



Making work pay

and making income support work

SUMMARY

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March 2010



Brotherhood
of St Laurence

Working for an Australia free of poverty

Published by

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A full report of this research, including data analysis
and detailed references, has also been published
and is available on the Brotherhood's website

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SUMMARY

With the Henry Tax Review in mind, this research began with the modest aim of documenting ways in which the tax and transfer system has created barriers against labour market entry for some unemployed people and sole parents through high effective marginal tax rates (EMTRs). What we found, however, through our in-depth interviews with 44 such people, was a far more complex, sometimes chaotic, pattern of incentives and disincentives which often fails to serve the best interests of these citizens. Our report calls for a wide-ranging overhaul of income support, housing and employment services to create a system that can indeed make the transition to work pay for some of the most disadvantaged members of our community.

The report exposes some serious structural flaws at the heart of Australia's income support system. It reveals a system still grounded in a false assumption of a labour market which effectively offers people a choice between unemployment and a full-time job, in which the latter is a guarantee of social inclusion. This world, however, vanished with globalisation and labour market deregulation. Today low-paid workers must deal with a labour market characterised more by job insecurity, high rates of casualisation, and truncated career structures (Pocock 2009). Our welfare system has failed to adapt to this new economic environment. Moreover, it has failed to equip our most disadvantaged citizens to manage the manifold risks they face in engaging with these insecure forms of paid work.

We believe that this research is particularly significant for policy makers because it takes us behind many of the myths which have been created around the behaviours of our citizens on welfare. For example, why do many of the more disadvantaged income support recipients remain 'on the system' rather than taking on paid work? It is partly because if they take on work which is short term or insecure they will likely face the penalty of 'falling off the system' and being forced to undergo the arduous process of reapplying for income support. Instead, they choose to stay on income support, despite this guaranteeing their ongoing poverty. In general, the research shows us a system in which inflexible rules surrounding income support, tax and public housing interact to create perverse outcomes, making paid work not only unattractive but simply not an option for many income support recipients.

Overwhelmingly the research reveals that people on income support have the same aspirations and goals in life as countless other Australians. What our study participants need and want is an income support system (and broader employment services) which can work with them towards these longer term goals and aspirations rather than just push them into dead-end work. Their goals include a desire for secure, ongoing work and for jobs 'with a future'. The study also shows that the current system inadequately recognises the care responsibilities and obligations of many, including single mothers, who are forced to manage care for their children around the demands of their paid work and the inflexible obligations of the income support system.

The research shows more generally that many recipients navigate the contradictions of an outdated income support system and attempt to make the best possible decisions about paid work in light of these contradictions. Indeed, in the current policy context, and given their personal circumstances, income support recipients are shown to make sensible and realistic decisions regarding engagement with paid work. These findings are in stark contrast with the stereotypes of welfare recipients as 'dependent on welfare' or incapable of making 'responsible' decisions, stereotypes which shape

both public opinion and government policy. Furthermore, many income support recipients are engaged in paid work, and those who are not want to work, but they also want paid work to be ‘worthwhile’ and, like most Australians, to enable them to ‘get ahead’.

The Making Work Pay study builds on previous research which identifies that single parents and Newstart Allowance recipients are affected by high effective marginal tax rates, which are thought to act as a powerful disincentive to return to work or increase hours of paid work, through the withdrawal of income support payments, concessions and rebates such as rebated public rents (Harding 2008). The present study provides a deeper understanding of the ways in which these financial incentives or disincentives are experienced by income support recipients and, importantly, the extent to which these factors and the other non-financial considerations influence actual decisions about paid work.

The report also provides real examples of the effects of ‘welfare locks’ for individuals and families on public housing waiting lists. Research by the Australian Housing and Urban Research Institute has found that welfare locks are created by the eligibility requirements for public housing, which require applicants to maintain their low incomes and income support recipient status in order to stay on the waiting list, thereby providing another powerful disincentive to look for or accept paid work during the waiting period (Dockery et al. 2008). The report includes stories from participants who are frustrated to find themselves trapped in such a way, wanting to work, but needing to house themselves and their family.

For more detailed analysis and examples drawn directly from the lives of our participants, readers are encouraged to look at the substantive report. Following are our key findings and policy recommendations.

Key findings from the Making Work Pay study

Participants faced disincentives to paid work created by the income support system and weighed up both the financial and non-financial costs

Participants overwhelmingly considered paid work to be beneficial and desirable, and most of those who were not working wanted to find paid work in the short to medium-term future.

Money matters—the financial incentives and disincentives in the income support system—were important. Most participants were very aware of how income from paid work would affect their income support payments and many took this into account in considering working hours.

However, these financial effects were often considered alongside other factors such as care of children, non-financial benefits of paid work, previous experiences of paid work and housing issues.

Participants wanted to ensure that paid work was ‘worthwhile’. This involved weighing up the financial benefits of work with costs including loss of income support and concessions, costs of travel and of child care, and other non-economic ‘costs’ including time away from children and the impact of work on their physical and mental health. Participants wanted to be ‘better off’ or to be able to ‘get ahead’ through paid work, and often felt that this was difficult to achieve, when financial and non-financial costs were weighed up.

Newstart Allowance recipients

I want to be cut off the payment as quick as possible. Locked up at home with your elderly parents is shocking, it's not conducive to having a good time ... But to get back to work, even if it's just a bit over the Newstart, I'd rather do that.

Ian, 48-year-old man on Newstart Allowance. Qualified electrician, looking for work. Divorced, living with his parents¹.

Unemployed Newstart Allowance recipients who were not caring for children had a strong desire to find work. This was due to the very low Newstart payment, combined with the stigma and other negative effects of unemployment. These participants generally wanted ongoing work, preferably full-time work, which would enable them to leave income support altogether.

The unemployed people we spoke to often had difficulty paying the basic costs of accommodation and food with their Newstart payments. Some were experiencing homelessness and frequently relying on charities for food.

These participants did not identify the current withdrawal rate as a disincentive to work, but instead identified other barriers which made entry into paid work difficult, including age, physical and mental health issues, drug use and criminal record. Most also commented on the current economic climate and the high numbers of job seekers applying for low-skilled jobs.

Single parents

I think I can earn \$200 a fortnight without it affecting anything. I think, roughly thereabouts. It's really confusing. Every dollar thereafter, you lose so much out of your pension. So I either work within \$200 a fortnight or I go hell for leather and I just blow the whole thing out of the water and do like, you know, \$50,000-a-year job.

Mardie, single mother of two pre-school aged children. Living with her mother, looking for work. Considering reconciling with her estranged husband, partly so he could help look after the children while she worked.

Parenting Payment recipients and Newstart (principal carer) recipients were more likely to combine income support with part-time or casual work. They frequently 'did the maths' to work out the optimal number of hours of paid work in relation to their income support payments. Many of these parents were required by Centrelink to work 30 hours per fortnight, which could be difficult to achieve regularly. Some had refused additional hours offered by their employers because they would not be financially 'worthwhile' due to the reduction of income support payments. Many single parents, especially those on Newstart (principal carer), expressed frustration that they could not earn more before their payments were withdrawn, and most felt they were unable to 'get ahead' financially.

Participants stayed on the income support system to manage the risk of the low-paid labour market and often found income support rules inflexible.

There is a mismatch between the increasingly deregulated, 'flexible' and casualised labour market and the income support system which is still largely based on a model of total unemployment or full-time paid work.

¹ Pseudonyms have been used for all participants in the report.

Many of the participants used income support to manage the risks involved in the insecure, low-paid labour market, while others attempted to manage casual and part-time work around their unpaid care responsibilities. Dealing with risk and juggling other responsibilities were in many cases as important as the financial and non-financial disincentives, in making decisions about paid work.

These participants all demanded greater flexibility *and* security from the income support system while navigating a labour market which frequently offered little of either, particularly for low-paid and often unskilled workers.

Newstart Allowance recipients

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, '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 like that you think, 'What do I pay? Rent or food?'

Kyle, 21-year-old man on Newstart, living with his partner (on Parenting Payment Partnered) and 8-week-old son in private rental accommodation. Highest education level year 10 equivalent. History of cycling between work and income support. Looking for work.

The perceived security and 'permanence' of a job were more important than the pay offered for many participants, particularly for those who had experienced long-term unemployment or cycling between insecure employment and income support.

These people were concerned about the risk of losing a job or not being offered enough shifts. They identified the various waiting periods to go back onto Newstart Allowance as a serious disincentive to taking short-term or insecure work and also as a source of ongoing anxiety. Remaining on Newstart was, for these participants, a reasonable way of managing the risks at the 'bottom end' of the labour market which offered only insecure work, particularly for low-skilled workers.

Single parents

A number of single mothers in the study faced difficulty juggling hours they were required to work by Centrelink with other obligations, and those who had moved from Parenting Payment to Newstart Allowance (principal carer) considered their new payment to be inappropriate for their role as parents.

The irony is, the bigger your children get, the more expensive their shoes are— you know? Please don't drop the amount I get given because as they get older the costs are greater. Soccer registration is \$90 and then you tell me that I can earn \$63 a week, out of \$450 a fortnight—I mean even the Parenting Payment was more. So all of a sudden you are dropped to Newstart, because you are 'long-term unemployed' and you are no longer 'parenting' and you are not a parent anymore, you are a 'job seeker' and you have to line up in the 'job seeker' queues. But I'm not a job seeker—I've got a job. And of course I want to contribute to my financial autonomy, but I want to work out what works the best. And my intention is that it's not going to be forever.

Zoë – 48-year-old divorced single mother of three children aged 17, 15 and 9 on Newstart Allowance (principal carer). Working part-time in retail.

Single mothers expressed frustration about Centrelink's rigid participation requirements of 30 hours paid work per fortnight, which they felt constrained the ways they could combine paid work with parenting. They wanted greater flexibility from both their employers and from the income support system to allow them to best care for their children.

The single parents who were no longer eligible for Parenting Payment, but instead received Newstart Allowance (principal carer), expressed strong views about the differences between the two payments—both about the lower base rate (\$81.20 less per fortnight in late 2009), and importantly, the amount they could earn before their income support was reduced. Many felt that their situation as primary carers of children was fundamentally different from that of job seekers looking for full-time work and that this ought to be recognised by the system.

Participants' housing circumstances directly affected their decisions regarding paid work

Housing circumstances clearly constrained and influenced decisions around paid work, and changes in employment status had flow-on effects on housing. The participants' stories also showed the interconnections between joblessness, the shortage of affordable private rental accommodation, homelessness and applications for public housing.

Despite receiving Rent Assistance, most Newstart Allowance recipients in the study found it extremely difficult to access affordable private rental accommodation. Those participants who were already renting often struggled to make their rent payments and were fearful of increases. Several participants on Newstart had previously been private renters but were now living with relatives or homeless, having defaulted on their rent payments. The insecurity, instability and high costs of private renting had led a number of participants to apply for public housing.

Participants who were on the waiting list for public housing were generally well aware that increasing their income from paid work could jeopardise their position on the list. This operated as a serious disincentive, significantly influencing their decisions regarding work.

For several participants, experiences of homelessness meant that securing ongoing housing was extremely important, and took priority over finding work. However, some people expressed frustration, as they also wanted to get paid work to increase their income and to pay off debts while awaiting the outcome of their public housing applications.

The scarcity of private rental property, insecure tenure and high private rents had affected many of the participants. Those who now lived in community, public or transitional housing but had previous experiences in private rental all placed as high a value on the security of tenure offered by social housing as on the lower rents. The rebated rent was also important as it changed with the tenants' circumstances: if they lost their job, their rent would be adjusted according to their reduced income.

To be honest, if I accepted a job, I would call [housing organisation] who own the transitional property, we've got someone there we can contact. But I think I'd be really careful not to work so much as to not go over that limit, but work as much as I could. It's sort of playing the system in a way—that you earn as much money as you can, without losing your benefits and that's pretty sad. It's not something I ever wanted to admit to, but it's just fact ... I don't want to go back to the caravan. But I want to work. I want to go out and be a night medical records clerk, which is something I've just recently applied for, and that's a really good job, and part of me goes, 'I would love that, that's a great opportunity',

but the other part of me goes, 'If I get that, I'm going to lose some of my Centrelink benefits, I'm going to lose my housing, is it worth it?' But that's not really the attitude that I wanted to walk out with, but that's what I've got unfortunately.

Erin – 21-year-old woman, with 15-month-old son, partnered. Recently homeless, living in transitional housing and on the waiting list for public housing.

Participants wanted greater support and assistance to find secure, ongoing work 'with a future'

I knew that unless, without assistance to get work, there wasn't much work available. It was just hard because I can't explain to employers what's going on, so basically what happens is; is that I get a job and do it for as long as I can before fatigue and that really sets in, and then ... it just crumbles because when I get to work I'll be just absolutely exhausted and they'd see that as, well obviously that I was lazy or, yeah.

Brad – 36-year-old man on Newstart Allowance. Suffers from medical problems which make it hard to sustain full-time work. Living in a squat, looking for work.

Participants' responses showed that they wanted assistance beyond simply addressing structural issues in the income support system and removing disincentives to enter paid work, particularly for highly disadvantaged job seekers.

Many expressed a need for greater support in finding work, 'on the job' training and work experience. Several of the more disadvantaged participants also required urgent assistance in dealing with mental illness, drugs and alcohol and homelessness which they felt needed to be addressed before they could realistically seek employment.

Even the most disadvantaged participants held positive attitudes to paid work. While some were not ready to immediately start work, this was related not to a negative view of work itself, but to concerns about the risks of insecure work, personal barriers and prioritising secure housing over employment.

Younger participants wanted jobs 'with a future' and were frustrated with being pushed into full-time work which offered limited employment progression. Many single mother participants also had clear longer term employment goals, but felt that the assistance offered by employment service providers and Centrelink emphasised taking any job and was not related to their aspirations.

Policy recommendations

This research makes clear the complex ways in which different policies and the structure of the labour market can interact to create barriers and disincentives to paid work for income support recipients. The following recommendations focus on key policy areas that could assist these groups of income support recipients to make work pay. The recommendations also suggest a ‘rebalancing’ of the system, with less emphasis on punitive measures to force people to work and more emphasis on financial incentives and assistance to return to work. It is also acknowledged, however, that for some people a full-time, permanent connection to the labour market will be difficult to establish and maintain. This must be recognised by the income support system, while still creating incentives and opportunities for people to engage in some paid work.

Increase incentives for paid work, through changes to the income support system

- The complex and ad hoc system of pensions and allowances should be replaced 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.
- The Newstart Allowance base payment (or new base payment, as proposed above, for single unemployed individuals, including those currently on Youth Allowance,) should be increased by \$30 a week to provide better quality of life, particularly for those who are long-term unemployed. Increasing the base payment would assist Newstart recipients to focus on looking for work instead of being preoccupied with meeting food and housing needs on the current inadequate Newstart payment.
- The withdrawal rates for Newstart Allowance should be reduced to 40 cents in the dollar for fortnightly earnings between \$62 and \$250 and 50 cents in the dollar for fortnightly earnings in excess of \$250 (compared with the current reductions of 50 cents and 60 cents in the dollar respectively). This would provide greater incentives to work for those people more likely to combine ongoing income support receipt with casual or part-time paid work and for longer term unemployed Newstart allowees.
- Single parents on Newstart Allowance (principal carer) should be entitled to earn up to \$166 per fortnight before their payment is affected (bringing it into line with Parenting Payment). The rate at which the payment is then withdrawn should be 40 cents in the dollar, the same rate as for the Parenting Payment. These changes would recognise that many will combine part-time work with income support for a time, particularly while their children are young, and enable these families to ‘get ahead’ financially.
- Greater incentives to work could also be provided for longer term unemployed income support recipients by extending the Working Credit system. At present, unemployed job seekers can accumulate up to 1000 credits if they earn less than \$48 per fortnight (for example, a person who has no paid work receives 48 credits, and another who does earn \$40 in a fortnight receives 8 credits). Once the person commences paid work, these credits effectively extend the amount which can be earned before their income support is reduced, with one credit equal to \$1. The maximum credits able to be accumulated should be increased to 2000. This would enable longer-term unemployed income support recipients who take a job to ‘get ahead’ financially by retaining greater benefit longer after entering paid work. The Working Credit system should also be more widely advertised among eligible groups.

Provide greater security *and* flexibility for income support recipients to engage in paid work

- Greater security should be provided by allowing all income support recipients to remain ‘on the system’ for 12 months after commencing paid work, despite receiving zero payments. Income reporting should generally be required only quarterly after the first 12 weeks of this period, to reduce the burden of regular reporting. For individuals with a long history of cycling between casual work and income support, a longer period on the system may be appropriate. People who become unemployed again within this period would not have to go through an onerous re-application process and would not be subject to the ordinary waiting period.
- At present, a Centrelink payment can be withheld for 8 weeks if it is determined that the income support recipient became unemployed due to a ‘voluntary act’. This policy should be abandoned because of the working conditions in low-skilled jobs, which are frequently both arduous and tenuous. Such work may involve unreasonable demands from employers, though these may not fall within the categories presently considered to be ‘reasonable’ reasons for leaving a job by Centrelink staff (i.e., sexual harassment, bullying, unsafe work conditions). These punitive sanctions, which can serve as a disincentive to taking up paid work, should be removed, and greater support should instead be provided for people engaged in insecure, casual, low skilled work, with a view to assisting entry into ongoing, secure employment with prospects for progression.
- Income support recipients entering paid work should be able to retain their Health Care Card or Pension Card for 12 months after job entry, in order to retain valuable concessions for health care, transport, recreation and other payments.
- Participation requirements of 30 hours per fortnight for single parents whose children are older than 6 years should be calculated quarterly, allowing these parents to work more during some periods and less in others without failing their participation requirements. 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.
- Alternatively, in addition to the Working Credit system which allows income support recipients to ‘bank’ income, single parents and those subject to similar participation requirements should be allowed to ‘bank’ hours worked in excess of 30 hours a fortnight. 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 but averaging 30 hours a fortnight over a greater period.
- Centrelink should examine ways to make income reporting requirements more flexible for income support recipients engaged in intermittent work, including freelance workers and performers.

Remove key disincentives to work from housing policy

- Extend ‘grace periods’ or rent moratoriums to 6 months for all public housing tenants who enter paid work, regardless of when this occurs. (Currently rents are assessed biannually, which means the length of the grace period received by a tenant in effect depends on the date they take up paid work or increase hours.)
- Examine ways to remove ‘welfare locks’ for applicants on the public housing waiting list. One option would involve maintaining initial eligibility criteria, but then relaxing the income requirements while an applicant remains on the waiting list. When granted a tenancy, the person’s rent would be based upon their increased income.
- While outside the scope of this study, broader structural issues regarding housing clearly emerged as major concerns of the participants. Ways of increasing security of tenure for private renters and providing affordable and well located housing for people on low incomes must be examined².

Assist and support unemployed income support recipients to find secure, meaningful work

As employment assistance and support were not the focus of the Making Work Pay study, no specific policy recommendations have been made. However, many participants did raise concerns regarding the type and level of support they were receiving from Centrelink and their employment service providers, highlighting that incentives to work cannot be considered in isolation from policies which assist and support job seekers, particularly those facing significant personal barriers. Support must also go beyond simply moving people into work. Many unemployed participants in this study had previous experiences of cycling between low-end jobs and income support. These citizens require greater support and opportunities to break out of the work–welfare cycle. Recognising the past employment experiences and future aspirations of job seekers could provide better long-term employment outcomes for all unemployed income support recipients.

Call to action

It is clear that participants in this study wanted to work and wanted policies which would make the path to paid work straightforward, worthwhile, secure *and* flexible. Our research not only highlights the flaws and inconsistencies of the current income support system but makes a clear case for change. These recommendations recognise the complexity of people’s decisions about paid work and move towards a system which works with income support recipients towards common goals and aspirations.

²These issues are explored in more detail in the recent report commissioned by the Brotherhood of St Laurence regarding tax expenditures and housing (Yates 2009).

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