SUBMISSION TO SENATE

INQUIRY INTO

THE ADEQUACY OF THE ALLOWANCE PAYMENT SYSTEM FOR JOBSEEKERS AND OTHERS, THE APPROPRIATENESS OF THE ALLOWANCE PAYMENT SYSTEM AS A SUPPORT INTO WORK AND THE IMPACT OF THE CHANGING NATURE OF THE LABOUR MARKET

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INTRODUCTION

COTA Australia is the national policy arm of the eight State and Territory COTAs (Councils on the Ageing) in NSW, Queensland, Tasmania, South Australia, Victoria, Western Australia, ACT and the Northern Territory.

COTA Australia has a focus on national policy issues from the perspective of older people as citizens and consumers and seeks to promote, improve and protect the circumstances and wellbeing of older people in Australia. COTA takes a rights based approach to all of its work.

One of our five guiding principles includes a commitment to seek to ensure that there is an adequate 'safety net' of services and income support which all senior Australians can access according to fair and equitable criteria in order to maintain an acceptable quality of life.

COTA helped create and supports the Fair Go for Pensioners Coalition to push for reforms in the pension system, was a participant in the Harmer Review of pensions and supported the increase in pensions and associated reforms introduced in 2009. The one-off increase in the pension, improved indexation arrangements and more generous income 'free areas' through the introduction of the Work Bonus have combined to improve the living standards of age pensioners although there is still significant room for improvement.

It is now time to do the same for people of working age and we welcome this Inquiry. COTA's primary interest is in the needs of older people, many of whom are of pre-Age Pension age, seeking work and facing significant barriers to re-entering the labour market if they become unemployed. Most people over 50 on allowances are on Newstart and they make up just over 25% of the Newstart population[1].

However we are also committed to the development of sustainable and equitable policies for senior Australians that take account of the needs of the entire community in the short and long term. For this reason we are not pursuing age related initiatives but instead take the view that older people will benefit from measures to assist all 'working age' people.

[1] Senate Supplementary Budget Estimates 2011-12 Questions on Notice DEEWR questions EW0708_12

ISSUES

Adequacy

The original intention of unemployment benefits and other allowances was that they would be paid for relatively short periods and so the level of payment could be lower than a pension which was seen as a permanent form of income support. It also assumes that people have other resources to fall back on to assist with costs through this transition phase of their lives. Inbuilt into this approach is also a value judgement that people who are unable to work are more 'deserving' than those who could undertake employment but are currently not working.

COTA challenges all these assumptions.

It is clear that Newstart Allowance is no longer a short term or temporary form of support with 60% of current recipients having received it for over a year and around 20% receiving it for more than 5 years. Falling unemployment rates and changes to social security arrangements that have moved more people onto activity based payments mean that it is the most disadvantaged job seekers that are left on Newstart Allowance and they tend to take longer to move off it.

The gap between Newstart Allowance and pensions is currently $133 a week for a single person and that gap is widening all the time because of the differential indexation approaches. If the current indexation arrangements are maintained and there are no real increases in the allowance they will only be worth half the pension in 20 years time.

Not only are the levels of payment lower but people receiving them face activity and work requirements, tighter income tests and less generous concession card arrangements than those on pensions. This just compounds their disadvantage and provides an added incentive to move from an allowance to a pension if at all possible.

The case was made in the Harmer review that the level of pensions was inadequate for people to enjoy a modest standard of living and people were struggling to meet even their basic needs. The same must be true of people on allowances who are receiving much less. This was recognised in the Henry Report which recommended an increase of $50 per week for single people on allowances and improved indexation to maintain its real value over time.

Support to work

The income support system can support people back to work and provide incentives for people to take employment without necessarily losing all their payments. There have been some significant improvements in this area with the taper rate reduced from 100% to 60% and an earning credit scheme designed to encourage people to take some work. The taper rate is still higher than the 50% used for the age pension; the income free areas and earning credit arrangement are also less generous.

However, the cumulative effect of the taper rates, loss of concessions and income related increases in social housing costs is to ensure very high effective marginal tax rates for people on allowance payments. Making the taper rates consistent and increasing the income free areas would help to smooth out the effective marginal tax rates and would provide an incentive to increase earnings from employment. This would have the added benefit of assisting people to re-engage with the workforce and move from casual/part time work to longer hours and in some cases off income support completely.

The other area of support is the services provided through Job Services Australia. As already discussed it is the more disadvantaged unemployed who are staying on allowance payments for long periods. It is clear that these groups need more assistance to find and retain jobs than is currently being provided.

There needs to be more intensive assistance that includes training and skill development for the long term unemployed. COTA welcomed the initiative to provide such assistance to longer term older unemployed people that was part of the 2012-13 Budget and believes this scheme needs to be expanded.

To be successful there need to be jobs for people to go to once they have become more job ready. Wage subsidies schemes can assist with this provided the level of subsidy is high enough to make it attractive for the employer and the period of subsidisation is long enough for people to gain real benefit from participating. The current schemes aimed at long term unemployed and the older unemployed need to be expanded both in terms of number of places and levels of subsidy provided.

Changing labour market

There are a number of significant changes to the labour market that need to be taken into account when looking at the best ways to support people in the future to stay connected to the workforce. These include the ageing of the population, casualisation of the workforce, and technological change. In addition the resource boom and high Australian dollar are driving changes in the pattern of employment, both in terms of where the jobs are and the skills required to do them.

Australia has started to look at the impact of the ageing of the population and has already moved to increase the eligibility age for the age pension from 65-67 years. We have had the Consultative Forum on Mature Age Participation and the Advisory Panel on the Economic Participation of Senior Australians looking at ways to increase mature age participation to boost the size of the workforce.

The ACTU commissioned the Independent Inquiry into Secure Work to look at the impact of the move to more casual employment, labour hire arrangements and contractors on job security and long term employment prospects. The report *Lives on Hold: unlocking the potential of Australia's workforce* shows that 40% of workers are in insecure work. The income support arrangements have not evolved to deal with this significant change in

Australian society as they can be inflexible with lags in entitlements that mean they do not meet the needs of people whose only job opportunities at the moment are insecure ones.

We have not had a thorough review of what all these factors mean for employment, unemployment and the associated income support arrangements. We need to look at how all these factors impact on various groups within the labour force and what needs to be put in place to ensure marginalised groups do not become even more excluded from society.

RECOMMENDATIONS

COTA is joining with ACOSS and others in saying "$35 a day is not enough for anyone to live on". The recommendations, which are consistent with those put forward by ACOSS, address the need to have some longer term reform in the way we support working age people as well as the immediate need to increase payments. It is not acceptable that we are expecting people on allowances to live in poverty.

Immediate reforms

These recommendations address the issues of adequacy and support for job seekers.

They should be addressed in the 2013-14 Budget to be implemented in 2014.

1. **Allowances should be increased**
    a. Allowance payments for single people (other than those on student payments) should be increased by $50 per week from March 2014, and benchmarked to 66.3% of the combined married couple rate of allowances as is the case for pension payments (and a higher rate in the case of sole parents).

       This applies to recipients of Newstart Allowance, Widow Allowance, Sickness Allowance, Special Benefit, Crisis Payment, and Youth Allowance (Other) recipients living independently of their parents.

    b. Allowance payments for single people on student payments (Austudy Payment, Abstudy Payment and Youth Allowance Student) who are living independently of their parents should also be increased by $50 per week from January 2014 and the benchmarking of those payments to 66.3% of the married rate (higher for sole parents) should be phased in.

2. **From 2014, all of the above Allowance payments should be indexed** at least annually to movements in a standard Australian Bureau of Statistics measure of typical fulltime wage levels (before tax), as well as six monthly to movements in the Consumer Price Index.

3. **From March 2014, the income test for allowance payments should be changed**:
    - the earnings credit should be replaced by a simpler system where allowance recipients can 'bank' their fortnightly income test 'free area' for up to 26 weeks;
    - the free area should be increased by $9 a week and the 50% and 60% taper rates replaced by a consistent 60% taper rate; and
    - the 'free area' should be indexed to the CPI.

4. **From 2014, Job Services Australia services for disadvantaged jobseekers should be improved by:**
    - increasing service fees and Employment Pathway Fund allocations for each year of the 'Work Experience Phase' for long term unemployed people to at least the levels provided for Stream 3 clients in their first year of unemployment;
    - expanding the current wage subsidy scheme for 'very long term unemployed people' to 20,000 places a year and introducing a scheme that fully subsidises 6 months of paid employment (e.g. in the community sector or social enterprises) for deeply disadvantaged jobseekers.

Medium term reforms

The social security system and the other support mechanisms in place have not been significantly reformed for many years. It seems clear that they do not reflect the current labour market.

5. **An independent public inquiry should be established** to critically assess current employment participation policies for people receiving income support payments and recommend future directions for reform. The inquiry should be led by a small panel of independent experts and supported by a Secretariat drawn from the relevant Government Departments. It should prepare issues papers on the above topics including options for reform, consult widely with stakeholders and policy experts, and prepare a report with recommendations for Government within 18 months of its establishment.

    Its Terms of Reference should include assessment of:

    - recent labour market trends and future employment prospects for people on working-age income support payments;
    - trends in reliance on income support including the current and likely future profiles of recipients;

- the adequacy, targeting and employment effects of income support payments for people of working age, and options for reform to facilitate transitions to employment, improve fairness and simplify the system; and
- the effectiveness of employment services for disadvantaged jobseekers (Job Services Australia and disability employment services), including how these might be better integrated with vocational training, work experience and social support services in order to assist them.