissioned by the Department of Education, Training and Youth Affairs, Centre for Higher Education, University of Melbourne, 2000.
[79] Bessant J., '*Student Poverty in the Enterprise University*', Social Policy and Advocacy Research Centre, Australian National University, 2002.
[80] McInnis C. and Hartley R. *Managing Study and Work: The impact of full-time study and paid work on the undergraduate experience in Australian Universities*, commissioned by Department of Education, Science and Training (DEST), DEST Evaluations and Investigations Program, 2002.

[81]Vickers M., Lamb S. and Hinkley J. *Student Workers in High School and Beyond: The effects of part-time employment on participation in education, training and work'*, Commissioned by Australian Council of Educational Research, LSAY Research Report No.30, February, 2003.

Academic studies have found that employed students typically spend less time on campus both in and out of class and they risk feeling disconnected from university life. International studies[82] indicate that financial assistance can facilitate student integration into university life and equalise opportunities between affluent and low-income students on campus.

The pressure of employment commitments means that many students simply do not have time for broad reading or in-depth research and are resigned to "just passing". The report for Department of Education Science and Training[83] highlighted the tendency for "shallow learning" among tertiary students. Moreover, when students are heavily involved in paid work off-campus, their capacity to partake in extra curricular and sporting activities on campus is limited. They have less chance to socialise and build networks on campus.

7.6 Influence of income support on participation in higher education

Drawing on Department of Family and Community Services longitudinal surveys of young people and Youth Allowance recipients, Long[84] reports that 35 percent of students who had previously received income support, but became ineligible after the Youth Assistance changes in 1998, gave up study as a direct consequence of their ineligibility. In terms of higher education students receiving Youth Allowance, nine percent of the 15 percent who became ineligible after 1998 dropped out.

For 45 percent of Youth Allowance (YA) recipients in Year 12, the receipt of YA was an important determinant of their intention to enrol in university studies. Almost three-quarters of students continuing in full-time study in 1999-2000 saw Youth Allowance as an important influence of their decision to continue.[85]

7.7 Disincentives to studying due to inadequate income support

In Australia overall Social Security payments to tertiary students are substantially lower than payments to unemployed people. This contrasts to the New Zealand system in which these payments are aligned. In Australia, the age of independence is 25 for students, whilst unemployed people are entitled to the full rate of Newstart Allowance at age 21. In effect this means that a dependent student, who is ineligible for income support due to the Parental Means Test, could receive higher payments by ceasing full-time study and satisfying the requirements for unemployment benefits.

Unemployed adults over the age of 21 are entitled to Rent Assistance. In contrast, students receiving Austudy Payment are ineligible for Rent Assistance. An unemployed person on Newstart Allowance with Rent Assistance receives $164.90 a fortnight more than a student receiving Austudy Payment. This disparity can discourage people from pursuing an education that could improve their chances in the labour market.

An additional disincentive to study is that there is no financial support offered to students undertaking postgraduate degrees such as Master or Doctorate studies.

A lack of financial resources creates a barrier to higher educational achievement. If equitable access to education is to be achieved, adequate income support must be provided to financially disadvantaged families and young people.

Recommendation:

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[82] McInnis C. Hartley, R., Polesel, J. & Teese, R, op. cit.

[83] McInnis C., James, R. Hartley R ,'*Trends in the First Year Experience: In Australian Universities*', commissioned by Department of Education, Science and Training, DEST Evaluations and Investigations Program, 2000.

[84] Long, M., 2002, *Government Financial Assistance for Australian University Students*, Journal of Higher Education Policy and Management, Vol. 24, No. 2.

[85] Department of Family and Community Services, *Youth Allowance Evaluation Report*, op. cit.

That the Government increase rates of income support payments for students to at least the Newstart Allowance rate in order to maintain and further increase young people's participation in higher education.

Recommendation:

In addition to the specific policy departments and agencies examining the findings and recommendations of this study, this report should also be by the "working age" reform taskforce recently established by the Prime Minister.

8. Summary of recommendations

Recommendation:

That Youth Allowance rates be increased:

- to ensure that the at home rate is at least equivalent to the FTB rate, and
- the independent rate is at least equivalent to the Newstart Allowance rate.

Recommendation:

The Department of Family and Community Services undertake research into the extent that economies of scale exist for unrelated people sharing accommodation.

Recommendation:

That Rent Assistance be extended to Austudy Payment recipients.

That the "sharer's rate" of Rent Assistance be increased to the standard rate.

Recommendation:

The Parental Income Test be increased to the Family Tax Benefit income test threshold, as a first step and that research be undertaken to assess the impact of the Parental Income Test on families and on young people's decisions about study.

That the age of independence be lowered from 25 to 21 years.

Recommendation:

That the Australian Bureau of Statistics compile exploratory data on costs of living for young people, and that the Social Policy Research Centre include a relevant profile of a younger person in any updates to its examination of Budget Standards measures.

Recommendation:

That the indexation method that applies to the pensions payment should be applied uniformly to all Social Security payments. That is, Youth Allowance, Austudy Payment, ABSTUDY and Newstart Allowance should be indexed twice a year to MTAWE or the Consumer Price Index, which ever is the higher, in the same way that pensions are indexed.

Recommendation:

That the allowance income free threshold be immediately restored to its 1986 equivalence and increased to $43 per fortnight and indexed annually according to movements in the CPI thereafter, as is the case with the pension income free area.

Recommendation:

That the family income support system be restructured so as to remove the anomaly of reduced family income payments when the youngest child turns 16. Payments must be structured so as to take account of "family" income and to ensure an increase in payments at age 16, when children cost the most, regardless of which payment combination the parent and child receive.

Recommendation:

That Centrelink extend the support offered by Personal Advisers to Youth Allowance recipients.

Recommendation:

That as a matter of priority, Centrelink and the Department of Employment and Workplace Relations put in place strategies to ensure that young people who are excluded from Centrelink assistance because of the Parental Means Test, are informed about the job search assistance that is available and to ensure that they are able to access these services.

Recommendation:

That the Minister for Employment and Workplace Relations accept the recommendations of the Breaching Review Taskforce to make the penalty system both fairer and simpler.

Recommendation:

That Centrelink and the Department of Education, Science and Training expand their debt prevention programs that target students and that more appropriate consideration be given to the prosecution of young people for criminal prosecution.

Recommendation:

That DEWR should not require that young people serve a breach penalty period at the same time that a Centrelink overpayment is being recovered.

That Centrelink reduce the standard rate of recovery for debts be reduced from 14 to 10 percent for young people on the maximum rate of Youth Allowance.

Recommendation:

That State and Federal Governments coordinate education and information campaigns to help reduce the levels of debt amongst young people.

Recommendation:

That Centrelink establish a formal consultation mechanism, in the form of a young people's and student's reference group, to provide advice and feedback on the delivery of Centrelink services to young people, and that policy agencies, including DEST and DEWR participate in these forums.

Recommendation:

That the Government increase rates of income support payments for students to at least the Newstart Allowance rate in order to maintain and further increase young people's participation in higher education.

Recommendation:

In addition to the specific policy departments and agencies examining the findings and recommendations of this study, this report should also be by the "working age" reform taskforce recently established by the Prime Minister.

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Attachment 1

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Administration volunteer procedures

1. General guidelines

- All components of the Administration Secretary position remain Lua's responsibility at all times
- Only those functions on the agreed list of possible activities for administration volunteers can be allocated to a volunteer
- The distribution of activities from the list will be done each day in conjunction with Catalina for administrative functions and Linda for casework related funtions
- The primary activity will be in relation to answering the phones

2. Agreed list of possible activities for administration volunteers can be allocated to a volunteer

Administation

- **Mail**

-open
-sort (but return to Lua for checking and distribution)
-assistance with mail-outs

Casework related

- **Phones**

-answering and processing -new inquiry / client
-old /existing client
-other
(someone must be available at all times)

- noting review dates in resubmits diary
- filing of contact sheets and files into resubmit drawers
- filing away of closed contact sheets into orange spring-back folders
- checks of resubmit drawers for passed review dates
- checks of resubmit drawers to ensure in strict alpha-order
- preparation of new files