



Brotherhood  
of St Laurence

Working for an Australia free of poverty

# Towards a fair and decent social security system

Submission to the Senate inquiry into the  
adequacy of the allowance payment system for  
jobseekers and others

Brotherhood of St Laurence

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# Summary

## Inadequacy of Newstart and Youth Allowance

Current Newstart and Youth Allowance levels are insufficient to enable individuals relying on those payments to live with dignity and security. They fail to keep jobseekers and other income support recipients out of poverty. They fail to guard against social exclusion and financial vulnerability. Current payment levels fail to enable individuals to access affordable housing and protect against homelessness and may in fact undermine broader efforts to facilitate transitions into paid employment. The present Newstart Allowance (NSA) falls short of community expectations within Australia and is extremely low compared to income support of jobseekers in other developed countries. Based on these assessments we argue that the level of Newstart and Youth Allowance (YA) fails to meet any reasonable test of adequacy.

**URGENT ACTION: The Brotherhood of St Laurence calls for the raising of the base payment of Newstart and Youth Allowance by \$50 per week.**

## Out-of date social security system

We also draw attention to the widening gap between allowances and pensions, the result of outdated distinctions between the different payments and ad hoc changes to particular categories. The primary cause of the widening gap is the inadequate indexation of allowance payments which does not capture changes in broader community standards of living.

**URGENT ACTION: The Brotherhood of St Laurence calls for the indexation of allowance payments to be aligned with the indexation of pensions—that is, linking the base rates of allowances to wages as well as the Consumer Price Index.**

This submission not only outlines the serious inadequacies of the Newstart and Youth Allowance payment levels, but also highlights the out-of-date assumptions underpinning the social security system, in relation to the profile and needs of incomes support recipients and the reality of the labour market. Although unemployment benefits were initially intended to be short-term payments for individuals temporarily out of work, the reality for recipients of Newstart is now very different. Newstart Allowance recipients include increasing numbers of long-term unemployed, people with disabilities, people with care responsibilities (mostly women) and older people. Many will combine part-time work with income support for extended periods.

The notion that payments must remain extremely low to provide an ‘incentive’ to move into paid work is incorrect. Very low payments can in fact work against individuals’ attempts to transition to employment. The populations affected by the inadequacy of allowance payments are among those experiencing the highest levels of disadvantage – including people with disabilities, Indigenous Australians, migrants and refugees, single parents, people with low levels of education and older jobseekers. Our research tells us that these jobseekers face a range of difficulties on the path to paid work including lack of access to education and training, issues relating to health and disability, lack of recent work experience, unstable housing and the need to care for others (Brotherhood of St Laurence 2008, 2011; Perkins 2007).

We make several short-term recommendations to better meet the needs of the current profile of income support recipients. Some of these recommendations remove disincentives to take up part-time work, particularly for individuals with limited capacity or with caring responsibilities. We call for simplification and an increase to the 'free areas' to allow individuals to keep more of their payment while working part-time.

Recognising that large numbers of jobseekers who do obtain employment outcomes do so by moving into insecure jobs, we call for a range of measures providing greater flexibility in the income support system. These measures aim to support individuals in taking risks in the labour market. They include providing a 12 month period after exiting income support during which Newstart Allowees who then cease employment can make a simplified and quick transition back to income support.

## A call for broader reform

While these changes will make life easier for many income support recipients in the short-term, the Brotherhood considers that further changes are required to simplify the income support system and create structures to respond to the needs of income support recipients and changes in related policies and the labour market. Therefore, while we welcome this inquiry into the adequacy of the allowances system, we consider that the income support system cannot be considered as a 'stand-alone' form of social policy. Rather, it should work together with a responsive employment services system, the labour market and housing market to ensure that all Australians benefit from 'inclusive' economic growth. We therefore make the following medium-term recommendations:

**Establish a public inquiry into current employment participation policies, encompassing the income support system and the employment services system.**

**Establish an independent body to review the rates and structure of social security payments, taking evidence regarding the profile and needs of recipients, the cost of living, disincentive effects and changes in the labour market.**

**Consider replacing the complex and ad hoc system of pensions and allowances with a single working age payment with top-ups for differing needs including those of sole parents, families with children, people with disabilities, people living alone and people in insecure housing.**

## Towards inclusive growth

Ultimately we argue that income support reform is not a solution to structural unemployment including long-term unemployment and underemployment. If it is agreed that good jobs and reasonable pay are central to people's life chances and that 5 per cent unemployment represents hundreds of thousands of people who want an opportunity engage in paid work, then greater reform is necessary. The Brotherhood of St Laurence advocates an inclusive growth approach, involving reform to economic, social and technological policies towards ensuring that the social and economic conditions for participation are met, including the provision of decent paid work for all.

# 1 Taking a wider view – social security and the inclusive growth agenda

The Brotherhood of St Laurence (BSL) is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. We undertake research, service development and delivery, and advocacy with the aim of addressing unmet needs and developing innovative policies, programs and practices for implementation by government and others.

The Brotherhood provides services for people experiencing disadvantage, including jobseekers. The Brotherhood has sought to develop innovative, flexible, responsive and integrated approaches to assisting individuals furthest from the labour market to gain employment. We focus on population groups and places facing significant disadvantage and social exclusion, including young adults, refugees and migrants and public housing tenants. Recognising the limitations of mainstream employment assistance, the Brotherhood has made a significant investment in the Line of Sight strategy, aiming to test innovative, integrated approaches to assistance which achieves better outcomes for the most disadvantaged jobseekers and meets the needs of local employers.

The Brotherhood also has a substantial record in research, evaluation and analysis linked to policy reform, looking in particular at the experiences of jobseekers experiencing disadvantage, their pathways in and out of work and the barriers they face in gaining decent and sustainable paid work. Current projects include a longitudinal examination of job retention and advancement for those who have spent long spells out of the workforce; research looking at understanding and preventing workforce vulnerabilities for older Australians; and research examining employers' experiences of recruiting low-skilled and disadvantaged jobseekers. Our work also examines the intersections of the income support system with the changing labour market, and transitions between paid and unpaid work.

The Brotherhood of St Laurence welcomes the opportunity to contribute to the Senate inquiry into the adequacy of the allowance payment system for jobseekers and others. We consider that the adequacy of allowances is a matter of utmost importance with a particular impact on the transition into work and experience of social exclusion.

## The context for reform

### The Australian labour market

The labour market is characterised by stubborn levels of workforce underutilisation and significant levels of marginal attachment and exclusion from paid work. These trends are not short-term or cyclical effects of economic downturns but reflect longer-term changes to the labour market. The most recent figures (August 2011) indicate an underutilisation rate (11.9% of the labour force) represents over 1.4 million Australians of working age. As of September 2010, a 157, 900 individuals were marginally attached to the labour market (Australian Bureau of Statistics 2012). Australia has also performed poorly in the area of labour market participation of groups experiencing disadvantage, including Indigenous Australians, early school leavers, mature-age Australians, those experiencing homelessness, those with disabilities and migrants of non-English speaking background. However, the structural, social and personal barriers which make it difficult for such jobseekers to enter the labour market are not homogeneous, and many jobseekers face multiple and intersecting forms of disadvantage.

## Growing concern

In recent times there has been growing concern regarding the adequacy of Newstart Allowance and other allowance payments. The welfare sector has for a long time been voicing concerns about the growing disparity between allowances and pensions and the very low rate of Newstart and Youth Allowance in particular. Groups such as the Business Council of Australia have more recently joined the chorus highlighting the inadequacy of the payment. Others, including economists Professors Ian Harper (Schubert 2011) and Judith Sloan (2011)—respectively chairperson and commissioner of the Howard Government’s Fair Pay Commission—have also argued for an increase to Newstart Allowance and a restructure of the indexing arrangements. Professor Sloan points out (2011) that there are a number of reasons why unemployed people find it difficult to secure jobs and argues government should focus on skills, capabilities and incentives for employers. She further states that

[I]t would be impossible to argue that the level of the Newstart Allowance constitutes a disincentive for the unemployed to find work, given that a minimum wage job pays nearly \$600 per week (full-time). Rather there are messages in the patently inadequate allowance for the unemployed – you are not as deserving as those on other allowances, you are at fault, you should simply find a job. It is not at all clear that these messages are the best way to motivate and encourage the unemployed to gain employment.

The Brotherhood’s research supports these views. Our research indicates that policies based upon a perception of income support recipients as ‘morally deficient’ or having ‘poor attitudes’ to paid work are misguided. Jobseekers face a range of difficulties on the path to paid work including lack of access to education and training, issues relating to health and disability, lack of recent work experience, unstable housing and the need to care for others (Brotherhood of St Laurence 2008, 2011; Perkins 2007). The population most affected by the inadequacy of allowance payments are among those experiencing the highest levels of disadvantage, including people with disabilities, Indigenous Australians, people of colour (for example African Australians), single parents, people with low levels of education and older jobseekers. The ‘two-speed’ economy means that employment opportunities are unevenly geographically distributed—in some places there are simply no jobs. Unintended financial disincentives built into the tax and transfer system and the risky nature of the labour market also play a role in obscuring the pathway into decent paid work (Bodsworth 2010).

Unemployment is a complex problem requiring policy solutions which provide the conditions, support and resources to enable individuals experiencing disadvantage to move into decent and suitable paid work. Current income support levels not only fail to adequately support this transition but also fail to enable those relying on allowances to live a life with dignity that meets even the most basic community standards (Saunders & Wong 2012). We also argue that Newstart Allowance must be seen in the context of policies regarding unemployment, underemployment and those marginalised from the labour market. At present these policies are ad hoc, complex and at times contradictory. They fail to assist those experiencing the greatest disadvantage and do not fairly balance jobseekers’ obligations with benefits or government’s expectations with their responsibilities.

At the Brotherhood of St Laurence’s Sambell Oration, the Chief Executive Officer of the Business Council of Australia stated:

People cannot live on 35 dollars a day. Entrenching them into poverty is not a pathway back into employment. It doesn’t fit a story of true national wealth (Westacott 2011).

This statement not only goes to the heart of the question of the adequacy of Newstart Allowance, but also raises a broader question to do with how the income support system might better meet the needs of Australians and its role in the story of ‘national wealth’ – particularly an ‘inclusive growth’ agenda. The inclusive growth framework advocated by the Brotherhood understands decent paid work as essential for an inclusive society. It also recognises that the social security system must enable those not attached to the labour market to live in dignity and to provide security and support for transitions in and out of work, across the life course.

## Towards inclusive growth?

When the unemployment benefit was introduced in 1945, it was in the context of the then new government policy of full employment. Part of the social contract involved an undertaking by government to run the economy at full employment so all citizens who wanted paid work could get it. For nearly three decades government ran macroeconomic policies which resulted in unemployment rarely above 2 per cent. Unemployment in this policy framework was only frictional and the unemployment benefit was offered for individuals moving between jobs (but not for those who rejected a reasonable job offer). The current economic policy model is very different. Structural unemployment of around 5 per cent has been accepted as ‘natural’ and something that cannot be changed by government. However a broader question remains—what would a truly inclusive economic and policy framework look like?

If it is agreed that good jobs and reasonable pay are absolutely central to people’s life chances and that 5 per cent unemployment represents hundreds of thousands of people who want an opportunity engage in paid work then the labour market challenges outlined above pose some difficult questions which cannot be solved by income support reform alone. The Brotherhood of St Laurence is working to conceptualise a new social contract underpinning paid and unpaid work. We argue that an ‘inclusive growth’ approach offers a longer-term vision for a fair and inclusive Australia. Such an approach is based on an understanding that rapid and sustained poverty reduction must enable all people to contribute to and benefit from economic growth (Ianchovichina & Lundstrom 2009). It recognises the importance of employment as a means of increasing incomes for excluded groups *in addition* to redistribution through direct payments (Organisation for Economic Co-operation and Development 2008). The Brotherhood’s inclusive growth approach also recognises the importance of non-market based, yet productive, activities such as community and family work and that the capacity of individuals to engage in paid work is affected by structures such as gender, class, ‘race’ and (dis)ability. These structures further intersect with the changing labour market. Insecure and unpredictable work has a profound impact on jobseekers and individuals, mostly women, seeking to ‘juggle’ paid and unpaid work.

While an inclusive growth approach underscores the importance of ‘employment-centred growth’, the Brotherhood believes that this must be combined with a system of adequate income support payments providing a safety net for those who need it. The Brotherhood also rejects arguments that income support payments *per se* create ‘worklessness’ or dependency, recognising that for many, these payments are a means of survival and play an essential role in poverty reduction and social equity.

We support social investment in skills, support and genuine pathways to employment through services for individuals, engagement with employers and broader community interventions. An inclusive growth approach includes significant investment in better integrated employment assistance combining personal support, ‘soft’ and vocational skills development and work experience with a closer alignment to local employment opportunities (Brotherhood of St Laurence

2011). Evidence suggests that integrated, responsive service delivery models with a ‘line of sight’ to local employers, including transitional employment providers may provide substantially better outcomes for particular groups (Brotherhood of St Laurence 2012). There is no evidence to suggest that these outcomes are assisted by providing meagre income support payments. We suggest that it is counter-productive to invest in programs and services to assist people to find employment while providing the same people with an income which leaves them vulnerable to poverty, debt, homelessness, social exclusion and mental health issues which may undermine their capacity to look for work or engage in training.

There is also a need for broader reform of the social security system in relation to paid work participation, particularly in response to the changing nature of the labour market and new ways of combining work and care. The ‘flexicurity’ approach attempts to overcome tensions between demands of employers for flexibility and the need for security for those outside the labour market through income support, training and assistance (Allebone 2010). Labour market strategies, including income support, must therefore encompass social policy which involves ‘joint risk management by encouraging people to accept more risks, with beneficial externalities for society’ (Schmid as cited in Wilthagan & Tros 2004, p. 20). Security through income support payments plays a key role in enabling those who are most vulnerable to accept more risks. The Brotherhood’s research indicates that many jobseekers are well aware of the risks in the insecure labour market; however instead of mitigating them, the income system intensifies risks resulting causing some individuals to ‘choose’ to remain on inadequate but reliable income support payments (Bodsworth 2010). Further, the income support system also fails facilitate the combination of paid work and care obligations, particularly for single mothers and older single women who face difficulties intensified by the intersection of gender, low income and the insecure labour market (Bodsworth 2010; Bowman et al. forthcoming 2013).

The Brotherhood’s inclusive growth approach advocates a coherent, integrated suite of policies to deliver a dynamic, responsive and socially inclusive labour market, labour market programs and income support system. This would combine adequate welfare provision with active labour market policies, where appropriate, as well as investment in infrastructure, innovation, human capital (education, housing and health) to deliver both decent jobs and a fairer distribution of paid work. An inclusive growth framework would include the following core components:

- adequate income support payments to prevent poverty and social exclusion
- effective active labour market programs responsive to the needs of disadvantaged groups
- flexibility and security for life transitions with protections for ‘risky’ transitions, particularly in relation to insecure work and combining paid work and care
- training and skills development opportunities tailored to the needs of disadvantaged learners, providing both transferrable skills *and* industry-specific skills linked to genuine job opportunities
- appropriate employment protections for workers, particularly low-paid, casual and temporary employees
- demand-side labour market measures including promotion of workplace diversity and social procurement
- creation of jobs which are responsive to the needs of both employees and employers with consideration of both the design of jobs and their distribution.

## 2 The adequacy of the allowance payment system for jobseekers and others

The first term of reference for this Inquiry is to examine the adequacy of the allowance payment system for jobseekers and others, with particular reference to the Newstart Allowance payment as an income support payment for jobseekers and to other allowance payments that support people who study or provide care.

The notion of adequacy refers to being able to meet a need or needs satisfactorily. Such consideration clearly encompasses the question of whether Newstart Allowance enables individuals relying on the payment to maintain a decent and acceptable quality of life, but also whether the payment meets the needs of the Australian community. The following section sets out evidence which indicates the failure of Newstart Allowance to provide for the basic needs of individuals, the Australian community and the Australian Government.

### A brief history of Australian allowances and pensions

Social security payments for jobless adults are typically divided into the categories of pensions, allowances and student payments. Traditionally pensions (e.g. the Age Pension) have been provided to individuals who are seen to be ‘deserving’ of ongoing support from the state and are not required to work. This category also used to include the Parenting Payment (single) and the Disability Support Pension, although recent changes have moved recipients of these payments into the sphere of work activation. Allowances by contrast were traditionally understood as short-term payments for working-age individuals not engaged in paid employment. Student allowances were designed for people studying full-time. These distinctions have become blurred over time due to different mechanisms for increasing payments, ad hoc changes and changing activation requirements.

Changes to payment levels:

- Since 1997 pensions have been indexed to male total average weekly earnings (MTAWE) and the consumer price index (CPI) (as a measure of community standards) whereas allowances have remained indexed only to the CP. As a result there is a growing gap between the rate of pensions such as the Age Pension and the DSP and allowances such as Newstart Allowance.
- In 2009 the Harmer Pension Review recommended an increase to base rate of Pensions (except the Parenting Payment) based on the notion that the level of assistance should provide a basic acceptable standard of living and should move in line with community standards (FaHCSIA 2009). As a result the single pension was increased by \$35 a week.
- Student and youth payments (Youth Allowance and Abstudy) are paid at a rate below the general allowance rate (unless there are children).

**Table 2.1 Pensions, payments and allowances and indexation types (as at August 2012)**

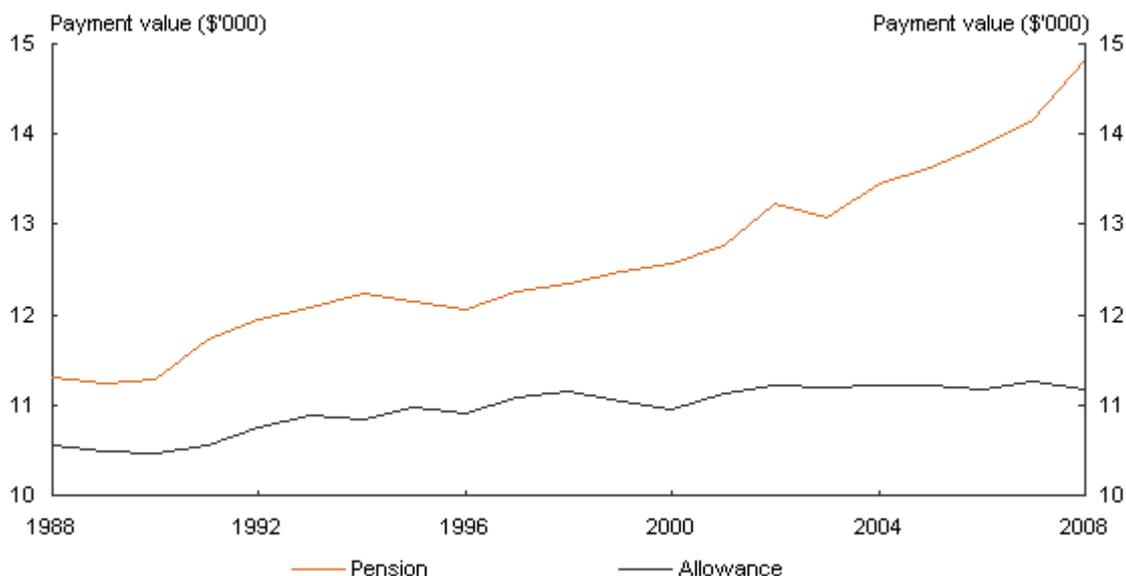
	<b>Pensions (Age Pension, Disability Support Pension)</b>	<b>Parenting Payment Single</b>	<b>Newstart Allowance (NSA)</b>	<b>Youth Allowance, Austudy and Abstudy</b>
<b>Base payments per fortnight for single person<sup>b</sup></b>	\$695.30	\$648.50	\$489.70	\$402.70 <sup>a</sup>
<b>Indexation<sup>c</sup></b>	At least 27.7 % of MTAWE (or CPI if higher)	25% of MTAWE (or CPI if higher)	CPI	CPI (only once a year)
<b>Most recent rate adjustment</b>	2009 (Harmer Review)	Excluded from Harmer increase (first time the PPS was treated differently from a pension).	1994	1989 (introduction of Austudy)

<sup>a</sup> For single recipient, no children, required to live away from home. Single Abstudy recipients over 22 years in full-time study with no children receive a rate equal to NSA. Other special rates equivalent to NSA apply to students commencing full-time study who have been long-term unemployed.

<sup>b</sup> Department of Human Services 2012

<sup>c</sup> Treasury 2009

In 1980 the single pension rate was \$57.90 and the single allowance rate was \$51.45 (89% of the single pension rate). In 2012 the single pension rate is \$695.30 and the single Newstart allowance rate is \$489.70 (70% of the pension rate). The graph below represents the diverging real rates of single pensions and single allowances.

**Figure 2.1 Real rates of the single pension and allowance (1988 to 2008)**

Note: Rates for all years are expressed in 2008 dollar values.

Source: Treasury (2008, p. 93) based on FaHCSIA estimates.

The Henry Review recommended reducing the differences between the rates, particularly for singles, by increasing the payment for allowances and applying a consistent approach to indexation across the three payment categories (Treasury 2009).

## The changing profile of Newstart and Youth (Other) Allowees

There are currently 580, 807 individuals reliant on Newstart Allowance (NSA) and Youth Allowance, excluding those in full-time education (June 2012 figures). Over the past year, the number of long-term jobseekers has increased 5.2 per cent from 173, 418 to 182,435 and short-term jobseekers have increased 5.2 per cent from 142,149 to 149,587 (Department of Employment Education and Workplace Relations 2012).

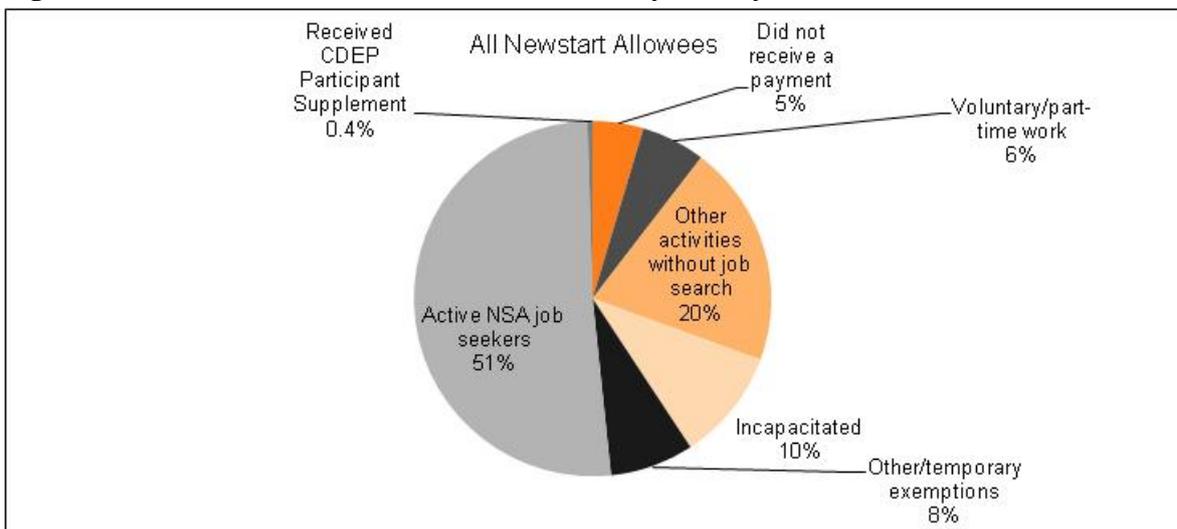
### Not all Newstart Allowees are 'jobseekers'

Of the Newstart Allowee population of 580, 807 at June 2012 only around half (297,251) were active jobseekers—that is, allowees receiving a payment and required to seek paid work.

The remaining 283,556 individuals included (see also Figure 2.2):

- allowees who did not receive a payment in the survey period (due to their own or their partner's income)
- allowees in approved combinations of voluntary and part-time work
- allowees who were incapacitated or temporarily ill
- allowees who were undertaking other activities including training, education or self employment development
- allowees without participation requirements or participating in Disability Management Services
- allowees who received the CDEP Participant Supplement.

**Figure 2.2 Breakdown of all Newstart Allowees by activity**



A similar breakdown of long-term Newstart Allowees indicates that only 46 per cent are active jobseekers.

### Increasing disadvantage among Allowance recipients

The population of Newstart Allowance recipients includes increasing numbers of long-term unemployed, people with disabilities, people with care responsibilities and older people.

### Long-term unemployed

Since the late 1990s, the proportion of people of ‘working age’ (16–64) on income support payments has fallen sharply, in line with falling unemployment rates (ACOSS 2011). Yet despite robust employment growth and decreasing unemployment between 1990 and 2008, long-term unemployment in Australia has been growing and the profile of those relying on payments such as NSA has become increasingly disadvantaged as the most ‘job ready’ recipients have moved into employment. During the period 1990–2008, the proportion of unemployed people receiving benefits continuously for over two years rose from 16 to 43 per cent (Davidson 2011). Recipients of unemployment payments are now more likely to be affected by homelessness, addictions or mental illness and disabilities, and to be persons of mature age or Indigenous Australians (Davidson 2010).

### People with disabilities

Welfare to Work policy changes commencing in 2006 have had an impact on the profile of Newstart Allowees through tightening eligibility for the Disability Support Pension and reclassifying some individuals as ‘jobseekers’ and moving them onto the lower Newstart Allowance. As a result around 96,000 people with disabilities have been formally assessed as having a ‘partial work capacity’ and receive NSA or YA (ACOSS 2011). Fewer than one in five of those shifted from DSP onto Newstart during 2006–07 obtained employment and ceased to receive income support during that year; the remaining 80 per cent continued to receive the lower Newstart Allowance payment (ACOSS 2011). Research suggests that people with disabilities in Australia have relatively poor employment prospects and employers are often reluctant to take them on due to perceptions about productivity and risk (OECD 2007). We suggest that workforce participation by people with disabilities would be better facilitated by early intervention, tailored support and assistance, job redesign and engagement with employers.

### Single parents

The 2006 Welfare to Work reforms also changed the structure of the Parenting Payment (single), a pension-style payment, transferring single parents onto Newstart Allowance when their youngest child turned 8. The numbers of individuals relying on Newstart and having principal care for children has increased and these individuals (most of whom are women) are more likely to work part-time, often combining ongoing income support receipt with paid work (Bodsworth 2010). Research evaluating the Welfare to Work reforms for single parents (Department of Education Employment and Workplace Relations 2008) found that shifting single parents to a lower payment slightly increased the rate at which they moved off income support, however the applications for income support payments without participation requirements also increased.

### Older people

One in three Newstart recipients is over the age of 45 (ACOSS 2011). These jobseekers face significant barriers to employment including insecure; low-paid and part-time employment, underutilisation of skills; age discrimination from employers and problems relating to health and disability, particularly for those in physically demanding jobs (Bowman & Kimberley 2011).

### Increasing levels of and diversity of disadvantage

The structural, social and personal barriers which make it difficult for many jobseekers to enter the labour market are not homogeneous. Many jobseekers face multiple and intersecting forms of disadvantage. For example, the barriers to employment for disadvantaged young people may include lack of entry-level jobs, poverty, homelessness, negative employer attitudes, poor literacy

and numeracy, complex health needs and family breakdown (Cull 2011). In contrast, jobseekers who are refugees or newly arrived migrants may face other specific barriers including lack of recognition of their skills and qualifications, the effects of trauma and limited social networks (Mestan 2008). Many public housing tenants face disincentives to employment related to the linking of public rents to household income and the high effective marginal tax rates which result from the combined effect of withdrawal of income support payments and increased rents (Bodsworth 2010; Wood 2005). Research regarding young Indigenous jobseekers reveals that access to employment is impeded by lack of appropriate housing including supported accommodation; lack of transport to school or work; poor literacy; lack of work opportunities that support Indigenous cultural values and lifestyles; racism and alienation; alcohol and substance use; teenage pregnancy and parenthood; lack of support from parents and peers; and financial difficulties (Walker et al. 2008).

### **Case study: Carl**

Carl was a 30-year-old with a history of long-term unemployment, homelessness, drug use and mental health problems. He had been receiving income support for around 12 years 'on and off'. When asked if he wanted to work, Carl responded:

Carl: Work? I haven't really thought about it, with mental health issues and stuff like that. Stable housing has been a major issue for me with the last four years.

Carl also told of being diagnosed with schizophrenic bipolar disorder, but Centrelink had rejected his application for the Disability Support Pension. Carl was aware of his personal problems and the restrictions these would place on employment:

Carl: I don't cope well with people. I prefer to do stuff, my own kind of thing, do you know what I mean? I need a lot of direction. I need to be told repetitively how to do stuff. Once I know how to do something, I can do it. I find I don't work well around people ... Yeah, it's more just anxiety.

Living in a squat, Carl's first priority was housing. He was on a waiting list for public housing and believed that he would need to remain homeless until he was allocated housing. He acknowledged that he needed drug and alcohol counselling and wanted to be able to regularly see a doctor about his mental health, although he said, '[Doctors] freak me out and make me really angry'.

Source: Bodsworth 2010

### **Outdated assumptions underpinning Newstart Allowance**

The changing nature of NSA receipt creates a serious challenge to the assumptions underpinning the structure and rate of the payment. Key assumptions are that the Newstart Allowance must remain significantly below the minimum wage to provide an economic incentive for individuals to seek and retain paid employment; and that it is a temporary payment to be relied upon for short periods of time while searching for work.

Firstly, evidence regarding the profile of NSA recipients suggest that their engagement in paid work is not simply a function of economic incentive which is 'enhanced' by keeping the payment

very low but rather a function of complex factors requiring support and investment. Evidence regarding transitions from higher pension payments to Newstart Allowance for people with disabilities further confirms that lowering payments does not increase workforce participation.

Secondly, the assumption that individuals rely on Newstart for a short time while searching for work is increasingly incorrect. For increasing numbers of allowees and jobseekers, reliance on Newstart Allowance is not short-term. Longer-term receipt of income support may also compound the problems faced by these individuals. As pointed out in the Henry Review report, while Newstart Allowance recipients had the lowest average durations on income support these durations are likely to increase in coming years because of the increased numbers of single parents and people with a partial work capacity who will receive Newstart Allowance following Welfare to Work policy changes (Treasury 2009). Figure 4.3 above indicates that around half of NSA recipients are not required to be actively job searching due to range of factors often related to disability or engagement in other activities.

Underlying issues relating to structural unemployment cannot be solved by increasing income support payments. At present the reality of the contemporary economy contradicts the old rationale for allowances as a form of short-term transitional support. The larger challenge is to create an inclusive economy which actually offers paid work for all through technological, economic and social policy reform.

Notwithstanding, there is also growing concern regarding the adequacy of the Newstart payment even for short-term unemployed. The ACTU has recently expressed concern about the low replacement rates for workers who lose their jobs. They point to the extremely low replacement rates which are insufficient to allow individuals and families to maintain their living standards, including meeting mortgage and other repayments during the search for work. To this end the ACTU is exploring options regarding alternative forms of unemployment insurance in addition to Newstart Allowance (Belchamber 2010).

## Adequacy of Newstart Allowance

This submission looks at the adequacy of Newstart Allowance to provide a decent standard of living for recipients in relation to income poverty and vulnerability, housing and wellbeing. We also consider the adequacy of the payment in meeting the expectations of the Australian community and relative to other developed countries. We note that in considering the adequacy of payments, the Henry Review found that:

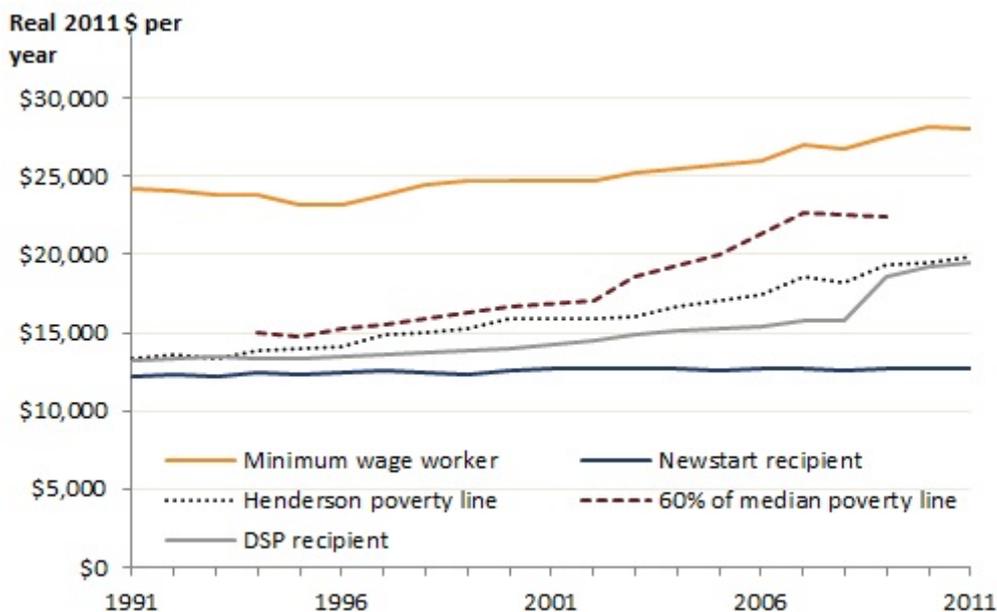
while theory cannot tell us what the rates should be for different payments, a number of factors can be considered. These include '*community standards*', expected *duration* on payment, *incentives* to work and the overall *coherence* of the income support system (Treasury 2009, p. 500).

## Inadequacy for keeping people out of poverty

Among the working-age population, the household types most likely to be in income poverty are single parents (most of whom are women) and their children (19.4 per cent) and single people (19.5 per cent) (Melbourne Institute 2009). The Brotherhood's work providing assistance to jobseekers and our research indicate that Newstart Allowance simply does not enable individuals to live a decent life, meet their own basic needs and participate socially and economically within their communities.

Based on common measures, the rate of Newstart Allowance is well below the poverty line. Figure 2.3 compares the rates (in 2011 dollar values) of the Disability Support Pension and Newstart Allowance over time with the minimum wage and two measures of poverty—the Henderson poverty line and 60 per cent of the median income.

**Figure 2.3 Newstart Allowance and Disability Support Pension compared to two poverty lines**



Source: Cowgill 2012

The replacement rate (allowances as a percentage of wages) for a single allowee is currently 46 per cent of the net earnings of a minimum wage earner, while a single Age Pensioner receives 60 per cent. Compared with a male on average wages, a single allowee receives 25 per cent, while an age pensioner receives 33 per cent.

In addition to measures of income poverty, Peter Saunders and colleagues (Saunders, Naidoo & Griffiths 2007; Saunders & Wong 2012) have examined levels of deprivation, defined as enforced lack of socially perceived essentials. This measure is based upon current community understandings of 'the essentials of life'. By this measure, existing income support levels are not adequate to protect recipients from high levels of deprivation and need to be increased (Saunders, Naidoo & Griffiths 2007). When comparing levels of deprivation of groups by income source (including low-wage workers and different pension and allowance recipients), Newstart Allowees were most likely to be suffering deprivation in relation to four or more items and Parenting Payment recipients and Newstart Allowees had the highest mean deprivation scores (Saunders & Wong 2012).

### Youth Allowance

It must be noted that the base payment for Youth Allowance is even lower than that of Newstart Allowance. All comments about the adequacy of Newstart Allowance therefore apply to an even greater extent to Youth Allowance rates for individuals living away from home. We note that there is no evidence that independent young people have a lower cost of living than older people since food, housing and transport costs do not change with age. For this reason we recommend that the rate Youth Allowance for independent young people be increased to match Newstart Allowance.

## Financial vulnerability and social exclusion

The Brotherhood's research regarding financial inclusion for people relying on income support during the working years indicates that unpredictable events, such as job loss, becoming a single parent or the incidence of ill-health or disability become the source of financial hardship and can lead to cumulative or persistent forms of disadvantage (Arashiro 2011). Single men in particular were found to be exposed to high risk of social isolation (Arashiro 2011). Other research highlights the effects of the accumulation of poverty experienced by older single women over the life course due to part-time employment, low superannuation and periods out of the workforce to provide family care (Cerise 2009).

Brotherhood research found that financial vulnerability caused by job loss, even for short periods of a few months, was sufficient to push individuals from no debt to having accumulated debt. Low and irregular income immediately affects people's ability to plan ahead and mitigate risk. For example, a decision to live in the outer suburbs where rents are more affordable could increase the risk of being socially isolated as well as reduce access to a larger pool of job opportunities.

Reliance on Newstart Allowance also places individuals at risk of accumulating debt due to the very low rate of income. Those who are already in debt when commencing payments are placed at risk of defaulting on repayments, sometimes with significant consequences. Many participants in the Making Work Pay study had accumulated debts, some prior to losing their jobs or becoming a single parent, and others as a direct result of attempting to cover the cost of living and pay for unexpected major expenses while living on income support (Bodsworth 2010). Over a fifth of the participants in that study had large personal loans or credit card debts. Debt accumulation and repayment created a vicious cycle for many, particularly as credit card use often increased during periods of unemployment to cover expenses that they could simply not afford to pay, particularly on Newstart Allowance. As debts increased, their ability to make even minimum repayments decreased. Then, upon return to work, any financial gains were allocated to debt repayment.

### Case study 1: Samir<sup>1</sup>

Samir, a migrant from an English-speaking African country, was married with five children. He had lost his job during the financial crisis and was looking for work. After paying for all basic needs such as rent, utility bills and food, he was left with \$50–\$60 [each fortnight] from his Centrelink payment. He could not afford to pay for his car registration, which reduced his chances in the competition for jobs:

I use public transport to go [to interviews]. And sometimes when you tell any employer you have no car or your car has this problem, they are not going to look at you because they don't want to waste their time.

Source: Arashiro 2011

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<sup>1</sup> All names used in this submission are pseudonyms

## Meeting housing needs

### Housing stress – private rental

The most common form of housing tenure for Newstart Allowance recipients (45 per cent) and Parenting Payment recipients (37 per cent) is private rental with rent assistance (Treasury 2009). Individuals receiving income support and renting privately are eligible for Commonwealth Rent Assistance (CRA) in addition to their main income support payment. Anglicare Australia's (2012) most recent rental affordability snapshot, examining affordable and appropriate rental options for people on low incomes, found that in Adelaide, Brisbane, Canberra, Darwin, Melbourne and Perth there were no affordable rental options in the majority of cities for single people living on Newstart, Youth Allowance and Austudy (and very few in Sydney and Tasmania). There were similar results for single parents on Newstart and couples with two children on Newstart. Affordable rent is defined as rent which is less than 30 per cent of household income.

**Table 2.2 Rent Assistance payments by family type**

Family situation	Maximum payment per fortnight
Single, with no children	\$120.20
Single, with no children, sharer	\$80.13
Couple, with no children	\$113.20
Single, one or two children	\$140.98
Single, three or more children	\$159.46
Couple, one or two children	\$140.98
Couple, three or more children	\$159.46

Source: Payment Rates for Rent Assistance (Department of Human Services 2012)

Young people living independently are among the hardest hit by rental (un)affordability (Archer 2012). Most independent young people who are either studying or seeking work receive Austudy or Youth Allowance (the lowest allowance payments); as a result two out of three are still in rental stress after receiving Rent Assistance. Young people are also penalised because those living in shared accommodation receive reduced Rent Assistance (Archer 2012). Sharing accommodation can pose further financial risks for young people, particularly women, who may be deemed to be in a domestic relationship with their housemate, jeopardising their income support (Sleep et al. 2006).

Like allowances, Rent Assistance is indexed to changes in the CPI, not actual changes in private rents. Median real weekly rent across all Australian capital cities has risen from \$164 in March quarter 1995 to \$232 in September quarter 2009. This means that the cost of rental housing has increased by 41 per cent *more* than the general cost of living while maximum Rent Assistance has remained constant in real terms over this period (Colic-Peisker, Ong & McMurray 2010). Both the Harmer Pension Review (FaHCSIA 2009) and the Henry Review (Treasury 2009) have noted that CRA is increasingly inadequate and have recommended fundamental reform. This includes linking the mechanism for indexation of the payments to real rental costs.

### Box 2.2 Case study 2: Gareth

Gareth was 39-year-old jobseeker who described himself as ‘technically homeless’. He was living in a bed-and-breakfast after falling out with his brother. When interviewed, he had been out of full-time work for five years, ‘Because basically I’ve been quite ill with depression. It’s been very difficult, because I don’t have a lot of money I can’t get decent help’. Gareth came from a middle-class family and had gone to private school and university. He had access to cultural, economic and social capital. His ill health and disability, along with the falling out with his family, had caused him to lose money and relationships, and, his situation kept ‘getting worse’. Lack of stable housing and paid work combined to exacerbate his situation:

It’s definitely connected and also I suffer from depression, so it all feeds back into my depression. I live in a small room ... I’m not really convinced that this is such a fantastic situation as the government and the politicians keep trying to tell us they’re doing all these wonderful things. Well, they are actually not, because no-one is helping the long-term unemployed and that’s also linked into homelessness. That’s how people become homeless, because they can’t get a job.

Source: (Bowman 2010)

### Homelessness

Recent figures regarding clients receiving specialist homelessness services in Australia found that 24 per cent were on Newstart Allowance and 10.8 per cent were on Youth Allowance, making these combined the largest group receiving specialist homelessness support. The Brotherhood’s research into the decision making of Newstart and Parenting Payment recipients found clear links between unemployment, receipt of income support, high private rents and homelessness (Bodsworth 2010). The income support recipients interviewed for the Making Work Pay project identified experiences of fractured employment combined with similarly unstable housing (see also Dockery et al. 2008). For some people there was a relatively quick slide into homelessness and a much more difficult journey out again: the lack of housing made it difficult to find employment, and lack of employment made it extremely difficult to find affordable housing, leaving people effectively locked out of both secure housing and the labour market. While homelessness affected a small number, the majority of participants were concerned about the high private rents and insecure tenure. Other research has similarly found that the unemployed and non-participants in the labour force experience long-term housing stress and chronic housing affordability problems (Wood & Ong 2009).

### Inadequacy for transitions to work

Brotherhood research (Bodsworth 2010; Bowman & Clarke forthcoming) has also found that living on a very low income presents further barriers to workforce participation due to the costs associated with the transition into paid employment. These include the costs of transport or of purchasing, registering and maintaining a car. With much low-cost housing located far away from jobs, a car is essential. Many jobs also require the employee to have a driver’s licence and their own vehicle. For young jobseekers experiencing disadvantage the cost of obtaining a drivers licence and paying for lessons (particularly if they do not have parents or other adults who are able and willing) is a significant barrier to employment, particularly in trades (Bodsworth 2012).

Jobseekers also raised concerns about the one-off costs of a new job, particularly the need to have presentable clothing for job interviews and clothing and safety equipment such as steel-capped boots for ongoing work. Work in trades often required acquisition of ‘tickets’ such as occupational health and safety certificates and other licences. Work in services, corporate or professional environments for women often costs associated with hair, makeup and clothes.

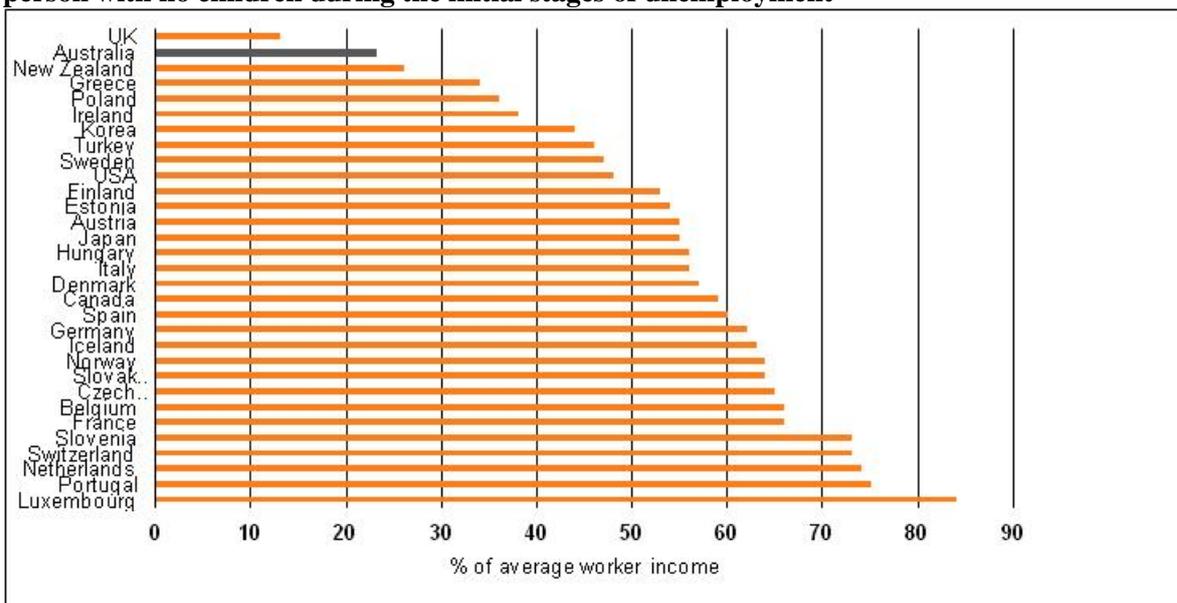
### Adequacy according to Australian community standards?

The question of adequacy can also be considered in relation to whether the current allowances meets the needs of the Australian community. In this regard, the social security system is best understood as part of a broader social contract, in which all community members are invested, and individuals, groups and the state both receive benefits and bear responsibilities. The notions of a social safety net and a decent life and ‘fair go’ for all are strongly held tenets in the Australian community. Recent research indicates that few Australians believe that the current unemployment benefit of \$245 per week is sufficient to cover even the basic costs of living (Denniss & Baker 2012). In an online survey of a representative sample of 1034 Australians, individuals were asked about the minimum income required to meet the cost of living (half were asked how much a single adult needs each week to meet the cost of living and half were asked how much they thought a single unemployed adult should receive per week from Centrelink to avoid bias). On average, respondents to the first question stated that \$454 per week was required to meet the cost of living (nearly double the current Newstart Allowance). The average amount that respondents felt unemployed adults should receive was \$329 per week (\$84 more than the current Newstart Allowance).

### Adequacy by international standards – how does Australia compare?

The Organisation for Economic Co-operation and Development (2010) has expressed concern about the adequacy of Newstart and highlighted its position as well below the OECD average for the initial stages of unemployment (Newstart gradually rises above the average, due to the structure of benefits in many other countries which offer much higher replacement rates for a limited time, with recipients then moved onto a lower social assistance payment).

**Figure 2.4 Unemployment benefit as a percentage of average worker income for a single person with no children during the initial stages of unemployment**



Source: OECD 2012

In terms of public social expenditure including pensions, benefits and health care in 2007, the year before the global financial crisis, Australia spent only 16 per cent of GDP whereas the OECD average was just over 19 per cent. Australia's spending as a proportion of GDP was less than the United States and Japan. The only countries with lower spending than Australia were countries with developing economies such as Mexico, Chile and Turkey (Adema et al. 2012).

Further, Australia's spending on active labour market programs is seventh lowest of 30 countries, well below the OECD average. While the top five ranking countries spend over 1 per cent of GDP on active labour market programs, Australia only spends 0.32 per cent (Horn forthcoming; OECD 2011).

### Mechanisms for assessing the adequacy of income support payments

Australia does not have an independent mechanism to assess and set the level of income support payments, unlike the minimum wages which are regulated by Fair Work Australia through mechanisms which take into account changes in the costs of living and capacity for employers to pay (Denniss & Baker 2012). This means that adequacy of payments remains a highly politicised issue. Groups with stronger community support and capacity to lobby for changes are therefore more likely to achieve increases (for example, the Harmer Review looked only at pensions).

### Summary

The current levels of Newstart and Youth Allowances fail to meet all tests of adequacy. We recommend that the base payments be increased by \$50 per week as a matter of urgency. The call for at least a \$50 per week increase to Newstart Allowance is based on the recommendation by the Henry Review that single people on allowance payments should get the same increase received by pensioners (in 2009), now equal to at least a \$50 per week increase (ACOSS 2012).

Our remaining recommendations are set out at the end of this submission.

**Table 2.3 Overview of adequacy assessments**

<b>Adequacy of Newstart Allowance</b>	<b>Yes</b>	<b>No</b>
Keeps jobseekers and income support recipients out of poverty and deprivation?		<b>X</b>
Provides a buffer against social exclusion and financial vulnerability?		<b>X</b>
Enables individuals to afford adequate housing?		<b>X</b>
Provides security against homelessness?		<b>X</b>
Provides sufficient income to cover the costs of transitioning into employment?		<b>X</b>

### 3 Appropriateness of allowances as a support into paid work

The second term of reference for this inquiry is the appropriateness of the allowance payments system as a support into paid work, with particular reference to

- (i) the effectiveness of the payment as an incentive into [paid]<sup>2</sup> work
- (ii) the effectiveness of the allowance payment system in facilitating transitions between [paid] working and other activities, such as studying, caring and retirement, or in the event of illness or disability, and in helping or hindering recipients to overcome barriers to employment, and
- (iii) the impact of the differences between pensions and allowances on the transition between [paid] working and other activities.

#### Incentives to undertake paid work

##### Poverty traps and the role of EMTRS

The interaction of income support payments and concessions with income from paid work is complex and can have a negative impact upon workforce participation and decisions regarding hours of paid work. There is considerable evidence regarding the impact of effective marginal tax rates (EMTRs) in creating powerful disincentives to enter or increase paid work for income support recipients and low-income earners. Some income support recipients face high EMTRs of over 50 per cent if they gain some paid employment, due to the withdrawal of their income support payments. These disincentives are compounded by the different indexation of pensions and allowances and the withdrawal of concessions.

The gaps between pensions such as the Disability Support Pension and allowances such as Newstart Allowance can also create disincentives for people on the higher pension payments to re-enter the workforce, for fear that if they found themselves again in need of support, they would only be able to claim the lower allowance. In addition, individuals and families moving from income support into employment face the prospect of losing their eligibility for the Pensioner Concession Card or Health Care Card which entitles them to cheaper medicines and to concessions (varying across states) for utilities, health care, transport and education.

##### Recent changes

The Brotherhood of St Laurence recognises and commends the changes the Australian Government has made to improve taper rates for Parenting Payment recipients, Newstart (principal carer) recipients and Youth Allowance recipients in full-time study in recent years. Notwithstanding these changes, we consider that there is room for further improvement.

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<sup>2</sup> We note that much productive work undertaken by income support recipients and other members of the community—predominantly women—is unpaid.

## Taper rates and free earning areas

As Table 3.1 shows, different payment types have very different free areas (the amount that an income support recipient can earn before their payment is reduced); taper rates (the rate at which income support payments are reduced per dollar earned); cut-off points (maximum earnings while still receiving some income support payments); amount of Working Credits that can be earned; and the level of the liquid assets test (if liquid assets exceed a certain amount, a waiting period applies before commencement of payments).

**Table 3.1 Comparison of free areas, taper rates and cut-off rates**

	<b>Newstart Allowance (single)</b>	<b>Youth Allowance (jobseeker/earn or learn) (single, away from home)</b>	<b>Youth Allowance (full-time study-independent)</b>	<b>Newstart Allowance (principal carer)</b>	<b>Parenting Payment</b>	<b>Disability support pension (single over 21)</b>
Base rate		\$402.70	\$402.70	\$529.80	\$648.50	\$695.30
Earnings free area	\$62	\$143	\$400	\$62	\$176.60 (plus \$24.60 for each additional child)	\$152
Taper rates	50 cents in the dollar (\$62–250) 60 cents in the dollar (\$250+)	50 cents in the dollar (\$14–250) 60 cents in the dollar (\$250+)	50 cents in the dollar (\$40–480) 60 cents in the dollar (\$480+)	40 cents in the dollar \$62+ <sup>a</sup>	40 cents in the dollar \$176.60+	50 cents in the dollar \$152+
Cut-off point	\$909.50	\$832	\$1084.50		\$1797.85, plus \$24.60 for each additional child	\$1663
Working credit	Yes Max equivalent to \$1000 One working credit per dollar earned under \$48 in a fortnight	Yes Max equivalent to \$3500 One working credit per dollar earned under \$48 in a fortnight.	Yes (called Income Bank). Max equivalent to \$10,000 One credit per dollar earned under \$400 in a fortnight.	Yes – same as Newstart	Yes	Yes
Liquid assets	Delayed payment if over \$3000	Delayed payment if over \$3000	Delayed payment if over \$3000	Delayed payment if over \$6000	N/A	N/A

<sup>a</sup> New policy takes effect from 1 January 2013

(<http://www.deewr.gov.au/Employment/JSA/JobSeekerSupport/Pages/parentsCarers.aspx>)

Note: All payments, free areas and cut-off points refer to fortnightly amounts

Source: Department of Human Services 2012

One key distinction appears to be whether or not recipients of a payment type are encouraged to participate in full-time or part-time work. Easing the taper rates for Newstart (principal carer) and Youth Allowance (full-time student) was justified by the fact that these allowees were not expected

to be engaged in full-time employment. Changes to the free area (for Youth Allowance) and taper rates were designed to encourage more hours of work and to 'make work pay' for allowees.

However, consideration should be given to reducing the taper rates for other Newstart Allowees, particularly those who have been assessed as having partial work capacity and will therefore be looking for part-time work. The Henry Review supported more gradual withdrawal rates for primary carers of young children who preferred part-time work and for people with disability who were unable to work full-time (Treasury 2009). Recent Budget measures have reduced taper rates for principal carers receiving Newstart but not for people with a partial capacity to work.

The same could be considered for the long-term unemployed, who would like full-time work but are more likely to gain part-time employment, given the current labour market. In December 2011 more than 50 per cent of jobseekers gaining employment did so in casual, temporary or seasonal jobs; and more than one third found part-time work but wanted more hours (DEEWR 2011). Brotherhood research with single Newstart recipients without carer responsibilities indicated that most want full-time work but have difficulty finding it (Bodsworth 2010; Bowman & Kimberley 2011). Taking on part-time work results in little financial benefit due to the harsh taper rates; and many people are wary of the risks of taking up casual employment, namely the job coming to an end and having to reapply for income support. Facilitating and supporting the transition into part-time employment may have benefits for longer-term and more highly disadvantaged jobseekers in relation to confidence and work experience, and with assistance, may result in full-time employment.

Further, the Brotherhood's research with young people suggests that for many, a combination of part-time work and part-time education may be preferable to 'earning *or* learning'. While the earn or learn measures allow for part-time education and a mix of other activities, there are incentives within the JSA system for providers to encourage jobseekers to take on full-time employment, rather than a more appropriate combination of part-time employment and part-time study (Bodsworth 2012). Yet the current high taper rates present a disincentive for young people to take on part-time work.

## Working credits

The Brotherhood's research suggests that the Working Credit system was not well understood by income support recipients, if they knew about it at all (Bodsworth 2010). Working credits enable income support recipients to earn credits in fortnights where they earn below a particular threshold (equivalent to one credit for each dollar under the threshold earned). For example, a Youth Allowance (full-time student) recipient who earns only \$150 in a fortnight receives 250 credits (\$400 less \$150). The credits then effectively reduce the amount of future earnings counted under the income test. For example if the person who has 250 credits earns \$300 in the next fortnight, their income support payment will be assessed on just \$50 earned. This means that people moving into work after a period of unemployment will keep more of their income support payment for longer.

Consideration should be given to increasing the amount that can be earned by Newstart Allowance recipients and utilising the Working Credit system could be to support individuals moving into and out of insecure employment. Currently a Newstart recipient who is out of work for one year accrues only 1248 credits—which would be quickly depleted should they start work at even the minimum wage.

## Transfers between payments

As Table 3.2 shows, transfers between payments are fairly common for working age income support recipients, triggered by changes in participation in work or education and training, age, relationship status, health and capacity to work, and caring roles (for children or people with disabilities or ill health).

**Table 3.2 Transfers between income support payments**

Common transfers in 2008	Number of people
Newstart → higher pension (DSP, Carer Payment or PPS)	5,700
PPS → DSP and Carer Payment	8,000
PPS → NSA	18,000
Carer Payment → NSA	6,300
DSP →? Few people move off DSP, those who do move to the Age Pension.	

Source: Treasury 2009

There are also numerous movements between youth (Youth Allowance Other) and student payments (Youth Allowance Student and Austudy), and higher-rate payments such as Newstart Allowance and Parenting Payments. These most likely reflect the cessation or commencement of full-time study, and reaching certain birthdays (for example transferring from YA (Other) to Newstart Allowance) or the birth of a child (Treasury 2009).

As pointed out in the Henry Review, the large number of transfers between working-age payments suggests that there is a large group of people who have a similar capacity to work but who receive very different levels of income support (Treasury 2009) – for example young job seekers aged 21 receive lower payments than those aged 22, sole parents with an oldest child aged 7 receives very different payments to those with an oldest child aged 8). This raises questions not only about equity but also about the creation of unintended incentive effects.

While the analysis of EMTRs measures how various policies can interact to create unintended structural disincentives to gain employment or increased hours, it focuses only on the effects of income. An underlying assumption is that payment rates alone are the primary influences on the decisions and behaviour of income support recipients in relation to paid work. Issues relating to risk (particularly from insecure work), care of children, health and disability as well as additional costs associated with work also play a role in shaping individuals' decisions regarding paid work (Bodsworth 2010).

### Transitions into and out of Disability Support Pension

Similar issues apply for Disability Support Pension recipients who engage in employment and then risk being allocated to the lower Newstart Allowance should their work fall through or their disability render them unable to work. At present, DSP recipients who work more than 30 hours per fortnight cease to receive their payments. The DHS website states that DSP recipients working more than 30 hours who stop working or reduce their hours within two years of commencing work can contact Centrelink to check whether their payment can recommence. Further, they remain entitled to the Pensioner Concession Card for 12 months after commencing employment. These measures are positive ones; however, many recipients are unclear about the circumstances under which they can recommence their payment.

While the government is concerned with the apparent incentives to move from NSA to DSP, our research suggests that for many people, it is not the income or lack of job search requirements but the security offered by the payment which is the most attractive. Increasing security for NSA recipients may address their concern. Similarly, more DSP recipients might be encouraged to take on part-time employment if the risk of losing eligibility to DSP was reduced.

### Case study 3: Lucinda

Lucinda was a 43-year-old un-partnered mother who had been employed full-time on contract with a government department. When she was first interviewed she had been employed full-time on contract with a government department. When the contract ended she became unemployed and was in receipt of Newstart. Following surgery for a back injury, she received Disability Support Pension, while also working part-time.

I didn't initially start looking for work again until probably early this year, I just gave myself a really good rest and then I was only looking on a casual basis because I had since been granted a disability [pension] because of my back. So I just wanted something really to keep me busy and to supplement my income, and in August this year I landed myself a part-time job with the local post office, like a little agency ... I wasn't aware of the thirty-hour restriction and I did thirty-one hours. They cut me off. Yeah without notice or anything ... I [eventually] sorted it all out and they reinstated it, and everything's fine now.

Source: Bowman ERA study

As Table 3.1 above indicates, the differences between payment types are many, creating a complex framework which is difficult to navigate, particularly for recipients. The monetary differences between payments also create incentives to become eligible for and remain on more generous payments. The Henry Review importantly noted that the 'greater the difference between the high and low payment rates, the more critical it is to ensure that categories reflect real differences between individuals' (Treasury 2009).

### Carer Payment

The Carer Payment, a pension with the same base rates and taper rates as the Disability Support Pension, provides financial support to carers unable to work in substantial paid employment (more than 25 hours per week) due to providing full-time daily care for someone with a severe disability, medical condition or a frailty due to age. Most carers are aged over 45 and a disproportionate number are women who are at high risk of losing attachment to the workforce through their caring responsibilities and consequently at higher risk of poverty and social exclusion as they age. Carers in receipt of this payment are not allowed to undertake more than 25 hours of activity including paid work or education and training. It is the Brotherhood's view that the current 25 hour rule relating to volunteering, study and training limitations is likely to act as a disincentive for carers to engage in paid work. It is inflexible and may have the effect of unnecessarily reducing the opportunities for carers to remain attached to the paid workforce.

Some recipients of the Carer Payment will transition on to Newstart Allowance, commonly prompted by the death or permanent institutionalisation of the person who has received care, so the further reduction in income coincides with a traumatic event. In 2008 around five per cent of Carer Payment recipients moved to Newstart Allowance. Time away from the labour market due to

providing care also adversely affects carers' labour market skills and experience. In 2007, 36.8 per cent of recipients had been on the payment for one year or less. The next largest group (22.3%) had been on the payment for more than five years (FaHCSIA 2007).

The transfer from Carer Payment onto Newstart can result in an income reduction of more than \$200 per fortnight and can be thought of as a 'major equity problem' intensified by the growing gap between pensions and allowances (Whiteford 2011). This equity problem is compounded by the fact that these carers are predominantly older women who will face additional gender and age related penalties in the labour market.

## Facilitating transitions across the life course

The current income support system is complex and inflexible. It is also designed primarily around workforce participation with little consideration of transitions out of work, or between other activities. Policies are needed that insure against new social risks but also look at the distribution of time allocated to paid and unpaid work. The income support system is slow to respond to changes in the new life course and maintains many features based upon old dualisms – such as unemployed jobseeker / full time worker; and (male) breadwinner / (female) caregiver.

The current structure of the work requirements for Newstart Allowance (principal carer) recipients (mostly women) does not offer them flexibility to combine paid work and care responsibilities. The rigid participation requirements of 30 hours paid work per fortnight constrain the ways in which paid work and parenting can be combined. This is intensified by casual work (commonly the only employment option for single parents) which itself offers the least 'flexibility' for workers (Bowman et al. forthcoming 2013). In particular, parents face difficulties managing care for children during school holiday periods. We suggest that single parents and others subject to similar participation requirements should be allowed to 'bank' hours worked in excess of 30 hours a fortnight (Bodsworth 2010). Single parents could increase their hours when filling in for co-workers on leave or during busy periods and then use their 'banked' hours to work fewer hours during other times such as school holidays. This flexibility would recognise that single parents experience time pressure, in addition to income pressure, and would also enable them to take on positions with irregular hours.

Participation by single parents whose children are older than 6 years could also be calculated quarterly, allowing these parents to work more during some periods and less in others without failing their participation requirements of 30 hours per fortnight. This would allow greater flexibility, particularly in jobs which do not offer guaranteed hours but are likely to 'even out' across a longer time span.

A similar system of 'hours banking' could be effective for part-time workers with partial capacity in casual work, enabling them to take on more shifts during times when they were able, and take time off when unwell or unable to work. Similarly, this flexibility would protect income support recipients employed in casual or seasonal work which involves peak times and slow periods.

## **4 The impact of the changing labour market on the allowance system**

The third term of reference is the examination of impact of the changing nature of the labour market, particularly the rise of insecure work and decline of unskilled jobs, on the:

- (i) nature and frequency of individual interaction with the allowance payment system, and
- (ii) over and underpayment of allowances to recipients.

### **Insecure work and the need for greater security in the income support system**

The Making Work Pay study (Bodsworth 2010) also suggested that for many income support recipients, staying ‘on the system’ after commencing employment was extremely important, as was retaining access to concessions, at least during the initial transition into work. Many Newstart recipients without care responsibilities were more concerned, when looking for work, about the perceived security and ‘permanence’ of a job than the pay offered. This applied especially to individuals who had experienced long-term unemployment or cycling between insecure employment and income support. Their primary concern was managing the risk of finding themselves with neither paid work nor income support, given the lack of certainty involved in casual work. These income support recipients identified the various waiting periods and the bureaucratic processes involved in re-applying for Newstart Allowance as serious disincentives to taking short-term or insecure work and also sources of ongoing anxiety.

At present Newstart Allowance recipients may be able to retain their concession card and some other benefits for up to 12 weeks after commencing work sufficient to reduce income support payments to nil (after working credits are used up). It is unclear under which circumstances this applies. The Brotherhood considers that this should be extended to 26 weeks and greater clarity provided to recipients regarding this provision. The process for re-commencing payments if required during this period should be streamlined and clear. Such measures would allow Newstart Allowance recipients greater security to take on work which may not be ongoing. Similarly, single parents on Newstart may be entitled to a Health Care Card up to 26 weeks after taking up employment. This period should be considered a safety net period enabling quick reconnection to Centrelink should employment cease during this period. These measures should be made available to all recipients and clearly communicated.

### Case study: Kyle

Kyle, a 21-year-old on Newstart, living with his partner and 8-week-old son, had a history of cycling in and out of work. He was looking for permanent, full-time work because he had previous experiences of taking on employment which had not been ongoing, including a job as a personal support assistant.

I wasn't on the dole then and I was relying on that [personal support assistant work] and sometimes I'd get one day a fortnight. And when you go to the dole and try and explain it to them ... you might wait three weeks for some more money and end up two weeks behind. Something's got to be done about the way they work at Centrelink ... See, I went off it for a while because there was no point in putting my form in, I thought, because I'm getting paid anyway so I'm not getting money off them ... Yeah it was good for a while, then, as I said, [I was only offered] one day a fortnight, I couldn't even pay the rent on that ... So I just said [to the employer, 'Oh tell them to stuff it'. I'd rather be on the dole, at least I know I'm getting paid ... But when it's [just the dole] you think, 'What do I pay? Rent or food?'

Source: Bodsworth 2010

Similar disincentives to take on work exist for Disability Support Pension recipients, however for them the risk involves losing one's payment. This risk is intensified by the insecure labour market and unpredictable health issues such as episodic mental illness. One participant in the Making Work Pay study had left his permanent government job due to a flare-up of his bipolar disorder. He was working casually and had been moved from Disability Support Pension to Newstart (partial capacity). His comments highlight the importance for many income support recipients of having some security, including staying in 'the system' for two years even when not receiving payments but able to immediately recommence if their work fell through:

Chris: [It would be good if] if they made it longer, so that you could still be on their books, and all the paper work's covered, but you're not getting any money from Centrelink but *they're covering you psychologically, security-wise* [emphasis added]. So if anything went wrong with the job, you could just walk straight back in ... It's [about] security. The thing is, a lot of the jobs that we're applying for people, like myself ... It's just bottom of the line work. It doesn't come with a lot of security anyway ... and I can't save money because I'm not earning enough ... you can't build up a nest egg, you've got no-nothing to fall back on.

### Reporting

Individuals engaged in non-standard jobs and those attempting to start their own business often face difficulties reporting their incomes to Centrelink. One single mother reported problems with Centrelink when trying to start her own freelance administration business. Colleen described attempting to report her income to Centrelink as a 'nightmare from hell' which directly led her to decide to shut down the business. Her frustration was compounded by the feeling that she had shown initiative, which she felt ought to be rewarded by Centrelink, but instead found herself disadvantaged by the way her earnings were estimated.

## Insecure work and public housing

While not directly related to the income support system, the Brotherhood of St Laurence's work with people living in public housing in Melbourne has also highlighted the difficulties faced by many casual workers due to the impact of their income on their public housing rents. Because rents are calculated based on 25 per cent of household income, variable weekly or fortnightly pay and delays in adjusting rent calculations can result in people struggling to pay their rent if their shifts decrease or work dries up altogether.

Similarly, other public housing tenants who take up paid work are reluctant to take on extra hours which may lead to sustainable careers because of the combined effect of increased rent, loss of concession entitlements and higher marginal tax rates on their earnings. Policies to overcome disincentives to job advancement or retention relating to workers in social housing, such as rental holidays and concession breaks, are important to increase the chances of job 'stick'.

## 5 Call for action

### Urgent action

#### Adequacy of payments

1. Increase the base payment for all allowances by \$50 per week
2. Bring the indexation of allowances into line with the indexation of pensions
3. Increase Youth Allowance (Other) independent rates to match Newstart Allowance, on the grounds that young jobseekers living away from home will have the same costs as older income support recipients.

#### Removing disincentives and simplifying payments

4. Increase and simplify the 'free areas' for Newstart Allowance payments
5. Reduce EMTRs for Newstart recipients with partial work capacity in order to make part-time work worthwhile (in line with changes made to Newstart (principal carer). Change taper rates to 40 cents in the dollar flat rate for NSA recipients with partial capacity to work.
6. Consider changes to reduce disincentives for long-term unemployed jobseekers to move into part-time employment.
7. Consider changes to Youth Allowance (Other) to enable more flexible combinations of part-time paid work and part-time study or other activities.
8. Simplify and make more generous the Working Credit system to enable individuals who transition into paid work to retain more of their income support payments for longer, in recognition of the increased costs associated with paid work.

#### Increase flexibility and security

9. Enable allowees with part-time work requirements to 'bank' additional hours of paid work to enable greater flexibility in combining paid work and other activities. This would enable parents to more easily manage school holidays and could allow individuals with disabilities to take time away from work for health reasons without jeopardising their income. Alternatively, work requirements could be calculated quarterly rather than fortnightly.
10. Simplify and fast-track the transition back to income support for allowees for 12 months after exit, in recognition of the insecure labour market.
11. Enable Carer Payment recipients to remain on their payment for 26 weeks upon the death or institutionalisation of their relative to smooth the transition onto Newstart Allowance.

#### Rent assistance

12. Index Commonwealth Rent Assistance to an agreed indicator of private rents

## Medium-term reform:

13. Establish a public inquiry into current employment participation policies encompassing the income support system and the employment services system.
14. Replace the complex and ad hoc system of pensions and allowances with a single working age payment with top-ups for differing needs including those of sole parents, families with children, people with disabilities, people living alone, and people in insecure housing. This could involve:
  - common base rates with a common indexation formula both linked to cost of living and wages
  - activity tests based on categories that reflect individual circumstances, e.g. full time study, disability, principal carer. Not linked to base rates.
  - taper rates and income tests which may differ based on activity requirements (e.g. part-time or full-time paid work), but provide greater equity in relation to free areas. Further, expectations regarding paid work participation would be linked to analysis of the labour market and the profile of payment recipients.
  - supplementary payments based on costs associated with individual circumstances – private rent, disability or ill-health, sole parenthood, caring.
15. Establish an independent body to review rates of social security payments, evidence regarding costs of living and the effects of effective marginal tax rates and make recommendations to government. This body could also examine changes in the labour market and the impact of other policy changes upon the income support system to ensure payments continue to meet the needs of individuals and the community.
16. Increase investment in services for disadvantaged jobseekers and the long-term unemployed through the JSA system with increased allocation of Employment Pathways Fund and expansion of programs which provide pre-vocational and vocational training, support and paid employment with employers (including social enterprises).

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